



Albania
Investment
Council

Improving Transparency and Investment Climate

INTERNATIONALIZATION OF ALBANIAN MICRO-, SMALL AND MEDIUM-SIZED ENTERPRISES* CHALLENGES & OPPORTUNITIES

Tiranë, October 2021

* For the purposes of this analysis the used acronym is MSMEs as defined under the new draft-law "On the Development of Micro-, Small and Medium-sized Enterprises" which reflects the terminology and definition of the European Commission Recommendation 2003/361/EC, published in the Official Journal of the EU L 124, p. 36 of May 20 2003

Internationalization depends on reliability, the right products in the right quantity and quality, at a competitive price, in the right place and time

This working document was prepared in the frame of Meeting XXV of the Investment Council (12 November 2021) by the experts of the Secretariat of the Investment Council, Mr Elvis Zerva, Legal and Regulatory Expert, Ms Elida Fara, Economic Expert, Ms Xaira Shurdha, Monitoring and Liaison Expert, under the direction of the Head of the Secretariat, Ms Diana Leka (Angoni). The analysis "SMEs mitigation of cost exposure to internationalisation Electricity prospective" was prepared Mr Sokol Spahiu, independent expert. Supported in the organisation of meetings with partners, and language editing of the material, Ms Elisa Lula, Administrative and Communications Officer of the Secretariat. We thank the private companies (Edipack, Doni Fruits, SAM Wear, Marlotex, ATHS, etc.), business associations (Proeksport Albania, Albanian Skills, Chamber of Commerce Durres, ATOA, etc.), state institutions (MFE, AIDA, AKPA, etc.), as well as donor projects (SIPPO, Swiss Contact, AssistImpact), that collaborated with the Secretariat in the preparation of this material. The views expressed herein are those of the authors and do not necessarily reflect those of the Investment Council or the EBRD.



ABBREVIATIONS

AIDA	Albanian Investment Development Agency
ALL	Albanian Lek
BoA	Bank of Albania
BPO	Business Process Outsourcing
DCM	Decision of Council of Ministers
EBRD	European Bank for Reconstruction and Development
GDP	Gross Domestic Product
GVC	Global Value Chain
IC	Investment Council
ICT	Information Communication Technology
INSTAT	Albanian Institute of Statistics
MARD	Ministry of Agriculture and Rural Development
MFE	Ministry of Finance and Economy
MSMEs	Micro-, Small and Medium-sized Enterprises
TEDA	Free Technological and Economic Development Area
WB	Western Balkans
WB	World Bank

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INTRODUCTION

Micro-, Small and Medium-sized Enterprises (MSMEs)¹ represent the backbone of the Albanian economy (Structural Survey of Enterprises²), considering that 99.8³ % of active enterprises are MSMEs, accounting for 81.6 % of the total number of employees and contributing to around 68.2% of total investments in the economy. However, only 3.1% of micro, small and medium enterprises are exporters⁴, according to IN-STAT. While, on a regional approach (2014-2017), among the WB economies, MSMEs' share of exports remained relatively constant throughout the region except in Albania, whose share increased from 47% to 61%.⁵ Despite consecutive and recent positive trends and dynamics in exports and progress in other dimensions, still, Albania stands below the WB average referring

to the dimension of internationalisation. It has fallen considerably behind the other Western Balkans economies in this dimension by standing below the WB average of 3.43. According to the EU 2021 progress report, *Albania's competitiveness is hindered by a lack of entrepreneurial and technological know-how, significant levels of informality, unmet investment needs in human and physical capital, and low spending on R&D. Regional integration and exports increased but remained below potential. The lack of product and geographical diversification in Albania's exports compound its vulnerability to external shocks.*⁶ Currently, there are several regional initiatives aimed at promoting the internationalization of MSMEs, while at the policy-making level, especially after COVID-19, there are debates about policies supporting the internationalization of local MSMEs, such as more globalization or more protectionism, the total exposure of MSMEs or a gradual/preferential opening.

COVID-19 has had a negative effect on the global economy, including the Albanian economy with its particularities across different sectors. Following the announcement of the EU's vision

¹ For the purposes of this analysis the used acronym is MSMEs as defined under the new draft-law "On the Development of Micro-, Small and Medium-sized Enterprises"

² INSTAT publication on 2019 figures/next publication will be available in March 2022, with data for year 2020

³ 104,090 total companies are registered in 2019 according to INSTAT

⁴ 9.8 % of turnover was exported from MSMEs. Medium enterprises perform the highest percentage of exports to turnover realized by them 17.8%. Micro-enterprises export the lowest value, where 3.8 % of turnover is exported

⁵ For the complete note, please refer to the SME Policy Index: Western Balkans and Turkey 2019 publication.

⁶ EU Progress Report 2021

update (May 2021)⁷ and relevant instruments allocated for a greener and digital economy, more innovative opportunities/instruments arise to support local MSMEs' speed and gradual exposure toward the international value chain.

The COVID-19 pandemic is creating a new reality worldwide. The economies of the Western Balkans can take advantage of the opportunities arising from this new reality where European countries have turned their eyes towards regional markets and as close to them as possible. Referring to the Institute of Economic Studies in Vienna, *"Western Balkans economies can take advantage of this opportunity not only because of their good geographical location and competitive wage levels but also because of their 'soft skills,' such as the cultural proximity and reputation of their workers as skilled and hardworking. Focusing on the qualification of the workforce, investing in education and training, as well as modernizing the education system would be quite beneficial in attracting potential investors. Improving infrastructure and governance would be just as important from the perspective of current and potential investors."*

As stated in the Western Balkans Regular Economic Report (Fall 2021)⁸, *"To take full advantage of potential nearshoring opportunities, the region needs to embrace proactive policies to strengthen its investment competitiveness and implement targeted outreach programs to promote itself to potential investors based on the currently successful sectors and those with identified potential."*

As of July 2021, the vision of the Albanian Government on internationalisation of MSME policy is already detailed in the Business and Invest-

ment Development Strategy (BIDS) 2021-2027, nominated as the first pillar of the strategy "Investment Attraction and Internationalisation of MSMEs". *At the country level*, key drivers of MSMEs' internationalisation are influenced by multilateral trade agreements, readiness to be internationalised, policy liberalisation approach and timely engagement of key actors, technological innovation (transportation and ICT), dynamics of local/international labour cost, including international entrepreneurship experience among micro small and medium-sized enterprises. Albania's economic structure remains highly dependent and focused on imports, while exporting firms highly exposed to currency exchange fluctuations are low competitive in terms of the cost incurred⁹.

Since the beginning of 2021, the internationalisation and integration into global value chains of MSMEs have been considered a priority issue for the work of the Investment Council (IC). To timely evidence and highlight key MSMEs' concerns, the Secretariat organised technical work relying upon its previous experience with MSMEs and ongoing cooperation with its business partners. IC's previous activities and work are related to informality in tourism, informality in agriculture, innovation in entrepreneurship, two consecutive COVID-19 business surveys, investment promotion in agro-processing, etc.

This study tries to provide timely evidence from a firm-level perspective and key entrepreneurs' perceptions of internationalisation challenges, focusing on internal and external factors defined by the European Competitiveness Report¹⁰. Therefore, its objective is two-

⁷ https://ec.europa.eu/commission/presscorner/detail/en/IP_21_1884

⁸ <https://documents1.worldbank.org/curated/en/900381634670558017/pdf/Greening-the-Recovery.pdf>

⁹ Business concern 2021

¹⁰ https://ec.europa.eu/growth/content/european-competitiveness-report_en

fold (1) stimulate the debate and raise awareness among MSMEs managers of the opportunities associated with participating in global value chains, stressing that to a large extent, internationalisation is mainly knowledge and reliability driven, (2) serve as an assessment that could help the executives in their interventions in support to the mitigation of costs related to the internationalisation of local MSMEs. It would be advisable to be followed by thorough sector/product val-

ue-added chain analyses for more detailed analyses/support.

Attached to this document is an expert note on mitigating costs exposure to internationalisation for MSMEs from an electricity perspective. It aims to clarify in a timely way key actors on smart approaches that could be used to afford better costs related to internationalisation and potentially turn the actual crisis from a threat into a great opportunity.

METHODOLOGY

The Secretariat analysis conducted during September-October 2021 aimed to encourage the debate on the measures that could speed the support related to the integration of MSMEs in the international value chain through the increase of value-added exports and the promotion of those sectors where Albanian MSMEs have more chances to win the competition.

The analysis considered the following:

- (i) *Synthesis of the until now findings and recommendations discussed in earlier IC Meetings.*
- (ii) Desk research – *Consultations of documents, laws, and bylaws, national and international reports regarding measures taken to support the MSMEs*¹¹ (BIDS 2021-2027), draft-law on

¹¹ For terminology purposes MSMEs is used as reference for Micro, Small and Medium Enterprises in line with the terminology used in the BIDS and draft-law on MSMEs.

MSMEs, OCDE – SME Policy Index: Western Balkans and Turkey 2019, EU Progress Report 2021.

- (iii) *Questionnaire – A questionnaire was drafted and distributed only to companies operating in tourism, manufacturing and agriculture, as main sectors of sustainable economic growth in the country and contribute to the country's current exporting trends.* The questionnaire contained questions about internal and external factors affecting export expansion and the integration of MSMEs into global value chains and potential export markets. 82 companies answered the questionnaire in the 12 regions of the country, 90% of which were Albanian companies, 6% foreign and another 4% jointly owned. About 38% of respondents operate in services, 27% in manufacturing, 22% in tourism, 10% in agriculture,

and 4% in call centres.

- (iv) *Consultations – Around 30 consultative meetings were organised with businesses (tourism, manufacturing, agriculture), associations, and public institutions to elaborate the Secretariat's questionnaire findings and get insight into concerns and possible solutions.* Due to the Covid-19-related restrictions, it was difficult to conduct face-to-face interviews, most of which, with some exception, were conducted on ZOOM and/or by phone according to a set of questions tailored to the profile of the interviewed subjects. Significant information was shared to Secretariat by AIDA with regard to the *Annual Reports*¹² and *Statistical Publication 2014-2019*¹³
- (v) *A Comparative Matrix* on the supportive measures taken by the governments in Albania, Western Balkan countries, and Croatia to help their respective economies face implications of Covid-19's pandemic, updated accordingly by the Secretariat as of 14th October. *The matrix provides a comprehensive context for Government support measures for business, including those related to supporting domestic production, boosting exports and facilitating trade.*

Note: Considering the time limits, the IC Secretariat couldn't get a fresh picture of current donor

¹² <https://www.aida.gov.al/images/PDF/Raport-vjetor-2019.pdf>;

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

¹³ [https://www.aida.gov.al/images/PDF/Publikime/botim_statistikor_fondet_\(2\).pdf](https://www.aida.gov.al/images/PDF/Publikime/botim_statistikor_fondet_(2).pdf)

projects that support the integration of MSMEs into the global value chains.

Without prejudice to all the issues that might be relevant for MSMEs and which have been subject to the previous analysis, this time, the Secretariat tackled only those directly related to the concept of MSMEs internationalization, focusing more on export promotion and MSMEs' integration into the global value chains¹⁴. The promotion and use of e-commerce and its opportunities have been analysed in the previous IC Meeting¹⁵. In addition, to provide a comprehensive situation analysis related to the current business perception on internationalization of MSMEs and challenges they face, Section IV- Findings is structured in two components: (1) *Main Barriers For Internationalization of Albanian MSMEs* - which refers to the issues exclusively related to MSMEs as identified during the current consultation process and from the Questionnaire sent only to a database of MSMEs; (2) *Sectorial Context where MSMEs operates, Challenges and Opportunities* - it provides for a larger sectoral context where MSMEs operates. The sectoral boxes give a panorama of the sectoral analysis with findings of Secretariat during previous IC Meetings, not exclusively related to MSMEs but also with corporates and big companies aiming to bring a larger view from a sectorial perspective.

¹⁴ OECD definition

¹⁵ Meeting XXIII "Innovation in Entrepreneurship"

CONTEXT/ BACKGROUND

From the perspective of a country's economy, internationalization helps create new jobs, serves as a source of foreign exchange, helps in technological advancement, improves both the economy and standard of living in the host country¹⁶. It is an incremental process based on various stages that determine changes in *the managers' behaviour and commitment, which are ultimately reflected in the firm's international orientation*. Firm-level internationalization is explained as the expansion of business operations in geographic locations that are new to the organization¹⁷. Many low-income countries are increasingly involved in Global Value Chains upstream and downstream,

and their participation brings about economic benefits in enhanced productivity, sophistication, and diversification of exports¹⁸. *In our analysis, we basically refer to factors influencing the internationalisation¹⁹ decisions of MSMEs that can be divided into two groups: internal firm-specific factors and external factors. Firm-specific factors include firm size, labour productivity, skill intensity, innovation activities, and foreign ownership. External factors consist of home country characteristics such as export promotion programmes, costs and time involved in exporting, and transport costs; and host-country characteristics such as tariffs, regulations, political risk factors, and geographical and cultural distance*

¹⁶ Leonidou et al., 2007; Arteaga-Ortiz et al., 2010.

¹⁷ Matanda, 2012:510.

¹⁸ Kowalski et al. 2015.

¹⁹ European Competitiveness Report 2014

Figure 1. Stages of the Internationalisation Process of MSMEs



Source: European Competitiveness Report²⁰

OECD evaluates the internationalisation of MSMEs, focusing on three main dimensions²¹: (*This Technical Note does not address issues related to e-commerce which have been analyzed in previous dedicated IC meetings.*)

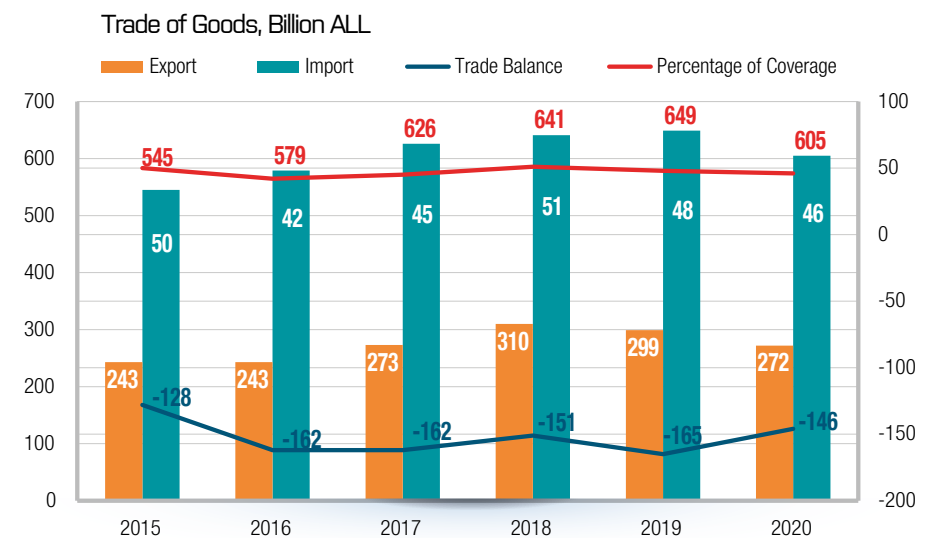
- » Export Promotion
- » Integration of MSMEs into global value chains

» Promotion of the use of e-commerce
During 2020, exports of goods reached the value of ALL 272 billion, decreased by 9%, compared to the previous year, while imports of goods reached the value of ALL 605 billion, decreased by 7%, compared to 2019. The trade deficit reached the value of ALL 146 billion, decreased by 12%, compared to 2019.

²⁰ https://ec.europa.eu/growth/content/european-competitiveness-report_en

²¹ OECD Small Business Act

Figure 2. Trade of Goods in Years

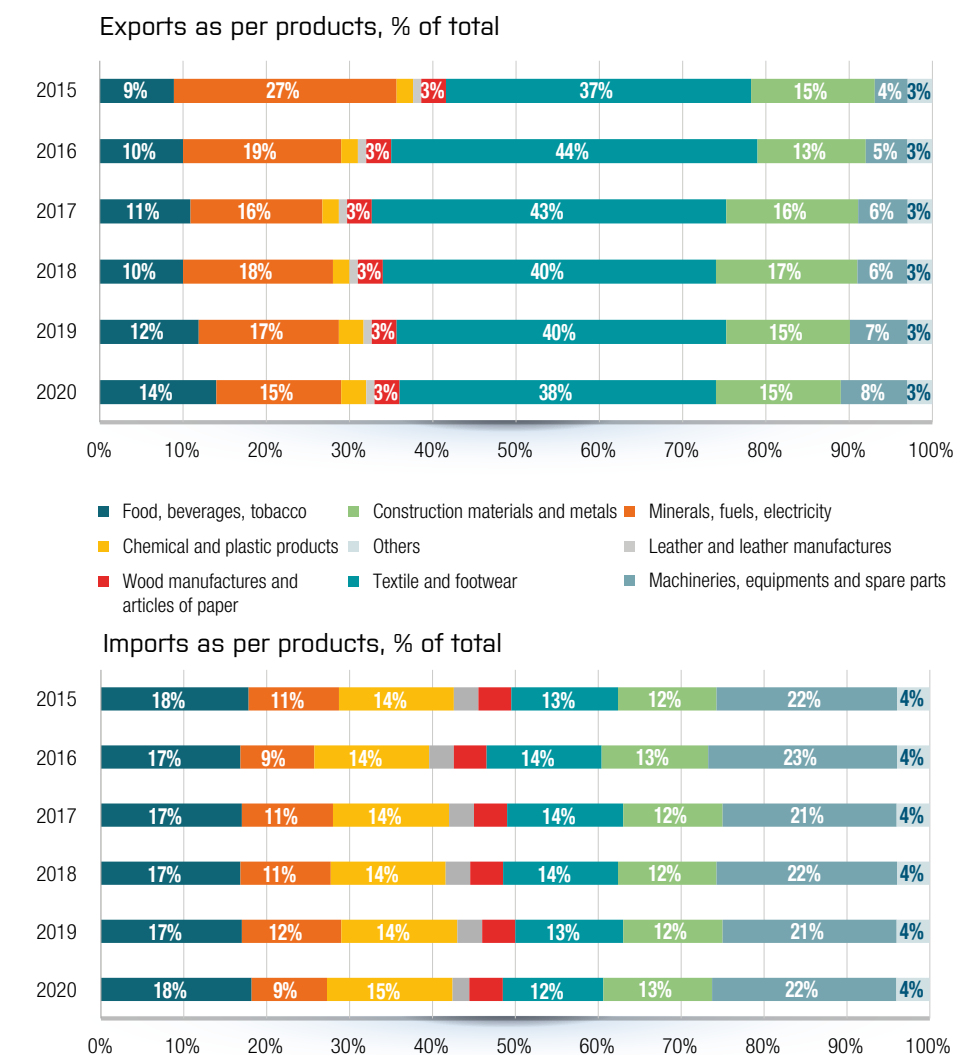


Source: INSTAT

Exports continued to maintain their structure during 2020, where most of them are Textiles and Footwear followed by Minerals, Fuels, Electricity and Foods, Beverages and Tobacco. The

structure of imports of goods continues to be dominated by imports of Machinery, Equipment and Spare Parts, Food, Beverages, Tobacco and Chemical and Plastic Products.

Figure 3. Structure of Exports and Imports

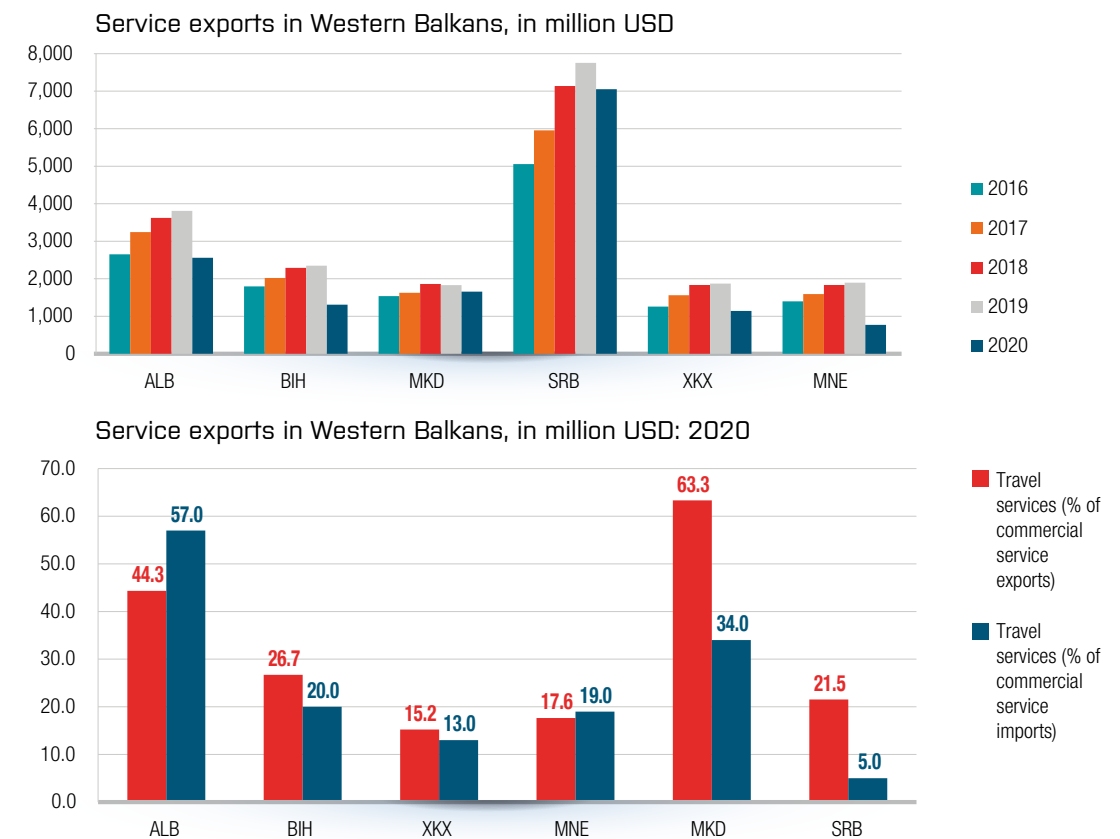


Source: INSTAT

Albania continues to rank second in the region in terms of services exports, dominated by travel with

62.3% of total exports. Serbia is the first in the Western Balkans region in terms of service exports.

