



Albania
Investment
Council

Improving Transparency and Investment Climate

FROM LOW WAGES TO LABOUR PRODUCTIVITY

Tirana, April 2023

ABBREVIATIONS

This working document was prepared in the framework of the Meeting XXX of the Investment Council (18 April 2023) by the experts of the Secretariat of the Investment Council, Ms Elida Fara, Economic Expert, Mr Elvis Zerva, Legal and Regulatory Expert, Ms Xaira Shurdha, Monitoring and Liaison Expert, under the direction of the Head of the Secretariat, Ms Diana Leka (Angoni). Supported in the language editing of the material, Ms Elisa Lula, Administrative and Communication Officer at the Secretariat.

We thank for the contribution and views expressed the chambers of commerce (AmCham, Tirana Chamber of Commerce, Union of Producers), and private companies (506 respondents to the survey), who cooperated with the Secretariat during the preparation of this material.

ALL	Albanian Lek
CoM Decision	Council of Ministers Decision
EU	European Union
GDP	Gross Domestic Product
IC	Investment Council
ILO	International Labour Organization
MFE	Ministry of Finance and Economy
MSME	Micro, Small and Medium-sized Enterprise
NESS	National Employment and Skills Strategy
NLC	National Labour Council
OSCE	Organization for Security and Cooperation in Europe
PM	Prime Minister
RER	Regular Economic Report
WB	Western Balkans

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INTRODUCTION

Given recent public debates on minimum wage levels and policy dynamics, we evidence different views related to policy intervention options and ways to increase the competitive advantage of domestic businesses. Also, from an investor's perspective, should they still consider local labour cost as a key competitive advantage compared to other Balkan countries? Despite progress in digitization and other macro indicators, Albania is still considered one of the laboured economies in the Western Balkan, with low levels of business sophistication, innovation, and entrepreneurial knowledge. *Out of all Western Balkans and Turkey economies, Albania enjoyed the highest share of SMEs in the economy's exports, amounting to 64% in 2020. With the adoption of new support measures to promote exports among SMEs and increase their export capacity, as well as a rebound in international trade following the post-COVID-19 recovery period, the SMEs' share of exports is bound for an increase in 2021 and 2022¹.*

In practice, the impact of minimum wage laws on the economy and employment can be complex and depend on various factors, such as the minimum wage level, the economy's strength, and the industry's competitiveness. Some advocates of minimum wage laws argue that they help reduce poverty and inequality by ensuring that workers are paid a fair wage. They also argue that minimum wage laws can help to stimulate economic growth by increasing consumer spending². *Opponents of minimum wage laws* argue that they can lead to job losses and decreased economic competitiveness. They argue that employers may be less likely to hire new workers or may be forced to lay off existing workers to comply with minimum wage laws³. From a domestic private sector perspective, an increase in the minimum wage would be a positive step due to current labour market shortages. It enabled a debate and facilitated a process that would probably have been initiated well

¹ https://www.oecd.org/south-east-europe/programme/FINAL_SMEPI-pocketbook-2022-online.pdf

² <https://www.imf.org/en/Publications/fandd/issues/2019/03/does-a-minimum-wage-help-workers-basics#:~:text=Minimum%20wages%20have%20been%20justified,inequality%20and%20promoting%20social%20inclusiveness.>

³ <https://www.oecd.org/cfe/smes/2090740.pdf>

before. But what is the local entrepreneur's view on that? The impact of wages on MSME competitiveness can depend on a variety of factors, including the industry, labor market conditions, and the specific business strategy and objectives of each MSME. **There is a consensus that the competitiveness of an individual MSME is strongly related to the "quality" of its owner/manager. "Quality" is, in this context, strongly related to the individual's human capital, influenced by a combination of formal education, training, and experiential learning**⁴.

The IC has tackled in different meetings private sector issues concerning human capital and competitiveness and some positive steps are noticed through the years in regard to the IC recommendations such as (1) *four CoM decisions⁵ were approved during 2020 aiming to incentivize employment through subsidizing businesses that intend to hire/employ unemployed jobseekers by paying the salaries and social contributions for a period of maximum one year according to the special employment programs applied, including also training for the interested self-employed persons,* (2) *improvements in the BPO sector by increasing capacities of the Albanian Business Services Association, as a representative institution; and re-*

*viewing the legal framework and taking actions to reduce the informality of the sector, (3) amelioration of early development career counselling from Universities in collaboration with the private sector, (4) innovation support for the new generation and start-up companies in the ICT sector through the sustention of new IT Hubs investments*⁶.

While in the last IC meeting, it was recommended "to address the labor shortage in short and medium – terms, as well as productivity increase, MSMEs' owners should strive to make work more sustainable by increasing remuneration, health, and well-being packages for employees, clear career paths and salary structure.

Using the momentum, this working paper aims to mobilize partners' efforts to reshape the focus and attention of the public debate from low wages to labor productivity and business sophistication. Relying upon local entrepreneurs' perception (506) on the impact of the increase of low wages, we aimed to get an insight into their feedback on productivity, employer motivation, market competitiveness, and their perspectives on the potential wage increase. Furthermore, selected consultations with individual entrepreneurs and IC business association members are organized to discuss potential recommendations in regard further.

⁴ <https://www.oecd.org/cfe/smes/2090740.pdf>

⁵ - DCM no 17 DT 15.01.2020 "On procedures, criteria and rules for the implementation of incentive programs of employment through employment, on-the-job training and professional practices"

-DCM no. 348, dated 29.4.2020 "On procedures, criteria and rules for the implementation of the incentive program through self-employment";

- DCM no. 535 dated 08.07.2020 "On procedures, criteria and rules for the implementation of the public works program in the community";

- DCM no. 608, dated 29.07.2020 "On procedures, criteria and rules for the implementation of the incentive program through the employment of unemployed persons as a result of COVID-19"

⁶ The Tech Space at the Pyramid and different Tech Hubs

METHODOLOGY

The analysis is based on an inclusive methodology which consists in:

- i. Desk Research* - Consultation of documents, laws, bylaws, and national and international reports.
- ii. Synthesis of the findings and recommendations* presented in national and international reports from several actors.
- iii. Questionnaire* – a structured survey was sent online to at least 35,000 companies of Secretariat's database and received a total

of 506 anonymous answers during March 2023. The objective of the survey was to highlight the challenges from the perspective of entrepreneurship by documenting the effects on productivity and competitiveness.

- iv. Organisation of consultation meetings* with business associations – Tirana Chamber of Commerce and Industry, Producer's Association, AmCham, and previous IC member, such as Omega Ltd.

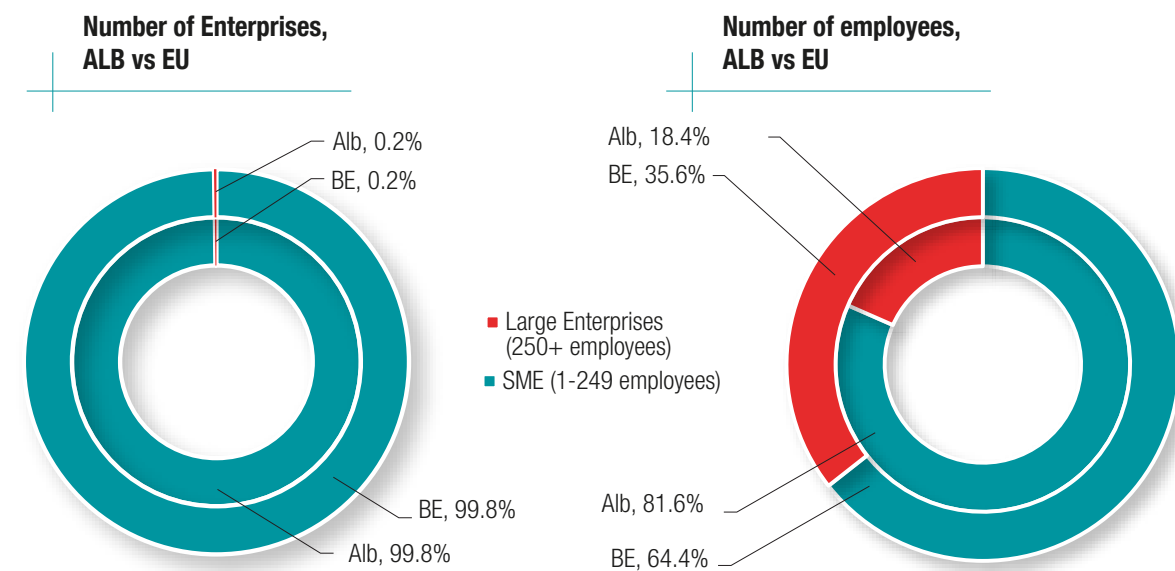
CONTEXT

1. STRUCTURE OF THE ECONOMY AND VALUE-ADDED IN THE COUNTRY

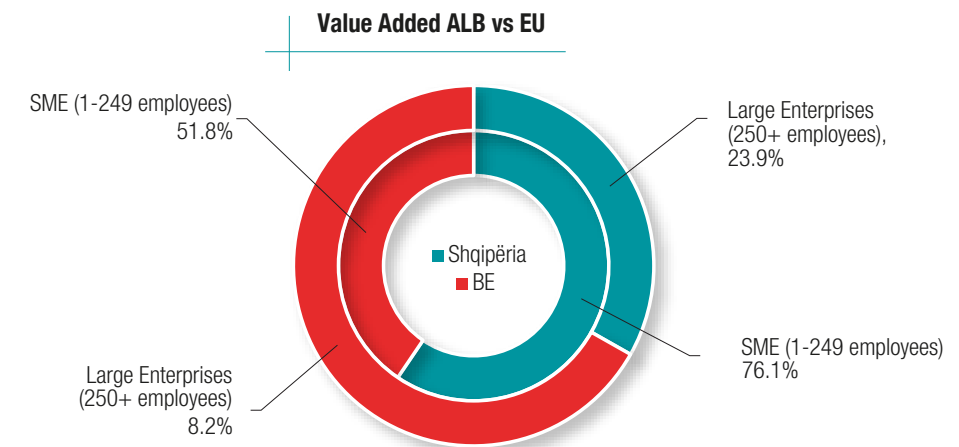
The composition of the Albanian economy is primarily characterized by micro, small, and medium-sized enterprises (MSMEs), which account for 99.8% of all enterprises, like the structure of the European Union (EU) economy.

