

INTERNATIONALISATION OF ALBANIAN MICRO-, SMALL AND MEDIUM-SIZED ENTERPRISES

Challenges & Opportunities

Investment Council Meeting

Tiranë, 12 November 2021

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- ❑ MAIN FINDINGS
- ❑ RECOMMENDATIONS

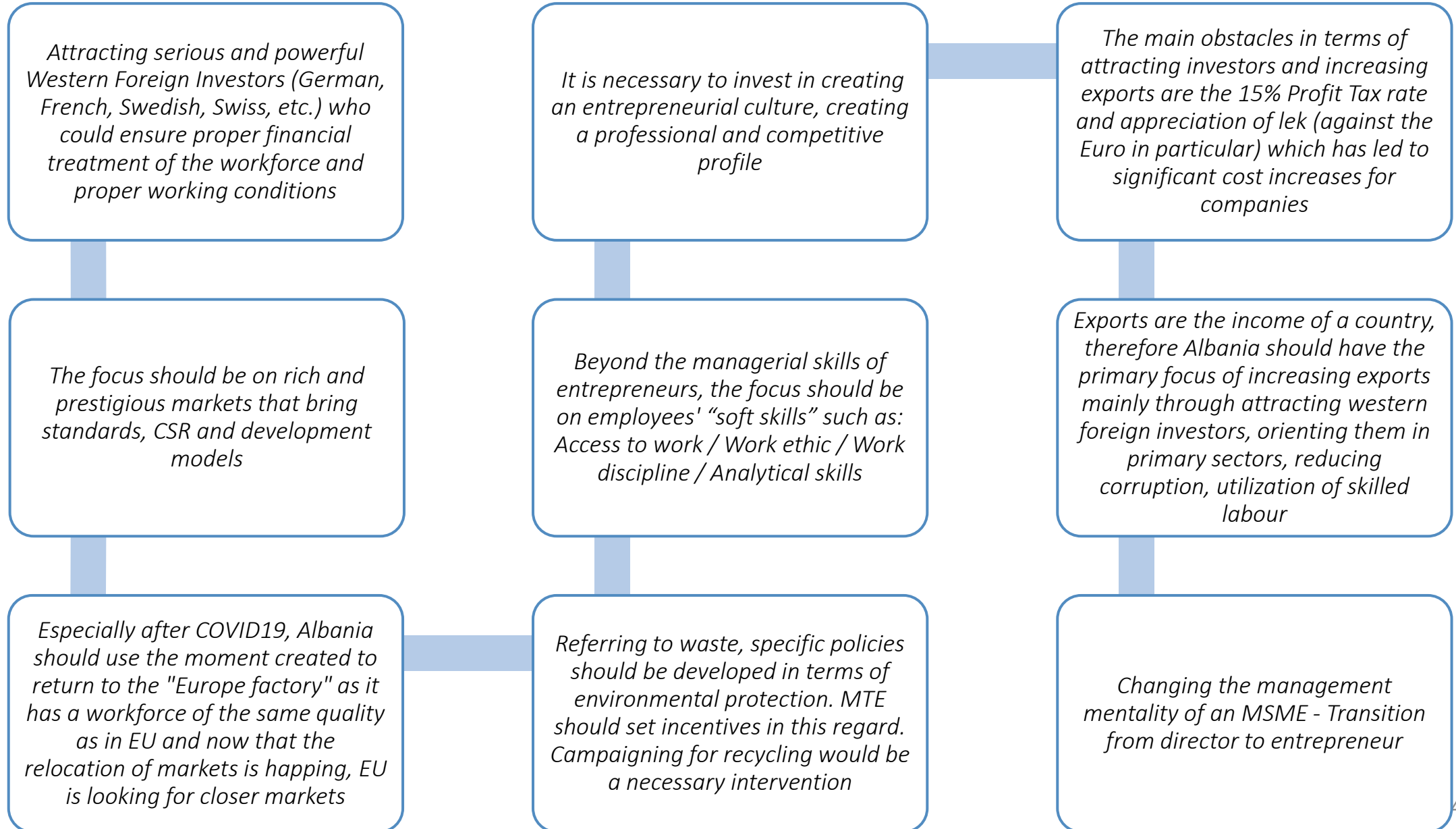
OBJECTIVE

- ✓ *stimulate the debate and raise awareness among MSMEs managers of the opportunities associated with participating in global value chains, stressing that to a large extent, internationalisation **is mainly knowledge and reliability driven***
- ✓ *serve as an assessment that could help the executives in their interventions in **support to the mitigation of costs** related to the internationalisation of local MSMEs*

It would be advisable to be followed by thorough sector/product value-added chain analyses for more detailed analyses/support.

- The analysis is based on 2 main pillars:
 - ☐ Internal factors directly related to MSME
 - ☐ External factors indirectly related to MSME

MSME ISSUES / SUGGESTIONS



METHODOLOGY

Desk-research

- National and international reports, laws / bylaws
- Analysis of official data
- Data from direct meetings with ecosystem actors
- IC report 2015-2021

Consultations

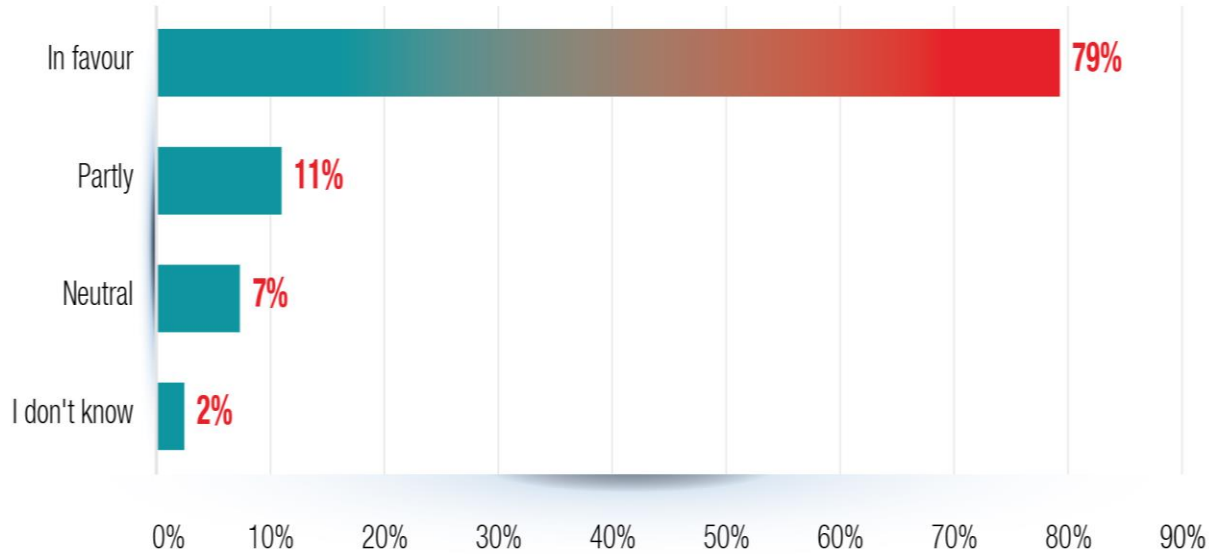
- 23 Direct meetings and on the ZOOM platform with public institutions, associations and enterprises
- Comments from IC Members and Partners

