

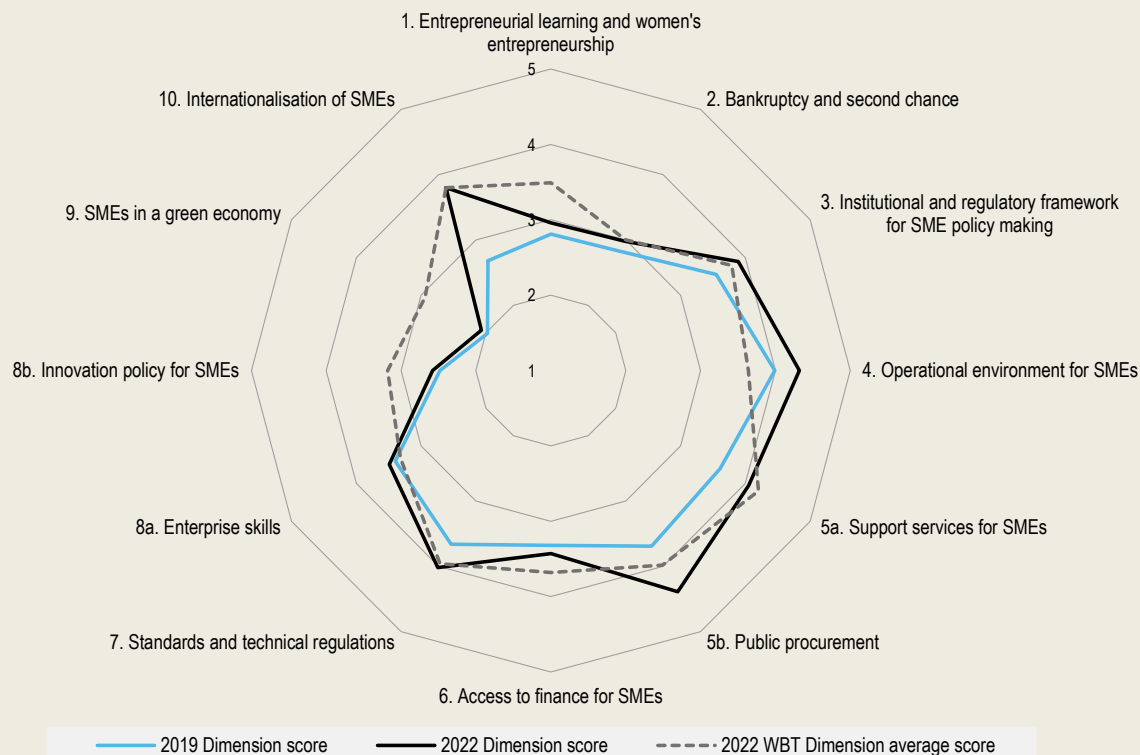
13

Albania: Economy Profile

This chapter covers the progress made by Albania in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of Albania's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (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.

Key findings

Figure 13.1. Small Business Act scores for Albania (2019 and 2022)



Note: WBT: Western Balkans and Turkey.

Albania has made good progress in implementing the Small Business Act (SBA) since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2019* (Figure 13.1). The economy continues to provide an environment conducive to business and is receptive to the needs of small and medium-sized enterprises (SMEs). Albania has achieved its highest average scores in the following areas: institutional and regulatory framework for SME policy making; operational environment for SMEs; public procurement; standards and technical regulations; and internationalisation of SMEs, where it also outperforms the Western Balkans and Turkey (WBT) average.

Main achievements

- **Albania's operational environment for SMEs remains the most advanced in the region.** The government has continued implementing digital reforms under a whole-of-government approach and made progress in both increasing the availability of digital government services and streamlining them to better fit users' needs. Albania is the only WBT economy that has streamlined company registration and licensing under its one-stop-shop (the National Business Centre, NBC) and introduced digital distribution of licensing officials, which speeds up the process, increases transparency and lowers administrative burdens and costs for SMEs.
- **By adopting the new Business Development and Investment Strategy (2021-2027), Albania is expected to considerably advance in providing SME support,** particularly in improving the business environment, but also in adapting business support services (BSSs) to

SMEs' needs. While assistance programmes for SMEs are in the process of being redesigned by the Albanian Investment and Development Agency (AIDA), the Business Development and Investment Strategy (2021-2027) ensures a strong strategic framework for the provision of both public and private support services for SMEs.

- **Important progress has been made in the area of public procurement** by increasingly aligning its regulatory framework with EU requirements, adopting key strategic documents, in particular, actions concerning SMEs' access and developments with regard to e-procurement. The new Public Procurement Law (PPL) contains provisions that are, to a very large extent, harmonised with the 2014 EU Directives and the first comprehensive National Public Procurement Strategy (2020-2023), adopted in November 2020, foresees measures and activities aimed at increasing the participation of SMEs in the public procurement market.
- **EU alignment and implementation support for SMEs in technical regulations and standards was expanded.** Albania continued to align its quality infrastructure with the EU *acquis* in key areas such as metrology and is developing a roadmap to identify remaining unharmonised technical regulations. At the same time, Albania also strengthened the staff capacities of its quality infrastructure institutions and expanded a support programme for SMEs who seek certification according to European or international standards. Overall, these activities will improve the access for SMEs that need to certify their products, services or processes to conform to European standards and regulations.
- **Creating an ecosystem conducive to start-ups and innovation has become a priority for Albania.** The start-up ecosystem has seen a significant boost, resulting in the adoption of a dedicated innovation Start-up Law in 2022, which envisages a state-budget allocation in support of the innovation ecosystem. Numerous private-sector-backed initiatives have been set up, providing acceleration programmes for high-potential start-ups, technical assistance, mentoring and training on investor relations, with some offering the possibility for small-scale monetary awards.
- **Albania has made considerable progress supporting SME internationalisation.** By developing export support services, the government has advanced in creating an enabling environment that enhances export sophistication and innovation while also boosting export competitiveness. With a number of new support programmes implemented, additional advancements are expected regarding SME integration into global value chains (GVCs). Furthermore, cluster formation and development has steadily been progressing since the last assessment cycle. Through newly introduced programmes and extensive stakeholder consultations (with business associations and academia), the government established a wood cluster to facilitate technology and knowledge transfer within the industry.

The way forward

- **Embed entrepreneurship as a key competence in both the formal and non-formal education systems.** Strong leadership should be provided through a multi-stakeholder partnership, guiding concrete government-led actions with a committed budget supporting curriculum reform, embedding practical entrepreneurial learning, developing teacher guidance and taking action to expand pre- and in-service teacher training. Monitoring and evaluation are required to track efficacy and impact.
- **Develop insolvency prevention policy measures, including a fully-fledged early warning system,** as SMEs tend to underestimate the importance of maintaining a sound financial status and avoiding risky decisions. If appropriate corrective actions are not taken in time, firms may be more prone to financial distress and later insolvency, particularly in the aftermath of the COVID-19 pandemic. Albania could build on its already well-developed advisory support

services provided by AIDA to extend its offer of programmes to SMEs at risk of financial distress.

- **Ensure the effective realisation and monitoring of green measures, which is crucial for encouraging Albanian SMEs' greening transition.** Limited progress was achieved in implementing the environmental policies included in the previous Business and Investment Development Strategy (2014-2020), in part due to poor co-ordination between relevant institutions and limited allocated funds. It is important that a government body takes the lead in establishing a network of actors engaged in implementing and monitoring measures to encourage SMEs to improve their environmental performance. This task could be entrusted to AIDA, which is already in charge of SME policy implementation, or to a specific working group, which would involve all relevant institutions and business association representatives.
- **Increase financial support schemes for SMEs.** Revive financial support provided by AIDA to further facilitate access to finance for those enterprises needing support the most. Such financial schemes should be a blend of government funds and those provided by the international development co-operation partners and designed to increase financial inclusion without crowding out private-sector providers. As part of this approach, consider extending the lifetime of the sovereign guarantee funds to provide a scalable and sustainable tool to encourage lending to SMEs. Such a guarantee scheme should include a transparent, multi-stakeholder governance structure, coupled with strong risk management and capacity building for implementing financial institutions and regular monitoring and evaluation.
- **Create a conducive business environment for SME digitalisation and e-commerce adoption.** The uptake of e-commerce practices is lagging behind Albania's regional peers, despite progress in strengthening the legal framework. The Business Development and Investment Strategy (2021-2027) foresees tangible support for SME digitalisation; however, the Albanian government has yet to introduce policies fostering a conducive environment for digitalisation and e-commerce, hindering the adoption of the digital sales channel for SMEs.

Economic context and role of SMEs

Economic overview

Albania is a small upper-middle-income economy with a population of 2.84 million in 2020 (World Bank, 2022^[1]). In light of the challenges posed by the pandemic, Albania's per capita gross domestic product (GDP) by purchasing power parity stood below 2018 levels in 2020 at USD 13 192 (in constant 2017 international dollars), leaving the economy the second-lowest ranking in the WBT region, above Kosovo (World Bank, 2022^[1]). The distribution of GDP across economic sectors has not changed significantly in the past years, with services representing 48.4% of GDP in 2020. Industry, including construction, represented 20.2% of GDP, albeit a 7% decrease in real terms since 2019. Despite a significant decline over the past decade, agriculture remains a very important sector in Albania compared to neighbouring economies, representing 19.1% of GDP (INSTAT, 2021^[2]). The agricultural and services sectors have the highest share of total employment in the economy, representing together almost 80% of the working population in 2020 (INSTAT, 2021^[2]). In 2020, SMEs represented 99.8% of all enterprises and employed 81.9% of the working population in Albania. These small enterprises, mostly from the accommodation and food services as well as trade sectors, were hit the most during the pandemic (European Commission, 2021^[3]).

The earthquake that hit Albania in 2019 and its subsequent state of emergency, coupled with the start of the COVID-19 pandemic in 2020, had a strong impact on Albania's GDP. Global lockdowns caused significant losses for sectors like manufacturing and tourism, which have become one of Albania's most important economy sectors. Nevertheless, in the second half of 2020, fast and determined responses from the government and the central bank managed to soften the negative impacts of the pandemic and helped maintain the macroeconomic and financial-sector stability (European Commission, 2021^[3]). For instance, the central bank temporarily deferred loan instalments in the period of March-August 2020 and continued with the implementation of relaxed provisioning and loan restructuring as far as mid-2021 (Box 13.1).

Albania rebounded with an 8.3% GDP growth in 2021, which can be attributed to both domestic and foreign demand increases (Table 13.1). Economic recovery was fuelled by the rise of exports of goods and services in 2021, which exceeded their pre-crisis level and increased by 36% compared to 2020, driven by the strong recovery of tourism and by the continuing rebound of merchandise exports. Real sector recovery was also driven by government consumption (+7.6% compared to 2020), followed by exceeded investment (+3.8%) and household consumption (+3.3%). Economic growth will have a positive effect on decreasing the poverty rate, which is likely to resume its downward trend and could reach the 2019 level of 20.3% (World Bank, 2022^[1]). While net foreign direct investment (FDI) inflows recorded a 9.5% year-on-year growth in 2021, their nominal value remained slightly below pre-crisis levels (European Commission, 2022^[4]). Like all WBT economies, with the exception of Turkey, Albania's general government balance decreased as a result of the pandemic to -4.5% of GDP in 2021, albeit having increased by 2 percentage points compared to 2020. Inflation increased to 2% in 2021 compared to 1.6% in 2020 and continued to increase by 4.4% year on year in the first quarter of 2022, driven by strong demand and surging food prices, aggravated by the impact of the invasion of Ukraine (European Commission, 2022^[4]).

Table 13.1. Albania: Main macroeconomic indicators (2016-21)

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
GDP growth ¹	% year-on-year	3.3	3.8	4.0	2.1	-3.5	8.3
National GDP ²	EUR billion	10 521	11 548	13 444	13 660	13 205	..
GDP per capita growth ²	% year-on-year	3.5	3.9	4.3	2.5	-3.4	..
Inflation ¹	% average	1.3	2.0	2.0	1.4	1.6	2.0
Government balance ¹	% of GDP	-1.8	-2.0	-1.6	-1.9	-6.7	-4.5
Current account balance ¹	% of GDP	-7.6	-7.5	-6.8	-7.9	-8.9	-7.9
Exchange rate ALL/EUR ¹	Value	137.36	134.14	127.58	123.01	123.77	122.45
Exports of goods and services ¹	% of GDP	29	31.6	31.6	31.3	23.1	31.4
Imports of goods and services ¹	% of GDP	45.9	46.7	45.4	45.0	37.9	45.0
Net FDI ¹	% of GDP	8.7	8.6	8.0	7.5	6.7	6.6
External debt stocks ²	% of gross national income (GNI)	70.7	75.1	65.2	62.9	74.2	..
International reserves of the National Bank ¹	EUR million	2 945	2 996	3 399	3 360	3 942	4 972
Gross international reserves ¹	Ratio of 12 months imports of goods and services moving average	7.2	6.7	7	6.5	9.6	8.8
Unemployment ¹	% of total active population	15.6	14.1	12.8	12.0	12.2	12.1

Sources: 1. European Commission (2022^[4]); 2. World Bank (2022^[1]).

The recovery of the Albanian economy will also depend on the government's ability to handle the recent developments in the labour market. While unemployment in Albania had been steadily decreasing since 2015, having reached its greatest low in over three decades in 2019 at 11.5%, the pandemic led unemployment to jump again to 13.3% in 2020 (World Bank, 2021^[5]). The labour market has been steadily recovering as the unemployment rate (aged 15-64 years) dropped to 11.6% in the third quarter of 2021, lower than in the same periods in 2019 and 2020. Nevertheless, the recovery of the labour market came to a halt, with the unemployment rate rising slightly to 11.9% in the fourth quarter of 2021. The size of the inactive population strongly decreased in 2021 (-6.21% year-on-year), and the 1.3% recovery of the female participation rate helped decrease the gender gap by 1.9 percentage points (European Commission, 2021^[3]). Youth unemployment remains a structural problem in Albania, and the younger population has been one of the most impacted as their rate of unemployment increased to 37.7% in 2021, which is 5.4 percentage points more than in June 2020 (World Bank, 2021^[6]). Reintegration of the younger population has been undertaken at a slow pace, as data shows that their participation levels have been the same for two consecutive quarters in 2021, and the percentage has not moved significantly since 2020, when the COVID-19 pandemic was in its full swing. Moreover, Albania will need to address its high emigration rate (the highest in OECD countries and of all Western Balkan Six economies with 1 million Albanians living abroad) and subsequent human capital flight, in particular among the young population (OECD, 2022^[7]).

Box 13.1. Albania's COVID-19 recovery programme

In terms of the economic impact, Albania, where tourism contributes more to GDP and employment than on average in the WBT economies (21.2% of GDP in 2019 compared to 14.94% WBT average), was hit especially hard by the pandemic-related domestic lockdowns and international travel

restrictions. Domestic restrictions to contain the COVID-19 pandemic led to a 47% decrease in tourists' arrival between 2019 and 2020, while the unemployment rate rose to 12.2% in 2020.

As part of its recovery, the Albanian government, with the support of international development co-operation partners, has put in place fiscal, monetary and other measures (amounting to 4% of GDP) to support the healthcare system, enterprises and households affected by confinement measures. As part of its recovery, Albania adopted three financial plans and additional measures to mitigate COVID-19 pandemic effects:

- **First financial plan:** Albania introduced a EUR 52 million support package to small businesses and the unemployed during the COVID-19 pandemic. The package included permanent erasure of late payment interest for active debtors, families or small businesses with a financial effect of up to EUR 121 million. The government also provided a sovereign guarantee for companies which had difficulties paying salaries to their employees. For businesses that had ceased activities during the COVID-19 period, Albania provided rescheduling of income taxes (EUR 118 million) and postponement of balance sheets submissions to the National Business Centre. During its first financial plan, Albania also provided EUR 20 million for medical equipment and materials for medical staff, EUR 16 million for humanitarian operations and EUR 8 million as a reserve fund to the Council of Ministers for any unforeseen emergency.
- **Second financial plan:** Albania provided a series of EUR 323 to employees and laid-off employees under specific conditions as part of the second financial plan. To combat the effects of COVID-19 on businesses, Albania provided a state guarantee of EUR 138 million for tourism, garment industry and manufacturing businesses, provided as a risk-sharing mechanism between the government and banks. Additionally, postponement of payment for tax on profits instalments for almost all enterprises was adopted.
- **Third financial plan:** Albania made provisions for the minimum wage (EUR 1 million) for public transport workers who resumed work one month later than others. To help businesses, the government implemented an employment promotion programme to cover a part of the reemployment cost for businesses. Some 0.8% of GDP was allocated towards COVID-19-related spending, including treatment, wage increases for healthcare workers and an increase in social assistance payments.
- **Additional measures:** Albania postponed rent payments for the most vulnerable groups, including students, individuals with rental contracts and low-income persons who have a notarial lease contract. The government also implemented salary reductions for high officials and created a financial anti-COVID-19 fund.

The COVID-19 pandemic had a significant negative impact on Albania with its governmental financial measures providing much needed immediate assistance, albeit short-term. The medium to long-term economic and social impact of the pandemic will largely depend on pre-existing socio-economic vulnerabilities and policy resilience.

Sources: OECD (2021^[8]; 2020^[9]); European Commission (2020^[10]; 2020^[11]); Gjevori (2020^[12]).

Business environment trends

Although many businesses were able to generate profit during the first part of 2020, there were significant contractions in the volume of sales in most sectors in 2020, which have affected the profit margins of SMEs. The drop in sales led to an increased reliance on external financing through loans, which have been used mostly for covering expenses. For about 80% of registered companies, the debt level rose to approximately 50% of their capital (CM Albania, 2021^[13]). The ability of the central bank and the

government to react quickly and appropriately reduced the impact on the labour market and preserved macroeconomic and financial-sector stability. The 2021 Economic Reform Programme (ERP) estimates that with the recovery of services such as tourism and increased levels of public investments, real growth rate is expected to grow to 4% on average in 2022-24 (Box 13.2). These conditions should impact unemployment which is estimated to gradually fall to 9.4% in the same period, although this scenario does not yet take into account the impact of the Russian invasion of Ukraine (European Commission, 2021^[14]).

Despite the difficult circumstances surrounding the COVID-19 pandemic, significant reforms continued to be implemented that improved the business environment in Albania. In particular, progress has been achieved in increasing digital government services and streamlining them to better fit users' needs. Albania also remains the leader in the region when it comes to the number of procedures and costs associated to business registration and licensing procedures, both of which are available on line and supervised by the National Business Centre. In this regard, Albania continues to be a very open economy for investment, according to the OECD FDI Regulatory Restrictiveness Index. Its score remained 0.057 in 2020, lower than the OECD average of 0.063, indicating that the economy has low barriers to trade and maintains only a handful of restrictions, notably in the fisheries, air and transport sectors (OECD, 2020^[15]).

However, the potential of the Albanian business environment remains hindered by several structural weaknesses, in particular the lack of know-how, low financial literacy and a high degree of informality, all of which are obstructing the access to financing in the private sector (European Commission, 2021^[14]). Corruption continues to be a hurdle for businesses in the region, as data shows that more than 36% of companies experienced at least one bribe payment request in 2020, which is significantly more than the Europe and Central Asia average of 8.7% (OECD, 2021^[16]). Consequently, Albania's score in Transparency International's Corruption Perception Index has continuously deteriorated since 2016, decreasing from a score of 39 to 35 (out of a possible 100) in 2021. As of the same year, it remains in 110th place out of a total of 180 ranked economies, the lowest in the WBT region along with Bosnia and Herzegovina (Transparency International, 2022^[17]). High tax rates and access to electricity additionally represent the most frequent obstacles for firms, pointing to structural reforms on the fiscal side and energy infrastructure (CM Albania, 2021^[13]). Moreover, the low quality of education resulting from the low and poorly targeted budget allocated to education adds to the inability of economic upgrading and diversification of the economy. Similarly, the continued education of employees in companies is limited, while low-skilled positions remain at the core of the Albanian labour market.

Box 13.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual ERPs that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills

- employment and labour markets
- social inclusion, poverty reduction and equal opportunities.

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms
- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERPs are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and enlargement economies, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on business sector-related policy reforms that are key to the ERPs of the EU accession candidates at both the regional and economy-specific levels. The SBA delves into the specific barriers to progress in ten policy areas essential to applying the larger objectives of the ERPs, like boosting competitiveness and economic growth to SMEs in the region.

Source: European Commission (2021^[3]).

EU accession process

Albania's path to EU accession began in June 2006, when the government signed the Stabilisation and Association Agreement (SAA), which provided the foundations for establishing a free trade area, as well as the identification of common political and economic objectives between Albania and the European Union. The SAA entered into force in April 2009, and Albania submitted their formal application for joining the European Union that same year. The European Commission recommended that Albania be considered as an EU candidate in 2012 while instructing the government on the necessary measures to be designed and implemented in areas such as judicial and public administration. In 2014, Albania was given the EU candidate status, allowing for progressive trade liberalisation and mutual duty-free access for most goods. The European Union has become the main trade partner of Albania, with 63% of its total trade in goods conducted with EU countries in 2020 (European Commission, 2021^[3]). In March 2020, the European Union opened accession negotiations with Albania, and in May 2021, the European Commission informed the Council that Albania had met the remaining condition to be fulfilled prior to holding the first Inter-Governmental Conference of accession negotiations (European Commission, 2022^[18]).

According to the European Union's 2021 enlargement report, Albania has made significant steps in the accession process and is the first Western Balkan economy that has signed co-operation agreements with all justice and home affairs agencies of the European Union. The report shows that Albania is moderately prepared in the area of enterprise and industrial policy that help encourage a hospitable environment for SMEs. Some progress was achieved in endorsing the Investment Policy Reform Action Plan that focuses

on maintaining and stimulating investments in sectors such as tourism, enhancing education on entrepreneurship and supporting business incubation. Certain developments have also been made on further aligning late payments with the EU *acquis* and implementing the triple-helix action plan. Nevertheless, efforts to improve the business environment have been of a rather limited impact (European Commission, 2021^[3]). In this regard, Albania would need to focus on the following (European Commission, 2021^[3]):

- address the main challenges to the business environment, notably reducing regulatory burden, enhancing participation in the available funding programmes for businesses and ensuring the full functioning of the Albanian Investment Development Agency
- accelerate the full alignment of national legislation with the *acquis* on late payments
- accelerate the adoption of the Unified Investment Law and the next Business Investment Development Strategy to address challenges to competitiveness and growth as stressed in the joint recommendations of the ERPs of 2019 and 2020.

The findings and recommendations published in the *SME Policy Index 2022* can help provide the monitoring and guidance needed for Albania to meet the requirements related to several critical chapters of the *acquis* and ultimately further its negotiations for accession to the European Union.

EU financial support

The European Union is the largest provider of financial assistance to Albania. Under the Instrument for Pre-accession Assistance II (IPA II), Albania received a total of EUR 758 million during the period 2014-20. These funds were used to support investments, capacity building and reforms in sectors of: Rule of Law, Democracy and Governance, Competitiveness and Innovation, Agriculture and Rural Development, Transport, Environment, Education, Employment and the Social sectors. The indicative bilateral envelope for Albania under IPA 2021 amounts to EUR 70.4 million, which is dedicated to adopting and implementing political, institutional, legal, administrative, social and economic reforms to bring Albania to better align with the EU rules, standards, policies and practices (European Commission, 2021^[19]). Following the November 2019 earthquake, the European Union has provided grant financing of EUR 115 million, which has been translated into two programmes: the EU4Schools supporting reconstructing and rehabilitating education facilities damaged by the earthquake and the EU4Culture supporting the rehabilitation of the cultural heritage sites gravely damaged by the earthquake, as well as related economic activities to support the tourism related to these sites (European Commission, 2022^[20]).

The European Union has also been instrumental in financially supporting Albania in the wake of COVID-19. Some EUR 50.65 million was reprogrammed from the IPA 2019 and 2020 envelopes to ensure urgent medical supplies and support for the mitigation of the socio-economic impact of the crisis. A further EUR 180 million loan in Macro-Financial Assistance was approved. Albania and other Western Balkan economies have also been recipients of the European Union's regional economic reactivation package of EUR 455 million. Moreover, in December 2020, the European Commission adopted a EUR 70 million package to help WB economies gain access to COVID-19 vaccines.

In 2020, the European Union pledged EUR 9 billion for the Western Balkans as part of a new economic and investment plan to support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transitions. In addition to infrastructural funding for Albania's railroad routes connecting coasts in the region and the rehabilitation of hydropower plants to increase the export of electricity from clean energy, Albanian SMEs will also be able to benefit from the scheme's increased funding to the Western Balkans Guarantee Facility (European Commission, 2020^[21]).

Furthermore, Albania participates with IPA support in the EU transnational co-operation programmes Erasmus+, Creative Europe (Culture and Media strands), Employment and Social Innovation, Customs 2020, Fiscalis 2020, Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme

(COSME), Justice, Europe for Citizens and EU Fundamental Rights Agency (European Commission, 2022^[20]). In 2022, Albania signed the Horizon Europe Association Agreement, which aims to reduce climate change, helps to achieve the United Nations Sustainable Development Goals and boosts the European Union's competitiveness and growth. The signed agreement will allow researchers, innovators and research entities established in Albania to participate in the European Union's EUR 95.5 billion programme on equal terms with entities from the EU member states. This will enable them to develop projects and technologies and conduct research and innovation activities that will contribute to tackling global challenges (European Commission, 2022^[22]).

SMEs in the domestic economy

Albania's 2002 Law on Small and Medium Enterprises, which defines SMEs according to their number of employees, annual turnover and balance sheet, was amended in 2008 to align it with the European Union's definition in terms of employee numbers (Table 13.2). While a new Law for the Development of Micro, Small and Medium Enterprises was adopted in 2022 to revise the definition and categorisation of such enterprises, the financial requirements included in the definition have not been amended. Moreover, it is important to note that the Albanian Institute of Statistics, unlike the European Union, defines company size based on the number of people employed, which is different from the number of employees. The term "employed" refers to people who work at the company regardless of whether they are paid or not, thus including employees, owners and unpaid family members (INSTAT, 2020^[23]).

Table 13.2. Definition of micro, small and medium-sized enterprises in Albania

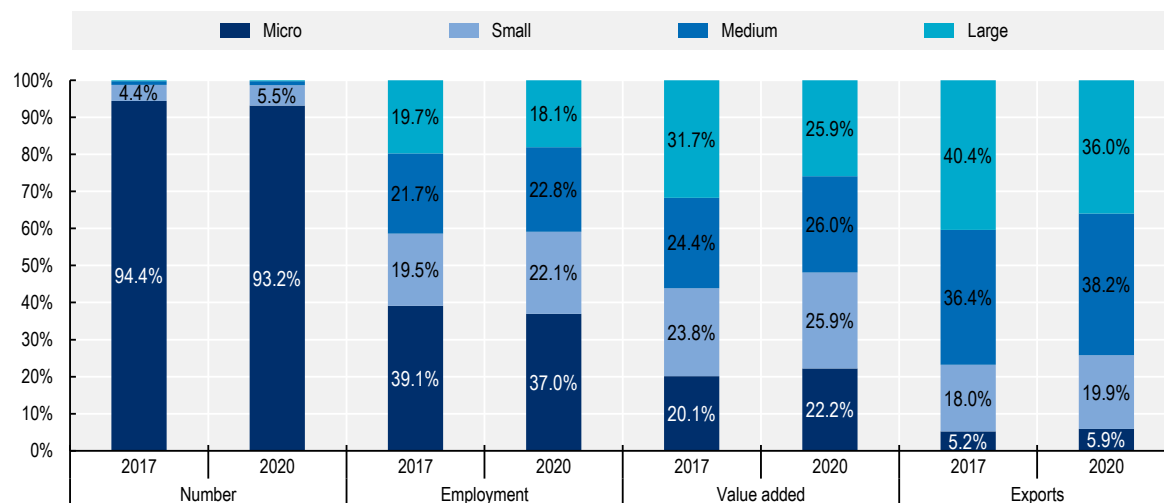
	EU definition	Albania definition
Micro	< 10 employees = EUR 2 million turnover or balance sheet	≤ 10 employees = ALL 10 million (EUR 82 600) turnover and/or balance sheet
Small	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees = ALL 50 million (EUR 413 125) turnover and/or balance sheet
Medium-sized	250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees = ALL 250 million (EUR 2 065 625) turnover and/or balance sheet

Note: ALL = Albanian lek.

Source: Republic of Albania (2002^[24]).