Figure 4. Service Exports



Source: World Development Indicators

Based on the Structural Survey of Enterprises²², 99.8²³ % of active enterprises are MSMEs, around 103,911 companies. The trade sector has the highest percentage of MSMEs with 40.1 %, while the electricity, gas, water supply and waste management sector have the lowest percentage with 0.6 %. MSMEs in Albania represent 78.9% of total turnover, and the trade sector prevails with 52.4 %, while the sector with the lowest percent-

age of turnover realized by MSMEs is the mining and quarrying sector with 2.4 %. 68.2% of total investments in the economy come from micro, small and medium enterprises. The sector with the highest percentage of investment is the electricity, gas, water supply and waste management sector at 31.4 %. On the other hand, the mining and quarrying sector has the lowest percentage of private investments at 2.2 %.

In terms of employment, 433,184 persons are employed by MSMEs²⁴, accounting for 81.6 % of

²² INSTAT publication on 2019 figures/ next publication will be available on March 2022, with data for year 2020

²³ 104,090 total companies are registered in 2019 according to INSTAT

²⁴ Micro-enterprises have the highest percentage of employment rate in accommodation and food services sector

the total number of employees. The trade sector employed 28.5%, while the sector with the lowest number of employees in MSMEs is the mining and quarrying sector by 1.8%. Enterprises with 250+ employed, even though they constitute only 0.2 % of enterprises, engaged 18.4% of employed, realized 31.8 % of investment and 21.1 % of turnover.

According to INSTAT, compared to the EU²⁵, the percentage of MSMEs in the country is at the same level as EU; while the percentage of employed in this group of enterprises is 81.6% in Albania from 66.7% in EU and the value-added realized by MSMEs in Albania comprises 72.4% from 56.5% in EU. Meanwhile, for companies 250+, although the percentage is at the same level as EU

by 66.7%. Small enterprises have the highest percentage of employment rate in construction sector by 30.4%. Medium-sized enterprises have the highest employment rate in the manufacturing industry sector by 37.6%.

²⁵ EU 28

Figure 5. Data on Micro-, Small and Medium-sized Enterprises in Albania (in percentage)

Number of enterprises	2015	2016	2017	2018	2019
Micro (1-9 employed)	94.8%	94.9%	94.4%	93.9%	93.1%
Small (10-49 employed)	4.2%	4.1%	4.5%	4.9%	5.5%
Medium-sized (50-249 employed)	0.9%	0.9%	1.0%	1.1%	1.2%
MSMEs (1-249 employed)	99.9%	99.9%	99.8%	99.8%	99.8%
Large(250+ employed)	0.1%	0.1%	0.2%	0.2%	0.2%

Investments	2015	2016	2017	2018	2019
Micro (1-9 employed)	10.5%	13.7%	13.8%	13.6%	11.5%
Small (10-49 employed)	26.3%	39.0%	18.0%	27.6%	32.6%
Medium-sized (50-249 employed)	29.7%	22.2%	28.3%	29.4%	24.0%
MSMEs (1-249 employed)	66.5%	74.9%	60.1%	70.6%	68.2%
Large(250+ employed)	33.5%	25.1%	39.9%	29.4%	31.8%

Source: INSTAT

Based on the above, the particular importance and support to the local MSMEs is evident as the main contributors to (i) job creation (81.6%), (ii) value added

countries, 0.2%, the percentage of employment in this group is 18.4% compared to 33.3% in the EU and value-added in the economy by this category in Albania is only 27.6% compared to 43.5% in EU countries.

3.1% of micro, small and medium enterprises are exporters²⁶, and the exported value of goods is 59.4% of total exports. The sector with the highest percentage of exporting enterprises is the mining and quarrying industry, where 23.7% of the active enterprises of this sector export. 10.8 % of MSMEs are importers. They constitute 78.0% of the total import value for 2019. The sector with the highest percentage of importers is the mining and quarrying industry with 24.2%.

²⁶ 9.8 % of turnover was exported from MSMEs. Medium enterprises perform the highest percentage of exports to turnover realized by them 17.8%. Micro-enterprises export the lowest value, where 3.8 % of turnover is exported.

Number of employed	2015	2016	2017	2018	2019
Micro (1-9 employed)	41.6%	41.3%	39.1%	37.8%	37.0%
Small (10-49 employed)	19.5%	18.7%	19.4%	20.0%	21.6%
Medium-sized (50-249 employed)	20.2%	21.0%	21.7%	22.1%	23.0%
MSMEs (1-249 employed)	81.3%	81.0%	80.3%	79.8%	81.6%
Large(250+ employed)	18.7%	19.0%	19.7%	20.2%	18.4%

Value Added	2015	2016	2017	2018	2019
Micro (1-9 employed)	22.1%	23.7%	20.1%	20.5%	22.5%
Small (10-49 employed)	23.4%	21.9%	23.8%	23.1%	24.6%
Medium-sized (50-249 employed)	20.8%	21.3%	24.4%	25.4%	25.3%
MSMEs (1-249 employed)	66.3%	66.9%	68.3%	69.1%	72.4%
Large(250+ employed)	33.7%	33.1%	31.7%	30.9%	27.6%

ed (72.4%), (iii) 59.4% of total export value of goods and (iv) 68.2% of total investment in the economy. However, only 3.1% of MSME's are exporters (3,221

MSMEs), of which the highest percentage is in the mining and quarrying industry with the lowest percentage of investment and value-added in the economy.

According to OECD 2019, Albania has fallen considerably behind the other Western Balkans economies in this dimension and stands below the WB average of 3.43.

Figure 6. Scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimensions	Alb	WB
10.Internationalisation of SMEs			
	10.1 Export Promotion	4.39	4.18
	10.2 Integration of SMEs into global value chains	1.12	2.97
	10.3 Promoting the use of e-commerce	1.69	2.44
Overall score			
		2.68	3.43

Source: SME Policy Index: Western Balkans and Turkey 2019

In the new Business and Investment Development Strategy approved in July 2021, the Albanian government nominated as the first pillar of the strategy “Investment attraction and Internationalisation of MSMEs”. This intervention area emphasises the strategic importance of investment and integration into the value chain and international markets for growth and sustainable development. Integration into international markets and the international value chain plays a critical role in increasing and diversifying exports and strengthening local businesses’ competitiveness and innovative skills.

In the 2020 EU Report Progress, Albania is considered at an early stage in the area of science and research. Some progress was made

during 2020, especially with the completion of the mapping phase of the Smart Specialisation Strategy. The development of a Smart Specialisation Strategy (S3) started in 2017 under the lead of the Ministry of Education, Sports and Youth, in cooperation with the European Commission; a road map for the S3 process was drafted, and the mapping phase of the S3 process was completed in December 2019 with EU support.

According to BIDS, it is expected: (i) an increase of investment inflow from 7.6 % to 9 % of GDP; (ii) an increase of total exports of goods and services from 31.5 % to 36 % of GDP; and (iii) an increased score in SME Policy Index (Integration of SMEs into global value chains).

FINDINGS

1. MAIN BARRIERS FOR THE INTERNATIONALIZATION OF ALBANIAN MSMEs

According to the literature, barriers to the internationalisation of MSMEs are divided into two main groups²⁷: (1) *Internal factors* – Internal barriers associated with the corporate environment of the firm. Internal factors include human resources and managerial knowledge, technological innovations, ICT capacity, and firm size; and (2) *External factors* – External barriers associated with macro-environmental factors affecting the firm.

In line with the above, we have summarized below the perceptions on barriers to the internationalisation process from Albanian companies and associations operating in tourism, processing industry and agriculture identified during the

27 European Competitiveness Report

consultation process and Secretariat's Questionnaire.

EXTERNAL FACTORS

I. **Legal and regulatory dynamics have created the premises, but for a larger scale of tangible and direct results for MSMEs, it is required to streamline the policies and institutional efforts through execution of a clear and integrated action plan towards a persistent vision.**

There is advancement in alignment and improvement of the national agenda and policies affecting MSMEs with that adopted at the EU level. Albania approved “Business and Investments Development Strategy 2021-2027”²⁸ following a consultation process with a group of interests through Electronic Registry for Public Notification and Consultation and a dedicated plenary IC meeting in June 2021. The strategy

28 Approved with DCM no. 466 dated 30.07.2021

acknowledges the pivotal role of the micro, small and medium enterprises in the economy while endorsing both the *Small Business Act for Europe* (2008) and *SME Strategy For a Sustainable and Digital Europe* (2020), which put SMEs in the central of the new EU industrial approach²⁹. For the first time, it clearly provides its three main pillars, among which is emphasized *Investment Attraction and Internationalisation* as a major field to be exploited by MSMEs through manufacturing, increasing of exports and larger integration in high-value global value chains. A detailed action plan is designed and tailored for each pillar (Strategy's Annex A).

(1) *While the Strategy highlights its linkages with the strategic objectives of the Albanian government and the national and international legal framework, it does not highlight some of the initiatives so far*, such as the draft law “On the Support and Development of Innovative Start-ups”, or the draft “On Unified Investments Law” which have been previously and extensively consulted also in dedicated IC meetings. It is not clear whether the strategic vision regarding the legal framework is oriented towards further prolongation of Law 55/2015 “On Strategic Investments” and the maintenance into force of Law 7764/1993 “On Foreign Investments”, or the approval of the draft “On Unified Investments Law” already prepared with the assistance of IFC. In addition, although the Strategy has a separate reporting section on the progress of TEDA, it does not provide a consolidat-

29 Twin transition- green and digital transition is the ultimate plan which the European Commission adopted as a defining element of its agenda for future sustainable growth.

ed strategic approach or plan on how to implement them according to law spirit³⁰, attracting foreign investment in this area, nor a link to structural measures such as the establishment in 2019 of the Albanian Investments Corporation.

(2) *Draft law on “On the Development of Micro, Small and Medium Enterprises”*³¹ subject to consultation through IC during June 2021 and expected to approval in the upcoming weeks constitute the dedicated normative act to MSMEs. There is a growing need to support MSMEs with support measures/ state aid and mainly access to finance/ grants to increase their competitiveness. All these are constituent elements in the first pillar of the *Strategy - Investment Attraction and Internationalization framework* and have been addressed through several articles in the draft law. They enable AIDA to be more operational and influential in this direction.

In both cases, Secretariat has already provided a set of notes and recommendations for the improvement of the drafts—published³² regularly and submitted to the MFE.

(3) *The business community emphasizes that good governance at both central and local levels and formalised inter-institutional co-*

30 Amended with the Law 54/2015

31 The title of the Draft Law correctly reflects the terminology of the European Commission Recommendation 2003/361/EC, published in the Official Journal of the EU L 124, p. 36 of May 20 2003. In contrast to Law 8957/2002, the term “Micro-enterprise” is included in the name, highlighting the growing role of the self-employed in the country's economy. It shall replace Law no. 8957/2002 “On Small and Medium Enterprises”.

32 <https://www.investment.com.al/meeting/meeting-xxiv-consultation-of-draft-bids/>
https://www.investment.com.al/wp-content/uploads/2021/07/EN_Suggestions-by-the-Secretariat-on-draft-law-on-MSMEs.pdf

ordination are essential elements for achieving objectives related to MSMEs internationalization. While there are several actions, projects and supporting programs ongoing at both government agencies and donors' levels that target the sophistication of MSMEs, still the latter inclusion in informative training, marketing activities, promotion (trade fair, etc.), business intelligence activities, certification and increase of standards, access to finance mechanisms, trade fairs, etc.) is perceived as limited and not all-inclusive. Obviously, recent Covid-19 restriction would have influenced, but companies and business representatives (e.g. Durres Chamber of Commerce and Industry) urge for more coordinated efforts by the actors involved in promoting such initiatives and reaching out directly through more inclusiveness to MSMEs operating all over the country, rather only those in main urban areas. From this perspective, institutional coordination among the institutions envisaged to follow the implementation of the strategy and action plan is required to optimise the impact of such programs and projects in tangible results for a large scale of MSMEs.

In addition, sustainable institutional coordination is of utmost importance to ensure alignment and speed up the development objectives. For example, considering that the Strategy shall be followed by a specific Strategy on Exports and it is cross-cutting with several more development strategies (e.g. NSDI, ERP, Smart Specialisation, Agricultural Strategy 2021-2027 etc.), which have different timelines of approval and

implementation, their alignment to ensure the adequacy of supporting measures, calls for focus and follow up of the actions. It would be beneficial for the whole ecosystem, that Government to promote GVC mindset by attracting targeted FDI/GVCs that fit the country and to ensure coherence and consistency within all the government policies (trade, investment, finance, labour, industry) and actions as following:

- (a) timely supply-side capacity building through improving infrastructure /logistics;
- (b) supporting training/advocacy on SME financing;
- (c) access to information;
- (d) conducive laws and regulations,
- (e) logistic infrastructure or support industry cooperation (i.e. SME clusters).

Moreover, this is also relevant for coordinating cooperation and efforts with municipalities that are currently missing or limited with some exemptions. Although municipalities should have a determinant role in the day-to-day activity of MSMEs, our analysis concluded that enterprises generally perceive them (with some exceptions) as absent in their commitment and support for local economic policies as well as for the fulfilment of obligations regarding the cleaning service and waste management.

- (4) *Some of the regulatory interventions to date have reduced the administrative burden significantly for MSMEs in particular and have facilitated the application of services towards or by them³³. This has been acknowledged*

³³ However, there are areas for improvements. For example,

during interviews, desk research and in international reports³⁴:

- a. Registering a business and applying for licences and permits have been streamlined. Following the merger of the national registration and licensing centres to create the National Business Centre (NBC) in 2016, entrepreneurs can obtain one-stop-shop services such as registration, permits and licences. NBC's establishment has played a pivotal role in reducing unnecessary bureaucracy and procedures for MSMEs. In an initiative supported by EBRD, Albania's trade register administered by the National Business Centre joined the Business and Financial Data Exchange (BIFIDEX)³⁵, a regional business registration portal in the Western Balkans³⁶. The portal's information and data can serve as vast information for MSMEs when finding partners and exporting in the foreign markets and an example of creating a single market of data related to entrepreneurs in the region.
- b. The digitalisation of government ser-

vices has reduced the administrative burden on MSMEs. The e-Albania services, as already evidenced by IC survey 2020-2021, played an important role during the pandemic in facilitating trade, business circulation and implementation of financial supporting measures, thus reducing the compliance burden for businesses.

- c. The legal framework on insolvency proceedings has also been strengthened. The new Law on Bankruptcy, adopted in 2017, includes many features left out of previous legislation and now provides the basis for efficient insolvency procedures and allowing debt reorganisation³⁷.
- d. Regulatory Impact Analysis (RIA) is recently becoming a standard in the earlier legislative process, including the aforementioned regulations affecting MSMEs. However, it is only one/two years that it started to be implemented, and more efforts could be allocated to its key objective. RIA is a systemic approach to critically assessing the positive and negative effects of proposed and existing regulations and non-regulatory alternatives through various methods. It has increasingly become an important element of an evidence-based approach to policymaking in many OECD countries.

although VAT reimbursement processes towards eligible businesses have been more punctual from tax administration, it is reported that the process lacks for automatic reimbursement and tax audit takes place. Additionally, uncoordinated and frequent inspections still take place. As earlier analysed by the Secretariat of the Investment Council, inspection reform was never concluded nor substantially implemented.

³⁴ According to the OECD SME Ministerial Conference 2018 regulatory barriers to entrepreneurship have been declining over time

³⁵ <https://www.bifidex.com/en/registries>

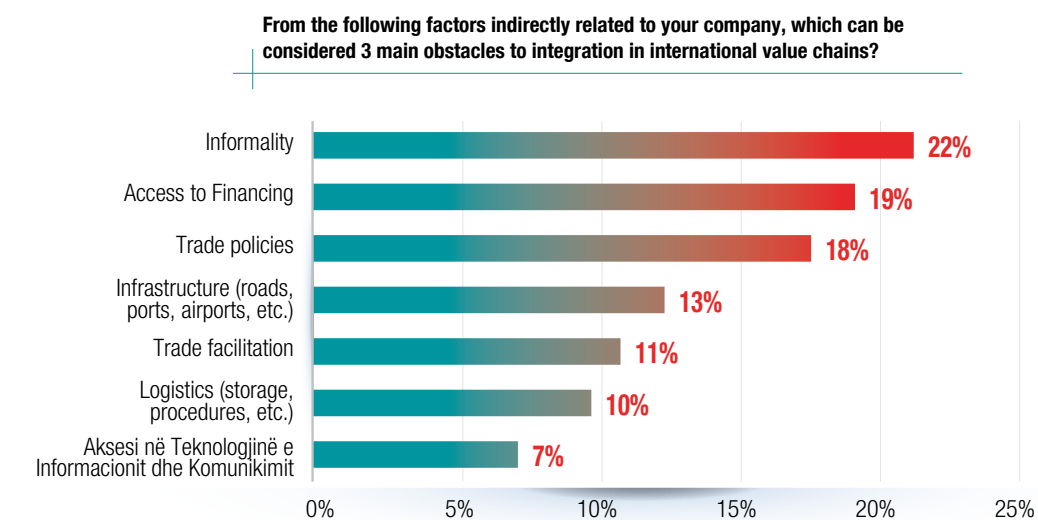
³⁶ BIFIDEX enables searches and reports for legal entities and persons registered in the official registries, regardless of their status (active or deleted). Financial data statistics are from the last available processed financial statements of active legal entities for which financial data are available on BIFIDEX.

³⁷ The EBRD's Legal Transition Team has been working on an assessment on business reorganisation tools in all 38 economies where the EBRD is active. Detailed information and other resources can be accessed in [here](#). Nevertheless, the trade accessibility of countries is driven by more than the geographic distance from their trading partners.

- (5) **Entrepreneurs perceive informality, access to finance and trade policies as the main obstacles to external factors that undermine their efforts for global expansion and integration to global value chains, along with access to external financial resources and the government sustainable trade policy.**

Note: Issues of Informality and Access to finance as concerns for entrepreneurship have been addressed in previous IC meetings. Trade policies, focus of the Trade Committee, were not considered during this analysis.

