

2017 SBA Fact Sheet

Albania

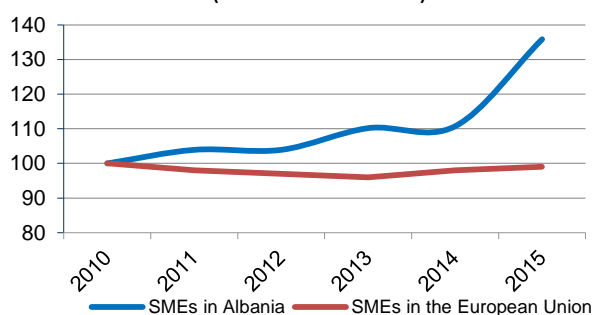
Key points

Past & future SME performance¹: The number of SMEs continued to increase in 2015, by 25 % compared to 2012, while employment increased by nearly 20 % during the same period. However, despite this increase, value added has increased by only 3 %, and overall value added as a share of the economy remains below its 2012 level. The most significant improvements took place in 2015, with SME employment increasing by 18.7 % and value added by 6.5 %. This was mainly due to a significant increase in the number of SMEs, by 20 % compared to 2014. The expected improvements in investments, net exports and consumer spending should contribute to real GDP growth, forecast to grow moderately by 2-4 % between 2015 and 2017. SMEs are expected to play a key role in this growth.

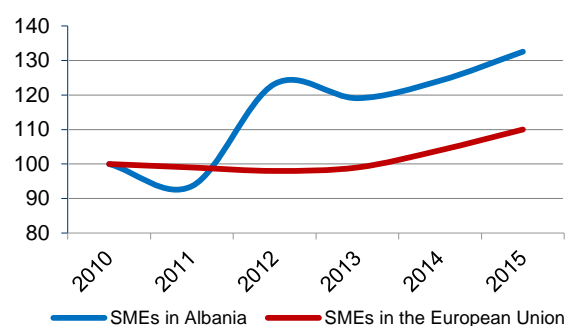
Implementing the Small Business Act for Europe (SBA): Given the paucity of data, information regarding Albania's SBA profile should be interpreted with caution. That said, in recent years Albania has put in place some core components of the SBA, including a one-stop shop for online start-up procedures and an e-procurement portal. The implementation of the Business Investment and Development Strategy for 2014-2020, adopted in spring 2014, is progressing well.

SME policy priorities: A number of key components of an SME-friendly business environment are missing, such as fostering the entrepreneurship in the school curriculum, setting up regulatory impact assessment procedures, developing alternative sources of finance besides traditional bank lending, and setting up fast-track and specific bankruptcy procedures for SMEs, especially with regard to the issue of non-performing loans.

No. of persons employed in SMEs
(Index: 2010=100)



Value added of SMEs
(Index: 2010=100)



About the SBA fact sheets

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs.

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1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Albania		EU	Albania		EU	Albania		EU
	Number	Share	Share	Number	Share	Share	Million €	Share	Share
Micro	87854	94.5 %	93.0 %	162621	40.8 %	29.8 %	95250	21.9 %	20.9 %
Small	4105	4.4 %	5.8 %	79713	20.0 %	20.0 %	105294	24.2 %	17.8 %
Medium-sized	833	0.9 %	0.9 %	82650	20.7 %	16.7 %	89397	20.5 %	18.2 %
SMEs	92792	99.9 %	99.8 %	324984	81.6 %	66.6 %	289 940	66.6 %	56.8 %
Large	128	0.1 %	0.2 %	73523	18.4 %	33.4 %	145479	33.4 %	42.9 %
Total	92920	100.0 %	100.0 %	398507	100.0 %	100.0 %	435419	100.0 %	100.0 %

These are estimates for 2015 produced by Institute of Statistics of Albania. (DIW Econ, based on 2008-2014 figures from the Structural Business Statistics Database (Eurostat). The data cover the non-financial business economy, which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed). The advantage of using Eurostat data is that the statistics are harmonised and comparable across countries. The disadvantage is that for some countries the data may be different from those published by national authorities.