However, there are notable distinctions. In the EU, large enterprises employ 35.6% of the total workforce, whereas, in Albania, they only employ 18.4% of the workforce. Additionally, the value added by MSMEs in the EU is 51.8%, in contrast to Albania, where MSMEs contribute a higher percentage of 76.1% to the economy.

Figure 1. Number of enterprises, number of employees, and value-added, Albania vs. EU 2021



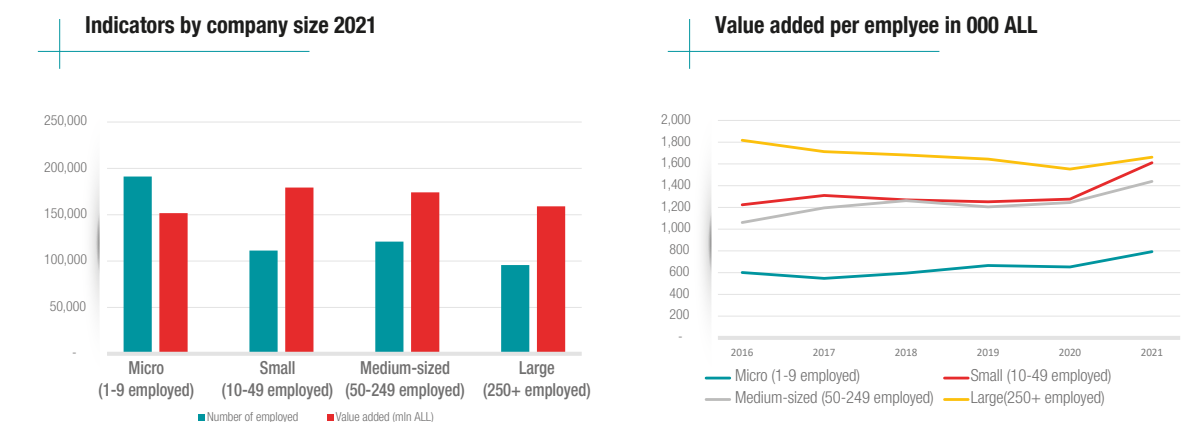
Source: INSTAT



The data indicates that the value added per employee rose across all company sizes in 2020. Notably, small companies with 10 to 49 employees

experienced a significant increase in value added per employee, whereas large companies experienced a relatively modest increase in comparison.

Figure 2. Value added as per company size.



Source: INSTAT

2. MINIMUM WAGE, DEFINITION, AND RECENT POLICY DYNAMICS IN ALBANIA

The minimum wage (also referred to as the *statutory wage floor*) refers to the lowest wage that employers are legally required to pay their workers. It is the *minimum amount of remuneration that an employer is required to pay wage earners*

for the work performed during a given period, which a collective agreement or an individual contract cannot reduce⁷. The purpose of minimum wage laws is to ensure that workers are paid a fair wage that allows them to meet their basic

⁷ https://www.ilo.org/global/topics/wages/minimum-wages/definition/WCMS_439072/lang--en/index.htm

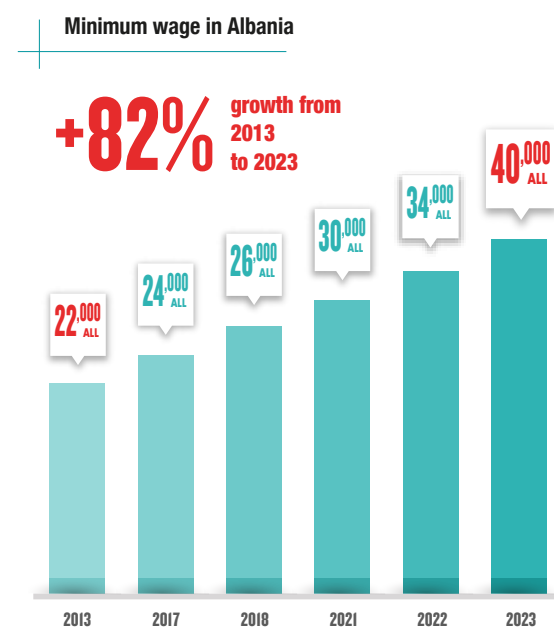
needs and support themselves and their families. Minimum wages can also be one element of a policy to overcome poverty and reduce inequality, including those between men and women, by promoting the right to equal remuneration for work of equal value⁸.

According to OECD, statutory wage floors are the most direct policy lever governments have for influencing wage levels at the bottom of the distribution. Minimum wages have been justified as a measure for: i) ensuring fair pay and counterbalancing the negative effects of firms' labour market power; ii) making work pay; iii) boosting tax revenue and/or tax compliance by limiting the scope of wage under-reporting; and iv) providing an anchor for collective bargaining, particularly for vulnerable workers with low bargaining power. With inflation reaching levels not seen in the last four decades in most OECD countries and hitting disproportionately the most vulnerable, low-income households, minimum wages may become an even more important tool to protect the standard of living of low-paid workers while keeping inflation and public finance under control. Beyond increasing the minimum wage, other tools have to be mobilized to protect the income of vulnerable households, from negotiations with and between social partners to targeted and temporary energy bonuses to in-work benefits and other social transfers. Workers cannot absorb the costs of inflation alone. Nor can companies or governments⁹.

Albania's minimum wage is determined by

the Council of Ministers and typically follows a general consultation approach with the National Labour Council. The latter is a consultative body that represents the employees' organizations, employers' organizations, and other governmental agencies in a tri-partite platform of dialogue with social partners, where the following are discussed and considered: economic factors, economic development, production growth and the decrease of unemployment, as well as other social factors that influence the standards of living.

Figure 3. The historical increase of the minimum statutory wage in Albania



Source: INSTAT & CoM Decisions¹⁰

¹⁰ Ref. Council of Ministers publications and CoM Decision 809 dated 26.12.2008, CoM Decision 1025 dated 16.12.2020, CoM Decision 158 dated 12.03.2022, CoM Decision 604 dated 14.09.2022 and CoM Decision 113 dated 01.03.2023

⁸ https://www.ilo.org/global/topics/wages/minimum-wages/definition/WCMS_439072/lang-en/index.htm

⁹ Minimum wages in times of rising inflation-OECD, December 2022

According to the NESS draft strategy presented for consultation in 2022, the value of the minimum wage should reflect economic changes, living standards, and productivity growth¹¹. The ratio of the legal nominal minimum wage to the average wage in the economy, the Kaitz index, has increased in recent years, estimated at about 0.59 in 2021, from 0.42 in 2017, which is higher than the average of European countries (from 0.33 to at 0.48). This ratio is still higher in some sectors, such as agriculture, extractive industry, construction, and trade, where the underreporting of wages can be higher than in other sectors. The same is reflected in the group of professions. The gender gap in wages can also be observed in this analysis. Private sector wages are also lower than average wages and public sector wages.

In addition to the last increase of the statutory minimum wage of 40,000 ALL and with legal effect as of April 1st, 2023, the CoM provided for financial compensation due to the increase of social security contributions and health for each minimum wage employee, subject to such increase. CoM Decision 114 dated 01.03.2023 provides that financial compensation is given to the extent of social and health contributions calculated on the increase of the minimum wage from 34,000 (thirty-four thousand) ALL to 40,000 (forty thousand) ALL, for each employee with a minimum wage, for each month, for the contribution period April 2023-December 2023. The financial compensation is in the amount of 1,674 ALL/month for each employee. Beneficiaries to such financial contribution are subjects who exercise activity in the economic sectors of nomenclature of economic activities in the processing industry, agriculture, forest, and fishing.

¹¹ <https://konsultimpublik.gov.al/Konsultime/Detaje/561>

The financial effect of such support is calculated in the amount of 452,000,000 ALL.

Following the above measures, the PM has launched a national plan for the increase of wages in the public sector, making references to the increase of such wages for different segments and categories of sectors. However, as of today, there is no published document to streamline the financial basis, extremities, and modalities of such an increase, nor the financial sources that will support this plan. From the consultations of the Secretariat with business actors, it is estimated that such an increase shall also move up the curb of average wages in the private sector.

In addition to the above and in a controversial way, this measure was also preceded by the approval in the Albanian Assembly of the Law on Income Tax which *inter alia*, removed from the category of the small business for purposes of 0 simplified tax on income until 2029, those taxpayers registered as sole entrepreneurs in the trade register and providing professional services. The latter should be subject to a progressive tax on their income with legal effect as of January 1st, 2024.

During our consultation process, some businesses (garment) considered the application of the current tax scheme on income/wage (progressive tax) as complicated due to its fragmentation for calculation purposes in many thresholds, especially for small and medium enterprises¹². However, it needs to be further analysed, probably through a deeper study in the future.

¹² Considering that the average wage is expected to increase significantly in the upcoming months, there are also expectations for the increase of the minimum threshold above which the application of progressive tax is applied.

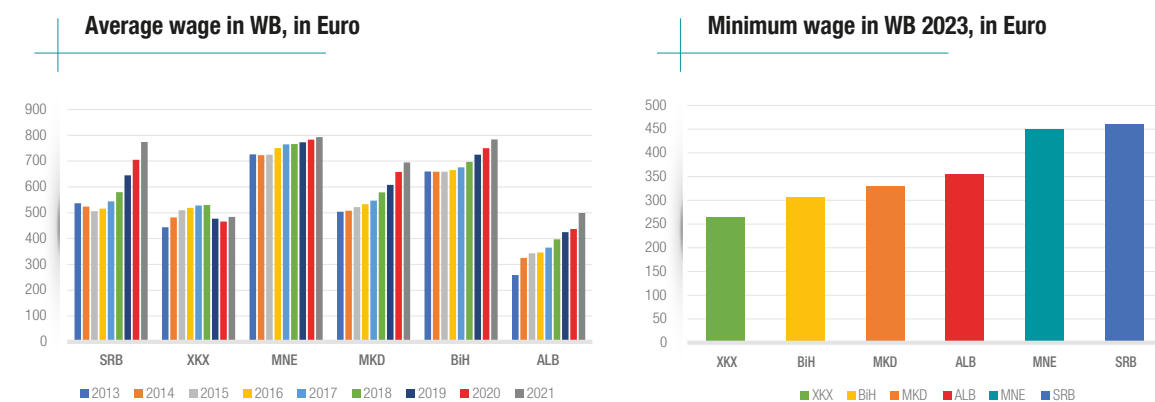
3. A SNAPSHOT OF THE MINIMUM AND AVERAGE WAGE IN THE WESTERN BALKANS

The published data indicate that among the Western Balkans countries, Kosovo has the lowest minimum wage, while Serbia has the highest. Albania ranks third in terms of minimum wage, with a rate of 356 euros for 2023. However, when comparing countries based on their average wages using 2021 data, Albania

is ranked last, whereas Montenegro has the highest average wage among all these countries.

