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Albania Investment Council

Improving Transparency and Investment Climate

Innovation in Entrepreneurship as a Challenge for Increasing Competitiveness and the Engine of Economic Growth

Tirana, March 2021

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This working document was prepared in the frame of Meeting XXII of the Investment Council (10 November 2020) by the experts of the Secretariat of the Investment Council, Mr Elvis Zerva, Legal and Regulatory Expert, Ms Elida Fara, Economic Expert, Ms Xaira Shurdha, Monitoring and Liaison Expert, under the direction of the Head of the Secretariat, Ms Diana Leka (Angoni). Supported in the organisation of meetings with partners, and language editing of the material, Ms Elisa Lula, Administrative and Communications Officer of the Secretariat. We thank the private companies, business associations, state institutions (Ministry of Education, The National Agency of Scientific Research and Innovation, Ministry of Finance and Economy, etc.), independent experts, Universities (Marin Barleti, Luarasi, UT-Faculty of Economics), donor projects (GIZ-Proseed) that collaborated with the Secretariat in the preparation of this material with the most up-to-date information. The views expressed herein are those of the authors and do not necessarily reflect those of the Investment Council or the EBRD.

ABBREVIATIONS

AIDA	Albanian Investment Development Agency
ALL	Albanian Lek
DCM	Decision of Council of Ministers
EBRD	European Bank for Reconstruction and Development
ECD	European Commission Delegation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GII	Global Innovation Index
IMF	International Monetary Fund
IC	Investment Council
ICS	Secretariat of Investment Council
ICT	Information Communication Technology
INSTAT	Albanian Institute of Statistics
MIE	Ministry of Industry and Energy
MITIK	Ministry of Innovation, Information Technology and Communication
MIPA	Ministry of State for Innovation and Public Administration
MESY	Ministry of Education, Sport and Youth
MFE	Ministry of Finance and Economy
NASRI	National Agency of Science, Research and Innovation
NAIS	National Agency of Information Society
TEDA	Free Economic Area
WB	World Bank
WB	Western Balkans

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CONTENTS

INTRODUCTION

While COVID-19 continues to cause devastating disruption to the global economy, it is also urging remarkable global transformations and innovation throughout different industries. These turbulent times have opened the door to innovative business prospects, which lead toward new real business opportunities. Will these new risky "opportunities" present in the time of COVID-19, turn into systematic growth opportunities after the pandemic? The digital transition will have a lasting impact on society. How are we supposed to build an inclusive digital economy in the wake of COVID-19? How are we going to react since not everyone can go "fast digital"? To successfully overcome challenges and sustain results, recent research shows that a robust supporting framework remains crucial. It can help business leaders to discover new innovation capabilities within their organisations and determine how best to invest their resources into long-term success.[1]

COVID-19 inflicted a staggering toll on Albanian firms, but the country is not an outlier in the extent of the impact: 71% of firms in Albania reported a decrease in demand, which is less severe than in Greece and Moldova, comparable to Italy, Georgia and Bulgaria, and worse than in Slovenia and Croatia. Nevertheless, the Albanian firms were remarkably flexible, showing that the acceleration in digitalisation may enhance firms' ability to cope with the crisis and expand access to the new markets and increase sales[2].

According to the 2020 EU Albania Progress Report - *Albania has made some progress and is moderately prepared in developing a functioning market economy.*[3] *More specifically,* Albania's competitiveness has improved in infrastructure, energy, transport and digital communication, but it *"is hindered by lack of entrepreneurial and technological know-how, a significant skills gap, weak institutions and low levels of investment and infrastructure quality*. At the strategic level, the Albanian Government's commitment to digitalisation and innovation is already evidenced across several strategic initiatives and policy documents (regional, national, or as part of the compliance with EU approximation process, OECD, etc.)[4], also

1 *A framework for Innovation in the COVID19 Era and Beyond (17 February 2021)*

2 *https://blogs.worldbank.org/developmenttalk/covid-19-impact-albanias-private-sector-taking-stock-looking-ahead*

3 *Albania has made some progress and has some level of preparation in terms of capacity to cope with competitive pressure and market forces within the Union. Infrastructure on energy, transport and digital communication, as well as educational outcomes have improved, but significant gaps remain compared to regional and European levels.*

4 *Smart Specialization (S3)*

supported by relevant donor projects, initiated even before the COVID-19 pandemic. Although Albania is participating in many EU programs, it is noted limited access of Albanian private sector to relevant projects (such as COSME, Horizon 2020, Erasmus Plus), compared to others in the region.

As of January 2021, Innovation in Entrepreneurship is considered a top priority by the members of the Investment Council (IC). The issue has already been prioritised by IC since 2017 when discussing about the quality of skills and investment opportunities to new Albanian evolving sectors[5].

The main objective of this study *is to accelerate the speed of the national agenda on business innovation to timely maximise the impact of the current country's intervention and received support.* Also, this study aims to stimulate further the debate on how Albanian businesses (especially SMEs) can also be "producers" of innovation in the context of the digital economy, and not just "consumers".

More specifically, based on recent feedback received by the private sector (75 companies), this analysis aims to address issues related to (1) *Innovation and the role of public institutions to enable proper functioning of the ecosystem for Albanian businesses to absorb the potentials offered by innovation*; *(2) Challenges of Albanian companies on how to deal with their inability to innovate; and (3) Interaction and support provided through various instruments (or even donors) towards business innovation.*

For the purposes of the analysis, the Secretariat referred to the comprehensive definition of innovation provided by OECD[6]. OECD defines innovation based on 4 pillars: the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations. It enables for an overview of both innovation that start-ups bring into the economy and innovation embraced by existing companies

5 https://www.investment.com.al/meeting/ic-meeting-9-labour-market-skills-in-the-bpo-sector/

6 OECD 2005

METHODOLOGY

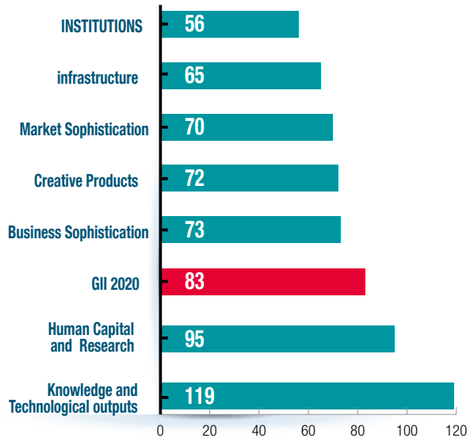
The methodology of the study includes the use of qualitative and quantitative data gathered from secondary and primary sources and builds on a series of steps taken by the Secretariat to stimulate the debate on innovation, as follows:

- Desk research of national and international analyses and reports, documents, laws and by-laws related to different dimensions of innovation.
- Analysis of official information from secondary sources (INSTAT, WB, GDT, etc.) and key information/data related to direct interviews with innovation ecosystem stakeholders.
- A set of questions on "Innovation in entrepreneurship as a potential driver to economic growth" was sent to all IC members and partners to receive their perspective on issues related to *(1) Innovation and the role of public institutions to enable the proper functioning of the ecosystem, (2) the challenges of preparing the Albanian enterprise in the face of innovation or the inability to create innovation, (3) interaction and support through various instruments, or even donors towards business innovation.*
- A questionnaire was developed by ICS to explore business perception on innovation ecosystem, challenges and opportunities faced and information on available domestic and international funds financing innovation of the private sector. *A total of 75 companies participated in the online questionnaire.*
- 30 virtual meetings were held during February-March 2021 with different ecosystem actors: public institutions, public and private universities, donors, start-ups and established businesses working in the area of innovation.
- 1 focus group was held on 12 March 2021 with around 33 participants to discuss findings and issues raised in the Secretariat's survey and through direct consultations with stakeholders.

CONTEXT

Albania ranks 83rd in the Global Innovation Index[7] compared to 131 world economies (39th in the 39 European economies). For the last three years (2018-2020), Albania's position has been stable in 83rd place, with no major improvement in the global ranking. Albania performs better under the component of ***Institutional and Infrastructure*** area, and worse in ***Knowledge & technology*** **outputs** and ***Human capital and research areas***[8]. The capacity for research, development and innovation is considered very low, as public spending on research remained negligible at 0.06% of GDP[9], and the proportion of companies investing in R&D (about 15%)[10] is the second-lowest in the region. Albania ranks particularly low for innovation capability (110th of 141) and R&D (126th) in the Global Competitiveness Index.

Figure 1. **Albania's Ranking in the 2020 GII**



Source: GII Report 2020

7 https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2020/al.pdf

8 For more information, please click here

9 Albania ERP 2021-2023

10 Albania Enterprise Survey 2019, WB, EBRD, EIB

In the last published SME Policy Index 2019[11], OECD states that Albania is a mid-level performer on innovation policy in the region (ranked fifth out of the seven Western Balkans economies for this dimension). Albania[12] is still the regional leader for the operational environment of SMEs, thanks to the strides made in business registration and licensing, as well as the delivery of public services. *This policy dimension*[13] *represents Albania's strongest performance.* However, there are no particular areas of innovation policy in which Albania stands out as it scores close to the regional average across all sub-dimensions.

11 https://www.oecd.org/countries/albania/sme-policy-index-western-balkans-and-turkey-2019-g2g9fa9a-en.htm

12 Despite its score falling from 4.32 to 3.99 since the last assessment

13 With a comparable score to Montenegro (2.53), Albania only outperforms Kosovo (2.40) and Bosnia and Herzegovina (1.86).