SMEs are highly important for the Albanian non-financial business economy. SMEs generate over two thirds of value added and 81.6 % of employment, compared to the EU value added average of 56.8 % and employment average of two thirds. Micro-firms are the backbone of the Albanian economy, providing 40 % of employment. Almost 34 % of SME value added has been generated in *wholesale and retail trade and motor vehicle and motorcycle repair*, but it contracted in *construction, mining and electricity* in 2015 compared to 2014. This sector continued to dominate the economy, with 31.9 % of the total number of enterprises at the end of 2016, compared to 35.3 % in 2015. The positive growth in construction in 2015 was mainly dominated by the increased value added of large enterprises.

In terms of employment, SMEs have performed well in recent years, with an increase of 15 % from 2012 to 2014 and almost 19 % in

2015. Overall SME value added increased by 6.5 % in 2015, above the EU average. At 33.4 %, value added of large enterprises remained below the EU average of 42.2 %.

SME performance in *manufacturing* remained stable in 2015, at 15.4 % of total SME value added, a slight increase in nominal value of 6 % compared to 2014.

Manufacturing relies to a large extent on the production of low value added and labour-intensive products such as textiles and footwear. Another growth driver in this sector was exports, which reached an all-time high in 2014. In 2012, 30 % of total exports consisted of textiles and footwear. In 2015 37 % of total exports consisted of textiles and footwear, followed by exports of minerals, fuel and electricity.

The development of Albania as a relatively new tourism destination has also led to growth in the *travel agencies and tour operators* sector.⁹ The profession of 'tourist guide' has recently been regulated and professional certification and licensing documents have been issued to 199 tourist guides. This is likely to contribute to a significant increase in youth employment in the future¹⁰.

The liberalisation of the market for security services has also led to growth in the *security and investigation* sector, with many businesses, international organisations, embassies, hotels, banks, construction companies and state institutions using private security companies.¹¹ Security companies are all SMEs, due to a cap on the size of the companies relative to the number of police in each district.¹²

The business environment has stabilised in recent years. The growing number of new company registrations since 2012 reflects this. The increasing trend of new businesses registered in the National Business Centre also continued in 2015, with a 22.7 % increase, bringing the number of new registrations to 56 787. Another 31 377 businesses were registered in 2016, although at 44.8 %, fewer than in 2015. The increase in registrations was also supported by government actions to tackle informality and fiscal evasion in 2015 and 2016.

Real GDP is projected to increase moderately, by 2.6-4 % from 2015 to 2017. The main contributing factors are the predicted surge in investment and growth of net exports.¹⁶ Foreign direct investment, mainly in the energy sector, is also expected to remain an important source of growth, while household spending is predicted to benefit from a rise in employment.¹⁷ Due to their key role in the 'non-financial business economy', SMEs can be expected to fully participate in this overall economic growth. However, major structural obstacles to growth and competitiveness include poor access to finance, a high level of informality and corruption, lack of clarity regarding land ownership, an excessive regulatory burden and unpredictability of the judicial system which significantly hamper both foreign and domestic investment.

2. SBA profile²

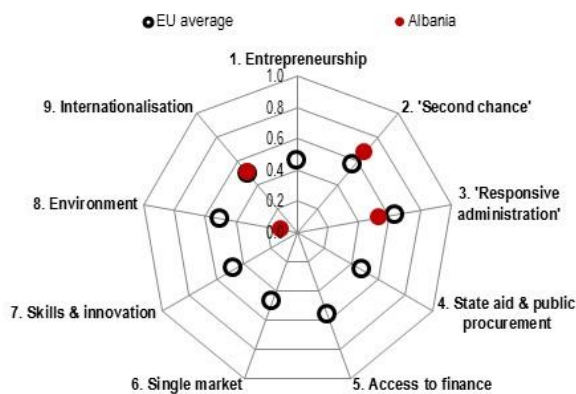
During the reference period, SME policymakers focused on entrepreneurship, 'responsive administration', second chance and internationalisation.

Significant efforts were made to improve entrepreneurship. They include adopting the action plan based on the Triple Helix Model for cooperation between universities, industry and government, as well as the work on setting up an incubator for start-ups.

The National Business Centre, established in October 2015, became operational in April 2016, reducing licensing requirements and creating a one-stop shop for business. The e-construction permit system also became operational, limiting the number of administrative procedures and reducing the time it takes to issue a construction permit.