Figure 7. Indirect (external) obstacles to internationalisation

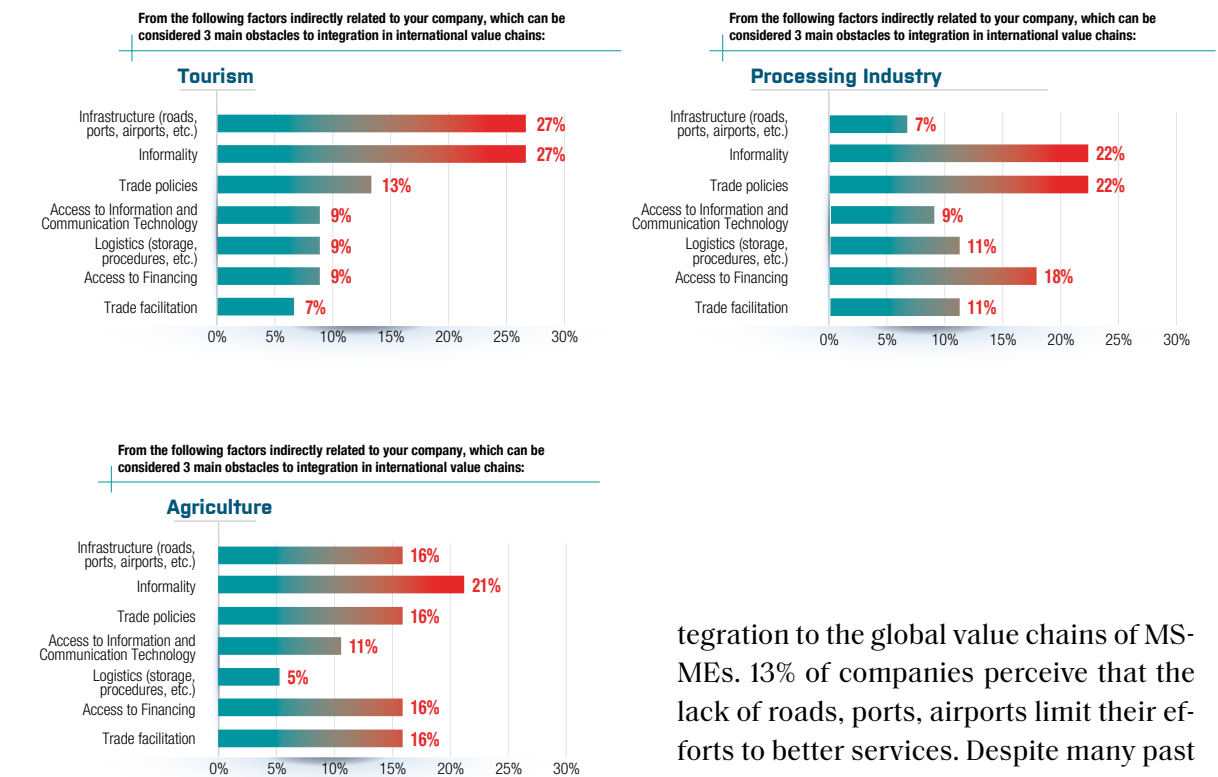


Source: IC Secretariat's Questionnaire

The perception is different in different sectors. In tourism, infrastructure is the main obstacle, which needs attention by the government to ensure proper function of this sector, while for manufacturing, trade policy and informality are perceived at the same level. Agriculture pays attention to informality as their main sector issue. We would like to confirm that even during the consultation with representatives of the tourism sector, issues related to infrastructure were highly prioritised, by emphasizing the

need for an *integrated tourism vision* focused on quality and local value added and not quantity, by respecting nature and culture limits. While the garment sector representatives are looking for upgrading their standards due to supplier requests and increased competition/prices for those that import raw material. More attention could be allocated to the advocacy in the sector of innovative entrepreneurs that have already invested in new standards and modernising their business process.

Figure 8. Indirect (external) obstacles to internationalisation as per sectors



Source: IC Secretariat's Questionnaire

tegration to the global value chains of MS-MEs. 13% of companies perceive that the lack of roads, ports, airports limit their efforts to better services. Despite many past initiatives (local or regional), infrastructure is still considered an issue for trading businesses.

- (6) **Bottlenecks in infrastructure/logistics** – Geography is an important determinant of countries' ability to join GVCs³⁸, and the ability of firms and countries to participate in GVCs is greatly affected by the quality of physical infrastructure, such as roads, ports, and airports, as well as the efficiency of the procedures followed in the operation of those facilities. Reaching the border is still considered a pervasive constraint to the exports and in-

INTERNAL FACTORS

I. Limited Financial Resources

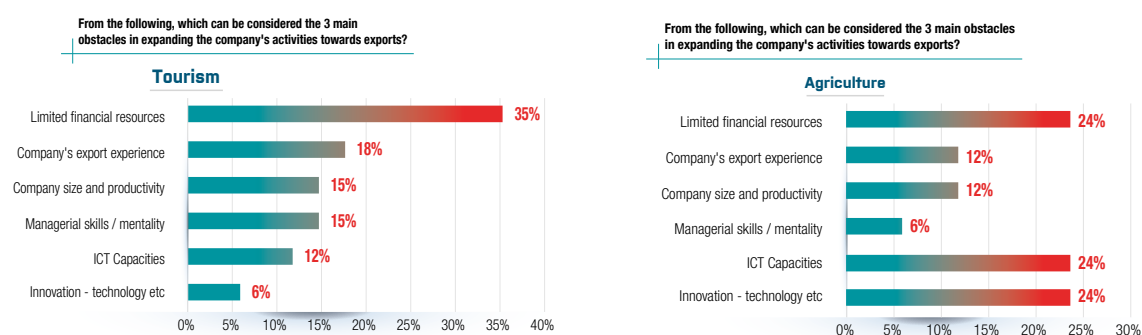
- (1) **Limited financial resources and access to external sources of funding restrain MSME to go international.** Our analyses show that although in favour of internationalisation and integration to the value chain, around 33% of responders perceive limited financial resources as the first obstacle in expanding their companies' activities toward exports.

38 Kowalski et al. 2015; OECD 2012

Figure 9. Main obstacles in export expansion

Source: IC Secretariat's questionnaire

The above finding is persistent across the three sectors analysed through the Secretariat's questionnaire. More specifically, 44% of companies operating in manufacturing and 35% of companies operating in the tourism sector highlighted limited financial resources as the first important obstacle limiting their ability to integrate into the global value chain and export their products. In agriculture, it gets similar importance as ICT and innovation technologies.

Figure 10. Main obstacles in export expansion according to sector

Source: IC Secretariat's questionnaire

According to the textile processing industry representatives, financial resources limit their ability to step into a higher value-added phase of their activity, requiring the latest technology in machinery and raw material. Referring to sector estimations³⁹, companies need around 32 million euros to finance the upgrade to new technologies in machinery and equipment and 15 million euros to finance their working capital. Unfortunately, they claim that commercial banks are too rigid and bureaucratic in lines of credit, so this industry has turned to other financial institutions to borrow money at very high-interest rates⁴⁰.

(2) Various financial supporting programmes through donors are active in Albania; for example, several KFW and EBRD programmes⁴¹ provided in the form of guarantee schemes, risk-sharing tools or technical assistance and implemented in collaboration with the banking sector. To address the asymmetry in information among the MSMEs on these applicable supporting programs that facilitate access to finance, AIDA and EBRD set up a unified informative online platform (aida-smefi-

nance.gov.al). This platform currently contains all existing financing and support schemes for MSMEs, *but from the meetings with business representatives, a more extensive promotion of this platform is needed to reach the MSMEs' community and help them benefit from these programs.*

(3) In terms of supporting grant schemes and IPARD funds, as we have stated in previous materials, a considerable focus during IPARD I and II calls was given to the diversification of farms, especially in technological improvements in fruits and vegetables, meat and dairy subsectors. Meanwhile, during the third call, some attention is noticed **regarding the renewable energy investments such as in photovoltaics installations**, resulting not only in costs reductions but also in the increase of the companies' corporate responsibilities toward environmental protection. A benefit for businesses that include the ESG concept in their business strategy is also a better scoring in terms of lending from banks and in their positive international representation.

Moreover, **during 2020 and 2021, in the national support grant schemes, a new pillar is included relating to GAP certifications**, resulting in better standards and quality for companies' products or services and certainly better chances of integration in the international supply chains.

II. Key obstacles perceived by the business in competing to sell its products in international markets

³⁹ Estimations of "Proekport Albania" Association, December 2020. The "Proekport Albania" association is the unique representative of the clothing and footwear industry of the country. This industry includes 700 large and small factories as active enterprises in the country with more than 70 000 employed people.

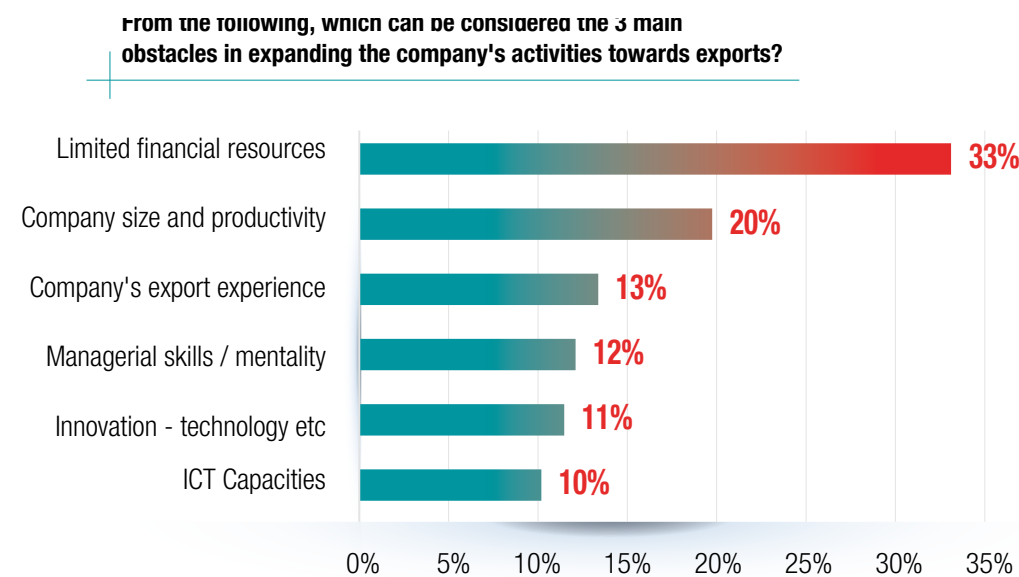
⁴⁰ According to OECD: SMEs' are too small to support the heavy hand-holding approach banks use for corporate finance, and SMEs do not have the Bloomberg screen-ready, third-party rating and other information corporate bankers need to see, nor audited accounts (nor any decent accounts, in many cases). In most emerging markets (and in many OECD markets), SMEs and their entrepreneurs have no credit report, because they have never borrowed from a formal financial institution.

⁴¹ Such as Women in Business, Competitiveness Support program, AASF, ASB, GEF, etc.

- (4) **Companies size and productivity levels limit Albanian MSMEs ability to compete in regional/European or other international markets.** According to the IC

questionnaire, 20% of companies consider that size and productivity level is the second most important obstacle to export expansion.

Figure 11. Main obstacles to export expansion



Source: IC Secretariat's questionnaire

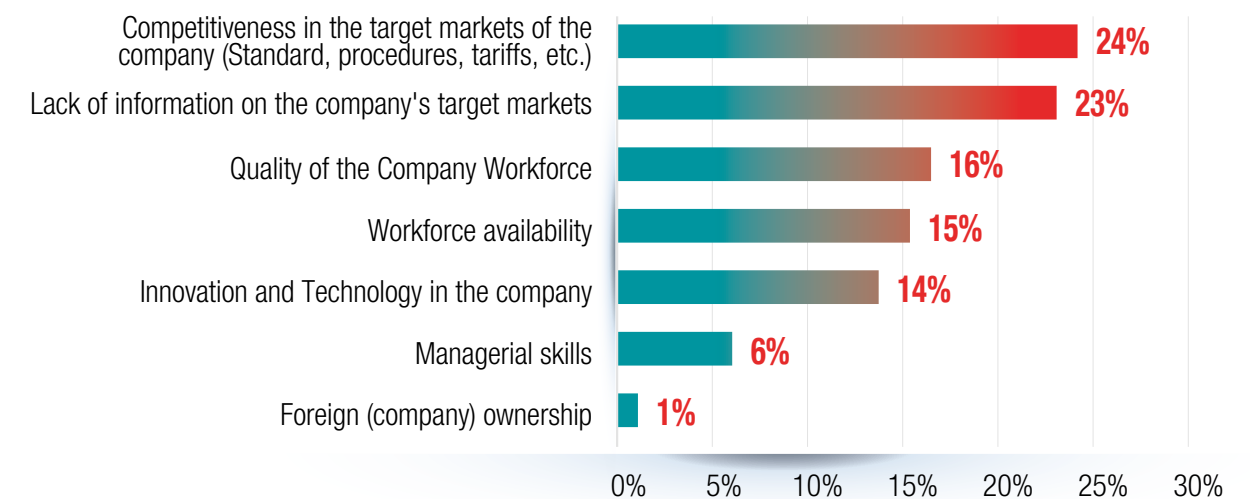
- (5) **Low export experience level is considered a significant barrier limiting most MSMEs' access to global markets and value chains.** 13% of responders emphasize that companies' export experience is the third significant obstacle to entering international markets.
- (6) **Lack of levels of certification and compliance with international standards make Albanian MSMEs less competitive than foreign companies limiting their possibility of integration into global value chains.** This obstacle is more predominant in the processing industry and ag-

riculture. Referring to consultations with textile processing companies, the lack of financial means limits their ability to obtain certifications, and consequently, it is difficult for them to participate in fairs to exhibit their products and gain potential clients. While for the agro sector, we have already provided insights evidenced in the IC Meeting "Investment Promotion in Agro-processing."⁴²

⁴² <https://www.investment.com.al/meeting/meeting-xxii-stimulation-of-investments-in-agro-processing/>

Figure 12. Main obstacles to integration into GVC

From the following factors directly related to your company, which can be considered 3 main obstacles to integration in international value chains?

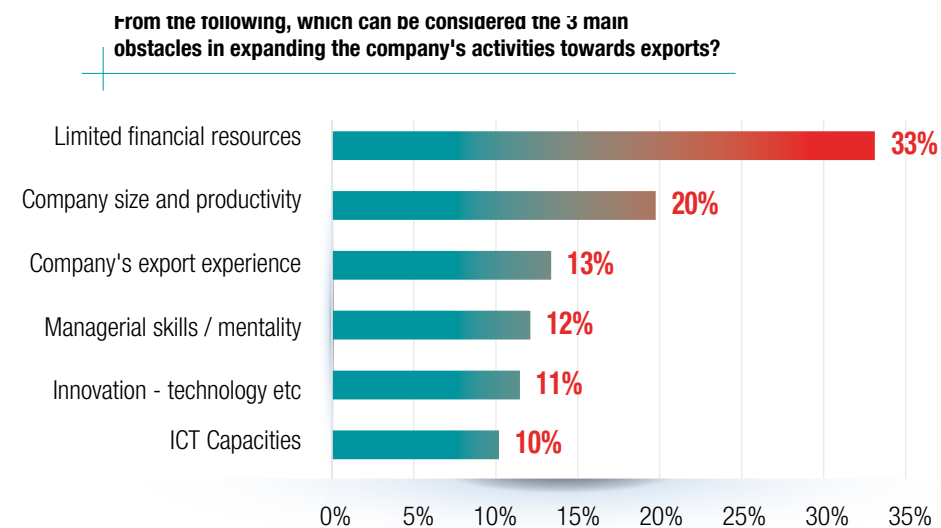


Source: IC Secretariat's questionnaire

- III. **Human Resources and managerial knowledge**
- (7) **Inadequate managerial knowledge is considered a significant barrier to the internationalisation process of micro, small and medium enterprises.** In fact, we notice that only 12%⁴³ of interviewed companies recognised managerial knowledge as a significant barrier/incentive to export expansion,

and only 6% (Figure 13) accepted that managerial knowledge limits integration to the global value chain. Benchmarking with European countries experience in MSMEs internationalisation distinguishes the level of international management experience, foreign language proficiency, the scope of vision, and market knowledge as quite important for the MSME integration in the global value chain.

⁴³ Without prejudice, we can conclude that this result is influenced by the respondent who may be the manager of the company

Figure 13. Main obstacles to export expansion

Source: IC Secretariat's questionnaire

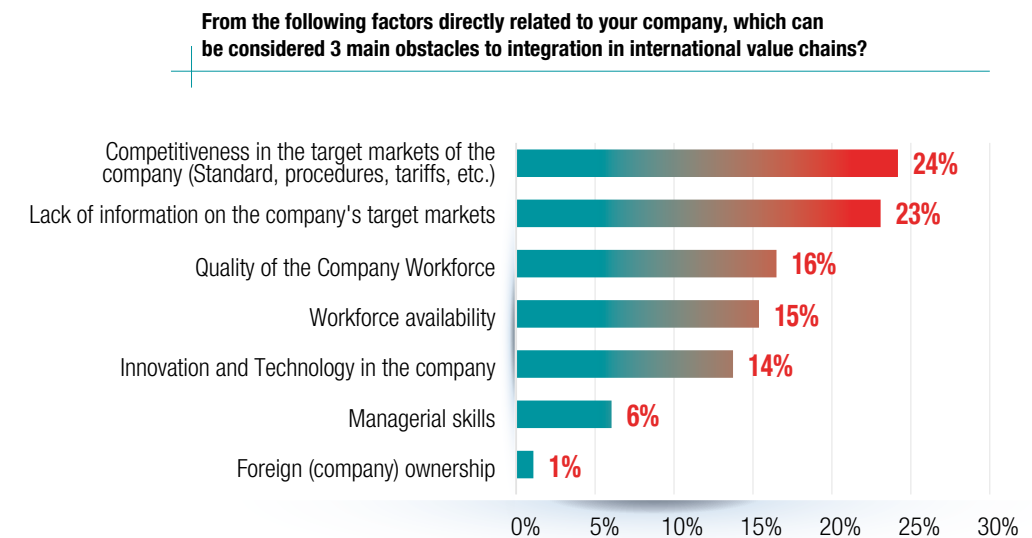
According to the European Competitiveness Report⁴⁴, larger firms are more likely to export and also exhibit better export performance. This is related to the negative dependence of firm size on exporting – and especially micro-enterprises – is argued with lower resource capacities in terms of financing, knowledge, and managerial experience. Also, based on the recent Secretariat's consultation, the challenge remains on how to mitigate better the effect related to the firm's size since, as already mentioned, more than 99% of the registered companies are MSMEs.

(8) **Quality and availability of workforce limit companies' growth and expansion. Not only management factors but the lack of qualified human resources is also regarded as a major barrier.** This could be related to several factors, such as a) in recent years, Albania has been facing workforce emigra-

tion, particularly of specialized staff of various sectors of the economy. b) Although in 2020, there were 82,921⁴⁵ registered jobseekers, companies do not find workers with the appropriate needed skills. Lack of employees is turning into a significant concern for MSMEs. As already mentioned, 38% of interviewed companies expressed their concern related to the workforce (17% recognised workforce quality as the third obstacle to internationalisation, followed by 16% considering workforce availability as the fourth obstacle). More specifically, the tourism sector perceives workforce quality as their main impediment to integration into GVC; manufacturing declares workforce availability more important than quality, while the agriculture sector prioritizes quality over workforce availability.

44 https://ec.europa.eu/growth/content/european-competitiveness-report_en

45 INSTAT 2020 data

Figure 14. Main obstacles to integration into GVC

Source: IC Secretariat's questionnaire

To afford the above, also relaxed by several recent legal adjustments regarding the import of human resources, companies operating in sectors like the textile processing industry and tourism are considering importing workforce from low-income countries to mitigate the lack of availability and quality of workers in Albania. Based on our consultation with the business, this is to be closely monitored as an issue due to the complexity of cultural differences and the working environment by sector.

(9) **Lack of harmonisation between the needs of MSMEs for skilled workers and vocational school's curricula.** During the consultation process, companies were concerned about their inability to find workers and highlighted their needs for qualified workers (for example, according to estimations of textile processing industry association, there are 10,000 vacancies in the sector,

and it is difficult to be fulfilled, although in the country there are 82,921⁴⁶ registered jobseekers). In general, links between MSMEs and schools (secondary and universities) are considered vague (referring to a study done by Albanian Skills with around 200 companies, 50% of these companies didn't recognise vocational schools/their curricula and/or their students) and thus companies face problems during the recruitment process. One of the consulted business stakeholders in the garment sector, already exporting to the UK, confirmed that it is planning a turnover increase by 50% in late 2022 but cannot afford the gap in labour skills while emphasising recent efforts undertaken by different actors in regard.

46 46,420 with primary education, 29,803 with secondary education and 6,698 with university education) – INSTAT 2020 data

(10) *The workforce's training and upskilling are essential for developing MSMEs, but generally, companies do not have a dedicated fund for that*⁴⁷. From the consultation process, we understood that companies do train their employees in technical skills, but what is missing is training in soft skills, work ethics and discipline.