Table 1. **Innovation Policy for SMEs**

	ALB	BIH	KOS	MKD	MNE	SRB	TUR	BP
Strategic approach	3.60	2.25	2.90	3.80	3.45	3.60	4.60	3.46
Co-ordination of innovation policy	2.33	1.44	2.33	3.67	2.33	3.67	5.00	2.97
Implementation of innovation policy	2.57	1.86	2.43	4.14	2.57	4.14	3.57	3.04
Policy framework for Innovation (Weighted average)	**2.83**	**1.89**	**2.55**	**3.94**	**2.79**	**3.88**	**4.17**	**3.15**
Incubators and accelerators	1.71	2.24	3.00	3.14	3.00	3.43	4.43	2.99
Technology extension services for established SMEs	2.50	1.00	1.00	2.67	1.00	1.00	3.00	1.74
Government institutional support services for innovative SMEs (Weighted average)	**2.03**	**1.74**	**2.20**	**2.95**	**2.20**	**2.46**	**3.86**	**2.49**
Direct financial support	3.80	2.53	3.40	4.20	3.40	4.20	4.80	3.76
Indirect financial support	1.00	1.00	1.00	1.22	1.00	1.00	3.44	1.38
Government financial support services for innovative SMEs (Weighted average)	**2.68**	**1.92**	**2.44**	**3.01**	**2.44**	**2.92**	**4.26**	**2.81**
Innovation voucher schemes and co-operative grants	2.00	1.67	2.00	3.00	2.00	4.00	3.00	2.52
Institutional infrastructure for industryacademia co-operation	1.80	1.67	2.40	2.80	2.80	3.00	4.60	2.72
Intellectual property rights	2.50	2.50	2.50	3.00	2.50	3.50	4.50	3.00
SME and research institution collaboration and technology transfer (Weighted average)	**2.02**	**1.83**	**2.26**	**2.92**	**2.42**	**3.5**	**3.94**	**2.70**
Overall Score for Innovation Policy	**2.48**	**1.86**	**2.4**	**3.35**	**2.53**	**3.33**	**4.08**	**2.86**

Source: SME Policy Index, Western Balkans and Turkey OECD 2019

In 2019, a joint assessment by the European Union, OECD, EBRD, and ETF assessed the progress made by Albania in implementing the SBA over the period 2016-2018. One of the recognised priorities was the need to *support innovation infrastructure to advance business-academia collaboration.*

Although the COVID-19 pandemic caused negative effects on our economy, it also accelerated the use of innovative business tools. Our COVID-19 Survey (April 2020) showed that companies became more aware of online services' potential opportunities and the importance of using innovative business ideas, especially for business continuity measures. Around 75% of companies declared to have used online services, and 81% stated that they would continue to reuse them in the future. Furthermore, when asked about their future plans on innovation, 38% of the companies were positive in changing their investment plan in the direction of online services.

GII 2020 report states that *"Once the COVID-19 pandemic is under control, it is crucial that support for innovation widens beyond the health sector and that government innovation expenditures compensate for any falling private sector innovation funding. The impacts of the pandemic on science and innovation systems should be monitored. Some positive effects have already been noted, such as the unexpected level of international collaboration in science and the reduction of red tape for scientists. Some aspects, however, are alarming, such as the standstill of major research projects and the possible (and uneven) reduction of R&D expenditures in some fields*."

INSTAT[14] analyses (2017-2019) show that in Albania, only 38% of companies declare to carry out an innovation activity, mainly companies operating in the service sector (42.2%)[15] and companies operating in the industry sector (34%)[16]. No active participation in innovation is observed by companies operating in priority sectors such as Agriculture and Tourism.

In the 2020 EU Report Progress, *Albania is considered at an early stage in the area of science and research*. Some progress was made during 2020, especially with the completion of the mapping phase of the Smart Specialisation Strategy. The development of a Smart Specialisation Strategy (S3) started in 2017 under the lead of the Ministry of Education, Sports and Youth, in cooperation with the European Commission; a road map for the S3 process was drafted, and the mapping phase of the S3 process was completed in December 2019 with EU support[17].

Also, in the Commission's assessment on Economic Reform Programme of Albania 2020-2022, it is observed that the *Government shall improve the provision of technical support services for micro, small and medium-sized enterprises, including through the development of a support network to help them upscale, invest, innovate, digitalise and export*. Currently, a new Business and Investment Development Strategy (2021-2027) is under discussion, planned for approval in late 2021.

Albania continues to implement the South-East Europe 2020 regional initiative and actions under the Western Balkans Multi-Annual Action Plan for the development of Regional Economic Area (MAP-REA)[18]. *Albania performs reasonably well in terms of mobile broadband penetration* (around 63%), while *fixed broadband penetration in households remains a challenge*. Approximately 38% of the population has access to fixed internet whilst the gap between internet access in rural and urban areas remains huge. E-commerce is hindered by challenges in consumer protection legislation and lack of digital skills is still present[19].

The Government of Albania has also affirmed its full commitment to SDGs Agenda 2030. Innovation is included within Goal 9, 'Industry, Innovation and Infrastructure' of the 2030 Agenda for Sustainable Development, aiming to promote sustainable industries and invest in scientific research and innovation to facilitate sustainable development. Albania has prepared a SDG baseline report to explore the specific components of the National Strategy on Development and Integration (NSDI) pillars to support SDG action. Key challenges in this process include, among others, "*the identification of policy gaps*" and "*acceleration of action in priority areas*," including the monitoring and reporting institutions[20].

Based on the above complex dynamics and findings from our recent consultation on private sector innovation perception[21], the ecosystem of innovation in Albania is considered at a very early stage. However, a substantial number of actors are functional but without a clear vision and sometimes overlapping each other. There are ongoing projects aiming at supporting companies in the different stages of innovation, although these initiatives remain without a capitalisation objective of all knowledge transferred. There is a lack of consolidated information on donor mapping in terms of available funds on innovation financing. Universities are not playing a proactive role in ensuring a secure link between the labour force and the business to ensure sustainable systems.

1. LEGISLATION AND INSTITUTIONAL FRAMEWORK

Under this section, it is provided only a short summary of the main applicable framework of strategies, institutions and main legal acts relevant to innovation, including but not limited only to ICT. We note that the institutional and legal frame that covers several segments related to innovation and which provides for a mixture of definitions on innovation is extensive if considering the e-commerce, public digitalisation units, databases and services, electronic document and electronic signatures, internet and broadband infrastructure, etc.

The purpose of the summary is to highlight the context of key developments with a focus on innovation, research, and development. Its main objective remains to highlight recent dynamics related to governance and new opportunities for the innovation market that derives from such legislation.

14 INSTAT, click here.

15 Trade, Transport and Storage, Information and Communication, Financial Services and Insurance

16 Extractive Industry, Manufacturing, Energy, Water supply; Waste removal, and activities in Waste treatment

17 It is of a special importance use of European Structural and Investment Funds to bring the regions into the innovation economy. Smart Specialisation Strategies should be strengthened and streamlined to enable interregional innovation support. Synergies should be created, with the Horizon Europe Programme, Invest EU Programme, the European Social Fund, the Erasmus+ Programme, the Digital Europe Programme, the Common Agricultural Policy and other programmes.

18 The Multi-annual Action Plan (MAP) for a Regional Economic Area (REA) in the Western Balkans Six (WB) (endorsed by Western Balkan Prime Ministers at the Trieste Summit July 2017), helps boost regional economic cooperation through furthering regional trade integration, enhancing competitiveness and unleashing potentials for growth, promoting the region as an unique space for investment, creating better conditions to ensure free movement of professionals and skilled people, and connecting digitally businesses and citizens

19 MAP REA Report 2019

20 https://sustainabledevelopment.un.org/memberstates/albania

21 Secretariat consultations during February – March 2021

a. National strategies

THE CROSS-CUTTING "DIGITAL AGENDA OF ALBANIA 2015-2020"[22]

Rather than a dedicated strategy to innovation, it was an umbrella of all the objectives and goals in the frame of Information and Communication Technologies with the key focus digitalisation. The strategy was prepared by the Ministry of State for Innovation and Public Administration. It included and endorsed a general spectre of activities that were cascaded by Digital Agenda for Europe and its priority dimensions[23]. The footprint of the objectives, goals and strategy was based on an overall overview of all the premises for the development of ICT and digitalised services both in the private and public sector. It included ICT infrastructure and education, internet, development of broadband, e-Government and information society services, electronic communication.

Innovation was part of the pillar '*scientific research and innovation*' with focus: (a) expand and increase the quality of the scientific research and innovation in Albania based on the OECD indicators; (b) actively increase the inclusion of the scientific research institutions in the European Research Area (ERA), (c) improve the quality and orientation of the scientific research toward the market needs through the strengthening of ties of national and international programmes with the business.

From the business perspective, the strategy's focus was on SMEs innovation and ICT development for small and average-sized businesses. Its main objective was to increase by 50% the number of businesses using ICT and by 10% the number of businesses in the ICT sector[24].

NATIONAL STRATEGY ON SCIENCE, TECHNOLOGY AND INNOVATION 2017-2022[25]

Prepared by the Ministry of Education, Sports and Youth, the strategy endorses the following principles, which focus mainly on scientific research component: (1) Maximising the results of scientific research at the national level; (2) Strengthening international and regional links in the field of scientific research; (3) Opening the national market for foreign researchers; (4) Increasing gender equality between researchers in universities and research centres; (5) Open access to scientific information. *The main and only correlation with business is the provision of the Triple Helix mechanism as a means for cooperation between the institutions-academia-business-civil society.*

ECONOMIC REFORM PROGRAM 2021-2023 (ERP)[26]

The main strategic document tackles innovation from a strong business perspective and focuses on the reform pillar research, development, innovation and digital economy. The main reforms under this pillar are: (1) Improving institutional, financial and human capacities for research and innovation; and (2) Development of broadband infrastructure and digital economy. The program considers actions and measures with specific timelines, starting from the approval of legislation on innovative start-ups and consolidation of the start-up ecosystem, an increase of access to finance for start-ups through establishing of an innovation fund, effective functioning of triple helix mechanisms, development of innovative solutions with sectorial approach (government, health, etc.). *ERP 2021-2023 makes reference to the same pillars of measures as stated in the above strategies, but with a dedicated focus to entrepreneurship and shall serve as the benchmark document for measuring the achievements towards the goals.*

b. Alignment of policy innovation priorities across different institutions

The policy-making institution in the field of technology and innovation was initially MITIK - Ministry of Innovation, Information Technology and Communication. It was established with a focus on promoting the ICT sector in public services and fostering innovation. After 2013, policies in the field of technology and innovation were included within the scope of the activity of the Ministry of State for Innovation and Public Administration[27] and the Ministry of Economic Development, Trade, Tourism and Entrepreneurship. While as 2017, with the reorganisation of the ministries, the Ministry of State for Innovation and Public Administration was dissolved, and its functions were divided between several institutions such as the Ministry of Energy and Infrastructure, the Ministry of Education, Sports and Youth and the Ministry of Finance and Economy. On the other hand, the Ministry of Economic Development, Trade, Tourism and Entrepreneurship was dissolved, and its functions and responsibilities were transferred to the Ministry of Finance and Economy and the Ministry of Tourism and Environment.