In 2020, Albania's 102 405 micro, small and medium-sized enterprises (MSMEs) represented 99.8% of all enterprises in the economy. While the number of MSMEs decreased by 4.7 percentage points between 2017 and 2020, they still represent the same share of all enterprises. The breakdown of Albanian enterprises by size was 93.2% microenterprises, 5.5% small enterprises, 1.1% medium enterprises and 0.2% large enterprises in 2020 (INSTAT, 2020^[25]). Their contribution to employment in the business sector slightly increased by 3.2 percentage points as compared to 2017, with microenterprises generating the most employment in 2020. MSMEs enjoyed the highest share of exports in the region, accounting to 64% in 2020, a 4.6% increase since 2017 (Figure 13.2). The role of women in Albania's business environment has shrunk in the past few years. The number of women-owned enterprises has been rising until 2017. Since then, it has taken a sharp downturn in 2018 when it decreased by 12% on a yearly basis. It only improved by 0.8% in 2020 compared to 2019 (reaching 25.5%), but the number is still well below 2016 levels (INSTAT, 2020^[26]).

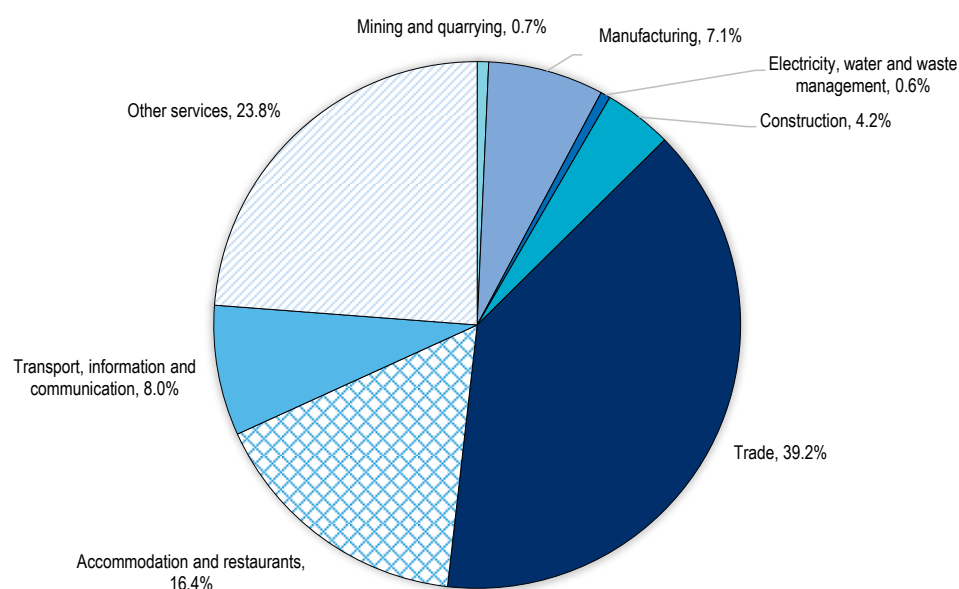
Figure 13.2. Business demography indicators in Albania (2017 and 2020)



Source: INSTAT (2020_[25]).

While INSTAT's list of economic activities was updated in 2020, hence making the comparison with previous years more difficult, Albania's distribution of SMEs among sectors remained similar. Data for 2020 shows that the largest share of SMEs is in the trade sector (39%), followed by the newly introduced category of accommodation and restaurants (16.4%) and transport, information and communication (8%) (Figure 13.3).

Figure 13.3. Sectoral distribution of SMEs in Albania by sector (2020)



Source: INSTAT (2020_[25]).

The largest share of Albanian enterprises is located in Tirana (36% in 2020). Despite the region's dominance, growth has been stagnating over the past years (42% in 2013 and 33.2% in 2016). Regions like Berat, Dibër and Korçë have seen an increase in their number of enterprises in the period 2017-20 (Table 13.3).

Table 13.3. Number of registered companies in Albania by enterprise size and district (2020)

District	Enterprise size, by employment				Share of total number of enterprises	
	0-9	10-49	50+	Total	2017	2020
Berat	9 096	232	49	9 379	5.10%	5.64%
Dibër	7 946	132	25	8 103	4.34%	4.87%
Durrës	21 800	887	228	23 166	14.69%	13.92%
Elbasan	7 138	1 095	292	7 506	4.57%	4.51%
Fier	8 978	345	93	9 363	5.70%	5.63%
Gjirokastrë	9 885	134	34	10 439	6.30%	6.27%
Korçë	16 487	171	53	16 785	8.89%	10.09%
Kukës	2 809	238	63	2 914	1.65%	1.75%
Lezhë	3 712	124	28	3 825	2.35%	2.30%
Shkodër	3 612	207	50	3 701	2.08%	2.22%
Tirana	55 315	250	80	60 001	36.75%	36.06%
Vlorë	10 577	321	95	11 204	7.59%	6.73%
Albania	157 355	4 136	1 090	166 386	100.00%	100.00%

Source: INSTAT (2021^[27]).

Assessment

Description of the assessment process

The Small Business Act (SBA) assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material, comprised of questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, the Ministry of Finance and Economy, which acts as the SBA Co-ordinator nominated by the European Commission, distributed the link to the assessment material to the appropriate ministries and government agencies and the statistical sheets to the Institute of Statistics of Albania (INSTAT). These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The OECD team received the completed questionnaires and statistical data sheets on 6 October 2021 and then began an independent review.

The OECD reviewed the inputs and requested additional information on certain elements from the Ministry of Finance and Economy. For several dimensions, virtual consultation meetings with key dimension stakeholders were organised from end-October to mid-November 2021. The meetings aimed to close any remaining information gaps in the questionnaires.

A virtual preliminary findings meeting with Albania was held on 6 December 2021 to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for Albania. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Albania, particularly in the post-COVID-19 context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publication and the Economy Profile of Albania were made available to the Government of Albania for their review and feedback in March 2022.

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

Table 13.4. 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 entrepreneurship (Dimension 1)

Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21st century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

Albania's scored 2.96 in this cycle, an improvement compared to 2019, when the economy scored 2.81 (Table 13.5). The score in entrepreneurial learning has fallen across the different thematic blocks of this dimension as there has been a sharper focus on entrepreneurship as a key competence across this assessment, and this has resulted in a lower score for this economy across the themes of learning, assessment and teacher training due to a lack of explicit focus on the key competence approach. This is accompanied by continued challenges in monitoring and evaluation. In women's entrepreneurship, Albania's scores have improved with the launch of the new Business Development and Investment Strategy (2021-2027) and an overall increase in implementation.

Table 13.5. Albania's 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	2.62	3.43
		Implementation	2.82	3.51
		Monitoring and evaluation	1.22	2.73
		Weighted average	2.44	3.33
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	3.80	3.97
		Implementation	4.02	3.83
		Monitoring and evaluation	3.00	3.11
		Weighted average	3.75	3.73
	Albania's overall score for Dimension 1		2.96	3.49

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Partner approaches and monitoring and evaluation require further work in both entrepreneurial learning and women's entrepreneurship. Practical implementation of entrepreneurial learning as a cross-cutting key competence in the curriculum is an ongoing challenge. Organisations such as Junior Achievement are providing significant support to efforts in curriculum and teacher training, but more work needs to be done to support teachers in practically embedding entrepreneurial learning into their teaching contexts. Higher education sees a diverse range of extracurricular and career actions, but these are not integrated into the core curriculum outside those subjects traditionally associated with entrepreneurship.

A different approach to women's entrepreneurship has been taken for the current phase of the Business Development and Investment Strategy (2021-2027) (Government of Albania, 2021^[28]). It has moved from including a separate action plan to including specific percentage targets within actions focused on the general population. This will now require an enhanced focus on the evaluation of progress and impact. While progress has been made during the assessment period in women's entrepreneurship (Table 13.6), it should be viewed in light of the negative impact of the COVID-19 pandemic on women's economic empowerment and the overall 5% decline in the percentage share of women as chief executive officers (CEOs) and as business owners and a 23% drop in the share of women registering new patents between 2016 and 2020.

Table 13.6. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 1

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Establish a joined-up approach to lifelong entrepreneurial learning	This has not yet been achieved, and limited progress has been made during the assessment period. There remains the need to make entrepreneurial learning more explicit across policy and co-ordinate a coherent approach across government areas.	Limited
Undertake further professional development of teachers to implement an entrepreneurship key competence approach	There are ongoing challenges with skills mismatches; however, there has been a strong effort to undertake teacher professional development supported by international development co-operation partners' funding and resulting in high numbers of teachers receiving in-service training on entrepreneurship education from Junior Achievement.	Moderate
Restart the Advisory Group on Women Entrepreneurs to increase women's participation in the labour market and reduce the gender gap	Women's entrepreneurship is now an explicit topic within the Integrated Policy Management Group (GMIP), an inter-ministerial working group that discusses and proposes policies within the competitiveness dimension. However, this could be strengthened through the formal representation of stakeholders as full members.	Moderate
Strengthen dialogue with non-governmental organisations (NGOs) for women's entrepreneurship	Strong and fully engaged stakeholders are driving forward women's entrepreneurship in Albania. Dialogue takes place through the Integrated Management Policy Group, but this is ad hoc, and considering the importance of women's economic empowerment, this channel could be improved.	Moderate

Entrepreneurial learning is included in new policy, but there are few actions, and it is not supported through a national policy partnership approach

Entrepreneurial learning is included in policy documents at the national level in Albania, where entrepreneurship as a key competence continues to be included as one of the seven key competences within the Albanian education and training system. The primary driver is the National Education Strategy (2021-2026) (Government of Albania, 2021^[29]), adopted at the end of 2021, supported by the Business Development and Investment Strategy (2021-2027). The commitments made within the new National Education Strategy (2021-2026) have significantly increased the budget for education (Republic of Albania Council of Ministers, 2021^[30]) though it remains significantly below the OECD average.¹ European Commission reports (European Commission, 2021^[31]) have placed emphasis on the importance of entrepreneurial skills and ongoing between skills and education. However, this new strategy commits to just two actions linked to entrepreneurial learning on pre-service teacher training and higher education science, technology, engineering and mathematics (STEM) programmes to match labour market skills needs.² Though the Business Development and Investment Strategy (2021-2027) highlights the ongoing challenge of practical implementation of the competence across curriculum areas, actions targeting students only relate to linking higher education to the entrepreneurial and innovation ecosystem in Albania. The evaluation of the previous strategy (UNICEF Albania, 2019^[31]) did not reference entrepreneurship as a key competence, although it highlighted the challenges of practical resources, a structured orientation

towards a competency-based curriculum and the need for a better infrastructure to support quality teaching and learning.

Entrepreneurial learning remains under-developed in terms of co-ordination, curriculum and assessment

No overview mechanism exists for the actions being taken across different strategies, and evaluation of the process and impact of implementing entrepreneurial learning as a key competence through the different mechanisms across education and training is lacking. As a multi-stakeholder policy-partnership approach supporting entrepreneurial learning is also still lacking, this creates ongoing challenges of co-ordination of actions across government ministries, associated agencies and with the external stakeholders involved in the work. To build understanding of and coherence in this policy area, entrepreneurial learning could be included as the specific responsibility of a formal national policy-partnership body to take the co-ordination role, including for the development of system-level monitoring and evaluation mechanisms.

Entrepreneurship is included as a key competence in the curriculum, but this is not yet fully implemented and is not aligned to EntreComp. Entrepreneurship is one of the key competences identified in Albania's pre-university law (Government of Albania, 2014^[32]), explicitly mentioned within the key competence for life, entrepreneurship and the environment. In primary and lower secondary education, entrepreneurship is included in the Citizenship subject from grades 1-8, and in upper secondary, it is taught in the Economy subject in the 12th grade. The Junior Achievement programme is widespread in upper secondary school and integrated into the curriculum as a practical entrepreneurial experience, which delivers on the curriculum's requirements.³ In vocational education and training, there is a compulsory Basics of Entrepreneurship module,⁴ which includes a two-hour class on e-entrepreneurship.

At the university level, there is not yet extensive inclusion of the entrepreneurship key competence into the curriculum. The National Education Strategy (2021-2026) has included a commitment to increase interdisciplinary STEM programmes, while EU-funded projects also support educator training. An example of the European Union for Innovation series of masterclasses on creating an entrepreneurial university⁵ informs and inspires teachers on how to encourage an entrepreneurial mindset among their students and connect them to the wider entrepreneurial ecosystem. For students, an innovative programme called English-Entrepreneurship-Employability (3E) was launched in 2021 by Junior Achievement to create a forum for university students to engage in English-language debate clubs and develop their critical thinking, problem solving, creativity, confidence and communication skills.⁶ Work remains to enable learner access to entrepreneurship competence development across higher education courses, though access via extracurricular activities and careers services is evidenced. The Business Development and Investment Strategy (2021-2027) focuses on the importance of higher education, with actions on adapting university curricula, introducing actions such as hackathons and strengthening the pathway to start-ups.

Entrepreneurship is defined as a cross-cutting key competence, and it is expected to be part of the learning objectives of all subjects, but ensuring its development as a key competence within wider curriculum areas remains a key task. Where it is already included in specific subjects, the materials used demonstrate a strong focus on the economic perspective of entrepreneurship. Practical entrepreneurial experiences are not yet accessible to all students via the core curriculum. Projects are used in lower secondary education alongside extracurricular activities such as school fairs, while Junior Achievement is the major provider in primary and secondary alongside the social-innovation-based Upshift⁷ programme from the United Nations Children's Fund (UNICEF) in upper secondary. Vocational education and training (VET) students participate in a compulsory long-term apprenticeship in a business environment, but the entrepreneurial competences development from this experience is not explicit, and EU reports have highlighted the ongoing challenge of matching competence development to labour market needs (European Commission, 2021^[3]). The assessment of learning outcomes is not well-evidenced and is limited in scope; it is also not in line with the broader key competence development illustrated through EntreComp. EntreComp itself has

not been used yet at the system level, though there is limited evidence of its inclusion within training approaches delivered as part of masterclasses in the EU for Innovation programme.

Training on the entrepreneurship key competence at the level of pre-service teacher training is lacking

While there is provision of in-service teacher training for schools and VET educators through Junior Achievement, there is no training on the entrepreneurship key competence at the level of pre-service teacher training. Junior Achievement is a significant actor at the national level, leading practical entrepreneurial experiences, providing teacher guidance and delivering significant teacher training to schools. In 2019-20, Junior Achievement training reached 800 teachers involved in delivering the Citizenship and Economics subjects.⁸ More broadly, Junior Achievement, supported by the Albanian American Development Foundation, plans to train 14 000 teachers by 2023 across primary and secondary education on entrepreneurial competences and economic education.⁹ For pre-service teacher training, the new National Education Strategy (2021-2026) has placed a specific emphasis on this area of work, calling for the harmonisation of pre-service teacher training with the requirements of the pre-university education curriculum.¹⁰ This is an important step and can provide the forum through which the skills of aspiring teachers can be future-proofed. This investment in pre- and in-service teacher training highlights the importance of tracking its impact on teaching and the learning experience of students.

Women's entrepreneurship is evidenced through national policy with a visible shift from targeted actions to mainstreamed actions

The Business Development and Investment Strategy (2021-2027) is the main policy vehicle for the provision of business support services in Albania. Within this strategy, there is clear integration of women's entrepreneurship as a target within mainstream actions. This includes target ratios for the women beneficiaries in the outputs of key actions across entrepreneurship support,¹¹ SME funding and graduate placements. These actions are generic in nature but with specific targets, budgets and quantified impact attached to each.

However, there is a less explicit emphasis on actions tailored to women's entrepreneurship in comparison to the previous Business and Investment Development Strategy (2014-2020), which included a separate and dedicated Women's Entrepreneurship Action Plan, which had a stronger focus on the development of women's entrepreneurship through the development of new policy documents, training programmes and funding programmes to increase and support women-led companies. There has been no visible monitoring of the Women's Entrepreneurship Action Plan attached to the Business and Investment Development Strategy (2014-2020) since 2017, however, coinciding with the dissolution of the Women's Entrepreneurship Advisory Group.

Mainstreaming actions to address all types of entrepreneurs requires a stronger focus on monitoring and evaluation, including gender-disaggregated data

There is no clear rationale for discontinuing the specific action plan on women's entrepreneurship attached to the Business and Investment Development Strategy (2014-2020), nor for the change towards mainstreamed actions within the new strategy. There is a real risk that if actions are not supported by comprehensive monitoring and evaluation, understanding of the progress of and impact on women's entrepreneurship might be lost. Previous annual reports from the Albanian Investment Development Agency (AIDA) presented only limited gender-disaggregated data, such as numbers of women participating in government-financed training, with limited insight into the results and impact on women's entrepreneurship programmes.¹² National-level statistics provide insights into the number of women business owners, self-employed women, companies with women CEOs, and the share of patents registered by women. These statistics have remained static or decreased in the past four years, with a 5% drop in the share of women CEOs and women business owners in Albania from 2016 to 2020.¹³

The new Business Development and Investment Strategy (2021-2027) includes an increased budget allocation to AIDA for monitoring and analysis, which can support the need for more co-ordination of different data sources alongside more depth into the impact of women's entrepreneurship support on the growth of women entrepreneurs and their businesses. Co-ordination of this policy area occurs through the GMIP, an inter-ministerial working group that discusses and proposes policies within the competitiveness dimension and within which women's entrepreneurship is now a specific topic. The membership of this group could be extended to include gender-based representation and non-government members to integrate women's networks more closely as part of a national coalition approach.

Awareness-raising and practical support to women-led start-ups and businesses are provided by stakeholders from the women's entrepreneurship ecosystem

Progress can be seen in awareness-raising and dialogue between different organisations working in women's entrepreneurship, particularly in terms of networking. An example is the Women Founders Network Albania (WFNA),¹⁴ an informal national network. The Women's Economic Chamber and the Women's Entrepreneur Committee of the National Chamber of Crafts are actively driving forward women's entrepreneurship through events, workshops and business coaching. There are examples of excellent practices, such as RisiAlbania, Digital Jobs Albania and the Women in Business¹⁵ programme, that focus on women's entrepreneurship, including promoting green, digital and online entrepreneurship. Another example is Idea Challenge Albania, starting with 2 000 start-up ideas (prioritising women participants – 53% in 2021) and offering training and mentoring to develop the ideas towards pitching for the Idea Grant Scheme managed by the Ministry of Finance and Economy and supported through international development co-operation partners' funding.¹⁶ There are also programmes to specifically target and support women-led businesses that have been impacted by the COVID-19 pandemic.¹⁷

The way forward for Dimension 1

- **Establish a national partnership for entrepreneurial learning or identify a relevant multi-stakeholder partnership body to take lead responsibility and co-ordinate and guide implementation, monitoring and evaluation of 1) entrepreneurial learning across all levels of education and training; and 2) women's entrepreneurship.** For entrepreneurial learning, this could mean including entrepreneurial learning as a specific topic addressed within a partnership supporting the National Education Strategy (2021-2026) or as a thematic group attached to the inter-ministerial Integrated Policy Management Group. For women's entrepreneurship, it is recommended that there is full membership of stakeholders from gender-based organisations in an existing government working group, such as the Integrated Policy Management Group (or an attached thematic group), or in a complementary structure for government and non-governmental stakeholders. Box 13.3. presents a relevant good practice example from Montenegro.

Box 13.3. Building a national policy partnership in Montenegro

Montenegro has successfully brought together and sustained a multi-stakeholder policy partnership that drives co-ordination and the development of entrepreneurial lifelong learning. The partnership has gradually increased the focus on this policy area, resulting in progress in the practical implementation of entrepreneurial learning at all levels of lifelong learning.

The consistent partnership between government ministries and key national stakeholders was linked to the design and implementation of national strategies. The relevance and importance of participation were clear to each partner organisation and closely aligned to their organisational objectives, with a named representative from each partner. The partnership was initially informal, and organisations

worked together to place the focus on increasing the profile of entrepreneurial lifelong learning at the policy level and gaining recognition for their partnership approach. This finally resulted in formal recognition by the government in 2021 as a working group of the National Council for Competitiveness led by the Ministry of Economy.

This example demonstrates the value of bringing actors together to drive a specific policy area forward and how formal recognition can strengthen and make this work more visible. A wide range of actors are working in this area, and this can be the opportunity to bring them together, link work to the different strategies that focus on actions supporting entrepreneurial lifelong learning, enhance the work of all partners in this field and gain further recognition of a partnership approach at the national and government levels.

Sources: Government of Montenegro (2020^[33]) and McCallum et al. (2018^[34]).

- **Prioritise the harmonisation of university teacher training programmes with training content** to support teacher awareness and knowledge of how to embed entrepreneurship key competence into teaching and learning and ensure it is underpinned by EntreComp. Box 13.4. presents a relevant good practice example from the United Kingdom.

Box 13.4. Matching initial and continuing teacher education to the needs of the new Curriculum for Wales (United Kingdom)

In the United Kingdom, the University of Wales Trinity Saint David has successfully integrated the development of the entrepreneurship key competence into pre-service teacher training programmes and a new Education Doctorate supporting continuing professional development for experienced educators. Participant feedback shows that those who participate in the programme go on to use EntreComp to underpin their own teaching or wider teacher training initiatives, such as head-teacher training for the new curriculum led by Wales' National Academy for Educational Leadership.

The approach taken first places explicit focus on teachers' professional and entrepreneurial competences, using learning outcomes from EntreComp, to build an understanding of the relevance of this key competence. The courses developed also introduce knowledge and practical application of the entrepreneurship key competence for learners across diverse subject areas and with cross-curricular relevance. The university has embraced the EntreComp framework as a guide for this work, matching it with the new Curriculum for Wales, which emphasises four purposes of learning, including supporting learners in becoming "enterprising, creative contributors, ready to play a full part in life and work."¹ Participants in the Education Doctorate have gone on to use EntreComp to underpin wider teacher training initiatives, such as head-teacher training for the new curriculum led by Wales' National Academy for Educational Leadership.

Albania is prioritising the harmonisation of teacher training with the needs of the curriculum. This should include a strong focus on the seven Albanian key competences and prioritise an expansion of how the entrepreneurship key competence is embedded into the wider curriculum. This example illustrates how the design, delivery and assessment of pre-service and in-service teacher training courses can be matched to the needs of the new national curriculum framework.

1. For more information on the Curriculum for Wales, see <https://hwb.gov.wales/curriculum-for-wales> (accessed on 20 January 2022).

Sources: Welsh Government (2021^[35]); European Commission (2021^[36]); McCallum et al. (2018, pp. 54-55^[34]).

- **Create national teacher guidance on how to integrate the development of entrepreneurship as a cross-curricular key competence into all curriculum areas.** This should be aligned with EntreComp and be relevant across all levels of compulsory education. It could also be part of wider key competence guidance for teachers.
- **Strengthen transparency and visibility on the progress and support of actions for women's entrepreneurship through annual progress and impact reports** providing quantitative data and results, alongside qualitative analysis of the progress of actions supporting women's entrepreneurship and their impact on women entrepreneurs and their businesses. Doing so could assemble existing statistics (e.g. collated through Business Development and Investment Strategy [2021-2027]), innovative practices and wider insights from government and non-governmental sources.

Bankruptcy and second chance for SMEs (Dimension 2)

Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to make sure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In Albania, similarly to other Western Balkan economies where SMEs represent a large part of the economy, effective liquidation and discharge procedures can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic when a number of firms faced financial difficulties or were at risk of financial distress, particularly in the tourism sector (OECD, 2021^[16]).

Albania's overall performance under bankruptcy and second chance has slightly increased since the previous assessment from 2.83 in 2019 to 2.98. Progress is mainly due to improvements in insolvency prevention, where Albania became the top performer in the region with a score of 3.10 (Table 13.7).

Table 13.7. Albania's 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		3.10	2.74
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.80	3.47
		Performance, monitoring and evaluation	2.40	3.23
		Weighted average	3.24	3.38
	Sub-dimension 2.3: Promoting second chance		2.00	1.96
Albania's overall score for Dimension 2			2.98	3.03

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Albania has advanced somewhat since the 2019 assessment, primarily due to the introduction of new insolvency prevention regulation on accelerated extrajudicial reorganisation agreements in February 2021. In addition, the economy continued to work on insolvency prevention by introducing new support measures to SMEs (e.g. business advisory and mentoring services to improve SME financial management) during the COVID-19 pandemic. Services, however, have not been provided to SMEs in financial difficulties facing imminent insolvency. A fully-fledged early warning system, as a basis for fostering a financially healthy ecosystem for SMEs and helping potentially distressed SMEs in the post-COVID-19 context, is still missing (Table 13.8).

The Insolvency Law (No. 110), enacted in 2016, provides for three main options: 1) an expedited reorganisation of a debtor facing imminent insolvency via a hybrid procedure (Articles 122 and 123); 2) an insolvency procedure in which a reorganisation plan for the survival of a debtor can be voted (Articles 15 and 16); and 3) filing a debtor for bankruptcy liquidation. Despite positive changes in the legislative

framework regarding “accelerated extrajudicial reorganisation agreements”, which enhanced potential bankruptcy prevention, shortened, simplified reorganisation proceedings for SMEs and debt discharge rules are still lacking in the legal framework on bankruptcy proceedings. Moreover, second-chance programmes for SMEs are nascent, limiting the reintegration of honest entrepreneurs¹⁸ into the economy and possibilities to change the current cultural stigma linked to entrepreneurial failure.

Table 13.8. Albania’s implementation of the SME Policy Index 2019 recommendations for Dimension 2

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Develop a fully-fledged early warning system	An early warning system is still missing. The government provides advisory and mentoring services to SMEs regarding their long-term sustainable growth through AIDA, but these services indirectly target the prevention of bankruptcies.	Limited
Introduce short-cut bankruptcy proceedings for SMEs and entrepreneurs	No simplification measures, such as fast-track procedures or reorganisation processes, have been implemented or planned during the assessment period. Moreover, automatic debt discharge mechanisms for companies in liquidation are still lacking, extending the time for potential reintegration into the economy.	No progress
Allow the automatic discharge of entrepreneurs after liquidation	Since the last assessment, no changes in the debt discharge mechanism have been observed; it is still not automatic. The existing discharge mechanism for entrepreneurs provides a five-year period. Once completed, if the discharge is not revoked, the bankruptcy is closed.	No progress
Implement and enhance the by-law on out-of-court restructuring agreements for financially distressed debtors	The newly introduced accelerated extrajudicial reorganisation agreement is a positive step; however, some deficiencies are yet to be addressed, such as clarifying creditors’ enforcement rights and the automatic stay during the plan’s implementation period.	Moderate
Improve and further develop the articles regulating the activities of the National Bankruptcy Agency	No improvements in the National Bankruptcy Agency (NBA) activities were recorded during the assessment period. Moreover, the NBA’s website has not been operational since July 2021.	No progress

The insolvency legislative framework has seen certain improvements

Albania’s insolvency legal framework is based on the 2016 Insolvency Act (No. 110), which does not implement the United Nations Commission on International Trade Law (UNCITRAL) insolvency model law (UNCITRAL, n.d.^[37]) or the EU model for cross-border insolvency (European Parliament and the Council of the European Union, 2015^[38]). It does contain chapters on the access of foreign representatives to the Albanian courts, the recognition of foreign insolvency proceedings and relief and co-operation with foreign courts and foreign representatives (EBRD, 2021^[39]). The law provides a solid legal framework for formal court bankruptcy liquidation and allows for two reorganisation procedures (expedited and regular). However, aspects to streamline the processes, such as fast-track reorganisation/liquidation or the digitalisation of the insolvency procedures to shorten the proceeding and better monitor and evaluate the protection of debtor’s and creditors’ rights in insolvency proceedings are missing in the insolvency framework.

The expedited insolvency reorganisation can only be initiated by the debtor and starts as an out-of-court settlement between the debtor and its creditors, which is then filed and confirmed by the court. Although it aims to enable the debtor to overcome a situation of imminent insolvency, there are no provisions governing new potential financing. The process requires the support of the creditors that represents 30% or more of the total claims included in the plan, followed by the confirmation of the plan under the supervision of the court.

The regular reorganisation procedure may be initiated by the debtor, under a certain number of restrictions, or by the creditors. If the latter initiates the process, as an automatic consequence, the debtor’s right to manage and dispose of its assets is then vested in the insolvency practitioner (EBRD, 2021^[39]). The

insolvency practitioner, jointly with the debtor (where the debtor remains in possession), may borrow new loans for the continuation of the business. The law clearly enumerates the priority orders of the creditors following the plan's adoption; however, it does not provide clear rules regarding which plan to select in case of multiple options.

