

SUMMARY OF MINUTES OF MEETING

INVESTMENT COUNCIL (IC)

MEETING XXIII

“Innovation in Entrepreneurship”

Tirana, 23 March 2021, 15:00 – 17:00

The meeting was held in the form of a video conference and was chaired by the Minister of Finance and Economy, Ms Anila Denaj (IC Chair). The meeting was attended by 16 members of the IC and about 30 observers - representatives of local and foreign business associations and state institutions in Albania.

1. Opening of the Meeting by Minister Anila Denaj, IC Chair

At the opening of the meeting, Minister Anila Denaj thanked the participants and invited them to join the debate. During her speech, Minister Denaj said that 2020 has proved more than ever the importance of the dialogue built on sound foundations between the public institutions and the private sector. The Minister expressed the commitment of the government during the last years in several dimensions, providing support through fiscal policies for the sector with a profit tax reduced to 5% and the commitment under the Economic Reform Program 2021-2023 with measures and budgeting for the sector.

During 2021, the Minister mentioned concrete plans in this regard, such as the implementation of the broadband strategy, the introduction of innovation incentives in ARDA funds, the preparation of the new strategy on investment and business development; as well as the last step for the adoption of the Law on Innovative Start-ups.

2. Presentation of the IC Secretariat on Key Findings and Recommendations

Ms Diana Leka, IC Secretariat, presented a brief description of the process for the drafting of the Technical Note developed in the context of this meeting. Apart from the desk-research analysis, the TN also includes the findings of a questionnaire conducted with 75 companies as well as information collected during an extensive consultation with over 40 relevant actors. The study comes with 17 recommendations in total, tackling 4 aspects: i) *Governance - Legal and regulatory framework*; ii) *“Quadruple Helix” cooperation*; iii) *Access to Finance*; iv) *Fostering digital economy’s potentials & Creating synergies between Stakeholders*. In accordance with the working methodology of the Investment Council, the meeting materials were sent in advance to the members of the Council for review and discussion during this meeting.

3. Presentation “Analysis and recommendations on SMEs access to ICT” – IDRA Research & Consulting

In line with the meeting’s agenda, the company IDRA presented an overview of the “*Analysis of SME Access to ICT*” undertaken as part of an EBRD-funded initiative to support SMEs’ digitalisation in Albania. The specific objective of this analysis is to support the Government by

providing an in-depth analysis and assessment of the digitalization situation of SMEs in Albania, and by providing recommendations for its improvement.

4. Summary of Main Comments

Ms Natasha Ahmetaj, Bank of Albania, said that the innovation aims to increase productivity, which increase in return makes the transition from economic growth to economic development. In Albania there is a big lack in the R&D budgeting among medium and large companies which have the capacity. Albania needs to focus on R&D budgeting as a very important part that should be an organic part of any budget at any level. This can be formalized based on an incentivizing campaign. Therefore, we must propose a recommendation at central level to provide incentive fiscal policies for those enterprises that have allocated a budget and a certain number of employees dedicated to R&D.

The biggest handicap for the innovation or digitalization projects is related to access to finance. Companies find it difficult to access financing from the banking system due to the high level of risk. Risk-sharing support schemes through central-level and well-studied fiscal policies would be a very important help to alleviate and mitigate the problem of finding funding for innovation projects.

Mr Elvin Guri, FLAA, indicated that the draft innovation strategy/document could be improved with further attention to the following matters:

- i) *Definition of innovation*: (1) it cannot be necessarily, let alone mandatorily, connected to technology or to startups - the greatest need for Albania is to simply catch up with the rest of Europe. That means, as a first step, seeking to adopt and adapt concepts and technologies that have already worked in more developed countries (reference made to a similar recommendation in one of the past EBRD's Transition Report "Stuck in Transition"); as a second step, it should include growing businesses in the "old economy" rather than (or, at least not only) technological startups;
- ii) *The biggest shortage related to "innovation" is the mentality/educational deficit in Albanian businesses and the society as a whole*. If we are to adopt and adapt creatively any concepts from the more developed countries, we should seek as a priority to bring in management skills and expand the capacity of local businesses in this direction;
- iii) This is also, and rather obviously, connected with *the quality and the priorities of the educational system in the country*; and
- iv) *No innovation strategy can succeed without a strategy for the creation of an investment ecosystem (venture capital and private equity) in the country*. Lack of equity access will doom to failure any other innovation-related initiatives. Reference was made to the success of EU programs like the *Jeremie Programme* of the European Investment Fund, which was responsible for setting up the first VC and PE funds in most of the smaller and poorer member countries of the EU (like Bulgaria and Romania). The government should actively engage with donor organizations and countries in order to set up such financial instruments - they are also increasingly preferred by the donors, as they create a mechanism to recycle the money rather than simply spending it on grants of unclear outcome.

Mr Nikolin Jaka, Chamber of Commerce and Industry Tirana, suggested two steps to move towards the technological innovation or adaptation of innovative companies to offer products and services able to compete in the regional market and beyond.

- i) The biggest downfall of Albanian entrepreneurship is the fight against informality and the lack of standards, i.e. the lack of competitiveness in the market. The cost of innovation is highly

increased to the entrepreneurship at a time when the market is still informal. There are companies that tend to be innovative, but on the other hand face increased costs due to lack of funds and increased costs due to unfavorable positioning versus informal companies in the market. Fighting informality is very important and if this is not possible, then we should choose the sectors/products/services with less informality, where we can foster the development of innovation by focusing on finding funding sources and undertaking pilot projects, which will then surely be followed by other companies.

- ii) It is necessary to *develop an action plan to move from the last place in Europe*, where we can offer real opportunities to the business to introduce innovation within their companies.

Mr Oltion Rrumbullaku, Ministry of Education, informed that:

- i) *The Ministry of Education is currently focused on the ICT market.* The Ministry of Education has prepared a study about where IT graduates go. Several efforts have been made to establish a collaboration between several universities and the leading companies in the sector, for the universities to change their curricula to better suit the market's demands.
- ii) *The Ministry of Education is making efforts for universities and business to be able to find a common connection*, because universities cannot be peripheral in this relationship. In the next 5 years we are expected to have 5,000 fewer students and this number will be decreasing due to demographics, so every student in the future will be important and students leaving universities should be well prepared for the labor market. The "EU for Innovation" project should be oriented somewhat toward the universities to engage them in the right way both in terms of generating curricula but also cooperation.
- iii) Work is underway to set up a working group in cooperation with MFE and the Ministry of Entrepreneurship for a project "On Smart Specialization" where several priority sectors will be selected in the country to create a more organic link among businesses, universities and scientific research. This will also be supported by EU structural funds. A draft of this strategy will be ready by next year, expected to clarify which funding needs to be required.

Ms Ines Mucostepa, UCCLAL, said that innovation is no longer a choice but a necessity. In Europe, public actors have an active strategic role in orienting the processes which serve as a ground for economic growth. It is time to talk about an innovation development strategy in the country.

Mr Besart Kadia, MFE, said that in the new business strategy, innovation will occupy an essential place and there will be an increase in funds dedicated to it. On the other hand, the action plan for start-ups, digitalization of SMEs or e-commerce go in the same synergy and results are expected starting from next year. The business is welcome to submit comments which may also be shared with the IC during the consultation phase.

Mr Matteo Colangeli, EBRD, highlighted three important points:

- i) *Investment in digital infrastructure* – the first step is improving digital connectivity across the country. Referring to the technical note, only 38% of people in Albania have access to fixed internet, which is a key factor towards further digitalisation and digital skills. EBRD is committed to partner with the Government in preparing and financing projects for expanding internet connectivity across the country, including in the rural area.
- ii) *Access to skills* – EBRD played for many years an important role through its Advisory for Small Business program funded by the EU, working with more than 60 SMEs every year and supporting them, especially during the Covid-19 pandemic through digital tools, to gain the necessary skills to compete in the new business environment. Attracting more FDI and trying to bring back some of the bright young people who left the country would also greatly contribute to narrow the skills gap and move Albania forward on the innovation path.