A significant second chance measure is the adoption of a new bankruptcy law, streamlining business exit procedures and facilitating the execution of collateral.

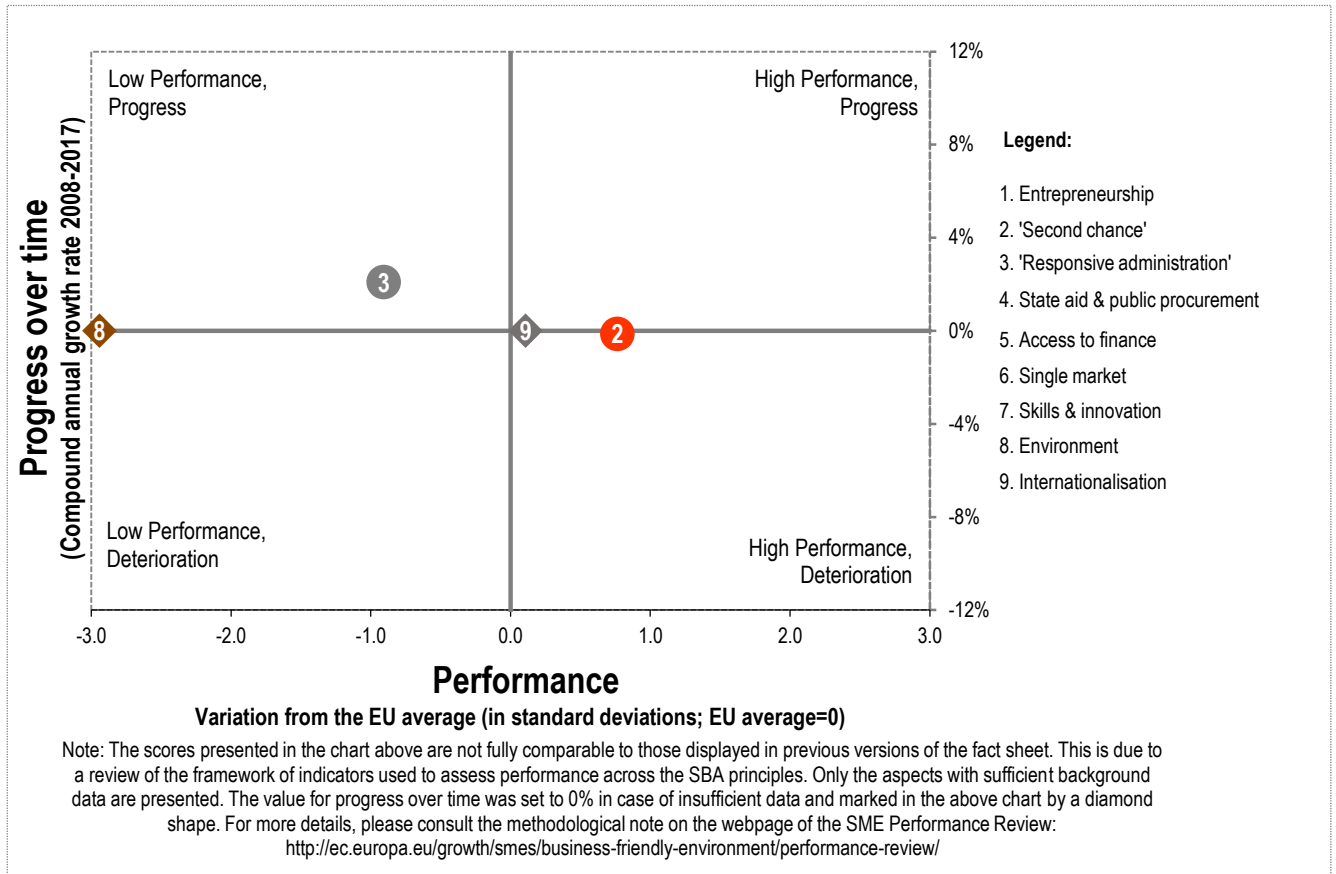
A number of key components of an SME-friendly business environment are still missing, such as strengthening entrepreneurship in the school curriculum, setting up regulatory impact assessment procedures and developing alternative sources of finance besides traditional bank lending.