At the agency level, NAIS and NASRI are among responsible institutions having innovation within their scope of activity. NAIS provides for policies, strategies and regulates the ICT sector, excluding the field of electronic communications. NAIS is also a provider of ICT services and electronic services to citizens, businesses and public administration[28]. NASRI has the mission to promote research and innovation through the support, monitoring and evaluation of programs and projects in the field of science, technology and innovation (STI), as well as administering and updating the national database on research and innovation[29]. In general, while scientific research has been part of education policy, *innovation has remained a pillar without a clear institutional domain.*

c. A snapshot of main legal initiatives to support innovation and technology

Fiscal measures and incentives to support innovation and ICT. Under the 2017 Fiscal Package[30], it was provided a reduction of the coorporate tax

22 *Approved with DCM No. 284 dated 01.04.2015 and preceded by the Cross-Cutting Strategy on Information Society 2008 – 2013 and National ICT Strategy 2003.*

23 *(1) A single digital market; (2) Standards and interaction; (3) Faith and Security; (4) Access to Fast and Ultra-Fast Internet; (5) Research and Innovation; (6) Improvement of Knowledge, Skills and Digital Inclusion; (7) ICT benefits for the whole society.*

24 *The maximum utilization delivered by ICT potentials, not only in the field of bidding, for new digital products and services, but also by the demand, for a smarter utilization of these technologies. SME investments in the communication technologies create the premises and opportunities for the increase of competition for them. In relation to this, work will be carried out to stimulate the skills of Albanian businesses to develop, utilize, adjust and commercialize technologies and ICT.*

25 *Approved with DCM No. 710 dated 01.12.2017 and preceded by the Strategy On Science Technology and Innovation 2009-2015.*

26 *Approved with DCM No.37 dated 27.01.2021.*

27 *DCM No 943, dated 9.10.2013 "On determination of the area of state responsibility of the minister of state for innovation and public administration"*

28 *DCM No. 673, dated 22.11.2017 On the Reorganization of The National Information Society Agency, Amended By Decision No. 36, Dated 24.1.2018, With Decision No. 448, Dated 26.7.2018, With Decision No. 872, dated 24.12.2019*

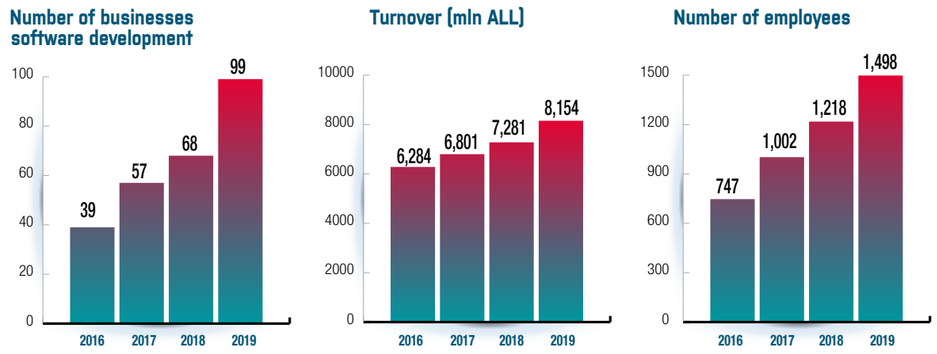
29 *DCM No. 607, dated 31.8.2016 On the Establishment, Composition, Organization and Functioning Of The National Agency Of Scientific Research And Innovation (AKKSHI)*

30 *Law No. 105/2017 dated 30.11.2017 and DCM No. 730, dated 12.12.2018.*

of legal entities operating in the field of *"software production"* from 15% to 5%. This incentive was designed in the frame of sectorial fiscal incentives as an instrument to support and maintain intellectual capacities within the country as a key factor for technological and economic development. Although quite appreciated by the business, still there is no official publication of the impact of such fiscal stimulus on the growth of the ICT sector. According to data received from GDT, we evidence an increase in the number of companies registered in the ICT sector with 46% from year 2018 to 2019, yelding a 12% increase in economic activity and 23% in the number of employees[31]. The impact was also confirmed during our consultation with business representatives from February – March 2021.

31 *Secretariat's own calculation based on data received from GDT*

Figure 2. **Data on ICT sector after fiscal incentive**



Source: GDT data, calculations of Secretariat

National Plan for Sustainable Development of Digital Broadband Infrastructure 2020-2025[32]

The document acknowledges the importance of ICT and digital transformation in social and economic development. To this end, high-speed broadband infrastructure is considered a top priority among the premises for supporting ICT, digitalisation and innovation in the country. The plan provides for 3 strategic objectives: (1) Sustainable development of Broadband infrastructure; (2) Reducing digital sharing and providing comprehensive broadband services; (3): Increasing demand for the development of the digital economy and a Gigabit Society. These objectives are further disaggregated via specific objectives and timelines for the period 2020-2025, among which it is noted: *By the end of 2025, a major city, major transportation corridors and strategic locations, to be covered by 5G connection.* Taking into consideration the major investments required for its implementation, the plan provides for different financing models used for broadband infrastructure that includes both public and private funds.

32 *Approved with DCM No.434 dated 03.06.2020*

Law no. 9789/2007 'On the Establishment and Functioning of Economic Zones' was amended by Law no. 54/2015 'On the Creation and Functioning of Technology and Economic Development Areas-TEDA', provides for specific fiscal incentives for the economic activity of new industries, innovative technologies, information technologies, industries that meet international standards of pollution elimination, efficient industries on energy use as well as high productivity industries, in relation to employees. The main objective of this law was to attract potential foreign investors to develop a business model subject to financial and administrative incentives in a dedicated state property with infrastructure facilitated by the state. Although this law was supported by a set of by-laws[33], as of today still there is not any TEDA functioning. On 16 Marc[h], under the Public Procurement Portal, was re-launched the procurement notice for TEDA Spitalla[34].

Order No.1 dated 10.01.2017 of the Prime Minister for Approval of the Action Plan 2017 - 2021 "Support For the Development of Innovative Policies based in the "TRIPLE HELIX" Model". The action plan provided for 12 activities and a large set of concrete measures to tackle several ecosystem issues in the frame of a dedicated working group. It included the creation of a virtual network for support of innovation, promoting Business-Academia-Government cooperation, providing support for incubators and accelerators programs, creating a network of business angels and a set of other measures. The Secretariat could not find any official monitoring report on the activities run and measures implemented.

Draft law "For the Support and Development of Innovative Start-ups" was prepared and launched for public consultation by the end of 2020 as a co-initiative of the Ministry of Finance & Economy and the Ministry of State for Protection of Entrepreneurship. The draft law aims to create a regulatory and institutional framework that supports and favours the creation and development of new enterprises in the area of technology and innovation, with high growth potential known worldwide as Innovative Start-ups. The draft law is launched in a context when the ecosystem of stakeholders is not yet consolidated, the number of donor projects initiatives and support have been very dynamic and when the market is demanding innovative products and solutions to increase the competitiveness of enterprises, especially in the context driven by Covid-19 pandemic. The objectives of the draft law are the following:

1. Defining incentive mechanisms, which include fiscal facilities, programs and measures that support Innovative Start-ups in the initial phase of business (incubation period) and the creation of a favourable ecosystem for them in the Republic of Albania;
2. Defining the institutional framework and state bodies that are in charge of the tasks and competencies to support Innovative Start-ups;
3. Defining the criteria, rules and procedures that apply to the approval, support and monitoring of Innovative Start-ups.

By the end of 2020, ICS facilitated the consultation of the draft law with the business community and provided detailed comments to the working group on the articles and concepts included to support its further improvement and facilitate its implementation.

Law No. 66/2020, "For Technology-Based Financial Markets of Distributed Registers" (blockchain) adopted in 2020, follows a re-

33 *Regulation for Functioning of TEDA approved with DCM No.106 dated 10.02.2016*

34 *http://www.app.gov.al/GetData/DownloadDoc?documentId=5aa06848-c8e1-4184-a96a-6458f1bc850f*

cent trend not only at the EU level, of adopting regulatory measures to control the use of "Distributed Ledger Technology-DLT" that enables cryptocurrency and digital tokens. The law enables more inclusion of potential fundings from FINTECH, finding foreign alternative financial sources, and lowering payment services costs. It creates new potentials for start-up companies and new businesses operating in the field of innovation. The law will be followed with the respective by-laws, aiming to provide regulatory functions of Supervisory Financial Authority (SFA), as the institution that evaluates and oversight all regulatory aspects and compliance with legal requirements. Additionally, they will provide detailed functions of the National Agency for the Information Society (NAIS), which evaluates all aspects and technological requirements submitted by the entities seeking to obtain a license for using DLT.

The recently approved ***Law No. 162/2020, "On Public Procurement",*** endorses the '*partnership for innovation' concept*. Partnership for innovation is a specific form of public procurement aiming to develop an innovative product, service or work and subsequently purchase the resulting goods, services or works if they match the performance levels and minimum costs agreed between the contracting authority or the entity and the participants' enterprises in the procurement process.

Pre-Commercial/Innovation Procurement mechanisms that enable the public sector to purchase research and development (R&D) services for practical and/or sectoral problems are used as means to foster innovation at the EU level. This instrument enables the commissioning of R&D services under a staged competitive process to allow the development of innovative solutions that meet the needs of a Contracting Authority. This approach is based on: 1. Risk-benefit sharing according to market conditions; 2. Competitive development in phases; and 3. Separation of the R&D phase from the deployment of commercial volumes of final products. EU level offers several examples of successful pre-commercial procurement models, which can be further explored in the Albanian context.

