



ALBANIAN SMEs QUEST FOR GROWTH: ADDRESSING ACCESS TO FINANCE ISSUE

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Abstract

Albanian economy continues to rely on a consumption-led growth model built on the rationale that higher income for households will be followed by behavioral patterns that tend to converge towards a general aim for improved welfare, hence higher consumption. This model, despite reflecting a natural socio-economic developing dynamics appears to rely little on long-term economic development policies that would shift by design, growth determining priorities towards exports and investments. In response to the request of Ministry of Finance and Economy, this documents aims to provide an analysis of the Albanian economy dynamics focusing on the potential role of small medium enterprises and startups in an economic context where active policies consisting in structural action measures are designed to boost the contributing role of enterprises in growing exports and creating new jobs. Access to finance, another issue of concern often mentioned in EC Progress Reports and ERP Assessments is addressed in a comprehensive way providing a potential roadmap of measures that if implemented would significantly improve the present financing conditions for enterprises eager to grow.

Keywords: Small medium enterprises, Growth strategy, Access to finance, Albania

INTRODUCTION

Albanian economy has maintained a positive pace of growth in the last decade due to the untapped economic potential and active economic reforms implementation. A positive momentum continues but diversification of the economy focusing more on key growing and productive sectors is important to keep a long-term growth and to allow room for absorbing unpredicted external and internal shocks. 2018 resulted in an economic growth of 4.1 percent,



the Gross Domestic Product totaled \$15,059 million, while 2019 is expected to be in the levels of 3 percent manifesting economy's potential for growth but in the same time room for improving efficiency given the existing output gap. However, still the economy continues to rely on a consumption led-growth model much depending on the increase of personal income fueling households consumption. Transition into an exports-led growth model appears to be a necessary long term aim for Albanian economy and active measures to orient public policies towards it have to be in synchrony with sectorial development strategies.

In terms of key macroeconomic indicators the Albanian economy has managed to maintain stability with level of prices volatility being within the target of the Central Bank within the monetary policy targeted inflation of 3+/- 1 percent, local currency has maintained its value compared to main hard currencies Euro, US dollar and pound; Government debt projected to fall on the level of 65 percent of GDP as per 2020 as result of growing revenues and campaigns against informality; unemployment rate is around 13 percent while youth unemployment continues to be a main challenges in need to be addressed by labor market active measures. Since 2014, Albanian exports volume of goods and services have known a positive annual rate of growth however volume of goods appears to be significantly volatile from year to year that being dependent on foreign demand for local exports.

The banking sector in the country is well-capitalized and profitable with all the banks exceeded regulatory requirements of minimum capital-adequacy ratio of 12 percent. Ministry of Finance and Economy in collaboration with the Bank of Albania have undertaken an action plan to improve the soundness of the banking system in the country by reducing Non-performing Loans (NPLs) levels. Referring to the Bank of Albania loan portfolios quality is constantly improving due to a coherent implementation of the NPL programme including mandatory write-off helping to reduce non-performing loans to 8.4 percent of total loans by December 2019 .

Despite financial crisis is well behind and the economy appears to have recovered from negative spillover effects, weak crediting continues to characterize the financial sector while the obstacles to access financing sources remain high mainly for small and medium enterprises that in cases are not preferable by banks due to the risks they face while growing and consolidating. However it is important to emphasize that favorable fiscal policies for growing enterprises by the Ministry of Finance and Economy and monetary easing measures by the central bank have positively affected conditions for growth in the private sector.

Sectoral and enterprise structure

With a poorly developed heavy industry, alongside a small scale production light one and an Agriculture sector limited by low productivity and limited production; Albanian economy is

naturally shifting towards Services, INSTAT numbers show that Services further increased their share in GDP from 45.8% in 2014 to 48%, in 2018 led by trade and tourism related services and an increasing share of services in education and health. Agriculture as well as industry have lost some ground between 2014 and 2018 with shares decreasing from 23% to 18.4% and 14.8% to 12.2 respectively. The number of foreign enterprises in tourism, ICT and agriculture increased by almost 29.5% from 2016 to 2018.

Reports show that due to market concentration, big companies are those that determine private investments and employment trends in the economy. INSTAT Enterprise Surveys show that most investment and employment depends on a very small number of enterprises. 93.9% of all enterprises in Albania had less than 9 employees in 2018 ('micro-enterprises') and only 6.1 percent of all enterprises had over 10 employees. The slow change in this structure in recent years signals persistent obstacles for enterprise growth. Micro-enterprises Startups often cannot access financing sources due to their lack of know-how or because they operate in the informal economy, whereas many SMEs face the burden of high interest rates applied by Non-bank financial institutions as banks are not willing to support them with financing.

Latest EU Progress Report¹, considers that country's potential improve competitiveness in a free market economy could be boosted by prioritizing improvements in the business environment by enhancing ease of doing business for local and foreign companies. Stable growth in small, medium and big enterprises in Albania from 2014 to 2018 is a clear indicator of the potential for growth. Main issues voiced by the business community include lack of effective implementation of legislation, ad hoc regulatory changes, cumbersome tax payment procedures, and the controversial use of public-procurement procedures. Consultation with the private sector has been improved, compared to previous years, many platforms including the one of Ministry of Health and Social Protection, but the result of the consultations could have been better focusing primarily in implementation of recommendations concluded during these sessions. Furthermore, property titles overlapping and weak enforcement of the legislation in place in protection of property rights has created obstacles for the real estate market in terms property development and investments. Lack of access to finance through banking channels is found to be another constraint for SMEs willing to grow and expand while non-traditional sources of funding such as non-bank financial institutions are far from providing good lending conditions in support of their growth.