Albania's SBA profile is incomplete, because many data are not available. However a number of relevant measures have been implemented in each area.

Overall, Albania made moderate progress in implementing the SBA in 2016 and the first quarter of 2017, the reference period for this fact sheet.

SBA performance of Albania: state of play and development from 2008 to 2017²



3. SBA principles³

3.0 'Think Small First'

The 'think small first' principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to take SME interests into account at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made simple and easy to apply.

No significant new 'Think Small First' measures were announced or adopted during the reference period.

Overall, some limited improvements were made regarding the consultation of SMEs in legislative procedures. The establishment of the Investment Council is a positive initiative to enhance consultation with business stakeholders.

The views of SMEs are thus increasingly being considered, but the government still lacks a comprehensive and systematic application of 'SME test' and assessment of the impact of new legislation on business competitiveness. Despite the improvements, the level of consultation with SMEs on law-making and relevant policies needs to be improved, because quite often they are not given enough time to comment on such matters.

There have been fiscal incentives for tour operators in the accommodation sector since 1 June 2017 and a Tourism Entrepreneurship Fund was set up to support the development of SMEs in this area.

3.1 Entrepreneurship

There is no data available for Albania for the entrepreneurship indicators, so it is not possible to assess its performance.

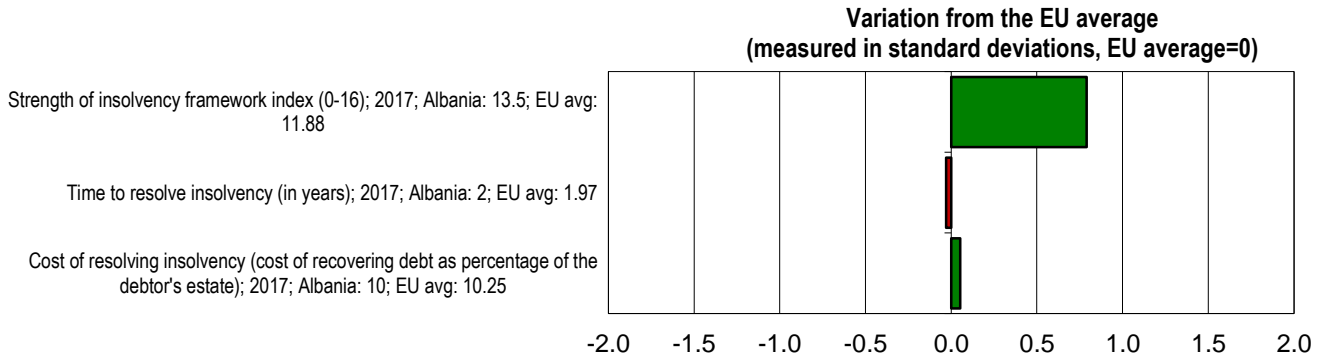
Over the past few years, policy measures have included introducing the 'basics of entrepreneurship' as a compulsory subject in vocational education curricula. However, further policy measures are needed to make entrepreneurship a part of the national curricula.

The 'strengthening social protection and social inclusion' measure continued to be implemented during the reference period. The goal is to modernise employment services, specifically targeting vulnerable groups, young people and women.

The government also adopted and will start implementing an action plan on a 'policy framework for innovation', based on the Triple Helix model for cooperation between universities, industry and government. To help SMEs increase their innovation skills, the government has announced the 'Innovation Hub' project, to set up an incubator for start-ups. It will also develop an online portal for innovation support infrastructure and services for SMEs and others.

The government has adopted a special action plan on female entrepreneurship. The Ministry of the Economy will implement it, with the support of UN Women.

