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STUDY OF THE CHALLENGES THAT HINDER MSME DEVELOPMENT IN ALBANIA

**Report for the British Council
and Swedish Institute**



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CONTENTS

EXECUTIVE SUMMARY	9
POLITICAL AND GEOGRAPHICAL BACKGROUND	11
ECONOMIC BACKGROUND	13
Overall Economic Environment	13
Role of Micro, Small and Medium-Sized Enterprises (MSMEs)	16
Ease of Doing Business	17
EDUCATIONAL SYSTEM	19
INTERNATIONAL ACTORS AND SUPPORT	21
CURRENT GOVERNMENT POLICIES ON ENTREPRENEURSHIP	23
Government incentives to encourage entrepreneurship	23
BANKING SYSTEM AND ACCESS TO FINANCE	25
Alternative Finance Sources	26
LOCAL SUPPORT ORGANISATIONS	29
SURVEY RESULTS: THE ENTREPRENEUR PERSPECTIVE	33
Introduction	33
Profile of respondents.....	33
Business scope and operations	34
Working within a supply chain	35
Business trading models	35
Motivations for setting up a business	36
Perceptions of the business climate and business confidence	36
Levels of confidence	37
Advice and support	38
Future ambitions	39
Access to finance	40
REFERENCES	43
ANNEX I – ESTIMATION METHODOLOGY FOR EARLY STAGE LOAN DEMAND	47
Overview	47
Self-Employment	47
MSMEs	47
Year One Seed Capital	47
Year Two Calculation	48
Total First Two Year Finance Requirement vs Total MSME Lending By Country	48

LIST OF CHARTS

Chart 1. Albania's place in the Global Competitiveness Index	13
Chart 2. Ease of doing business in Albania.....	17
Chart 3. Businesses as part of supply chains	35
Chart 4. Perceptions of business climate.....	36
Chart 5. Levels of confidence in aspects of running a business	37
Chart 6. Sources of advice and support.....	38
Chart 7. Areas in which support is required.....	39
Chart 8. Ambitions and level of confidence	40
Chart 9. Access to funding	41
Chart 10. Awareness and use of forms of funding	41
Chart 11. Use of trade credit.....	42

LIST OF TABLES

Table 1. GDP growth rate	14
Table 2. Purchasing power adjusted current US\$ per capita income	14
Table 3. Percentage surplus or deficit on balance of payments	15
Table 4. Foreign direct investment in Albania (US\$ billions current prices).....	15
Table 5. Final consumption expenditure in Albania (constant 2010 US\$ billions).....	15
Table 6. Gross capital formation (constant 2010 US\$ million).....	16
Table 7. Business structure in Albania.....	16
Table 8. Distribution of business by sector	16
Table 9. Albanian progress in attaining education targets	19
Table 10. Structure of Albanian Banking Sector	25
Table 11. Albanian SME Finance indicators.....	25
Table 12. Age band and level of education, by self-description	33
Table 13. Level of education and self-description, by age band	33
Table 14. Opportunity-focused and household-focused businesses.....	34
Table 15. Business scope and field of operations.....	34
Table 16. Industry sectors of businesses	35
Table 17. Accepted forms of payment	35
Table 18. Motivation for starting a business	36
Table 19. Reasons for choosing a sector and/or business.....	36
Table 20. Barriers to doing business	37
Table 21. Most trusted advisers.....	38
Table 22. Type of support required.....	39
Table 23. Future ambitions	39
Table 24. Key drivers of growth.....	40

EXECUTIVE SUMMARY

The modern state of the Republic of Albania (referred to as Albania in this report) emerged in 1921, following the defeat of the Ottomans in the Balkan Wars. It is situated in South-Eastern Europe, in the western part of the Balkan Peninsula. It is bordered by Kosovo to the northeast, Montenegro to the northwest, the FYR Macedonia to the east, and Greece to the south and southeast. It has a coast on the Adriatic Sea to the west and the Ionian Sea to the southwest. Albania has a total area of 28,748 square kilometres and some 360 kilometres of coastline.

According to the National Statistical Institute, the population of Albania, in 2017 was just under 3 million, split 53.5% and 46.5% between urban and rural areas. Albania is accessible by several seaports, located on the eastern side of the Adriatic and Ionian Sea. Albania is a mere 100 kilometres from Italy across the Adriatic. Unsurprisingly, the most commonly spoken foreign languages in the country are English and Italian.