Insolvency data are published on the official website of the Albanian National Bankruptcy Agency (NBA), but the website has not been accessible since July 2021 (EBRD, 2021^[39]). Even though the statistics gathered do not differentiate between bankruptcy liquidations and reorganisations, they clearly show a decrease in the number of cases since 2017 (see Table 13.9). In addition, the Albanian Tax Administration publishes the list of subjects for which bankruptcy liquidation procedures are initiated (Albanian Tax Administration, n.d.^[40]).

Table 13.9. Number of insolvency proceedings in Albania, 2016-20

	Pending cases from previous years	New cases	Closed cases
2016	31	53	42
2017	45	25	35
2018	34	10	6
2019	20	8	2
2020	22	5	2

Source: Information provided by the Albanian NBA during the assessment period.

Some progress has been made regarding insolvency prevention measures

In terms of preventive measures, Albania has made progress since the last assessment, mainly due to the introduction of new insolvency prevention regulation on accelerated extrajudicial reorganisation agreements in February 2021 (Government of Albania, 2021^[41]). The procedure is entirely voluntary and extrajudicial if the debtor is in a situation of imminent insolvency.¹⁹ It starts with multilateral talks between the debtor and its creditors and the election of a board of creditors if there are more than ten creditors and is approved if a majority of the creditors holding 75% of the whole debt agrees. Although this enhances bankruptcy prevention, the plan becomes binding only for the creditors who have signed the agreement, leaving a legal gap for creditors that are not in favour, did not vote for the plan or who are secured and have enforcement rights over the debtor's property, as their situations are not clearly regulated. Consequently, the latter (e.g. the secured creditor) could claim its debt at any time, making the implementation of the plan impossible, as the assets needed for the completion of a restructuring agreement will not be there anymore. In addition, the lack of automatic stay for the period of the implementation of the plan threatens its successful completion and does not provide incentives for creditors to participate in the agreement.

An early warning system remains absent in Albania. During the reporting period, however, solvent SMEs have been offered a range of advisory and mentoring services, which aimed to increase their competitiveness and improve their financial management, thus indirectly contributing to preventing their insolvency. Moreover, some tax deferral options were also offered to financially distressed companies during 2020 to mitigate the effects of the COVID-19 pandemic.

The new law on the development of SMEs, adopted in April 2022, foresees the implementation of targeted trainings for SMEs, depending on the activity sectors, stage of development and the experience of firms in their actual markets, under the supervision of AIDA. This initiative is expected to contribute to the prevention of bankruptcies.

Second-chance programmes for failed entrepreneurs are still lacking

Similarly to the previous assessment findings, Albania does not promote second chance, which would encourage or ensure the possibility of reintegration of honest entrepreneurs into the economy. The Business Development and Investment Strategy (2021-2027) highlights the importance of second-chance policies (Government of Albania, 2021^[28]). However, no concrete measures have been included in the strategy's action plan, and no such measures have been planned. Furthermore, the legal framework does not distinguish honest from fraudulent bankruptcies, nor does it define clearly honest entrepreneurs.

The way forward for Dimension 2

- **Develop insolvency prevention policy measures, including a fully-fledged early warning system**, as SMEs tend to underestimate the importance of maintaining a sound financial status and avoiding risky decisions (see Box 13.5.). If no appropriate corrective actions are taken on time, this may initially lead to financial distress and later insolvency, particularly in the aftermath of the COVID-19 pandemic. Albania could build on its already well-developed advisory support services provided by AIDA to extend its offer of programmes to SMEs at risk of financial distress. In addition, the EU Directive 1023/2019 (European Parliament and the Council of the European Union, 2019^[42]), which introduces debtors' access to information on early warning tools, could serve as a basis for the economy.

Box 13.5. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for SMEs and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.
This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.
2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:
 - A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.

- If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
- If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation or even trigger a special preventive measure court procedure.
- Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to only pay public debt to avoid early warning detection mechanisms.

Source: IMF (2021^[35]).

- **Streamline liquidation processes by introducing digital tools.** Digitalising the liquidation process would enhance transparency, save time and the costs of currently lengthy liquidations, anticipate potential conflicts between the creditors' committee and protect creditors' rights as claims are recovered from the best market price reached during a competitive bidding procedure. This could be achieved by introducing e-auctions and automatic e-distributions mechanisms, such as in the North Macedonia example (see Box 13.6.).

Box 13.6. The digitalisation of bankruptcy liquidation procedures

Sale of assets from bankruptcy estate on e-auction, North Macedonia solution

The 2015 amendment of the Insolvency Act in North Macedonia introduced the option of e-auction sales of assets from bankruptcy estates. Following seven years of implementation of e-auction sales, evidence shows that the amount of time taken by bankruptcy liquidation procedures has decreased, and creditors' claims have been recovered at the best market rates.¹ The main sale principles are defined in Articles 98-100 and Articles 189-196 as follows:

- The sale of the assets from the bankruptcy is done through e-auctions with public bidding.
- Parties interested in participating in e-auctions are required to pay a 10% bond/deposit of the book value of the asset. They then receive a Participant ID with which to bid. The ID is anonymous.
- The e-auction starts at a previously announced time and finishes in 30 minutes. All participants are automatically and electronically informed of the results of the auction.
- Two additional e-auction rounds can take place for any unsold assets. The process must be completed within 90 days of the decision on the sale of assets from the bankruptcy estate.
- The parties in the e-auctions have the right of appeal, which is resolved by a bankruptcy judge within three days of filing the appeal in court and is final.
- The shares of publicly traded companies from the estate are sold on the stock exchange.
- The initial price of an asset for bidding is not announced, and the auction starts from zero price.

- A proposal for the partial distribution of proceeds from the sale of assets may be submitted within eight days, upon completion of the e-sale, to the Board of Creditors to approve the costs of the procedure and distribution to creditors.
- There is an option for appeal on advance partial e-auctions and on final distribution to a bankruptcy judge, which is resolved by the judge within three days of filing the appeal in court and is final.
- Distribution of proceeds takes place within eight days upon announcement of the final distribution plan.
- Unsold assets are distributed in kind to creditors.

1. The time to resolve insolvency decreased from 1.8 years in 2016 to 1.5 years in 2020. The recovery rate increased from 44.6 cents on the dollar in 2016 to 48 cents on the dollar in 2020.

Source: Ministry of Economy of North Macedonia (2022^[43]).

- **Further amend the regulation on accelerated extrajudicial reorganisation agreements.** In the current regulation, as discussed above, the reached agreement is binding only to the parties who have signed it before a public notary but implies that it has no effect on the other parties.²⁰ Therefore, the legal framework would need to clearly indicate the estate of these other parties. Moreover, the law could be further enhanced by clarifying the maximum term of the restructuring agreement, providing automatic stay during its implementation to guarantee its completion and clearly indicating that there will be an interruption in the statute of limitations for the other parties' claims.
- **Improve formal bankruptcy reorganisation proceedings.** Under the current Insolvency Law (Article 96), reorganisation plans can be submitted by the debtor, the bankruptcy administrator and creditors that hold 20% of total claims. This could potentially lead to the submission of multiple reorganisation plans, with no clear provision on which plan should prevail, potentially prolonging the reorganisation proceeding. Therefore, introducing an automatic rule that selects the plan with the highest recovery of claims of the lowest payment rank would help reach a wider group of debtors and enhance the efficiency of the reorganisation process.
- **Promote second chance to honest entrepreneurs.** The economy should promote a second chance as an option for honest entrepreneurs to have a fresh start and reduce the cultural stigma related to business failure. The legal framework should provide automatic debt discharge to honest entrepreneurs. The policy should be widely promoted through public awareness campaigns promoting a fresh start following bankruptcy.

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

Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. Policy makers should therefore consider the unique needs of SMEs when designing policies that impact the private sector, especially given the importance of SMEs for the economy in terms of employment, value added and business demographics.

For an economy like Albania, where SMEs represent a significantly higher share of value added (74.1%) and employment (82.9%) than in the European Union, it is particularly important to “think small first” when designing and implementing policies. The COVID-19 pandemic affected Albanian SMEs, most severely in the tourism sector, where 75% of businesses were forced to halt their activities. SMEs in Albania continue to suffer from a high level of administrative burdens as well as from unfair competition stemming from the informal economy (European Commission, 2021^[44]).

Albania’s performance in this dimension has improved since the last assessment (when it was 3.55), primarily driven by improvements to the guidelines for conducting regulatory impact analysis (RIA) and public-private consultations (PPCs) (Table 13.10).

Table 13.10. Albania’s scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	4.30	4.28
		Implementation	4.20	3.96
		Monitoring and evaluation	4.10	3.81
		Weighted average	4.21	4.03
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis (RIA)	Planning and design	3.60	3.84
		Implementation	3.40	3.47
		Monitoring and evaluation	2.55	2.95
		Weighted average	3.29	3.48
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	3.90	4.00
		Private sector involvement in PPCs	4.20	3.92
		Monitoring and evaluation	4.15	3.10
		Weighted average	4.07	3.79
	Albania’s overall score for Dimension 3		3.89	3.79

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Albania ensured continuity in the implementation of its SME policy framework through the adoption of a new Business Development and Investment Strategy (2021-2027). Efforts have been made to improve the use of RIA and PPCs, but more can be done, particularly in strengthening the quality control function for RIA, as has been done for PPCs (Table 13.11).

Table 13.11. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 3

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Enhance the institutional capacity of institutions responsible for SME policies	Overall institutional capacity for understanding the needs of SMEs and translating them into SME policy making has been increased. The Albanian Investment Development Agency (AIDA) was restructured in 2019 with the goal of expanding its presence at the local level. As part of this restructuring, AIDA's total number of staff has increased, giving it additional resources to realise these goals.	Strong
Systematically conduct regulatory review and simplification processes in co-operation with businesses	There is currently no agenda for legislative simplification and reforms to reduce the administrative burden. Nevertheless, the government is drafting a work plan for measures to improve the business environment and investment climate in Albania. Consultations and feedback from businesses helped the government identify the priority areas this work plan will be based on.	Moderate
Ensure regular monitoring of SME policy measures	Albania's main SME policy document, the Business Investment Development Strategy (2014-2020), was regularly monitored, and the results of this monitoring were fed into the guidance for designing the new Business Development and Investment Strategy (2021-2027), which also contains a strong framework for monitoring progress and identifying potential challenges along the way. Monitoring and evaluation of PPCs has substantially improved since the last assessment.	Strong
Enhance the quality of the PPC process	Monitoring and evaluation of PPCs has been strengthened, allowing the government to better measure the quality and consistency of consultations. Inter-institutional co-ordination to ensure the consistent use of PPCs has been strengthened. These mechanisms should allow the government to better focus its efforts to raise the quality of PPCs and improve stakeholder engagement.	Strong

The SME policy framework has been further developed, and implementation has continued, but there is no comprehensive framework for combating informality

Albania completed the implementation of its Business Investment Development Strategy (2014-2020) since the previous assessment. Monitoring and evaluation of the Business Investment Development Strategy (2014-2020) was conducted through three monitoring reports, which showed an overall implementation rate of 75%. Results from this monitoring were integrated into the new Business Development and Investment Strategy (2021-2027), and namely identified challenges in the division of competencies, regularity of reporting and definition of measures, which the new Business Development and Investment Strategy (2021-2027) aims to address.

The new Business Development and Investment Strategy (2021-2027) was developed in consultation with stakeholders and focuses on three specific objectives: 1) attracting investment and internationalisation; 2) SME development; and 3) human capital development. Monitoring and evaluation is planned through annual reporting as well as the creation of a mid-term implementation report, which should take stock of the strategy's course and address any challenges towards the middle of the strategy's implementation timeline.

AIDA, the implementing agency for SME policies, underwent a restructuring in 2019. New structures and units were created, with the goal of expanding AIDA's co-operation and co-ordination with municipalities,

to be closer to businesses at the local level. Consequently, AIDA has increased its staff (from 29 to 39 employees) to meet the needs of this expansion.

The informal economy remains a structural challenge in Albania, representing around one-third of GDP according to the latest estimates (European Commission, 2021^[3]). The government has been running an inter-institutional campaign against the informal economy for years. As a result of this campaign, the government has identified key sectors the most at risk of informal activity, namely retail trade, wholesale trade, tourism and hospitality, and construction. Another key reform undertaken since January 2021 is fiscalisation, through which the government made it mandatory for businesses to file electronic invoices to improve the accuracy and reliability of data the tax administration has access to. While these are welcome steps, Albania lacks a comprehensive strategy for tackling informality, which would allow it to address structural and sector-specific issues (European Commission, 2021^[14]).

Efforts to simplify business legislation and improve the business environment have continued but lack an overall systematic approach

Albania has continued efforts to improve the business environment since the previous assessment, mainly by focusing on increasing the availability of digital government services (see Dimension 4 on operational environment for SMEs) and reforms to combat informality, such as fiscalisation.

Although the new Business Development and Investment Strategy (2021-2027) takes stock of the state of the business environment and progress made in improving it, it does not contain measures to simplify legislation and lessen administrative burdens for SMEs, which are often cited as key barriers for businesses in Albania. Considering the high level of administrative burdens for businesses in Albania and its effect on the informal economy, a more ambitious framework for simplifying legislation and improving the business environment would be welcome (European Commission, 2021^[45]). In early 2022, the government began drafting a work plan for improving the business environment and investment climate based on priority areas identified through consultations with businesses, such as tax legislation, banking regulation, bankruptcy, education, e-commerce and others.

The government's General Analytical Programme of Drafts, which lists primary and secondary legislation that the government plans to amend or introduce, informs businesses and other stakeholders of upcoming legislative changes. Since January 2021, it also includes a list of PPCs to be conducted.

The methodology for RIA has been strengthened and updated, but quality control and monitoring and evaluation could be further improved

Conducting RIA has been made mandatory for primary legislation since January 2019. The new RIA methodology includes mandatory consideration of economic and financial aspects, along with the impact on businesses in general. However, SME-specific impacts are not mandatory for consideration, lessening the ability of the government to measure the potential impact of legislation on SMEs, which have fewer resources to adapt to compliance costs compared to larger firms.

Quality of RIA is overseen by the RIA Unit within the Council of Ministers, which provides written feedback on line ministries' RIA drafts. However, while entrusting a centre-of-government institution to perform this quality control function is an encouraging step forward, more could be done to ensure the effectiveness of this control. Specifically, the RIA Unit has little leverage to give weight to its feedback, which is not binding and is often not taken into account by line ministries (OECD, 2021^[46]).

There is room to improve the quality of RIA conducted, mainly in identifying options and alternatives to proposed policies (OECD, 2021^[46]). The use of RIA across the public administration is not monitored in Albania, meaning that it is difficult to measure the overall level of quality in different areas and different ministries and identify challenges and solutions.

The framework for conducting, monitoring and evaluating PPCs was strengthened, showing room for improvement in PPC quality and consistency

In January 2021, Albania strengthened its regulatory framework for conducting PPCs through the adoption of the Guideline on the Public Consultation Process (Box 13.7). This regulation strengthens the requirements for PPC consistency, informing stakeholders and reporting on PPCs. The Regulatory and Compliance Department of the Office of the Prime Minister was entrusted with ensuring that line ministries report on the PPCs they conduct (both for individual consultations and as a whole over a period of time) and the Department for the Development of Good Governance, also within the Office of the Prime Minister, prepares an annual report on the overall progress in the quality of PPCs conducted in Albania (OECD, 2021^[46]).

Box 13.7. Albania's monitoring reports for public-private consultations

As part of its new regulatory framework for conducting public-private consultations (PPCs), introduced in January 2021, Albania strengthened the guidelines for reporting and monitoring and evaluation of PPCs conducted by all line ministries, as well as the overall PPC process, which is monitored by the Council of Ministers.

Since this reform, each ministry publishes reports on the consultations it has held on a six-month or yearly basis. The reports are accessible on the central online consultation portal (<https://konsultimipublik.gov.al/Raporte2021>), greatly increasing their accessibility to interested stakeholders.

The Council of Ministers also produces an aggregate report of the public consultation process, looking at consultations conducted by all ministries on a six-month basis. Going beyond simply reporting on the implementation of the regulatory framework for consultations by ministries, this reporting contains analytical indicators, such as participation in consultations, institutions' response rate to public comments and the duration of consultations.

This allows the government to not only monitor the fulfilment of ministries' obligations to host consultations, but also the quality of the consultation process as a whole.

Source: Albanian Council of Ministers (2021^[47]). For more information, see: <https://konsultimipublik.gov.al/Raporte2021>.

These reports are available on the public consultation portal (<https://konsultimipublik.gov.al>), which the government uses to centralise access to PPCs from various line ministries. The introduction of regular, comprehensive reporting is a strong step and has allowed the government to measure deficiencies in the quality and consistency of PPCs. In terms of both quality and consistency, both significantly increased from 2018 to 2020, but recently the regularity of PPCs and their quality (measured through indicators created for the purposes of the report) seem to have plateaued, with a slight decrease in the first half of 2021 (Council of Ministers, 2021^[47]). In terms of measuring stakeholder participation in PPCs, the reports allow measuring total engagement through indicators on the number of participants and the responsiveness of institutions to comments and suggestions from stakeholders. However, the existing indicators do not allow the government to identify which types of stakeholders are engaged and thus to measure if businesses and SMEs are adequately included in PPCs.

The way forward for Dimension 3

- **Develop a programme for legislative simplification and reducing administrative burdens.** Given the high level of administrative burdens, Albania should look to develop a programme for legislative simplification and reducing administrative burdens on businesses. Focus could also be placed on reducing the parafiscal burden on SMEs. Examples of regional good practice in this regard can be taken from Montenegro and North Macedonia, which recently introduced registers of parafiscal charges that companies are required to pay, with the goal of eliminating and rationalising them where possible.
- **Strengthen quality control of regulatory impact analysis.** The quality control function of the RIA Unit of the Council of Ministers could be reinforced by making the unit's feedback on RIA produced by line ministries binding or at least mandatory for consideration (in which case the line ministry must justify why it cannot implement the RIA Unit's recommendations). This would serve to reinforce the quality control function of the RIA Unit and allow it to fulfil it effectively, and contribute to raising the quality of RIA.
- **Introduce monitoring and evaluation of the use of regulatory impact analysis.** The RIA Unit or another centre-of-government institution could begin to conduct regular, publicly available reporting on the use of RIA and its adherence to quality standards. This would allow the government to identify where to concentrate efforts to improve capacities for conducting effective RIA and to hold different line ministries to account. Good practice in this area can be taken from Montenegro, where the Ministry of Finance and Social Welfare conducts regular reporting on the state of RIA (Box 13.8.).

Box 13.8. Montenegro's reports on the quality application of regulatory impact assessment

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the RIA process in Montenegro and progress made in improving its quality.

As in some other economies in the WBT region, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand out is that the RIAs conducted are then divided into categories, showing what share of RIAs was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders, and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made in these different areas compared to previous years.

In its latest report, the ministry identified that 68% of RIAs conducted in 2020 were "done with quality" versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders, and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA in these areas.

The other WBT economies would benefit from making their reports on the use of RIA more analytical, as the key to effective use of RIA as a policy-making tool lies beyond respect for formal requirements, requiring regular measurement of policy makers' ability to conduct detailed, evidence-based analysis in several areas.

Source: Montenegrin Ministry of Finance and Social Welfare (2021^[48]).

Operational environment for SMEs (Dimension 4)

Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which SMEs must navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' ability to operate, take advantage of market opportunities efficiently and grow.

For an economy like Albania, where businesses were heavily impacted by the COVID-19 pandemic and where SMEs play an important role in the economy, increasing the availability of digital services for SMEs, including business registration and licensing, as well as improving the efficiency of administrative procedures, including tax compliance procedures, will be key to improving the operational environment by saving time and resources.

Albania's performance in delivering digital government, company registration and business licensing services has increased since the last assessment (when it was 3.99), making Albania the regional leader in this regard, especially when it comes to monitoring and evaluation of digital government services (Table 13.12).

Table 13.12. Albania's 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 SMEs	Planning and design	4.70	4.28
		Implementation	3.91	3.33
		Monitoring and evaluation	3.80	2.48
		Weighted average	4.12	3.40
	Sub-dimension 4.2: Company registration	Planning and design	4.90	4.42
		Performance	4.50	3.93
		Monitoring and evaluation	4.80	4.06
		Weighted average	4.78	4.18
	Sub-dimension 4.3: Business licensing	License procedures	4.55	3.88
		Monitoring and streamlining of license system	4.37	3.73
		Weighted average	4.46	3.80
	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		
Albania's overall score for Dimension 4			4.32	3.64

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Albania has continued implementing digital government reforms under a whole-of-government approach, made possible by the leading role of the National Agency for Information Society (NAIS). Progress has been made in increasing the availability of digital government services and streamlining them to better fit users' needs. Progress has also been made in increasing the availability of open government data and the

interoperability of government data for more efficient digital services. The company registration and business licensing frameworks, supervised by the National Business Centre (NBC), are well designed in Albania and in line with international best practices. Online registration is fully operational, and reforms are ongoing to further digitalise other services related to company registration. Solid co-ordination between the NBC and institutions responsible for issuing licences is established, and Albania is the only WBT economy that has introduced digital distribution of licensing officials. Albania has also continued to streamline licensing procedures. The taxation of unincorporated businesses in Albania differs from the approach taken in most other economies around the world, as unincorporated businesses are subject to the corporate income tax (CIT). Social security contributions (SSCs) are levied on the minimum wage rather than actual earnings. SMEs benefit from a simplified CIT regime under which they pay very little tax (Table 13.13).

Table 13.13. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 4

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Continue efforts to improve open government data	Albania has launched an open data portal and has adopted its National Open Government Partnership Action Plan (2020-2022), which aims to further increase the availability of open data and promote its use.	Strong
Regularly monitor and evaluate tax simplification measures	SMEs face a relatively high increase in their tax burden when they grow into the standard corporate income tax (CIT) regime, with its 15% tax rate, even more after the 2020 CIT rate reduction for small businesses.	Limited

The implementation of digitalisation reforms has advanced, supported by a solid framework for inter-institutional co-ordination

Albania has continued the implementation of its Digital Agenda (2015-2020) and consequently advanced the development of digital government services. Out of the Digital Agenda Action Plan's activities, 67.8% (or 156 out of 230) have been fully implemented, with 29 in progress as of December 2020. More specifically, related to the agenda's priority of developing digital government services, around 65% (or 75 out of 115) of planned activities had been fully implemented by December 2020 (NAIS, 2020^[49]). Following consultation with stakeholders, the Action Plan's duration was extended until 2022 to ensure its full implementation, as well as the implementation of new and updated activities.

NAIS was reorganised in 2017 and provides a strong pillar for horizontal governance of digital transformation efforts across Albania's various line ministries and institutions. Through indirect management of line ministries' technical and information and communications technology (ICT) staff, who fall under the Agency's organisational chart, NAIS supports line ministries in managing digital services and the associated ICT tools. NAIS also ensures the delivery of digital services according to common standards and ensures inter-institutional co-ordination and monitoring and evaluation of digital government reforms (OECD, 2021^[16]). This co-ordinated approach also ensures that public services are not only digitalised but re-engineered when necessary to better suit users' needs. With this in mind, the Agency for the Delivery of Integrated Services, whose goal is to improve the accessibility of public services (assisting citizens with applying for services on line) and streamline existing procedures, has made efforts to standardise administrative procedures and improve the overall user experience with public services²¹ (OECD, 2021^[46]).

NAIS monitors the use of the e-Albania portal by both citizens and businesses. Statistics on the most popular services and user satisfaction are fed back to inform the continuous development of services on the portal. Feedback channels also exist, allowing users to comment at their own initiative on their experience using digital services. Some of the key statistics on the portal's use and the services available

are available as open data on the government's open data portal. However, there is room for improvement in ensuring SME-specific data collection.

The rollout of digital services has advanced but has not yet improved business satisfaction with digital services

The rollout of digital government services in Albania has advanced since the previous assessment. The number of digital services for businesses that can be completed fully on line through the e-Albania portal (<https://e-albania.al>) increased from 293 in 2018 to 373 as of 2020. As of 2021, 95% of all administrative services had been made available on line,²² at differing levels of digital maturity (OECD, 2021^[46]). Consequently, Albania's ranking in the United Nations E-Government Development Index rose from 74th to 59th from 2018 to 2020, and its score in the UN Online Service Index increased from 0.73 to 0.84 over the same period.

However, despite these improvements in the availability of digital services, according to the latest Balkan Business Barometer survey, businesses' satisfaction with digital services is declining. In 2019, 70% of respondents expressed satisfaction with digital services, whereas, in 2021, this share had decreased to 54% (nevertheless, it remains above the regional average satisfaction rate of 39%)²³ (Regional Cooperation Council, 2021^[50]). Moreover, citizens are, in general, more satisfied with digital public services than businesses (OECD, 2021^[46]). This may indicate that despite the increased availability of digital services, there is still room for improvement in designing services to suit the needs of businesses.

The enablers of digital services, such as interoperability and open data, have been strengthened

Albania has further strengthened the key enablers for delivering digital services since the last assessment. Interoperability of government data has advanced, with 55 registers and databases from different institutions interconnected through the Government Interoperability Platform, up from 48 in 2019. This interconnectedness allows for around 66% of all forms to be pre-filled, thanks to the exchange of data between institutions (up from around 60% in 2019), further saving time for businesses.

The legal framework for the use of e-signatures and its partial alignment with the eIDAS regulation²⁴ has been in place since 2015, ensuring the legal equivalency of electronic signatures and traditional signatures and their use for digital services requiring a high level of security. The government plans to fully align the legal framework with the eIDAS regulation in 2022. However, despite the framework being in place, and the increase in the number of services using e-signature, there is room for improvement in promoting the use of e-signature by businesses (OECD, 2021^[46]).

Albania adopted an Open Government Partnership National Action Plan (2020-2022), focusing on anti-corruption, access to justice, fiscal transparency and digital governance. The digital governance component includes measures to expand digital government services and the open data portal and to improve the delivery of integrated public services through the Agency for the Delivery of Integrated Services.

Since the previous assessment, Albania has launched an open data portal (<http://opendata.gov.al>), which currently allows access to 436 datasets as of 2022 (there were 101 in 2020) (Government of Albania, 2021^[51]). Criteria for publishing open data (to ensure that it is reusable) are established, and the government monitors the use of the open data portal to identify which datasets are the most popular. While the National Open Government Partnership Action Plan aims to further expand the amount of open data available through the portal and to promote its use among citizens, measures to promote the use of open data by businesses for the creation of innovative products are absent (Government of Albania, 2020^[52]).

Company registration is well designed, and digitisation reforms are underway

Entrepreneurs can register their companies through the NBC, which operates as a one-stop-shop in its 35 physical offices or on line, according to the “silent-is-consent” principle.²⁵ When applying at the NBC for company registration, entrepreneurs receive a single tax identification number and are simultaneously registered with the tax authorities, social insurance and labour inspectorate, highlighting strong interoperability in this area. Online registration has been fully operational since 2016 and is free of charge on the e-Albania portal.

Albania remains one of the frontrunners in the WBT region in terms of the time and procedures needed to start a business. Registration with the NBC is finalised in 24 hours and the full process to start a business takes 4.5 days and 5 procedures on average (World Bank, 2020^[53]).

As part of ongoing digitalising reforms undertaken by NAIS and the NBC, since January 2020, some processes pertaining to company registration are only available on line, such as services for registering physical persons or for the suspension and reactivation of activity by legal entities. Full digitalisation of other services related to company registration is ongoing.

Monitoring and evaluation mechanisms are in place for company registration in Albania. Data on the company register is publicly available on NBC’s portal. Moreover, regular online surveys are conducted on the e-Albania portal to evaluate the quality of services provided on line, including those offered by the NBC.²⁶

Information and application for business licences are centralised on line, and reforms to further reduce administrative barriers are ongoing

Albania is the only WBT economy that has streamlined company registration and licensing under its one-stop-shop (the NBC),²⁷ which speeds up processes, increases transparency, and lowers administrative burdens and costs for SMEs. Information and application for business licensing are centralised on an e-licence portal (<https://qkb.gov.al/home>), overseen by the NBC. The NBC receives business licences and submits them to the relevant authorities as needed (Box 13.9). It plays the role of a co-ordination body and is in charge of interoperability and exchange of data between public institutions. Since 2020, licensing requests can only be submitted on line, and all services are free of charge.