3.2 'Second chance'



Note: Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

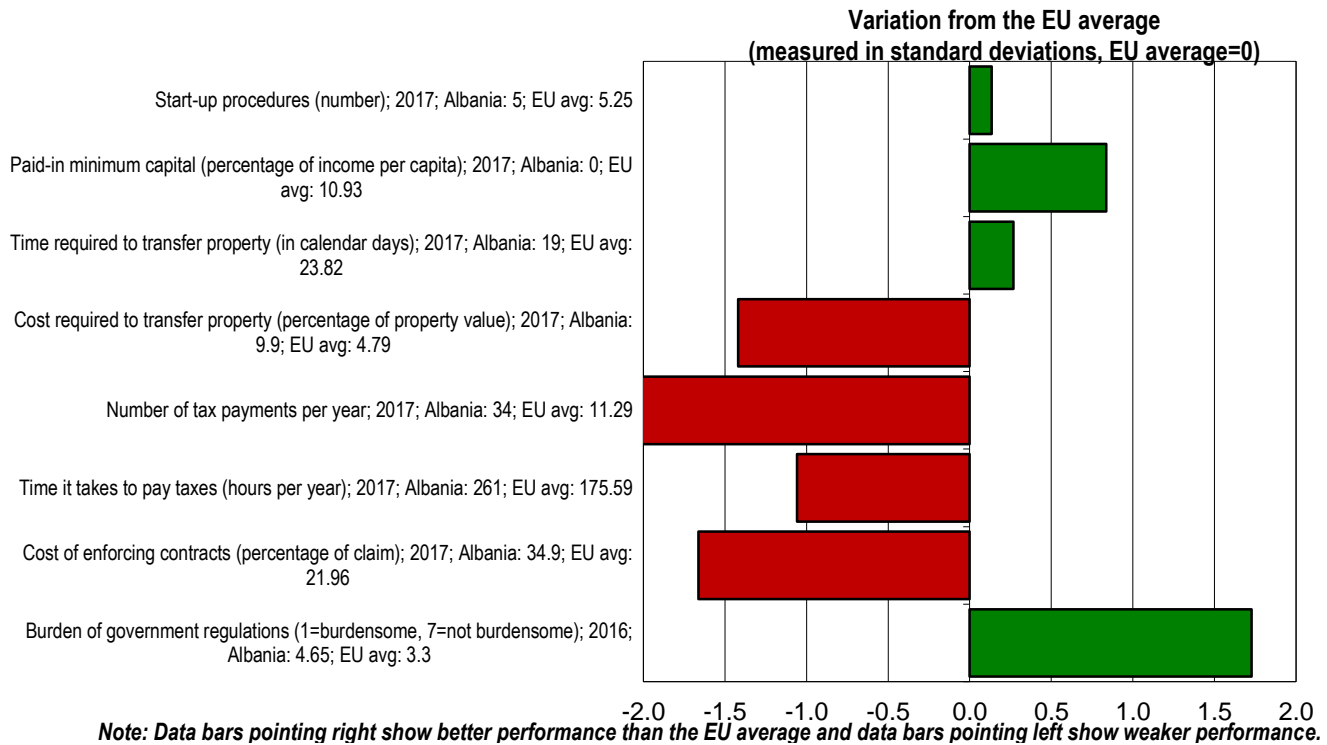
'Second chance' refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Albania's performance is broadly in line with the EU average. The insolvency framework is a solid body of legislation for rehabilitating viable firms and liquidating ones that aren't viable.

From a policy perspective, Albania has made significant progress, adopting a new bankruptcy law in 2016. It will streamline exit procedures and facilitate the execution of collateral. Some first steps have been taken to raise awareness and deal with the stigma

of business failure, but more needs to be done in this respect. There is still a lack of pre-emptive measures or an early warning system to help businesses avoid failure.

Automatic discharge for honest entrepreneurs after liquidation is not possible, and there are no fast-track and specific bankruptcy procedures in place for SMEs.

3.3 'Responsive administration'



'Responsive administration' refers to public administration being responsive to the needs of SMEs. There is not enough data available to draw general conclusions, but the available data shows that the different indicators vary significantly and there is room for improvement in several areas. Significant progress has been made in reducing the time it takes to pay taxes, as well as the number of start-up procedures, but they are still far below the EU average. The number of tax payments and the cost of enforcing contracts remain the biggest burdens.

Much of the legislation enacted over the past few years, relating to licensing, business registrations, etc., has been simplified. The National Business Centre is a one-stop shop for business registration and licensing. Online registration of businesses has been fully operational since the start of 2015, and testing for some licence categories is ongoing. Taxes can now be filed online and there is an e-government portal in place. The electronic system for issuing construction permits also became operational and has significantly reduced the duration of the process.