Based on such ecosystem dynamics and increased focus from the public and private sector on ICT and innovation, new initiatives have started to produce some positive impact. TUMO initiative and project[35] is a model of effective Triple Helix model. It is a new kind of educational experience at the intersection of technology and design. The TUMO Centre for Educational Technologies began in Armenia, with over 14,000 students now regularly attending centres throughout the country. TUMO has expanded on a global scale into Paris, Moscow, Beirut and Tirana. The project crosses the will of several actors (TUMO, AADF, Municipality of Tirana, GoA) to establish a sustainable structure at the centre of Tirana focusing on the digital transformation of youth age from 12-18 years in several programs such as programming, animation, game development, graphic design filmmaking, robotics, music, 3D modelling. TUMO confirmed to Secretariat that the projects and programs have been developing fast with high participation, while it is noted an increasing interest from businesses such as Banks and international BPO companies which are interested in offering internships to the youngsters. Similar models (lab techs) are being developed in Korca and Vlora, aiming to create a large pool of programmers for national and international companies.

35 1 https://tirana.tumo.al/program/

FINDINGS

1. THE GOVERNANCE OF THE INNOVATION ECOSYSTEM[36] IN ALBANIA FROM A BUSINESS PERSPECTIVE

1. **Despite recent (national, regional and EU) dynamics, including fiscal stimulation efforts, the leadership and coherent approach to *innovation* in the entrepreneurship ecosystem – is still perceived as limited.** It is currently evidenced as dispersed among several strategic documents (approved, outdated, in the process) or institutions/agencies that probably react to the "innovation" concept via specific measures and donor projects. There is no clear definition of the ecosystem of innovation and not yet clear on how it should locally work in terms of the overall roles/functions of institutions (local, central, academia) and interactions with business/local actors. The above relates to the following:

Institution

The institutional approach towards innovation is fragmented, with some focusing on ICT start-ups, others in digitalisation of public services, other in e-commerce and payment services or technology transfer. Innovation responsibilities are scattered among different ministries and agencies without anyone taking the lead in the process. It is missing the integrated approach and synergy to timely capitalise ongoing initiatives and accelerate its impact in the local economic development of enterprises, especially of SMEs.

Vision

Despite increased awareness during recent years (e.g., ERP 2021-2023), the government's *vision* in supporting innovation is still perceived as limited, mainly focused on Information Technology, and not keeping into consideration innovations that bring potentials for strategic economic sectors. In this regard, if referred to the Strategy of Innovation, Science and Technology 2017-2022, it states that the "focus is on development of *scientific research* based on the Triple Helix model with the Ministry of Science and Youth being the responsible institution in collaboration with the National Agency of Science and Innovation". While DCM no 1 dated 10.01.2017 for Approval of the Action Plan 2017 - 2021 "Support for

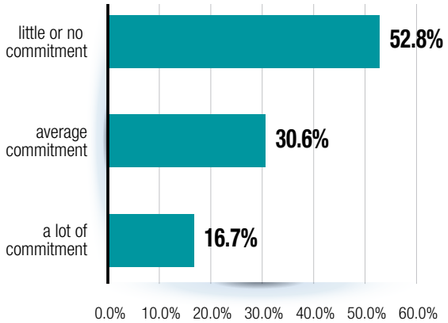
36 *"Innovation ecosystem" is the term used to describe the various players, stakeholders, and community members that are critical for innovation. Each plays a significant role in creating value in the larger ecosystem by transforming new ideas into reality through access and financial investment.*

the Development of Innovative Policies based in the "TRIPLE HELIX" Model" is assigned to the Ministry of Economy and Finance as the leading institution. In terms of entrepreneurship, the Ministry of Finance and Economy is responsible for fostering and promoting innovation, with AIDA as its subordinate agency. NAIS is also involved as an institution responsible for implementing policies for the development of Information and Communication Technology[37].

In reference to the above, when surveyed companies were asked about the awareness on the Innovation Strategy and to evaluate the commitment of public institutions in the provision of innovative services, 53% declared that there is little or no commitment:

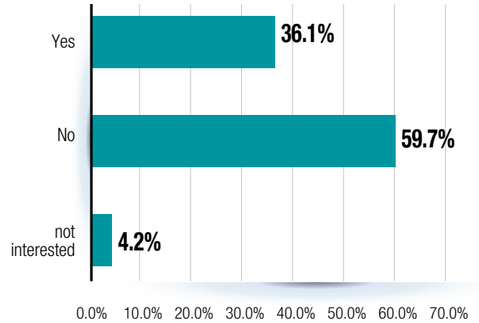
37 https://akshi.gov.al/akshi/misioni/

Figure 3. **Evaluate commitment of public institutions in the provision of innovative services**



Source: Secretariat's Questionnaire

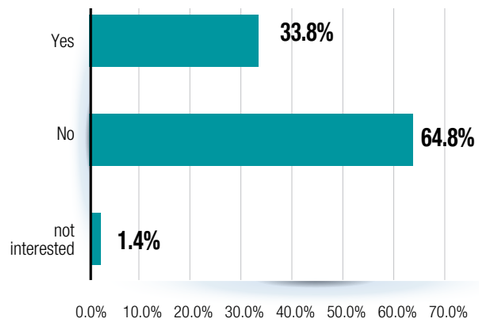
Figure 4. **Do you know if there is an Innovation Strategy in Albania?**



Source: Secretariat's Questionnaire

60% of the companies who answered the questionnaire wasn't aware whether the Government of Albania had a Strategy on Innovation and Science, while 65% were unclear which institution was responsible for leading the innovation process in the country:

Figure 5. **Do you know which institution is responsible for the development of innovation in the country?**



Source: Secretariat's Questionnaire

2. **There is awareness of the government's significant measures and investments to digitalise public services offered to citizens and businesses via centralised platforms** (e.g. e-Albania, e-tax, e-permits, fiscalization platform) or the online services offered by the notaries, NBC, Road Transport Services, etc., which have reduced the red tape and time spent but also have increased the expectations for public quality services. Obviously, such measures were undertaken using innovation and digitalisation in the frame of deregulation, lowering the administrative burden and facilitating access to public services[38]. It is worth mentioning that around 240 public institutions are linked in the GOVnet, and 600 services are provided through the e-Albania platform[39].
3. Lack of granulated data on innovation from the public and private sector

Setting timely and reliable data on innovation is crucial for the government to create proper policies supporting the new and evolving trends and the business, enabling realistic economic forecasts. According to EU Report Progress (October 2020)[40], "*Albania should make efforts to produce statistics and reliable data on science and technology, including the indicator on gross domestic expenditure on R&D, with a view to participating in the European Innovation Scoreboard.*" In this regard, *we noted clear targets and activities in the ERP 2021 – 2023, but these need to be further accelerated and well-targeted among sectors to better comply with the country's data performance and evaluation*[41].

During our business consultation process, we observed concerns about the availability of granulated national subsector data, mainly raised by the representatives of the new business models (evolving sectors) set up in Albania in response to the penetration of new markets/globalisation. This has sometimes created many issues when they were confronted with public institutions. For example, e-commerce companies complained about inadequate national registration/classification of their economic activities as very important for them due to tax obligations. The same problem was previously brought also by the BPO sector (2017), but despite some improvements, the issue still persists.

4. **No harmonised and simplified information on current key innovation stakeholders. There are a lot of analogous stakeholders working in the area of innovation; hence their proper identification is needed to ensure the good functionality of the system as a whole and avoid overlapping.**

Many business initiatives and projects are currently expanding, but there is a *lack of structured information* and *coordination*. This is a precondition that could help stakeholders

38 *In the United Nations E-Government Development Index (EGDI) for 2018, Albania marked the highest score among the countries of the region, in terms of online services*

39 https://akshi.gov.al/

40 *The European Innovation Scoreboard is not yet available for Albania, however a plan to provide indicators showed that eight indicators from international sources are already present.*

41 *For example, what about the official evidence on the impact of the fiscal incentives offered to the IT business sector in 2018? or other sectors?*

(associations, projects, donors, etc.) be more efficient and focused on sustaining innovation efforts. For example, there are innovation centres developed in different regions in Albania, but there is no information and collaboration among each other. On the other hand, it could be important that these centres get more involved and support by the government or different projects. It is also observed that with some exceptions, such as the CCI Tirana, the public role of the business associations remains weak regarding the innovation ecosystem and SMEs' support. The registration and certification of all start-ups and facilitators as provided for by the draft law shall institutionalise and create more chances for structured and effective cooperation.

5. **Albanian companies and the entrepreneurship ecosystem should also target the production of "made in Albania" innovation. Despite the notable progress in business initiatives to introduce new products, technologies (e.g., robotics in marble, EU technological lines in production, etc.), and services related to innovation in the Albanian market, Albania is still considered at the level of "software houses". International companies use a national talent pool of professionals through outsourced services for designing and programming services/ products mainly sold to the international markets. We observed that the potentials exist, such as producing genuine innovative solutions for use in the internal market, but the progress and speed are slow.**

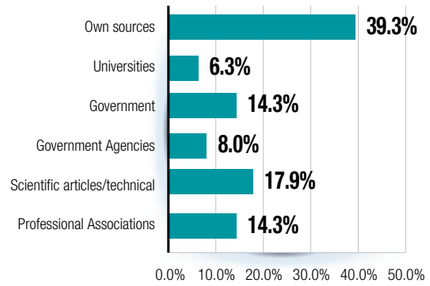
The above might be related to weak market forces to drive enterprises to innovation covering all of its stages: (a) product innovation, (b) process innovation, (c) marketing innovation and (d) organisational innovation. Through consultation, we note that this delay could be related to the following reasons:

- the difficulty of the business owners to understand and aspire innovation and new technologies due to the lack of digital competencies and getting acquainted with new trends;
- Non-readiness of SMEs, in particular, to explore new business models in a market with low sophistication and enforcement of standards, high informality and low competition.