In June 2014, the European Council granted Albania candidate status. The Stabilisation and Association Agreement (SAA) has been in force since 2009 and Albania has implemented smoothly its obligations. During this period, Albania has continued to have a constructive and proactive role in regional cooperation and maintains good neighbourly relations in line with its commitments under the Stabilisation and Association Agreement. Along with Croatia, Albania joined the North Atlantic Treaty Organization (NATO) on 1 April 2009.

In the European Union's 2016, Communication on EU Enlargement Policy, with regards the economic criteria, Albania is moderately prepared in developing a functioning market economy. Some progress was made in improving the budget balance, fighting informality and reforming the electricity sector. Economic growth accelerated and the labour market situation improved, but unemployment is still high.

In the early 2000s, Albania was one of the fastest-growing economies in Europe. At times, annual real growth rates of 5% to 6% were driven by remittances from migrant workers abroad and SME turnover grew at double-digit annual rates. This rate of expansion was interrupted by the global economic crisis of 2008–2010; and, between 2009 and 2011, both GDP and SME turnover growth rates halved. The country's growth further suffered from the Euro-zone crisis, in particular in neighbouring Italy and Greece, and reached its lowest rate of 1.0% in 2014. Since 2013, it has steadily recovered but not yet returned to 'pre-crisis' levels of growth. However, Albania is currently the third biggest economy in the Western Balkans, behind Serbia and Bosnia and Herzegovina, with enjoys the lowest unemployment rate in the region.

Public debt remains high and is yet to start falling, while the recurrent under execution of government spending on investments persists. The financial sector is stable. However, the banking sector is still burdened with non-performing loans and credit is growing slowly. Business-relevant regulations are cumbersome and shortcomings in the rule of law continue to deter investments.

We undertook a survey of aspiring entrepreneurs across Albania. The sample was largely self-selected based on previous telephone surveys where respondents had expressed an interest in entrepreneurship, plus a review of the commercial register and referrals from respondents. The age distribution of aspiring entrepreneurs was under represented in younger age groups but higher in the 25–34 year old group compared with the population.

Entrepreneurship aspirations are positive. There are very few problems with structural issues such as ease of forming a company. According to the World Bank's Doing Business Report (2018), Albania was ranked 65th globally for ease of doing business, a decline on its previous ranking of 58th.

Results from our survey, indicate five key issues stand out:

1. Access to finance is very challenging and acts as a significant barrier to both innovation and entrepreneurship. There is a particular need for access to affordable seed capital. However, awareness of any form of finance other than bank loans is quite low.
2. Connection to markets outside Albania and the Western Balkans region is challenging for new entrepreneurs.

3. There is a considerable amount of energy and effort already being injected; and entrepreneurs are ambitious and confident. There is significant scope for improving the skills of entrepreneurial teams and our entrepreneurs are willing to learn from a wide network of experts.
4. The trading channels and payment methods accepted suggest our entrepreneurs are using basic business models, almost entirely face-to-face and strongly cash-based.
5. Three quarters of all businesses in the survey supplied larger organisations, which may be accounted by the very large public-sector base.

Following President Juncker's 2017 State of the Union address, the European Commission created a set of flagship initiatives and support (the Western Balkans Strategy) targeting specific areas of interest for both the EU and the Western Balkans countries, which were launched in Tirana, Albania on Sunday 25 February. President Juncker met with Mr Edi Rama, Prime Minister of Albania and participated at an official dinner reception hosted by Mr Rama.

POLITICAL AND GEOGRAPHICAL BACKGROUND

Albania is the only country in the geographical region of the Western Balkans that is not a former member of Yugoslavia. It is in the southwestern portion of the Balkan Peninsula, bordered by Montenegro to the northwest, Kosovo to the northeast, the Republic of Macedonia to the east, and Greece to the south and southeast.

Albania has a population of 2,867,591 (by way of context, this is slightly larger than Manchester, UK, and slightly smaller than Lisbon, Portugal) and its capital is Tirana (population 862,361). Its currency is the Albanian Lek; current conversion rate (February 2018) is approximately ALL 108: US\$ 1.

Since the revolution in 1989, Albania has slowly made the transition into being a market economy. After years of turmoil, in 2013 the Socialist Party has worked to reform and modernize the Albanian economy and has made some headway and the country is the most politically stable it has been for a long time – though still has some way to go. The Albanian government, which took office in September 2013 and was re-elected in June 2017, has put the country on a firm path of comprehensive reforms and towards preparing for EU accession. Justice reform, public administration reform, investments in the infrastructure and education, and generally improving the climate for local businesses and foreign investors are high on the government's agenda.