1 Questionner

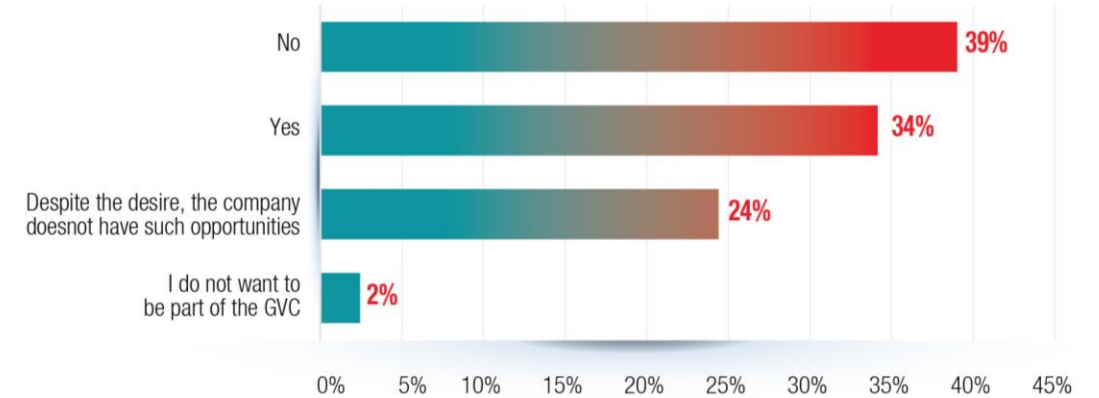
- With 82 companies (clothing industry, agriculture and tourism) over:
 - Internal (direct) obstructive factors
 - External (indirect) obstructive factors
 - Suggestions for solving problems

WHAT IS YOUR POSITION TOWARDS INTERNATIONALIZATION?

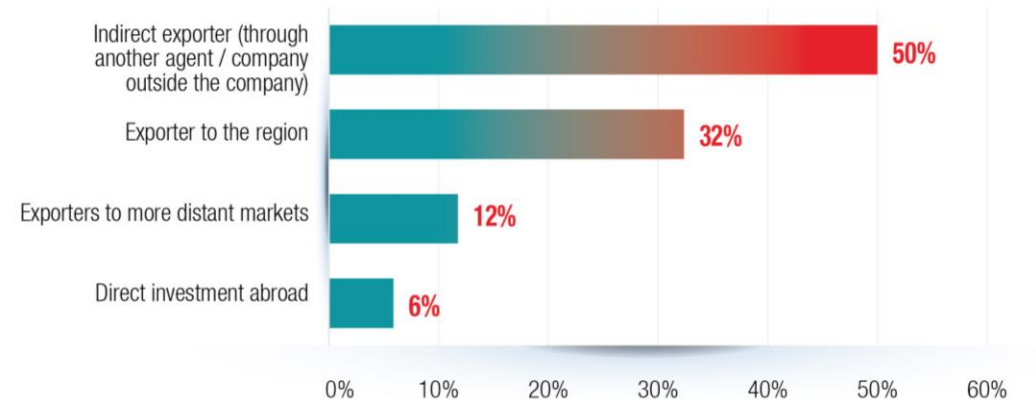
From the position of your company, what is the opinion towards integration in international value chains?



Is your company part of the international value network, products and services exported abroad?



If your company is part of the GVC, products and services exported abroad, please specify how.



TREND OF DATA

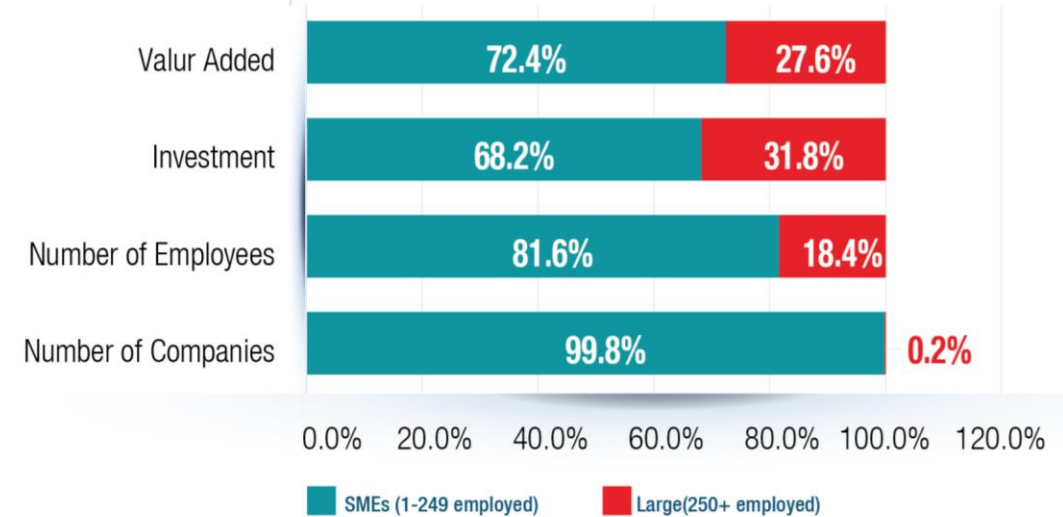
Meanwhile, in Albania only 3.1% of micro, small and medium enterprises are exporters.