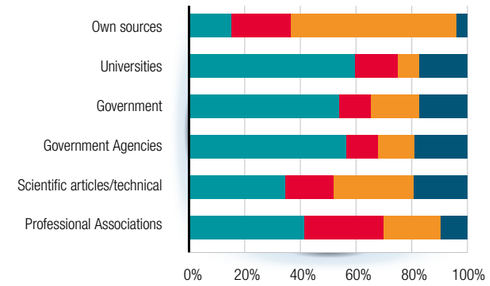
6. **Despite some sporadic initiatives, the Triple Helix model is not functional due to a lack of trust between universities and the private sector and no regulatory role of government in this direction.**

Despite several projects since 2005, Albania remains limited in yielding tangible results in regard to the well-functioning of triple helix initiatives to date. Specifically, referring to the survey's findings and consultation process, companies consider the role of academia in the business innovation ecosystem as a last source.

Figure 6. **During the last 3 years, how important the following sources of information have been in your innovative activities? (rate from 1 to 5 where 1 = Not at all and 5 = very important)**



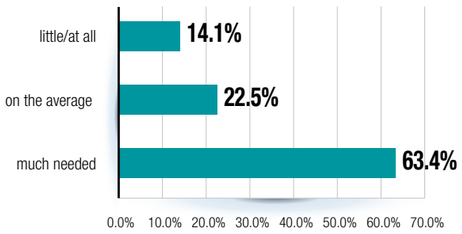
Source: Secretariat's Questionnaire



Source: Secretariat's Questionnaire

Specifically, only 6.3% of the companies considered them as a very important source in their innovative activities. We also noted that 63.4% of companies declared that cooperation with academia is much needed and necessary in providing information on new development activities.

Figure 7. **Do you think that cooperation with the academic sector is necessary in providing information on new development opportunities?**



Source: Secretariat's Questionnaire

Based on the above results and taking into consideration the ideas shared during the consultation process, it is noted that the cooperation takes different shapes between actors such as public or private, or applied sciences and social ones. In general, applied science and agriculture universities are perceived as more advanced in this regard.

We noticed a special willingness for interaction between the universities and private sector or even among the universities themselves during some consultations. The main impediments to the cooperation are related to the lack of adequate and up-to-date inclusive interaction infrastructure and the old mentality in creating these collaborations.

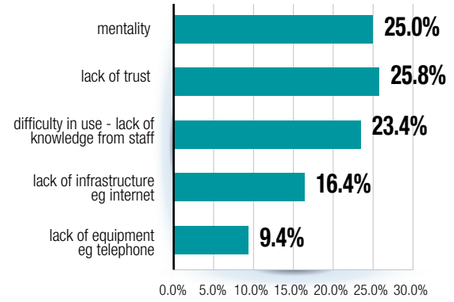
2. BUSINESS VERSUS INNOVATION

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

To engage in innovation initiatives and create change, business leaders need to set up aspirations and consider making resource-allocation and portfolio choices. Although the market forces/pressure drives the innovation process, business leaders need to be continu-

ously exposed and engaged in innovation activities. In this regard, we note that mentality/ lack of trust is considered a strong obstacle in using or even in accepting innovation for Albanian companies.

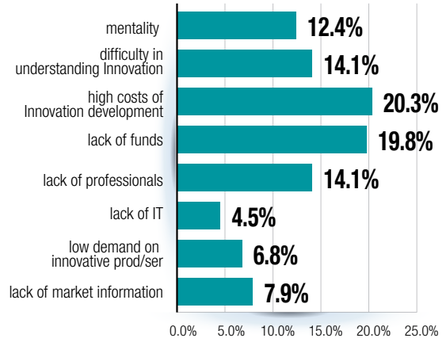
Figure 8. **What do you consider to be 3 key obstacles in using Innovative services/products in Albania?**



Source: Secretariat's Questionnaire

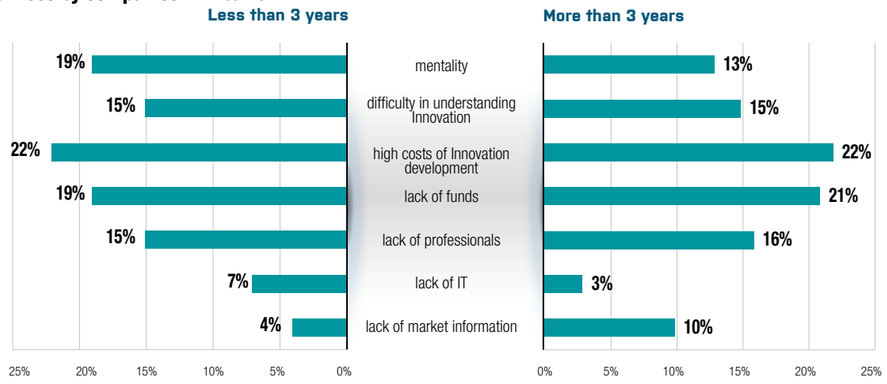
While, as relates to the development of innovative ideas, high costs, lack of funds and lack of specialists are considered as key obstacles, as already mentioned.

Figure 9. **What do you consider to be the 3 main obstacles in the development of innovative products/services by companies in Albania?**



For new companies in the market (1-3years), high costs of innovation are considered as the main reason ***why innovation is difficult to be embraced***, followed by mentality (19%) and lack of funds (19%). It is noted that the same picture is for older companies as well:

Figure 10. **What do you consider to be the 3 main obstacles in the development of innovative products/ services by companies in Albania?**



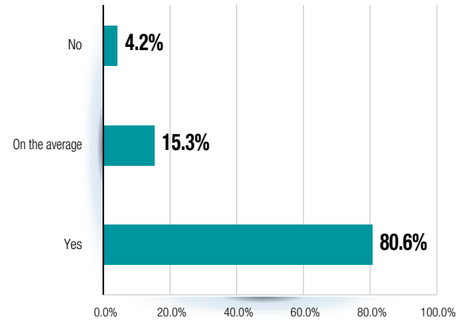
Source: Secretariat's Questionnaire

2. **The ecosystem of start-ups is very nascent[42], the use of new technologies and innovative solutions by enterprises is low, and the allocation of R&D funds is spontaneous, with most SMEs non-allocating at all any budget.**

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

42 Entrepreneurial Ecosystem in Albania with Focus on Tirana - EU for Innovation Project.

Figure 11. **Do you consider innovation as a driver in increasing the company's revenue?**



Source: Secretariat's Questionnaire

Figure 12. **How much attention is paid to innovation in your company?**

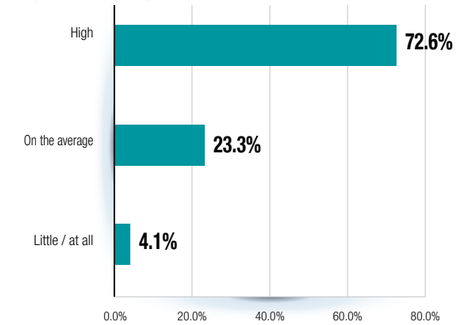
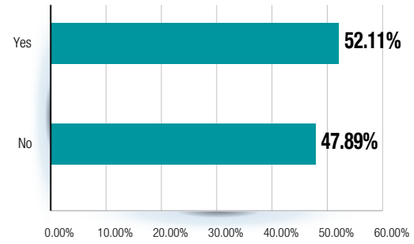
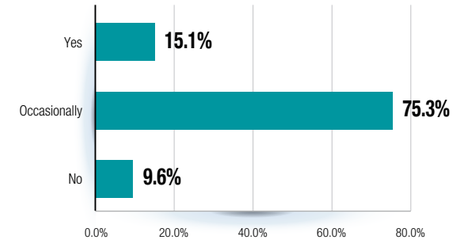


Figure 13. **Have you developed R&D activities in the last 3 years?**



Source: Secretariat's Questionnaire

Figure 14. **Does your company have a dedicated R&D fund?**



So, there is a good business awareness about innovation as an incentive to increase their company performance, but most of them, regardless of size, do not have a dedicated R&D fund. The discrepancy between the businesses' consideration on innovation (as an important driver for the increase of revenues) and business practice of innovative solutions (mentality, tradition, small market and low incentives to innovate, low allocation of budget) is also materialised in several reports[43]: Albanian enterprises have low competitiveness and low productivity.

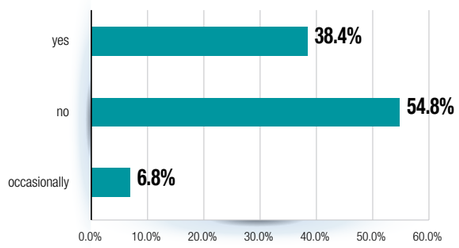
3. **Most companies confirm that they do not have a dedicated fund for training their employees, and there is a gap between students' supply and companies' demand for workforce.**

As it relates to human capital, it is evidenced that skilled workers remain one of the reasons why foreign companies choose Albania to invest in. However, most of the interviewed companies, especially from evolving sectors, confirmed that they have to retrain students to adapt to the new required skills. Although there are examples of good practice of the private sector and universities collaboration[44], more is to be done as regards the new evolving trends in different economic sectors.

According to the business, the discrepancy between what universities offer and what companies require mainly relates to the weak collaboration of business - academia, outdated curricula and low adaption of universities with the new professions and skills required by the market.

Also, companies do not have a *dedicated fund* to train their employees. 55% of companies declare not to have a dedicated fund for training their employees, while 7% declare to commit funds occasionally. It is also worth mentioning that there is a confirmation of the willingness of the workforce to learn new things. For example, 68% of the responded companies state that their employees' willingness to acquire new skills is very high. 74% of companies conduct assessments on their workers' skills and training needs, but only 14% use training outside the company. The reorganisation is the most common action taken to address the existing staff shortage of skills (27%).

Figure 15. Does your company have a dedicated fund for quire employee training?



Source: Secretariat's Questionnaire

Figure 16. How do you assess employees' willingness to ac new skills?