¹ European Commission, Albania 2019 Report <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20190529-albania-report.pdf>

SMEs quest for growth

Small and Medium Enterprises are perceived to be a sleeping powerhouse when it comes to their potential to contribute in Albania's economic growth and development. Still trapped in legal and operational obstacles, their future might be a changemaking determinant directly contributing to boost employment, raise households income and grow the portfolio of locally-made products by promoting Albanian originality through upskilling economic agents and their communities. In this perspective, programmatic action measures have to be undertaken following a clear vision for redimensionating the future of Albanian SMEs.

Challenges SMEs face

According to the latest SME Policy Index: Western Balkans and Turkey 2019², Albania has made moderate progress in implementing the Small Business Act (SBA). This progress has been evident in terms of improving delivery of public services and simplifying regulations, positive changes that contributed in reducing on small and medium enterprises, as well as improving the overall business environment. Important achievements attained are: setting up procedures for regulatory impact analyses (RIAs) allowing now on to start measuring the impact of new legislation on business competitiveness; legal framework on insolvency proceedings has been strengthened; Registering a business and applying for licences and permits have been streamlined while digitalisation of government services has reduced the administrative burden on SMEs; strengthening of quality standards infrastructure has created more opportunities for Albanian SMEs to be more competitive.

As main priority areas where Government attention should be focused remain: growing institutional capacity of institutions responsible for developing and implementing SME policies; improving SMEs' uptake of business support services by redesigning existing schemes that have not performed well meaning impact evaluation should also take place periodically from internal and external evaluators; increasing support for innovation infrastructure to advance business-academia collaboration; Increase awareness of available supporting grant schemes; embed entrepreneurship learning in school curricula; Increase support to stimulate e-commerce practices among SMEs and roll out new supplier development supporting programmes that can help grow effective links between SMEs and multinational enterprises. However Albanian SMEs still face a number of institutional and market obstacles that pose challenges to effective business operations. Five main challenges need to be addressed to pave the way for success under present circumstances: a) an incomplete institutional framework for SME policy; b) limited

² <https://www.oecd-ilibrary.org/docserver/1a375be0-en.pdf?expires=1583660728&id=id&accname=guest&checksum=7A131D01EE0AAFE97A3F61A393B11424>

access to finance for SMEs; c) a skills mismatch in the labour market and low job creation; d) limited export activity by Albanian SMEs; and e) limited innovation activities and research and development expenditure.

a) an incomplete institutional framework for SME policy

The institutional framework for SME policy is still incomplete. Significant progress has been made in improving the operational environment for SMEs and the institutional framework for SME policy. Major achievements have been the creation of one-stop-shop Public Service Halls, the extension of e-government services for businesses and the establishment of dedicated service lines from National Business Center and ADISA in support of SMEs to fastprocess business procedures. However, obstacles remain to improve SME policy making, including: Ad hoc co-ordination of SME policy and public-private consultation. This limits effective policy implementation, and hinders the SME sector from regular participation in policy making. Limited data collection on SMEs. Data are limited to basic structural business statistics, which hinders the ability to monitor and evaluate the impact of SME support policies.

b) limited access to finance for SMEs

Access to finance is a key barrier to SME growth, particularly in Albania, where SMEs are less likely to access external finance and typically face higher costs than large enterprises and similar companies in comparable countries. Commercial banks in Albania introduce heavy requirements to counter the higher risk of SME lending. High collateral requirements (up to 200% of the loan value) and difficulties that because of weak business records make it difficult to borrow from banks. Land and real estate are the preferred forms of assets demanded by banks as collateral, but SMEs are typically undercapitalised and innovative Startups often own mainly intangible assets. Low levels of financial literacy among SME entrepreneurs increase the credit risk perceived by banks and microfinance institutions. Lack of accurate financial statements and sound business plans increases the opaqueness of SME performance, and thus the asymmetry of information plays a role in a disadvantages positioning in front of lenders. Limited availability of alternative non-bank and equity financing mechanisms. Asset-based finance, such as leasing and factoring, is underused, and the venture capital environment is still at an experimental stage.

c) skills mismatch in the labour market and low job creation

Skills mismatch in the labour market and low job creation translate into a high unemployment rate, especially among people with higher education. An inadequately educated workforce is

reportedly the most problematic factor for doing business in Albania, particularly among small and innovative firms. Lack of analysis of the skills demanded by the labour market, limits the government's ability to design educational policies to supply the right mix of skills. Shortcomings in the vocational education and training (VET) system, including limited business relevance of curricula, low attractiveness to students and weak capability of teachers. Lack of an entrepreneurial culture, which limits the rate of people willing to engage in entrepreneurial ventures, start a business and create jobs. Furthermore, entrepreneurial activities and intentions are unevenly distributed with respect to gender, with earlystage entrepreneurs more likely to be men than women. Female entrepreneurship is more often driven by necessity rather than opportunity.