Box 13.9. Business licensing granting process in Albania

Categories of licences

There are three categories of permits and licences for businesses in Albania:

- The first category uses the applicant’s self-declaration alone to evaluate whether the criteria are fulfilled.
- In the second category, the decision to grant a licence is based on self-declaration and documentary proof provided by the applicant.
- The third category of licences, in addition to the requirements of the second category, evaluates the fulfilment of the criteria using either an inspection, test, contest, interview, hearing or any other evaluation method.

The NBC is responsible for granting licences from Categories 1 and 2, and the relevant ministries along with the NBC are responsible for granting licences falling under Category 3.

Electronic distribution and nomination of licensing officers

For all permit and licence requests (in person before 2020 and on line), the electronic system checks the documents and assigns the application randomly to an officer. Businesses can trace their application's status on NBC's website using their case number.

Overall, a digital system that randomly selects officials responsible for granting licences to businesses enhances the transparency of the business licence procedure. It helps monitor and evaluate officials' compliance with their mandate, as well as distribute the workload equally among licence officers, allowing the administration to respond faster to requests.

Source: AIDA (n.d._[54]).

Around half of businesses in Albania (52%) considered the lack of availability and accessibility of relevant information a small or no obstacle at all, and 53% did not consider the lack of digitalised process for application and of approval of licences to be an obstacle (Regional Cooperation Council, 2021_[50]). While satisfaction with licences and permits is much higher in Albania than in the rest of the Western Balkans, it is lower than for other digital services and has been declining since 2019 (OECD, 2021_[46]). The number of procedures, requirements, paperwork, and cost for obtaining business licences are considered a small or no obstacle at all for 46% of businesses in Albania (Regional Cooperation Council, 2021_[50]). According to the latest data, 7 days were required to obtain an import licence, 11 for an operating licence and 36 for a construction permit, all three of which are lower than the WBT averages (11, 24 and 72 days, respectively) (World Bank, 2019_[55]).

Since the last assessment, Albania has undertaken a deregulation reform in the licensing sector to further facilitate and improve the business climate by reducing administrative barriers. In the framework of this reform, a group of experts, headed by the deputy prime minister, has reviewed all licenses and permits for a two-year period (2018-19) issued by state institutions. As part of their recommendations, the group has proposed to remove 22 licences to further reduce unnecessary burdens on companies. In line with these recommendations, 12 licences had been removed as of 2021 and further streamlining is ongoing.

Tax-related measures to mitigate the impact of the COVID-19 crisis and support the economic recovery were particularly targeted at SMEs

The mandatory threshold to register for value-added tax (VAT) was increased from ALL 2 million (approximately EUR 16 500) to ALL 10 million (EUR 83 000) (Albanian Parliament, 2020_[56]). In addition, CIT filing and payment were deferred for SMEs and for businesses in sectors that were particularly hard-hit by the crisis. The tax rate for SMEs subject to the simplified CIT regime decreased from 5% to 0%. Overall, these tax measures aimed at supporting cash flow for businesses, in particular SMEs, and they are broadly aligned with the measures taken in countries around the world, except for the reduction in the CIT rate, which has not been widely implemented.

Unincorporated businesses are subject to CIT and SSCs that are levied on the minimum wage

The taxation of unincorporated businesses in Albania differs from the approach taken in most other economies around the world. Unincorporated and incorporated businesses are subject to the CIT (referred to as the "profit tax"). This practice is uncommon, as economies usually tax the business income of unincorporated businesses under the personal income tax (PIT).

SSCs for the self-employed are not levied on their actual earnings but on the minimum wage or a multiple of it. Self-employed workers pay a 23% SSC rate levied on the minimum wage and a 3.4% rate on twice the minimum wage for health contributions (IBFD, 2021_[57]). While self-employed entrepreneurs are less

incentivised to under-declare their income as SSCs are not levied on actual earnings, the SSC design results in a high effective tax burden for self-employed workers who earn below the minimum wage, such as start-ups with low turnover. In addition, as SSCs are only levied on (a multiple of) the minimum wage, self-employed entrepreneurs will receive low benefits in the future. Once the tax administration is confident that it can avoid widespread non-compliance among the self-employed, the SSC base could be changed to actual earnings. This measure will increase the SSCs' burden, but self-employed entrepreneurs would benefit from enhanced social protection and higher benefits in the future. Alternatively, self-employed business income could be taxed under the PIT at a progressive PIT rate schedule, in particular, if social benefits for the self-employed were to be paid partly out of general tax revenues rather than only from SSCs.

CIT incentives are available to SMEs and large businesses

The standard CIT rate in Albania in 2021 was 15%. Businesses that develop software and those that operate in the automotive industry benefit from a reduced CIT rate of 5% (IBFD, 2021^[58]). In addition, CIT losses can be carried forward up to three years, which is the shortest period among economies in the region, except for North Macedonia, which has the same period. As young and innovative SMEs might have low profits and make large investments, a short period to carry forward losses could reduce risk-taking and investment by these types of SMEs.

SMEs benefit from a simplified corporate income tax regime under which they pay very little CIT liabilities

SMEs with an annual turnover of less than ALL 14 million (EUR 116 000) can benefit from a simplified CIT regime. While the regime incentivises businesses to formalise, it also creates hurdles for businesses to grow into the regular CIT regime. In Albania, SMEs with annual turnover below ALL 8 million (EUR 66 300) are exempt from paying CIT, i.e. they benefit from a 0% CIT rate. This threshold was ALL 5 million (EUR 41 500) before the COVID-19 crisis and has been raised to support the economic recovery. In addition, SMEs with annual turnover between ALL 8 million (EUR 66 000) and ALL 14 million (EUR 116 000) that benefited from a reduced CIT rate of 5% before the COVID-19 crisis now enjoy a 0% CIT rate, too (Albanian Parliament, 2020^[56]). SMEs under this regime face a high increase in tax burden when entering the standard CIT regime, which does not incentivise them to grow. Moreover, as small corporations barely pay CIT, the tax administration might be tempted to reduce its efforts in auditing these businesses as it foregoes little CIT revenues, which further incentivises businesses to stay within the simplified CIT regime rather than grow into the regular regime. Albania should prioritise the simplification of tax administration procedures over CIT exemptions to reduce the incentive for businesses to remain under the simplified CIT regime.

Contrary to most other economies in the region, the tax system does not create tax-induced incentives for SMEs to incorporate

The tax system does not create tax-induced incentives for SMEs to incorporate, as the tax burden on both types of businesses remains low. Unincorporated SMEs that earn more than the minimum wage pay relatively low SSCs (as they are levied on the minimum wage). In addition, these SMEs pay low CIT liabilities, as they are subject to the generous simplified CIT regime, rather than paying the PIT on their business earnings, as is the case in most other economies. Therefore, the tax burden of unincorporated businesses is relatively low. The tax burden is also low for corporations. A withholding tax of 8% applies to distributed dividends that are paid out of profits net of the CIT, which is levied at a rate of 0%, 5% or 15% depending on business profits (IBFD, 2021^[58]). There might be scope to further increase the dividend withholding tax as part of broader tax reform.

No special rules apply to gig workers. They can be taxed under the same rules that apply to employees if their income is earned in the form of wages (i.e. the progressive PIT rate schedule applies). They can be

taxed under the same rules that apply to self-employed workers if they have a business status. Finally, a 15% withholding tax applies to gig workers' income that is earned in the form of service payments (General Directorate of Taxes, 1998^[59]). The tax treatment of gig workers is favourable, in particular, if they benefit from the 0% CIT rate, i.e. if they fall under the simplified CIT regime. On the other hand, a gig worker with a small activity (e.g. a couple of hours per week) might face a high effective SSC burden as SSCs are not levied on actual earnings but on the minimum wage.

Voluntary registration for VAT is not allowed for all SMEs, and there are no VAT simplification measures targeted at SMEs

It is compulsory for businesses with an annual turnover exceeding ALL 10 million (EUR 83 000) to register for VAT (the threshold was ALL 2 million (EUR 17 000) up to 2020). Voluntary registration for VAT is allowed only for businesses with an annual turnover exceeding ALL 5 million (EUR 41 500). In 2021, the standard VAT rate was 20%, and the reduced VAT rate was 6% (IBFD, 2021^[58]). SMEs that do not qualify for the VAT registration are induced to find ways to avoid having to pay VAT on their inputs, for instance, by purchasing inputs from the informal economy. Albania could evaluate whether it wants to introduce additional measures to facilitate VAT compliance for SMEs, such as simplified input tax credit calculation schemes or cash accounting for VAT purposes. Measures to further improve the functioning of the VAT refund system are also warranted.

Several simplifications of tax administration procedures apply to SMEs

Businesses subject to the simplified CIT regime and that have annual turnover below ALL 8 million (EUR 66 000) are required to file an annual simplified CIT return. Businesses within the simplified CIT regime but with turnover above ALL 8 million (EUR 66 000) are required to complete the simplified CIT return and to provide detailed financial statements. Overall, businesses with an annual turnover of up to ALL 30 million (EUR 250 000) benefit from simplified bookkeeping rules. In addition, while employers pay SSCs on behalf of their employees on a monthly basis, the self-employed pay SSCs on a quarterly basis. Finally, e-filing is mandatory for CIT and VAT purposes; online tax payment is not mandatory.

The way forward for Dimension 4

- **Promote the use of e-signature by SMEs.** Promoting the usefulness of e-signatures among businesses should help increase its uptake and encourage more businesses to use digital services. The government and NAIS should also look to reduce the costs and technological barriers to the adoption of e-signature (such as the necessary hardware). This could be done by adopting mobile solutions, such as e-signature via mobile through cloud technology.
- **Introduce SME-specific monitoring and evaluation of the performance of digital services.** Even though Albania has the most developed monitoring and evaluation system for digital services in the region, its usefulness for SMEs could be further developed by ensuring that the data collected are disaggregated by enterprise size class, allowing NAIS and the government to see if SMEs encounter any particular challenges in using digital services compared to larger companies, as well as gain insight into the services most frequently used by SMEs.
- **Promote the reuse of open government data by SMEs.** Thanks to the growing availability of open government data in Albania, there is much potential to promote its reuse by SMEs for the creation of innovative products and services. Measures to encourage this reuse should be developed and adopted, possibly in the next Open Government Partnership Action Plan. These measures should be based on consultations with stakeholders to help identify the most useful data in this regard and increase its availability if necessary.

- **Evaluate the tax burdens faced by SMEs**, for instance, by using business tax returns to design a coherent simplified corporate income tax regime that incentivises businesses to operate in the formal economy and SMEs to grow into the regular CIT regime. The economy could evaluate tax return records to identify whether businesses bunch around the ALL 85 million (EUR 704 000) and ALL 14 million (EUR 116 000) thresholds. This would be an indication of the distortive impact of the very low tax rates for SMEs under the simplified CIT regime.
- **Monitor the tax burden for young and innovative SMEs** to assess whether introducing a longer right to carry forward losses would help them to innovate, take risks and grow.
- **Develop a strategy to ease tax administration procedures for SMEs** by first assessing remaining hurdles for SMEs, especially for VAT purposes, for instance, through business surveys.

Support services for SMEs (Dimension 5a)

Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, suboptimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. Business support services (BSSs) provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

SMEs struggling with boosting their productivity and competitiveness are common in small, open economies like Albania. BSS accessibility and reliability are vital components in stimulating SME growth and development. Implementing a comprehensive policy mix of financial and non-financial support is the most effective approach in economies like Albania, where both access to finance and technical assistance still pose a challenge, particularly following the COVID-19 pandemic.

Albania has considerably improved in the public and private provision of BSSs since the last assessment cycle, scoring a total of 4.05, compared to 3.61 in 2019 (Table 13.14). Due to the adoption of new strategic documents and their implementation, Albania improved its scores across all sub-dimensions and thematic blocks, showing the most significant improvement in the region.

Table 13.14. Albania's 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: BSSs provided by the government	Planning and design	4.43	4.17
		Implementation	3.43	4.24
		Monitoring and evaluation	4.11	3.88
		Weighted average	3.86	4.15
	Sub-dimension 5a.2: Government initiatives to stimulate private BSSs	Planning and design	5.00	4.63
		Implementation	3.80	4.21
		Monitoring and evaluation	4.20	3.84
		Weighted average	4.24	4.26
Albania's overall score for Dimension 5a			4.05	4.20

Note: WBT: Western Balkans and Turkey.

State of play and key developments

By adopting the new Business Development and Investment Strategy (2021-2027) (Government of Albania, 2021^[28]), Albania significantly advanced in providing SME support, particularly in improving the business environment, but also in adapting BSSs to SMEs' needs. At the time of assessment, the government was redesigning support schemes for SMEs with a strategic framework to simplify and digitalise the application process, which had proved cumbersome in the previous cycle (Table 13.15). The government made moderate progress on implementing a quality assurance mechanism for privately provided BSSs, although it outlined its plan to introduce an accreditation system for private-sector consultants. Due to the redesigning of support funds, there are currently no co-financing schemes offered by Albania.

Table 13.15. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 5a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Simplify the procedures for applying for BSSs and increase their attractiveness	At the time of assessment, the government was redesigning existing support schemes for SMEs. Previous programmes were characterised by cumbersome application procedures, which served as a deterrent for SMEs aiming to benefit from AIDA's support. It is not yet clear whether the new schemes will have simplified application processes that do not require an in-person meeting at AIDA's office.	Limited
Complement co-financing schemes with free BSSs	AIDA's services are free of charge, including access to databases of private-sector consultants. However, co-financing schemes are no longer available.	Moderate
Conduct regular training needs analyses (TNAs) to better develop and adapt BSSs to SMEs' actual skills needs	There has been considerable progress in the area of conducting TNAs among SMEs, as well as their demand for specific BSSs in light of the COVID-19 pandemic. The government conducted two studies on the impact that the COVID-19 pandemic had on SMEs and their related needs. In addition, Albania collaborated with international development co-operation partners to conduct various assessments on the SME landscape in the economy.	Strong
Introduce a quality assurance mechanism, such as an accreditation system, for private-sector consultants and trainers delivering co-financed support	Some progress has been made in the area of accreditation, as the concept of certifying private-sector consultants and making government support contingent on using their services has been included in the new Decision of the Council of Ministers. There are also plans to introduce a quality assurance system.	Moderate

Albania has enhanced its legal framework for SME support and facilitated access to information on available BSSs

The Business Development and Investment Strategy (2021-2027) is the main strategic document regulating BSS provision in Albania. The strategy supersedes the Business and Investment Development Strategy (2014-2020), which was 75% implemented²⁸ (Government of Albania, 2021^[28]). In addition, Albania adopted a new SME law in April 2022. The new law establishes an advisory council for SMEs and adds new forms of financial support available to SMEs. Since a weakened legal environment has been identified as the main challenge for improving the business environment in Albania, the new legal and strategic framework for the provision of support services for SMEs is a welcome development. The government included relevant stakeholders in the strategy's drafting process, which has not been a consistent practice in previous strategies (World Bank, 2021^[60]).

In the Business Development and Investment Strategy (2021-2027), the government aims to improve the business environment and attract investment, increase the competitiveness of SMEs through development and information technology, and reduce administrative barriers for SMEs. One of the specific targets of the Strategy (Government of Albania, 2021^[28]) is to increase the density of start-ups in the economy from 88 to 132.²⁹ While start-up density is not a common proxy for the level of innovation and entrepreneurship in an economy, it can measure entrepreneurship levels and incentives in an economy.³⁰

By nature, start-ups, particularly in a digitalised economy, are easier to create and more difficult to maintain. The Business Development and Investment Strategy (2021-2027) envisages intensified BSSs, both financial and non-financial, to ensure long-term start-up survival and target achievement. It does not, however, propose a measure to monitor the start-up ecosystem long term. Nevertheless, the strategy provides a sound strategic framework for a comprehensive policy mix, including financial support, such as state guarantees, and enhanced non-financial support focused on training. In addition, Albania adopted a law on the support and development of start-ups in March 2022, which sets an official legal definition for start-ups and envisions new support schemes.

To improve information asymmetry and facilitate access to information, the government launched the Access to Finance portal in 2021. The new portal serves as a one-stop-shop to assist Albanian SMEs in their expansion and development efforts by taking advantage of financial support granted by the Albanian

government. In order to use the portal, each SME needs to create its profile, listing its products and services. At the time of assessment, the portal had 965 SMEs registered. As lack of entrepreneurial know-how and difficulties accessing finance have been quoted as the main obstacles for SMEs in Albania, the portal serves as a sound, well-targeted tool to eliminate such hurdles (European Commission, 2021^[44]).

The government has amplified AIDA's role as a BSS provider, expanding its training and monitoring mandate

In the Business Development and Investment Strategy (2021-2027), the government envisages expanding the role of AIDA as a government BSS provider, amplifying its structure to add a new training division in 2021. This constitutes a significant change since the last assessment cycle, during which AIDA did not directly provide training to SMEs. The Business Development and Investment Strategy (2021-2027) provides a framework for SMEs to take advantage of training in the area of e-commerce and digitalisation, as well as gain entrepreneurial skills and knowledge. Apart from AIDA, both the Union of Chambers of Commerce and Industry of Albania and the Chamber of Commerce and Industry of Tirana provide support services for SMEs, offering services ranging from vocational training, workshops and conferences to certificates of origin support and intellectual property protection assistance.

Since the last assessment cycle, the government has intensified its efforts in training needs analysis. The Directorate of Investment of AIDA conducted two studies on the impact of the COVID-19 pandemic and the needs of SMEs associated with the negative effects it had on the business climate. The results show the fragility of Albanian SMEs in light of the pandemic and provided insight into specific BSS needs and expectations from the government, which were mainly focused on financial support. The analysis included 200 SMEs nationwide and across sectors. In November 2019, AIDA also conducted a study on SME training needs and the innovation ecosystem in Albania. The World Bank, the European Bank for Reconstruction and Development (EBRD) and the German Gesellschaft für Internationale Zusammenarbeit (GIZ) also conducted assessments of the SME landscape in collaboration with the government, assessing existing BSSs and their impact. Albania follows good practices in matching the demand and supply of support services for SMEs, which shows progress over the last assessment cycle.

AIDA's role has also been amplified in the area of monitoring. There has been a significant advancement in the monitoring of BSS projects; since the last assessment cycle, the government introduced a draft law that would require all central government and local self-government units to submit annual reports for all financial support schemes and public service support for MSMEs to AIDA. AIDA's annual reports are now available to the public, which constitutes a significant change since the last assessment cycle and contributes to enhancing the government's transparency. There is also a solid mechanism for SMEs to provide feedback on the BSSs received from AIDA. Beneficiaries can submit satisfaction surveys after benefiting from support services and participate in interviews conducted by BSS providers.

Seeking to improve BSS coverage, AIDA is redesigning its support schemes while the government collaborates with international partners

One of the main changes since the last assessment cycle is AIDA's plan to redesign grant support schemes for SMEs. The Competition Fund, Innovation Fund, Start-up Fund and Creative Economy Fund are due to be combined into one comprehensive fund for SMEs to support them in their development and internationalisation efforts. The new fund is envisioned to be more flexible in terms of funding opportunities and goals, as it will include an increased number and value of project grants.

Furthermore, the Business Development and Investment Strategy (2021-27) provides a roadmap for restructuring the grant application process by moving it entirely on line. With the previous support schemes, SMEs had to arrange an in-person meeting at AIDA's offices in Tirana, making it prohibitive for smaller companies, both in terms of time and resources. It is a welcome development, given that two-thirds of Albanian SMEs are not located in Tirana. Despite the cumbersome application process, in 2019, 120 SMEs

applied for funding from AIDA's support funds, which is 58% more than in 2018. Some 94 SMEs benefited from all 4 support funds in 2019, constituting a 66% increase over 2018 (AIDA, 2019^[61]). The consolidated fund had not been implemented at the time of assessment; however, there is a pressing need to increase its institutional capacity to provide broader, more comprehensive support for SMEs (European Commission, 2021^[44]).

On top of government-provided support, Albania collaborates with a range of international development co-operation partners to provide SMEs with additional technical assistance. The EBRD supports Albanian SMEs through projects relating to innovation, youth and women entrepreneurship, green growth and digitalisation. The projects focus on advisory services for SMEs. In addition, with the collaboration of the Swiss Agency for Development and Co-operation, the Ministry of Finance and Economy is implementing the RisiAlbania project, which provides training, consulting and advisory services for Albanian companies.

Private provision of BSSs is blended with government-provided services, although co-financing schemes have been discontinued

Though there are no explicit targets set for the private provision of support services for SMEs, the government acknowledges the importance of a well-developed private sector and the necessity for private-sector consultants to assist SMEs in their expansion efforts. The government does not provide any co-financing mechanisms for SMEs, which constitutes a change since the last assessment cycle, during which SMEs had access to co-financing schemes through the aforementioned funds provided by AIDA. These schemes would allow SMEs to use the services of private consultants. It is unclear whether AIDA plans to reintroduce co-financing private support services for BSSs, despite introducing a dedicated budget line for SME support, amounting to ALL 105 million (approximately EUR 870 000). Providing SMEs with access to co-financed services of private-sector consultants encourages a diverse and sustainable market of private BSS providers. Government-regulated co-financing of consultancies from accredited providers can help to ensure fair competition on the market, benefiting SMEs.

To assist SMEs in accessing the services of private-sector providers, AIDA's website has a dedicated section where SMEs can access information on BSSs available to them and the requirements to benefit from support services. Furthermore, AIDA has a document containing information on private-sector consultants, which is available free of charge. In order to ensure the highest quality of private BSSs, the government is working on an accreditation requirement for private-sector consultants, which is foreseen in the presidential decree published following the adoption of the new SME law.

The way forward for Dimension 5a

- **Further streamline and upgrade the procedures for applying for business support services.** While the Business Development and Investment Strategy (2021-2027) envisions digitalising the application process, in order to further facilitate access to programmes and finance, AIDA might consider strengthening its collaboration with local chambers of commerce and business associations outside of Tirana. Co-ordinating information exchange between the central AIDA office and other relevant state bodies, such as the tax office or local municipalities, could help SMEs in their application process by reducing the administrative burden they face.
- **Establish a searchable database of training and support available to SMEs** and their employees on the AIDA website and signpost to wider support and training programmes from government and non-government sources. This resource could also be promoted to relevant wider platforms and networks, such as AlbaniaTech, and networks for women's entrepreneurship, so they, too, actively signpost to AIDA information from their online portals.

Public procurement (Dimension 5b)

Introduction

Easing access to and increasing the participation of SMEs in public procurement can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore take into account the unique needs of SMEs when designing policies, as SMEs are disproportionately affected by complex procedures and often discouraged by the effort needed to take part in these procedures, given the uncertain outcome.

Like elsewhere across the globe, the COVID-19 pandemic had an impact on public procurement in Albania. The government introduced a series of measures and legislative changes related to public procurement contracts awarded due to the pandemic (OECD, 2021^[46]). In the first half of 2020, many procurement projects were cancelled or reoriented, resulting in a large number of procedures in the second half of the year compared to the first half of the year (PPA, 2020^[62]). There was also a significant increase in public expenditure for the reconstruction process following the 2019 earthquake (see below) and the COVID-19 pandemic (PPA, 2020^[62]).

Albania received an overall score of 4.39 for this dimension (Table 13.16). This is a significant improvement compared to 2019, when its score stood at 3.69. This progress is mainly due to improvements in public procurement legislation, in particular, regarding increasing SME participation, the adoption of strategic documents related to public procurement and actions concerning SME access and developments with regard to e-procurement (the electronic submission of tenders and complaints is now available to SMEs).

Table 13.16. Albania's scores for Dimension 5b: Public procurement

Dimension	Thematic block	Albania	WBT average
Dimension 5b: Public procurement	Planning and design	4.56	4.16
	Implementation	4.72	4.15
	Monitoring and evaluation	3.32	3.27
Albania's overall score for Dimension 5b		4.39	3.98

Note: WBT: Western Balkans and Turkey.

State of play and key developments

A first comprehensive National Public Procurement Strategy (2020-2023) (Public Procurement Agency, 2020^[63]) was adopted in November 2020 and foresees measures and activities in the field of public procurement, concessions and public-private partnerships, and defence and security procurements. One of its goals is to increase the participation of SMEs in the public procurement market. The legal framework has been substantially improved with the adoption of the new Public Procurement Law (PPL) (Public Procurement Agency, 2020^[64]), implementing regulations and a comprehensive set of operational tools such as new standard bidding documents (Table 13.17). In the aftermath of an earthquake that hit north-western Albania in November 2019 and caused numerous casualties and considerable damage, the government adopted Normative Act No. 9, "On Addressing the Consequences of Natural Disasters". Provisions adopted to facilitate the reconstruction process in affected areas are based on the principle of transparency and competitiveness but set a relatively short timeframe for submitting tenders and very short timeframes for submitting appeals.

Table 13.17. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Further align national legislation with EU rules and international good practice	There has been much progress in the field of public procurement since the last assessment: – The government adopted a new comprehensive strategy covering public procurement to increase the participation of SMEs in public procurement. – The new Public Procurement Law has been adopted, harmonising public procurement rules with the EU Public Procurement Directive, with a few exceptions, and addressing most of the recommendations made in the previous assessment, except for limitations on subcontracting.	Strong
Improve the monitoring and evaluation of SME participation in public procurement	The Public Procurement Agency's (PPA) annual reports do not contain any specific information about SMEs. This should improve in the future as the National Public Procurement Strategy (2020-2023) provides for specific activities related to the participation of SMEs. In particular, the PPA has been working with experts from the World Bank on a methodology to measure SME participation in public procurement (PPA, 2020 ^[62]).	Limited
Constantly monitor and analyse the obstacles faced by SMEs in accessing public procurement markets.	The PPA organises training and provides other support to economic operators. The electronic public procurement system has been improved – additional functionalities concerning the e-appeals function have been implemented, and contract management will be added soon. The PPA supports the implementation of the PPL by issuing instructions, recommendations, manuals and other guidance documents for contracting authorities and economic operators on different issues. The PPA is preparing a new instruction for economic operators on how to prepare and submit bids: – More actions dedicated to SMEs are planned to be adopted under the National Public Procurement Strategy (2020-2023). A strategy is in force to enforce the Law on Late Payment. There will be more support in the future as the strategy provides for specific activities related to SME participation.	Moderate

The public procurement market has increased recently, but there is relatively low competition for higher-value contracts

While the market for public contracts in Albania remains relatively small (EUR 1.75 billion in 2020) (PPA, 2020^[62]), it has nevertheless doubled compared to the previous period (EUR 908 million in 2019). The average number of tenders in public procurement above the ALL 800 000 (approximately EUR 6 600) threshold amounted to 2.57 in 2020 (2.37 in 2019 and 3.05 in 2018) (PPA, 2020^[62]). There was much more competition in small value contracts (11.6 tenders on average in 2020) and international restricted procedures applied in the context of the reconstruction process (23.38 bids in 2020) (PPA, 2020^[62]). The share of contracts awarded to foreign companies is very low: 0.2% of contracts were awarded to foreign contracts in 2020 (0.1% in 2019); the value of such contracts amounted to 0.4% of the total public procurement market in 2020 (compared to 0.23% in 2019).³¹ No information is available on the share of contracts awarded to SMEs.

The regulatory framework has improved considerably to comply with EU requirements

The new PPL contains provisions that are, to a very large extent, harmonised with the 2014 EU Public Procurement Directive and Utilities Procurement Directive. There are, though, a few provisions that are not fully compliant or are contradictory to the *acquis*, including, for example, limitations concerning the maximum share of the awarded contract, which may be subject to subcontracting (a maximum of 50% of the contract value) or an additional ground for mandatory exclusion of economic operators.

The public procurement provisions have various solutions in favour of SMEs. The new provisions do not allow contracting authorities to request that a group of economic operators (consortia) assume a specific legal form to submit a tender or request to participate in a public procurement procedure. A requirement concerning a specific organisational form may only be imposed on the winning bidder if it is necessary for the proper performance of the contract. However, implementing regulations imposes additional obligations and requires the submission, together with a tender, of a co-operation agreement regulating the co-operation of the members of such a group. The new PPL also provides for other instruments supporting the participation of SMEs in public procurement procedures: introduces a standard form of self-declaration that includes most of the relevant information on the economic operator that is used as preliminary proof of fulfilment of provisions on exclusion and criteria for qualification (selection) and allows economic operators to use the same form in subsequent procedures if the information is still relevant; prohibits contracting authorities from requesting documents from economic operators that are available in a state database or which the contracting authority already has in its possession.