- iii) *Access to finance.* While supporting the view expressed by Ms. Deputy Governor Ahmetaj, Mr. Colangeli emphasised that rarely R&D and Innovation and start-ups are financed by traditional bank loans. It is important to explore public and donor community support as initial funding for innovative companies and gradually build an equity ecosystem where business angels, venture capital, and equity funds can operate. Improving financial reporting standards, reducing informality, and strengthening legal protection for financial investors should be key priorities. In this context, he also emphasized the importance of completing the implementation of the justice reform to improve investment climate and increase foreign investors' confidence in the country.

Ms Mirela Kociaj, Auleda Vlora, said that Auleda Vlora, as a local development agency, represents a reality which goes beyond Tirana, where the typology of businesses is such that it needs more support and more orientation towards innovation, including capacity building in this direction. The concept of innovation should not be seen as closely linked in just two directions: digitalization and e-commerce as addressed in the IDRA study, without making any mentioning to innovation and industry ("*industry 4.0*").

If we make any reference to the trends in Europe as well, the progress in innovation is linked with the engineering sector, closely related to the industry starting with all its links: project design, control digitalization, numerical control machines, etc. Currently, the Albanian market does not have the human resources to adapt to these trends, to adopt these existing technologies and to adapt them to the Albanian context. This requires capable capacities starting from universities and increased R&D programs and funding to stimulate researchers. This should be accompanied with the preparation of new human resources and the creation of the necessary professional profiles.

Projects: PROSEED, GIZ, "EU 4 INNOVATION" provide very small grants of 5,000 Euros, which do not bring any impact to the mechanical engineering sector. These small grants for projects and ideas of companies or startups in the field of engineering (industry 4.0) or renewable energy sources do not enable their development. The sectors of renewable energy, waste management, recycling, rapid prototype, etc., are among the most innovative sectors that need support for higher efficiency in production and reduction of business costs. Support components should be created for the maritime and mechanical engineering sector in the context of a concrete programme. One mechanism for minimizing financing risk is guarantee funds. "Quadruple Helix" approach can be a very important tool to support the above sectors which are the future in the field of industry.

Ms Anni Dasho, Luarasi University, suggested the unification of all successful universities' hubs in one digital network/platform, combining this way each university's specific area of expertise. Such a platform would bring innovative projects and it would restore the confidence in universities as well as increase budgets for universities where a significant part comes from businesses.

Mr Ardian Lekaj, Diaspora Chamber of Commerce, confirmed the commitment of this Chamber to contribute and bring concrete models of innovation. However, these models will depend on the strategy that the Albanian Government will follow and on the objectives and the innovation-related policies that it will introduce, which means whether it will be oriented towards tourism, agriculture, energy, infrastructure, etc. Only by having a clear and well-defined idea of where the direction will be focused, only then we can adapt innovation policies. The Diaspora Chamber of Commerce has in its focus the promotion of "Made in Albania" products, as well as the support for the creation of a chain from production to entry in the regional markets. The project "Fly with the Eagle" will provide support for Albanian producers at all stages of production and most importantly will create communication linkages to market Albanian products in international markets.

Ms Blerina Çarçani, Vodafone Albania, said that the level of digitalization increases if the level of education of Albanian businesses and internet access increases. In addition, it is very important also the increase of access to finance for investment promotion and business development.

Closing of the meeting

Due to another parallel engagement, Minister Denaj left the meeting before its conclusion. On behalf of MFE, Ms Arjana Dyrmishi expressed appreciation for the two studies presented by the IC Secretariat and IDRA which will help in the drafting of the 7-year business strategy. The findings will be translated into concrete measures to be taken in the coming years, not only through the state budget but also from donors.