IV. Innovation and Technology

(11) *MSMEs in Albania do not consider innovation and technology as three main obstacles to their internationalisation process.*

In fact, the literature suggests that this is an essential determinant of national economic competitiveness and “propose an economic development model that sees countries move from being factor-driven to investment-driven to innovation-driven⁴⁸. Also, productivity and technology enhancements are viewed

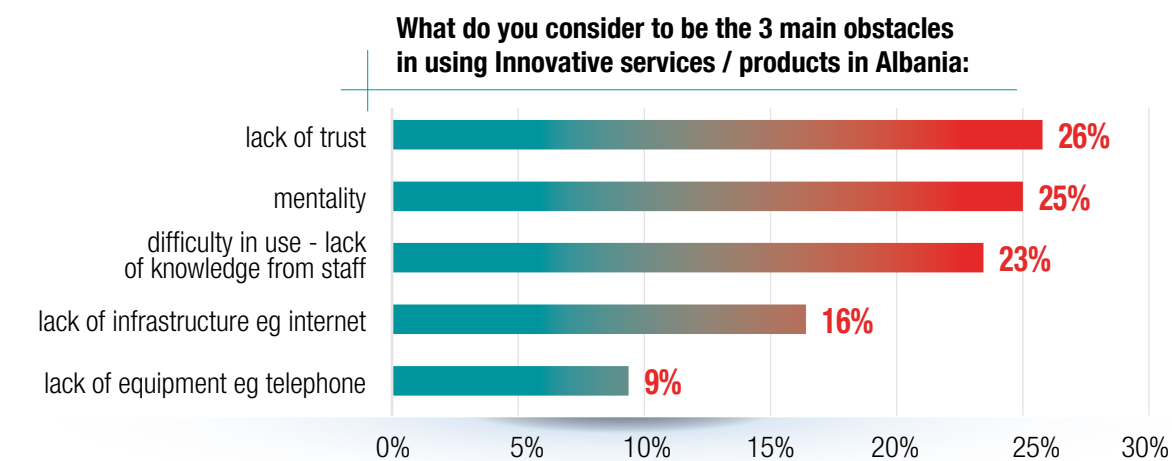
as key drivers of successful integration with the production networks of multinational corporations. Small and medium-sized enterprises are considered to perform better when they are allied with other SMEs or with large enterprises, including multinational corporations⁴⁹. Although very limited, we note later some government intervention incentives in regard to the support focusing on technology in specific creative (agro, renewable energy, waste, etc.) sectors. Also, during the previous Secretariat's survey, companies have declared to pay great attention to the introduction of innovation in their activities, especially after the Covid-19 pandemic, mainly in new technologies and risk management. *However, mentality, lack of trust and lack of knowledge are still considered the main obstacles in using innovation and more focus is needed in this direction.*

47 IC survey, Meeting XXIII, Innovation in Entrepreneurship

48 Lopez-Claros, 2009[3]; Porter, 2003.

49 ASEAN, 2015

Figure 15. Main obstacles in using innovation



Source: IC Secretariat's questionnaire (IC Meeting XXIII "Innovation in Entrepreneurship", March 2021)

(12) *Albanian MSMEs are not fully benefiting from the digital transformation processes that can boost the development of new and trustworthy technologies, thus speeding up the SMEs integration in international value chains.* According to the study “Support for the digitalisation of SMEs in Albania to mitigate the negative economic impact of COVID-19”, some interesting facts arise from the analysis of the surveyed companies:

» *Considering the basis of digitalization, internet connection, Albanian SMEs are performing at a satisfactory level.* Survey results show that almost all SMEs are connected to the internet, and around 94% of them provide computers to their employees for business purposes. However, *Albania ranks the last in terms of usage of the computer and internet from the employees*⁵⁰.

» Enterprises are performing quite well in terms of selling online across borders as well as in terms of the adoption of social media in the promotion of their products and services. Compared to e-commerce adoption⁵¹, in the case of *e-commerce turnover, for Albanian enterprises, there is still progress to be done in terms of scaling it to the total sales.* Although Albania has some good models

of e-commerce marketplaces, still enterprises, and mostly those at smaller levels, tend to keep the spontaneous and less sustainable online selling through social media⁵², *not benefiting from the advantages to being part of an e-commerce marketplace, such as low costs, established business model, better customer outreach, better apprehension of demand.*

» However, *in terms of business digitalization, low levels are assessed regarding the adoption of electronic information sharing software's, using data to adapt to consumer demands and the low adoption of cloud computing services.* Although there is a general interest in the importance of having an e-mail account, company websites, cloud computing services, finance or accounting software applications or Customer Relationship Management (CRM) application, mostly the large companies are the ones benefitting from them, while MSMEs still need to catch up.

Based on the above, we would conclude that concerted efforts would be allocated to the advocacy on changing mentality to the MSME management capacity focusing more on building new knowledge and trust to innovation at the firm level supported by other external instruments such as specialisation targeting strategy.

50 Although 94% of SMEs provide computers to their employees for business purposes (at least one), 28% of total employment uses a computer with internet access – having the lowest percentage in Europe and region.

51 About 18% of them Albanian SMEs sell online. When considering the cash in hand deliveries – direct online sales through social media, this figure increases to 23% (considering only SMEs). (Study “Support for the digitalisation of SMEs in Albania to mitigate the negative economic impact of COVID-19, March 2021, IDRA Research & Consulting (contracted by EBRD)

52 Only 4% of MSME sell through an E-commerce marketplace – (Study “Support for the digitalisation of SMEs in Albania to mitigate the negative economic impact of COVID-19, March 2021, IDRA Research & Consulting (contracted by EBRD)

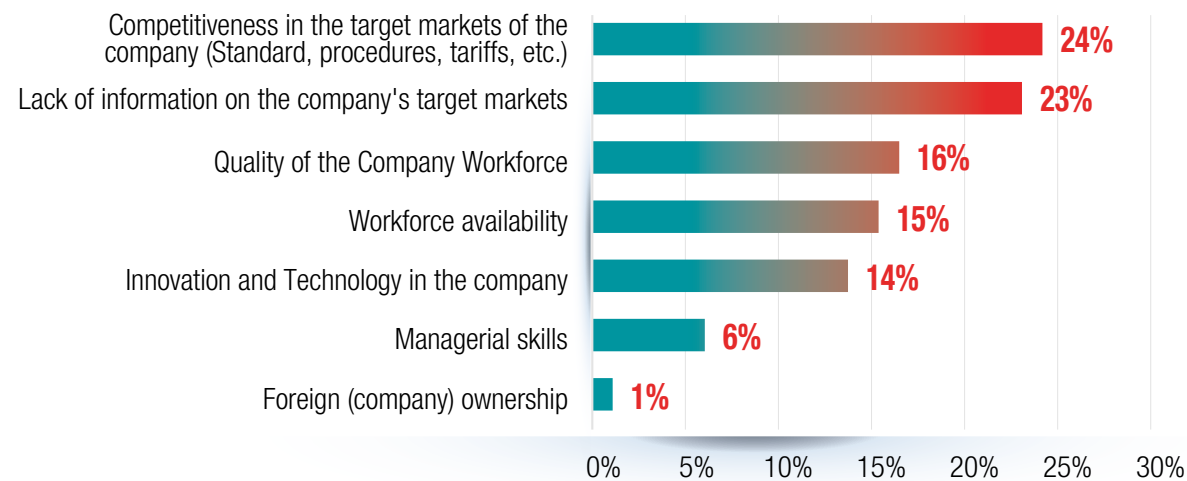
V. Market Intelligence

- (13) ***Lack of information on targeted markets is considered the second major obstacle to integrating micro, small***

and medium enterprises into global value chains and export expansion, most dominant in the manufacturing and agriculture sectors.

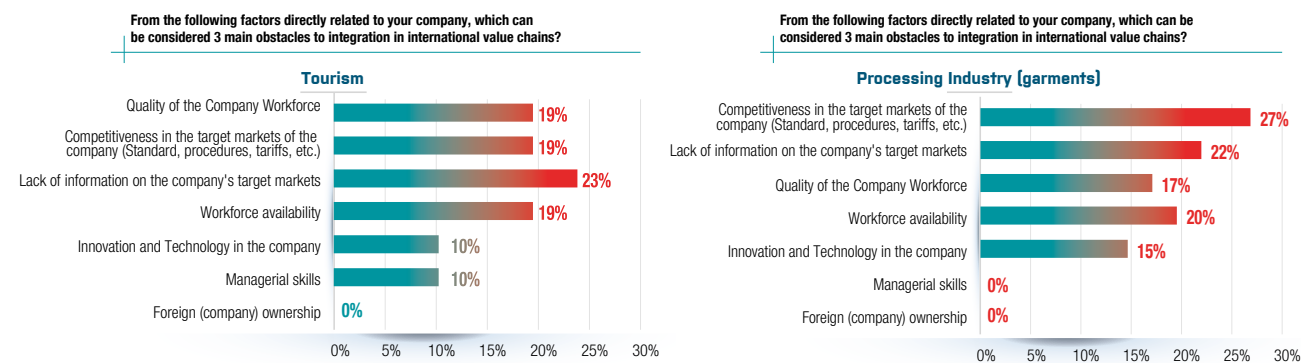
Figure 16. Main obstacles to integration into GVC

From the following factors directly related to your company, which can be considered 3 main obstacles to integration in international value chains?



Source: IC Secretariat's questionnaire

Figure 17. Main obstacles to integration into GVC- Sector level

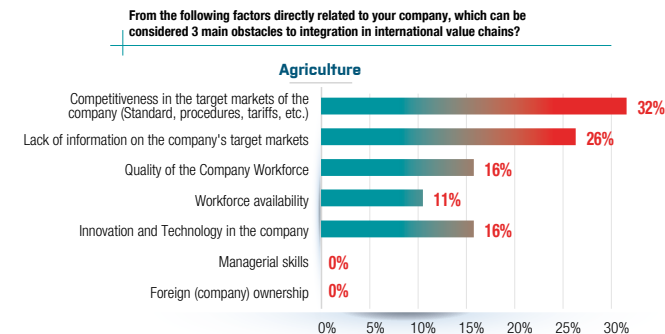


companies as another obstacle to getting recognised into international value chains. In addition, lack of well-defined business plans and dedicated functions within the corporate to build company strategy into GVC participation.

VI. OTHER

- (15) ***MSMEs are in favour of internationalisation⁵³, and to be successful, they prioritise government support mainly in the regulatory area, external environment and capacity building. Mentoring and training, which include technical support (e.g. quality standards or loss reduction, risk management, market research, ICT usage), is where MSMEs have less knowledge and need the most support.***

As already mentioned, internationalisation relates to entry barriers, meaning delivering a standardised product/service at a competitive price on agreed time. Competitiveness depends not only on complying with specific standards product/process related to quality, safety, environment, preservation, respect for labour but also on unfavourable/favourable business environment – rules, but also regulation, red tape/corruption, political stability, and insufficient business development services.

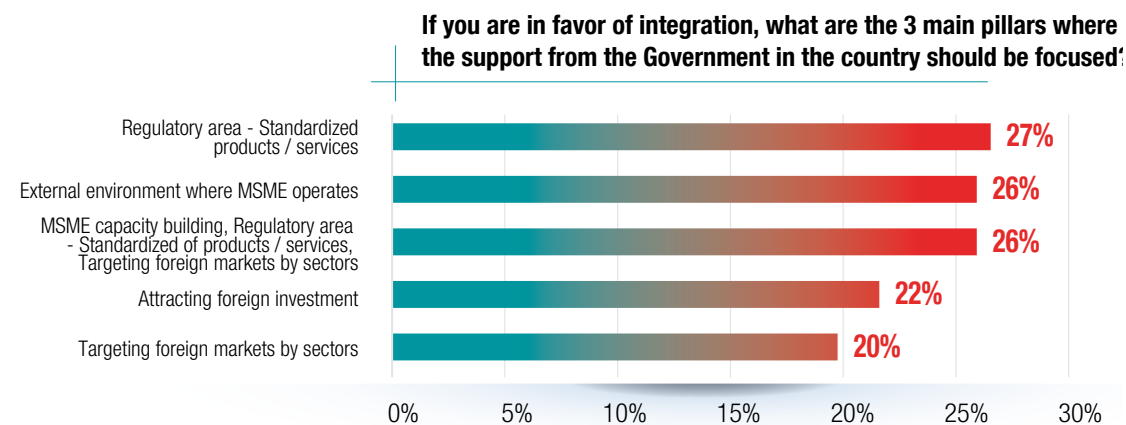


Source: IC Secretariat's questionnaire

- (14) ***Lack of marketing role in MSME defines the absence of established relationships between potential customers in foreign markets and companies' products/services. During our consultation with manufacturing MSMEs, well-positioned in export – it was reaffirmed that established relationship with the foreign suppliers obliged for certification with the relevant standards, which in turn helped to enlarge its market.*** Obviously, apart from this, the country's promotion as a centralised service by an official institution is required to ensure adequate marketing of Albanian products and services. Low participation level in international trade fairs/exhibitions is also mentioned by exporting

⁵³ 79% of responded companies are positive towards internationalisation, AIC survey October 2021

Figure 18. Support to MSMEs



Source: IC Secretariat's questionnaire

According to our consultation, the business acknowledges the cost, but it still favours the support through the adoption of world standards and credible certification (e.g. Global Gap group certification option provided by RISI Albania, far cheaper when compared to individual farmer), etc. In this direction, the business claims more government support and advocacy for local entrepreneurs that keep quality and brand and promote responsible business conduct.

We also would like to mention the progress related to the reimbursement of VAT during 2019-2020, confirmed during the consultation with business, especially from RPA exporters. As of January 2021, small businesses with turnover below ALL 14 million will not pay profit tax, while the threshold for VAT purposes is ALL 10 million. This is also followed by relevant sector fiscal incentives such example in Agro - exemption of agricultural inputs from value-added tax (fiscal package 2019, Exemption from VAT of import-

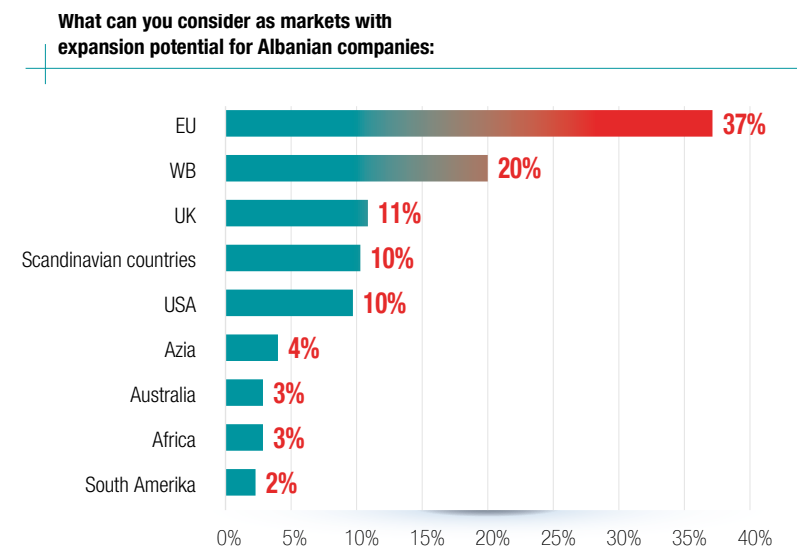
ed machinery & equipment used for investment in agro-processing, exemption of fuel for agricultural machinery operations from all taxes (starting from 2021), partial reduction of VAT for agriculture product purchased to farmers (fiscal package in 2019, refund VAT level for farmers from 6% from 20%).

(16) **Companies perceive that MSMEs are mostly indirect exporters⁵⁴ and regional exporters. EU and Western Balkan countries are considered potential markets for expansion.** The covid-19 pandemic has enhanced nearshoring, and MSMEs believe it is the right moment for Albania to exploit the opportunity supported as well in the latest international reports⁵⁵.

⁵⁴ Indirect exporting is the process of selling products to an intermediary, who will then sell your products directly to customers or importing wholesalers.

⁵⁵ <https://wiiw.ac.at/getting-stronger-after-covid-19-nearshoring-potential-in-the-western-balkans-dlp-5814.pdf>

Figure 19. Potential markets for expansion



Source: IC Secretariat's questionnaire

2. SECTORIAL CONTEXT WHERE MSMEs OPERATES. CHALLENGES AND OPPORTUNITIES⁵⁶.

BOX 1 SECTOR TOURISM⁵⁷/AGRITOURISM

Challenges

(1) High informality in the sector

- As measured through tax declaration and tax administration self-assessment, the level of informality in the tourism sector is estimated to be 40% (GDT, 2018). The informality in the sector consists of under-reporting economic activity to evade tax payment, undeclared

⁵⁶ Without prejudice to the action taken so far to address the systemic issues.

⁵⁷ Meeting XIV "On Formalization of Tourism"

employees, declare of lower wages, economic transactions without issuing invoice (coupon), and unregistered economic units.

- Business perception on the forms of informality faced show some peculiarities if looked through touristic destination and business size. Coastal touristic destinations report tax evasion and informal employment as the main forms of informality in the tourism sector in their localities. Cultural and historical destinations such as Korça, Gjirokastra and Berat confirm as a major concern competition from unregistered guesthouses or family businesses which pressure the price competitions reducing the average pricing of touristic services in those areas.

- Businesses call for diversified fiscal interventions to support formalization in compliance with business model and destination. Businesses ask for coherence among fiscal stance and the public investment agenda. Public investments that capitalize on large international investments such as TAP Pipeline and enable local businesses' access to alternative energy sources were required by business representatives (Korça) to support their tourism sector to gain cost efficiency. The need for public investments in the promotion of destinations, roads, clean environment, green and sustainable alternative energy was posed in all consultation with business representatives.

(2) Low quality and number of human resources to support the development of tourism services

- Businesses during consultations pointed out the difficulty in hiring well-trained staff. Quoting a business representative in Gjirokastra "...We have tourists, but we cannot find waiters". Demographic changes and migration have strongly impacted some regions, posing constraints on the availability of qualified staff. In some regions, lack of professional schools or training programs was identified as the main concern regarding the quality of human resources (e.g. in Gjirokastra). In the Korça region, businesses identified rigid cooperation between the sector and education institutions such as universities or VET schools. The difficulty of

attracting interns from abroad to work during the season was also mentioned as a barrier to fulfilling the need for English-speaking staff or tour guides.

(3) Access to finance for the sector was also considered a barrier to new investments

- The perception contradicts the availability of credit in the second-tier banking system. For some time now, banks have tightened the conditions for crediting to reduce the risk; however, the system is very liquid, and there are available funds. Ownership of land, viable business plans and informality in declaring financial indicators (profit and cash flows) are the main reasons for the constraint to access financial resources.

(4) Low prevalence of transactions with debit/credit cards in tourist areas, as an element of low sophistication of services and the grey economy

- The predominance of cash transactions does not only enable a more grey economy, but it constitutes a competitive disadvantage for Albania, particularly with regard to attracting more independent foreign tourists.

(5) High margins of improvement of municipal services towards the tourism industry

- A stronger link should be established between what operators in the tourism sector pay, especially in regards to local taxation, and what they receive in terms of local municipal services, such as efficient waste and environmental management, which is a key

factor in attracting and retaining higher spending foreign visitors in the country.

OPPORTUNITIES

(1) The contribution of travel and tourism to GDP reached 20.5% in 2019, with a decrease during 2020 reaching 10.6% due to the strong pandemic effect of Covid-19. 21.3% of total employment is devoted to travel and tourism (with a decline during the 2020 pandemic year reaching only 17.5% of total employment. 77% of total spending in this sector comes from international spending, and around 78% of spending is for leisure. Tourism and hospitality provide for a diversified employment opportunity and growth of MSMEs towards sustainable economic activities.

(2) Expected investments in infrastructure and connectivity shall increase to attract more tourists, but this should be seen as an opportunity for the sophistication of the offer and, rather than attracting more tourists, to attract higher-spending visitors from sustainable markets.

(3) Combination of sea tourism with the continental destinations in agritourism to distribute the financial impact from tourism in urban and rural areas and promote cultural heritage values to sophisticate the tourism offer and increase its value.

MEASURES OF SUPPORT

A. Incentives in tourism

- VAT reduction for accommodation structures from 20% to 6%. A reduced rate of value-added tax applies to the provision of accommodation services in ac-

commodation structures, according to the categories set out in legislation in the field of tourism, which is 6 per cent applicable as of June 2017.

- VAT 6% applied for any services supplied within the accommodation structures classified as 5* hotel/resort, special status" into force as of January 2018.

- Exemption from corporate tax for a 10-year period, for accommodations structures, "4* and 5* hotel/resort, special status", which reach to receive special status until December 2024. According to this provision, the effects of this exemption begin when the accommodation structure starts the economic activity, but no later than 3 years from receiving the special status.

- "Exemption from the building tax for accommodations structures, "4* and 5* hotel/resort, special status" as per the Law "On Tourism" provisions and are the bearer of a trademark internationally known as a brand name. Into force as of April 2018.

- Exemption from tax on the impact on infrastructure for accommodations structures, "4* and 5* hotel/resort, special status" as per the provisions of the law "On Tourism" and which are the bearer of a trademark internationally known as brand name into force as of January 2018.

- Exception from VAT of supply of fuel/ and imports of yachts other naval vessels into force as of July 2020.

B. Incentives in agritourism

- VAT reduction for accommodations structures certified as "agro-tourism entities" from 20% to 6%. The reduced VAT

shall be applicable as of 1 January 2019 for accommodation and restaurant (excluding drink) structures certified according to the criteria of the CoM No.22 date 22.01.2018. One of the main criteria for “agro-tourism entities” is that they should have a capacity from 6-30 accommodation rooms.