To increase the participation of SMEs, the new public procurement rules also promote the division of procurement into lots. Contracting authorities are required to justify why procurement above a certain threshold has not been divided into lots (this is not obligatory in the case of utilities contracts). Implementing rules go even further because they explicitly require dividing procurement into lots whenever possible.³²

Other provisions of the PPL can, however, create barriers to access to the public procurement market. A bid security (at 2% of the estimated value of procurement)³³ is obligatory for contracting authorities in all public procurement procedures above the low monetary thresholds.³⁴ This was optional under the previous law, allowed in the case of procedures for contracts above high thresholds. Bid securities are forfeited if the winning tenderer decides not to sign the contract.³⁵ This is understandable since the role of the bid security is to ensure that the bid is serious and binding for the bidder. However, the PPL obliges the contracting authority to exclude for one year³⁶ from all subsequent procedures conducted by the same contracting authority any bidder who withdraws from signing the contract. This seems to be a disproportionately harsh penalty considering that concerned bidders also lose their bid security. Additionally, bidders who decline to sign a contract more than five times in the same year can be disqualified from participating in all public procurement procedures based on a decision of the PPA for a period ranging from three months to three years.³⁷ This disqualification from all procedures concerned, with no possibility for contracting authorities to undertake a case-by-case individual assessment after the disqualification took place and to decide on their own whether such bidders should be admitted or not to a given procedure, is not consistent with the Court of Justice of the European Union's case-law (OECD, 2021^[46]).

The PPL has a number of provisions related to sustainable procurement (as provided in the EU Public Procurement Directive) and allowing or even requiring environmental or social considerations to be taken into account in describing the object of procurement, defining qualification or award criteria, or contract performance conditions. Contracting authorities are obliged to apply the requirements provided by the environmental, social and labour legislation as well as by the provisions of international agreements and conventions, ratified in accordance with the national Constitution.³⁸

In principle, the PPL provides for free choice between the lowest price and the price-quality ratio,³⁹ and the PPL has no recommendation or obligation to use the price-quality ratio except in the consulting services procedure. However, a preference for price quality is clearly expressed in the implementing rules.⁴⁰ Accordingly, the price-only criterion can be used in the case of works, goods or services, which have simple specifications, well-known technical standards and are easily available on the market.

The institutional set-up allows for functions that promote transparency and competition in public procurement

The PPA is the central administrative body for public procurement matters (PPA, n.d.^[65]). Its tasks include preparing drafts of implementing regulations related to public procurement, promoting and organising

training for public procurement officials, issuing the Public Notifications Bulletin containing public procurement notices, preparing standard tender documents, providing advice and technical assistance to contracting authorities as requested, and monitoring the application of public procurement provisions. The PPA also provides advice to any interested person submitting a request for information or support, either by post or by email, including SMEs. The e-procurement system (EPS, n.d.^[66]) enables electronic processing of public procurement and concession procedures, including the publication of contract notices, downloading and uploading of tender documentation and tender submissions, and e-archiving. In terms of the benefits it has brought to the public procurement system, the EPS has increased transparency, eased access, simplified procedures, lowered transaction costs, and improved data collection and monitoring. Since 2021 submission of invoices by electronic means is mandatory for all types of contracts. Also, a new module on contract management has been prepared and will be operational soon.

Although the National Public Procurement Strategy (2020-2023) promotes SME participation in public procurement, this information is not currently collected, processed or published in the PPA's annual reports on the functioning of public procurement in Albania. Collecting information on contracts awarded to SMEs should not be problematic, as such information should be included in the notices about awarded contracts (as required under the 2014 EU Procurement Directive).

Economic operators' rights are protected by an independent review institution and procedures.

Economic operators are entitled to challenge contracting authorities' decisions to the Public Procurement Commission (PPC). Appeals should be submitted simultaneously to the PPC and the contracting authority in accordance with relevant forms and together with the payment of an appeal fee.⁴¹ The contracting authority should handle the appeal first. The PPC only becomes involved once a decision is adopted by the contracting authority. Time limits for seeking a review of a contracting authority's decision are equal to those required by the provisions of the Remedies Directives above PPL high thresholds (ten days) and are shorter for procurement below those thresholds (seven days). Appeals concerning contracts valued less than the low monetary thresholds must be submitted within two days of the publication of the award notice in the electronic procurement system and are reviewed by the administrative court.

The PPC must conclude its review with a decision adopted within 30 days of receiving information or documentation from the contracting authority (entity) in the case of procurement above the high monetary threshold and 20 days below this threshold. The PPC is allowed to adopt various types of rulings, including invalidation of illegally concluded contracts.⁴² Following a declarative ruling by the PPC, aggrieved economic operators may also seek court damages.⁴³

At the end of 2021, the PPC started to operate the new electronic system (E-complaints), enabling the electronic submission of appeals. All appeals are now submitted electronically through the unique government platform e-Albania (Government of Albania, n.d.^[67]). In addition to the launch of the E-complaints system, the PPC's new website has also been launched (PPC, n.d.^[68]), which enables full access to three public registers: the Register of Complaints, the Register of Decisions and the History of Decisions.

The way forward for Dimension 5b

- **Amend certain provisions of the Public Procurement Law to align with EU standards.** The Albanian authorities should modify provisions of the PPL related to the mandatory disqualification of economic operators from participation in public procurement procedures on the basis of decisions of the PPA. For more information on EU standards in this regard, see Box 13.10.

Box 13.10. Automatic exclusion of economic operators in the European Union

The European Union's public provisions, as interpreted by the Court of Justice of the European Union, allow the exclusion of an economic operator due to "grave professional misconduct". However, national procurement rules cannot allow the automatic exclusion of an economic operator (C-465/11 "Forposta and ABC Direct Contact"). The Court of Justice of the European Union defines the concept of "grave misconduct" as conduct that denotes a wrongful intent or negligence of certain gravity on the part of the economic operator. Any incorrect, imprecise or defective performance of a contract or a part of thereof could potentially demonstrate the limited professional competence of the economic operator concerned but does not automatically amount to grave misconduct. To determine whether grave misconduct exists, a specific and individual assessment of the economic operator's conduct must, in principle, be carried out.

In the past, **Romania** operated a central registry that contained information on both the positive and the negative contract performance of economic operators. After the completion of each contract, contracting authorities issued a document with information on how the economic operator had fulfilled its contractual obligations, which could be positive or negative depending on whether or not the economic operator had properly performed the contract. The document was issued to the contractor, and a copy was placed in the procurement file. A further copy was sent to the National Authority for Regulating and Monitoring Public Procurement (NARMP). The NARMP received copies of all positive and negative documents relating to contract performance from all contracting authorities across the country. The NARMP created a database containing this information, which was not posted on line. During a procurement procedure, contracting authorities could ask the NARMP for information related to one or more participating economic operators. Following such a request, the NARMP sent that contracting authority all of the available documents (both "positive" and "negative") without any comments or suggestions. The final decision – whether to exclude the economic operator or not – remained the responsibility of the contracting authority. The contracting authority could also contact other contracting authorities to obtain more information or evidence regarding cases where the tenderer concerned failed to fulfil its contractual obligations.

The PPL provides for disqualification from procurement procedures on the basis of a decision of the PPA, which can result in the de facto "automatic" exclusion of economic operators, a practice that is not aligned with EU rules. If the Albanian government wants to insist that the PPA play a role in verifying the reliability of economic operators, it is possible to do so in a way that complies with EU standards, as presented above.

Source: OECD (2016^[69]).

- **Monitor SME participation in public procurement procedures.** This task should be entrusted to the PPA, which could also collect and process information about the barriers the SMEs encounter in accessing public procurement procedures. In particular, the PPA's annual reports on the functioning of the public procurement system should include information about the share of contracts awarded to SMEs in terms of both value and number. To obtain this information, provisions and requirements concerning contract award notices published by contracting authorities should be modified and information about the economic operators, in particular, whether they belong to the SME sector, should be included.

Access to finance for SMEs (Dimension 6)

Introduction

Access to finance is critical for economic growth and inclusive development, allowing companies to expand their operations and invest to gain in efficiency and productivity. However, the availability and affordability of credit are typically strongly correlated with firm size, meaning that the smaller the company, the more difficult it is to access funding. Targeted policy measures are therefore required to encourage and complement private-sector provision of financing without crowding it out.

In Albania, like elsewhere across the world, the COVID-19 pandemic suddenly increased pressure on firm finances, especially for smaller firms that do not have large financial buffers, and put access to credit to a sudden halt, requiring a swift, short-term targeted policy response to shore up firm finances, without losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Albania has made limited progress in facilitating access to finance for SMEs since the last assessment, positioned among the lower half of WBT economies in this dimension. Nevertheless, its score has somewhat improved, at 3.43 in 2022, compared to 3.32 in 2019 (Table 13.18). This is largely due to ongoing efforts to strengthen the legal framework and the deepening of financial intermediation, while the discontinuation of financial support schemes has negatively impacted Albania's overall score.

Table 13.18. Albania's 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	4.00	4.27
		Registers	4.60	4.63
		Credit information bureaux	4.00	4.37
		Banking regulations	4.00	4.09
		Stock market	2.00	3.23
		Weighted average	3.86	4.20
	Sub-dimension 6.2: Bank finance	Bank lending practices and conditions	3.00	3.23
		Credit guarantee schemes	2.80	2.61
		Weighted average	2.92	2.98
	Sub-dimension 6.3: Non-bank finance	Microfinance institutions	4.90	3.37
		Leasing	2.40	3.24
		Factoring	2.90	2.71
		Weighted average	3.38	3.09
	Sub-dimension 6.4: Venture capital	Legal framework	2.00	2.73
		Design and implementation of government activities	1.80	2.57
		Monitoring and evaluation	1.00	1.47
		Weighted average	1.71	2.40
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	2.40	2.83
		Monitoring and evaluation	1.00	1.19
		Weighted average	2.12	2.50
Albania's overall score for Dimension 6			3.43	3.68

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Financial stability and trust in the banking sector have increased, thanks to continuing alignment with core Basel principles and ongoing efforts to strengthen creditors' securities. However, little progress has been made to improve the robustness and comprehensiveness of credit information, thereby continuing to limit access to finance, particularly for smaller enterprises. Several steps have been made to tackle informality, and the authorities' "fiscalisation" programme, along with measures to encourage online banking, is expected to increase financial inclusion and level the playing field in the medium term. Support measures to ease access to finance have been limited, as all funding allocated to AIDA was repurposed to soften the impact of the COVID-19 pandemic. However, two dedicated COVID-19 sovereign guarantee funds, even if not exclusively focused on SMEs, have somewhat supported lending. In contrast, the uptake of alternative sources of finance remains subdued, especially for factoring, while efforts to boost equity-based finance remain at an early stage. Financial literacy remains low, but steps are underway to prepare Albania's first Strategy for Financial Education.

Table 13.19 provides an overview of the main actions undertaken in response to the key recommendations made in the previous assessment.

Table 13.19. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 6

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Increase efforts to reduce informality among micro, small and medium-sized enterprises, which is considered a key obstacle for SME access to finance	Informality continues to remain a major obstacle to access to finance and financial inclusion more broadly. As part of the authorities' "fiscalisation" measures, steps have been undertaken to introduce digital payment services, aimed at increasing the taxpayer base. Amid the COVID-19 pandemic, the Bank of Albania has further introduced measures to encourage online transactions, thereby digitalising banking services and increasing reach.	Moderate
Increase awareness of alternative financial instruments to increase the uptake of non-bank financing	No progress has been made in raising awareness about non-bank finance, evident in the continuously decreasing volumes of factoring. AIDA's new digital platform, however, provides an opportunity to disseminate more information on alternative financial instruments.	Limited
Improve the reliability and accessibility of registers for securities over immovable and movable assets	Information on the cadastre has moved on line and is now accessible via the e-Albania platform. Concerns over the reliability and accuracy of data remain, however.	Moderate
Broaden the available credit information	No progress has been made on this front. An initiative by the Albanian Bank Association to establish a private credit bureau to include such data has been abandoned amidst legal obstacles, while data from retail and utility providers continue to be excluded from the credit registry.	No progress

A solid regulatory framework is increasingly building confidence in the financial sector, though some concerns over the effectiveness of implementation remain

The legal and regulatory framework of the Albanian financial system has been strengthened since the last assessment, increasing the stability of and trust in the local financial market as regulation is gradually aligned with the *acquis* and EU practices. Progress has been made in aligning legislation to Basel II and Basel III requirements, notably by introducing amendments to the liquidity coverage ratio and macroprudential framework. Legislation to improve bank recovery, resolution and supervision has also been put forward, and additional legislative changes on the leverage ratio of banks and the net stable funding ratio of banks will enter into force in 2022. The legislative framework does not envisage exceptions for SME lending; however, Albania has a system in place to allow exceptions for systemically important banks. Steps have also been initiated to strengthen investor securities, aimed at addressing shortcomings in the enforcement of creditor rights. The Bankruptcy Agency is now fully operational, and accompanying

legislation for the Bankruptcy Law was completed. However, the adoption of the new unified Law on Investments, which would complete the set of measures envisaged, has been pending since 2020, thereby delaying the expected improvements of legal securities of investors.

Limited progress has been made with regard to strengthening credit information. The cadastre has now moved on line onto the new centralised governmental service platform, e-Albania.⁴⁴ Nevertheless, concerns over the reliability of the data remain amid continued disputed historic claims, non-unified registration across regions and illegal construction. Similarly, use of the registration system for security rights over movable assets remains limited due to excessive paperwork, and movable assets are rarely accepted as collateral. Albania's credit registry covers around 50% of the adult population. While data include information from non-bank financial institutions, information from retail and utility providers is not collected. Plans initiated by the Albanian Association of Banks to establish a private credit information bureau to increase data coverage have been abandoned amid legal barriers.

Progress has been made in increasing access to capital market finance. In May 2020, Albania adopted a dedicated Law on Capital Markets and five implementation regulations, developed with support from the World Bank. The law aims to strengthen the integrity of capital market operations in Albania and regulates institutional investors, bringing legislation partially into alignment with the *acquis*. However, capital markets remain small as the Albanian Stock Exchange, a private entity established in 2017, continues to operate with government bonds only, while the public stock exchange is suspended and does not offer finance opportunities to businesses, neither SMEs nor corporates.

Financial intermediation is increasing, but informality continues to impede access to finance for smaller businesses

Bank lending dominates Albania's financial sector. Between 2018 and 2021, the number of operative banks decreased from 16 to 12, following some mergers and the revocation of a small bank's license. As a result, the role and weight of domestic banks have increased, accounting for over 30% of assets in early 2021, which has positively affected SME lending. Financial intermediation of the private sector has increased, standing at 37.8% of GDP in 2020, partially owing to a lower GDP denominator (European Commission, 2021_[3]). Credit grew strongly in 2019, a trend that was maintained throughout the COVID-19 recession, supported by large-scale liquidity injections and crisis-mitigation actions by the Central Bank of Albania. As a result, the already historically low key interest rate was lowered to 0.5%, and the Bank of Albania committed to providing unlimited liquidity to the local market, coupled with a credit moratorium and relaxed loan restructuring provisions. Implementation of the non-performing loans resolution strategy has somewhat stagnated during the pandemic; however, overall, the level of impaired loans has further declined since the previous assessment, from above 13% in 2018 to 7.9% in early 2021, thereby significantly increasing trust in and the stability of the sector (European Commission, 2021_[3]). While the continuous fall in non-performing loans is a positive development, data remain influenced by mandatory write-offs and restructuring. Focus needs to shift to the full implementation of the non-performing loans resolution strategy.

Several steps have also been taken to tackle the persistently high level of business informality, which continues to significantly impede access to finance. As part of its "fiscalisation" efforts, the Albanian government introduced electronic payments for invoices in 2021 to expand the taxpayer base. Measures introduced by the Bank of Albania to reduce direct contact during the pandemic, including a waiver on online banking fees and encouraging bank transfers for COVID-19 economic assistance measures, greatly complemented these efforts. These measures are expected to facilitate the digitalisation of financial-sector transactions, boosting financial inclusion and helping to level the playing field among enterprises.

Several SME funds were put in place in 2018 to support SME access to finance, aimed to increase their competitiveness and innovation capacity by means of co-financing grants, operated by AIDA. The absorption capacity of these funds has increased to over 90%, and in 2019, almost 100 SMEs benefited

from these programmes, receiving nearly ALL 67 million (approximately EUR 550 000). However, in 2020, these programmes were effectively paused as all allocated funding was repurposed to soften the impact of the COVID-19 pandemic. At the time of writing, operations remain on hold, but for 2022, a budget of ALL 150 million (approximately EUR 1.25 million) has been tentatively allocated, which should enable AIDA to revitalise some of its support. AIDA has also launched a new digital platform⁴⁵ aimed at informing firms of the available financing opportunities. Furthermore, a number of guarantee funds have been operating in Albania, aimed at easing access to finance. Notably, these include the Albanian Agribusiness Support Facility, funded by the Albanian government and the EBRD, the Albanian-Italian Programme for the Development of Albanian SMEs, and the KfW-supported Rural Credit Guarantee Fund, which received additional funding in 2020 and includes a dedicated “green window”. However, the uptake of these schemes has been limited, reportedly amid narrowly defined eligibility, lack of technical assistance to support beneficiaries and lengthy pay-out procedures. Two additional sovereign guarantee funds were launched in response to the COVID-19 pandemic, providing guarantees of ALL 26 billion (approximately EUR 200 million, or around 1% of GDP) to support salary expenses and working capital, but without a dedicated focus on SMEs. Until March 2021, 850 such guarantees had been provided.

Alternative sources of finance remain under-developed

Non-bank financial instruments accounted for a mere 3.8% of total financial-sector assets in 2020. Even though microfinance, leasing and factoring are available and backed by a solid legal framework, penetration, albeit increasing, remains low. Microfinance, including savings and loan associations, has almost doubled since 2017 and accounts for most of non-bank finance (74% of the non-banking financial institution credit portfolio), followed by leasing (25%) (BOA, 2021^[70]). Amendments to the Law on Granting Licenses for Non-bank Financial Institutions and regulations on Risk Management in the Activity of Non-Bank Financial Institutions, introduced in July 2019, have added new requirements to factoring institutions and strengthened regulation. However, uptake remains minimal to date, indicating limited awareness about this type of finance.

Venture capital equally remains non-existent, and business angel support is rudimentary, although some initial steps are under preparation to create an environment conducive to venture capital and start-up finance. A dedicated Law on Support and Development of Start-ups was adopted in March 2022, and there are plans to develop more comprehensive support to establish crowdfunding, business angel investment support and venture capital going forward. The new Law on Collective Investments, which entered into force in 2020, is an important, yet insufficient, step to regulate alternative investment instruments. Albania, alongside Bosnia and Herzegovina, is the only eligible economy not having received any investments under the Western Balkans Enterprise Development and Innovation Facility’s Enterprise Innovation Fund, suggesting limited absorption capacity and investment readiness of local start-ups. AIDA, also serving as Albania’s Innovation Fund, has, however, provided some financial support to early-stage companies.

Efforts are underway to develop a more strategic approach to tackle low levels of financial literacy

Financial literacy remains low, as evidenced by the periodical national Survey on Financial Literacy conducted by the Bank of Albania in 2019, resulting in limited financial inclusion and a lack of awareness about finance opportunities. Initial steps have been taken to prepare Albania’s first National Strategy for Financial Education, supported by the World Bank, and the Bank of Albania has run a number of initiatives, including together with the Albanian Banking Association, to raise financial awareness. Some training on financial literacy for SMEs and farmers is also offered by private entities, for instance, the Sparkasse Foundation, but overall, actions remain uncoordinated and ad hoc. While AIDA’s newly established access to finance platform explains financial terminology to some extent, it falls short of providing comprehensive information on financial literacy.

The way forward for Dimension 6

- **Strengthen capacity to guarantee creditor securities.** Swiftly adopt the forthcoming unified Law on Investments and continue the implementation of the Bankruptcy Law. This should be coupled with ongoing improvements to the cadastre to ensure that data are reliable and accurate, and that collateral can be accessed and used, which is also envisaged as part of the non-performing loans resolution strategy.
- **Increase financial support schemes for SMEs.** Revive financial support provided by AIDA to further facilitate access to finance for those enterprises needing support the most. Such financial schemes should be a blend of government funds and those provided by the international development co-operation partners and designed to increase financial inclusion without crowding out private-sector providers. As part of this approach, consider extending the lifetime of the sovereign guarantee funds to provide a scalable and sustainable tool to encourage lending to SMEs. Such a guarantee scheme should include a transparent, multi-stakeholder governance structure, coupled with strong risk management and capacity building for implementing financial institutions and regular monitoring and evaluation (see Box 13.11).

Box 13.11. Common principles of state credit guarantee schemes

In response to the COVID-19 pandemic, many governments have established state credit guarantee schemes to help address urgent liquidity problems and support recovery. If well designed, these public schemes can be an effective, sustainable crisis response measure, particularly when they leverage the private-sector financial system. The mechanism allows for quick deployment while keeping budget implications relatively low, especially compared with other tools such as subsidised lending and grants.

In 2015, the World Bank established a set of common principles to guide the structure, mandate and governance of sovereign credit guarantee funds, around four main pillars:

1. **Legal and regulatory framework:** Ensure legal and regulatory independence and promote private-sector participation.
2. **Corporate governance and risk management:** Clearly define the mandate and establish sound corporate governance structures, including an independent board, internal control frameworks and risk management framework.
3. **Operational framework:** Clearly define eligibility criteria and ensure the approach balances outreach, additionality and financial sustainability, and establish transparent, risk-based pricing.
4. **Monitoring and evaluation:** Set stringent reporting requirements and conduct regular external audit, and systematically conduct performance and impact assessments.

Source: World Bank (2015^[71]).

- **Increase awareness about non-bank financial instruments to support their uptake.** The promotion of alternative sources of finance should be an integral part of the Strategy for Financial Education and should be implemented in conjunction with private-sector stakeholders. While AIDA's new access to finance platform already offers some explanation of financial terminology, it could be further leveraged as a tool to disseminate information on the opportunities of non-bank financial instruments.
- **Swiftly complete the Strategy for Financial Education and develop an action plan for implementing it.** The strategy should be informed by a mapping of existing initiatives, both private and public, and include lessons learnt. To ensure effective implementation, an action plan for implementation should clearly set out the roles and responsibilities of the various implementation bodies as well as key performance indicators and should be accompanied by a dedicated budget for implementing the activities.

Standards and technical regulations (Dimension 7)

Introduction

Access to the European Single Market is conditional upon compliance with EU regulations and directives, which, due to the New Approach Directives, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier to trade, particularly for SMEs. To lower these barriers, WBT economies need to have a national quality infrastructure (QI) system that is accessible and supportive of SMEs. At the same time, the recognition of economy's procedures and institutions by the relevant EU QI bodies and associations requires a high level of alignment of its regulations with the *acquis*.

With 74% of its exports going to the European Union, Albania is the WBT economy with the second-highest reliance on the European Union as an export market behind North Macedonia. Harmonisation of technical regulation and other elements of QI such as standardisation, accreditation and conformity assessment with the *acquis* and procedures are therefore essential for the competitiveness of the Albanian economy. As access to the European Single Market presents a big opportunity for SMEs, lowering their information barriers about the technical requirements of accessing the European Single Market and helping them to meet these requirements is key for Albania.

Albania has increased its score on Dimension 7 from 3.64 to 4.02 (Table 13.20), which is one of the biggest increases in the region. More importantly, its performance has improved in all three sub-dimensions and demonstrates that progress has been occurring in different areas. Overall, Albania now ranks slightly above the WBT average and third after Serbia and Turkey.

Table 13.20. Albania's 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		3.89	3.90
	Sub-dimension 7.2: Harmonisation with the EU <i>acquis</i>	Technical regulations	4.64	4.38
		Standards	3.40	3.77
		Accreditation	4.33	3.89
		Conformity assessment	4.24	4.22
		Metrology	5.00	4.13
		Market surveillance	3.40	3.96
		Weighted average	4.17	4.06
	Sub-dimension 7.3: SME access to standardisation	Awareness-raising and information	4.07	3.88
		SME participation in developing standards	3.00	3.21
		Financial support to SMEs	3.40	3.57
		Weighted average	3.49	3.55
Albania's overall score for Dimension 7			4.02	3.96

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Albania is continuing the alignment of its horizontal and sectoral legislation with the *acquis* and has also made progress in implementing QI services. Most notably, the scope of Albania's multilateral agreement with the European Co-operation for Accreditation (EA) was extended by the field of "certification of persons". Certificates related to the standardised personal qualifications from accredited Albanian conformity assessment bodies are now recognised by the 49 EA member states. This lowers barriers, as firms no longer need to seek conformity assessment abroad if they want their certificate to be recognised in other European markets. Albania's accreditation services are now recognised in four fields: testing, certification of persons, management system certification and inspection. A key development in QI legislation was the adoption of a new Metrology Law in October 2020. Furthermore, institutional staff numbers have increased substantially in accreditation and market surveillance and have remained stable in metrology and standardisation (Table 13.21).

While the Directorate of Standardisation (DPS) did not introduce any new awareness-raising channels, activities in existing formats such as in-person seminars, with a particular focus on female entrepreneurs, and social media continued between 2019 and 2021. Both the posting activity and the traffic on its social media platforms increased during the assessment period according to the directorate's annual reports (General Directorate of Standardisation, 2019^[72]; 2020^[73]).

Table 13.21. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 7

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Increase the coverage of the European co-operation for Accreditation's multilateral agreement	The European Co-operation for Accreditation's multilateral agreement coverage was extended to certification of persons. Certifications from national conformity assessment bodies related to standardised personal qualifications are now recognised in the 49 European co-operation for Accreditation's member states.	Moderate
Seek additional channels to raise awareness of the benefits of standards among SMEs	The Directorate for Standardisation held meetings in various cities throughout Albania in 2019 and 2020, with a particular focus on female entrepreneurs. Furthermore, the posting frequency and the traffic on its social media increased.	Moderate

Harmonisation of legislation is ongoing and first steps to centralise export-related information have been introduced

As in all WBT economies, Albania's National Plan for EU Integration, and more specifically the provisions in the chapter on the free movement of goods, are the main strategic guidelines steering the economy's harmonisation process with the *acquis*. To plan the harmonisation of the remaining unaligned legislation in the area of the free movement of goods, the government is currently developing a seven-year road map for the harmonised areas in co-operation with GIZ. A draft of this road map has already been prepared and includes an analysis of existing progress in legislative harmonisation and implementation, an identification of gaps in harmonisation with the *acquis* at legal and administrative level. Medium-term (2023-2025) and long-term (2026-2030) action plans are deduced from this analysis. The document is still expected to be finalised during 2022. For the non-harmonised areas ("old approach legislation"), an additional strategy document is being prepared.

Regarding the central information provision for exporters, the National Trade Facilitation Committee's website has a so-called "Export Helpdesk", which provides links to the European Union's Export Helpdesk and to the preferential trade agreement with the European Union. Unfortunately, this website lacks links to information about key horizontal and sectoral legislation, conformity assessment bodies, and the standardisation process. As the website appears to be intended to function as a single information source

for exporters, it should be supplemented with this additional information. SMEs that aim to export often do not know what regulations and procedures they need to comply with to export to the European Single Market, so providing this information directly on the Export Helpdesk's website would broaden access to this information.

Albanian QI legislation is mostly aligned with the acquis, except for the newest Market Surveillance Regulation

Albania's legislative framework is mostly aligned with the horizontal *acquis* on QI except in the area of market surveillance, where transposition of EU Regulation 1020/2019 is outstanding. Harmonisation of national law with Regulation 1020/2019 is important, as this regulation specifies new procedures for market surveillance, and particularly for the online market (e-commerce). As this market is growing rapidly, legislative alignment is important. Furthermore, numerous new technical regulations have been adopted; for example, for electrical equipment, non-automatic weighing instruments and electromagnetics.

In standardisation, the adoption rate of European standards continues to be high, with 93% of CEN/CENELEC (European Committee for Standardisation/European Committee for Electrotechnical Standardisation) being adopted by the DPS. The DPS adopted 1 136 international standards in 2020 and 2 236 in 2019 (General Directorate of Standardisation, 2019^[72]; 2020^[73]). Furthermore, the Council of Ministers has adopted changes to the national Standardisation Law to fully transpose EU Regulation 1025/2012. The DPS still has 15 employees, which has remained stable over the past three years. Given the size of its economy and compared to the other Western Balkan economies, this is a low figure and additional staff would be welcome, as the increasing amount of national and international standards requires sufficient human resources.

The development in accreditation was positive, as the scope of accreditation activities recognised by the EA has increased by one field ("certification of persons"), for a total of four fields. In addition, the General Directorate of Accreditation (DPA) increased its number of staff by 50%, from 14 to 21. Furthermore, in addition to its already digitised application procedures, the DPA also offered remote assessments to maintain its operations during the pandemic. The DPA will also seek multilateral agreements with the EA in the areas of calibration (metrology) and medical examination.