In a regional approach (2014-2017), the share of MSME exports among the economies of the Western Balkans remained relatively constant throughout the region, with the exception of Albania, whose share increased from 47% to 61%.

Despite the trend and positive dynamics in exports, as well as progress in other dimensions, Albania still stands below the average of the Western Balkan countries in terms of the internationalization of MSMEs standing below the regional average of 3.43.

The COVID-19 pandemic is creating a new reality worldwide. The economies of the Western Balkans can take advantage of the opportunities arising from this new reality where European countries have turned their eyes towards regional markets and as close to them as possible.

STRUCTURE OF ENTERPRISES IN ECONOMY, 2019



Within the structure of the MSME, Micro enterprises (1-9 employees) are the most numerous companies (on average 93% of the MSME), which provide the largest employment (49% of employees from the MSME), provide 19% of investments by MSMEs and almost the same value added in the economy compared to small and medium enterprises, 32% of the total Mikro (1-9)

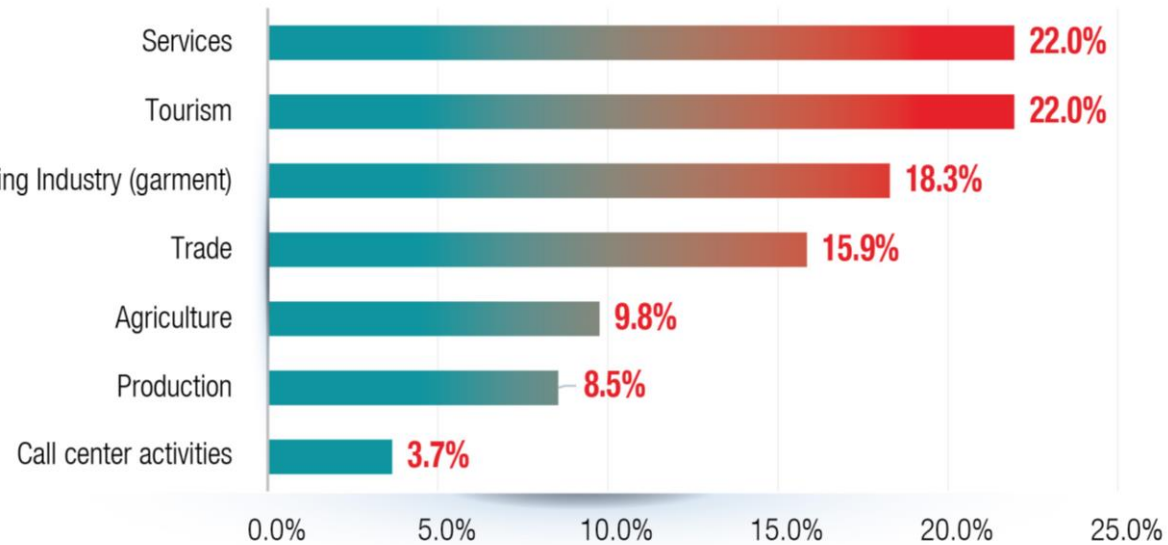
CONTEXT

Referring to the Institute of Economic Studies in Vienna, “Western Balkans economies can take advantage of this opportunity not only because of their good geographical location and competitive wage levels but also because of their ‘soft skills’, such as the cultural proximity and reputation of their workers as skilled and hardworking. **Focusing on the qualification of the workforce, investing in education and training, as well as modernizing the education system would be quite beneficial in attracting potential investors.** Improving infrastructure and governance would be just as important from the perspective of current and potential investors.”

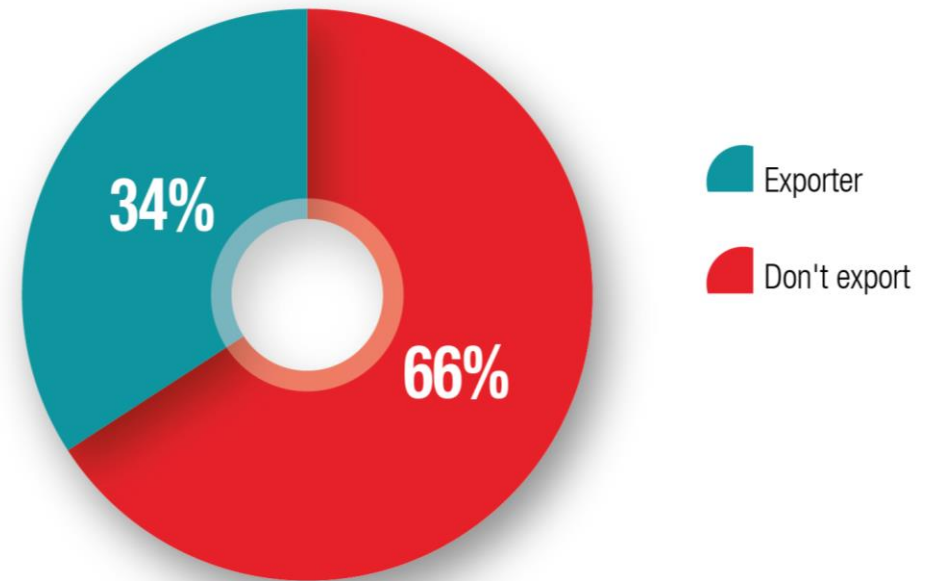
As stated in the Western Balkans Regular Economic Report (Fall 2021) , “To take full advantage of potential nearshoring opportunities, **the region needs to embrace proactive policies** to strengthen its investment competitiveness and **implement targeted outreach programs** to promote itself to potential investors **based on the currently successful sectors and those with identified potential.**”