- *Corporate income tax to be reduced from 15% to 5%. This change will take place as of 1 January 2019 for taxpayers certified “agro-tourism entities”*
- *Exemption from tax on impact on infrastructure for “agro-tourism entities” which shall perform investments in their scope. This measure enters into force as of 1 January 2019.*

BOX 2 SECTOR AGRICULTURE/AGRO-PROCESSING⁵⁸

CHALLENGES

- (1) *The persisting issue of agricultural land parcelling - a problem for sustainable investments and high productivity*
 - According to INSTAT, in 2014, compared with the previous year, an increase of 0.4% in the number of farms was noted, followed by the decline of average farm size by 0.6%. Agricultural land in which a farming family oper-

ates in Albania is currently limited to an average of 1.16 ha. The size and its fragmentation into several parcels (average 3-4) for any agricultural economy impedes the rise of economies significantly to the level of competitiveness in regional and European markets.

(2) *Lack of land ownership titles and dynamics of local government reform*

- The shortcomings in the official registration of agricultural land and lack of property titles (land deeds) are one of the issues that effects informality, the establishment of the land market, the lack of investment and the application of the current support schemes and those expected to be realised through EU/IPARD and ARDA program. Farmers report difficulties acquiring the title deeds as there are many inaccuracies among the cadastral maps and the actual division and land use situation.

(3) *Unclear statistics on the farmer's register and the agricultural activity in the country*

- The meetings with public institutions and agricultural experts highlight the lack of comprehensive and unified data associated with agriculture. INSTAT data show MARDWA administrative data, whereas the results of statistical surveys in the field are not published yet. Also, the meetings of the ICS have highlighted that there is still no consolidated register of farms that would correspond to farmer's card or NUIS that monitors farmer economic and/or production activity, the surface area of

OPPORTUNITIES

(1) *The agriculture sector is of crucial importance with regard to socio-economic development in Albania.*

- On average, it contributes about 18% of the country's GDP and accounts for 40% of the overall employment.

(1) *Agribusiness exports have significantly increased in recent years, mainly by fresh vegetables and MAPs. The overall production value of the agro-processing sub-sector has increased in the recent five years by about 8.4% cumulative (2019/2015), reaching up to ALL 70,031 million in 2019.*

- The vegetables, fruits and MAPs value chains could be considered the most important subsectors of Albania's agriculture. The three value chains have grown considerably in the last years, both in terms of areas covered with these crops as well total production. The high export demand, favourable climatic conditions for the production of primary products, accompanied by different support schemes from the Albanian government, IPARD and other donor agencies, have played an important role in stimulating the expansion of these sub-sectors.

(2) *Agro-processing was the less impacted sector from the Covid-19 crisis while it numbers consecutive increase of exports.*

(3) *Vegetable exports are mainly based on collectors/consolidators; however, such markets are still volatile and unsystematic for various reasons such as the timing and volume of sales, quality of products, uniformity of weight, packaging size, pack-*

used land, putting thus in question the data related to the sector.

(4) *Low quality of agricultural inputs hampers the competitiveness of made in Albania products and food security*

- The formalization of the agricultural sector carried out in the whole chain of stakeholders involved, including input providers, producers, collectors, processors, traders, etc., brings about also the premises for the enhancement of the quality and standards by enabling them to create traceability of the production.

A large majority of Albanian agro-processing companies are micro and small businesses, are engaged in a complex set of activities and have modest technologies.

(5) *The agribusiness sector, in general, is one of the sectors that suffer the most from informality, creating an important challenge for companies to increase procurement of local products.*

(6) *The competitiveness of agro-processing is also damaged as a result of high packaging costs (i.e. glass packaging, which is an imported taxed product), making packed processed products less competitive both in the domestic and international markets, and the unfair implementation of the VAT Compensation scheme which creates a gap between the VAT in buying and VAT in selling, especially for collectors of fruits and vegetables who have invested significantly in the warehouses and transport biot in national and regional level.*

⁵⁸ Meeting VI “For Formalization of Agriculture”, Meeting XXI “On Economic Recovery Post Covid-19”, Meeting XXII “Stimulation of Investments in Agroprocessing”

aging material, its model, traceability, certification, preservation and keeping them fresh. However, export is regarded as a driving force for production, for a better price, fulfilment of the social aspects (employment), and the formalisation of agricultural economies. This segment operates through auto invoicing with the producer and accompanies the sold merchandise with a tax invoice which is also subject to verification by Albanian customs.

(4) More attention to the processing of organic waste of agriculture and livestock for the potentials that carry for the waste processing industry and the closure of the cycle.

(5) Preparation within the deadlines of bylaws related to the implementation of law no. 8/2019 *"On Quality Schemes of Agricultural and Food Products"*

MEASURES OF SUPPORT

(1) *Exempted VAT for agricultural inputs and machinery*

- This incentive part of fiscal package 2019 was implemented via amendment of Law 92/2015 "On VAT", provided that supply of agricultural machinery and supply of agricultural inputs such as chemical fertilizers, pesticides, seeds and seedlings, except hormones, listed and defined via CoM Decisions are exempted from VAT. Lately, the GoA has defined the scheme as non-effective and a failure.

(2) *Reduction of the VAT rate to farmers registered with VAT from 20% to 6%.*

- Such reduction created a lot of complaints and discussions, mainly from the collectors, which evidently benefited more from the implementation of a 20% VAT compensation rate.

(3) *Removal of the excise, carbon and road tax from the final fuel price needed to farmers to cultivate the farm land with effect as of January 2021.*

(4) *National ARDA and IPARD schemes with grants in several supporting measures.*

BOX 3 SECTOR BPO⁵⁹

CHALLENGES

(1) *"Advanced skills" are critical elements for the sector's performance, while there is a gap in the quality of the curricula at certain levels of education.*

(2) *BPO sector lacks statistics which could lead to a thorough and deeper analysis.*

(3) *There is a lack of a systematic analysis of the current and future needs of the business (sector) about the "skills" and the necessity for a vision that establishes sustainable cooperation between the business and the state.*

(4) *Frequent employee turnover, high training costs for the BPO sector (e.g. social insurance during training period). Initial training is done mainly by the businesses;*

59 Meeting IX "Labour Skills in the BPO Sector"

BOX 4 SECTOR INNOVATION AND E-COMMERCE⁶⁰

CHALLENGES

(1) *Albanian companies and the entrepreneurship ecosystem should target the production of "made in Albania" innovation. Despite the notable progress in business initiatives to introduce new products, technologies (e.g., robotics in marble, EU technological lines in production, etc.), and services related to innovation in the Albanian market, Albania is still considered at the level of "software houses".*

(2) *Companies consider the role of academia in the business innovation ecosystem as a last source. Specifically, only 6.3% of the companies considered them as a very important source in their innovative activities. We also noted that 63.4% of companies declared that cooperation with academia is much needed and necessary in providing information on new development activities.*

(3) *Mentality, lack of trust and knowledge and limited availability of funds are perceived as main business obstacles in using/producing innovation.*

(4) *The use of new technologies and innovative solutions by enterprises is low, and the allocation of R&D funds is spontaneous, with most SMEs non allocating any budget. Almost all interviewed companies consider innovation as a driver in increasing their market value and economic activity.*

60 Meeting XXIII "Innovation in Entrepreneurship"

therefore, the business has little interest in continuous training.

(5) *Employment Offices and Centres for Vocational Training do not meet the sector's needs. Workforce registered in Employment Offices is very unqualified. The companies themselves make the recruitment.*

(6) *Lack of talent pool scalability.*

(7) *BPO sector is largely fragmented and comprises of small enterprises.*

(8) *Lack of BPO sector-specific support.*

(9) *Lack of unified outreach to the buyer and the investor community globally.*

OPPORTUNITIES

(1) *Improved standard of living for people who are part of the BPO sector owing to better and competitive wages offered by the sector vis-à-vis other sectors.*

(2) *Reduced unemployment due to the number of new direct and indirect jobs that are created as a result of the industry. It is estimated that for every new job created in the BPO sector, the number of indirect jobs that are created is 2.5.*

(3) *Development of the BPO sector also has a snowball effect on other sectors, i.e., it creates strong forward and backward linkages with other sectors of the economy. This translates to greater demand for other sectors, leading to overall growth and development of the economy.*

(4) *Increase in the demand and quantum of skilled labour available in the market. Retention of talent or skilled labour, leading to higher value addition to the national economy.*

ties (80.6%), and 72.6% of them declare to pay great attention to innovation in their activity. Despite these declarations, when asked about Research and Development activities, only 52% of companies state that they have undergone an R&D development with an occasional budget. Only 15% of companies have a dedicated R&D fund, while 75% allocate funds occasionally.

(5) *More investments should be made in internal governance, research and development structures, and a must should be the establishment of a dedicated department or individual responsible for Supply Chain Management (SCM) and New Product Development (NPD) activities.* The proposed unit or individual will coordinate the interaction between the company, suppliers and customers. It also coordinates various specialists inside the company, integrates with different external parties to find out the best way of collaboration and deliver the highest performance to customers.

(6) *Most companies confirm that they do not have a dedicated fund for training their employees, and there is a gap between students' supply and companies' demand for workforce.* 55% of companies declare not to have a dedicated fund for training their employees, while 7% declare to commit funds occasionally. It is also worth mentioning that there is a confirmation of the willingness of the workforce to learn new things. For example, 68% of the respondents' companies state that their employees' willingness to acquire new skills is very

high. 74% of companies conduct assessments on their workers' skills and training needs, but only 14% use out of company training. The reorganisation is the most common action taken to address the shortage of skills of existing staff (27%).

(7) *Low absorption level of available innovation funds.* In the Albania Progress Report 2020, the European Commission states that "As regards EU framework programmes, Albania participates in Horizon 2020 as an associated country. Its participation in Horizon 2020 has improved and shows a good trend for 2019; nonetheless, its performance continues to be low. The success rate of proposals with Albanian participation is 8.1 % (up from 7.8 % since last year) compared to the 15.6% Horizon 2020 success rate. Private sector participation in the programme continues to remain particularly low."

(8) *Limited business awareness on available funds to finance innovation. Although many initiatives are running in the country, Albania remains weak in terms of absorption capacities.* The business claim that this could be related to a missing coherent approach related to the awareness/promotion of funds available to innovation, lack of national innovation fund, the complexity of instruments such as business angels, venture capital, difficulties in documents complying with COSME, lack of professional to write good project fishes. The above is also highlighted through our survey data showing that companies generally lack information on available funds financing innovation.

(9) The Digital or internet economy remains an unexplored market, with weak connections with "Made in Albania" products and low user incentives. It is due to limited payment services and non-user-friendly platforms created by e-commerce operators and banks. Some companies claim that potentials are limited due to the banks' passive interest in cooperating with them on establishing platforms relevant to e-commerce activities. This is due to:

- (a) the lack of trust on the proposed e-commerce platform of interaction with customers as related to the security of data, or
- (b) the lack of commercial interest in the proposed business model from e-commerce operators.

(10) *From meetings with e-commerce businesses, they reported that 95% of the products and content trade with their platforms in Albania were third-party products.* According to them, this is related to the lack of sophistication of "Made in Albania" products, quality certification and low marketing skills of the producers. To this end, according to them, Albanian products (with few segment market exceptions) are little competitive in the foreign markets. Additionally, low quantities and scepticism of producers on e-commerce as a means of trade to expand to foreign markets has not been of help in creating a business model for sharing the costs and profits between producers and e-commerce operators. *According to businesses operating in the e-commerce segment, there is a lack of*

awareness of e-commerce potentials and difficulty from public agencies in understanding their business model of operations. Some issues raised are related to the frequent fiscal visits/tax inspections and perception of their model as risky from Tax Risk System, non-deductible expenses (e.g. purchase of downloaded software from foreign companies). Additionally, it is accepted that the sector has had an informal development considering that it is based on a cash on delivery (COD) business model and non-formal service payments in many cases. As in the case of BPOs, the e-commerce economy is not listed or identified either in the country's statistics for its number of operators and its real impact on the economy.

OPPORTUNITIES

- (1) *At the strategic level, the Albanian Government's commitment to digitalization and innovation is already evidenced across several strategic initiatives and policy documents (regional, national, or as part of the compliance with EU approximation process, OECD, etc.⁵*
- (2) *Albania⁶ is still the regional leader for the operational environment of SMEs, thanks to the steps taken in business registration and licensing, as well as the delivery of public services. This policy dimension represents Albania's strongest performance.*
- (3) *Our Covid-19 Survey (April 2020) showed that companies became more aware of the potential opportunities offered by online services and the importance of using innovative business ideas, especially for business*

continuity measures. Around 75% of companies declared to have used online services, and 81% stated that they would continue to re-use them in the future. Furthermore, when asked about their future plans on innovation, 38% of the companies were positive in changing their investment plans toward online services.

MEASURES OF SUPPORT

(1) Under the 2017 Fiscal Package, it was provided a reduction of the corporate tax of legal entities operating in “software production” from 15% to 5%. This incentive was designed in the frame of sectorial fiscal incentives as an instrument to support and maintain intellectual capacities within the country as a key factor for technological and economic development. Although quite appreciated by the business, still there is no official publication of the impact of such fiscal stimulus on the growth of the ICT sector.

(2) Law no. 9789/2007 ‘On the Establishment and Functioning of Economic Zones’ was amended by Law no. 54/2015 ‘On the Creation and Functioning of Technology and Economic Development Areas-TEDA’, provides for specific fiscal incentives for the economic activity of new industries, innovative technologies, information technologies, industries that meet international standards of pollution elimination, efficient industries on energy use as well as high productivity industries, in relation to employees.

(3) Order No.1 dated 10.01.2017 of the Prime Minister for Approval of the Action Plan 2017 - 2021 “Support For the Development of Innovative Policies based in the “TRIPLE HELIX” Model”. The action plan provided for 12 activ-

ities and a large set of concrete measures to tackle several issues of the ecosystem in the frame of a dedicated working group.

(4) Law No.162/2020 “On Public Procurement” recently approved, supports the partnership for innovation concept. Pre-Commercial/Innovation Procurement mechanisms that enable the public sector to purchase research and development (R&D) services for practical and/or sectoral problems are used as means to foster innovation at the EU level. This instrument enables the commissioning of R&D services under a staged competitive process to allow the development of innovative solutions that meet the needs of a Contracting Authority.

BOX 5 SECTOR – GARMENT MANUFACTURING

CHALLENGES

- (1) The sector has reached its saturation point, and its time to jump in total production
- (2) Old technologies and equipment
- (3) Appreciation of ALL against Euro is increasing costs
- (4) Packing costs
- (5) Waste management
- (6) Tax on profit is high compared to the region
- (7) Competitiveness of made in Albania
- (8) Cost analysis of transport
- (9) Cost analysis of energy- despite our efforts, we couldn't evidence a figure re-

lated to the % of the energy of MSME cost production. Production Business representatives enquired more about the stability of the energy supplied. Experts' advice on opportunities related to the using of alternative smart approaches of energy resources such as steam and high temperature hot water boilers, compressed air in industry, industrial refrigeration's plants etc.

- (10) Cost analysis of implementing ISOs and environmental standards

OPPORTUNITIES

- (1) ⁷The garment industry includes 700 small and large factories as active enterprises in the country. During 2019, this industry provided about 40 per cent of the country's exports worth over 800

million euros and employed 70 thousand people, constituting the country's first largest private sector of employers.

- (2) Skills to produce “Made in Albania” to meet every need and model, from underwear, fashion, workwear and all types of work and fashion shoes. 86.4% of companies feel ready to enter total production, according to a survey conducted by ProEksport.
- (3) Experience in different global markets Italy, Germany, France, Belgium, USA, Netherlands.
- (4) After COVID19, onshoring is a huge opportunity to be explored by manufacturing.
- (5) Tradition in textile processing, with potential in revitalizing the livestock sector.

RECOMMENDATIONS

The following recommendations do not cover all critical challenges identified during our consultation process and in the information retrieved from our questionnaire's findings. *The recommendations in this section cover only the challenges posed by companies related to the process of internationalisation and which have not been analyzed so far in our IC Meetings.* Issues related to informality, access to finance or innovation⁶¹ have already been addressed in our previous analyses such as (i) Informality – covered in Technical Notes: Informality in Economy, Formalisation in Agriculture, Formalisation in Tourism (ii) Skills – covered in Technical Note: Labour Market Skill in the BPO Sector, Innovation in Entrepreneurship (iii) Access to Finance – covered in Access to Finance in Agribusiness.

⁶¹ The draft law "On the support and development of Innovative Start-ups" creates several new instruments for financing new enterprises in the field of innovation through the creation of a network of "angel investors".

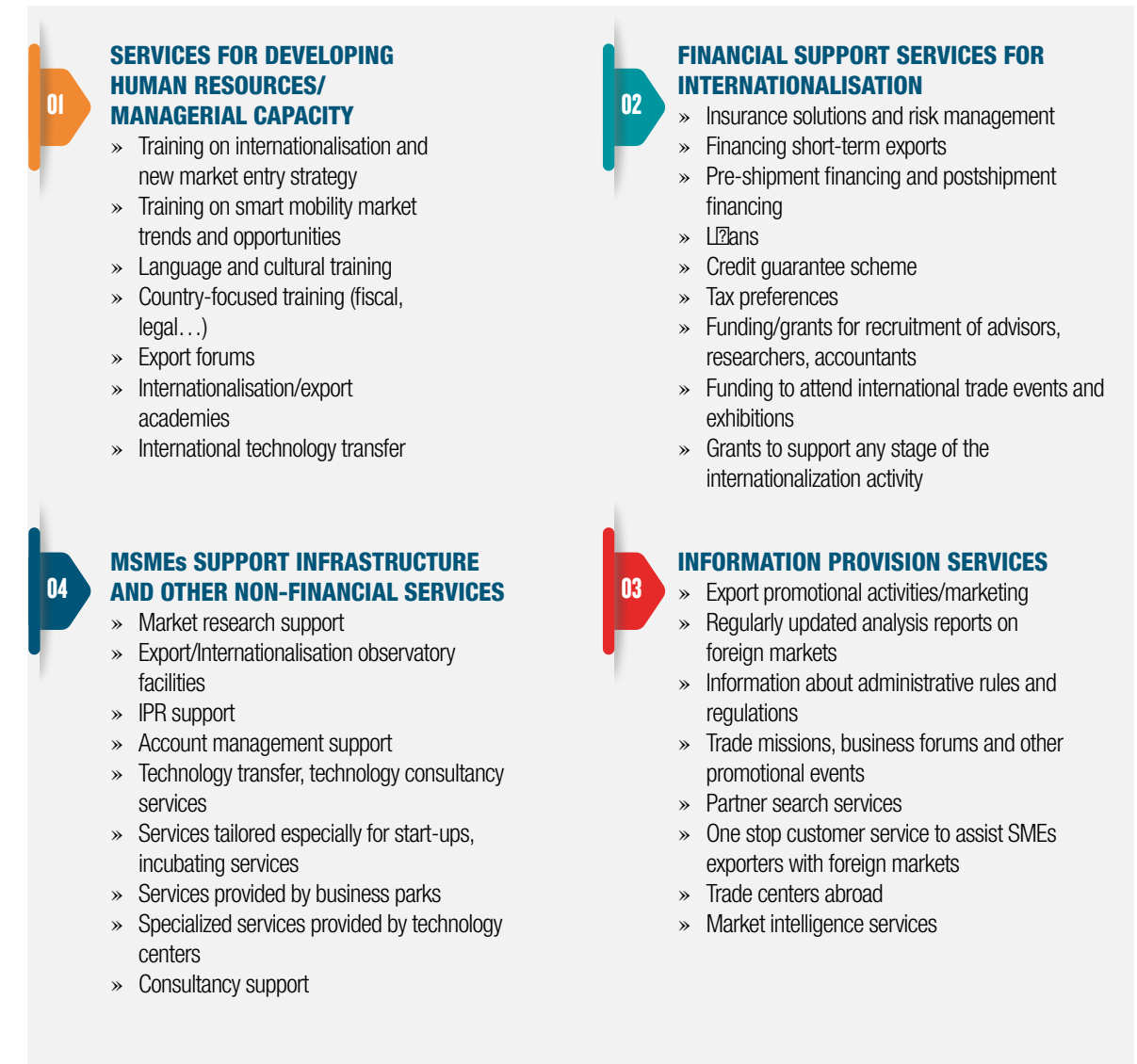
» **The recommendations included herein should be seen in correlation with the recommendations provided by IC in "Investment Promotion in Agro-processing" and "Innovation in Entrepreneurship."**

Based on the above analyses, the process of internationalization of MSMEs should start with introducing the elements of this process to MSMEs through different activities, such as conferences, workshops, roundtables, panel discussions aimed particularly at MSMEs' needs, not to general business needs. We emphasize that big companies have different approaches to internationalization than MSMEs. Internationalisation depends on reliability, the right products in the right quantity and quality, at a competitive price, to the right place and time.

Following "Good Practice Guide on MSMEs Internationalisation",⁶² which have provided a catalogue of interventions and measures

in support to MSMEs, the following were the four main pillars to support internationalization.