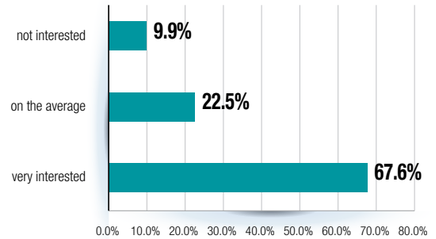
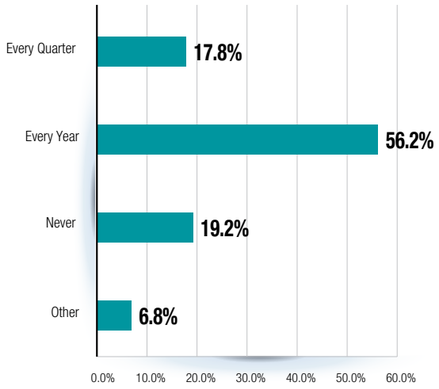
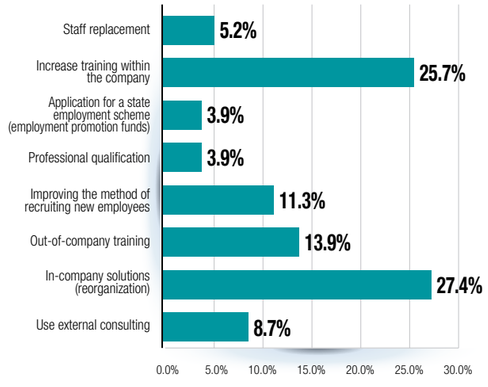


Figure 17. Does your company conduct periodic assessments the on skills and training needs?



Source: Secretariat's Questionnaire

Figure 18. What actions does the company take to address skills shortages of existing employees (list 3 most used)?



Source: Secretariat's Questionnaire

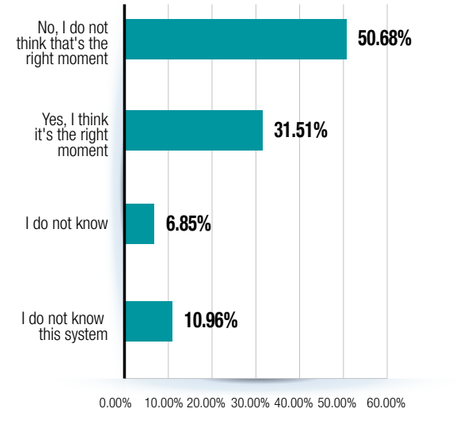
4. **Formalisation and well-functioning of markets as a precondition for investing in innovation**

Informality is considered to be one of the main impediments to the innovation of economic sectors. As of January 2021, the government started to implement *"fiscalization"* as a set of measures to reduce tax evasion in transactions with and without cash. When it comes to fighting informality, companies do all agree, but the time chosen to implement this new system divides them. About 51% of companies declare that it is not the right moment to start the implementation of fiscalization, arguing the lack of infrastructure, high cost of implementation and no training, while another 32% say it is the right moment to start implementation mainly because informality needs to be stopped.

43 *Competitiveness Report, EU progress report etc.*

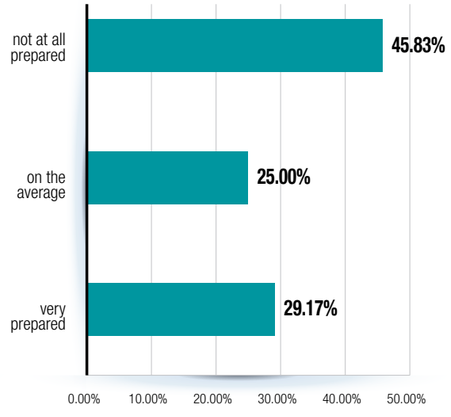
44 *Deloitte with University of Tirana, Faculty of Economy*

Figure 19. Do you think that fiscalization is being implemented at the right time?



Source: Secretariat's Questionnaire

Figure 20. Do you think you are prepared to use the system?



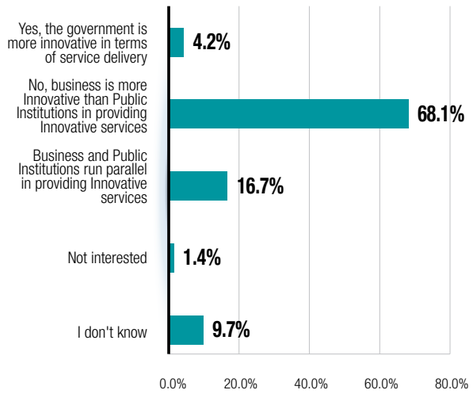
Source: Secretariat's Questionnaire

46% of the companies claim they are not prepared to use the system, and only 29% declare to be totally prepared to use this new and improved system.

5. **Leading the innovation process government vs private sector and timely response of online services**

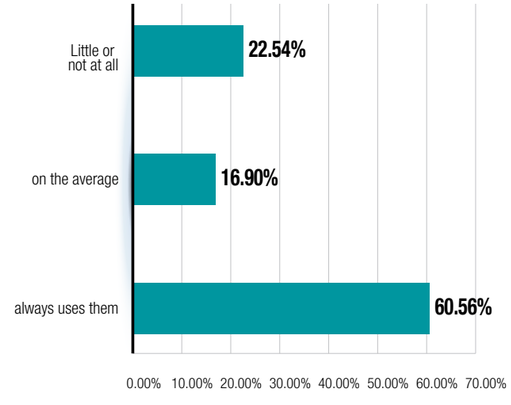
Analysis of respondents' data shows that the private sector is convinced to be more innovative than the public sector. Business acknowledges the role of the public institutions in setting up systems and provide integration with the e-Albania platform, but raise concern that there is still no national standard for developing inter-systems integration; thus, data take days or even weeks to be synchronised between them, resulting in system's lack of quality and efficiency.

Figure 22. Do you think the government is ahead of business in innovative services?



Source: Secretariat's Questionnaire

Figure 23. Do you use the innovative services offered by providing public institutions?



Source: Secretariat's Questionnaire

In general, there is a consensus that mutual online interaction among state agencies and businesses in the frame of electronic solutions and platforms reduces valuable resources (time, HR resources), inspections and red tape by improving business climate (e.g., e-tax, e-Albania). Many businesses during interviews requested for intensification of such interactions, even in non-traditional sectors where the regulatory oversight is of specific importance both in terms of trade and traceability. For example, in pharmaceutics, private companies support the development of online oversight of the sector through platforms of interaction with the National Agency of Drugs and Medical Equipment as a means for the regulatory impact on the sector and the sector's modernisation through further analysis of data at disposal.

3. FINANCIAL RESOURCES SUPPORTING INNOVATION IN ALBANIA

1. **Low absorption level of available innovation funds**

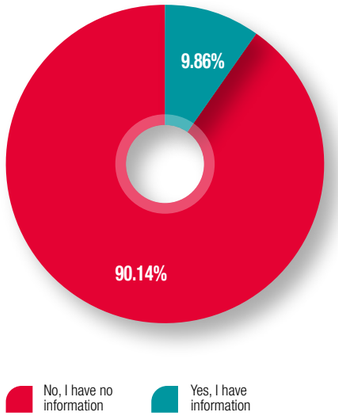
In the Albania Progress Report 2020, the European Commission states that "*As regards EU framework programmes, Albania participates in Horizon 2020 as an associated country. Its participation in Horizon 2020 has improved and shows a good trend for 2019; nonetheless, its performance continues to be low.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

2. **Limited business awareness on available funds to finance innovation**

Although many initiatives are running in the country, Albania remains weak in terms of absorption capacities. The business claim that this could be related to a missing coherent approach related to the awareness/promotion of funds available to innovation, lack of national innovation fund, the complexity of instruments such as business angels, venture capital, difficulties in documents complying with COSME, lack of professional to write good project fishes.

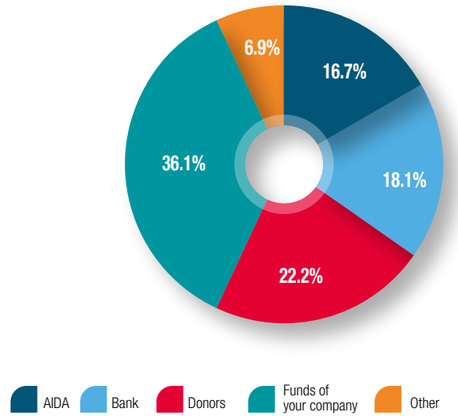
The above is also highlighted through data in our survey that show that, in general, companies lack information on available funds financing innovation:

Figure 24. **Do you have information about funds available to support innovation?**



Source: Secretariat's Questionnaire

Figure 25. **If you were to seek funding for innovation, where would you head first?**



Source: Secretariat's Questionnaire

90% of respondents declare to have no information whether there are funds to support innovation; that's why 36% of them declare to have used their own sources to finance innovation.

3. **The lack of awareness is also followed by the gap between demand and available type of funding supply such as for financing start-up**

   The initial high costs are associated with high risks and a low rate of success level. All this makes investments in start-up innovation not so attractive for the second-tier banks. We also noticed that AIDA's financing is basically covering the cost of machines and the credits and guarantee schemes through the banks remained absorbed at limited amounts.

4. **Although investment in Scientific Research, Technology and Innovation are projected to go up to 1% of GDP by 2022[45], there are limited public incentives to increase the involvement of Universities in R&D, and it is not clearly specified in the ERP 2021-23 how this target would be achieved.**

5. **The existence of several instruments not integrated into a well-functioning instrument was evidenced during Secretariat's consultations, and the establishment of a national or regional innovation fund is required since:**

» There are ongoing efforts from donors' funds supporting innovation at the central and regional level. However, we could evidence the limited or fragmented coordination, orientation or impact/control systems.

» Limited universities' resources, including the missing of a dedicated fund in supporting innovation: public universities spend their innovation fund supporting academic titles for their staff, conferences, workshops and no money is spent in supporting, for example, start-ups.

» Banking financial institutions do not promote innovation investments funds and do not finance start-ups as these are considered high-risk investments.

» The need for an integrated approach to cover the lack of institutional capacities in fund absorption (particularly in writing good project fishes).