Profile of Companies

Companies profile -sectors

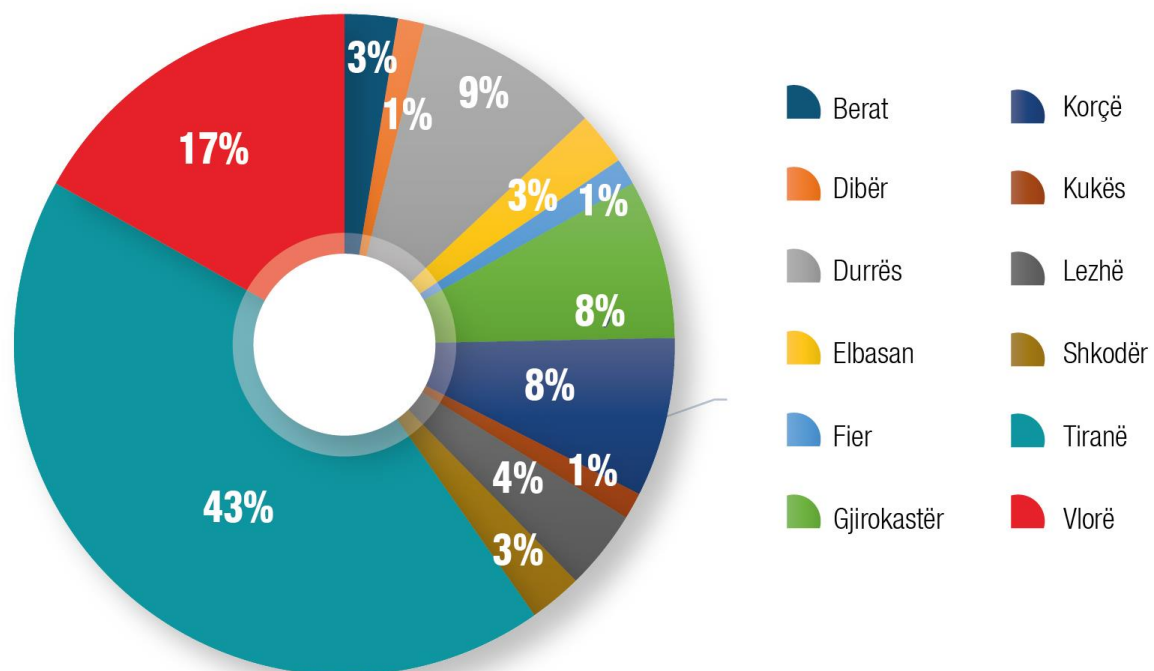


COMPANIES PROFILE -EXPORTERS

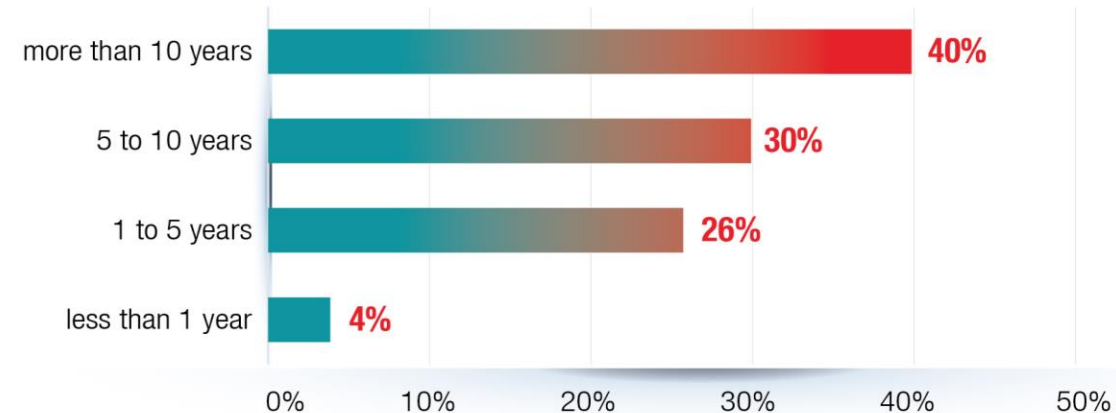


Profile of Companies

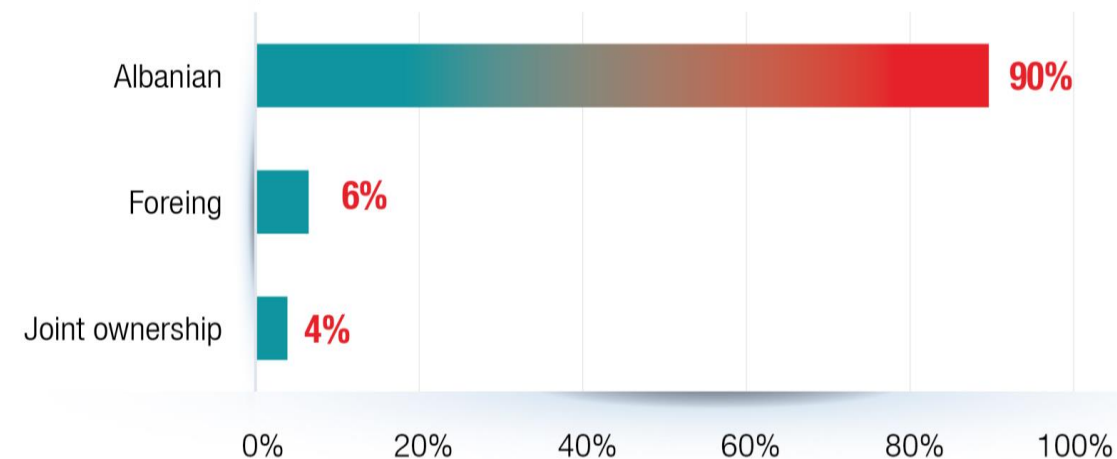
Companies profile –district distribution



Companies profile –years in the market



Companies profile -Ownership



Legal and regulatory dynamics

There is advancement in alignment and improvement of the national agenda and policies affecting MSMEs with that adopted at the EU level (BIDS etc).

The business community emphasizes that good governance at both central and local levels and formalised inter-institutional coordination are essential elements for achieving objectives related to MSMEs internationalization.