d) limited export activity by Albanian SMEs

In order to grow their exports performance Albanian SMEs have to address significant challenges such as limited information on foreign markets' requirements and business opportunities; limited availability of financial and insurance products for exporting SMEs. A particular problem is the lack of export finance and insurance schemes required to counter the main risks of international trade, such as longer cash-flow cycles, physical distance from buyers, and currency risk; lack of structured support to help SMEs integrate into global value chains. Besides ad-hoc matchmaking events, no systematic effort is made to ensure that incoming FDI translates into business opportunities for SMEs.

e) limited innovation activities and research and development expenditure

Innovation activities and R&D expenditure are low. Institutional progress has been made with the creation of AKTI, Agency of Research, Technology and Innovation and innovation facilities but a national innovation strategy should be developed. However, important issues remain that limit innovation by SMEs: Obstacles in the legal framework for R&D and innovation activities, including the inability of public universities and research institutes to commercialise their inventions, and few innovation components in demand-side policies (e.g. public procurement); limited collaboration between industry and academia, with no structured networks for involving universities and SMEs in joint research projects, and lack of technology transfer offices at universities to realise commercial possibilities of university-based R&D results.

Small and Medium Enterprises landscape

Albanian economy is characterized by a high number of enterprises, 57 businesses per 1000 individuals, totalling a number of more than 160 thousands referring to Enterprise Survey by

INSTAT, of which 95 percent are micro and small enterprises, while medium enterprises have been growing in numbers during 2018 but remaining within the level of 4 percent. Companies with more than 50 employees constitute only 1.1 percent of the total. This is a clear evidence of the essential importance development of SMEs has for the economy overall.

Table 1: Definition of micro, small and medium enterprises in Albania

| | <i>EU definition</i> | <i>Article 4 of the Law No. 8957 on SMEs</i> |
|--------------|--|---|
| Micro | < 10 employees EUR 2 million turnover or balance sheet | < 10 employees ALL 10 million (Albanian lek, equivalent to 78000 turnover and/or balance sheet |
| Small | < 50 employees EUR 10 million turnover or balance sheet | <50 employees ALL 50 million (EUR 390000) turnover and/or balance sheet |
| Medium-sized | 250 employees EUR 50 million turnover EUR 43 million balance sheet | < 250 employees ALL 250 million (EUR 1.9 million) turnover and/or balance sheet |

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

By 2018, most of SMEs are concentrated in two main sectors, Trade and Agriculture, respectively 27.6 percent in Trade and 26.2 percent in the Agriculture Sector. Hospitality and Agro-processing follow but worth to mention that since 2016 their numbers have been declining from year to year. SMEs in Agriculture continue a growing trend in overall terms, overpassing other sectors. Interesting to notice that despite the doubling of Agriculture SMEs number from 2015 to 2018 there has not been a significant growth in the contribution of this sector on country's Gross Domestic Product, and this might be related to the formalization of the sector during this period.

Exporting SMEs

In terms of numbers, exporting SMEs count for only 1.8 percent of the total small and medium enterprises in 2018, however they count for around 60 percent of total exports. An interesting fact is that growth in the number of exporting SMEs has been much faster than the total number of this group of enterprises. Exporting SMEs in Albania are concentrated mainly in two economic activities, Manufacturing and Trade. These two activities define around 79 percent of total exporting enterprises, this being in line with other countries in the Region and with EU directives.

Exports in Manufacturing from Albanian small and medium enterprises have been directed mainly towards Italy, emphasizing that they represent 67 percent of total SMEs exports for the industry. While when it comes to Extractives, around 58.4 percent of exports for the industry are directed towards China in 2017. In the Agriculture sector is interesting to see a shift of the Agricultural products exported by SMEs from Kosovo market towards Italy, with 31.8 percent of exports being directed to Italy. In total, around 75 percent of Albanian SMEs exports are towards European Union countries, where Agriculture exports has seen a substantial growth. From only 39.8% of Agriculture SMEs exports toward EU in 2015, by 2018 European Union markets counted for 76.2 percent of total Agriculture exports from SMEs in 2018. As shown from the statistics EU market is more preferred for exports than for importing trade flows. This might be related to a higher purchasing power of European consumers and proximity that reduces transport costs allowing higher margins for Albanian small and medium enterprises.

Hence in 2018, number of exporting SMEs has been 2924 from 160,868 active in total for this year, around 1.8 percent the highest number in time when it comes to exporting SMEs.