Albania first applied for EU membership in 2009 and was granted candidate status in 2014. Germany has recently announced their endorsement of Albania, having previously stated that they would veto talks starting the negotiations for Albania ascension into the EU, citing concerns about public administration and corruption (World Bank, 2017; Heritage Foundation, 2017).

The EU has launched a number of policies and initiatives that aim to bring the Western Balkans in line with these standards of entry. Albania has made progress against these criteria, though it is not yet at the required levels of entry. The European Commission: 2016 Communication on EU Enlargement Policy 2016 identified the key improvements necessary; these include development of the transport and energy networks, improved governance and transparency of the government and public administrative and finance infrastructure. With the launch of the latest EU Enlargement Strategy in February 2018, it was announced that Albania is still making significant progress and the Commission is ready to prepare recommendations to open accession negotiations if conditions of entry are fulfilled.

ECONOMIC BACKGROUND

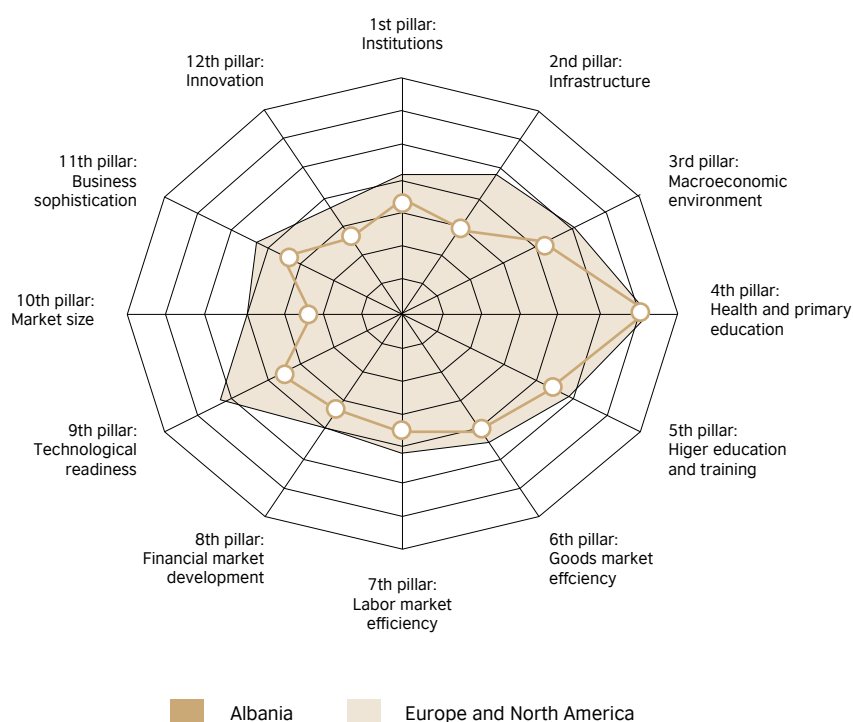
Overall Economic Environment

In the early 2000s, Albania was one of the fastest-growing economies in Europe, enjoying annual real growth rates of 5% to 6%, primarily driven by soaring remittances from migrant workers abroad that fuelled economic growth. SME turnover was growing at double-digit annual rates (World Bank, 2017b).

The rate of expansion was interrupted by the global economic crisis of 2008–2010; and, between 2009 and 2011, both GDP and SME turnover growth rates halved. The country's growth further suffered from the Euro-zone crisis, in particular in neighbouring Italy and Greece, and reached its lowest rate of 1.0% in 2014. (World Bank, 2017b; ILO, 2017) Since 2013, it has steadily recovered but not yet returned to 'pre-crisis' levels of growth. Albania's economy has also undergone a large structural change over the past few years, with urbanization moving the economy generally away from agriculture and towards industry and services although (in 2014) it is still a major contributor to the economy (23% of GVA in 2014) and the principal source of employment. Another industry in decline is Construction; this has shrunk in overall importance but still remains a key industry for Albania (contributing around 10.6% of GVA in 2014). Trade, on the other hand is a fast-growing sector (EIB, 2016).

Albania was ranked 75th in the World Economic Forum's Global Competitiveness Index, one of the more authoritative measures of comparative standing used by governments to gauge their position globally. It has remained at around that level over recent years. **Chart 1** shows Albania's performance against the various criteria used to define competitiveness and its relative position in the western world (Europe and North America) (World Economic Forum, 2017).

Chart 1. Albania's place in the Global Competitiveness Index



Albania presently has a GDP of US\$ 13.5 billion (constant 2010 value) and is the third biggest economy in the Western Balkans, behind Serbia and Bosnia and Herzegovina (**Table 1**). It is also the second fastest growing country in the Western Balkans, just behind Kosovo (which is starting from a much lower base) (World Bank, 2017b).