Registering a business and applying for licences and permits have been streamlined

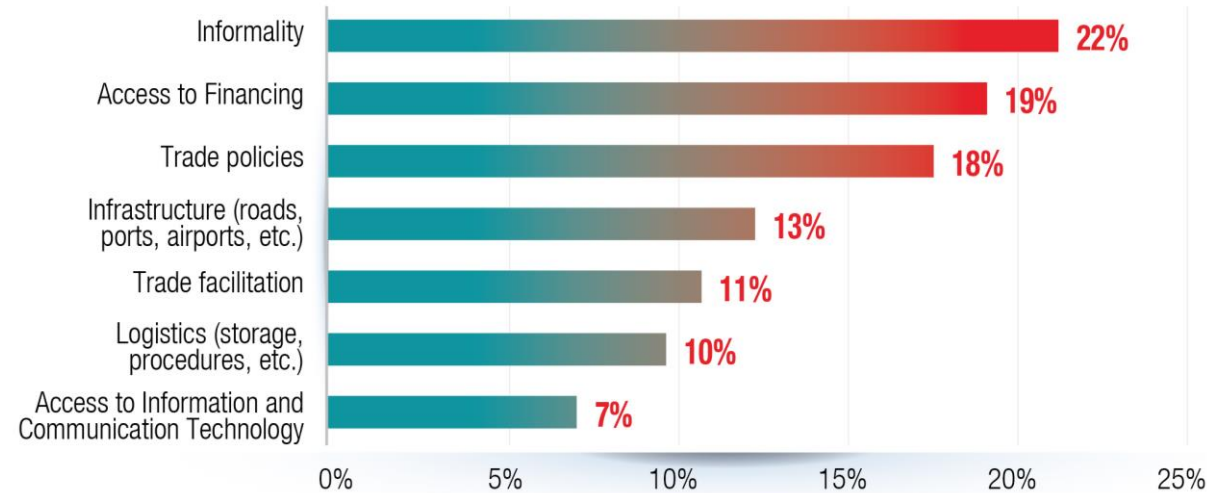
The digitalisation of government services has reduced the administrative burden on MSMEs

The legal framework on insolvency proceedings has also been strengthened.

Regulatory Impact Analysis (RIA) is recently becoming a standard in the earlier legislative process, including the aforementioned regulations affecting MSMEs.

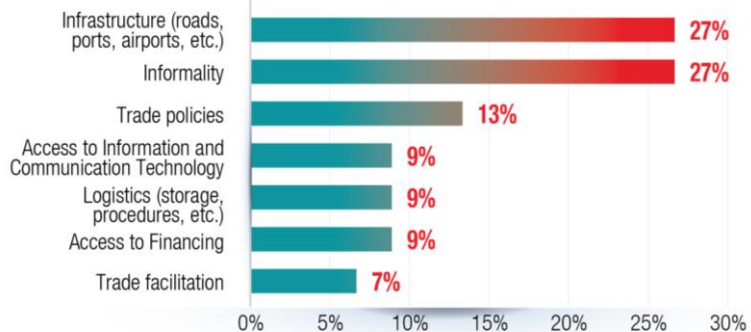
FINDING – ENTREPRENEURSHIP&EXTERNAL ENVIRONMENT

From the following factors indirectly related to your company, which can be considered 3 main obstacles to integration in international value chains?



From the following factors indirectly related to your company, which can be considered 3 main obstacles to integration in international value chains:

Tourism



From the following factors indirectly related to your company, which can be considered 3 main obstacles to integration in international value chains:

Processing Industry



From the following factors indirectly related to your company, which can be considered 3 main obstacles to integration in international value chains:

Agriculture



MAIN FINDINGS

Entrepreneurs perceive informality, access to finance and trade policies as the main obstacles to external factors that undermine their efforts for global expansion and integration to global value chains

- ❖ *In tourism, infrastructure is the main obstacle*
- ❖ *while for manufacturing, trade policy and informality are perceived at the same level*
- ❖ *Agriculture pays attention to informality as their main sector issue*

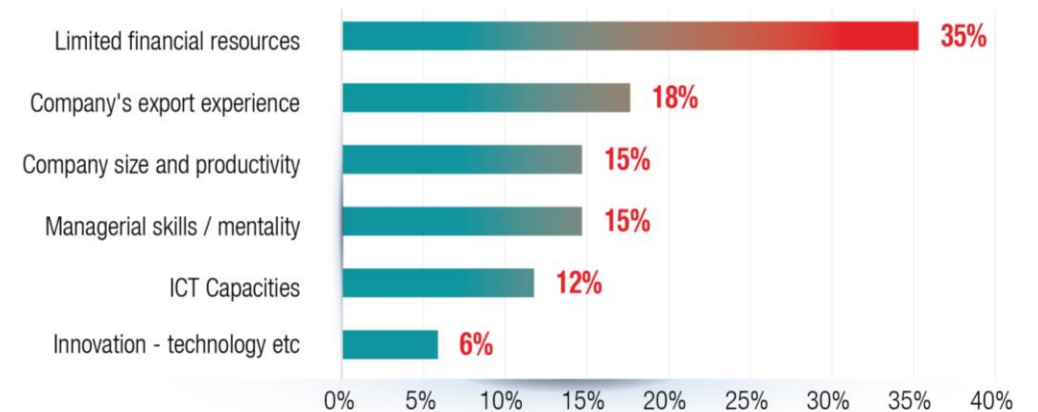
FINDINGS – KEY CHALLENGES TO EXPORT

From the following, which can be considered the 3 main obstacles in expanding the company's activities towards exports?



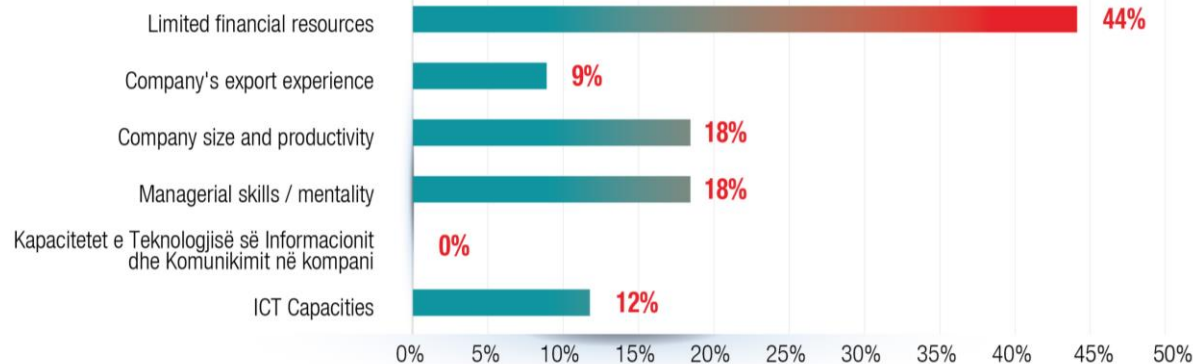
From the following, which can be considered the 3 main obstacles in expanding the company's activities towards exports?