According to World Bank Regular Economic Report, fall 2022, “*Labour shortages and high inflation in the Western Balkans have created wage pressures, which may slow the pace of hiring by firms. The region’s economies are announcing increases in minimum wages to offset the real income decline due to inflation*”.

Figure 4. Minimum and Average wage in the Western Balkans



Source: Statistical offices and secretariat calculations

4. ON PRODUCTIVITY AND COMPETITIVENESS

Increased productivity¹³ can have different meanings and implications for different companies. Generally, it refers to the ability of a company to produce more output with the

same level of input, which can result in higher profits, improved efficiency, and better use of resources¹⁴. For manufacturing companies, increased productivity may mean being able to produce more goods using the same equipment and labor force, resulting in higher production rates and increased profits. For service-based

¹³ Productivity is commonly defined as a ratio between the output volume and the volume of inputs. In other words, it measures how efficiently production inputs, such as labour and capital, are being used in an economy to produce a given level of output. There are different measures of productivity, and the choice between them depends either on the purpose of the productivity measurement and/or data availability.

¹⁴ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Labour_productivity#:~:text=Labour%20productivity%20measures%20the%20amount,output%20per%20input%20of%20labour.

companies, productivity may be measured by the ability to handle more customers or clients in the same amount of time or with the same number of employees, leading to improved customer satisfaction and profitability. For knowledge-based companies, increased productivity may mean improving processes, reducing inefficiencies, and maximizing output from employees, resulting in more innovative ideas and solutions¹⁵.

Labour productivity growth is a key dimension of economic performance and an essential driver of changes in living standards. Growth in the gross domestic product (GDP) per capita can be broken down into growth in labour productivity, measured as growth in GDP per hour worked, and changes in the extent of labour utilization, measured as changes in hours worked per capita¹⁶.

Overall, increased productivity is usually seen as a positive outcome for companies, leading to greater competitiveness, profitability, and growth opportunities. Increased productivity can translate to higher wages and better working conditions for workers. And in the longer term, increased productivity is key to job creation¹⁷.

The competitiveness of MSMEs can be affected by wages in several ways. On the one hand, higher wages can make it more challenging for MSMEs to compete with larger companies that have more resources and economies of scale. If MSMEs are unable to offer competitive wages, they may struggle to attract and retain

¹⁵ https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Labour_productivity#:~:text=Labour%20productivity%20measures%20the%20amount,output%20per%20input%20of%20labour.

¹⁶ <https://www.oecd.org/sdd/productivity-stats/40526851.pdf>

¹⁷ https://www.ilo.org/hanoi/Informationresources/PublicInformation/newsitems/WCMS_340867/lang--en/index.htm

skilled workers, which can negatively impact their productivity and profitability. On the other hand, paying higher wages can also cause benefits to MSMEs. It can help them improve employee motivation, satisfaction, and loyalty, leading to increased productivity and better-quality work. Additionally, offering higher wages can help to differentiate MSMEs from their competitors and position them as employers of choice, which can be especially important in tight labour markets.

5. SOME KEY MESSAGES FROM INTERNATIONAL REPORTS

(1) *EU Progress Report for Albania 2022*
Nominal wage growth accelerated to 6.6 % in 2021 from 2.4 % in 2020, partly reflecting a reduction in under-reported wages. Shortages of skilled labour and increases of public sector wages, mainly in health and education, pushed the average nominal monthly wage to EUR 465 in 2021. A leak of salary data of about 630,000 citizens in 2021 enabled a recently established special anti-informality unit of the government to target the widespread practice of under-reporting salaries on individual business level, and the tax authorities repeated their call on businesses and self-employed to correct their respective revenue declarations. These measures significantly reduced the number of employees receiving the minimum wage (about EUR 243) and contributed to the statistical wage increase.

(2) ILO

- » The ILO Centenary Declaration for the Future of Work.

It emphasizes the importance of adequate minimum wages, statutory or negotiated. The Declaration calls for the labour institutions to be strengthened to ensure adequate protection of all workers, and reaffirms the continued relevance of the employment relationship while recognizing the extent of informality and the need to achieve the transition to formality. In this context, all workers should enjoy adequate protections, considering respect for their fundamental rights; maximum limits on working time; safety and health at work; and “an adequate minimum wage, statutory or negotiated”. *Wages are indeed a key dimension of the well-being of workers and their families, and adequate minimum wages are an essential requirement for a human-centred approach to the world of work.*

- » The ILO Minimum Wage Policy Guide
In establishing adequate minimum wages, governments should make every effort to ensure the full consultation and, as far as possible, the direct participation, on an equal basis, of the social partners in the establishment and functioning of minimum wage systems. As emphasized in the *ILO Minimum Wage Policy Guide*, such consultations can be effective only when they are openly conducted and held before any decisions are taken by the public authorities (ILO 2016). This is because social dialogue recognizes a common interest in the well-being of businesses and workers and their families, despite the divergent views of the relevant actors on some occasions. For decision-makers, social dialogue is also an important opportunity for

obtaining useful information and for involving the relevant social partners in an effective policy design.¹⁸

(3) OECD

Some quotes on minimum wages in times of rising inflation

- » Effective co-ordination of minimum wage adjustments with the other tax and benefits provisions, including the extraordinary measures taken to cushion the effect of the crisis, is key to ensure that increases in the headline value of the minimum wage translate into higher take-home pay while limiting the rise in labour costs for employers and keeping the cost for public budgets in check. In some countries, the statutory minimum wage, formally or informally, is used as a reference for the adjustment of other policy tools, such as social minima, income tax brackets and benefit income eligibility thresholds with implications that can go well beyond minimum wage earners.
- » *Statutory wage* floors are the most direct policy lever governments have for influencing wage levels at the bottom of the distribution. Minimum wages have been justified as a measure for: i) ensuring fair pay and counterbalancing the negative effects of firms' labour market power; ii) making work pay; iii) boosting tax revenue and/

¹⁸ This improves ownership and buy-in from the social partners, which will permit more successful implementation. Social dialogue is also crucially important in minimizing misunderstandings and tensions, thereby contributing to the maintenance and strengthening of social and industrial peace. Furthermore, it is important to include independent experts and national statistical offices in the social dialogue process. As the various participants in social dialogue need to have advance access to relevant information to formulate their views, governments should devote sufficient resources to the collection of statistics on wages and other relevant data

or tax compliance by limiting the scope of wage under-reporting; and iv) providing an anchor for collective bargaining, particularly for vulnerable workers with low bargaining power.

In addition to the above, OECD studies provide examples of indexation mechanisms and methods followed with regard to wage indexation¹⁹. In some countries, such as Belgium, France, Luxembourg, and Poland, the minimum wage is formally and automatically indexed to prices (Annex III). Belgium, France, and Luxembourg link the minimum wage to the evolution of (past) prices (in Belgium and Luxembourg, the indexation mechanism is the same as the one for general wages, while in France, the formula also takes into account increases in real wages) and multiple increases can take place in years of high inflation. Poland links it to fu-

ture price developments and corrects it ex-post in case of a difference between the forecasts and the realised rate. In the Netherlands, there is also a form of indexation but, in this case, the minimum wage is not indexed to prices but to negotiated wages.

IC Secretariat has been proactive to bring on the discussion table issues that the Albanian ecosystem of entrepreneurship faces with regard to human capital and skills and the low productivity at the firm level, which hampers competitiveness. Several recommendations and concrete actions have been approved in the IC and addressed to the Government and its Agencies. Annex IV lists recommendations that are yet to be implemented or are currently in progress and require continued attention from both the public and private sectors for successful implementation.

¹⁹ Minimum Wages in Times of Rising Inflation-OECD, December 2022, page 7.

FINDINGS & ANALYSIS

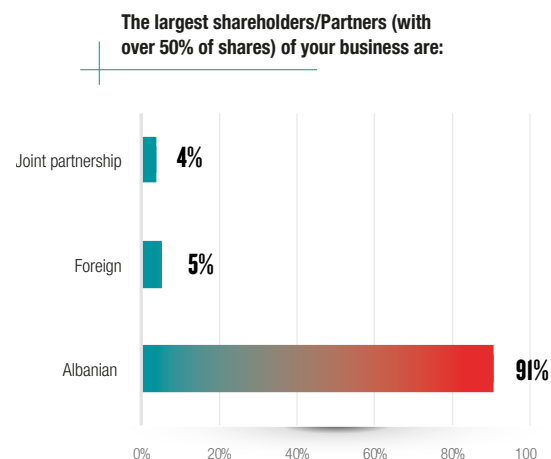
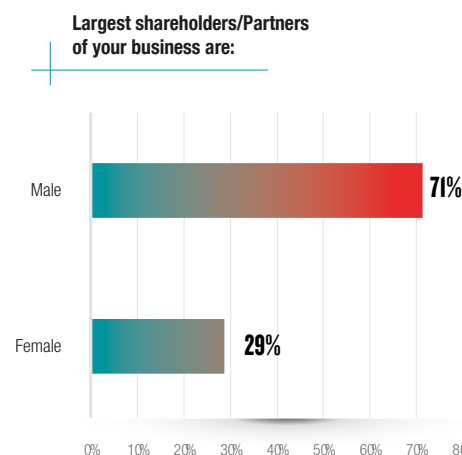
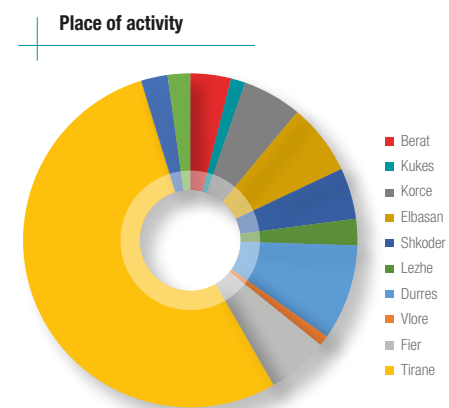
The key findings of the working document are summarized in three main pillars as per the concerns raised by businesses during the meetings and conducted survey: (i) Labor Productivity, (ii) Competition aspects, (iii) Policy and government support.