45 *Albania ERP 2021-2023* https://www.financa.gov.al/wp-content/uploads/2021/02/Economic-Reform-Programme-2021-2023.pdf

4. OTHER

1. **Issues concerning the market size of the country, awareness about free economic zones and new potential on business operations**

» *Difficulties in finding serious investors ready to invest in the Albanian innovation market*. Albania is considered as a limited market size related to innovation in ICT. Additionally, limited regional integration, lack of a consolidated ecosystem in innovation, and lack of tradition or sustainable examples and success stories in innovation products make it difficult to attract serious foreign investors/business angels. Entrepreneurs in ICT and start-ups make a distinction between foreign investors and domestic investors. According to them, while foreign investors are not attracted by the Albanian market mainly due to the lack of marketing on Albanian innovation ecosystem or scepticism related to the reputation of young Albanian firms, domestic investors identify investing in ICT start-ups as risky due to the high-risk failure of business models (which are based on ideas with no certainty of implementation). According to them, this is also related to market conditions and issues of mentality as above mentioned.

» *Limited awareness about TEDA's law and innovation*. Many start-ups/companies were not aware of the TEDA law, which provisions and incentives could be directed towards creating District Innovation Areas (DIA). DIA can be developed from different innovation stakeholders where new technologies and trends can serve as examples for: (1) pushing forward the development of the sector through the increase of supply and demand; (2) increase awareness about the importance of innovation for both private and public sector, and (3) focus public and private sector objectives towards innovative business models. Lack of DIAs is considered a disadvantage in the aspect of promoting Albania to foreign investors (business angels' community, consolidated start-up companies and international funds).

» There is evidence that Albanian professionals working remotely for international companies, mainly in the area of ICT, IT, BPO are growing, especially after COVID-19. The pandemic crisis showed that businesses focused on non-traditional channels of trade and outsourcing operations upgraded their turnover considerable. Many companies have succeeded in providing services and goods to their customers, using electronic means

and digital skills, or adapting their managerial organisation through innovative ways of remote working.

2. **Business issues concerning maximising potentials for innovation in the BPOs and Digital Economy in Albania**

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

(a) due to the lack of trust on the proposed e-commerce platform of interaction with customers as related to the security of data, or

(b) lack of commercial interest in the proposed business model from e-commerce operators.

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

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

» The Covid-19 pandemic brought to everyone's attention the importance of digitalisation, online payments, and further advancement in shopping and electronic commerce (e-commerce). Overcoming barriers in e-commerce is essential for Albania to realise its full development potential. Based on the Order of the Prime Minister, no 110, dated 10.9.2020, an Inter-ministerial Group was established to draft an Action Plan 2021-2024 on the main reforms/ activities to be taken to develop e-commerce in Albania. The Inter-ministerial Group was assisted by the experts of the World Bank in drafting this Action Plan. The Action Plan is under consultation with the line ministers.

In the area of innovative start-ups, there are some overarching achievements during the year 2020:

(1) Three new Start-up Accelerator programmes in Tirana: Uplift Albania, Flexible Start-up Accelerator, Women Founders Accelerator, and one in Shkodra (Flexible Start-up Support Programme – Regional Edition).

(2) International ranking of Albanian ecosystem increased: According to Start-up Blink Report, Albania moved 13 places up in the ranking.

(3) Over 150 Albanian start-ups supported in developing their capacities, linkages and networking within Albania and internationally, as well as financial support via the EU for Innovation Challenge Fund

(4) Regional Outreach: regional ecosystem support provided in the City of Korça (Building up the ICT Hub Korca), Flexible Start-up Support Programme in Shkodra (which will roll out in two other cities in the country)

(5) Support for the start-up law: The objective of the Start-up Law is to create better conditions, measures and schemes to support the development of the start-ups and the entrepreneurship ecosystem, by also creating Start-up Albania, a new government agency, that will evaluate the market/ecosystem, propose support schemes and by-laws, and follow up activities to ensure that the main objectives are achieved.

(6) Support for the Prime Minister's Office Entrepreneurship Programme. Currently, the programme is in the final drafting phase.

(7) Created a better understanding among stakeholders (private and public) of the concept of innovative start-ups and their importance as a driving force for economic development towards a knowledge-based society.

(8) EU for Innovation Challenge Fund has awarded 23 start-ups, and 4 Innovation Supporting Organisations (ISOs) grants under the first and second call launched during 2019. The 3rd call was launched in 2020 and is currently in the final phase of the evaluation.

RECOMMENDATIONS

1. GOVERNANCE - LEGAL AND REGULATORY FRAMEWORK

RECOMMENDATION 1.

Empowering of the innovation ecosystem and linkages among stakeholders through a comprehensive legal and regulatory framework consisting in:

a) **Speeding up the approval of the draft-law *"For Protection and Development of Innovative Start-Ups"* that enables:**

» a consolidated list of non-discriminatory administrative and financial incentives available to foreign and domestic investors as a prerequisite for fair competition.

» a self-regulatory governance regime of the ecosystem based on structures like Evaluation Board on Innovative Start-Ups with majority members from the private sector.

» an online, open, transparent and easily accessible electronic portal on Innovative Start-Ups.

» establishment of a National Fund on Innovation that supports access to credit through guarantees on bank loans for certified incubators and innovative start-ups.

RECOMMENDATION 2.

Consolidation and harmonisation of government initiatives related to digital, technological and innovation transformation by a leading institution responsible for the coordination of sectoral policies to foster:

a) ***Demand-side innovative solutions to Government problems[46]:***

via Pre-Commercial/Innovation Procurement mechanisms that enable the public sector to purchase research and development (R&D) services for practical and/or sectorial problems[47]. The recently approved Law no.162/2020 "On Public Procurement" endorses the *partnership for innovation* concept introduced and endorsed earlier by EU Directives. For more information on successful pre-commercial procurement models at the EU level, click here.

46 The launching of fiscalization process by the government is an example of initiatives that foster the demand-side for innovative solutions by fostering the market through the need of the government to address informality, managing of taxes, etc. As of today, have been certified by 29 companies for providing innovative solution tools related to fiscalization process.

47 This instrument enables the commissioning of R&D services, under a staged competitive process, to allow the development of innovative solutions that meet the needs of a Contracting Authority. This approach is based on: 1. Risk-benefit sharing according to market conditions. 2. Competitive development in phases; and 3. Separation of the R&D phase from the deployment of commercial volumes of end products.

» via sustaining of projects that enable smart solutions, for example on waste management, green economy (through energy innovation, including but not limited to the following activities LED lighting, solar installation, Electric Vehicle (EV) charging stations, smart outlets, variable frequency drives and building analytics) ICT industry[48] and Agro projects[49] creating local and international market expansion and added value.

» Further enlarging the number and quality of digitalised public services through Government platforms. (e.g. Real-time and coherent exchange of data among institutions that enable real-time information to the users.)

» Enforcing the use of electronic documents, electronic and digital signature in commercial/administrative activities in line with strategies for paperless administration, including executive agencies and judiciary system.

b) ***Supply-side innovative solutions by businesses[50]:***

» via incentives for increasing R&D investments and marketing expenditures; e.g. the government should also consider the innovation capacity of the existing firms and their need to upgrade their production and business processes and product portfolio. For example, through a guarantee fund that subsidises 50% of the costs for research and development and research work of practical interest.

» through the provision of dedicated funding in the form of debt or equity, or through exception from general rules as in the case of the technology transfer.

» other means of cooperation, e.g. corporate innovation initiatives (Business-Universities-Donors) that reduce innovation costs and share the risks.

48 ICT has the potential to develop their own sophisticated software solutions and services, due to the growing number of start-ups, entrepreneurial spirit and growing interest of young people in IT science.

49 Pave the way for the Albanian food products to enter advanced markets as organic, and higher local value-added, while local production turns to high-tech and eco-sustainable production.

50 How Can EU Legislation Enable and/or Disable Innovation-EU Commission 2014.

RECOMMENDATION 3.

Promoting to serious foreign and domestic investors the benefits and opportunities of Law no. 9789 dated 19.07.2007 "On Technological Economic Development Areas" and aligning it with the ecosystem requirements for establishing dedicated "District/s on Innovation". The ecosystem actors see the latter as a means to attract business excellence in innovation and high-tech technology, which can further serve as a benchmark for enlarging the number of innovative start-ups and businesses that endorse innovation and/or introduce high-tech. To this end, it might be worth exploring the opportunities deriving from Law 9789/2007 in supporting the idea of creating an Innovation District and/or widening collaborations in the form of regional industrial clusters as functional and sustainable models.

RECOMMENDATION 4.

Targeted support to the process of internationalisation of start-ups by AIDA (or the institution in charge of innovation), including assistance in legal, corporate and fiscal activities, as well as real estate and credit matters. In addition, innovative start-ups can ben-

efit from free-of-charge participation in certain international fairs and events and international initiatives aimed at favouring the matching with potential investors.

2. QUADRUPLE HELIX COOPERATION (GOVERNMENT - UNIVERSITY – BUSINESS - CIVIL SOCIETY/MEDIA)

RECOMMENDATION 5.

Speed the enabling of a modern and focused education on industries that deliver high-quality and highly-skilled jobs, thus contributing to companies' greater, sustainable and faster growth. As a wide-ranging issue, it should help to better connect academic faculties, science and technology instruments (e.g. parks, hubs, etc.) through their collaboration with industry, since it aims the creation of highly skilled personnel and developing a knowledge-based society.

RECOMMENDATION 6.

Enforce relation and format of collaboration University – Business, from the responsible institution as clearly identified in the Smart Specialisation Strategy being drafted. Some possible cooperation forms are (1) creation of an online platform where the business issues are collected and shared with universities based on their area of specialisation and Universities to orient the graduation/master or PhD thesis based on the practical issues/problems/needs for data - raised from the private sector, (2) open lessons with innovator businessmen (former students), that have proved to be successful in their professional life to be invited by universities to share their experience, challenges and success in an open discussion with students, (3) curricula update with enterprise skills starting from high schools to universities and adaptation toward market demand by expanding practical skills along with theory, (4) Regular student orientation toward the labour market, through periodic consultations with business associations, (5) Accelerator to enhance projects in innovation.

RECOMMENDATION 7.