Tourism



From the following, which can be considered the 3 main obstacles in expanding the company's activities towards exports?

Processing Industry [garments]



From the following, which can be considered the 3 main obstacles in expanding the company's activities towards exports?

Agriculture

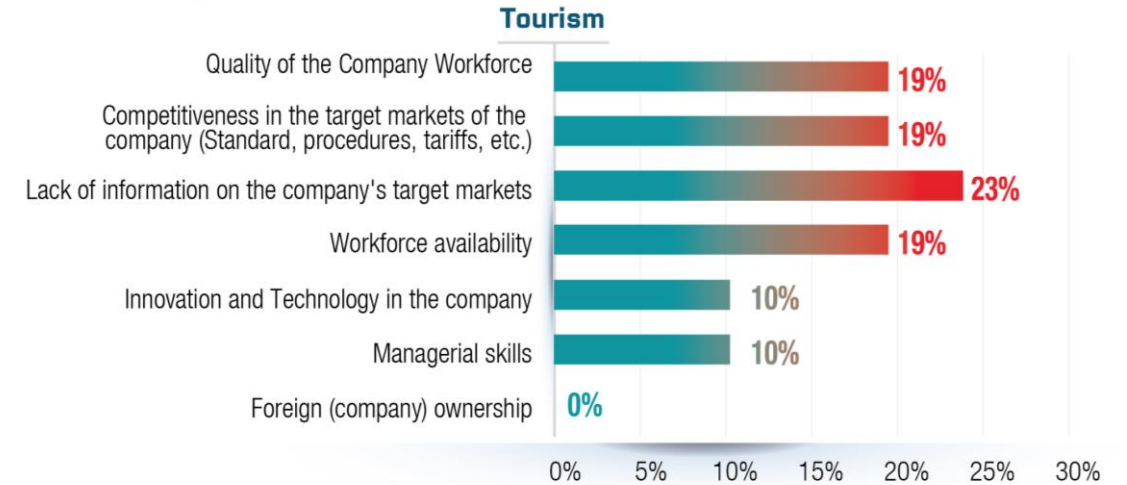


FINDING - MAIN OBSTACLES INTEGRATION IN GVC

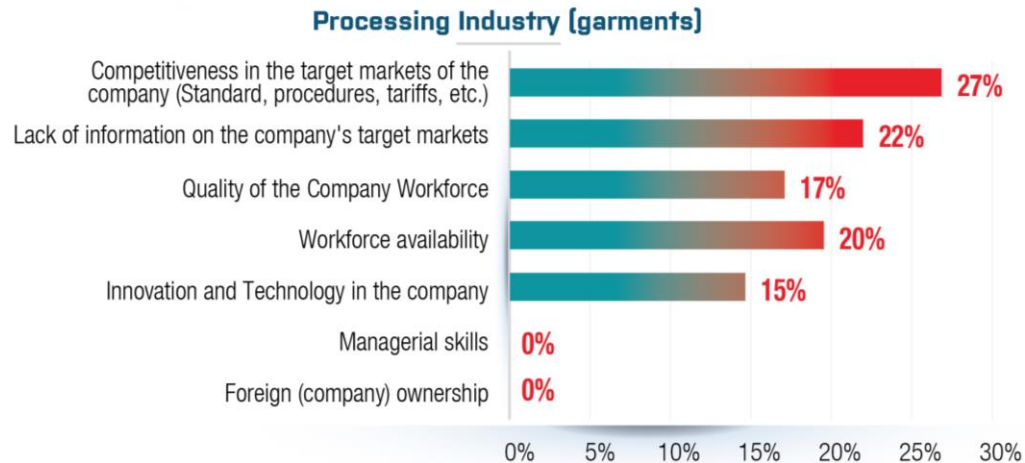
From the following factors directly related to your company, which can be considered 3 main obstacles to integration in international value chains?



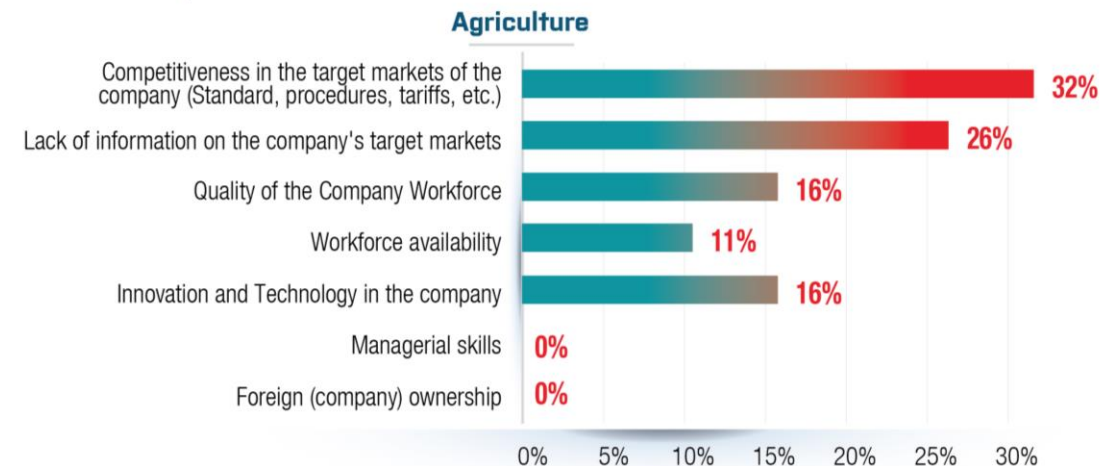
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Internal factors directly related to MSME