1. ENTREPRENEURS' CHALLENGES AND PERSPECTIVE ON MINIMUM WAGE IMPACT ON PRODUCTIVITY AND COMPETITIVENESS

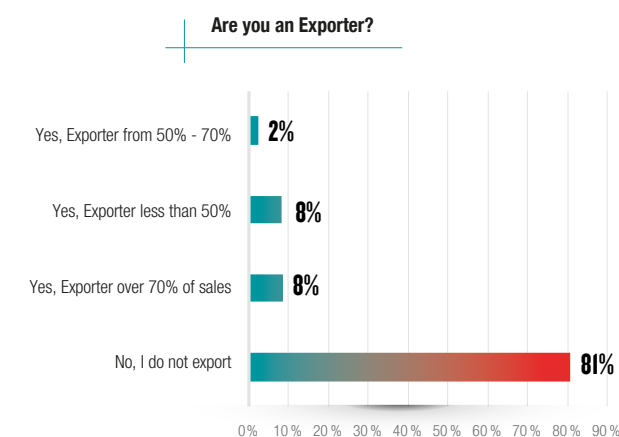
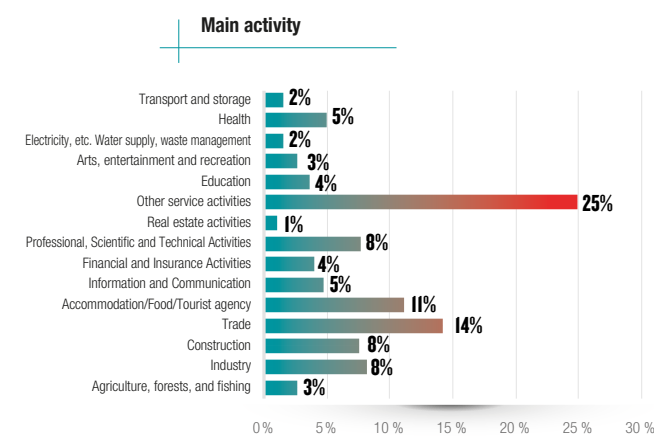
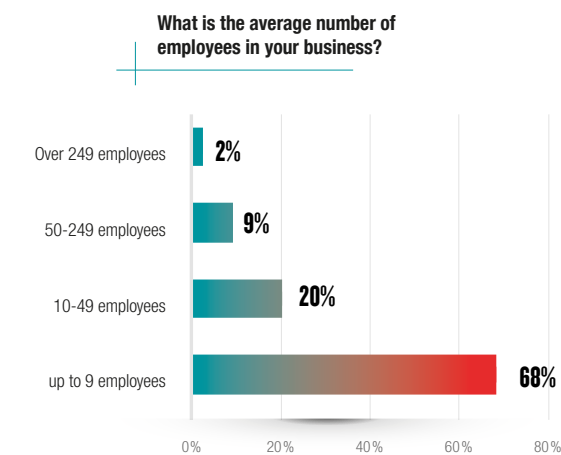
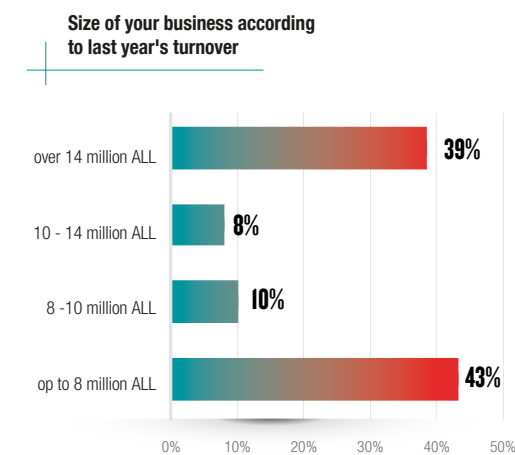
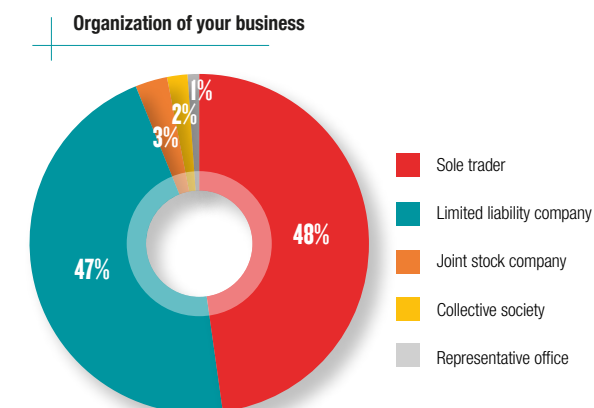
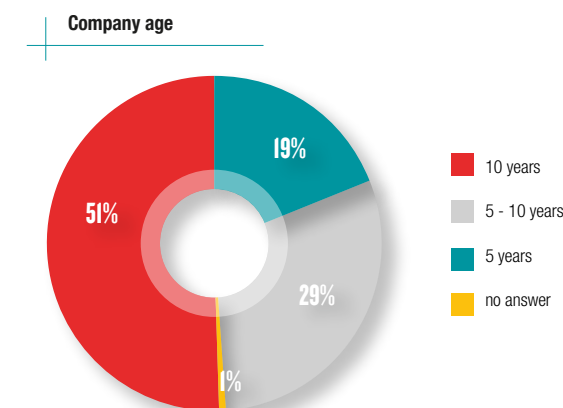
IC SURVEY RESULTS

The Secretariat conducted a brief survey in March 2023 to gauge the private sector's viewpoint on the government's move to raise the minimum wage. Responses were obtained from a total of 506 companies located in various counties. Presented below is a synopsis of the survey sample.

Figure 5. Synopsis of the Survey Sample



Source: Secretariat's Survey, March 2023



Most businesses are in Tirana County, and over half of the surveyed companies have been operating for more than a decade. These companies are typically structured as sole traders or limited liability companies and are primarily Albanian-owned. Male managers oversee 71% of the companies, and 43% have a turnover of less than 8 million ALL, while 39% have a turnover exceeding 14 million ALL. Nearly 70% of companies employ nine or fewer workers, and their main focus is in the services industry. Additionally, only 16% of businesses export their products or services.

Outlined briefly are the key findings of the survey:

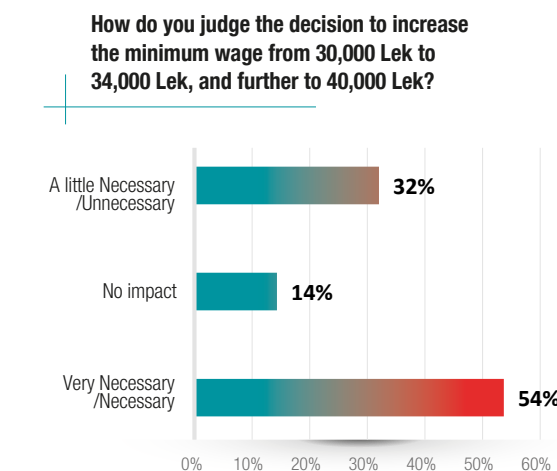
- » **Necessary increase:** Around 50% of businesses think that the increase in the minimum wage has been necessary/very necessary. This indicates that there is widespread recognition of the need to improve the wages of minimum-wage employees.
- » **A significant number of minimum wage employees:** A significant percentage of companies (34%) have more than 50% of minimum wage employees. This highlights the importance of the minimum wage increase for many workers.
- » **Increase in costs:** The increase in the minimum wage has led to an increase in the costs of business activities for most companies (84% experienced an increase of up to 30%). This has been met mainly by cutting profits and price increases rather than laying off employees.
- » **Impact on competitiveness:** Companies have a mixed perception of the impact of the minimum wage increase on their competitiveness. While 39% think it has had no impact, 37% think it has made them less competitive. This perception is more negative among exporters.

- » **Employee motivation:** Half of the companies perceive increased employee motivation at work (somewhat/enough), mainly in services, tourism, and industry. This suggests that higher wages can lead to increased employee morale and motivation.
- » **Productivity:** However, companies do not perceive an increase in productivity because of the minimum wage increase. Only 18% of them perceive an increase in productivity, mainly in services and tourism.
- » **Support for a further increase:** Despite the increase in costs, around 50% of companies support the further increase of the minimum wage, mainly in services, trade, and tourism. Around one-third of companies think that this will help curb the country's labor force's departure, mainly in tourism, trade, and industry.

2. LABOUR PRODUCTIVITY AND MINIMUM WAGE INCREASE

1. **Increasing the minimum wage is widely viewed as a means to potentially raise the overall trend of wages in the country, as there is a commonly held agreement on its necessity.** Low wages are perceived as a dominant factor of dissatisfaction and discouragement for employees/job seekers in the local private sector labour market, according to the data collected by the Secretariat on a questionnaire with 262 young people, with about one-fifth of the employees/job seekers mentioning it as main labour market challenge. Referring to data published by IN-STAT, for the economic activities of industry, construction and services, the average hourly labour cost per employee in full-time units in Albania is lower than in EU member and candidate countries.