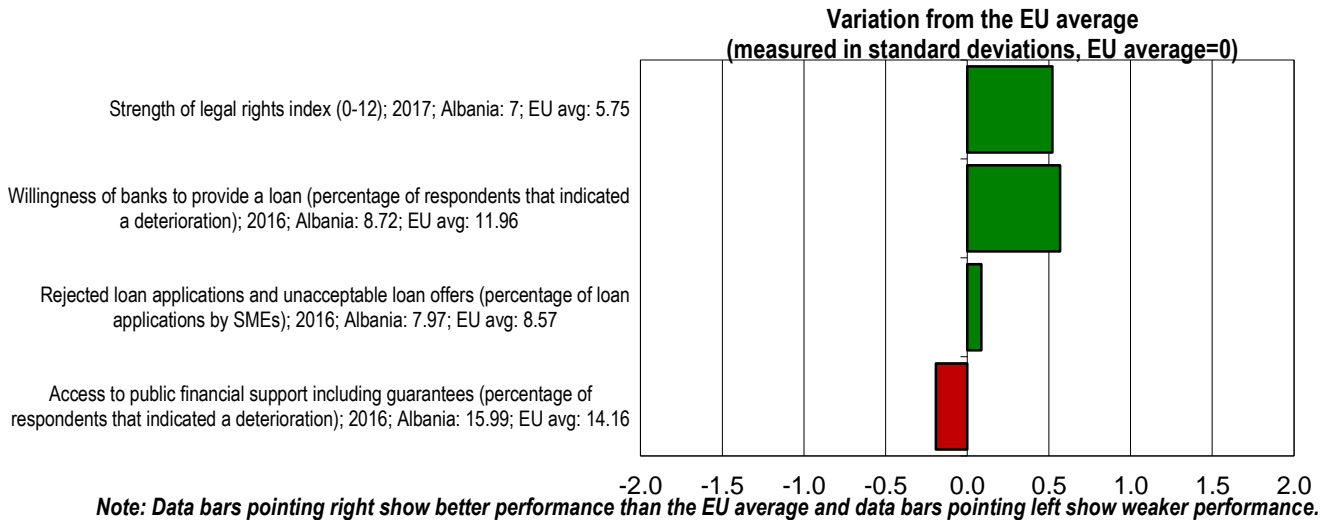
However, more needs to be done to promote e-government and make online interaction with government services possible.

Albania made significant progress in 'responsive administration' in 2016. The government introduced the following measures to reform public administration during the reference period:

The Agency for the Delivery of Integrated Services Albania — ADISA — became operational, with offices in several cities, as one-stop shops providing citizens and businesses with the services of different government institutions and agencies.

The 'standardisation of the tourism sector' measure continues to be implemented. Its aim is to improve the overall quality of tourism products and services.

3.4 State aid & public procurement



State aid & public procurement data for Albania is limited, making it impossible to draw any conclusions on its performance.

The contracting authorities addressed this area in 2015 by making public procurement procedures more efficient and effective. However, the efficiency of the remedy system needs to be assured. The latest legislative developments, ensuring the independence of the remedy body (Public Procurement Commission) are going in the right direction. An important new measure was adopted on the 'effective implementation of recent

legislative changes promoting new investments and SMEs'. The aim of the measure is to build a strong and transparent investment policy framework in Albania, in order to attract foreign investors and make public procurement more accessible.

3.5 Access to finance

There is not enough data available to draw general conclusions. A number of support schemes have improved access to public financial support, including guarantees, but the willingness of banks to provide loans is stagnating.

In previous years, various policy measures have been introduced to ease access to finance. These include loan schemes and developing a business environment that provides conditions payments to be made in due time.

Some progress was made during the reference period. The 'National Plan to reduce the level of Non-Performing Loans in the banking system' is being progressively implemented to improve access to finance and address the issue of non-performing loans. The plan integrates reforms covering enforcement, supervision, debt restructuring and insolvency. There has been a decrease in the rate of non-performing loans compared to 2016. However, results from implementing the NPL action plan, which includes a package of legal measures, require more time to materialise in the financial market.

The government continued to provide financial support, in the form of grants, to SMEs in tourism, competitiveness, female entrepreneurship, the creative economy and innovation.