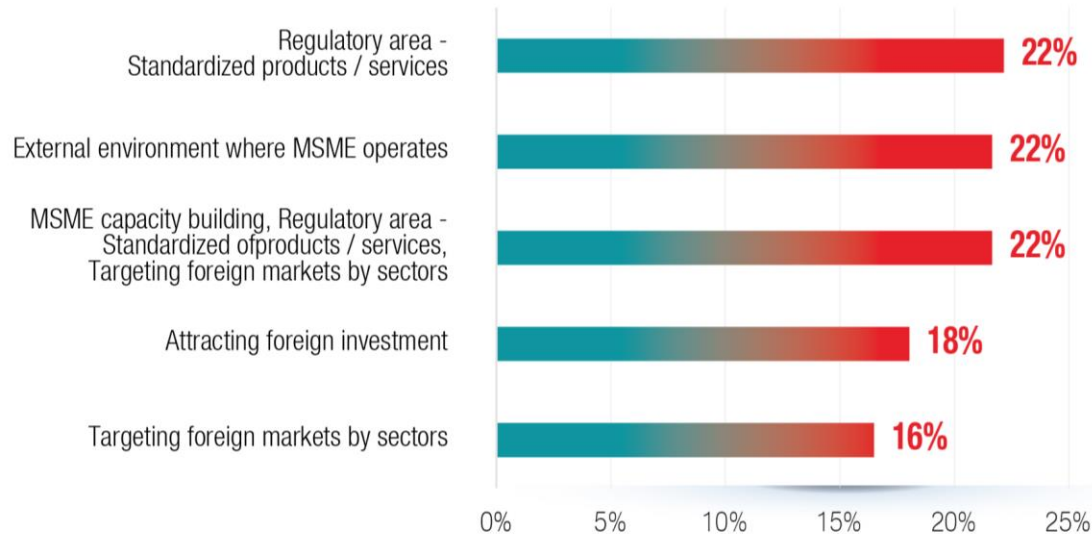
- *Limited financial resources and access to external sources of funding restrain MSME to go international*
- *Companies size and productivity levels limit Albanian MSMEs ability to compete in regional/European or other international markets:*
 - Consulted MSMEs do not consider Innovation and Technology among the three main obstacles to their internationalization process.
 - Albanian MSMEs are not fully benefiting from digital transformation processes that can foster the development of new and reliable technologies..
- Low export experience level is considered a significant barrier limiting most MSMEs' access to global markets and value chains
 - *Lack of information on targeted markets is considered the second major obstacle, most dominant in the manufacturing and agriculture sectors.*
 - *Lack of marketing role in MSME defines the absence of established relationships between potential customers in foreign markets and companies' products/services.*

Internal factors directly related to MSME

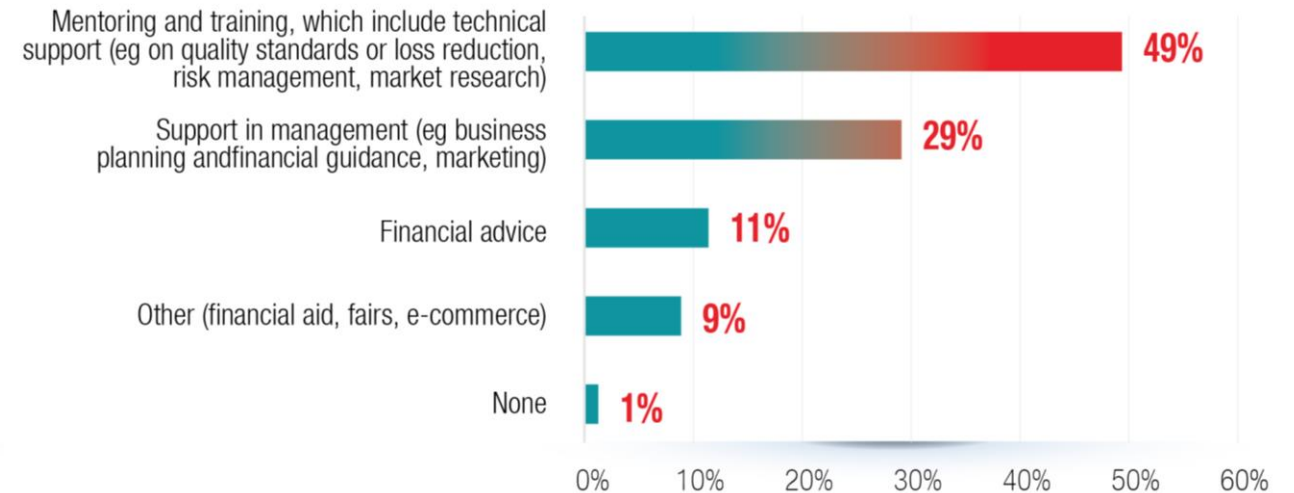
- *Low levels of certification and compliance with standards prevent MSMEs from exporting to markets with higher purchasing power (such as western EU countries)*
- *Insufficient managerial knowledge is not considered as one of the three main obstacles to the process of internationalization of micro, small and medium enterprises*
- *The quality and availability of the workforce limits the growth and expansion of companies*
- *Lack of timely harmonization between MSME needs for skilled workers and curricula.*
- *Training and upskilling is essential, most companies do not have a dedicated fund for this.*

FINDING – INTERNATIONALISATION AND SUPPORT

If you are in favor of integration, what are the 3 main pillars where the support from the Government in the country should be focused?



Which of the following elements do you need most support to help integrate your company into global markets?



RECOMMENDATIONS

The recommendations in this section cover only the challenges posed by companies related to the process of internationalisation and which have not been analysed so far in our IC Meetings.

The recommendations included herein should be seen in correlation with the recommendations provided by IC in “Investment Promotion in Agro-processing” and “Innovation in Entrepreneurship.”



RECOMMENDATIONS (ENTREPRENEURSHIP SKILLS AND LABOR FORCE)

Adaptation of qualification programs:

- Undertake an assessment aimed at verifying (a) exporting MSMEs and (b) MSMEs with potential and willingness to access foreign markets by priority sectors.
- On this basis to consolidate the national / sectoral database for better adaptation of training programs, focus export strategies, market information, partnership

Support for improving business processes and management culture:

- Accelerate institutional support in implementing programs to improve the business processes and management culture of MSMEs in internationalization training, through partnerships between government / KPA / industries / vocational schools / universities / donors.

RECOMMENDATIONS (ACCESS TO FINANCE)

Improving the database on MSMEs:

To add a new component to the platform managed by AIDA (aida-smefinance.gov.al) where to summarize a nationwide database on MSMEs receiving grants, related to a format of evaluation, scoring and indicators on their reliability as fund users.

Market research support for MSMEs

To facilitate decisions and reduce costs of entering foreign markets, through grants awarded or public tenders to support any stage of internationalization activity, for example as part of the competition fund already operating at AIDA, tied to a budget special dedicated to this initiative.