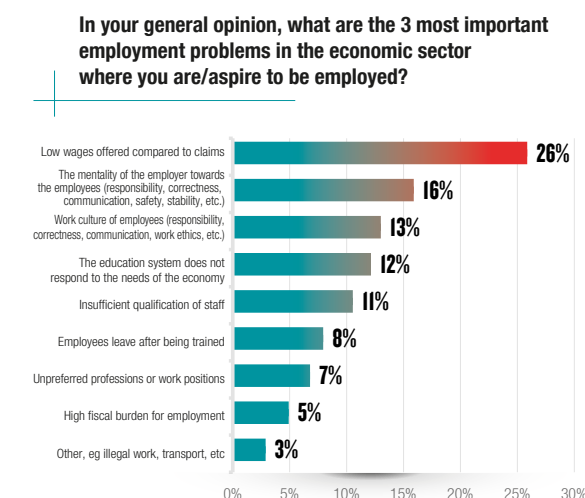
Figure 6. Minimum wage increase



Source: Secretariat's Survey, March 2023

2. According to the survey data, trade, tourism, construction, and industry are the sectors where the majority perceive an increase in the minimum wage as necessary/very necessary. However, when asked about the impact of the minimum wage increase on

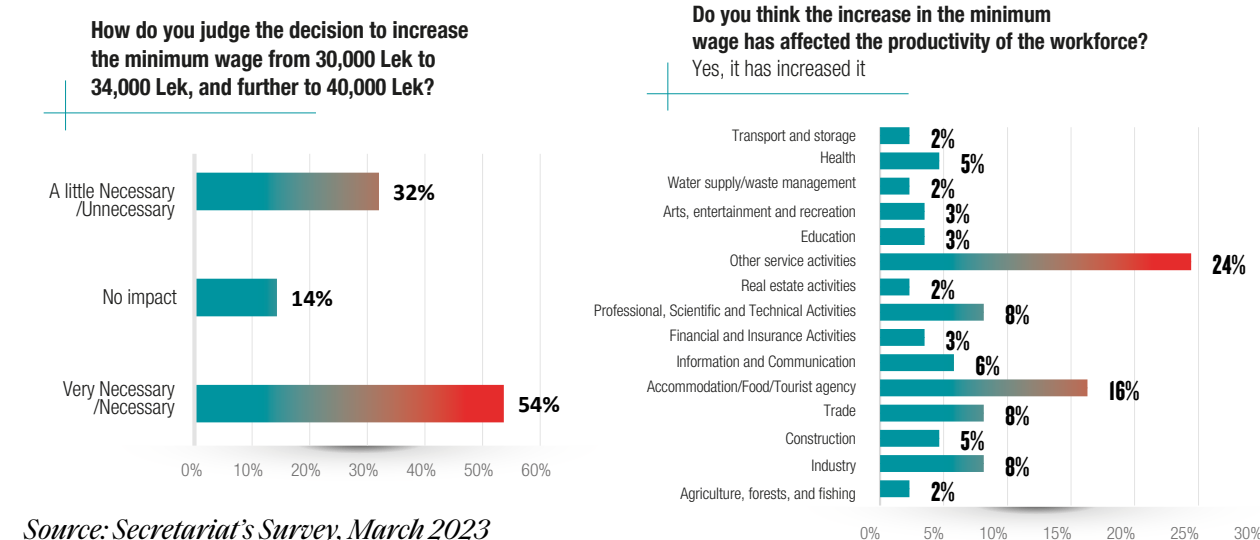
Figure 7. Main challenges in the labour market



Source: Secretariat's Survey, September 2022

productivity, 68% of companies reported that it had no effect on labor productivity. Only 18% of companies said it had increased productivity, *with tourism being the sector where this effect was most observed.*

Figure 8. Minimum wage increase and productivity according to activity



Source: Secretariat's Survey, March 2023

The relationship between labour productivity and minimum wage increase can be complex and multifaceted. Some argue that increasing the minimum wage can incentivize workers to work harder and be more productive, as they are being paid a higher wage for their efforts. This can lead to increased labour productivity, especially for low-wage workers who may have been struggling to make ends meet before the wage increase and may now have greater motivation to work harder and more efficiently.

However, others argue that increasing the minimum wage may lead to higher labour costs for employers, which could ultimately lead to reduced employment or reduced hours for workers. Moreover, the impact of a minimum wage increase on labour productivity may depend on several factors, including the specific context and industry, the size and type of employer, and the behaviour and motivations of individual workers.

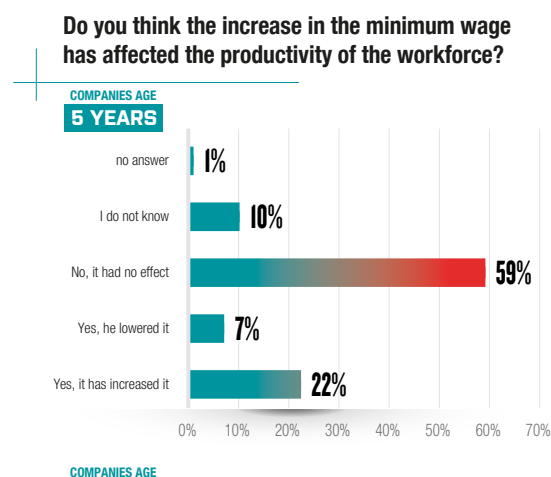
According to ILO²⁰, “recent studies have shown that minimum wages not only help to reduce wage dispersion and to channel productivity gains into higher wages, but they also can contribute to higher labour productivity – both at the enterprise level and at the aggregate economy-wide level”. At the enterprise level, workers may be motivated to work harder. At the aggregate level, minimum wages can result in more productive firms replacing less productive ones – and surviving firms becoming more efficient. These mechanisms can increase overall economy-wide productivity.

However, newer companies tend to view

the relationship between minimum wage and productivity more positively. A company’s age can also influence the relationship between labor productivity and an increase in the minimum wage. For older, established companies, a minimum wage increase may have less of an impact on labor productivity. This is because these companies likely already have more experienced and skilled workers who are being paid above the minimum wage and may not be directly affected by a minimum wage increase. For younger companies, a minimum wage increase may have a more significant impact on labor productivity because these companies may have a higher proportion of workers who are being paid the minimum wage.

The survey also indicates that among companies under 5 years old, about 22% (the highest percentage as per companies age) perceive that increasing the minimum wage will result in increased labor productivity.

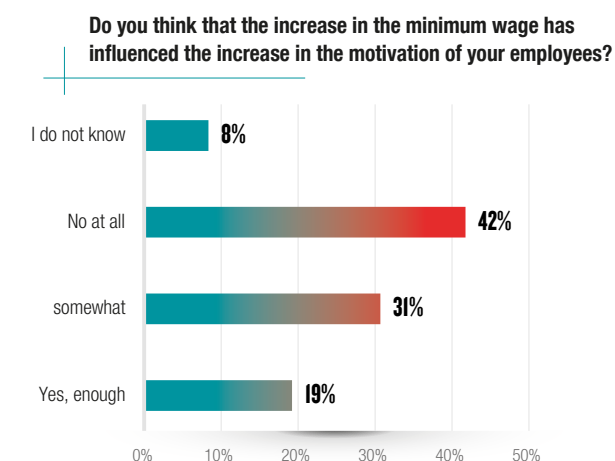
Figure 9. Minimum wage increase and productivity according to the company’s age



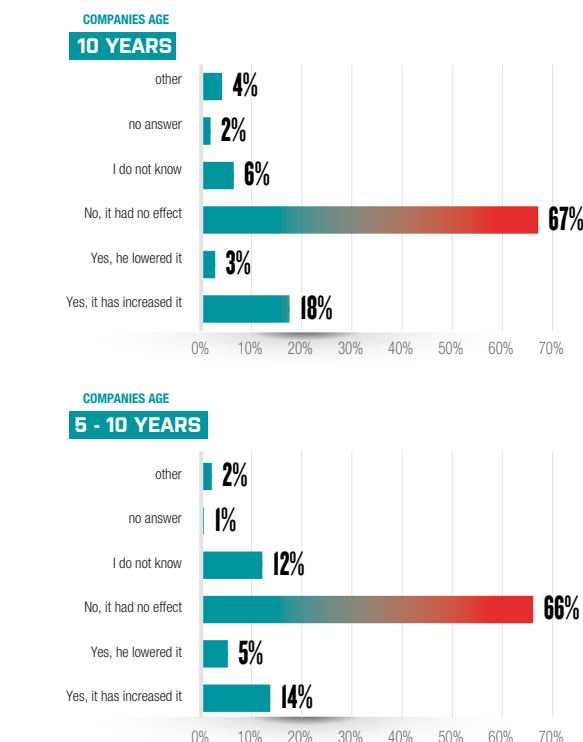
20 https://www.ilo.org/global/topics/wages/minimum-wages/monitoring/WCMS_438881/lang--en/index.htm

50% noticed *an increase to some extent. The tourism and industry sectors had the highest percentage of reported increased motivation.*

Figure 10. Motivation and minimum wage increase



Source: Secretariat’s Survey, March 2023



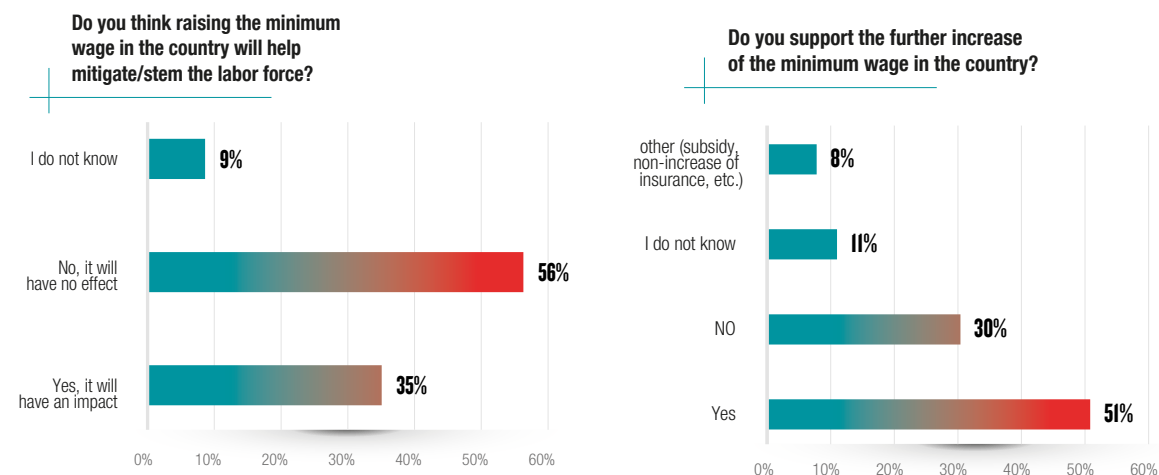
Source: Secretariat’s Survey, March 2023

- Increased minimum wage has only slightly increased employees’ motivation to work, and the motivation of employees can also affect productivity.** When employees are motivated, they are more likely to put in the effort, work harder, and stay focused on their tasks. This increased level of engagement can lead to higher productivity levels, as employees are more likely to complete their work efficiently and effectively.