Table 2: Number of exporting SMEs for economic activities

| Code | Economic Activity | Number of SMEs | | | |
|------|---------------------------------------|----------------|----------------|----------------|----------------|
| | | 2015 | 2016 | 2017 | 2018 |
| A | Agriculture and fisheries | 42 | 55 | 59 | 64 |
| B | Extractive Industry | 120 | 123 | 117 | 112 |
| C | Manufacturing | 908 | 965 | 1,064 | 1,123 |
| D | Electric energy and Gas | 15 | 17 | 17 | 14 |
| E | Waste Management | 20 | 26 | 29 | 22 |
| F | Construction | 111 | 120 | 135 | 128 |
| G | Wholesale and Retail | 952 | 1,057 | 1,108 | 1,155 |
| M | Professional and Technical Activities | 47 | 45 | 51 | 55 |
| | Other | 194 | 229 | 271 | 251 |
| | Total Exporting SMEs | 2,409 | 2,637 | 2,851 | 2,924 |
| | Total SMEs | 150,636 | 158,989 | 160,624 | 160,868 |
| | Weight | 1.6% | 1.6% | 1.8% | 1.8% |

Source: INSTAT, 2019

Referring to exporting SMEs trend compared to the total, is possible to see that growth in number of exporting SMEs during 2015-'18 is faster than that of the total, showing that Albanian SMEs are finding new opportunities for growth in international markets, mainly in EU

demonstrating in the same time a consolidation and standardization of quality making them competitive when facing international peers.

Despite the relatively small number of SMEs engaged in exporting activity, it is worth to mention that they represent the most significant part of total exports in the country. During 2016 and 2017 SMEs exports represent around 60 percent of total exports, while this trend in percentage has declined during 2018. This decline is dedicated to the fast growth of total exports even if in nominal terms SMEs exports have maintained the growth pace.

Table 3: Exports weight and number of exporting SMEs according to economic activity.

| NACE Code | Economic Activity | 2015 | | 2016 | | 2017 | | 2018 | |
|-----------|-----------------------|----------------|--------------------------|----------------|--------------------------|----------------|--------------------------|----------------|--------------------------|
| | | Exports Weight | Weight of exporting SMEs | Exports Weight | Weight of exporting SMEs | Exports Weight | Weight of exporting SMEs | Exports Weight | Weight of exporting SMEs |
| A | Agriculture | 0.8% | 1.7% | 0.9% | 2.1% | 0.9% | 2.1% | 1.1% | 2.2% |
| B | Extractive Industry | 6.2% | 5.0% | 6.5% | 4.7% | 6.1% | 4.1% | 4.7% | 3.8% |
| C | Manufacturing | 59.0% | 37.7% | 62.4% | 36.6% | 64.0% | 37.3% | 58.8% | 38.4% |
| D | Electric Energy | 1.7% | 0.6% | 2.4% | 0.6% | 1.4% | 0.6% | 6.8% | 0.5% |
| E | Waste Management | 3.7% | 0.8% | 2.7% | 1.0% | 3.4% | 1.0% | 3.3% | 0.8% |
| F | Construction | 1.1% | 4.6% | 2.1% | 4.6% | 1.5% | 4.7% | 1.8% | 4.4% |
| G | Trade | 25.1% | 39.5% | 21.2% | 40.1% | 20.2% | 38.9% | 21.3% | 39.5% |
| M | Professional Services | 0.9% | 2.0% | 0.9% | 1.7% | 0.8% | 1.8% | 1.3% | 1.9% |
| | Other | 1.4% | 8.1% | 1.0% | 8.7% | 1.7% | 9.5% | 1.0% | 8.6% |

Source: INSTAT 2019

Analysing SMEs exports based on economic activities, Italy, Kosovo and China are main destinations for Albanian products of small and medium enterprises. Italy counts as a prime destination for manufacturing, Agriculture and Trade, while China continues to import substantial quantities of extractives from Albania, of which a good part is channeled via SMEs operating in the industry. Proximity seems to play a role in determining exports of Albanian SME for Agriculture, Manufacturing, Services and Wholesale.

Table 4: Main countries where SMEs export according to economic activities

| Code | Economic Activity | Number of SMEs | | | | | | | |
|------|-------------------------|----------------|------|----------|------|---------|------|------------|------|
| | | 2015 | | 2016 | | 2017 | | 2018 | |
| A | Agriculture | Kosovo | 32.6 | Italy | 21 | Italy | 28 | Italy | 31.8 |
| B | Extractive Industry | China | 37.9 | China | 43.6 | China | 58.4 | China | 51.7 |
| C | Manufacturing | Italy | 67.7 | Italy | 65.8 | Italy | 67.9 | Italy | 66.7 |
| D | Electric Energy | Slovenia | 38.9 | Slovenia | 24.7 | Germany | 40.4 | Kosovo | 20.4 |
| E | Waste Management | Italy | 53.2 | Italy | 54.3 | Italy | 49 | Italy | 57.6 |
| F | Construction | Italy | 37 | Italy | 73 | Germany | 42.3 | Italy | 59.5 |
| G | Wholesale and Retail | Italy | 31.9 | Italy | 27.7 | Italy | 26.3 | Italy | 32.1 |
| M | Professional Activities | Italy | 31.8 | Italy | 74.1 | Greçia | 31.4 | Netherland | 30.1 |

Source: INSTAT

Fundamentals for SMEs development

Development of SMEs remains the foremost priority of the Ministry of Finance and Economy in terms of making a real impact to the economy by boosting entrepreneurship, employment and production. But in order to address the challenges identified for the development of SMEs in Albania, Government and policy makers are considering to undertake several actions in the following policy areas of the SME Development Strategy, as shown in Figure 5. The actions should be consistent with relevant government strategies and programmes, such as the “National Strategy for Development and Integration 2016-2020 and the new Business Investment Development Strategy (BIDS) 2021-2027 being developed by the Ministry with the support of GIZ. This will ensure a co-ordinated and efficient approach to the balanced and sustainable socio-economic development of the country, while adjusting SME support policies to regional contexts as appropriate.