3.6 Single market

As Albania is not an EU Member State, there is no relevant comparable data regarding the single market. The country has adopted most of the EU single market standards. A market surveillance inspectorate with broad competences has been set up.

It is expected to improve implementation of the single market principles. It needs to be fully operational in terms of staff and premises to be able to fulfil its legal obligations.

3.7 Skills & innovation

There is no skills & innovation data available for Albania, so it is not possible to draw any conclusions on its performance.

Overall, Albania made significant progress in skills & innovation during the reference period. It continues to implement the measures announced last year.

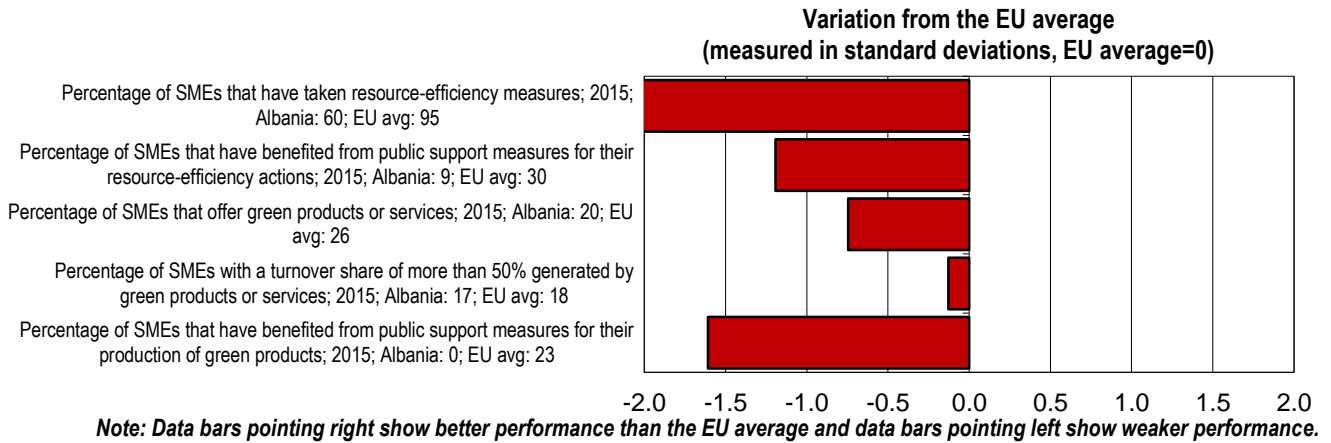
The Albanian government has focused on improving the quality of vocational education and training (VET). The aim is to link VET to the labour market needs, to increase employment for women, young people and vulnerable groups.

The government also continued to implement the Digital Agenda Strategy, introducing a range of instruments to support SMEs using ICT and innovative technologies. Moreover, the strategy also seeks to increase the readiness of SMEs to start using ICT solutions.

The Albanian Investment Development Agency continues to implement the strategy for the 'Enhancement of institutional capacities for research and innovation' to further support the development of research and higher education systems.

An Innovation Fund continues to give SMEs direct subsidies, with a growing financial endowment over the years. It helps them surmount obstacles to becoming more innovative and competitive. The total Innovation Fund for 2013, 2014 and 2016 was ALL 15.450.000. To date, it has disbursed ALL 12 120 627.