Figure 18. Interventions and measures in support to MSMEs internationalisation



Source: INTRA Interreg Europe

⁶² INTRA Interreg Europe- EU

» **The following IC Secretariat recommendations follow almost the same approach, mainly prioritising the support for the mindset shift and managerial skills in the value chain and export promotion. Meanwhile, given that the Albanian MSMEs in the context of internationalization mainly target the EU market, which is a well-regulated market, we would recommend an acceleration of "value chain" interventions with a holistic approach, where the focus will be on improving entrepreneurial skills, standards and business sophistication.**

RECOMMENDATION 1⁶³.

AIDA/MFE, in collaboration with donors, business associations, and chambers of commerce to assess exporting MSMEs and MSMEs with potentials and readiness to approach foreign markets as per priority sectors. Based on this assessment, consolidate the national/sector databases (the database has to be updated periodically) that will help to better tailor training programs in:

- (i) export readiness: seminars in trade regulations and standards by sector, tools for international market research, export coaching to implement an export business plan, focusing on export strategy;
- (ii) market readiness: export sales training and joint international workshops abroad, to-

63 The recommendation refers partially to a best practice earlier applied in Slovenia.

gether with participants from other countries to enlarge the international network of colleagues and trade experts, workshops in cross-culture, managing change and international trade marketing;

- (iii) business meetings with potential customers for increasing exports.

RECOMMENDATION 2.

Given that the integration of MSME in the international value chain is not only related to cost or technology, but also to changing business models and organizational culture, MFE/AIDA in collaboration with business associations – should accelerate institutional support on implementing training programmes to empower Micro, Small and Medium-sized Enterprises management on internationalisation⁶⁴ through partnerships between government/industries/professional schools/universities/donors:

- (i) training in internal governance, research and development structures set up and coordination
- (ii) dedicated training for start-ups
- (iii) provide training at local levels for MSMEs managers
- (iv) foster entrepreneurship through the general and vocational educational system and improving the "holistic" approach to entrepreneurial culture

RECOMMENDATION 3.

AIDA/donors- To increase competition among the MSMEs to access more available funds and to improve the coverage, effectiveness and transparency

64 Training on internationalisation and new market entry strategy; Training on smart mobility market trends and opportunities; Language and cultural training; Country-focused training (fiscal, legal); Export forums; Internationalisation/export academies; International technology transfer

of such available funds (grants, guarantee schemes, etc.), a new component on the AIDA platform (aida-smefinance.gov.al) can be added, summarizing a nationwide database on MSMEs recipients of grants, associated with a scoring rating service and specific indicators on their credibility

Note: The recommendation endorses partially a best practice earlier applied in Slovenia.

RECOMMENDATION 4⁶⁵.

Supporting MSMEs market research to ease the decision and lower the entrance costs to foreign markets through grants delivered via public tender/s to support any stage of internationalization activity. This can be introduced as part of the competition fund already operating at AIDA, associated with a special dedicated budget.

The goal of the initiative should be the financing of MSMEs in preparation for market researches, to achieve a breakthrough with current products/services in a new foreign market or support new products on existing or new foreign markets and thus lower their costs of entering a new foreign market or lower their risk of placing a new product on a foreign market. Goals to be achieved through the project:

- (i) Identification and benchmarking of new market/product opportunities;
- (ii) Evaluation of the appropriateness of product according to the needs of a foreign market;
- (iii) Preparation of a plan to adapt products to the needs of the foreign market;
- (iv) Identification of suitable sales channels in the foreign market.

65 Note: The recommendation refers partially to a best practice applied in Slovenia in the frame of: "grants to support any stage of internationalization activity".

RECOMMENDATION 5⁶⁶.

MFE/AIDA- Financing "Network Contracts for Internationalisation" models with the goals of establishing business networks in specific sectors (e.g. in garment military industry) through horizontal clusters and reaching the foreign market with a consolidated offer.

The purpose of companies belonging to the network is to improve their competitive positioning through the implementation of integrated services for the development of internationalisation activities of their products and services, increasing production standards, and sophisticating their offer towards higher-value markets.

RECOMMENDATION 6⁶⁷.

MFE/AIDA - Establishing the Sectoral Export Portal in the frame of the upcoming Export Strategy. A tool that should provide to the members of a business community⁶⁸, the following:

- (i) information for foreign markets;
- (ii) guidelines for export and marketing on foreign markets;
- (iii) access to contact network of international organizations;
- (iv) commercial counsellors abroad, distributors and wholesalers;
- (v) architects and designers;
- (vi) trade representatives;
- (vii) inquiries and offers from foreign companies; foreign trade and economic statistics.

66 Note: The recommendation refers partially to a best practice applied in the region of Abruzzo-Italy which was finalized with the establishing of "SIMUL - Multitask System for Industrial Automation" a business network in industrial automation. The measure funded at 50% the eligible costs for carrying out "promotional" and "organisational" activities for internationalisation process.

67 Note: The recommendation refers partially to a best practice applied in Bulgaria and Slovenia.

68 IC Secretariat proposal for agro-processing.

The ultimate goals of the measure should be:

- (i) Providing information on advanced materials, technology, equipment and innovations in the agro-processing;
- (ii) Providing information on the state of international markets and opportunities to establish business relations and cooperation;
- (iii) Providing information on programs to support small and medium enterprises;
- (iv) Provide information on changes in the regulations of the activities in the sector.

RECOMMENDATION 7.

AIDA- Increase the participation rate of MSMEs vs corporates in trade missions, business forums and other promotional events such as trade fairs, as clients and as participants by assisting them to establish new business contacts, partnerships and penetration or entrance to the international supply chains, through:

- (i) The organisation of event Suppliers days, in particular in manufacturing and agro-processing, to enable access to the supply chains;
- (ii) Participation and implementation of B2B events in Albania and abroad to support the establishment of business contacts/new business partners;
- (iii) The organisation of inward and outward economic delegations, presentations of Albanian industry/ companies, conferences and other business events;
- (iv) Organise inward missions bringing in experts and buyers from overseas markets to enable companies to meet new contacts and learn about new markets.

RECOMMENDATION 8.

The above interventions should be supported by MFE with sustainable and harmonized policies, in order to attract local and foreign investments but also to stimulate the interaction between foreign /local companies and MSMEs. For this we would recommend:

- *undertaking a preliminary assessment on the impact of specific incentives offered to date under previous fiscal packages (2014-2021), the strategic investment law (e.g. how strategic investors have affected local MSMEs) in priority sectors such as tourism, IT , agro-processing. Its publication not only would increase transparency regarding the use of public funds to support the private sector competitiveness, but also will be used as an analyses basis of the public policies in favour of specific sectors / products for export.*
- *Assessment of possible links between supply chain firms (MSME / Corporation / FDI) in specific sectors, consideration of a “holistic” approach to the policy and standards framework (macro level) with the aim of providing support functions that facilitate compliance financing (traceability) with international standards, to be determined in coherence with the roles, rules and interaction of the actors. In this process, consider addressing the issues related to the “gap” between “skill supply” and the needs of the industry that seeks to integrate into the global chain.*
- *Suggestions to be consulted with key stakeholders to ensure engagement, support and cooperation in the implementation and monitoring process of public policies.*

RECOMMENDATION 9.

Considering the momentum and the unique EU policy commitment, but also the Albanian Government's efforts under green deal initiatives, available donor instruments and relevant Albanian unique potentials in regard, MFE&MIE&AIDA&donors, the Local Government should set up tailored MSME's advocacy instrument for energy efficiency and waste management options (focus production industries, tourism sector, etc.). Goals to be achieved:

- (i) propose new incentives that would foster the MSMEs green focus and involvement;
- (ii) aim to raise SME entrepreneurs awareness on cost/benefit in using alternative energy options;
- (iii) better prepare to mitigate any future energy

crises;

- (iv) evidence key concerns to better access and benefit from green deal instruments.

RECOMMENDATION 10.

AIDA in collaboration with MFE/MSHMS/UC-CIAI/donors and business associations) - Set up and promote in a sustained national advocacy format/s the recognition/acknowledgement of responsible MSME businesses conduct and practices as MSMEs “Best Practice” cases, where one company's success promotes a public benchmark example for other companies (ex. annual prize for businesses compliant with eco/environmental standards) to stimulate the transition from company “directors” to “model entrepreneurs”.

ANNEX II

QUESTIONNAIRE

ON INTERNATIONALIZATION OF MICRO, SMALL AND MEDIUM ENTERPRISES

Obstacles Faced by Albanian Companies in Promoting Expos and Integration into The International Value Chain Internationalization at the company level is conceived as the expansion of business operations in new geographical locations.

Note: Internationalization in the tourism sector means turning the country into a destination of international tourism, diversifying the market by adding tourism products offered, expanding accommodation activities in quality and services, combining regional tourism packages, introducing new technologies such as website, online shopping etc.

**Required*

SECTION A – COMPANY PROFILE

1. Location, Region: *

**Mark only one box.*

- ☐ Berat
- ☐ Dibër
- ☐ Durrës
- ☐ Elbasan
- ☐ Fier
- ☐ Gjirokastrë
- ☐ Korçë
- ☐ Kukës
- ☐ Lezhë
- ☐ Shkodër
- ☐ Tiranë
- ☐ Vlorë

2. Companies Ownership (with over 50% of capital):

**Mark only one box.*

- ☐ Albanian
- ☐ foreign
- ☐ joint ownership

3. Years of operation: *

**Mark only one box.*

- ☐ less than 1 year
- ☐ 1 to 5 years
- ☐ 5 to 10 years
- ☐ more than 10 years

4. Size of the company based on turnover: *

**Mark only one box.*

- ☐ Up to 5 million
- ☐ 5 to 10 million
- ☐ 10 to 14 million
- ☐ over 14 million

5. Average number of employees: *

**Mark only one box.*

- ☐ 1-9 employees
- ☐ 10-49 employees
- ☐ 50-249 employees
- ☐ over 249 employees

6. Main business activity: *

- ☐ Agriculture, forest and fishery
- ☐ Processing industry
- ☐ Call centre
- ☐ Accommodation
- ☐ Restaurant
- ☐ Tour Operator
- ☐ Other

7. Are you an exporter? *

**Mark only one box.*

- ☐ Yes
- ☐ No

SECTION B – INTERNATIONALISATION OF ALBANIAN MSMEs

8. From the position of your company, what is the opinion towards integration in the international value chains (opening of the Albanian economy to the global market):

**Mark only one box.*

- ☐ Positive
- ☐ Negative
- ☐ Neutral
- ☐ I don't know
- ☐ Partly

9. Please comment:

10. If you are in favour of integration, what are the 3 main pillars where the support from the Government in the country should be focused?

**Check all that apply.*

- ☐ Strengthening the capacities of MSMEs
- ☐ External environment where MSME operates (such as policy / customs / taxation / AIDA / financial institutions)
- ☐ Regulatory area - Standardized products/services
- ☐ Targeting foreign markets by sectors
- ☐ Attracting FDI
- ☐ I am not in favour of integration

11. In which of the following elements do you most need support to help integrate your company into global markets:

**Mark only one box.*

- ☐ Mentoring and training, which include technical support (e.g. over quality standards or loss reduction, risk management, market research),
- ☐ Support in management (e.g. business planning and financial guidance, marketing)
- ☐ Financial advice
- ☐ Other:

SECTION C – INTERNATIONALISATION AND THE COMPANY

12. Is your company part of the global value chain, products services exported abroad)

**Mark only one box.*

- ☐ Yes
- ☐ No
- ☐ Despite the desire, the company does not have such opportunities
- ☐ I do not want to be part of the global value chain

13. If your company is part of the global value chain (products and services exported abroad), please specify how:

14. If your company, despite the desire, is not part of the global value chain (products and services exported abroad), please specify the reasons why:

15. If your company does not want to be part of the global value chain (products and services exported abroad), please specify the reasons why:

16. If you are part of the international value network, at what stage of export development is your company?

**Mark only one box.*

- ☐ Indirect exporter
- ☐ Export to the region
- ☐ Export to wider markets
- ☐ FDI
- ☐ Other

17. From the following factors, which can be considered the 3 main obstacles in expanding the company’s activities towards exports: *

Check all that apply.

- ☐ Managerial skills/mentality in the company
- ☐ Innovation in the company – technology, etc.
- ☐ Information and Communication Technology Capacities in the company

- ☐ Company size and productivity
- ☐ Company’s export experience
- ☐ Limited financial resources
- ☐ Other

18. From the following factors, directly related to your company which can be considered the 3 main obstacles to integration in international value chains:

**Check all that apply.*

- ☐ Innovation and Technology in the company
- ☐ Managerial skills
- ☐ Quality of the Company Workforce
- ☐ Workforce availability
- ☐ Lack of information on the company’s target markets
- ☐ Competitiveness in the target markets by the company (Standard, procedure, tariff, etc.)
- ☐ Foreign ownership (of the company)
- ☐ Other

19. From the following factors indirectly related to your company, which can be considered 3 main obstacles to integration in international value chains:

- ☐ Informality
- ☐ Access to finance
- ☐ Infrastructure
- ☐ Logistic
- ☐ Trade facilitation
- ☐ Trade Policy
- ☐ Access to ICT
- ☐ Other

20. What can you consider as markets with potential for expansion for Albanian companies:

- ☐ Western Balkans
- ☐ EU
- ☐ UK
- ☐ Africa
- ☐ Scandinavian countries
- ☐ USA
- ☐ South America
- ☐ Asia
- ☐ Australia
- ☐ Other

SECTION D: PROPOSALS FOR INTERVENTION

21. In your opinion, what are the legislative fiscal/administrative measures that should be taken by the state to support the internationalization of companies:

22. Other recommendations on internationalization and integration in the value chains of Albanian micro and small companies:

ANNEX II

SUPPORT MEASURES IN THE FRAME OF COVID-19 WESTERN BALKANS AND CROATIA

Disclaimer: This matrix contains and structures updated information obtained from reports of IMF, EBRD, OECD, KPMG, Deloitte and other reputable sources of information, as well as from national legislation applicable in the respective jurisdictions. The information contained in this Summary is not exhaustive and does not replace the professional assistance or counselling you may need or the appropriate institutions. IC Secretariat reserves the right to edit it accordingly if any changes arise.

FISCAL

Country	Measures
Albania	The government has adopted two support packages for people and businesses affected by the COVID-19 pandemic of a combined size of ALL 45 billion (2.8 per cent of GDP), consisting of budget spending, sovereign guarantees and tax deferrals. Package 1: support measures of ALL 23bn (1.4 per cent of GDP) through a combination of spending reallocations, spending increases and sovereign guarantees to support affected businesses. (1) additional funding for the health sector in the amount of ALL 3.5 billion; (2) ALL 6.5bn for the support of small businesses/self-employed that are forced to close activities due to the COVID-19 pandemic by paying them minimum salaries (up to two in the case of family businesses with unpaid family members), doubling of the unemployment benefits and social assistance layouts; (3) ALL 2bn of defence spending reallocated toward humanitarian relief for the most vulnerable; (4) ALL 11bn (0.6 per cent of GDP) sovereign guarantee fund for companies to access overdrafts in the banking system to pay wages for their employees for up to 3 months with an interest rate capped at 2.85 per cent for a maturity of up to 2 years; (5) As of April, cabinet ministers and lawmakers will receive half of their salaries for the next three months with the savings going to the Anti-Covid 19 social support fund. Package 2: (1) ALL 7bn (0.4 per cent of GDP) fund to pay for a one-off transfer of ALL 40,000 to employees of small businesses affected by the pandemic not covered in the first package, employees of large businesses laid off due to the pandemic, and employees in the tourism sector; (2) tax deferral measures allowing all companies (except banks, telecommunication, public enterprises and companies in the chain of supply of essential goods) to defer payment of profit tax until after September. Tourism, active processing and call centres – as well as small businesses with a turnover of Lk14m or less – shall not pay the tax on income advance instalments for 2020;(3) a sovereign guarantee of ALL 15 billion (0.9 per cent of GDP) to provide loans for working capital and investments for all sectors. This is an instrument that shares risk with banks, covering a percentage of the principal of each loan and repayment terms up to 5 years. Loans also have the feature of 6 months grace period. As of January 2021, small businesses with turnover below ALL 14million will not pay profit tax, while the threshold for VAT purposes is ALL 10 million.

Country	Measures
Kosovo	Tax measures focused on: (1) allocation of €6 million to the health ministry; (2) deferrals for corporate income and personal income taxes, and VAT; (3) advancing payments for social assistance schemes by an additional one month's amount (from one month to two months) to support families in need; (4) removal of VAT on imports of wheat and flour; (5) deferral of public utility payments until the end of April. In addition, the fiscal package in the amount of 170 million euros (2.5 per cent of GDP) was adopted by the government. (1) Monthly salaries coverage will be covered in the amount of EUR 170 per employee for the period of April-May 2020. The total amount of this measure is EUR 41 million. In addition to the salaries covered, the government will also pay the related pension contributions for the period of April-May 2020, at the total amount of EUR 8 mln; (2) Rental subsidy for small and medium-sized enterprises up 50% of the monthly rentals, for the period of April-May 2020, at the total amount of EUR 12 mln.
North Macedonia	Package 1- (0.2 per cent of GDP) to help address firms' liquidity problems and protect jobs, targeted to affected sectors such as transport, hotel and restaurants for three months starting in April. The measures include (1) a subsidy on social security contributions for firms that maintain employment; (2) postponement of corporate income tax payments by suspending obligations to prepay based on past year's income, and (3) direct financial assistance to firms from the Development Bank, offering loans at zero interest rate. Package 2- (about 1 per cent of GDP). (1) A wage subsidy equal to the minimum wage to affected companies to help them maintain jobs. (2) Vulnerable households who were part of the informal economy and lost their income will receive financial support. (3) Additional funding will be made available from the Development Bank to commercial banks at favourable terms. (4) The government has also implemented price controls on basic food products, medicines, and disinfection products and abolished the import duty on medical supplies. Package 3- (1) As part of the third package of measures, the Government is planning to distribute payment cards credited with denar 3,000 and denar 6,000 vouchers to stimulate domestic tourism by the poorest households. The measure will affect about 100,000 citizens from the poorest households, i.e. earning less than denar 15,000 per month (the minimum wage is denar 14,500 per month). The voucher will be used in domestic hotels and other accommodation facilities, while the payment card will encourage the purchase of domestic tourism products and services. (2) The third package of measures supporting agriculture will mobilise up to EUR 76.1 million. It includes support to micro-enterprises and SMEs; direct support to green oil farmers. The measure will cover 50,000 farmers and is worth EUR 4.6 million; support to grape processors and wineries with EUR 3.5 million over three years to stimulate alcoholic distillate production that domestic chemical companies will use to produce disinfectants; long-term lease of pastures to support cattle breeders; and a program for financing micro-agricultural companies in the amount of EUR 3 million for processing equipment and marketing.

Country	Measures
Serbia	Fiscal measures (6.5 per cent of GDP) focused on: (1) 10 per cent wage increase for the public healthcare sector (RSD 13bn) and increased healthcare spending (about RSD 26bn); (2) one-off payment to all pensioners (RSD 7bn); (3) universal cash transfer of EUR 100 to each citizen over 18 years old (about RSD 65bn); (4) three-month deferment of labour taxes and social security contributions for all private companies, to be repaid in 24 instalments starting from 2021 (RSD 100bn); (5) deferment corporate income tax advance payment during the second quarter of 2020 (RSD 21bn); and (6) wage subsidies, including payment of minimum wages for all SME employees and entrepreneurs for three months (RSD 93bn) and payment of 50 per cent of the net minimum wage for three months for employees in large private sector companies and for employees who are currently not working (RSD 4bn). (7) 3-month moratorium on enforcement and interests on tax debt under rescheduling agreements and 10 percentage points reduction of the interest rate on the tax debt. (8) A state guarantee scheme for bank loans to SMEs has been approved (RSD 240bn), as well new loans to SMEs from the Development Fund (RSD 24bn). The second round of measures was adopted in late July, including wage subsidies for SME employees for another two months (RSD 36 billion) and deferment of labour taxes and social security contributions for all private companies for an additional month (RSD 30 billion). A supplementary budget with new support measures was adopted in April 2021. New measures include: (i) wage subsidies, including payment of $\frac{1}{2}$ of minimum wages for all entrepreneurs and employees in SMEs and large companies for three months (RSD 69.8 billion); (ii) additional payments for employees in travel, hospitality, and art (RSD 4.4 billion); (iii) universal cash transfer of EUR 60 to each citizen over 18 years old, paid in two instalments of EUR 30 each—in May and November (RSD 43.2 billion); (iv) a one-off payment of EUR 50 to all pensioners (RSD 10 billion); (v) a one-off financial assistance of EUR 60 to all the unemployed, paid in June (RSD 4.3 billion); and (vi) support for the transport sector and for city hotels (RSD 3.9bn). The total estimated cost amounts to 2.3 per cent of GDP.
Bosnia & Herzegovina	(1) FBiH measures subsidized contributions and taxes and payment of minimum wages for all employees of the companies impacted by Covid-19. (2) Rep. Srpska decided to cover PIT and SSC for about 40,000 workers in the sectors closed by the government decision from March to May (KM 50 million, 0.15 per cent of GDP). The RS also announced that the government will pay minimum salaries for all employees in these sectors in April (KM 53 million, 0.16 per cent of GDP) and is planning to increase the transfers to unemployment funds (KM 25 million, 0.08 per cent of GDP).