During our survey involving 506 companies, we investigated the correlation between an increase in the minimum wage and the level of employee motivation. The findings revealed that 42% of the managers did not observe any rise in their employees’ motivation, whereas

Overall, a minimum wage increase can be an important tool for promoting employee motivation and well-being, but it should be combined with other measures to create a supportive and inclusive work environment that fosters engagement, creativity, and innovation.

- There is general support to further increase of the minimum wage.** We surveyed employers regarding their stance on the possibility of further increasing the minimum wage and found that 51% supported the idea. *Furthermore, one-third of the companies expressed the belief that such a measure could be effective in curbing the emigration of the workforce from the country.*

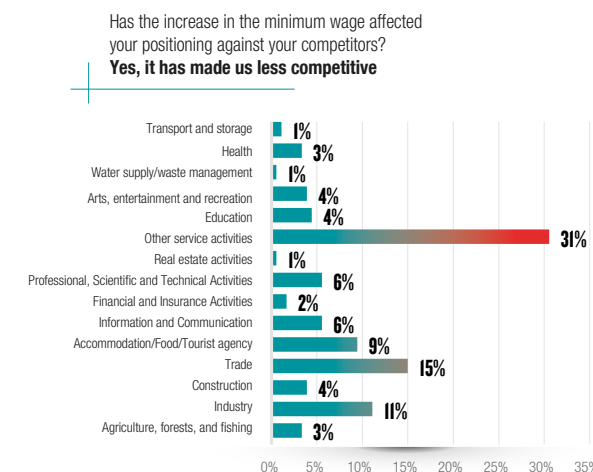
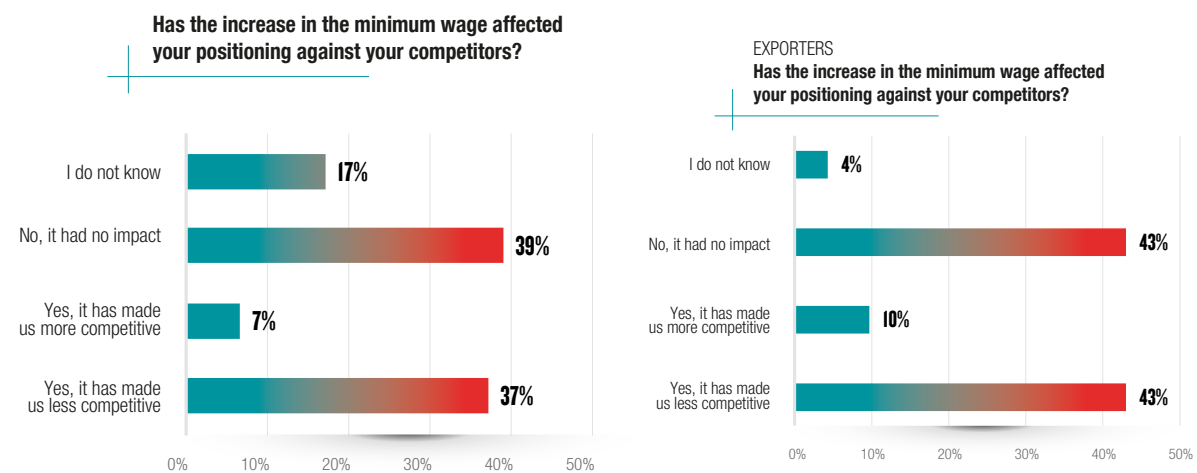
Figure 11. Further increase of minimum wage and workforce

Source: Secretariat's Survey, March 2023

3. COMPETITIVENESS AFFECTED BY MINIMUM WAGE INCREASE

5. **The companies are divided on the impact of minimum wages on their competitiveness.** According to the survey results, 39% of companies do not believe that the minimum wage has affected their competitiveness, whereas 37% of companies believe that the

increase in the minimum wage has made them less competitive. The same pattern was observed in exporting companies, with 43% reporting a decrease in competitiveness (38% of which were in the processing industry), while 43% reported no impact on their competitiveness. According to company activity, trade, industry, and tourism perceive as being less competitive.

Figure 12. Impact of the minimum wage increase on competitiveness.

Source: Secretariat's Survey, March 2023

The impact of a minimum wage increase on a company's competitiveness can depend on several factors. On the one hand, a minimum wage increase may lead to higher labour costs for employers, which can reduce profitability and competitiveness, particularly for small businesses or those operating in industries with thin profit margins. If a company is unable to pass on these increased costs to consumers through higher prices, it may struggle to compete with other companies that are not subject to the same minimum wage requirements.

On the other hand, a minimum wage increase may also have some positive effects on a company's competitiveness. For example, if a company's competitors are also subject to the same minimum wage increase, then the playing field may be levelled, as all companies are facing the same increased costs. At the macro-economic level, it has been observed that minimum wages may prompt low-productiv-

ity firms to leave the market and higher-productivity firms to expand – thereby raising the overall efficiency of the economy. Minimum wage growth allows more productive firms to replace the least productive firms and forces incumbent firms to strengthen their competitiveness²¹.

Overall, the impact of a minimum wage increase on a company's competitiveness will depend on the specific context, including the industry, the size of the company, and the degree to which labour costs factor into the overall cost structure.

6. **Albanian companies report having a high number of employees insured at the level of the minimum wage.** The rise in the minimum wage has a clear consequence of raising personnel expenses, with over 50% of costs being attributed to this factor for a quarter of the companies surveyed. According to the survey results, a significant proportion of employees earn the minimum wage, with up to 50% of workers falling into this category for 66% of the companies surveyed. In contrast, over 50% of employees earn minimum wage for 34% of the companies surveyed, with the majority of them being in the tourism, trade, and other service sectors. *Official data shows that in the year 2022, 42.3% of employees have reported an income of 40,000 ALL or less²².*

²¹ https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/genericdocument/wcms_476157.pdf

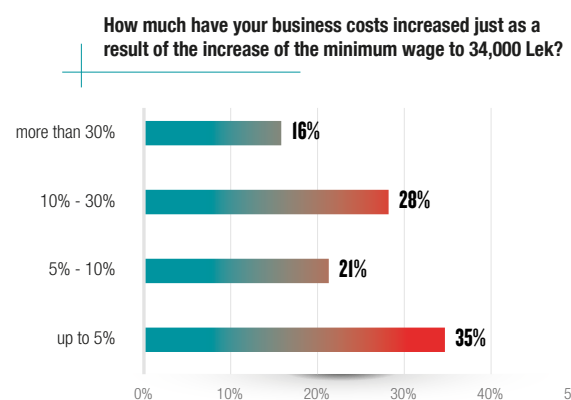
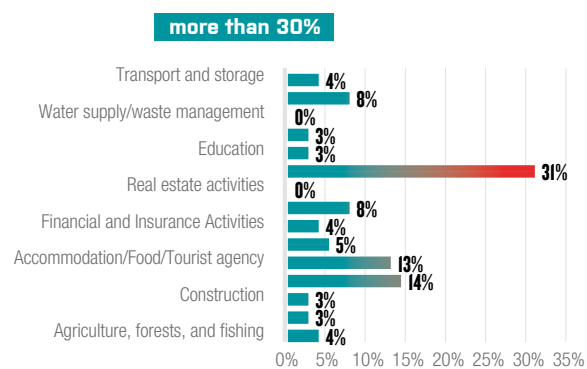
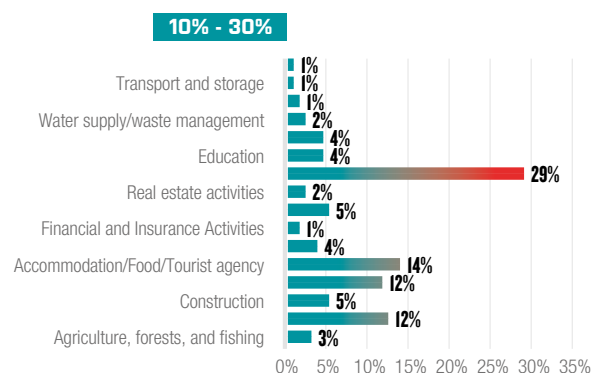
²² http://databaza.instat.gov.al/pxweb/sq/DST/START__PKP/

Figure 13. The distribution of contributing employees by intervals of average gross monthly salary

average of 3 months	2014	2015	2016	2017	2018	2019	2020	2021	2022
up to the minimum wage - 40,000 ALL	59.8	57.9	58.9	57.0	55.6	53.9	51.6	49.0	42.3
40.001- 50.000 ALL	11.3	11.3	10.8	10.4	10.9	11.4	11.5	11.1	13.6
50.001- 60.000 ALL	10.2	11.1	10.8	9.8	9.4	8.9	8.8	7.9	8.5
60.001-95.000 ALL	12.8	13.5	13.3	16.0	16.7	18.1	19.7	22.6	24.3
95.001-120.000 ALL	2.7	2.8	2.8	3.1	3.3	3.5	3.8	4.2	4.9
Over 120.000 ALL	3.2	3.5	3.5	3.8	4.0	4.4	4.7	5.4	6.4

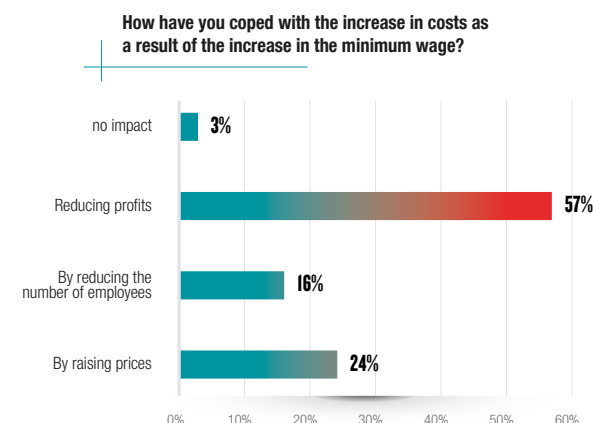
Source: INSTAT, March 2023

According to the survey results, 84% of respondents noticed a rise in costs of up to 30%, while 16% experienced an increase of over 30%. The study also found that younger companies were more likely to experience a larger increase in costs, with 18% of businesses that had been operating for less than 5 years reporting a rise of over 30%. Conversely, only 16% of companies that had been operating for over 10 years reported a rise in costs of over 30%. *Probably this comes due to the fact that generally, older companies have fewer employees with minimum wage compared to younger ones.*

Figure 14. Costs increase due to the increase in the minimum wage from 30,000 ALL to 34,000 ALL**How much have your business costs increased just as a result of the increase of the minimum wage to 34,000 Lek?**

Source: Secretariat's Survey, March 2023

7. **The increase in the minimum wage has resulted in reduced profits and higher prices.** According to the survey, companies are dealing with the costs resulting from the rise in the minimum wage by reducing their profits. The perception gathered was that 57% of businesses have experienced a decrease in profits, 24% have raised their prices, and only 16% have reduced their number of employees.