3.8 Environment

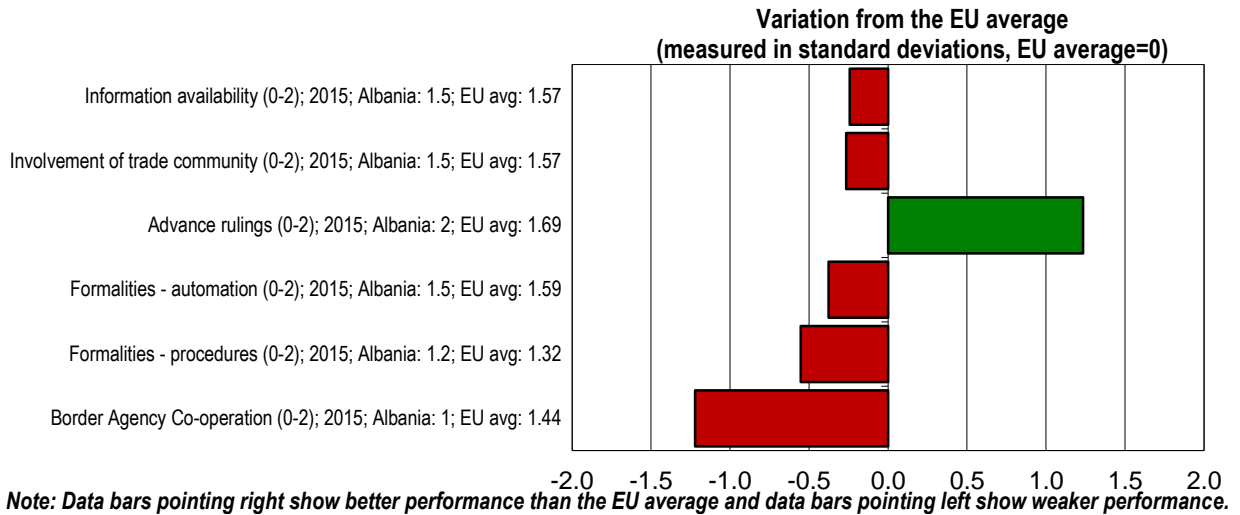




The performance of Albania regarding the environment stagnated in 2016 compared to 2015, and the country continues to perform much below the EU average. Although the results need to be interpreted with caution due to the relatively low number of companies surveyed, all individual indicators show that there is need for improvement.

Since 2008, Albania has implemented a number of measures in this policy area. Measures have been introduced to liberalise the energy market and provide financial support for investments in energy efficiency, but more are needed. The government continued to implement the strategy for 'Further liberalisation of the energy market and diversification of energy sources (Gasification)'. It introduces an improved legal framework for the gas and power sector and for upgrading installations and equipment, to reduce the energy consumption of businesses.

3.9 Internationalisation



Regarding the principle of internationalisation, Albania presents a mixed picture, with a number of indicators close to the EU average. There is however room for improvement. The country's internationalisation profile cannot be compared to previous years due to methodological changes in the indicators.

Development Agency continues to support the internationalisation efforts of businesses. The government continued to facilitate international trade through "deep inter-agency cooperation". The objective of this policy measure is to improve the regulatory and institutional environment for exporting SMEs. It targets precisely the indicator in relation to which Albania performs most poorly.

The Albanian Investment

4. Interesting initiative

Below is an example of an initiative from Albania to show what governments can do to support SMEs:

The Tourist Entrepreneurship Fund was approved by the Council of Ministers on 3 May 2017. It aims to support the development of the tourism sector by creating an environment that is conducive to the country's sustainable economic development and opening up new jobs. It gives SMEs in the tourism sector direct financial assistance to develop their activities. The total amount planned for this fund for 2017-2019 is ALL 30 million. Each year ALL 10 million is projected to cover 60 to 80 % of the eligible costs.

From January to June 2017, the following results were achieved:

- the Competitiveness Fund supported 6 companies, with a first tranche of ALL 4 193 000 already disbursed.
- the Innovation Fund supported 5 companies, with a first tranche of ALL 1 000 000 already disbursed;
- the Start-up Fund supported 12 companies, with a first tranche of ALL 2 700 000 already disbursed.

Reference: Albanian Government

Important remarks

The European Commission produces the SBA fact sheets, which combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of national policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. For example, they cite only policy measures considered relevant. They do not and cannot reflect all measures the government has taken over the reference period.

SME Performance Review:

https://ec.europa.eu/neighbourhood-enlargement/policy/policy-highlights/sme-performance-review_en

<http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

Small Business Act:

http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

European Small Business Portal:

http://ec.europa.eu/small-business/index_en.htm

Endnotes

¹ The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2015, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2014 figures from Eurostat's Structural Business Statistics Database. The data cover the non-financial business economy, which includes industry, construction, trade and services (NACE Rev. 2 sections B to J, L, M and N). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>.

² The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU-28. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2017. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2017. All SBA principles, with the exception of the 'Think Small First' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

³ The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2016 and the first quarter of 2017. Only those measures were selected which are expected to have the highest impact in the SBA area in question.