Networking support for internationalization:

Financing “Network Contracts for Internationalisation” models with the goals of establishing business networks in specific sectors (e.g. in garment military industry) through horizontal clusters and reaching the foreign market with a consolidated offer, e.g. through the implementation of integrated services for the development of internationalization activities of products and services, the increase of production standards and the sophistication of their offer towards higher value markets.

Establishing the Sectoral Export Portal in the frame of the upcoming Export Strategy.

Exposure of MSMEs to international markets:

Increase the participation of MSMEs versus corporations, in trade missions, business forums and other promotional events such as trade fairs (as clients and as participants) helping them to establish new business contacts, partnerships and penetration or entry in international supply chains.



Preliminary assessment of the impact of specific incentives:

Undertake a preliminary assessment on the impact of specific incentives offered to date in priority sectors such as tourism, IT, agro-processing. Assess the possible links between supply chain firms (MSME / Corporation / FDI) in certain sectors, consider a “holistic” approach to the policy and standards framework (macro level) with the aim of providing support functions that facilitate compliance financing (traceability) with international standards.

MSME Awareness on Energy Efficiency and Waste Management Options:

Establishment of a special advocacy instrument for MSMEs on energy efficiency and waste management options (focus on manufacturing industries, tourism sector, etc.). Focus on the unique commitment of EU policies but also of the Albanian government in the framework of the initiatives of the "green" agreements, the available donor instruments, as well as the unique Albanian potentials related to the "green" economy.

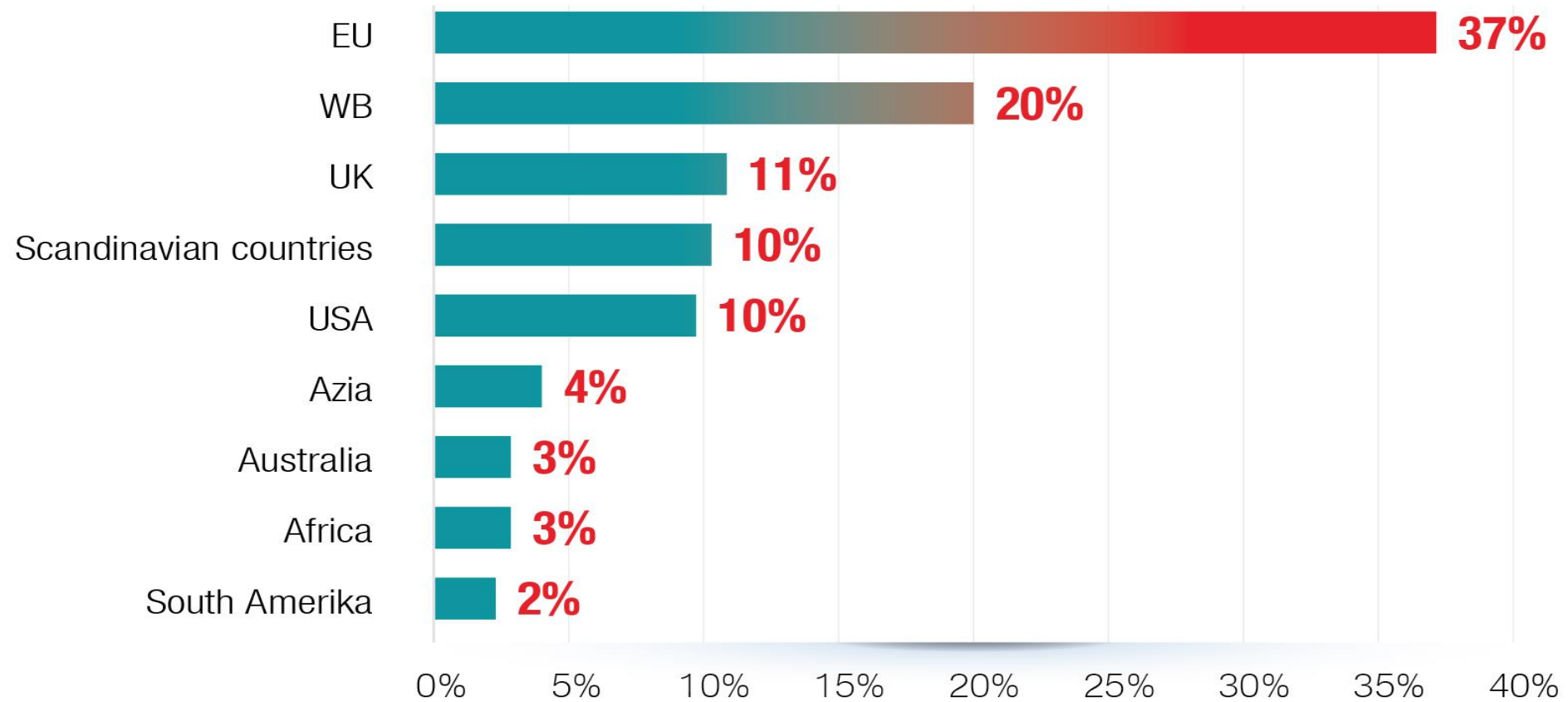
Promoting “responsible practices” of MSME business operations::

Establishing and promoting in a sustainable national format the evaluation of “responsible practices” of MSME business operations in the form of the “Best Practices” award, where the success of one company promotes a standard public example for other companies (e.g. annual price for businesses operating in accordance with environmental standards) to stimulate the transition from “directors” of companies to model “entrepreneurs”.



- **Structure of the economy** - *How ready are the Albanian MSMEs to integrate into the global value chain? What are the external and internal factors that condition export expansion and full integration into value chains?*
- **Entrepreneurship** - *Are the limited entrepreneurial and technological knowledge, the quantitative lack of labour force, the lack of qualitative skills, weak institutions, low levels of investment, the quality of infrastructure that condition the country's sub-potential in terms of integration into International value chains in sectors such as tourism, manufacturing, agriculture?*
- **Moment** - *Can Albania take advantage of the moment created by the COVID-19 pandemic and become a potential market for European companies that are already looking to bring closer their supply markets?*

**What can you consider as markets with
expansion potential for Albanian companies:**



THANK YOU!
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