Figure 15. How do companies handle higher costs from increased minimum wage?

Source: Secretariat's Survey, March 2023

8. We would also like to highlight that during the consultation process, the business representative evidenced an improvement in terms of VAT reimbursement, or working facilities enabled due to fiscalisation and digitalisation of key public services, thus enabling an improved level as relates to the level of technology/system working.

4. POLICY SUPPORT AND ACCESS TO FINANCE

Overall, government support can play a crucial role in helping MSMEs navigate the challeng-

es of minimum wage increases and maintain their competitiveness in the market. As already evidenced, when minimum wages increase, small and medium-sized enterprises (MSMEs) may face challenges in adjusting their labour costs and maintaining their competitiveness. To support SMEs during such periods, governments may implement various policies and programs.

9. **Although companies do support the increase of minimum wage, they still do expect government's financial assistance to help cover the increased labor costs.** This can help to alleviate the financial burden on MSMEs and make it easier for them to maintain their workforce. According to surveyed companies, the increase in the minimum wage should be accompanied by (i) government subsidies for enterprises that are in the processing industry, especially garment, (ii) the increase in pensions according to the percentage of the increase in the minimum wage, (iii) wages should be increased in the construction price manuals in private investments and public investments, (iv) the fight against informality and increased controls for the declaration of the true salary of employees, etc.

10. **Governments can offer tax credits to MSMEs that increase wages above the minimum level, encouraging them to pay higher wages and improve employee retention and productivity.** The minimum wage should be increased, but to be competitive, there should be supportive policies in the reduction of taxes such as Tax on Personal Income. It would be reasonable to think about the option of the part-time employee's category when calculating social contributions,

11. Small and medium-sized enterprises (MSMEs) face obstacles in investing in technology, as perceived by companies, due to higher credit costs and limited government access to financing options. The same pattern was observed during our work on the Internationalization of MSMEs, where “Limited financial resources and access to external sources of funding restrain MSMEs from going international”. 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. More specifically, during our consultation process, the business evidenced that they have applied to AIDA in late November 2022 for support in machinery but have not yet received any feedback.

5. OTHER

12. The co-existence of formal and informal employment frequently characterizes developing countries. **In countries with high levels of informal employment, minimum wage increases can increase informal employment, since the formal workers who lose their jobs are absorbed by the informal sector of the economy.**
13. Albania ranks low in labour productivity, and a skilled workforce is needed

to increase productivity. Work culture and unsuitable qualifications among job seekers remain the most recurring concerns for employers. This is also highlighted both in the Skills Need Analysis (SNA) 2017 and the SNA 2014. According to WB, “*Several challenges constrain business growth, reflected in low productivity growth in the Western Balkan region. Challenges include access to finance, anti-competitive practices of competitors, lack of or expensive technology, and lack of skills. While access to finance has always been reported as a significant challenge in the region, the other growth constraints have become particularly acute in the recovery phase, with shortages of key inputs such as technology and skills becoming more severe and still high regulatory barriers to entry and conduct, and weak competition policies unaddressed.*”

A minimum wage increase can also have implications for employee training and development. A minimum wage increase can also create challenges for employers in terms of funding training and development programs. When employers are required to pay higher wages, they may have less money available to invest in training and development activities. This can make it more difficult for employers to attract and retain skilled workers and can result in lower levels of productivity and innovation.

RECOMMENDATIONS

To address the above issues, it may be necessary to combine minimum wage policies with other measures to promote modern entrepreneurial management practices, training, and development, or tax incentives, grants, and subsidies for employers that invest in employee skills and knowledge. This can help ensure that employees have access to the training and development opportunities they need to thrive in their jobs and advance their careers while promoting sustainable economic growth and development.

RECOMMENDATION 1.

If a national plan/policy on wages is ahead, then the Government, in collaboration with chambers of commerce and business associations should encourage public involvement and use it as an instrument to simultaneously tackle labour productivity issues and wages while also involving employees, and labor unions stakeholders in focused discussions. This can help build consensus and ensure that the interests of all parties are considered. A special reference could be done to SDG nr 8 - *promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all.*

RECOMMENDATION 2.

Prioritize efforts and local interventions to **Improve work culture and provide decent jobs for all through education of prospective employees and employers about labor legislation and employment contracts - rights and obligations.** Employment offices and recruiting companies should be responsible for consulting them, and centers of professional education should cascade short training to the candidates on the main issues of employment that could include (a) Job description and responsibilities; (b) Remuneration and applicable tax and social and health charges; (c) notice

period and cause for termination; (d) Holiday pay and sick leave; (e) working hours, organization rights; (e) how to resolve grievances and where to report the employers' breach of labor legislation.

RECOMMENDATION 3.

Wage indexation: The Government of Albania, in collaboration with social partners, could engage in a comprehensive consensus-building process to evaluate the adoption of a wage indexation mechanism for both the public and private sectors on an annual basis. Examples of wage indexation mechanisms already implemented in OECD countries, as outlined in Annex III, can serve as references. When selecting a mechanism, consideration should be given to macroeconomic indicators such as inflation and unemployment targets, as well as the competitiveness of businesses in Albania. It is highly recommended that a detailed analysis of economic factors and objectives as well as regional comparison be conducted prior to making any decisions in this regard.

RECOMMENDATION 4.

Part-time staff and social contributions: The pervasive issue of undeclared employment, directly linked to the informal economy and

low productivity in MSMEs, persists despite various measures taken. This systemic problem is evident in both fully unregistered and partially undeclared employment. Our observations and feedback from businesses, particularly in the services and tourism sectors, confirm that inflexible social and security contribution systems are key drivers of this issue. Employers are required to make full monthly contributions for part-time employees or those who work only a few days per month. Furthermore, undeclared employment contributes to high employee turnover rates, particularly in the tourism sector, which struggles to sustain year-round, full-time employment due to its seasonal nature. To tackle these intertwined issues could be facilitated the implementation of proportional social and security contributions for part-time employment while advocating for fair hourly wages. When determining monthly, weekly, or daily rates, workers should receive compensation equivalent to that of a full-time employee as mandated by the country's labor laws. Overtime pay should not be factored into the calculation of minimum wages, as it constitutes non-compliance to require overtime work to meet the legal minimum wage. Part-time employees should receive a minimum wage proportional to their working hours²³.

23 https://www.ilo.org/moscow/areas-of-work/wages/WCMS_439066/lang--en/index.htm

ANNEX 1

OECD ON MINIMUM WAGES

- » There is a concern that an automatic minimum wage indexation to prices may ignite a wage-price spiral in the current context of high inflation and uncertainty. In effect, an increase in the minimum wage goes beyond the direct beneficiaries and may spill over to those workers above-minimum wages as the latter is used, formally or informally, as a benchmark in the negotiation of collective and individual wages as well as a reference for certain social minima.
- » Minimum wages can have a strong impact on wages at the bottom of the distribution and help preserve the purchase power of low-paid workers. Especially in times of high inflation, minimum wages need thus to be regularly revised to ensure that they maintain their usefulness as a policy instrument, as indicated in the OECD Employment Outlook 2022.
- » Although high uncertainty and slowing economic growth may suggest caution in raising minimum wages, margins exist in several OECD countries to adapt, at least partially, the existing level of the statutory minimum wage so as to protect those workers who are most exposed to the increase in prices, especially given the substantial monopsony power that low wage labour markets have in most OECD countries. However, it is important to consider carefully both the economic and social effects of minimum wage adjustments and consult social partners and other stakeholders as trade-offs may be amplified by uncertainty, tight labour markets, and inflation. In such a context, promoting mini-

mum wage adjustments that are transparent and predictable for both businesses and workers is crucial.

- » *Statutory minimum* wages only determine the wage floor. Above that floor, collective bargaining can play an important role in ensuring a fair share of the cost of inflation for a large share of the employees, in particular at the bottom and the middle of the wage distribution. Moreover, collective agreements (also tripartite ones at the national level, such as the one signed recently in Portugal) can help companies and workers find tailored and *ad hoc* solutions to avoid a wage-price spiral, for instance, by limiting (permanent) wage increases in exchange for lump-sums and/or non-wage benefits.
- » However, minimum wages, either *statuto-*

ry ones or negotiated ones, should be seen as part of a broader policy package. To be more effective, it is essential that minimum wage policies be co-ordinated with tax and benefit policies in order to ensure that increases in the statutory value of the minimum wage translate into higher take-home pay while limiting the rise in labour costs for employers. This is even more important at the current juncture when governments have put in place a large range of subsidies and transfers.

Finally, *statutory minimum* wages apply only to employees. The emergence of new forms of work, in some cases poorly paid, is forcing policymakers to reflect on how to extend protections against low pay to formally self-employed workers but find themselves in an unbalanced power relationship.