The number of conformity assessment bodies accredited by the DPA increased by 35% over the assessment period (from 69 to 93), which is the second-largest increase in the region after Kosovo. A full list of conformity assessment bodies is available on the DPA's website.

In metrology, new legislation was adopted in October 2020 to assure the free movement of measuring instruments, which are subject to CE marking, and to promulgate the use of international measurement standards (Government of Montenegro, 2020^[33]). Furthermore, the General Directorate of Metrology (DPM) is currently preparing an application for a multilateral agreement with the EA in the area of calibration. Becoming an EA multilateral agreement signatory in this field would lower certification barriers, as certificates from national calibration laboratories would be recognised by the 49 EA members. In terms of staff, the DPM's number of staff remains largely unchanged, at 103 employees (104 in the previous assessment).

While market surveillance legislation is aligned with the previous *acquis* (768/2008), it is not yet aligned with EU Regulation 1020/2019. As market surveillance regulation has changed at the European level, also due to an increasing online market, WB economies need to align their legislation and surveillance systems with these changes to continue to assure their firms access to the European Single Market. The State Market Inspectorate carried out 819 inspections between October 2020 and October 2021, which is slightly lower than during the previous period (1 151). There was a Consumer Protection and Market Surveillance Strategy, but it expired in 2020 and has not yet been renewed. The State Market Inspectorate publishes its annual work plans as well as information about dangerous products on its website.

There are basic awareness-raising activities about standards but no SME-specific incentives for participation in standard development

The DPS is raising awareness about standards and their benefits through various social media accounts as well as through a regularly updated news section on its website. In addition, it held various meetings in different Albanian cities in 2019 and early 2020 on the benefits of standards, with a particular focus on female entrepreneurs. A local language catalogue of all Albanian standards is available. However, there are no practical guides on the implementation process for standards or case studies of successful examples.

While there are no SME-specific incentives to increase the participation of SMEs in technical committees, the DPS provides a 50% discount on the price of standards for technical committee members. The DPS also promoted participation in technical committees during various meetings in different Albanian cities (see above). Firms can comment on standards as part of the regular public enquiry process.

Except for the discount described above, there are no financial measures or price reductions to help SMEs purchase standards. However, the Albanian Development Agency's Competitiveness Fund supports up to 70% of expenses for implementing standards and had a budget of ALL 38 million (or about EUR 315 000) in 2019 compared to ALL 18 million (approximately EUR 149 390) in the previous year (Albanian Investment Development Agency, 2019^[74]). The number of SMEs supported by this programme rose from 15 in 2018 to 33 in 2019 (the latest data available). While the maximum amount a firm can request is quite high (EUR 10 000), the programme's total budget is comparatively small, and an increase would allow more firms to benefit from it.

The way forward for Dimension 7

- **Provide information about quality infrastructure regulation and support on a single website and improve interlinkages between institutions.** The DPS and the Albanian Development Agency have a lot of information and attractive support measures for SMEs in place, but the information is not interlinked between institutions and is hence hard to find. Similarly, the Export Helpdesk could be further developed as a central information hub by providing links to relevant legislation and to the sites of the Albanian QI institutions so that exporters interested in certification can quickly obtain the necessary information. A best practice example in this regard continues to be the Serbian Ministry of Economy's Sector for Quality and Product Safety website (Box 13.12).
- **Extend the scope of European Co-operation for Accreditation's multilateral agreements in accreditation.** Signing additional multilateral agreements in accreditation fields covered by the DPA is important so that firms certified by the DPA in these areas do not need to seek certification abroad. Seeking certification in a foreign economy is always more costly for firms and therefore represents a barrier for SMEs seeking to get certified. The DPA has announced that it plans to apply for the EA-MLA in calibration (metrology) and medical examination. It should prioritise the recognition process in these areas and continue to monitor whether the market demands accreditation services in further areas.

Box 13.12. Quality infrastructure-related legislation, standards, news and support programmes in one place: Serbia's information portal TEHNIS

In most of the economies in the WBT region, information on export requirements and compliance mechanisms, where available, are fragmented. There are no dedicated websites containing all the necessary information and guidance for SMEs to navigate through the regulations and standards requirements. Equally, SMEs often lack information on the support schemes that are available to them. A well designed and comprehensive pool of information would therefore benefit SMEs, which often do not have the time, resources or personnel capacity to gather information from various sources, institutions and websites. This represents another barrier for SMEs to access international markets and upgrade their production.

Serbia's TEHNIS website is a good practice example that stands out in the region. TEHNIS was developed by the Ministry of Economy (Sector of Quality and Product Safety) to establish a single enquiry point for technical legislation in Serbia. It provides information on all elements of QI and guides SMEs in meeting product requirements and regulations.

Legislation on TEHNIS is presented thematically, providing information about the respective directives, e.g. in the field of machinery, as well as corresponding guidelines on how to comply with the requirements. The TEHNIS database also contains registers of valid technical regulations, draft technical regulations, designated and authorised conformity assessment bodies, recognised foreign certificates as well as a list of QI-related government projects. SMEs can also find contact information for all the relevant QI institutions, brochures and latest news. Overall, this means basic QI information from regulations over lists of conformity assessment bodies until financial support programmes are all available on one website.

While the Albanian Ministry of Economy has already recognised the need for such a website by creating an Export Helpdesk, this website is missing regulatory information and more general information about QI. Grouping this information together in one place would strongly reduce the search costs for Albanian firms that are interested in exporting to the European Union.

Source: Ministry of Economy of Serbia (2021^[75]).

Enterprise skills (Dimension 8a)

Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher paid employment. However, they lack the capacity of larger enterprises to invest in training for founders and the workforce. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where environmental sustainability cannot be achieved within SMEs, as the potential is limited by lack of awareness and skills as well as the additional costs involved. Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and countries.

Skills gaps are widening in Albania, with an ongoing impact on society and the economy following the 2019 earthquake and the COVID-19 pandemic (World Bank, 2021^[60]). There is a gap between Albania and the wider Western Balkan region, bringing actions to support enterprise skills into sharp focus (World Bank, 2021^[60]). Key economic indicators highlight the challenges, with 10.2% of SME value lost in 2019-20 in Albania and the proportion of people employed in high-skilled occupations in Albania increasingly lower than the Western Balkan average (World Bank, 2021^[60]).

Albania's score in enterprise skills (Table 13.22) has improved since the last assessment (when it scored 3.40), particularly across the blocks related to implementation and monitoring and evaluation. This reflects a phase of transition towards full implementation of the Business Development and Investment Strategy (2021-2027), with new actions aiming to drive improvement across skills intelligence to support planning and design, and further improve monitoring and evaluation.

Table 13.22. Albania's scores for Dimension 8a: Enterprise skills

Dimension	Thematic block	Albania	WBT average
Dimension 8a: Enterprise skills	Planning and design	2.17	2.86
	Implementation	4.21	3.85
	Monitoring and evaluation	3.67	2.67
Albania's overall score for Dimension 8a		3.49	3.32

Note: WBT: Western Balkans and Turkey.

State of play and key developments

There has been an increase in the breadth of support and training available to SMEs in start-up support and skills development opportunities. These developments have primarily come via initiatives funded by international development co-operation partners and are focused on addressing the growing skills gap. At the government level, there is a lack of co-ordination of initiatives and an ongoing need to develop a more information-rich portal supporting this policy area. Little progress has been made on system-level tools to help develop the high-quality skills intelligence needed to drive targeted and effective actions forward. The new Business Development and Investment Strategy (2021-2027) (Government of Albania, 2021^[28]) offers a set of actions that begin to address these challenges, working alongside international development co-operation partners' actions that should be embedded in the entrepreneurial ecosystem (Table 13.23).

Table 13.23. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 8a

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Maximise the value of overall skills intelligence by establishing a dedicated and fully resourced co-ordinating body	Progress has not been made in establishing a co-ordinating body, but a budget is now allocated to take this forward in the next phase of development, which will be led by a dedicated body in AIDA. This commitment is set out in the new Business Development and Investment Strategy (2021-2027).	Limited
Expand training needs analyses (TNAs) to identify the specific management training needs of SME owners	Training needs analyses were not implemented during this assessment period. However, there is an explicit commitment to conduct TNAs in the Business Development and Investment Strategy (2021-2027).	Limited
Expand training provision in order to ensure adequate supplies of skills in the labour market	There has been an expansion of SME support and training provision through programmes such as EU for Innovation, RisiAlbania, ProSEED, Digital Jobs Albania, the Women in Business programme and the EBRD Advice for Small Business programme. However, there is a need to co-ordinate this expansion, which could be a role for AIDA.	Moderate
Encourage co-operation between education and businesses through easy access to information	There are online portals such as AlbaniaTech, Challenge Fund and Duapune, but these serve diverse purposes and signposting towards the different support and trainings available through these and wider non-governmental sources still needs to be implemented. From a co-operation perspective, the emerging work on sector skills committees led by RisiAlbania is also initiating and building collaboration between education and business.	Limited

Albania has allocated a budget to develop and implement a national skills intelligence framework

Closing the gap between SME needs and the skills provided by lifelong learning, particularly within compulsory education and training, is key to lowering unemployment rates and increasing the growth and innovation of SMEs within the entrepreneurship ecosystem of Albania. Skills intelligence is vital to this, and the process of developing and implementing a system-level skills intelligence framework is now beginning, as a commitment in the new Business Development and Investment Strategy (2021-2027) (Government of Albania, 2021^[28]). The previous Business and Investment Development Strategy (2014-2020) included this commitment, but there was no attached budget. The new Business Development and Investment Strategy (2021-2027) identifies a budget that will support the creation of a dedicated co-ordination body within the Albanian Investment Development Agency to undertake regular TNAs⁴⁶ and collect intelligence on SME-specific training needs. This will allow AIDA and the Ministry of Finance and Economy⁴⁷ to match training provision with the requirements of SMEs, using gender-sensitive data and data relevant to specific themes, such as digital skills. It will be important to ensure that the new lead body for skills intelligence maps and brings together all existing data sources and identifies the need to create improved or new sources of data within an integrated gender-sensitivity check on new developments.

Sector skills committees are being established by RisiAlbania's⁴⁸ Enhancing Youth Employment programme (Government of Albania, 2021^[76]) as a commitment of the National Employment and Skills Strategy (Government of Albania, 2019^[77]). They represent a mechanism through which industry can work alongside education and training actors to ensure the system delivers the knowledge and skills needed by industry. These groups can also be stakeholders in developing a skills intelligence framework. The development process will also support preparation for the Smart Specialisation Strategy development that is at an early stage and has not yet begun the Entrepreneurial Discovery Process.⁴⁹

A diverse range of training is available, including government-financed support and training programmes

The Business Development and Investment Strategy (2021-2027) has also allocated a budget towards a new sector in AIDA to lead on SME training, supporting the design and implementation of new SME training

provision to build on the training and finance programmes already established on start-ups, competitiveness, the creative economy and innovation/technology.

Other providers are active in delivering programmes addressing a range of topics, including digitalisation, the circular economy, sustainability, investment readiness, supply chains and internationalisation. These come through different programmes, such as EU for Innovation, RisiAlbania, ProSEED, Digital Jobs Albania, the Women in Business programme and the EBRD Advice for Small Business programme.

Examples of excellent practice include RisiAlbania, which focuses on women's entrepreneurship, including promoting green, digital and online entrepreneurship. Women's entrepreneurship networks⁵⁰ are also important for providing tailored support to women at different stages of SME start-up and growth, such as the Women Founders Network Albania, the Women's Economic Chamber and the Women's Entrepreneur Committee of the National Chamber of Crafts, who deliver workshops and business coaching.

Considering the significant skills mismatch challenge in Albania, training programmes could be more comprehensively mapped, monitored and evaluated at the system level. Doing so would ensure that the relevance and impact of training are fully understood and that new programmes are refined to focus on areas with the most impact on enterprise growth and employment.

Information and guidance on enterprise skills are available but fragmented

The information and guidance available to SMEs to guide them towards available training is available but fragmented. A dedicated section on AIDA's website and social pages provides information about training opportunities for SMEs. However, the information is limited, with information shared via social media but no availability of a web-based searchable database of training or support and no access to a registration point.

Beyond this, there are non-government-led online information and advice platforms that provide good access to SME advice, training and support. The challenge can be to ensure the sustainability of such online portals, as many are linked to international development co-operation partners' funding, which can be time-limited.

AlbanianTech is the most developed example⁵¹ and was set up to drive forward the entrepreneurial ecosystem in Albania, offering a platform that brings together organisations and the support offered, entrepreneur success stories and an overview of active start-ups. It offers a comprehensive way in for entrepreneurs seeking inspiration or insights into how they can become or develop as an innovative SME, including news and opportunities linked to a wide range of government and non-governmental sources.

In a more specific area, the Challenge Fund was launched in 2021 as a platform to address the challenge of access to finance for early-stage companies as well as start-up support organisations important to developing the entrepreneurial ecosystem (see Dimension 8b. Innovation policy for SMEs). It offers a competitive financing facility where successful applicants receive funding and capacity building to scale up their innovative businesses, and has been financed through a mix of sources⁵² from international development co-operation partners led by the EU for Innovation programme. This action is highlighted in the ERP, which includes a target to increase the percentage of SMEs benefiting from access to finance from 0% to 10% by the end of 2023.

The way forward for Dimension 8a

- **Design and implement a comprehensive approach to SME skills intelligence.** This should ensure high-quality implementation of the commitments outlined in the Business Development and Investment Strategy (2021-2027), led by AIDA in co-ordination with all relevant government and external stakeholders, e.g. skills forecasting by the National Employment and Skills Agency. This will support high-quality SME skills intelligence that can guide future monitoring and evaluation related to SME skills at all levels; inform the smart specialisation

process; and support alignment of education and training to the needs of the labour market. Box 13.13 presents a relevant good practice example from Kosovo.

Box 13.13. Statistical barometers used to strengthen the skills agenda in Kosovo

In Kosovo, a set of statistical barometers has been developed to strengthen the skills agenda and establish a national approach to skills intelligence. The three barometers so far established are: 1) the Labour Market Barometer, which collates information and analysis from 12 institutional data sources; 2) the VET Barometer, which collates 200+ variables from 20 VET schools; and 3) the Skills Barometer, launched in December 2021, which will collect 3–5-year forecasts of skills needs from businesses in Kosovo to inform government and other institutions.

The challenge in Kosovo has been to ensure sustainability for the work initiated through funding from international development co-operation partners. The Labour Market Barometer is a portal collecting information, resources and data on current and future skills needs for the labour market and creates strong collaboration between diverse partner institutions relevant to the skills agenda. The system is now managed by the Employment Agency, after a two-stage development phase supported by the United Nations Development Programme (UNDP) and Aligning Education and Training with Labour Market Needs (ALLED2), a project of the Austrian Development Agency. ALLED2 developed the Skills Barometer in co-operation with the Kosovo Chamber of Commerce (KCC), and commitment is now finalised between KCC, the Ministry of Education and the National Council for VET to conduct the barometer every three years. The VET Barometer grew from pilot research into the provision across VET schools in the economy and now offers online information and analysis based on systematic data collection that can be transferred to relevant national agencies.

This example shows a pathway to shaping a national skills intelligence framework at the system level based on the need to support evidence-based policy making using robust information on skills mismatch and future skills needs. The actions stemmed from initiatives funded by the international development co-operation partners towards sustainable action led by a partnership of public and private sector institutions and offers a channel to assemble and present available government statistics.

Note: See <https://sitp.rks-gov.net/> for a list of the national institutional databases used to create the Labour Market Barometer.
Sources: Government of Kosovo (n.d.^[78]); ALLED² (n.d.^[79]; 2021^[80]).

- **Prioritise efforts to establish sector skills committees**, as outlined in the National Employment and Skills Strategy, as a pathway to support greater understanding of labour market skills needs and encourage co-operation between education and business. These committees can support and inform the development of the skills intelligence framework and be a channel to enhance the engagement of SMEs in the smart specialisation development process.

Innovation policy for SMEs (Dimension 8b)

Introduction

Supporting innovation and building a knowledge economy is increasingly becoming a priority for the WBT region, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, many governments have started to emphasise the creation of an environment conducive to innovation and knowledge development. However, equal attention must also be given to enhancing innovation capacity at the firm level.

Albania's small but open economy can further leverage inter-regional and international co-operation in progressing its innovation agenda, creating regional innovation systems, and encouraging cross-border co-operation to boost research and development (R&D).

Albania has made limited progress in promoting SME innovation and has only marginally increased its performance in Dimension 8b, from 2.48 in 2019 to 2.58 in 2022 (Table 13.24). Improvements have been made in enhancing the innovation framework and government institutional support services for innovative SMEs. In a regional comparison, Albania continues to rank ahead of only Bosnia and Herzegovina and Kosovo.

Table 13.24. Albania's scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 8b: Innovation for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	3.72	3.81
		Implementation of innovation policy	2.60	3.31
		Co-ordination of innovation policy	2.60	3.30
		Weighted average	2.94	3.46
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	2.04	3.27
		Technology extension services for established SMEs	2.33	2.14
		Weighted average	2.16	2.82
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	3.09	3.81
		Indirect financial support	1.80	2.26
		Weighted average	2.57	3.19
	Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	2.00	2.85
		Institutional infrastructure for business-academia co-operation	2.36	2.99
		Intellectual property rights	2.72	3.05
		Weighted average	2.29	2.95
Albania's overall score for Dimension 8b			2.58	3.18

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Overall, Albania's innovation capacity remains low, though the lack of statistical data makes an assessment of the economy's overall innovation performance somewhat challenging. While several steps are underway to strengthen Albania's innovation policy framework, implementation is hindered by limited funding and the large number of implementation bodies. Since the last assessment, the creation of an innovation ecosystem has gained momentum, but the focus is predominately on start-ups. Financial support to encourage innovation has been scarce, as funding normally available under AIDA's Innovation Fund and Start-up Fund was reallocated to support crisis-mitigation measures in 2020 and 2021. Nevertheless, AIDA has tentatively been allocated some budget for 2022, which would allow the agency to resume its funding activities. Little progress has been made in stimulating collaboration between academia and industry, and key policy objectives, such as the establishment of technology transfer offices, have not yet been met. In contrast, some progress has been made to improve legislation to protect intellectual property, and efforts have been made to increase awareness about the importance of intellectual property protection.

Table 13.25 provides an overview of the specific actions undertaken in response to the key recommendations made for this dimension in the previous assessment.

Table 13.25. Albania's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Create well-designed, properly funded and reliable financing instruments	No progress has been made. Despite increased funding and improved performance of AIDA's finance schemes since the last assessment, all funding has been paused and redirected to emergency COVID-19 measures. For 2022, a budget allocation of ALL 150 million (approximately EUR 1.25 million) is tentatively planned for AIDA's operations.	Limited
Improve the co-ordination of innovation policies	Three line ministries and a large number of implementing agencies share responsibility for implementing innovation policy, somewhat resulting in a lack of ownership, overlapping support measures and ineffective budget allocation. A working group has been established under the auspices of the Integrated Policy Management Group, but its role and focus remain unclear.	Limited
Further advance collaboration between businesses and academia	Little progress has been made to stimulate co-operation between businesses and the scientific research community, though some universities are increasingly introducing initiatives to foster entrepreneurship and efforts have been made to raise awareness about intellectual property protection.	Moderate

Efforts are underway to expand Albania's innovation policy framework, though shortcomings in co-ordination and funding limit its implementation

The National Strategy for Scientific Research, Technology, and Innovation (2017-2022) is Albania's overarching policy framework for innovation. A mid-term evaluation conducted in 2019 suggests that implementation is somewhat lagging and that significant funding is required for it to be executed effectively. In addition, Albania's new Business Development and Investment Strategy (2021-2027) puts a strong emphasis on SME innovation and links between industry and academia to spur economic growth. Albania has also made some progress in developing a Smart Specialisation Strategy. A road map has been completed, and the Entrepreneurial Discovery Process, in line with the European Commission's Joint Research Centre methodology, is expected to commence in 2022. In addition, dedicated innovation start-up legislation was adopted in March 2022.

Co-ordination of the innovation policy framework continues to be a major obstacle for effective implementation. There are now three line ministries and three agencies (AIDA, the National Agency for

Scientific Research and Innovation [NASRI] and the NAIS) that share responsibility for policy implementation, which has led to an unclear definition of competencies, a lack of ownership, overlapping support measures and ineffective budget allocation. Even though a dedicated working group has been established under the auspices of the formal co-ordination body – the Integrated Policy Management Group – which is in charge of co-ordinating policy more broadly, its role and impact remain unclear.

NASRI and AIDA, which also hosts an Innovation Fund, continue to be Albania's main implementation channels for innovation policy. NASRI has received some government funding to support scientific research activities, but funding schemes offered by AIDA have been suspended since the onset of the COVID-19 pandemic, thereby limiting its implementation force.

While Albania's statistical office INSTAT has expanded the collection of data related to business innovation, further efforts are needed to produce comprehensive and reliable statistical information in line with Eurostat's methodology, with a view to participating in the European Innovation Scoreboard.⁵³

Creating an ecosystem conducive to start-ups and innovation has become a priority for Albania

Progress has been made in developing an ecosystem supportive of innovation and start-up activity. Under the framework of the EU for Innovation projects, implemented between 2018 and 2021 with the support of the European Union, GIZ and Sweden in the amount of EUR 7.5 million, the start-up ecosystem has seen a significant boost, resulting in the adoption of a dedicated Law on Support and Development of Start-ups in 2022, which envisages a state-budget allocation in support of the innovation ecosystem. Numerous private-sector-backed initiatives have been set up, providing acceleration programmes for high-potential start-ups, technical assistance, mentoring and training on investor relations, with some offering the possibility for small-scale monetary awards. Some examples include the UpLiftAlbania acceleration programme, Growpreneur and the flexible start-up Support Programme, which has an explicit focus on providing incubation opportunities for start-ups outside of Tirana. The project ended in early 2022, but a successor programme is already planned, which, even though it is dependent on support from international development co-operation partners, will ensure the continuity of these efforts. In addition, NAIS established "TechSpace" in 2019, an initiative to develop start-ups dedicated to training on technology, innovation and entrepreneurship activities, as well as mentoring start-ups in the field of ICT.

Despite this progress, these efforts primarily focus on business incubation services, while support to more mature SMEs seeking innovations remains highly limited. Technology audits previously offered by AIDA have not been available recently.

Financial support for innovation remains limited

In 2018, the government set up a number of co-financing grant programmes managed by AIDA, including the Innovation Fund and the Start-up Fund, and allocated a total of ALL 73 million (approximately EUR 600 000) to these financial schemes in 2019. This constitutes a significant increase compared to 2018, albeit from very low levels. Absorption capacity was over 90%, and 26 companies benefited from a grant from the Innovation Fund during that year, offering co-financing grants to support innovation audits or investments in technological equipment. In addition, 19 micro and small enterprises benefited from a grant from the Start-up Fund for a combined total of ALL 24 million (approximately EUR 200 000). However, all AIDA's finance programmes were halted in 2020 as funding was repurposed to emergency measures in response to the COVID-19 pandemic and have not fully resumed at the time of writing. ALL 150 million (approximately EUR 1.25 million) in funding has been tentatively allocated for 2022, which would be an important signal, increasing reliability and providing longer-term investment opportunities for SMEs. The new Start-up Law envisages further state-budget support for start-ups, to be managed by the Ministry for the Protection of Entrepreneurship. Some funding for innovation activities is also available via the Challenge Fund, part of the EU for Innovation project and funded by the international development co-

operation partners, which has launched four calls for innovative start-ups and innovation service providers, including incubators, as described above.

As in the previous assessment, indirect financial support is equally limited, though the Albanian tax regime envisages some VAT reduction for companies involved in software production. There is, however, no direct focus on SMEs.

Limited outreach and exchange between businesses and academia remain a key obstacle to building a knowledge economy

Collaboration between the business community and scientific research institutes remains nascent amid limited funding and incentives for stakeholders. Expenditure on R&D, even if increasing, remained chronically low at 0.3% of GDP in 2020, far below the government's target of 1% of GDP by 2022 (European Commission, 2021^[3]). Financial incentives to spur business-academia collaboration remain largely non-existent. Under the framework of the National Programme for Research and Development, NASRI provides some financial support to consortia between research institutes and businesses. These are, however, small in scale and do not resemble innovation vouchers or competitive-operation grants in design. Nevertheless, some initial steps have been taken to stimulate exchange between the private sector and academia. Several agreements have been signed with universities under the TechSpace initiative to support joint research. Equally, in 2021, with support under the EU for Innovation project, Albania's five leading universities established Tirana.Inc at the University of Tirana, whose aim is to foster entrepreneurship and innovation among university students by providing training, working space and advice. In the long term, these initiatives may increase exchange and collaboration between businesses and the research community.

There are still no technology transfer offices operational in Albania, despite an explicit commitment in the National Industrial Property Strategy (2016-2020). Plans to establish a science and technology park have also not developed further since the last assessment.

Lastly, progress has been made in aligning intellectual property rights to the *acquis*, and a new Law on Trade Secrets was adopted in July 2021. In line with the National Industrial Property Strategy (2016-2020), several awareness-raising and outreach activities, in collaboration with the Albanian Chamber of Commerce and several universities, have been organised. In addition, patent application fees were reduced for young researchers to incentivise scientific research among youth. However, the impact of these efforts is yet to be seen, and continuing shortages in the legal framework for intellectual property in defining the ownership of intellectual property produced through publicly funded research continue to impede commercialisation opportunities.

The way forward for Dimension 8b

- **Complete steps to strengthen the strategic framework for innovation.** The new Start-up Law is expected to further strengthen the strategic framework and implementation capacity. Development of the Smart Specialisation Strategy should continue to be pursued swiftly, while plans should be initiated to develop a complementary innovation strategy to succeed the current one when it expires at the end of 2022. Within this context, a thorough performance evaluation of the Strategy for Scientific Research, Technology and Innovation (2017-2022) should be conducted to identify current bottlenecks, including the complexity of policy co-ordination.
- **Further strengthen data collection to support evidence-based policy making.** Despite some improvements, the current lack of statistical data limits the extent to which innovation policy implementation can be effectively monitored and evaluated. It also prevents Albania from participating in key international initiatives, such as the European Innovation Scoreboard. Continuous participation in the EC-OECD's STIP Compass Database,⁵⁴ for instance, could help

to develop statistical data collection in line with international best practice methodology and with expert guidance.

- **Boost financial support to encourage investments in innovation and research.** Full resumption of AIDA's financial support programmes for SMEs and reaching pre-pandemic operational capacity levels should be a priority. As activities resume, effective monitoring mechanisms should be introduced to enable timely adjustments to programming, where needed. In addition, financial resources should be allocated in a balanced and well co-ordinated manner to AIDA and NASRI and the Ministry for the Protection of Entrepreneurship, thereby maximising complementarity and impact.
- **Continue building momentum to create an ecosystem conducive to innovation.** Efforts should focus on institutional support beyond start-ups and incubation services, including assistance to more mature early-stage companies, technology transfer facilities, and a science and technology park that stimulates collaboration between businesses and academia and provides facilities to more mature enterprises seeking innovations.

SMEs in a green economy (Dimension 9)

Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021^[81])), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services, and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021^[82]).

For a small, tourism-dependent economy like Albania, boosting economic growth that does not come at an environmental cost is particularly pertinent, particularly in the post-COVID-19 context. The pandemic has put additional pressure on Albanian SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-co-ordinated and targeted financial and technical support will be required to help Albanian SMEs overcome challenges in adopting sustainable practices.

Albania has slightly improved its performance in this dimension since the 2019 assessment (rising to 2.07 from 1.98 in 2019) but remains among the lowest performers in the WBT region (Table 13.26). In order to fully implement the related SBA principle (enabling SMEs to turn environmental challenges into opportunities), Albania will need to ensure the effective realisation of greening measures and scale up its incentives and instruments to encourage greener practices among SMEs.