Country	Measures
Montenegro	Package 1: (1) the removal of the excise on medical alcohol sold in pharmacies; (2) the delay of tax payments and social security contributions; (3) the creation of a new Investment Development Fund (IRF) credit line of EUR 120 million to improve the liquidity of entrepreneurs; (4) the deferral of lease payments for state-owned real estate; (5) advance payments to contractors for capital projects; (6) one-off financial assistance to low-income pensioners and social welfare beneficiaries in the amount of EUR 50 each (EUR 1 million has been allocated); (7) an increase in the March wages of healthcare workers by up to 15 per cent (EUR 0.5 million has been allocated). Package 2: at the amount of EUR 75 million package (with a net impact of EUR 40 million) includes: (1) subsidies in April and May of 70 percent of the minimum wage for employees in sectors that are closed because of the pandemic, employees who are unable to work due to childcare for children aged under 11, or people who have to be self-isolated and quarantined; (2) a subsidy of 50 percent of the minimum wage for employees in sectors at risk due to the pandemic-related lockdown; (3) a subsidy of 70 percent of the gross minimum wage of newly employed workers in SMEs for six months if these workers are registered as unemployed; (4) state bodies and state-owned companies will impose a six-month moratorium on the enforcement of claims for companies that are not operating due to the pandemic; (5) energy firms will exempt the fixed portion of electricity bills for businesses that have stopped operating due to the pandemic-related lockdown; (6) the state utility will double its electricity subsidies for vulnerable households; (7) assistance to the agriculture and fisheries sector, including one-off assistance to fishermen and payments for the contributions of insured agricultural workers; and (8) one-time assistance of EUR 50 to all persons recorded as unemployed in the Employment Agency of Montenegro and who did not receive any compensation. Package 3: Adopted by the Government on 23 July 2020 comprised of short- and long-term measures worth EUR 1.22 billion over four years (EUR 281.2 million in 2020). Short-term measures in this package include (1) support to the tourism sector (such as interest subsidies on loans and the reduction of VAT from 21 per cent to 7 per cent in the hospitality industry), (2) interest subsidies for the agriculture sector; (3) programs for improving competitiveness; (4) wage subsidies; and (5) one-off support to veterans and pensioners. Package 4: announced on January 28, 2021, of EUR 163 million. Measures include (1) wage subsidies (with an expanded list of eligible sectors); (2) one-off support to the vulnerable population; (3) tax deferrals; (4) support for new employment; (5) one-off support for firms to implement e-fiscalization; (6) domestic travel vouchers for health and education workers; and additional measures for the tourism, catering, and agriculture and fisheries sectors. The measures are aimed at maintaining employment levels, improving liquidity, increasing the number of tourists, the stability of agriculture, as well as supporting the vulnerable population. Package 5: 29 April 2021, a new package of support measures for businesses and citizens, was adopted for the second quarter, worth an estimated EUR 160 million. This package includes a reduction of electricity bills for the most vulnerable groups and a new salary subsidization plan.

Country	Measures
Croatia	Fiscal measures: (1) deferment of public obligations, free of interest for three months, which can be extended by additional three months if necessary; (2) temporary suspension of payments of selected parafiscal charges; interest-free loans to local governments, the Croatian Health Insurance Institute, and the Croatian Pension Insurance Institute to cover the deferred payments; (3) subsidization of net minimum wages for three months to preserve jobs, which could be extended for another three months; (4) early refund of taxes for individuals; (5) an increase of the subsidization of the net minimum wage; (6) tax obligations of companies to be reduced or written-off depending on their turnover and loss; (7) VAT payments will not be due until payment is received from customers and the deadline for the 2019 financial reports will be extended to June 30th. In June 2020, the government announced the possibility of introducing a short-time work program, financed from EU SURE, to safeguard jobs thereby employers who need to introduce shorter working hours due to a decline in business activities would be entitled to aid for the payment of a part of their workers' wages. The measure is intended for all sectors and all businesses with more than 10 employees. In September 2020, the measures designed to help the economic sectors hit by the coronavirus crisis, including those designed to keep jobs and ensure liquidity and COVID-19 loans, were extended until the end of the year. For all sectors, the government will co-finance a shorter working week with a maximum HRK 2,000 per worker plus contributions, as well as provide assistance to micro-businesses until the end of December, also in the amount of HRK 2,000 per worker, if the employer has suffered a drop in turnover of more than 50 per cent. For activities that are particularly at risk (transport of passengers, hospitality, travel agencies and recreation-related businesses, as well as cultural, business and sports events), support is provided in the amount of HRK 4,000 per employee until end-December 2020, if their drop in turnover exceeds 60 per cent. On September 24, the deadline for SOEs to pay profit into the budget was extended until January 15. Since end-November, the government finances the costs of entrepreneurs whose work was suspended by the Decision of the Civil Protection Headquarters. The overhead costs are reimbursed to entrepreneurs with a drop in income of at least 60% compared to the same month last year or compared to the previous month of the current year if the entrepreneur started working in 2020. Entrepreneurs with a decline in income/receipts of 40-60% or HRK 2,000 - 3,500, respectively, are also entitled to support within the work scheme. In December 2020, the government announced the continuation of the measure of HRK 4,000 per employee in January and February 2021 to protect jobs in businesses forced to close down as part of efforts to curb the spread of the coronavirus pandemic. In end-February 2021, the job retention grants were extended by another month. The existing active labour market measures were expanded, for instance, the job skills training programs for the currently unemployed persons to work in professions experiencing labour force shortages of workers.

SECTORAL

Country	Measures
Albania	
Kosovo	(1) Financial liquidity support will be extended to microenterprises and self-employed at the amount of EUR 10 thousand for a maximum period of 24 months, which measure amounts in a total of EUR 15 million. (2) Monthly salaries coverage of EUR 130 will be awarded for the first two months to any newly hired employee during the COVID-19 with a defined term contract of at least one year. The total coverage amounts to EUR 6 million. (3) Financial support to exporters after the termination of the COVID-19 situation will be at the total amount of EUR 10 million. (4) Support for grants and governmental institutions- A total amount of EUR 20 million is approved to increase the budget for grants and subsidies to the Ministry of Agriculture, Forestry and Rural Development, Ministry of Culture, Youth and Sports and municipalities affected by the pandemic situation.
North Macedonia	(1) Extension of instalment payments; (2) A total of EUR 5.5 million will be granted as interest-free loans to companies conducting business activities in the sectors most affected by Covid-19.
Serbia	In late August 2020, the authorities announced one-off fiscal support to help hotels in cities, through a fixed subsidy per room and per bed, with a cost of about 0.02 per cent of GDP. Subsidies for Hotels Due to the size of the impact of Covid-19 on the accommodation industry, the Government has implemented a support package consisting of almost EUR 11 million in subsidies. Payment of subsidies to 312 hotels that have applied has been initiated in October and consists of EUR 350 per bed and EUR 150 per accommodation unit. Subsidies for Tour operators and touristic agencies In November 2020, the Ministry of Trade Tourism and Telecommunications published a call for submission of subsidies' applications for tour operators and agencies. Eligible agencies will receive up to EUR 5,000 for insurance policy premiums, depending on the type of license they hold. The total allocated amount is approx. EUR 1.28 million.

Country	Measures
Bosnia & Herzegovina	The FBIH support the economy through: (1) setting up a special fund to stabilize the economy (KM 500 million, 1.5 per cent of GDP); and (2) establishing a guarantee fund at the Development Bank (up to KM 500 million, 1.5 per cent of GDP) which will serve to maintain and improve the liquidity of companies. The RS is also developing a credit guarantee scheme.
Montenegro	
Croatia	(1) Beneficiaries of some EU Structural and Investment Funds will be able to receive larger advance payments. Part of the EU funds envelope has been reallocated to micro-loans, a new credit line was introduced, accompanied by measures to facilitate faster disbursements of loans with lower interest rates and larger partial risk guarantees. (2) The government has also resorted to purchasing unsold stocks of finished goods in agriculture, the food processing industry, medical equipment, and similar strategic goods. (3) Financing of temporary fishing suspension with prior approval of the European Commission. (4) Assistance to the agricultural sector due to traffic restrictions and increased manipulation costs. (5) Increased funding for de minimis aid to the fisheries and aquaculture sector. (6) Establishment of a credit line for working capital for the agriculture, forestry and wood processing sectors. (7) State aid: EU Commission approves €4 million Croatian direct grant scheme to support fishery and aquaculture sector in coronavirus outbreak. In January 2021, the European Commission (EC) approved Croatia's HRK 1.53 billion state aid program for companies in the field of tourism and sports, which will be implemented in cooperation with the Croatian Ministry of Tourism and Sports, the Croatian Bank for Reconstruction and Development (HBOR), the Croatian Agency for SMEs, Innovations and Investments (HAMAG-BICRO) and commercial banks. The program provides for the issuance of a state guarantee in the amount of 100% of the loan principal for micro, small and medium-sized enterprises and up to 90% for large enterprises. The supports in the amount up to EUR 800,000 per entrepreneur will be granted by 30 June this year at the latest, but only to companies that were not in difficulties on 31 December 2019, except for micro and small enterprises, which are eligible even if they had a business problem on that date. The new loans are intended for working capital and investments, as well as interest rate subsidies.

MONETARY

Country	Measures
Albania	A. Bank of Albania Supervisory Council: (1) suspended dividend distribution by the banks until the end of June 2020 for (a) the accumulated profit carried forward from previous periods; (b) profits realised in 2019 and (c) the profit that will be realized during the first half of 2020; On January 13, 2021, the central bank lifted the suspension on the distribution of 2019 dividends but instituted a suspension on the distribution of 2020 and 2021 dividends until the end of 2021. (2) starting from April 10, 2020, it waived the commissions for transfers in local currency, as well as fees for participants in AIPS and AECH payment systems operated by the Bank of Albania. This measure urges the use of e-banking services and aims to reduce the number of people requiring services in bank premises. B. BoA and GoA order second-tier banks to postpone for a 3 month-period terms instalment payments from the private sector in the first phases, and 3 more months in the second phase up to 31.08.2020.
Kosovo	(1) Interest-free loans repayable until 31 December 2020 will be awarded to state-owned enterprises facing financial difficulties, legal entities/companies authorized to provide essential services, amounting to a total of EUR 20 million. (2) The Central Bank of Kosovo (CBK) together with the Kosovo Banking Association, decided to suspend the payment of loan instalments for businesses and individuals starting from March 16 until April 30. This suspension could be extended depending on the situation. The CBK will apply regulatory forbearance on loan provisions and capital requirements on reprogrammed loans. (3) In February 2021, the CBK further extended the loan restructuring program to March 31, 2021. The extension allowed for loans that were previously not restructured due to COVID-19 to extend the maturity by 9 months.

Country	Measures
North Macedonia	The National Bank measures: (1) Initially cut its policy rate by 25 basis points to 1.75%. The Bank has cut its policy rate three times since the start of the crisis by a cumulative 75 basis point to 1.25% (2) The fees for withdrawing and returning cash to the National Bank's central vault have been abolished to minimize any risk of transmitting the virus infection by coins and bills. (3) Revised its credit risk regulation to encourage banks to restructure loans temporarily and has relaxed the loan classification standards for NPLs. It has also reduced the base for the reserve requirement by the amount of new loans to firms in affected sectors and has extended the deadline for banks to submit their first Internal Liquidity Assessment Report to allow them to focus on providing credit while maintaining the quality of the loan portfolio. In February 2021, the Bank decided to temporarily restrict dividend payments by banks unless in the form of shares, thereby strengthening the supervisory guidance of 2020. The restriction is currently in force through 2021 but will be reviewed no later than September 2021.
Serbia	The National Bank measures: (1) cut the key policy rate from 2.25 per cent to 1.75 per cent and then to 1.50% and narrowed the interest rate corridor from ± 1.25pp to ± 1pp relative to the key policy rate. (2) provided liquidity (both in dinars and euros) to banks through additional EUR/RSD swap auctions and repo purchase auctions of dinar government securities; (3) reduced the FX swap interest rates -Moratorium on leasing and loans, beneficiaries are entitled to delay in payment of obligations that were due within 3 days from the day the decision came into force. -Leasing providers cannot charge interest on arrears and initiate collection procedures against the lessee or undertake other legal actions to collect the receivables from the lessee.
Bosnia & Herzegovina	(1) Banking Agencies have announced a six-month loan repayment moratorium for restructuring credit arrangements for individuals and legal entities which are found to have aggravated circumstances for loans repayments due to COVID-19. (2) Banking Agencies have instructed banks to track clients and exposure portfolios affected by COVID-19. Banks are also instructed to consider additional customer relief, including reviewing current fees for services and avoiding charging fees to handle exposure modifications. (3) All banks were ordered not to pay dividends or bonuses.

Country	Measures
Montenegro	The central bank measures: (1) moratorium on loan repayment for a period of up to 90 days. It includes the interim suspension of all payments of obligations based on the loan (principal, interest, default interest, fees, etc.). (2) Banks are also allowed to restructure loans and reclassify them as new loans, including by additionally extending the repayment period by up to two years, if the borrower's financial position was impacted by the pandemic and restructuring would improve the credit capacity of the borrower. These measures also apply to leasing and microfinance institutions. (3) The central bank has also announced measures to temporarily prohibit banks from paying dividends to shareholders, except in the form of equity, and to allow banks to increase exposures to a person or group of related parties beyond the prescribed exposure limits (25 per cent of the bank's own funds), with prior central bank approval. (4) Additional measures are being considered, including the extension of the moratorium to the most vulnerable borrowers, securing access to credit lines for the financial system through the EBRD and the International Finance Corporation (IFC), and reducing the price of withdrawing the reserve requirement for the liquidity of banks. In July 2020, CB decided that banks are obliged to grant a moratorium to borrowers from two priority sectors: tourism, as well as agriculture, forestry, and fishing. The moratorium can be used from September 1, 2020, to August 31, 2021, and is available to borrowers in these sectors who are not past due in loan repayments for more than 90 days and whose loans were not classified as non-performing assets as of December 31, 2019. Banks are also allowed to treat approved or restructured loans in these sectors as loans from category "A" during the duration specified above. In October 2020, CB intervened by helping the most affected citizens. It introduced a six-month moratorium on the repayment of loans for citizens who have lost their jobs after March 31 due to the COVID-19 crisis and have not delayed the repayment of their loans by more than 90 days before end-2019, and whose loans have not been classified as non-performing by end-2019. Other measures include a loan restructuring for citizens whose wages have fallen by at least 10 per cent due to the pandemic and a change in the amount of demand deposits included in the calculation of due liabilities (20 per cent instead of 30 per cent). On April 28, 2021, launched new measures. They were focused on micro, small and medium-sized enterprises and citizens. It expands the list of eligible sectors for loan beneficiaries entitled to a moratorium, approval and restructuring of loans with preferential regulatory treatment. Loan beneficiaries whose earnings have been reduced by more than 10 per cent due to the pandemic may be extended a repayment period by a maximum of five years. Banks can also agree on a longer-term when restructuring and classifying loans to natural persons, including those when the loan is not secured by collateral. The extension period may be up to five years providing the maturity does not exceed 10 years. On May 25, 2021, the Central Bank expanded the categories of companies that are loan beneficiaries of the moratorium (ending August 31, 2021) to also include those whose total revenues in 2020 were at least 50 per cent lower than in 2019.

Country	Measures
Croatia	The National Bank provided liquidity via: (1) the structural repo facility, used for the first time since December 2018 (5-year kuna liquidity of HRK 3.8 billion at a fixed interest rate of 0.25 per cent); (2) regular weekly repos used by banks for the first time since December 2017. This repo rate has been reduced from 0.30 to 0.05 per cent; and (3) a reduction of the reserve requirement ratio (from 12 to 9 per cent). - A moratorium for three months on obligations to banks has been introduced. Banks will not apply enforcement measures during this period. - The Croatian Bank for Reconstruction and Development (HBOR) has issued a moratorium on debt service for three months, can provide liquidity loans, export guarantees, and restructure obligations. In April 2020, the European Commission approved subsidized loan programs of up to €1.8 billion.

OTHER

Country	Measures
Albania	(1) As of April, cabinet ministers and lawmakers receive half of their salaries for the next three months, with the savings going to the Anti-Covid 19 social support fund. Such decisions have been endorsed by other institutions such as the Supervisory Council of BoA, AMF, etc. (2) Suspension of four PPP contracts and public procurement procedures (3) Bank of Albania Supervisory Council halved the salaries of its supervisory board and BoA top management for the duration of the pandemic. In September 2020, the government launched an Employment Promotion Program. It aims to cover part of the reemployment costs of those who lost their jobs during the lockdown. For formal sector employees, the government will cover half of the wages (at the minimum legal level) and the full employers' share of social contributions for the duration of the program (4 or 8 months). Informal sector employees who lost their jobs during the lockdown will have the full cost of social contributions (employees and employers share) covered for 12 months if they formalize. The 2021 budget provided more funds for the purchase of vaccines and to support the increase of salaries for medical staff.

Country	Measures
Kosovo	
North Macedonia	(1) Enforced collection measures: - The tax authorities announced that they would not conduct any enforced collection in respect of all taxes and other public charges (fines, court fees) against those taxpayers who have not paid their obligations. - The Law on Enforcement is suspended until the end of June., and the enforcement agents are obliged to stop taking any enforcement action.
Serbia	In October, the Government of the Republic of Serbia adopted two Decrees extending methods for granting State Incentives. First Decree focuses on the possibility for the Government to finance eligible companies through the temporary purchase of ownership and non-ownership shares. The second Decree allows the Government to finance part of fixed expenses of companies that have decreased or ceased activities due to Covid-19. However, Decrees do not represent enforceable measures, just a legal ground for possible State Aid programs which are planned. No official comment on such activities is yet available.
Bosnia & Herzegovina	
Montenegro	(1) Postponement of payment of lease of state-owned real estate, also for a period of 90 days. (2) Advance payment to service providers and contractors on started capital projects with the provision of a bank guarantee in the value of the advance payment to ensure their liquidity and maintain continuity of work, where this does not endanger the health of citizens.
Croatia	The Croatian Government introduced new measures for preserving jobs in Covid-19 affected sectors. There are currently 3 measures that are available to employers. Grant to support reduced working hours during June to December 2020; Grant for the preservation of jobs in sheltered workshops, integrative workshops and employment units for people with disabilities during July to December 2020; Job preservation grant for specific sectors affected by Covid-19 – during October to December 2020.

ANNEX III

SMEs MITIGATION OF COST EXPOSURE TO INTERNATIONALIZATION

ELECTRICITY PROSPECTIVE

Note: indicative prices used for the briefing note relates to the market prices during the middle of October 2021

Tirana, October 2021

1. ELECTRICITY TARIFFS ADOPTED FROM ERE (REGULATED SEGMENT)

SMEs in Albania are connected to the low and medium voltage levels, specifically 0.4, 6, 10, 20 and 35 kV (in 20 kV and 35 kV we may identify as well corporates). The tariffs for the year 2021 are as follow: 0.4 kV: 14 All/kWh, whereas, for the customer equipped with two tariff meter, the tariff of 16.1 All/kWh for 5 peak hours/day applies. 6, 10 and 20 kV: 11 All/kWh, whereas, for the customer equipped with two tariff meter, the tariff of 12.65 All/kWh for 5 peak hours/day applies.

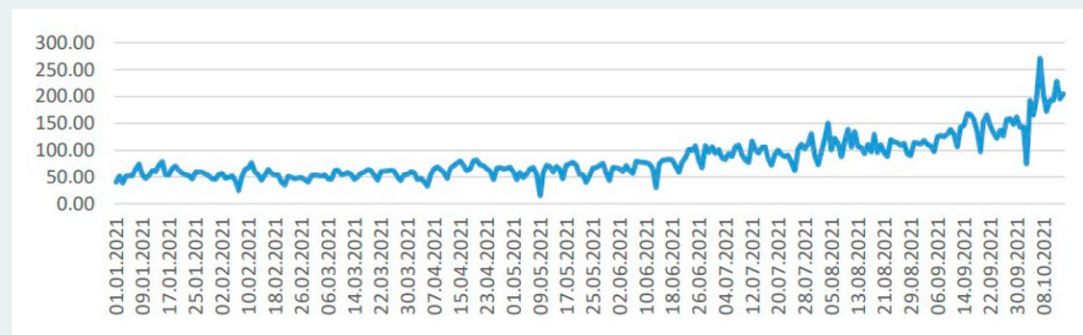
2. ELECTRICITY PRICES ON THE DEREGULATED MARKET

As of August, mainly due to the lack of gas reserves/supply, currently the gas index, TTF, is 98.50 EUR/MWh (in same occasions even 110 EUR/MWh) – before the crisis ~ 15 EUR/MWh) and, considering that gas units, in many European countries set the marginal price, the European markets are experiencing a significant price increase, not only on short level (day – 1 month ahead), but as well on long term basis (year/s in advance). Higher than usual market prices are not per se a sign of malfunctioning markets, in particular when they follow underlying market fundamentals (as the case actually). Forward markets expect a significant drop in wholesale prices for gas in spring 2022. A key variable in the very near term is the upcoming winter and its implications for gas demand. The average unit/price before

the crisis (January – July 2021) was 65.62 EUR/MWh, whereas, as result of the crisis, the average unit/price for the period 01.08.2021 – to-

day, is 133.48 EUR/MWh (market prices are based on the Hungarian prices, a market reference for Albania and as well the region).