Stimulate the education of SMEs through media usage (visual/social) as a powerful tool to drive users' attention on relevant topics such as innovation. Economic Programs sponsored by the government can be used to increase awareness of SMEs on Innovation and the importance of collaboration with academia as the best way to influence the future of their business.

RECOMMENDATION 8.

Foster cooperation between Universities by establishing a consortium based on the specific specialisation field of the member universities. This expertise based consortium will serve as a practical training centre for enterprises and enable the sustainability of knowledge transferred from projects supporting innovation in different sectors of the economy.

RECOMMENDATION 9.

Establish linkages between academia/businesses and financial institutions to find ways to finance students' ideas on start-ups based on identified SME needs. An example of facilitator agents can be Local Economic Development structures (e.g. Auleda in Vlora or Teuleda in Shkodra) that can simplify the intermediation and monitoring/follow up processes.

3. ACCESS TO FINANCE

RECOMMENDATION 10.

Amplification of simplified access to credit guarantee schemes or other sources of funding for SMEs at national/international level through (1) Elaboration of state or donor guarantee funds based on risk-sharing or interest subsidised schemes, (2) Creation of Joint Innovation Fund between Public and Private to invest in innovation covering all economic sectors, (3)Promotion of these schemes through a single-window national platform.

RECOMMENDATION 11.

Provide the advisory, training, matchmaking and collaboration support for digital innovation SMEs looking for funding and increase awareness on (1) the provisions of the Law No. 66/2020 "For Technology-Based Financial Markets of Distributed Registers"[51] (blockchain) which enables for more inclusion of potential fundings from FINTECH and using DLT technology; finding of foreign alternative financial sources and lowering payment services costs, (2) Inciting alternative funding options such as Crowdfunding as "the practice of funding a project or venture by raising many small amounts of money from a large number of people ("crowd"), typically via the internet (online platforms). Crowdfunding platforms in their different models (donation-based, reward-based, equity-based and lending-based) are a new powerful source of alternative funding that make start-ups less dependent on typical venture capital exit models and allow raising funds without material collateral, which banks require.

51 Law 66/2020 "For financial markets based on distributed ledger technology"

RECOMMENDATION 12.

Enabling upon approval of the Law "*For Protection and Development of Innovative Start-Ups*" of a **network of *business angel investors* and identification of potential legal initiatives which can facilitate and support their investments in innovative ideas.**

4. DRIVE DIGITAL ECONOMY SECTOR POTENTIALS AND CREATION OF SYNERGIES AMONG STAKEHOLDERS

RECOMMENDATION 13.

Supporting the digital economy (economy of the internet) by establishing legal & regulatory measures that facilitate doing business on digital platforms and the internet environment. Online platforms have established their presence as important economic players, connecting economic actors and boosting efficiency, through innovation and the development of new business models, especially during the Covid-19 crisis. Legal and regulatory measures should focus *inter alia*, on (1) the oversight of e-commerce through clear identification of e-commerce actors, their footprint, operations and the overall impact of digital economy in the Albania economy, (2) preparation of simple guidelines for e-commerce companies related to categorisation of their services for purposes of deductible expenses (e.g. purchase of download software) and how to deal with tax and customs operations. Such measures are a means to support systemic formalisation, clearance of their framework of operations and reduce red tape and uncertainty.

RECOMMENDATION 14.

Approval of secondary legislation related to the implementation of the recent Law No. 55/2020 date 30.04.2020 "On Payment Services" that enables a larger pool of licenced institutions/agents for initiation of electronic payments; It shall increase competition and shall make the market more agile by facilitating commercial cooperation among banks and e-commerce operators in establishing user-friendly and trusty platforms of e-commerce.

RECOMMENDATION 15.

In support of e-commerce trading, the Bank of Albania and commercial banks should **consider alternative clearing forms for local EUR transfers** to reduce the high costs charged by correspondent banking networks, such as Clearing or Instant Payment System in Euro. A feasibility study regarding the volume of local euro transactions between customers in Albania could be helpful to understand better the market needs regarding transaction costs.

RECOMMENDATION 16.

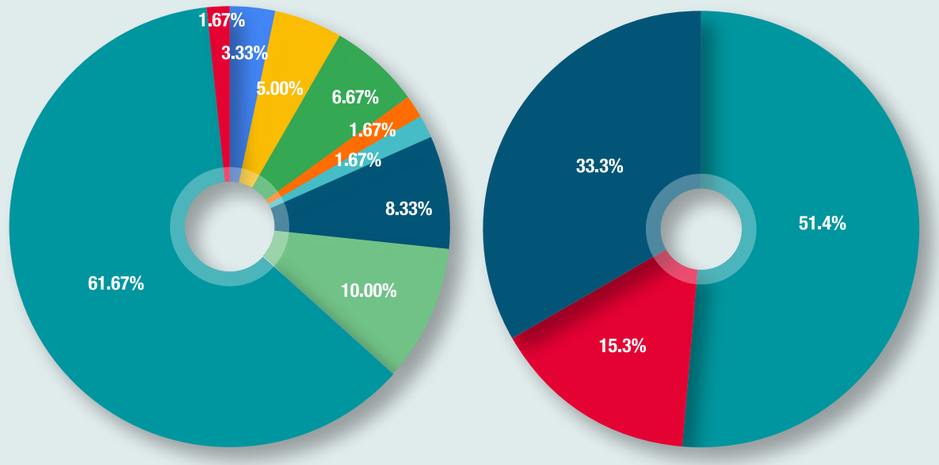
Further Increase the Fight Against Informality by Limiting and Discouraging Cash Payments. The initiative must include 2 separate provisions: a) a higher limitation on cash transactions, encouraging businesses and citizens to use the formal banking system or alternative electronic payment, and b) development of legislation to ease and widen electronic payment systems at a much larger scale than now exists. The preparation of an action plan on improving financial inclusion and on how to reduce costs on access to banking, to increase the use of credit/debit cards and enlarging penetration of POS, for example, setting up a card processing and cleaning system within the country in collaboration with the Card companies (Visa/Master) can be adopted to reduce the costs and improve the usage of electronic payments means. The IC Recommendation 9 of the *IC Meeting XIV- Informality in Tourism* provides more information on this topic.

RECOMMENDATION 17.

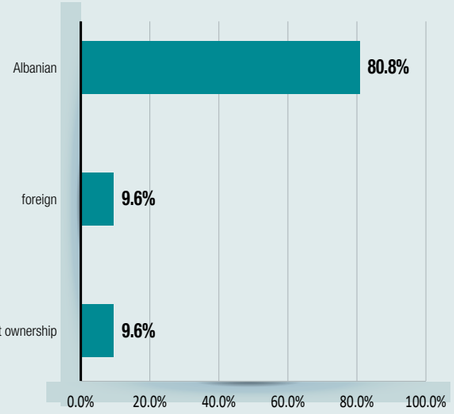
If any action plan that addresses the findings of the WB Diagnostic Report on e-Commerce (September 2020) is approved, it should be published and distributed to the public further **to increase awareness** about the e-commerce challenges and opportunities and monitor the implementation milestones.

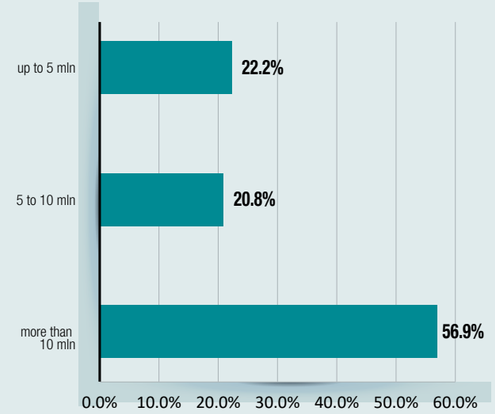
ANNEX

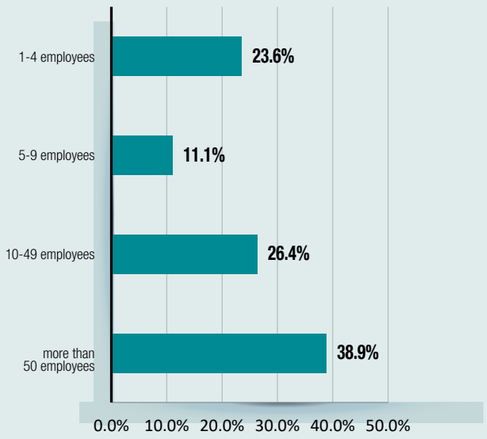
Profile of companies that have participated in the questionnaire

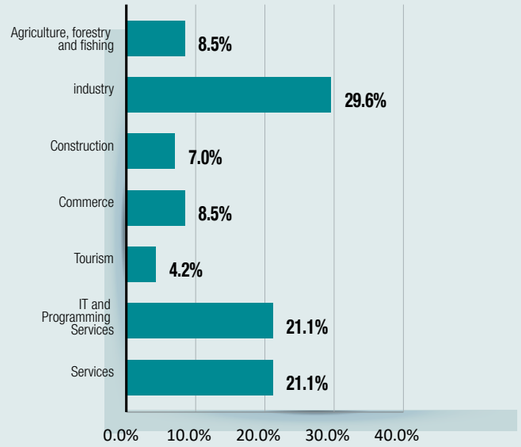


Vlorë	1.67%	Elbasan	6.67%	more than 10 years	51.4%
Berat	3.33%	Fier	1.67%	5 to 10 years	15.3%
Dibër	0.00%	Gjirokastër	1.67%	less than 5 years	33.3%
Durrës	5.00%	Lezhë	8.33%		
Korçë	0.00%	Shkodër	10.00%		
Kukës	0.00%	Tiranë	61.67%		









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Albania Investment Council

Improving Transparency and Investment Climate

ABOUT INVESTMENT COUNCIL IN ALBANIA

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

Dr. Diana Leka (Angoni)
Head of Secretariat
lekad@investment.com.al

Elvis Zerva
Legal & Regulatory Expert
zervae@investment.com.al

Elida Fara
Economic Expert
farae@investment.com.al

Xaira Shurdha
Liaison and Monitoring Expert
shurdhax@investment.com.al

Elisa Lula
Administrative and Communications Officer
lulae@investment.com.al

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