Building on recent institutional developments, it is needed to design and implement a comprehensive set of policies specifically targeted to SMEs. Reform efforts are required to go beyond horizontal improvements in the business environment and create appropriate support measures targeted specifically at the development and competitiveness of SMEs.

While the Ministry of Finance and Economy (MoFE) will be coordinating the design and implementation of the SME Action Plan in preparation, all relevant stakeholders should continue to be involved including several line ministries, government agencies, business associations, NGOs and the international donor community. Regular consultations with the private sector will need to continue in order to ensure the relevance of the policy measures put in place for Albanian SMEs. Based on EC Assessments on present situation, SBA Reports and international

best practices on SMEs development are provided recommendations of potential interventions that could serve to guide Government in its' plans for action.

1. Improving the institutional framework and operational environment

When it comes to the institutional framework and operational environment for SME support, Business Investment Development Strategy 2014-2020 (BIDS) remains the key strategic document in the SME policy area. Legislative simplification is embedded in the BIDS 2014-20 strategy, whose major objectives include improving the business climate, mainly through simplifying business related legislation. According to OECD 2019 SME Policy Index, Western Balkans and Turkey³, the Government of Albania has made some significant efforts to simplify registration and licencing procedures. It has eliminated fees for all the procedures carried out through the electronic service window of the National Business Centre, which serves as the Albanian one-stop shop. There is a formal requirement to conduct public-private consultations (PPCs) for all business-related regulations.

Progressing further, Albanian Government could build on the progress made in the general business environment and the recent institutional developments to support small and medium-sized enterprises, further reforms should be considered to ensure the policy-making process is specific to SMEs and that the operational environment evolves in an SME-friendly way.

A formal framework for interaction of stakeholders engaged on SME policy making is needed to improve co-ordination among relevant ministries directed by the Ministry of Finance and Economy. Under the present institutional policy implementation set-up, the IPMG for Competitiveness and Investments should be leading, monitoring and evaluating to the process of designing SME policies and relevant action plans under the development strategies for growth directed by the MoFE. With the new BIDS 2021-'27 in place, the IPMG could hold dedicated quarterly meetings to monitor the progress made, as well as to suggest amendments to the Action Plan in ongoing basis.

Public-private consultation (PPC) mechanisms could be formalised, giving the private sector the opportunity to comment on business-related legislation, provide their own suggestions for draft laws and measures, and call for meetings with the government when appropriate. Mechanisms for public-private consultations could include meetings with business organisation representatives, expert group meetings, or the establishment of representative SME business panels with clearly defined principles of participation. In the case of SMEs focused PPC mechanisms, a permanent consultation panel could be led by the Ministry of

³ <https://www.oecd.org/countries/serbia/sme-policy-index-western-balkans-and-turkey-2019-g2g9fa9a-en.htm>

Finance and Economy with participation of AIDA, main chambers of commerce in the country, SMEs founders, Banking and Microfinance associations, donors and VET programs representatives with the primary objective to overview, simplify and formalize different initiatives in a harmonized coordination agenda

Ensure regular monitoring of SME policy measures implementation. Continuous improvements in BIDS monitoring mechanisms of SME policy measures effective implementation could be prioritized by introducing corrective actions if needed. This particularly applies to legislative simplification and public-private consultations reflection of issues that might arise once BIDS has been approved. Ensuring agility of monitoring mechanisms remains crucial to guarantee maximal effectiveness in implementing the Action Plan measures in mid-term.

Systematically conduct regulatory review and simplification processes in cooperation with businesses. Business regulation should be renewed periodically in close dialogue with the business community to identify the most burdensome areas, and propose simplification measures. Platforms such as the National Economic Council and the IC could be included in these processes contributing to bring evidence, suggest recommendations and follow up policy measures on private sector views, in particular those of SMEs, regarding to simplifying procedures for business operations.

Albania could broaden and deepen the production of SME statistics to build a more accurate picture of the sector's performance and further base policy making on quantitative evidence. This would entail expanding the current basic structural business statistics by sector and size class to include more refined data on business demographics, export performance and innovation (e.g. expenditure on R&D, technology absorption). Since the collection of data demands time on the part of entrepreneurs, requests to SMEs should be streamlined in order to minimise the effort involved to provide the relevant information.

2. Promote skills development and entrepreneurial culture

The cross-government National Strategy for Development and Integration 2014-2020 and the Albania Economic Reform Programme (2020-2022) both express the need for an entrepreneurial culture and support for entrepreneurial learning. In addition, the National Employment and Skills Strategy (2014-2020) and Business Investment Development Strategy (2014-2020) both contain a strong commitment to entrepreneurial learning. However it is still not developed a joined-up approach involving ministries, agencies and implementing partners in driving lifelong entrepreneurial learning and system-wide change, despite the previous assessment finding that authorities had recognised such an approach was needed. This makes it difficult to implement a coherent, evidence-based approach to formulating entrepreneurial learning policies, comprehensive actions and monitoring. In parallel, women entrepreneurship

appears to be an important element of embedding entrepreneurial culture into Albanian business environment and society. In this regard some action measures to be considered could be as following:

Support women's entrepreneurship. Women's role in the active labour market in Albania continues to be essential as they represent more than 43% of active labour force with respective 42% and 14.9% in Agriculture and industry sectors. World Bank human development indicators data for 2019 show that 20.7% of firms in Albania have women ownership while firms with female top managers count for 18.1%. Particular attention should be given to gender equality issues and the promotion of women in business. Considering the relatively scarce presence of women among early-stage entrepreneurs, more targeted policies are necessary to develop the potential of women as entrepreneurs across the country. These policies should be based on solid gender-disaggregated business data and analysis.