Table 13.26. Albania's scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Albania	WBT average
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.82	3.87
		Implementation	2.00	2.81
		Monitoring and evaluation	1.75	2.47
		Weighted average	2.50	3.06
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	1.90	3.06
		Implementation	1.90	3.02
		Monitoring and evaluation	1.00	2.12
		Weighted average	1.72	2.85
	Albania's overall score for Dimension 9		2.07	2.94

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Environmental policies targeting SMEs are included in Albania's newest SME strategy, the Business Development and Investment Strategy (2021-2027) (Government of Albania, 2021^[28]), and aim to boost

the circular economy and eco-innovation. Limited progress was achieved in implementing the greening measures included in the previous Business and Investment Development Strategy (2014-2020), in part due to poor co-ordination between relevant institutions and limited allocated funds. Incentives and instruments to encourage SMEs to engage in greener practices remain scarce in Albania. Access to green finance is also limited, and regulatory instruments are non-existent. On a positive note, information-based tools, and in particular, awareness-raising activities, have been scaled up since the last assessment (Table 13.27).

Table 13.27. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 9

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Ensure the effective implementation of the planned SME greening measures	Overall, SME greening measures planned in the SME strategy have not been translated into concrete actions. While monitoring reports on the SME strategy are available, only limited information is obtainable on green targets.	Limited
Step up efforts to raise awareness of the benefits of greening activities among SMEs, such as cost savings and increased productivity	Awareness-raising activities have been conducted through different campaigns with the support of international partners. Some capacity-building workshops with local governments and the private sector have also been undertaken. Moreover, the annual competition "Green Ideas" awards small-scale green development ideas. Awareness-raising activities are part of the new SME strategy for the upcoming period.	Moderate
Use efforts to promote and support innovation to also target eco-innovation	While efforts to support eco-innovation have been limited in the assessment period, eco-innovation should be promoted and supported as part of the new SME strategy (through capacity building, partnerships among businesses and increased access to finance).	Limited

The framework for environmental policies targeting SMEs is well designed

Green policies targeting SMEs are included in the new SME strategy – the Business Development and Investment Strategy (2021-2027) – as part of the “green and digital transformation” pillar. In addition to promoting the circular economy (Box 13.14), the strategy is expected to provide a stronger push for eco-innovation in the post-COVID-19 economic recovery. In particular, specific awareness-raising and capacity-building activities are planned to be conducted to promote green investments (through various promotional tools, marketing campaigns and virtual events). The newly adopted Start-up Law and the related measures are expected to facilitate peer-to-peer learning and the development of products and services that contribute to a green and circular economy.

Moreover, the Integrated Waste Management Strategies Policy Document and National Plan (2020-2035) should also accelerate the green and circular transition (Box 13.14). Although it does not target SMEs specifically, it serves as a mechanism to link all actors and operators involved in waste management with the objective of meeting the United Nations' Sustainable Development Goals in this regard.

Box 13.14. SMEs and the circular economy in Albania

SMEs play a role in achieving objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies. As the circular economy is gaining momentum in Albania, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

While there is no specific policy framework for the circular economy in Albania, the new Business Development and Investment Strategy (2021-2027) has a specific focus on the circular transition. In particular, the strategy encourages companies to increasingly make changes in their supply chains as a response to consumer and governmental demand for more sustainable and circular products and services. Trainings and educational programmes are planned to upscale skills development in this regard.

Moreover, the Integrated Waste Management Strategies Policy Document and National Plan (2020-2035) foresee a gradual transition from a linear to a circular economy by encouraging waste diversion through waste reuse, recycling and efficient use of natural resources.

So far, the circular economy has not been the focus of financial and non-financial incentives to support SMEs in their greening efforts. Promotion of circular economy concepts has remained limited in the assessment period. Nevertheless, improved access to green finance envisaged by the new Business Development and Investment Strategy (2021-2027) could boost the circular transition.

Sources: OECD (2021^[83]) and European Commission (2021^[36]).

While business associations are involved in the development of green policies, poor co-ordination of measures and budgets hampers proper implementation

The Ministry of Tourism and Environment, the Ministry of Finance and Economy along with the National Agency of Environment are involved in the conception and implementation of environmental policies targeting SMEs. The private sector has been consulted in developing new strategies, mainly through the Union of Chambers of Commerce and Industry of Albania, which has been part of roundtable discussions on all policies regarding the environment. Moreover, different research centres and universities (such as Polis University and the University of Tirana) also participate in consultations.

Overall, implementation of the green measures included in the previous Business and Investment Development Strategy (2014-2020) has remained limited, apart from certain awareness-raising activities (see below). As highlighted in its evaluation report, inaccurate division of competencies across institutions has hampered proper implementation and timely monitoring of SME policies and corresponding funds. This statement is also valid for greening measures. While a Sectoral Steering Committee on Environment, Climate and Waste Management was established in 2019 to co-ordinate the work of line ministries and offer technical support on Chapter 27 of EU accession negotiations (on Environment and Climate Change), it does not target SMEs specifically and was not engaged in the implementation of Business and Investment Development Strategy (2014-2020) measures. Moreover, Albania's Economic Reform Programme (2022-2024) does not foresee any measures to address the private sector's green transition. No substantial budget, funded either from the government or international funds, has been mobilised for implementing greening measures.

While monitoring and evaluation mechanisms are envisaged under the Business Development and Investment Strategy (2021-2027), they lack specific indicators to measure green targets.

Limited financial incentives are available for SME greening, including as part of post-COVID-19 economic recovery programmes

Since the last assessment, Albania has not established national mechanisms to provide financial incentives and instruments to encourage SME greening. Only a few guarantee funds operating in Albania cover green investments, such as the Albanian Agribusiness Support Facility and the KfW-supported Rural Credit Guarantee Fund with its dedicated "green window", for which it received additional funding in 2020. The Albanian-Italian Programme for the Development of Albanian SMEs was being revised at the time of writing and should cover blue economy⁵⁵ and green start-ups in the upcoming period. However, the uptake

of these schemes has been reportedly limited. Some financial support programmes funded by international development co-operation partners are available to SMEs. The EBRD has provided a EUR 10 million loan to ProCredit Bank Albania to support companies affected by the COVID-19 pandemic in investing in modern technology and energy efficiency projects. Access to green finance is planned to be further improved with the Business Development and Investment Strategy (2021-2027), in particular as part of boosting the start-up ecosystem.

While limited progress has been achieved at the national level, the municipality of Tirana is providing financial support for 2020-22 to new green businesses based on eco-friendly business models or existing businesses that aspire to develop green products or services. The total amount of the fund is EUR 307 000, and each beneficiary will be supported with direct grants of EUR 4 200, with an aid intensity of 80% of eligible costs. In 2020, 26 SMEs and entrepreneurs benefited from this support.

Information-based tools are available to SMEs to engage in greener practices, but other non-financial tools remain scarce

Some campaigns and capacity-building workshops have been organised to address the barriers related to SMEs' lack of awareness of green opportunities and obligations stemming from the economy's commitment to reaching the net-zero goal. For instance, awareness-raising campaigns have been organised with the support of the Food and Agriculture Organisation to present green practices in the Agriculture, Forestry and Other Land Use sector. Workshops have also been organised as part of the revision process of the Nationally Determined Contribution (for 2021-30), in which the private sector was presented with the foreseen measures on how to adapt their technologies to lower GHG emissions.

In addition, for ten years now, the annual Green Businesses award competition has been organised to raise awareness and encourage SME eco-innovation. It aims to serve as an incubator for small-scale green development ideas, using local resources and reviving the traditions of production and community-based markets in an environmentally friendly way.⁵⁶

Environmental certification, such as international Environmental Management Standards, is promoted by the General Directorate of Accreditation through specific brochures. Moreover, the recognition of green best practices through eco-labelling is legislated in Albania.⁵⁷ While the legislation requests the Ministry of Tourism and Environment to adopt guidelines on the criteria for granting eco-labels for each product or product group, only one guideline on textiles has been developed to date. A certification body responsible for delivering eco-labels is yet to be established in Albania.

As in the previous assessment, regulatory instruments and green public procurement policies that would incentivise SMEs to adopt greener practices remain non-existent in Albania.

The way forward for Dimension 9

- **Ensure the effective implementation and monitoring of SME greening measures through cross-sectoral co-ordination.** Although environmental policies specifically designed for SMEs were part of the previous SME strategy and are again included in the revised version for 2021-2027, the stated objectives have not been transformed fully into concrete actions through regular implementation. It is important that a government body takes the lead in establishing a network of actors engaged in implementing and monitoring measures to encourage SMEs to improve their environmental performance. This task could be entrusted to AIDA, which is already in charge of SME policy implementation, or to a specific working group, which would involve all relevant institutions and business association representatives.
- **Enhance financial support for SME greening.** So far, no financial incentives have been offered to SMEs to increase their environmental performance. The government is therefore recommended to roll out new financial instruments that support SMEs in undertaking small-

scale energy efficiency investments or projects in line with the circular economy. For example, the scope of the local programme established by the municipality of Tirana could be widened at the national level or replicated in other local municipalities. In addition, as AIDA revitalises some of its grant support schemes to increase the competitiveness and innovation capacity of SMEs (see Dimension 6 on access to finance), a specific amount of total financing could be dedicated to green projects (to support energy audits or investments in green technological equipment.)

Albania could also offer direct subsidies to SMEs to introduce environmentally friendly technologies or fiscal measures such as favourable tax policies and exemptions on import charges for investments in green equipment. For example, the Netherlands has been operating two tax reduction schemes to promote the purchase of new environmental technologies: the Arbitrary Depreciation of Environmental Investments allows accelerated depreciation of newly purchased environmental technologies listed by the government, and the Environmental Investment Allowance allows a partial write-off of an investment in environmental technology against tax⁵⁸ (OECD, 2018^[84]).

- **Consider introducing regulatory instruments into the SME greening policy mix.** First, Albania could envisage the introduction of performance standards, such as requirements for material recycling and solid waste management regulations, along with the Integrated Waste Management Strategies Policy Document and National Plan, which were recently adopted. For instance, the Fit for 55⁵⁹ proposals by the European Commission, designed to help member states reduce emissions by at least 55% by 2030, include performance standards for the building and transportation sectors, among others, which are of relevance to SMEs (European Commission, 2021^[85]).

Second, the government could introduce special regimes for low-environmental risk installations, the vast majority of which relate to SMEs, particularly those that have adopted environmental management systems. This would involve a shift from permitting requirements to standardised regulatory requirements, where activities that remain under certain thresholds are exempted from notification or face simplified and more standardised requirements for this. For instance, some economies use “general binding rules”, which ensure standard conditions specific to a type of activity or a sector, either with obligatory notification of environmental authorities before engaging in an activity (such as in the Netherlands) or without such a requirement (such as in the United Kingdom) (OECD, 2021^[82]). The frequency and scope of inspections, monitoring and reporting, could also be reduced for those SMEs with a more successful environmental record.

Internationalisation of SMEs (Dimension 10)

Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Smaller economies in the region often struggle with competing internationally or even accessing foreign markets, often due to a lack of technical assistance or resources. Supporting export promotion, sustainable integration into global value chains (GVCs) and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

Albania is a small, open economy whose exports are primarily low-complexity products (OECD, 2019^[86]). SMEs in the economy still struggle with productivity; therefore, the government's efforts to increase the private sector's capacity and competitiveness are particularly important to support SME internationalisation efforts. To successfully integrate into GVCs, Albania should transition to a more knowledge-based economy and shift to higher value-added exports. Focusing on providing a mix of financial and non-financial assistance for SMEs would boost their internationalisation and productivity, particularly in light of the COVID-19 pandemic.

Albania saw the most significant improvement under Dimension 10 in this assessment cycle, positioning itself as one of the leading economies in the region, particularly in export promotion. With the adoption of the new Business Development and Investment Strategy (2021-2027), which provides measurable, realistic targets on SME internationalisation, Albania set a strategic framework for supporting SME efforts in foreign market expansion and GVC integration. The economy's overall score improved from 2.68 in 2019 to 3.80 in this assessment cycle (Table 13.28), demonstrating Albania's commitment to developing and implementing policies supporting SME internationalisation. The most visible advancements can be observed in GVC integration and promoting the adoption of e-commerce, yet the uptake of provided support measures is lagging.

Table 13.28. Albania's 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	4.86	4.61
		Implementation	3.81	4.24
		Monitoring and evaluation	3.67	3.65
		Weighted average	4.09	4.23
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	3.72	3.88
		Implementation	3.87	3.57
		Monitoring and evaluation	3.00	2.70
		Weighted average	3.65	3.49
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.67	3.62
		Implementation	3.00	3.15
		Monitoring and evaluation	3.67	3.29
		Weighted average	3.33	3.32
Albania's overall score for Dimension 10			3.80	3.80

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Albania has made considerable progress in supporting SME internationalisation. The newly adopted Business Development and Investment Strategy (2021-2027) addresses the implementation of the previous cycle's recommendations (Table 13.29), such as intensified support for industrial clustering and SME integration into GVCs. Furthermore, information on available financial support is centralised on AIDA's website, which now also offers a business-to-business (B2B) platform to link SMEs with multinational enterprises (MNEs) to foment the creation of productive linkages. With Albania's Digital Agenda (2015-2020) extension until 2022 and the Business Development and Investment Strategy (2021-2027), the government advanced in reinforcing its strategic framework for promoting e-commerce practices among SMEs and the general public. Nevertheless, room for improvement remains, particularly regarding the uptake of e-commerce.

Table 13.29. Albania's implementation of the SME Policy Index 2019 recommendations for Dimension 10

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Centralise information on exiting efforts to boost SME exports by leveraging the government's networking capacity	AIDA's website offers relevant information on SME support programmes in foreign market expansion and a centralised B2B platform, which allows potential investors or larger enterprises to look for SME suppliers based on their area and region of operations. AIDA has advanced in leveraging its platform to improve information asymmetry and provide a centralised source of information for all companies and foreign investors.	Strong
Develop a holistic approach to supporting SME integration into global value chains through programmes that promote supplier development and cluster linkages for SMEs	The new Business Development and Investment Strategy (2021-2027) is a step in the right direction, outlining an export strategy and emphasising SME global value chains integration and SME linkages with MNEs. Since the last assessment cycle, despite a halt in operations, AIDA has launched multiple initiatives to achieve the strategic target of higher GVC participation.	Strong
Ensure a sound legal and operational environment to support e-commerce	Albania has made visible progress in harmonising its legal framework for e-commerce and has included provisions on digitalisation in its leading strategic documents. However, details on implementation are lacking.	Moderate

Progress has been made in improving the export environment, with further actions to be taken during 2022

Export promotion in Albania is included in the newly adopted Business Development and Investment Strategy (2021-2027) (Government of Albania, 2021^[28]). Though the government included export targets in the document and outlined a plan to design an export strategy, the document itself was not finalised at the time of the assessment – it is set to be adopted in November 2022. The export strategy will aim to remove export barriers for SMEs, intensify capacity-building activities and develop digitalised solutions to support SME internationalisation. The government body responsible for the design and implementation is the Ministry of Finance and Economy, which the National Committee for Trade Facilitation will assist. AIDA has been tasked with its implementation.

To support SMEs in their export promotion efforts, the Business Development and Investment Strategy (2021-2027) aims to provide strategic direction to increase and diversify exports and their destinations to better integrate into GVCs. The government strives to create an enabling environment that enhances export sophistication and innovation through developing export support services that improve SMEs' competitiveness.

Export diversification and sophistication are apt targets for the government, given the low complexity of Albania's export base. The economy's exports heavily rely on goods with limited technological content and value added, including garments and leather products (in which it has a competitive advantage), as well

as minerals, metals and agro-food products⁶⁰ (OECD, 2019^[86]). The Business Development and Investment Strategy (2021-2027) envisages identifying key drivers of competitive advantage by conducting intensified sectoral and market assessments.

Increasing SMEs' capacities to export will be crucial in shifting to a more sophisticated export base: 60% of Albanian SMEs claim they do not have export capabilities, and 54% do not express plans or desires to export (Regional Cooperation Council, 2021^[50]). While the Business Development and Investment Strategy (2021-2027) envisions increased capacity-building activities to boost SMEs' export capabilities, SMEs' lack of will to export is a more difficult problem to navigate, one not mentioned in strategic documents. In order to further shift to a more export-oriented economy, increasing SMEs' export capabilities should go hand-in-hand with incentivising exports in the first place.

The Business Development and Investment Strategy (2021-2027) is linked to a broader SME law adopted in April 2022. It envisages new measures to facilitate access to finance for SMEs offered by AIDA for export promotion and a new state guarantee instrument. Another new provision includes establishing an Advisory Council for SMEs, which would deal with measures to increase tangible support for the internationalisation of SMEs, as well as broader technical assistance.

With limited capacity, AIDA is redesigning its SME support schemes and conducts regular monitoring and evaluation of its export support programmes

AIDA enjoys a broad mandate whose support for SMEs ranges from technical assistance, capacity-building activities and customer support to providing information on foreign markets and potential importers and exporters, customs assistance, trade participation and market research. However, its limited resources can hinder the execution of AIDA's mandate, despite its relatively high human resources capacity.

The economy has a monitoring system in place for its export promotion support programmes, particularly the grant schemes, which have been monitored and evaluated annually following implementation by AIDA. The Ministry of Finance and Economy and AIDA conduct a thorough evaluation at the beginning of each year, which aims to assess the efficiency and effectiveness of internationalisation projects launched. While AIDA's operations in 2020 were halted as the agency's financing was directed to mitigating the effects of the COVID-19 pandemic, its support for SMEs aiming to export, subsided, as AIDA focused on background work with the Ministry of Finance to redesign the grant schemes to be offered in 2022, including the Competition Fund aiming to support companies to access foreign markets by providing the necessary financial assistance for export promotion activities. The results of the annual reports and evaluations performed in previous years have been used to redesign the schemes and combine work streams, including internationalisation, into one comprehensive support fund.

Albania has intensified its efforts to upgrade its position in GVCs; however, AIDA's limitations might hamper future efforts in developing MNE-SME linkages

SME integration into GVCs is also governed by the Business Development and Investment Strategy (2021-2027), although, as is the case with export promotion, the regulatory framework has not been finalised. The strategy emphasises upgrading local SMEs' capacities in line with the needs of export-oriented investors and increasing Albania's appeal as an investment destination. The government aims to design and implement a dedicated support scheme that provides grants to consortia and higher education institutions for collaborative projects to increase the capacity of SMEs to participate in GVCs. However, designing the schemes is still underway, with the implementation intended to take place in 2024-2027.

For a small, open economy like Albania, sustainable growth will have to be export-led. Attracting export-oriented FDI and improving the capacities of local SMEs that could become their suppliers and integrate into GVCs is key to boosting productivity and, therefore, improving competitiveness. As one of the first contact points and main interlocutors of potential investors, AIDA is the main actor in attracting and retaining FDI.

Although the government took action to reinforce AIDA, expanding its mandate and increasing the number of staff in 2020 (OECD, 2021^[16]), its limited resources may reduce its capacity to attract and support inward investments and encourage linkages between domestic suppliers and foreign MNEs established in Albania. Furthermore, despite successfully implementing the e-Albania initiative, which digitalised many government services and facilitated access to support programmes, the agency itself still falls short in developing digitalised solutions and tools to bring down information barriers and facilitate the collaboration of foreign-based MNEs with domestic SMEs.

On the other hand, the government has made progress in introducing new programmes related to SME integration into GVCs. The United Nations Industrial Development Organisation (UNIDO) is co-ordinating the Country Programme for Inclusive and Sustainable Industrial Development in Albania (2020-2024), which comprises 20 projects structured around industrial competitiveness, market access, entrepreneurship development and green growth. UNIDOS's support will oscillate between the industrial modernisation of export-oriented industries and the upgrading of agro-food value chains (UNIDO, 2020^[87]). In addition, the Albanian government, together with the Swiss Agency for Development and Co-operation, launched the RisiAlbania project, including an initiative to facilitate GVC participation through a global Good Agricultural Practices certification⁶¹ programme for Albanian agricultural exports.

In addition, Albania has made considerable progress in cluster formation and development. Since the last assessment cycle, after conducting comprehensive studies on clustering potential and surveys among SMEs, the government formed a wood cluster to facilitate technology and knowledge transfer within the industry. The cluster was formed in collaboration with GIZ with the main goal of facilitating GVC integration and boosting the companies' participation in international development projects. The project is an example of Albania's close co-operation with business associations and academia, as well as a whole-of-government approach, which has been at the core of establishing the cluster, together with GIZ's technical assistance in cluster development (GIZ, 2021^[88]).

Albania has strengthened the regulatory framework for e-commerce but lags its regional peers in digitalisation and the uptake of e-commerce

Since the previous assessment, the government has adopted a number of laws and legislations to regulate e-commerce and e-payments. The recently adopted Business Development and Investment Strategy (2021-2027) constitutes the main strategic framework for promoting e-commerce and innovation. The government also adopted a new Law on Payment Services that includes dedicated regulations on facilitating e-commerce for SMEs.

Another strategic framework adopted by the government, Albania's Digital Agenda (2015-2020), has been extended to 2022. Through the Digital Agenda, the government aims to promote e-commerce and the digitalisation of business processes among SMEs. The Digital Agenda (2015-2020) foresees introducing widely available broadband infrastructure to enable companies to access a variety of online services, including e-commerce.

The government set a 50% target of businesses using ICT for e-commerce purposes, which is an ambitious goal, given remaining low levels of digitalisation (Ministry of Innovation and Public Administration, 2015^[89]). Nevertheless, to achieve the target, the government plans to launch two new online portals in 2022. One is an informational website providing insight into the procedures necessary for companies to adopt e-commerce and e-business solutions. It will include information on relevant legislation and available support programmes, a digital self-assessment tool, a detailed guide on the decision-making process and possible costs for the company, as well as case studies of local SMEs that managed to adopt e-commerce and e-payments into their business operations. Another one is a B2B match-making portal that aims to connect relevant suppliers with potential customers domestically and abroad. As envisioned in the Business Investment and Development Strategy (2021-2027), the Albanian Union of Chambers of Commerce and Industry are tasked with its implementation, with the support from the EBRD.

In addition, since the last assessment cycle, the government has launched initiatives with an objective to stimulate digitalisation processes and e-commerce uptake, such as Digital Jobs Albania,⁶² which aims to grant improved access to online work opportunities. The joint project of the Albanian government and the World Bank entails three months of training on digitalisation and information technology skills for women entrepreneurs to facilitate their access to jobs on line.

Also, in collaboration with the World Bank, Albania conducted a thorough assessment of its ICT sector and e-commerce uptake, which showed that during the COVID-19 pandemic, almost 20% of surveyed Albanian firms had either started or increased online business activity (World Bank, 2020^[90]). This demonstrates progress since the last assessment cycle, during which Albania was the furthest behind in e-commerce activities in the WBT region.

In terms of digitalisation and uptake of e-commerce practices, Albania still lags behind its regional peers, both by business and consumers. While in the Western Balkan region, 14% of the population reports purchasing goods on line, in Albania, that percentage is 7% (World Bank, 2020^[90]). Despite progress in strengthening the legal framework for e-commerce, the Albanian government has yet to introduce policies fostering a conducive environment for digitalisation and e-commerce. However, to create a more enabling environment for e-commerce, in 2020, as envisaged in the Business Development and Investment Strategy (2021-2027), the government mobilised a dedicated budget to promote e-commerce, amounting to ALL 47 801 100 (approximately EUR 397 000). This constitutes an increased commitment to digitalisation initiatives, given that in 2019, no budget was allocated for this purpose.

The way forward for Dimension 10

- **Improve the digital infrastructure for export promotion and to attract export-oriented foreign direct investment.** Establishing and developing online platforms to assist Albanian companies in their online activities and information search is crucial to boosting exports and increasing competitiveness. AIDA should place a stronger emphasis on developing digital tools and solutions to facilitate exports and encourage FDI-SME linkages while also improving its investment facilitation and after-care services. The new B2B platform, co-ordinated by the Albanian Union of Chambers of Commerce and the EBRD, is a step in the right direction in using digital tools to foment SME-MNE linkages. However, to fully utilise its potential, AIDA needs to place a strategic focus on adopting digital practices in executing its export promotion and investment support mandate. Practices on investment promotion in a digital economy across the OECD can be consulted in *Investment Promotion and the Digital Economy: A Comparative Analysis of Investment Promotion Practices Across the OECD* (OECD, 2021^[91]) (see also Box 13.15).

Box 13.15. Digitalising export promotion support: Lessons from Costa Rica

ProComer is a trade promotion agency in Costa Rica, often ranked as the best export promotion agency in the world. Apart from containing a broad array of information on trade facilitation, export statistics and market studies, it also offers various digital tools at SMEs' disposal. The digital tools include training on export readiness, one-stop shops for customs facilitation, as well as company registration. The online training and capacity building aims to assist SMEs in their export capacity, inform them about relevant regulations and policies domestically and internationally, and help them increase the value added of their export offer. Digitalising the entire export promotion system in Costa Rica significantly streamlines the process while also reducing the cost by up to 90% (ProComer, 2021^[92]).

By digitalising a large majority of export promotion activities, especially capacity building and support services for SMEs, ProComer facilitated access to available programmes and became more inclusive

to microenterprises and SMEs with limited resources, as all of ProComer's digital tools are provided free of charge. As Costa Rica enjoys a high level of digital connectivity, digitalising export promotion services increased the outreach of ProComer, which can now cater to a higher number of SMEs located across the economy. Furthermore, when the COVID-19 pandemic halted or moved all commercial activity on line, Costa Rican SMEs were not left without export support during such challenging times. On the contrary, they had access to a variety of support programmes and information available through the ProComer portal.

Albania has already made considerable effort to improve the digital structure for export promotion and GVCs integration, creating a conducive environment for fomenting SME-FDI linkages. The new B2B platform is a welcome development and a step in the right direction in further expanding AIDA's digital capabilities. However, in order to effectively implement its mandate, AIDA needs to strengthen its strategic orientation towards fully digitalising export support for SMEs, as well as its investment facilitation activity, which could lead to creating new SME-FDI linkages and strengthening existing ones. Such linkages translate into increased labour productivity and employment, further stimulating growth and development within the economy (OECD, 2018^[93]).

Source: ProComer (2021^[92]).

- **Create a conducive business environment for SME digitalisation and e-commerce uptake.** Ensure that the regulatory framework and tax legislation are harmonised and clearly define the scope of e-commerce and e-payments. Tax legislation and implementation procedures need to further clarify the treatment of online sellers and online marketplaces, domestically and internationally. In addition, the regulatory environment needs to be made more conducive to online innovation and payments, which includes the full implementation of the new Law on Payment Services and its effective monitoring. The government should ensure that both SMEs and consumers trust e-commerce and e-payment systems by intensifying transparency efforts in legislation and programme implementation.
- **Ensure effective implementation of the Business Development and Investment Strategy (2021-2027) in the context of the internationalisation of SMEs through proper monitoring and evaluation.** The strategy provides an ample strategic framework for SME internationalisation; therefore, its proper and effective implementation will be of high importance to achieving the strategic targets. Albania should emphasise strengthening its monitoring of target achievement while remaining vigilant about SMEs programme and training needs, which should be regularly assessed. Leveraging AIDA's monitoring and evaluation mechanisms, the government should ensure the well-targeted plans and measures presented in the Business Development and Investment Strategy (2021-2027) are executed effectively and efficiently.