- i) One of the Secretariat's findings was related to the *lack of assistance and information on the financial resources needed to invest in innovation*, not only in grants but also in other instruments. Currently, the EBRD is building a portal that will display all grants and other financial instruments provided in this regard. During 2017-2020, the government had a specific fund for innovation although of a not very large value.
- ii) Meanwhile, the grant procedures offered online by AIDA are being reformatted as well as the costs that will be covered to be as suitable as possible for investments in technological equipment. In addition to existing policies, an important role has been played by partners such as PROSEED and EU for Innovation, which have provided support to startups and SMEs in the area of innovation.
- iii) Regarding the need for cooperation in the area of innovation in the Triple Helix model, in the framework of the business strategy that is being drafted, we are working on setting up two schemes on cooperation formats, e.g. employment of the best graduate students in various businesses where the state pays up to 50% of their salary if the focus of their work is only R&D, while in the second scheme, persons interested in obtaining a doctorate (PhD) must be employed in the R&D department of a company, and 50% of the salary will be paid by the state, while the university (where the individual is registered for doctoral studies) will be given a monetary value of 2,000 euros/year for equipment, training and other expenses. These two models have been explored by models from other countries and will be part of the business strategy.
- iv) The findings and recommendations in IDRA's study need further insight by the state institutions, to move them into concrete measures. What stands out is the fact that the companies themselves do not want to go online, stressing the need to raise their awareness on the benefits. This issue has also been discussed in the working group set up with the World Bank and the Bank of Albania for the reduction of cash payments. The recommendations of these two studies will be included in the business strategy, which can also be shared with the members of the Investment Council in a plenary meeting.

In conclusion of all the discussions, Ms Leka closed the meeting thanking all the actors for participation in this meeting and for the support offered in the consultation process and drafting of the materials for this meeting.

List of participants

Government representatives

1. Ms Anila Denaj, Minister of Finance and Economy/IC Chair
2. Ms Bora Muzhaqi, Advisor, MSPE, delegated by the Minister of State for the Protection of Entrepreneurship, Mr Eduard Shalsi
3. Ms Natasha Ahmetaj, Deputy Governor, Bank of Albania
4. Mr Sokol Nano, CEO, AIDA
5. Mr Arian Leco, Head of Entrepreneurship Department, delegated by Ms Majlinda Vogli, CEO, Albanian Fund for the Development of Diaspora

Business Representatives

1. Mr Nikolin Jaka, Chair of the Chamber of Commerce and Industry of Tirana
2. Mr Elvin Guri, Board Member, FIAA, delegated by Dr. Constantin Von Alvensleben, President, FIAA
3. Ms Ines Muçostepa, Chair, Union of Chambers of Commerce and Industry (UCCIAL)
4. Ms Gerta Bilali, CEO, Confindustria Albania, delegated by Mr Sergio Fontana, President of Confindustria Albania
5. Mr Ilir Trimi, CEO, AmCham, delegated by Mr Enio Jaço, President, AmCham Albania
6. Mr Bledar Mankollari, CEO, DIHA, delegated by Ms Stephanie Sieg, President, German Chamber of Commerce and Industry (DIHA)
7. Mr Ardian Lekaj, President, Albanian Chamber of Diaspora Business
8. PhD. Mirela Koçi, CEO, Auleda Vlora/Professor at University of Vlora (*ad-hoc*)
9. Ms Blerina Çarçani, Business Unit Director, Vodafone Albania (*ad-hoc*)

Development Partners

1. Mr Matteo Colangeli, Head of EBRD RO in Albania
2. Mr Enzo Damiani, Programme Officer, EU Delegation, delegated by Mr Mario Mariani, Head of Coordination, EU Delegation in Albania

Special invitees:

1. Mr Besart Kadia, Deputy Minister of Finance and Economy
2. Ms Ermira Gjeçi, Deputy/Minister of Agriculture and Rural Development
3. Ms Arjana Dymishi, Director, Directorate of Economic Development Policies, MFE
4. Ms Irena Malolli, Director of Policies and Development Strategies for Telecommunications and Posts, MIE
5. Mr Oltion Rumbullaku, Deputy Minister of Education, Sports and Youth
6. Mr Patrick Meier, Deputy Head of the Swiss Embassy in Tirana
7. Mr Auron Pashaj, CEO, IDRA
8. Ms Anni Dasho, Deputy Rector, Luarasi University

Absentee:

1. Ms Maryam Selim, Country Manager, World Bank in Albania
2. Ms Laura Qorlaze, Country Representative, IFC in Albania