ANNEX II

Wages according to group professions and Kaitz Index

Group-profesions (according to ISCO-08) – Instat, 2021	Average wage			Kaitz Index		
	Total	Men	Women	Total	Men	Women
Total	57 191	58 413	55 760	0,59	0,58	0,61
Legislators, senior civil servants and executive directors	98 505	97 568	100 061	0,35	0,35	0,34
Specialists with higher education (professionals)	76 879	85 136	72 303	0,44	0,40	0,47
Technicians and specialists in implementation	64 604	67 108	61 740	0,53	0,51	0,55
Officials	59 633	61 267	58 316	0,57	0,55	0,58
Sales and service employees	43 466	48 331	37 066	0,78	0,70	0,92
Qualified workers of agriculture, forestry and fishing	35 826	36 450	33 659	0,95	0,93	1,01
Craftsmen, artisans and related professions	39 918	42 662	34 327	0,85	0,80	0,99
Workers of assembly and use of machinery and equipment	40 363	43 716	35 515	0,84	0,78	0,96
Labors (Elementary Professions)	35 115	35 778	34 028	0,97	0,95	1,00
Army	66 698	67 095	63 673	0,51	0,51	0,53

ANNEX III

On Wage Indexation

International Monetary Fund

Despite the considerable uncertainty that surrounds most of the expected costs and benefits associated with the implementation of wage indexation, it was found that certain tentative conclusions could be drawn on a number of important issues. More specifically, as regards the inflationary impact of wage indexation, it has been argued: (1) that full wage indexation is likely to be *more* inflationary if implemented during a period of low or moderate inflation than during a period of high and prolonged inflation; (2) that partial and threshold indexation are likely, *ceteris paribus*, to be *less* inflationary than full wage indexation; (3) that a wage-price spiral will exist with or without indexation but that the *size* of this spiral (which depends in large part upon the coefficients ax and bx) may be affected by wage indexation; (4) that threshold

indexation may help to insulate wage determination from small, temporary price changes but that this protection is not likely to be of much practical concern unless indexation is introduced when past inflation rates have been low; (5) that wage indexation may help to moderate inflation (by substituting actual for expected inflation rates) when workers have erroneously high expectations about the future inflation rate and when they are powerful enough to embody these expectations in wage contracts; and (6) that wage indexation may lead to an increased effectiveness for anti-inflationary stabilization policy, both by reducing the time lag between aggregate demand changes and price changes and by temporarily reducing the employment losses induced by aggregate demand reductions; however, neither of these latter effects can at present be forecast with much confidence.

Automatic minimum wage indexation in selected OECD countries, 2022

Indexation mechanism including prices	
Belgium	All wages are indexed to past CPI excluding alcohol and tobacco and petrol but including heating fuel, gas and electricity (every time CPI increases by 2% or more since last increase)
France	The minimum wage only is indexed to past CPI for the bottom quintile (every time CPI increases by 2% or more since last increase) + half real salary increases of blue collar workers (annually and only if positive).
Luxembourg	All wages are indexed to past CPI (every time CPI increases by 2.5% or more since the last semester)
Poland	The minimum wage is indexed to future inflation + 2/3 of future GDP growth if, in the first quarter of the year, the amount of the minimum wage is lower than half of the average wage. If the inflation forecasts differ from the real price index, a correction takes place in the following year.
Other forms of indexation	
Netherlands	The minimum wage is indexed to the predicted wage developments for the next six months using a basket of collectively agreed wages.

ANNEX IV

1. IC RECOMMENDATIONS RELATED TO HUMAN CAPITAL

- » To address the labor shortage in short and medium – terms as well as productivity increase, MSMEs' owners should strive to make work more sustainable by increasing remuneration, health and well-being packages for employees, clear career paths and salary structure. Business Chambers/Associations should be a crucial factor in transmitting to their members that they should be proactive rather than reactive while approaching the challenges of recruiting a qualified workforce by planning well ahead their needs and increasing the expenditures for their staff qualifications.
- » From the business community, additional investment in technology and automation is a must to keep up with the new business trends. In this direction, it is necessary to strengthen the cooperation and involvement of the chambers of commerce and vocational training centers in ongoing reskilling and upskilling through professional training of middle-aged job seekers and new-entry staff. This should be considered not as a cost but as an investment and a solution to ongoing labor shortages. Business leaders must look ahead and consider how their operations will change to get ahead of the talent shortage.
- » Education of prospective employees and employers about labor legislation and em-

ployment contracts - rights and obligations. Employment offices and recruiting companies should be responsible for consulting them, and centers of professional education should cascade short training to the candidates on the main issues of employment that could include (a) Job description and responsibilities; (b) Remuneration and applicable tax and social and health charges; (c) notice period and cause for termination; (d) Holiday pay and sick leave; (e) working hours, organization rights; (e) how to resolve grievances and where to report the employers' breach of labor legislation.

- » Chambers of commerce to become more proactive in the direct connection between the vacancies of their members and job seekers through publication, promotion, employment fairs and by endorsing at industry level regulatory compliance with labor legislation and improvement of working conditions, especially in labor-intensive industries and discouraging informality practices of undeclared work.
- » To reduce the informality, in addition to reinforcing the control and business formalization efforts, MFE can consider including media as an important player to inform citizens about the negative consequences of engaging in the informal economy and the benefits of reported work. Encourage the presentation of cases of undeclared work to the public (it could positively affect compa-

nies and their decision not to engage in such activities).

- » Develop a better and more efficient policy towards the use of public funds in the medium and long term in order to stimulate sustainable employment.
- » It is needed a strategic approach based on adapting employment policies and improving the skills of the workforce towards priority sectors for sustainable economic development. This should be done through a clear regulatory framework but also by setting standards and criteria for implementation, as well as through incentives; Creating a systematic collaboration platform between schools and businesses to create clusters of business actors - professional service providers - civil society, employment offices, career offices etc. operating in priority sectors.
- » Government should enable the leasing of state-owned buildings to support the creation of training centers to re-dimension the workforce skills as per market requirements.
- » Set up concrete incentive policies on vocational education with a focus on IT and digital skills.
- » Capacity building and monitoring by the Employment Offices to respond with employment and qualification programmes as per BPO business needs.
- » Discussion with shareholders on the establishment of an BPO Academy for the re-qualification of the workforce, by licensed trainers, under the support of the central or local government as per partnership model public private (Protik) or TEDA model.
- » To consider as soon as possible the integration of the new "core" knowledge at certain levels of education with focus on: 1) ana-

lytical skills (problem solving) 2) foreign languages, 3) computer skills, 4) communication skills. Internships to be standard practices and subject of curricula - project business model-university- teaching. Accreditation process of universities to consider monitoring of state-business practices on internships.

- » Promotion of good HR Management practices of several large companies in some other companies through business associations, HR forums organized by academic institutions and businesses, and Ministry of Social Affairs, including: (1) Analysis of the request for competences according to the BPO sector; (2) Accurate definition of "Value Proposition" offered to the working forces by BOPs: apart from the salary, development cycle of professional skills in these companies, career path in medium and long term, trainings being offered and how much competitive will be the competences earned from this work; (3) Development of politics for motivation and maintaining qualitative staff in the long term;
- » Need to review the legal framework and especially the Labor Code. The Labor Code does not help, it prevents the development of the BPO sector. The problem is not only with the larger penalties, but the rigidity of the law. BPO sector performs an activity 24 hours a day and 7 days a week, including Sundays and public holidays. In this sector, once signing the contract and job assigned shifts, the employee has no opportunity to choose whether to come to work or not. The labor code does not facilitate this activity, moreover indirectly it brings high cost to enterprises. The time has come for this sector to be managed via an Ad Hoc contract that reflects the specifics of this sector.

2. IC RECOMMENDATIONS RELATED TO COMPETITIVENESS

- » To increase competition among the MSMEs to access more available funds and to improve the coverage, effectiveness, and transparency of such available funds (grants, guarantee schemes, etc.), a new component on the AIDA platform (www.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.
- » 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 specially dedicated budget. The goal of the initiative should be the financing of MSMEs in preparation for market research, 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: (1) Identification and benchmarking of new market/product opportunities; (2) Evaluation of the appropriateness of product according to the needs of a foreign market; (3) Preparation of a plan to adapt products to the needs of the foreign market; (4) Identification of suitable sales channels in the foreign market.
- » Financing “Network Contracts for Internationalization” models with the goals of establishing business networks in specific sectors (e.g., in the 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 internationalization activities of their products and services, increasing production standards (e.g., “anchor investors”, large investors in a value chain after which other investors can be linked in the form of “cluster”, MSME as a partner) and sophisticating their offer towards higher-value markets.
- » MFE should incentivize sustainable and harmonized policies, to attract local and foreign investments but also to stimulate the interaction between foreign/local companies and MSMEs. For this we would recommend (1) 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 favor of specific sectors/products for export (2) 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) to provide 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. To clearly define in which direction human capital will be oriented in certain areas of the economy that have different requirements for the type and quality of labor force as e.g. tourism requires other skills than transportation. (3) Suggestions to be consulted with key stakeholders to ensure engagement, support, and cooperation in the implementation and monitoring process of public policies in joint technical and specific business-government working groups.
- » AIDA in collaboration with MFE/MSHMS/UCCIAI/donors and business associations) - Set up and promote in a sustained national advocacy format/s the recognition/acknowledgment of responsible MSME business's conduct and practices as MSME “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”. As well as increased awareness of entrepreneurs that without certification and increase of standards, they cannot be competitive and export their products to new European and world markets.
- » Specify the vision on the priority focus (at the central and local level). For example, Vision “Albania 2030” - to define sectors that are considered as unique potentials and engines of growth (1) Specific country context (transparency and finalization of major infrastructure projects / EU integration); Regional countries are consolidating efforts in the regional market / Aggressive Competition (2) A strategic approach to attracting FDI in coherence with priority sectors and developing an economic model of measuring FDI impact to create added value in the country and integrating it into the modern digital technology market; Identification of targeting opportunities e.g. service sectors (as property issues remain a major obstacle to attracting serious investment) (3) Lack of coherent and aggregated data, human and financial capacity for in-depth analysis and impact measurement. It is therefore recommended to create an expert platform, with a concrete plan of action to identify missing data and enable detailed analysis of Investment Impact (such as substitution or reduction options for key imports, options for export growth and diversification, etc.), in key economic indicators in coherence with priority sectors.
- » Increase business cooperation at the sectoral level to enable applications in innovation and information technology funds, research and development in development partner funds such as. COSME etc. New project generation (at national and international levels) that impacts stimulating investment and increasing the absorption capacity of funds from EU, WBIF, etc.



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ABOUT INVESTMENT COUNCIL IN ALBANIA

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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