Establish a joined-up approach to lifelong entrepreneurial learning. As the previous SBA assessment recognized, country has not made a deep commitment to prioritise implementing entrepreneurial learning across all the relevant ministries. A co-ordinating body, under the leadership of the Ministry of Education, Sports and Youth, would help to solidify commitment across ministries in supporting a National lifelong entrepreneurial learning agenda. However lifelong entrepreneurial learning programs have to be designed taking into account business needs and requests for skills and project a distribution of learning curricula for each industry by also mapping interests of active labour force with entrepreneurial drive. Currently are missing concrete programs in this direction not allowing a synergy between generations when it comes to starting free enterprises.

Strengthen dialogue with non-government organisations (NGOs) for women's entrepreneurship. Dialogue and networking among NGOs working on women's entrepreneurship at the grassroots level need to be revitalised. Although good examples of women entrepreneurs are currently being used to motivate others, lessons from their experiences could be unpacked into good practices that might help widespread in national level women entrepreneurship as an effective way to impulse positive social impact and better households living conditions. Workshops could be organized on a regular frequency with women entrepreneurs initiatives and reflect inputs into concrete policy actions to follow.

Strengthen stakeholder participation in developing and implementing VET policies. The Albanian vocational education and training (VET) system needs to be strengthened through greater participation by stakeholders. This would improve the relevance of VET programmes for the labour market. This could be achieved through stronger involvement of employers in the design of curricula (e.g. via regional Chambers of Commerce and Industry) and the definition of

minimal standards for the technical infrastructure of VET schools, as well as through strengthened participation of SMEs in sectoral committees to be consulted for regional and country-wide VET policies.

3. Support for SMEs' internationalisation

Albanian SMEs have grown their exports towards EU markets in the last years manifesting a clear sign of a high potential for growth in the light of internationalization of their business operations. The existing BIDS, which was developed through formal consultation with the private sector, outlines Albania's export promotion programmes. AIDA has been implementing export promotion activities since 2010. Despite having operational autonomy to carry out its activities, AIDA has relatively limited funds and only five employees dedicated to export promotion as reports show.

Albania does not yet have yet an official government programme in place to support SMEs' integration into global value chains. In the meantime, the perception of cluster development in Albania improved between 2014 and 2018, according to the World Economic Forum's *Global Competitiveness Index*. Albania is improving its overall national quality infrastructure, ensuring that EU standards and technical regulations requirements are met, which in turn will help businesses benefit from the opportunities offered by CEFTA and other bilateral free trade agreements.

Serving to the aim of growing Albanian SMEs exports and further internationalization of the "Made in Albania" brand some recommendations to be taken into account would be: *Improve export promotion activities and export-related skills among SMEs*. Current export promotion activities should be broadened to provide information on priority sectors and target markets for Albanian SMEs. In view of the opportunities offered by AIDA's European partners network, SMEs would benefit from increased government support to access foreign markets, especially in the EU.; AIDA's mandate covers both the development of entrepreneurship and export promotion. Its current activities to support business participation in trade fairs and trade missions abroad makes it the best-positioned government agency to provide greater support for internationalisation of Albanian SMEs. *It could offer a wide range of export-supporting services* including: Market research and development: analysis of demand trends for export products, dissemination of target market intelligence and help in designing market-entry strategies; Trade information provision: on importers, prices, export procedures, standards, quality and documentation requirements in target markets. AIDA could also scale-up its efforts to develop SMEs' export skills and increase their readiness to access foreign markets. ; *Provide targeted financial support to exporting SMEs*. The government could consider providing specific financial

support to help exporting SMEs overcome the financing barriers and risks typically encountered when engaging in international trade. A wide portfolio of financial and insurance products could be made available, depending on the specific needs identified among Albanian SMEs. These could include export loans to finance additional working capital, export credit insurance to cover market and political risk, as well as export factoring to convert an exporter's trade receivables into discounted liquidity; *Facilitate linkages between FDI and SMEs*. In this light, linkage programmes could be set up to ensure that foreign investments in Albania translate into business opportunities for SMEs. On one hand, linkage programmes provide valuable information to multinational enterprises about local SMEs, lowering the costs of searching for local suppliers and potential business partners. On the other hand, SMEs participating in the linkage programme can benefit from increased and structured interactions with multinational companies investing in Albania, helping them to integrate into global value chains.; *Centralise information on existing efforts to boost SME exports* by leveraging the government's networking capacity. Current efforts to provide support services for SME internationalisation are fragmented and carried out by a range of actors. AIDA could use its website, and particularly its B2B platform, to ensure the open and constant flow of information to SMEs.