References

- AIDA (2019), *Activity Report 2019*, <https://www.aida.gov.al/images/PDF/Raport-vjetor-2019.pdf>. [61]
- AIDA (n.d.), “Registration and licensing”, web page, <https://aida.gov.al/en/business-in-albania/setting-up-your-business/registration-licensing>. [54]
- Albanian Investment Development Agency (2019), *Annual Report 2019*, Albanian Investment Development Agency, Tirana, <https://aida.gov.al/images/PDF/Raport-vjetor-2019.pdf>. [74]
- Albanian Parliament (2020), *Law No. 122 – On some changes and additions to Law No. 9632, “On the Local Tax System”*, Official Gazette, No. 197, <http://qbz.gov.al/eli/liqj/2020/10/15/122>. [56]
- Albanian Tax Administration (n.d.), *Insolvency register*, <https://www.tatime.gov.al/c/8/129/214/regjistri-i-falimentit> (accessed on 20 April 2022). [40]
- ALLED2 (2021), *The ALLED2 project today presented the ‘Kosovo Skills Barometer’*, <http://alled.eu/en/the-alled2-project-today-presented-the-kosovo-barometer/>. [80]
- ALLED2 (n.d.), *Education Network*, <http://alled.eu/en/edu-net-2/> (accessed on 24 February 2022). [79]
- BOA (2021), *Annual Supervision Report*, Bank of Albania, Tirana, https://www.bankofalbania.org/Publications/Periodic/Supervision_Annual_Report/#:~:text=The%20Supervision%20Annual%20Report%20analyses,in%20Albanian%20and%20English%2C%20yearly. [70]
- CM Albania (2021), *Economic Reform Programme 2021-2023*, Council of Ministers, <https://www.financa.gov.al/wp-content/uploads/2021/02/Economic-Reform-Programme-2021-2023.pdf>. [13]
- Council of Ministers (2021), *Six-Month Performance Report on Public Consultations*, Council of Ministers, Tirana, https://konsultimipublik.gov.al/documents/reports/RaportiiPerformancesKonsultimitPublik_CoG_30.07.2021.pdf. [47]
- EBRD (2021), *Business Reorganisation Assessment: Albania*, European Bank for Reconstruction and Development, [https://ebrd-restructuring.com/storage/uploads/documents/13472%20EBRD%20\(Albania%20Country%20Profile%20ARTWORK\).pdf](https://ebrd-restructuring.com/storage/uploads/documents/13472%20EBRD%20(Albania%20Country%20Profile%20ARTWORK).pdf). [39]
- EPS (n.d.), *E-procurement Portal*, <https://www.app.gov.al/e-procurement>. [66]
- European Commission (2021), *€90 million in Macro-Financial Assistance to Albania*, https://ec.europa.eu/commission/presscorner/detail/en/IP_21_5809. [19]
- European Commission (2022), *EU Candidate Countries’ & Potential Candidates’ Economic Quarterly (1st Quarter 2022)*, https://ec.europa.eu/info/sites/default/files/economy-finance/tp056_en.pdf. [4]
- European Commission (2022), *European Neighbourhood Policy and Enlargement Negotiations - Albania*, https://ec.europa.eu/neighbourhood-enlargement/enlargement-policy/negotiations-status/albania_en. [18]

- European Commission (2022), *Programme Statement - Pre-Accession Assistance (IPA III)*, [20]
https://ec.europa.eu/info/sites/default/files/about_the_european_commission/eu_budget/programme_statement_-_ipa.pdf.
- European Commission (2022), *Updates on the Association of Third Countries to Horizon Europe*, [22]
https://ec.europa.eu/info/news/updates-association-third-countries-horizon-europe_en.
- European Commission (2021), *2021 Economic Reform Programmes of Albania, Montenegro, North Macedonia, Serbia, Turkey, Bosnia and Herzegovina and Kosovo**, [14]
https://ec.europa.eu/info/sites/default/files/economy-finance/ip158_en_0.pdf.
- European Commission (2021), *2021 SME Country Fact Sheet: Albania*, European Commission, [45]
 Brussels, https://ec.europa.eu/neighbourhood-enlargement/system/files/2021-09/albania_-_sme_fact_sheet_2021.pdf.
- European Commission (2021), *Albania 2021 Report, 2021 Communication on EU Enlargement Policy*, [3]
<https://op.europa.eu/en/publication-detail/-/publication/6e2fcf17-30ea-11ec-bd8e-01aa75ed71a1/language-en>.
- European Commission (2021), *Economic Reform Programme for Albania*, [44]
https://ec.europa.eu/info/publications/2021-economic-reform-programmes-albania-montenegro-north-macedonia-serbia-turkey-bosnia-and-herzegovina-and-kosovo-commissions-overview-and-country-assessments_en.
- European Commission (2021), “Fit for 55” - delivering the EU’s 2030 climate target on the way to climate neutrality”, *Delivering the European Green Deal*, [85]
https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en (accessed on 24 January 2021).
- European Commission (2021), *Montenegro Report 2021*, European Commission, European [36]
 Neighbourhood Policy and Enlargement Negotiations, Brussels,
https://ec.europa.eu/neighbourhood-enlargement/montenegro-report-2021_en.
- European Commission (2020), *Albania Report 2020, 2020 Communication on EU Enlargement Policy*, [10]
https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/albania_report_2020.pdf.
- European Commission (2020), *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions*, [21]
https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/communication_on_wb_economic_and_investment_plan_october_2020_en.pdf.
- European Commission (2020), *Economic Forecast – Autumn 2020*, [11]
https://ec.europa.eu/economy_finance/forecasts/2020/autumn/ecfin_forecast_autumn_2020_al_en.pdf.
- European Parliament and the Council of the European Union (2019), *Directive on Preventive Restructuring Frameworks*, [42]
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32019L1023>.
- European Parliament and the Council of the European Union (2015), *Regulation 2015/848 on Insolvency Proceedings*, [38]
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32015R0848>.

- General Directorate of Standardisation (2019), *Annual Report 2019*, General Directorate of Standardisation, Tirana, <https://dps.gov.al/sq/download/file/page-section/70>. [72]
- General Directorate of Standardization (2020), *Annual Report 2020*, General Directorate of Standardization, Tirana, <https://dps.gov.al/sq/download/file/page-section/71>. [73]
- General Directorate of Taxes (1998), *Law No. 8438 on Income Tax*, Official Gazette, <https://www.tatime.gov.al/eng/shkarko.php?id=30>. [59]
- GIZ (2021), *Cluster Development Guide*, <https://www.giz.de/en/downloads/giz2021-en-cluster-development-guide.pdf>. [88]
- Gjevari, A. (2020), *COVID-19 Financial Measures Adopted by Albania*, <https://www.amministrazioneincammino.luiss.it/wp-content/uploads/2020/06/GJEVORI.docx.pdf>. [12]
- Government of Albania (2021), *Business Development and Investment Strategy 2021-2027*, <http://qbz.gov.al/eli/vendim/2021/07/30/466>. [28]
- Government of Albania (2021), *DCM 65 on Implementation of Insolvency Law No. 110*, <http://qbz.gov.al/eli/vendim/2021/02/03/65>. [41]
- Government of Albania (2021), *Monitoring Report/Self Assessment Report: National Action Plan 2020-2022*, Government of Albania, https://ogp.gov.al/uploads/2021/9/20210913140728_1monitoring-report_sa-nap-2020-2022_6mi-2021_en-version.pdf. [51]
- Government of Albania (2021), *National Education Strategy 2021-2026*, <https://planipolis.iiep.unesco.org/en/2021/draft-strategjia-komb%C3%ABtare-e-arsimit-2021-2026-7176>. [29]
- Government of Albania (2021), *National Employment and Skills Strategy - Annual Progress Report 2020*, <https://www.financa.gov.al/wp-content/uploads/2021/06/NESS-Annual-Progress-Report-2020.pdf>. [76]
- Government of Albania (2020), *The Open Government Partnership: National Action Plan for Albania 2020-2022*, Government of Albania, https://ogp.gov.al/uploads/2020/12/20201230121300_4national-action-plan-2020-2022_en-version.pdf. [52]
- Government of Albania (2019), *National Employment and Skills Strategy 2019-2022*, https://www.financa.gov.al/wp-content/uploads/2020/10/Publikim_EN_Strategjia-Komb%C3%ABtare-p%C3%ABr-Pun%C3%ABsim-dhe-Aft%C3%ABsi-2019-2022.pdf. [77]
- Government of Albania (2014), *Curriculum Framework for Pre-University Education*, <https://masht.rks-gov.net/korniza-e-kurrikules-e-arsimit-parauniversitar>. [32]
- Government of Albania (n.d.), *E-Albania*, <https://e-albania.al>. [67]
- Government of Kosovo (n.d.), *Kosovo Labour Market Barometer*, <https://sitp.rks-gov.net/> (accessed on 2022 February 24). [78]

- Government of Montenegro (2020), *Strategy for Lifelong Entrepreneurial Learning of Montenegro 2020-2024*, <https://www.gov.me/dokumenta/87f64c3f-3f5f-4223-8804-2d8753cc194f>. [33]
- IBFD (2021), “Albania – Corporate taxation”, [58]
https://research.ibfd.org/#/doc?url=/linkresolver/static/gtha_al.
- IBFD (2021), “Albania – Individual taxation”, [57]
https://research.ibfd.org/#/doc?url=/linkresolver/static/gthb_al.
- INSTAT (2021), *Active enterprises by municipality and size 2016 - 2020*, [27]
<http://instat.gov.al/en/themes/general-and-regional-statistics/indicators-by-municipalities/#tab2>.
- INSTAT (2021), *Albania in figures*, <http://www.instat.gov.al/media/8988/albania-in-figures-2020.pdf>. [2]
- INSTAT (2020), *Business Register, 2020*, <http://instat.gov.al/media/8442/press-release-business-register-2020.pdf>. [26]
- INSTAT (2020), *Statistics on small and medium enterprises, 2020*, [25]
<http://www.instat.gov.al/media/9674/results-on-sme-2020.pdf>.
- INSTAT (2020), *Statistics on Small and Medium Enterprises: Reference Metadata in Euro SDMX Metadata Structure*, http://www.instat.gov.al/media/9772/rc-small-and-medium-enterprises_sbs_esms_format_en_final.pdf. [23]
- ITC (2021), *SME Competitiveness Outlook 2021: Empowering the Green Recovery*, International Trade Centre, Geneva, <https://www.intracen.org/publications/smeco2021/ITCSMECO2021/>. [81]
- Jensen, P. and E. Webster (2009), “Another look at the relationship between innovation proxies”, [94]
Australian Economic Papers, Vol. 48/3, pp. 252-269, <https://doi.org/10.1111/j.1467-8454.2009.00374.x>.
- McCallum, E. et al. (2018), *EntreComp into Action: Get Inspired, Make it Happen*, Publications Office of the European Union, Luxembourg, <https://doi.org/10.2760/574864>. [34]
- Ministry of Economy of North Macedonia (2022), *Regulation on e-auctions in bankruptcy liquidation*. [43]
- Ministry of Economy of Serbia (2021), *Sector for Quality and Product Safety*, Ministry of Economy of Serbia, Belgrade, [75]
<https://tehnis.privreda.gov.rs/sw4i/download/files/article/KONACNA%20Strategija%20unapredjenja%20sistema%20IK%20u%20RS%202015-2020.pdf?id=273>.
- Ministry of Finance and Social Welfare (2021), *Report on the Quality of RIA Use in Montenegro for 2020*, Government of Montenegro, <https://www.gov.me/dokumenta/db09dd98-7c71-4193-9123-f5e85e41ea15>. [48]
- Ministry of Innovation and Public Administration (2015), *Digital Agenda 2015-2020*, [89]
https://akshi.gov.al/wp-content/uploads/2018/03/Digital_Agenda_Strategy_2015_-_2020.pdf.

- NAIS (2020), *Cross-Sectoral Strategy: Digital Agenda of Albania 2015-2020, Monitoring Report*, National Agency for Information Society, https://akshi.gov.al/wp-content/uploads/2021/06/raport-monitorimi_AD_dhjetor20.pdf. [49]
- OECD (2022), *Labour Migration in the Western Balkans: Mapping Patterns, Addressing Challenges and Reaping Benefits*, OECD Publishing, Paris, <https://www.oecd.org/south-east-europe/programme/labour-migration-report.pdf>. [7]
- OECD (2021), *Competitiveness in South East Europe 2021: A Policy Outlook*, Competitiveness and Private Sector Development, OECD Publishing, Paris, <https://doi.org/10.1787/dcbc2ea9-en>. [16]
- OECD (2021), *Impact of COVID-19 in Albania*, <https://www.oecd-ilibrary.org/sites/933637d0-en/index.html?itemId=/content/component/933637d0-en>. [8]
- OECD (2021), “Investment policy and promotion (Dimension 1)”, in *Competitiveness in South East Europe 2021: A Policy Outlook*, OECD Publishing, Paris, <https://doi.org/10.1787/b6c7be62-en>. [83]
- OECD (2021), *Investment Promotion and the Digital Economy: A Comparative Analysis of Investment Promotion Practices Across the OECD*, <https://www.oecd.org/daf/inv/investment-policy/Investment-Insights-Investment-Promotion-Digital-Economy-OECD.pdf>. [91]
- OECD (2021), “No net zero without SMEs: Exploring the key issues for greening SMEs and green entrepreneurship”, *OECD SME and Entrepreneurship Papers*, No. 30, OECD Publishing, Paris, <https://doi.org/10.1787/bab63915-en>. [82]
- OECD (2021), *The Principles of Public Administration: Albania*, OECD, Paris, <https://www.sigmaweb.org/publications/Monitoring-Report-2021-Albania.pdf>. [46]
- OECD (2021), *The Principles of Public Administration: Montenegro*, OECD, Paris, <http://www.sigmaweb.org/publications/Monitoring-Report-2021-Montenegro.pdf>. [35]
- OECD (2020), *COVID-19 Crisis Response in South East European Economies*, <https://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-south-east-european-economies-c1aacb5a/>. [9]
- OECD (2020), *FDI Regulatory Restrictiveness Index (database)*, <http://www.oecd.org/investment/fdiindex.htm>. [15]
- OECD (2019), *Unleashing the Transformation Potential for Growth in the Western Balkans*, https://www.oecd.org/south-east-europe/programme/Unleashing_the_Transformation_potential_for_Growth_in_WB.pdf. [86]
- OECD (2018), *Environmental Policy Toolkit for SME Greening in EU Eastern Partnership*, OECD Publishing, Paris, https://www.oecd-ilibrary.org/environment/environmental-policy-toolkit-for-sme-greening-in-eu-eastern-partnership-countries_9789264293199-en. [84]
- OECD (2018), *OECD Economic Survey of Costa Rica: Research Findings on Productivity*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264298774-en>. [93]
- OECD (2016), *Use of Official Automatic Exclusion Lists in Public Procurement*, OECD Publishing, Paris, <http://www.sigmaweb.org/publications/Public-Procurement-Policy-Brief-24-200117.pdf>. [69]

- PPA (2020), *Annual Report 2020*, Public Procurement Agency, Tirana, [62]
<http://www.app.gov.al/GetData/DownloadDoc?documentId=09b4c972-7e23-442c-8006-cbfee786e2f0>.
- PPA (n.d.), *Public Procurement Agency website*, <http://www.app.gov.al>. [65]
- PPC (n.d.), *E-complaints System website*, <https://www.kpp.al>. [68]
- ProComer (2021), *Simplification and facilitation of procedures*. [92]
- Public Procurement Agency (2020), *National Public Procurement Strategy 2020-2023*, Public Procurement Agency, Tirana, <http://www.app.gov.al/rreth-nesh/dokumente-strategjike>. [63]
- Public Procurement Agency (2020), *Public Procurement Law No. 162/2020*, Public Procurement Agency, Tirana, <http://www.app.gov.al/legislation/public-procurement/law>. [64]
- Regional Cooperation Council (2021), *Balkan Barometer 2021: Business Opinion*, Regional Cooperation Council, Sarajevo, <https://www.rcc.int/download/docs/2021-06-BB2021-Business.pdf/439939a7489554684db46d2c266bfdbc.pdf>. [50]
- Republic of Albania (2002), *Law No. 8957, On Small and Medium Enterprises*. [24]
- Republic of Albania Council of Ministers (2021), *Economic Reform Programme 2021-2023*, <https://www.financa.gov.al/wp-content/uploads/2021/02/Economic-Reform-Programme-2021-2023.pdf>. [30]
- Transparency International (2022), *Corruption Perceptions Index*, <https://www.transparency.org/en/cpi/2021/index/bih>. [17]
- UNCITRAL (n.d.), *Legislative Guide on Insolvency Law*, https://uncitral.un.org/en/texts/insolvency/legislativeguides/insolvency_law. [37]
- UNICEF Albania (2019), *Appraisal of the Pre-University Education Strategy 2014-2020*, <https://www.unicef.org/albania/media/2031/file/Education%20Sector%20Appraisal%20Document%20Eng.pdf>. [31]
- UNIDO (2020), *Albania moves ahead with inclusive and sustainable industrial development*, <https://www.unido.org/news/albania-moves-ahead-inclusive-and-sustainable-industrial-development>. [87]
- World Bank (2022), *World Bank WDI data*, <https://databank.worldbank.org/source/world-development-indicators>. [1]
- World Bank (2021), *As Economy Rebounds, Albania Has Opportunity to Build a More Sustainable Growth Model*, <https://www.worldbank.org/en/news/press-release/2021/10/21/as-economy-rebounds-albania-has-opportunity-to-build-a-more-sustainable-growth-model>. [6]
- World Bank (2021), *Strengthening the Sustainability of Albania's Growth Model: Albania Country Economic Memorandum*, <https://documents1.worldbank.org/curated/en/099845001312232607/pdf/P1752090e8141b05a08afc06ea6bc385da3.pdf>. [60]
- World Bank (2021), *Unemployment, total (% of total labor force)*, <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=AL> (accessed on 19 May 2022). [5]

- World Bank (2020), *Albania E-Commerce Diagnostic: Leveraging the Digital Trade Opportunity*, [90]
<https://openknowledge.worldbank.org/bitstream/handle/10986/35000/Albania-E-Commerce-Diagnostic-Leveraging-the-Digital-Trade-Opportunity.pdf>.
- World Bank (2020), *Doing Business 2020: Economy Profile Albania*, World Bank, Washington, [53]
 DC, <https://www.doingbusiness.org/content/dam/doingBusiness/country/a/albania/ALB.pdf>.
- World Bank (2019), *Enterprise Surveys: Albania 2019 Country Profile*, World Bank, Washington, [55]
 DC, <https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country-profiles/Albania-2019.pdf>.
- World Bank (2015), *Principles for Public Credit Guarantee Schemes for SMEs*, [71]
<https://documents1.worldbank.org/curated/en/576961468197998372/pdf/101769-REVISED-ENGLISH-Principles-CGS-for-SMEs.pdf>.

Notes

- ¹ According to INSTAT (Albania's Institute of Statistics), the Albanian government spent the equivalent of 3.4% of GDP on education in 2020. See www.instat.gov.al/media/8988/albania-in-figures-2020.pdf for statistical information and a report from UNICEF outlining the cost of underinvestment in education at <https://www.unicef.org/albania/media/451/file/The%20Cost%20of%20Underinvestment%20in%20Education%20and%20ways%20to%20reduce%20it.pdf>.
2. See Action A2.1.1 under the objective for teachers, and Action C3.3.1 under the objective on links with the labour market in the National Education Strategy (2021-2023).
 3. The new Junior Achievement programme is an entrepreneurship and economics focussed programme. It includes elective modules, including Business Ethics, Success Skills, Be Entrepreneurial and Personal Finance. For more information, see <https://junior-albania.org/>.
 4. To see a handbook used to support this course, see www.akafp.gov.al/wp-content/uploads/2021/04/Material-Mesimor-Bazat-e-Sipermarrjes-Kl-12-Temat-1-181.pdf.

5. As part of its mission to strengthen the innovation ecosystem in Albania, the EU for Innovation project, in co-operation with the Amsterdam Centre for Entrepreneurship (ACE) and the University of Amsterdam organised a series of masterclasses on how to become an “Entrepreneurial University”. This was launched in January 2020 and ran for five months, targeting Albanian researchers, academics and management-level professionals in universities. The three classes were based on three levels of science-based entrepreneurship: Explore & Inspire; Pursue & Educate; and Launch & Grow, as developed by ACE and the University of Amsterdam. There was a final pitching event, during which the participants in teams presented their University Entrepreneurship action plans to an experts panel. For more information, see <https://euforinnovation.al/masterclass/>.
6. For more information, see <https://junior-albania.org/sq/3e-english-entrepreneurship-employability-launching-event/>.
7. For more information, see <https://upshift.al/>.
8. The training delivered by Junior Achievement included these modules: Business Ethics; Be Entrepreneurial; Success Skills; Basic Economic Concept on High School Curricula; Concepts and Principles of Entrepreneurship and Business Management; Development and Evaluation of Entrepreneurship Competences in High Schools; and Leader for a Day.
9. No additional information is currently available on this intervention.
10. See Action A2.1.1 in the National Education Strategy (2021-2026).
11. Relevant targets that include a percentage for women are:

Entrepreneurship support: Targets 250 participants in training programmes per annum with at least 40% women; 30 grants awarded per annum with at least 40% to women; and 100 new businesses registered by participants per annum, including at least 40% by women, alongside 3 500+ new jobs created by these businesses.

SME funding: Foreseen to have 60 beneficiaries of the Single SME Development Fund per annum with a 30% share of women entrepreneurs or women-led businesses; the launch of a credit guarantee scheme; and amendment of the legal framework creating conducive conditions for venture capital, business angels and crowdfunding.

Graduate placements: 150 beneficiaries, of which at least 40% should be women.

12. AIDA's previous annual reports can be consulted at:

2020: <https://www.aida.gov.al/images/PDF/Raport%20vjetor%202020.pdf>

2019: <https://www.aida.gov.al/images/PDF/Raport-vjetor-2019.pdf>.

13. The share of companies with women CEOs dropped from 26.8% in 2016 to 25.5% in 2020, while the share of women business owners also dropped from 26.8% in 2016 to 25.5% in 2020 (Source: Albanian Business Register, data provided by the Albanian government during the assessment process). The share of self-employed women remained stable (25.7% in 2016 to 25.8% in 2020),

while the share of women with registered patents dropped significantly from 42% in 2016 to 32.6% in 2020 (Source: General Directorate of Industrial Property, data provided by the Albanian government during the assessment process).

14. Hosted through Facebook at https://m.facebook.com/womenfoundersalbania/?locale2=en_US.
15. Women in Business, funded by the EBRD, provides diagnostic services, advisory services, ongoing business coaching, mentoring and networking, as well as entrepreneurial skills development workshops series and visibility events with women-led businesses. For more information, see <https://www.ebrdwomeninbusiness.com/>.
16. For more information, see <https://idea.cefe.net/about-us/>
17. See the “Recovery and capacity building of 70 women entrepreneurs after the damage of COVID-19” programme implemented by the National Association of Professional Business and Craft Women at <http://www.shgpaz.al/>.
18. The current international consensus on the definition of “honest” versus “dishonest” entrepreneurs presumes that an honest entrepreneur has not conducted voidable fraudulent or preferential transactions or been penalised by tax authorities or charged by a court for criminal activities. An honest failed entrepreneur should get discharged of all possible forms of debt.
19. For more details on imminent insolvency, see Article 123 of the Insolvency Law.
20. Other parties refer to the creditors who have not signed the agreement, did not vote for the plan or who are secured and have enforcement rights over the debtor’s property.
21. For instance, in 2019 and 2020, ADISA launched a large-scale re-engineering exercise along with government agencies, which resulted in 70 “to-be” maps of re-engineered processes that were developed and implemented (OECD, 2021^[46]).
22. As of December 2020, based on government data collected for the *Competitiveness in South East Europe 2021: A Policy Outlook* publication, 1 021 online public service applications were working (out of around 1 400 services in total). In 2020, while 373 e-services enabled the entire administrative procedure to be completed on line, 648 only enabled application submission, while the actual document or licence needed to be picked up by the citizen or business over the counter.
23. Based on the combined share of “completely satisfied” and “tend to be satisfied” responses to the Balkan Business Barometer survey’s question: Could you please tell me how satisfied are you with each of the following in your place of living – Digital services currently provided to business by public administration?
24. Regulation (EU) No. 910/2014 on electronic identification and trust services for electronic transactions in the internal market, or the eIDAS regulation, establishes the European framework for electronic trust services and the use of e-ID. For more information, see: <https://digital-strategy.ec.europa.eu/en/policies/eidas-regulation>.
25. If the NBC fails to answer a request within a prescribed time frame as detailed in the relevant legislation, consent to the request is automatically conferred.

26. According to the latest data available, the NBC's services were given a score of 8.6 out of 10 by users (AIDA, n.d.^[54]).
27. The NBC was established by Law No. 131/2015 of 26 November 2015, by the merger of the National Registration Centre and the National Licensing Centre.
28. The government fully implemented 19 activities, partially realised 21 actions and halted the implementation of 6 due to the COVID-19 pandemic.
29. Measured in start-ups per million inhabitants.
30. More common innovation proxies include a government's R&D expenditure or intellectual property counts, such as patent and trademark applications (Jensen and Webster, 2009^[94]).
31. It should be noted that this share refers to all contracts published in the e-procurement system, including contracts of very modest values, which are normally not of interest to foreign bidders.
32. Decision of the Council of Ministers, No. 285, dated 19 May 2021, in the approval of public procurement rules, Article 42 (1).
33. PPL, Article 83.
34. In case of utilities contracts (in the water, energy, transport and postal services sectors), bid security is mandatory above high financial thresholds.
35. PPL, Article 83 (3).
36. PPL, Article 76 (3) point dh.
37. PPL, Article 78 (1) point c.
38. PPL, Article 3.
39. PPL, Article 87 (2).
40. DCM, Article 54 (6).
41. It currently amounts to 0.5% of the so-called limit fund for a given procurement procedure. There is no upper limit on the fee.
42. PPL, Article 118.
43. PPL, Article 118 (3), point c.
44. See <https://e-albania.al>.

45. See <https://aida-smefinance.gov.al>.
46. No training need analyses have been carried out since 2017.
47. The Sector for Business Promotion is the specific unit involved from the Ministry of Finance and Economy.
48. See <https://www.risialbania.al/?lang=en>. So far, the Sector Skills Committee for Tourism has been established as a pilot by RisiAlbania.
49. The Entrepreneurial Discovery Process (EDP) is planned to start in 2022 and be completed by the first trimester of 2023. Preliminary priorities identified thus far include: agriculture; tourism/agritourism; water and energy; and transversal sectors, including ICT and administrative and support services activities. These priorities may change following the completion of the qualitative phase and the EDP.

Recent skills and qualification needs analysis is foreseen, including consideration of the first steps necessary to properly address priority sectors. There is a 2017 Skills Needs Analysis. Analyses for specific sectors are being carried out in the information technology and tourism sectors.

50. For more information, see:

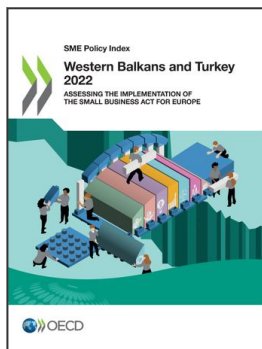
Women Founders Network Albania: <https://www.facebook.com/womenfoundersalbania/>

Women's Economic Chamber of Albania: <https://weca.al/en/>

Women's Entrepreneur Committee of the National Chamber of Crafts: <https://www.dhkz.org.al/index.php/en/>.

51. For more information, see <https://albaniatech.org/>.
52. For more information, see <https://challengefund.euforinnovation.al/about-the-challenge-fund/>.
53. The annual European Innovation Scoreboard (EIS) provides a comparative assessment of research and innovation performance of the countries of the European Union and its regional neighbours. It allows policy makers to assess the relative strengths and weaknesses of national research and innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional chapter on Innovation for SMEs (Dimension 8b) for further information.
54. STIP stands for science, technology and innovation policy. For more information on the EC-OECD STIP Compass, see <https://stip.oecd.org/stip/>.
55. According to the World Bank, the blue economy is the "sustainable use of ocean resources for economic growth, improved livelihoods, and jobs while preserving the health of ocean ecosystem".
56. The non-governmental organisation, Partners Albania, organises the competition. For more information on the winning ideas for the 2021 competition, see <https://partnersalbania.org/News/winners-of-the-green-businesses-2021-national-competition/>.

57. The Regulation EC No. 66/2010 on EU Ecolabel has been transposed in the Albanian legislation.
58. For more information, see <https://english.rvo.nl/subsidies-programmes/mia-and-vamil>.
59. The European Commission has launched the first tranche of its Fit for 55% measures that will support Europe's climate policy framework and put the European Union on track for a 55% reduction in carbon emissions by 2030 and net-zero emissions by 2050. The interconnected proposals cover areas of climate, land use, energy, transport and taxation to bring them into line with the targets agreed in the European Climate Law. For instance, proposed targets by 2030 include: a 55% reduction of emissions from cars; a 50% reduction of emissions from vans; a 3% renovation of the total floor area of all public buildings annually; and a benchmark of 49% of renewables in buildings. More information is available at https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/delivering-european-green-deal_en.
60. Minerals include crude petroleum and chromium ore; metals include raw iron bars and ferroalloy; and agro-food exports comprise mainly vegetables, perfumed plants and processed fish.
61. The Good Agricultural Practices certificate is a voluntary certification programme that allows an independent party to evaluate food safety practices within a company. GAP identifies best practices in farming, packaging and storage.
62. For more information, see <https://www.digitaljobsalbania.com/>.



From:

SME Policy Index: Western Balkans and Turkey 2022

Assessing the Implementation of the Small Business Act for Europe

Access the complete publication at:

<https://doi.org/10.1787/b47d15f0-en>

Please cite this chapter as:

OECD (2022), "Albania: Economy Profile", in *SME Policy Index: Western Balkans and Turkey 2022: Assessing the Implementation of the Small Business Act for Europe*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/d22fdb37-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at <http://www.oecd.org/termsandconditions>.