Figure 22.



The electricity crisis is expected to continue for at least until 2022, whereas, the markets are ex-

periencing a significant increase of the future prices, specifically Cal 22 product.

Figure 23. Year 2022 baseload

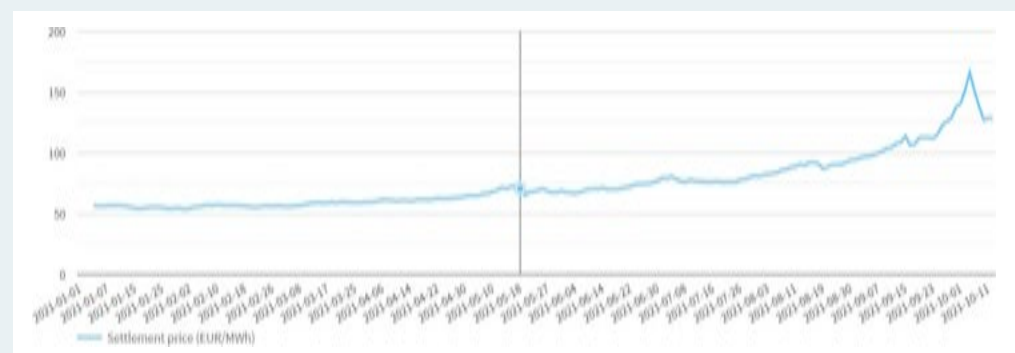
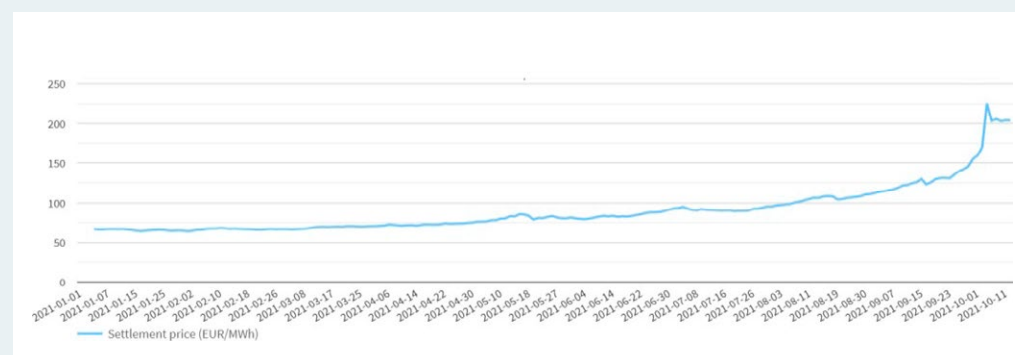
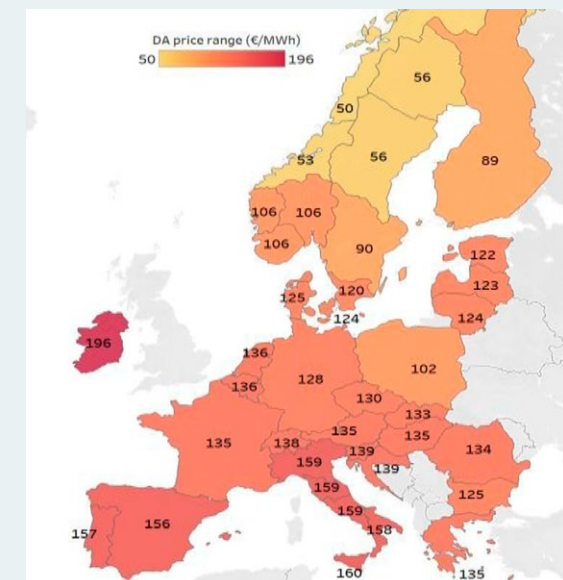


Figure 24. Year 2022 peakload



As we may notice, the entire region is directly affected from the current crisis.

Figure 25. Average electricity prices for bidding zones in Europe: September 2021 (EUR/MWh).



3. SHORT TERM IMPACT OF THE ELECTRICITY PRICES ON THE ALBANIAN SMES

In regard to the regulated segment, we should not expect any price increase in the segment of the customers connected to the low voltage (0.4 kV), which represent the small enterprises and part of the medium segment. This is to be attributed to the mix of the electricity secured from FSHU sh.a. at the very competitive cost of 2.9 All/kWh - ~ 24 EUR/MWh (page 22 of the [FSHU application for 2021](#)). Of course, under the current crisis, this is to be considered only as an estimation. In regard to the deregulated segment (customers connected to the 35 kV voltage level), the electricity cost is already significantly increased, specifically:

September 2021 = 17.00 All/kWh (actual HU price of 135.10 EUR/MWh + CBC costs 6,63 EUR/MWh);

October 2021 (01 – 12) = 23.18 All/kWh (actual HU price of 184.20 EUR/MWh + CBC costs 8,98 EUR/MWh);

November – December 2021 average future price = 26.29 All/kWh (future HU price of 213.10 EUR/MWh + estimated CBC costs 6 EUR/MWh).

The above prices are to be considered as the possible lowest, since do not reflect the costs for the imbalances and the margin of the supplier. In addition, to these prices, we would need to add the transmission fee (0.75 All/kWh) and the distribution fee (1.5 All/kWh).

Considering that the SME-s consume mostly peak load electricity (08:00 – 20:00, Monday – Friday), the above prices would need to be increased with an average of 20% - 40%, depending on the product required from the customer.

4. LONG TERM IMPACT OF THE ELECTRICITY PRICES ON THE ALBANIAN SMES

The Albanian electricity system is on-parallel synchronized with the continental Europe and is very well interconnected with its neighbouring countries. In this regard, considering as well the shortage nature of the Albanian electricity system, the electricity market is integrated with the European one, thus, due to its interaction, directly influenced by it. The influence is to continue as well in the future, despite the lack, in prima facie, of a direct correlation between the two main elements, currently impacting the European electricity market, and the Albanian market (Albania does not possess internal gas infrastructure and is not part of the EU Emis-

sions Trading System, currently traded at 59.90 EUR/MWh).

Due to the lack of the harmonization of the decommissioning of the conventional power plans and the climate change objectives, we may expect a stabilization of the price (still at the level of ± 80 EUR/MWh) only as of 2023.

Albania, due its production mix (only HPP-s & micro solar PP-s) at a variable cost of $\pm 1,5$ EUR/MWh, could be positively influenced from the current electricity crisis only in cases of surpluses, thus exports (as the case in Cal 2010, HI 2018, HI 2021 etc.).

The most important element to be considered for the SME-s (mostly for the medium segment, since the small segment could still enjoy the services of the Universal Supplier, as defined in the point 2.3 of the [Order of the Minister of Infrastructure and Energy](#) No. 28, dated 18.01.2021, hereinafter MIE order), is the deregulation for the customers connected to the medium level. Based on the points 3.2 & 3.3. of the MIE Order, 26% of the customers connected to the 20 kV would have to join the deregulated segment as of 01.01.2021 (the new deadline still to be defined), and 74% one year later, whereas, the 28% of the customers connected to the 10/6 kV would have to join the deregulated segment as of 01.01.2022 (the remaining, depending on the establishment of the smart infrastructure to this segment).

The above customers are expected to be exposed to the market prices, thus increasing further their costs (at least until the electricity crisis/prices will remain in the current levels).

The Albanian Power Exchange (ALPEX) is scheduled to go live on HI 2022. Considering its partial compulsory participation for the locally produced electricity and the full compulso-

ry participation for the suppliers of electricity, ALPEX is expected to increase the amount of the electricity, locally produced, available as well to the deregulated segment. In addition, will have a direct impact on the SME segment, since will enable them to have access to ALPEX, practically to the Albanian electricity price (a price which, at least in periods of surpluses, could be decoupled from the European one, thus not necessarily reflecting the elements that currently impact the European prices).

Switching of the supplier process/opportunities

The switching of the supplier process is enabled from the related [ERE rules](#) and is a simplified process that is positively tested in practice, since balances the interests of the customers and suppliers. The customers, through simplified and free-of-charge procedures, could easily switch their supplier.

Currently, considering the electricity crisis that we are experiencing, the customers active in the regulated segment, due to the electricity secured from the Universal Supplier at low price, do not have any incentive to be supplied from alternative suppliers at market prices. This process could be vitalized only with the establishment of ALPEX.

5. MEASURES TO BE ADOPTED IN ORDER TO ADDRESS THE INCREASED ELECTRICITY COSTS

As noticed from the very latest [report of the EU Agency for the Cooperation of Energy Regulators](#) (one the most authoritative European entities) ... there is no obvious indication nor evidence of systematic manipulative behavior or insider trading under REMIT causing the high energy prices. As such, the future electricity system is

likely to remain inherently volatile, with prices varying significantly as a function of generation availability. As a result, there is a need to incentivize those providers and technologies that can “smooth” this volatility (be it batteries, larger-scale storage, aggregated demand-response providers like electric vehicle fleets, energy communities etc.) ...

In any case, the main measures that Albania may adopt, are to properly address the prosumers (increase of production) and the energy efficiency (decrease of consumption).

6. PROSUMERS

Albania has a great potential in regard to the electricity to be produced from solar PV (in non-productive lands the potential is 1900 MW). [Potential of Albania](#) still should be exploited, since, every kWh produced in Albania, replaces the import of that kWh with a cost of at least 200 EUR/MWh (current prices).

Prosumers (aliter “self-consumption generators”) are defined as electricity consumers that produce part of their electricity needs from their own power plant and use the distribution network to inject excess production and to withdraw electricity when self-production is not sufficient to meet own needs.

Prosumers in Albania are entitled to produce electricity from rooftop solar plans (as well from units installed in non-productive lands), with installed capacity of up to 500 kW. MIE, through the Order No. 3, dated 20.06.2019 (hereinafter [MIE order](#)) has adopted simplified procedures for enabling the installation of the PV plans, specifically:

the installed power capacity shall not exceed that corresponding to the consumed electricity. For this, the historic consumption of the last

two years shall be taken into consideration or the report prepared from an electricity auditor;

study for the connection to the grid;

OSSH has 30 working days for ruling on the request (other technical details are available in the [OSHEE homepage](#)).

Despite this very positive and welcomed step, a step that enabled the installation of the first rooftop solar plans, still, considering the actual electricity crisis/prices, Albania may need to address at least two issues that could easily accelerate further this process.

Article 15.3 of the [RES law No. 7/2017](#), stipulates that generated and consumed electricity from a prosumer are netted on monthly basis. This, in combination with the still non-adoption of the methodology for off-taking the non-netted surpluses from the prosumer, not only reduces further the installed power capacity, but, in most cases, does not even make the project very attractive (at least before the crisis). In winter period, electricity consumption is high (or same) and the electricity produced from the solar PV is lower (additional surpluses, off-taken by OSHEE, but not paid), whereas, in summer period, electricity consumption is low (or same) and the electricity produced from the solar PV is high (additional surpluses, off-taken by OSHEE, but not paid) The article 15.3 of the RES law need to be amended, in order to enable netting of electricity on yearly basis and not on monthly basis. In addition, the methodology for the off-take price need to be adopted.

Albania, comparing to the [Western Balkan countries](#), in regard to the prosumers, stand in a very up position (to be considered as a quite positive step) in regard to the installed pow-

er capacity (up to 500 kW), whereas in other countries this value is quite smaller (Bosnia 50 kW, Kosovo 100 kW, Montenegro 50 kW). In case that we would aim to reduce further the implications from the electricity crisis/prices, we may still increase the installed power capacity up to that corresponding to the consumed electricity. Alternatively, in case of system constrains, we may follow the Greek and Serbian example and limit the installed capacity up to 1 MW, in order to correspond as well to the generators that are not required to obtain a license from ERE (as defined in the Article.

37.6.b of the Power Sector Law).

In order to identify the benefits from this technology, we have calculated and compared the Net Present Value (NPV) of the solar PV, with regulated tariffs adopted from ERE (tariffs for the 6, 10 & 20 kV) and at market prices. We have taken into consideration the SME-s segments connected to the medium voltage (installed capacity of 100 kV, 200 kV & 500 kV), since are expected to join the deregulated segment (at a time to be defined). The NPV calculated at market prices, is valid as well for the customers connected to the 35 kV.

Figure 26. NPV or PV systems (Actual tariffs)

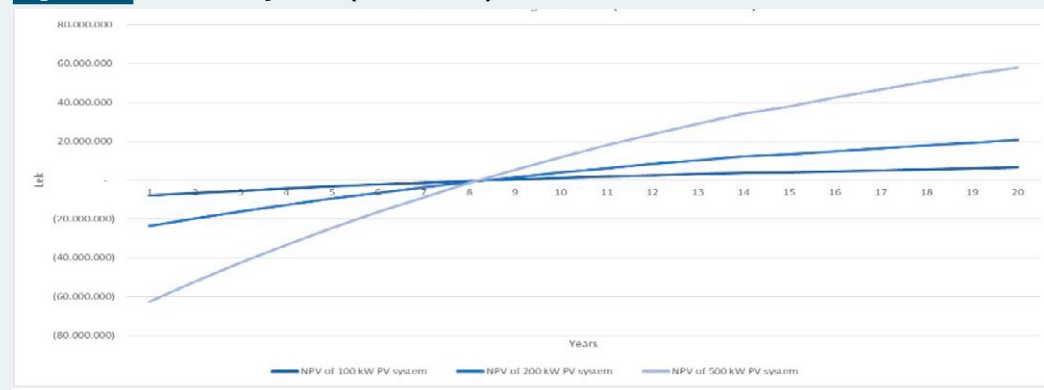
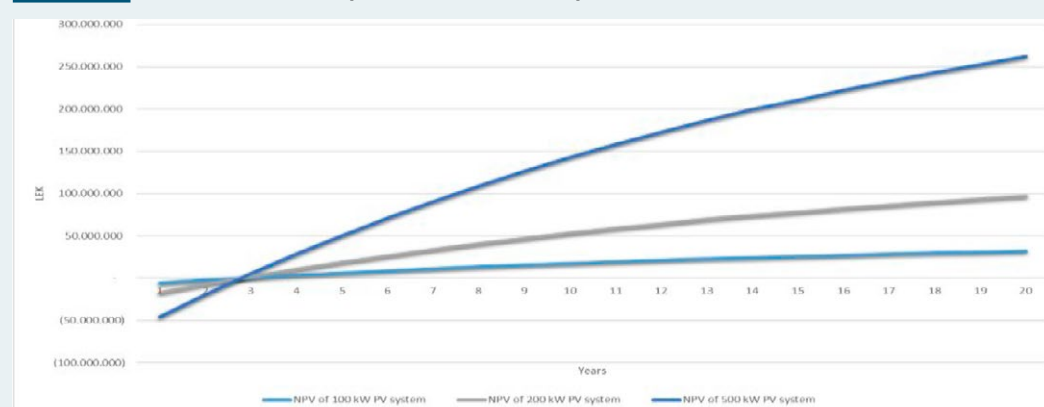


Figure 27. NPV or PV systems (Actual market prices)



As it is very easily identified, the investment in a solar PV plan is quite profitable and attractive if the customer is (or will be) exposed in the deregulated segment.

7. ENERGY EFFICIENCY

The moto here is: making energy efficiency the first fuel. In regard to the Western Balkan countries, all WB6 parties, with the exception of Bosnia and Herzegovina, are on track with meeting

the 2020 energy efficiency target. Investments in energy efficiency in buildings picked up in the past year, however, only one third of the estimated investment needs for 2011-2020 have been met.

Figure 28. Implementation of energy efficiency 2020 targets

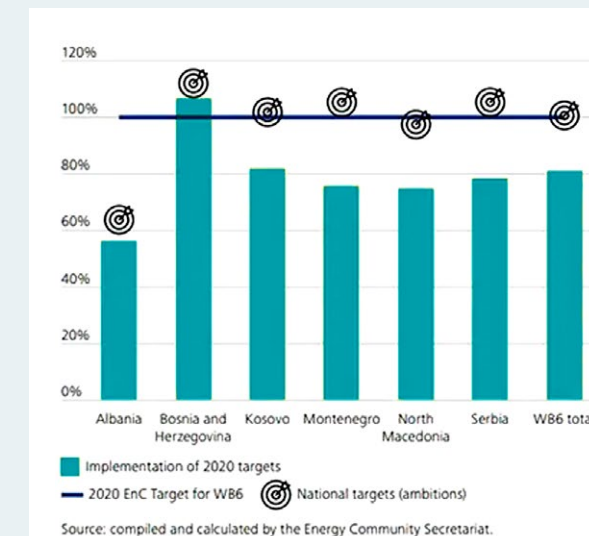


Figure 29. Energy productivity (%of EU average), 2018

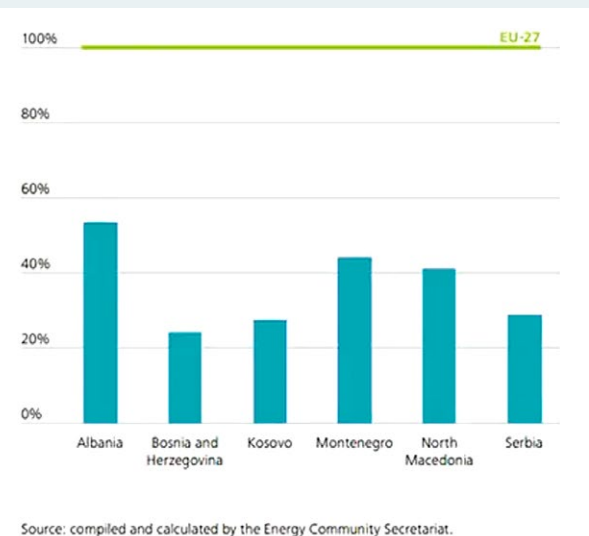


Figure 30. Investment gap in energy efficiency in buildings programmes



We have identified many positive steps in this segment, however, we may still improve this, at least in the SME segment, through:

- » energy management, by establishing an energy policy, and creating a cross-functional energy team. Steps and procedures are then put in place to assess performance through regular reviews of energy data, technical assessments and benchmarking.
- » steam and high temperature hot water boilers offer many energy savings opportunities which can make significant cost savings to industries. The most appropriate option depends on the type of boiler and heating system, the requirements of the process or other heating demands and budget.
- » compressed air in industry is widespread and is somehow used in almost all sorts of applications. A typical compressed-air system consists of a supply side, which includes compressors and air treatment and a demand side, which includes distribution and storage systems and end-use equipment.
- » industrial refrigeration plants are not only costly in capital terms but have significant operational costs, primarily due to their own energy consumption. Refrigeration systems typically cost seven to ten times as much to run over their lifetime as they do to buy. The use of heat recovery from a refrigeration system is recommended when there is hot air or

water consumption for processes, cleaning or heating close to the refrigeration site and when the heat demand is simultaneous with the working time of the cooling plant.

8. AS A CONCLUSION:

The proposed amendments in the RES law by addressing the monthly netting and the increase of the installed capacity, and, in addition, the adoption of the methodology for off-taking the surpluses, will make the investments in the solar PP segment very attractive for the business community. No need to mention that investments are required in order to accommodate the increased solar PP production and, in addition, market assessment from the public side.

Using the momentum, Albania may speed its target of energy efficiency, through stimulating smart approaches, transforming the electricity crisis, from a direct threat to its economy, to a great opportunity. For that a) set up an energy SME efficiency team that will evidence SME energy related issues for specific sectors and advocate and promote relevant knowledge for the use of alternative sources of energy (solar, energy efficiency in building, steam and hot water, etc.) b) facilitate access to relevant instrument provided by the government and donors c) increase understanding on the energy prices.

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The Investment Council facilitates the development of mutual trust between the business community and the government in Albania and contributes to an incremental institutionalization of effective policy dialogue. It contributes to the national reform and economic transition process by enhancing institutions, laws and policies that promote market functioning and efficiency.

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Published by the Investment Council Secretariat (ICS), Dëshmorët e Kombit, Tiranë, Shqipëri
info@investment.com.al / www.investment.com.al / ICS is responsible for the content of this publication.

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