4. Stimulate innovation and R&D for Albanian SMEs

To improve the competitiveness of its' SMEs sector and build a more advanced, knowledge-based economy, Albania needs a co-ordinated effort to increase its Research and Development and innovation activities. Competitiveness of "Made in Albania" products is going to be subject of value added and qualitative differentiation compared to already existing high end quality products already present in Regional and International markets, for this reason innovation and R&D activities are going to determine the level of success of local products in international markets. Important is to take actions in the perspectives of:

Developing a "triplehelix" type of partnership involving academia, the private sector and the public sector in building a dynamic innovation ecosystem. While universities typically expand the knowledge base and provide research capacity, businesses can convert this knowledge into commercially viable products, and the government should create a supportive environment for innovation. This partnership does not require considerable financing means considering the synergy that will be created due to market oriented collaboration of the parties involved. The initial set-up could be financed by a dedicated fund allocated by the Government and managed by a dedicated public-private body including representatives from academia, industry and state agencies such as AKKSHI. Then financing for initiatives could be provided by the industry with an interest for innovative solutions coming from academia, education programs for specific

profiles with tailored curricula could be sponsored by the private sector, joint-applications could be filed for EU schemes such as Horizon or Erasmus+, and donors support could also be channeled in support of main directions of the partnerships.

Develop an overall country research agenda and related projects in Albania in line with the EU approach of smart specialisation. This would help identify Albania's competitive advantages as well as making full use of its knowledge-based development potential. National Agency of Scientific Research and Innovation AKKSHI at the present has a number of ongoing initiatives in this direction where worth to mention are Europe Enterprise Network project which aims to bring Albanian SMEs capacities in compliance with requirements from EU SMEs in search for reliable partners, another important initiative is the Horizon 2020 in support of SMEs that aims to support those small and medium enterprises that profilize in providing innovative solutions in the market that would define their smart specialization as a winning differentiation in front of regional and global competition.

A national innovation ecosystem should not only focus on "triple-helix" partnerships for facilitating SME investments in R&D, but also on enhancing their capacity to absorb existing technologies. Policy makers could also promote a notion of innovation that goes beyond startups to include the broader concept of technology or process upgrades. In a time when competitiveness is much about efficiency in processes and innovative technological and digital solutions being implemented by firms to boost productivity, fiscal incentives could be offered to SME that utilize technologies and digital innovation to increase their competitive position in front of international peer competitors. In addition R&D investments could be recognized as deductible expenses paving the way for higher level of technological absorption.

Foster collaboration between industry and academia Establish joint research initiatives between SMEs and public research institutes, with the former contributing financial resources and a market-oriented perspective and the latter providing experienced technical staff and research equipment. A cluster-type approach could be promoted, whereby SMEs co-ordinate their needs for innovation and engage with public research facilities with a shared objective. In this respect, regional Chambers of Commerce and Industry could help SMEs to find other innovation partners. A Memorandum of Understanding between the related stakeholders under the coordination of the MoFE could serve as a key document to orient the joint action to promote the cluster-type approach addressing concrete market demand for quality in delivery of service.

Targeted financial instruments could be designed to support innovation by Albania SMEs and Startups, in a way that meets their specific business needs. A voucher scheme could be designed to give the SMEs access to the public research and education infrastructure exploring

opportunities for joint research projects by producing innovative market solutions. Innovation funding dedicated to support SMEs from the state budget could be allocated to benefiting enterprises into vouchers. These vouchers could be utilized by qualifying SMEs to initiate partnerships with best market oriented research centers of top private and public universities in the country aiming to explore technological and digital solutions that would improve quality of solutions. Vouchers could be utilized on a research project or market solution need basis.

5. Ensuring quality standards

Organic growth of Albanian SMEs would require a growing base of consumers in domestic as well as export markets. In order to achieve this stability, the quality of produced goods from small and medium enterprises ought to be according to EU and international standards guaranteeing a long-standing success and consolidation of “Made in Albania” label into international markets. Albania seeks to raise awareness about the importance of standards, in particular by publishing quarterly bulletins that provide information on the adoption of new standards and on amendments to the existing ones. Some potential actions to ensure standards for SMEs products could be:

Provide services to SMEs to adapt to EU quality standards requirements. Action is needed to raise awareness of quality standards requirements among Albanian SMEs to ensure that companies can successfully export to EU markets. Information provided could include new technical regulations and ways to comply with them, as well as the voluntary standards and certified accreditation bodies available in the country. A positive initiative of the General Directorate of Standardization (DPS) with special focus on SMEs is the Manual of Risk Management for small and medium enterprises that helps them to standardize resources management and allocation under international quality standards. More dedicated standards packages tailored for SMEs would be valuable to assist them grow and in the same time boost export promotion agenda.

Build institutional capacities around EU quality standards in responsible Government agencies supporting Albanian SMEs. Staff working in these agencies need good knowledge of the EU requirements so they can guide SMEs through the technical steps needed to successfully export to EU markets. *Introduce financial measures to help SMEs to obtain standards or reduce the cost of their participation in standardisation.* The Competitiveness Fund run by AIDA supports SMEs exporting their products to foreign markets by reimbursing up to 70% of their costs related to product certification, conformity assessment and the introduction of quality management systems. However, SMEs can be deterred from applying by perceptions of the cumbersome requirement to demonstrate their ability to finance the entire project costs.

Explore new channels to increase awareness on benefits of EC standardization among SMEs. Currently, activities to raise awareness of standards are limited to publishing quarterly bulletins and various promotional materials. Authorities need to take more proactive measures to reach out to SMEs. It could develop sets of standards relevant for particular sectors or disciplines and present them to SMEs at events of interest to their sector.

CONCLUDING REMARKS ADDRESSING ACCESS TO FINANCE ISSUE

Access to finance continues to torment growing small and medium enterprises and startups that need financing to grow, flourish and contribute value to the local economy and communities. As evaluated by EC Progress Report as well, financial intermediation remained undeveloped in 2018, and credit growth to the business sector stayed subdued. Credit to the private sector amounted to about 39% of banking sector assets in 2018. Credit growth to business was sluggish due to: (i) banks' greater risk awareness; (ii) tighter lending conditions; (iii) the low financial literacy of SMEs; and (iv) 'unbankable' business plans. Only lending to households picked up recently. The small but growing non-bank financial sector, with about 30 institutions, owned 10.7% of total financial sector assets in the first half of 2018. In February 2018, the first private stock exchange (ALSE - the Albanian Security Exchange) began trading government securities, but equity and corporate bond finance remain underdeveloped. Overall, financial inclusion remained low, with only 40% of adults and about 75% of SMEs holding bank accounts. There is a high rate of physical-cash use in the Albanian economy and in some cases this penalises SMEs that operate in informality. The central bank has drawn up a plan for increasing financial inclusion, which is important for reducing remittance fees, illicit financial flows, and the size of the informal economy. A stronger development of the still very small nonbanking financial sector could support financial inclusion as well as access to finance for SMEs. Government support will be important to make this initiative a success in national scale.

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

Venture capital remains practically non-existent in Albania. Significant efforts are needed to establish a functioning ecosystem. Low levels of financial literacy, particularly amongst SMEs, remain a major obstacle to accessing finance. Albania scores particularly poorly in the Standard & Poor's financial literacy survey. Less than 14% of the adult population is deemed to be financially literate according to this survey, compared to an average of 27.5% in the region. As mentioned above, it is very difficult for small firms to obtain information about financing or training opportunities as no centralised platform exists.

At present, support programmes to facilitate access to finance for SMEs in Albania are EBRD's Albania Agribusiness Support Facility, funded by the Government of Albania; the Albanian-Italian Programme for the Development of Albanian SMEs; and the European Fund for Southeast Europe. However, their scope remains limited and take up has sometimes been low. In addition, the Ministry of Finance and Economy has four targeted funds implemented through AIDA which are effectively grant programmes and donors funds also provide opportunities for Startups grants and training programs for entrepreneurs.

Active measures will have to be taken from the side of the Government and related responsible institutions to support easier access to finance for SMEs and newly created enterprises in Albania. A potential guideline for action in this regard could be as designed along four priority action lines

Setting up a dedicated Credit Guarantee Scheme for SMEs

In present conditions, when traditional financing sources have proved to be not widely accessible for Albanian micro and small medium enterprises, novel approaches could be considered suitable to improve access to finance. Lack of collateral, high risk of default, high transaction costs and poor financial literacy and skills are some of the main barriers that in most cases make SMEs non-bankable or deteriorate their lending conditions. Limited access to finance, low credit allocation by banks, high interest rate and lack of long-term financing are just some of the consequences for these enterprises.

With a dedicated focus on SMEs access to financing, Government could consider introducing a credit guarantee scheme (CGS) to promote SMEs' financial inclusion. This scheme would work as a risk-sharing mechanism between lenders typically banks, borrowing SMEs and the state as a guarantor. In exchange for a small fee paid by the borrower, the guarantor provides banks with the guarantee that it would reimburse a share of the outstanding loan in case of default by the borrower (OECD, 2013a; Hanedar et al., 2014).

A Credit Guarantee Scheme would relieve the barrier of missing collateral and effectively create market-based incentives for banks and other financial institutions to lend more to SMEs.

By reducing the perceived risk, these financial institutions are expected to request significantly lower collateral and as a consequence lower interest rates from borrowing SMEs. A viable option for the Albanian Government to support access to finance for SMEs, it remains crucial to undertake an in depth analysis of results from ongoing Credit Guarantee Schemes, develop the necessary legal bases and address potential obstacles that are undermining full scale impact of these facilitating mechanisms. In creating the CGS main actors to join efforts should be the Government through a dedicated budgetary fund, international financial institutions typically for the case of Albania could be European Bank for Reconstruction and Development EBRD and then evaluation of SMEs applications and disbursements should be processed by secondary level banks in the country with necessary expertise in financing growing small and medium enterprises.

Scope for further studies

This research work aims to contribute in the economic literature investigating key challenges Albanian small medium enterprises face in their growth endeavors. However remains for further research the deeper analysis of effectiveness of ongoing credit guarantee schemes in the country and understand areas for improvement in their performance. Another valuable frontier in which further research could be developed would be exploring modalities for introducing in Albania venture capital initiatives that might boost significantly non-traditional financial support for growing new enterprises that find it difficult to finance their operations in incremental scale.

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