It is predicted that GDP growth will continue to grow, by 3.6% in 2017 (World Bank, 2017)

Table 1. GDP growth rate

2008	2009	2010	2011	2012	2013	2014	2015	2016
3.8	3.4	3.7	2.6	1.4	1.0	1.8	2.2	3.4

Source: World Bank (2017b)

Albania enjoys some of the lowest unemployment rates (17.1%) in the Western Balkans region (ILO, 2017a). The population has been declining over the years and the workforce is relatively young – 15-24 year olds accounted for 26.4% of the population in 2015. However, the unemployment is skewed toward this younger age group: the number of young people aged 15-24 who are unemployed, remains very high (39.8% in 2015, compared to 22.7% in 2011), demonstrating the existence of skills imbalances and serious problems with young graduates finding jobs. (ILO, 2017a)

Estimates suggest that about one quarter of the working-age population continue to migrate for work to EU or other countries, mostly on a temporary basis. (ETF, 2017)

There is also a sizeable gender gap: the employment rate (2016) for women was 50% compared to 62% for men. 40.2% of Albania's workforce are employed in agriculture (INSTAT), with the majority being women. Employment in agriculture has declined in recent years, but stays relatively high compared to other countries in the region. (ETF, 2017)

The size of the informal economy in Albania is significant, with estimates placing it at around 35% (Kaberis and Koutsouris, 2014). Ongoing efforts by the government and its labour inspectorate try to address the problem of high informal employment, much of which is in the agricultural sector. Some success has been seen: in 2015 the share of informal employment in the non-agricultural sector was 34.1%, down by 5.3% compared to 2014. (ETF, 2017). Initiatives centring on the tax structure have also been introduced: recently (January 2018) it was announced that VAT eligibility will be extended to small businesses as an attempt to curb the informal economy; not surprisingly the move is regarded as counter-productive, with the impact of raised administrative costs more detrimental than the intended benefit of removing cash-only transactions and under-reporting. 91,000 businesses will be brought into the VAT zone.

Theories as to why this 'shadow economy' should be so high have been put forward (Muceku and Muça, 2014; Kaberis and Koutsouris, 2014):

- A reaction against the number of bureaucratic procedures and processes which get in the way of setting up, and running a business;
- Lack of trust in public institutions / state corruption;
- Restricted (limited) access in the formal property system;
- A lack of respect for the 'system' and increased tendency to avoid taxes and dues.

As at end 2016 GDP per capita, adjusted for purchasing power parity, stood at US\$ 11,866 (at constant 2011 value). Despite the economic crises described above, this metric has consistently increased year on year since 2008 (World Bank 2017a).

Adjusted US\$ per capita is shown in **Table 2**.

Table 2. Purchasing power adjusted current US\$ per capita income

2008	2009	2010	2011	2012	2013	2014	2015	2016	9 Yr Growth	4 Yr Growth
8,228	8,824	9,647	10,208	10,526	10,581	11,333	11,449	11,866	44.2%	12.1%

Source: World Bank (2017a)

In 2016, Albania exported US\$ 1,962 million of goods (53% manufactured goods, 27% fuels and other mining products; 10% agricultural products). The single biggest exports are plants (US\$ 30 million) closely followed by tomatoes (US\$ 26 million) (IMF 2017).

Imports in 2016 totalled US\$ 4,669 million (59% manufactured goods), mainly from the EU (63% of all imports) (IMF 2017; KPMG, 2017).

The European Union is Albania's most important trading partner, receiving 78% of all exports and there has been an increased level of engagement with EU markets to build further connections: for example, the political and economic importance of Germany as a trading partner and political advocate has been recognised as a priority: Germany is Albania's 4th biggest trading partner, Albania-Germany trade exchange accounted for 6.4% of Albania's total trade (ALL 61.5 billion export plus import value) in 2017. Furthermore, Germany supported Albania with €100 mill fund for development during 2016-2017 period (WTO, 2017b).

Not surprisingly, the importance of improving the country's transport infrastructure to facilitate import/export haulage is recognised to improve cross border trade. The latest announcement (February 2018) by the Ministry of Infrastructure and Energy of the planned Arbri Road construction - a key transportation route – is evidence of the government's commitment in this direction¹.

Table 3 shows that the current account of the balance of payments widened to a six-year high in 2016. Latest figures suggest that the trade deficit continued to grow in 2017. In December 2017, it stood at EUR 194 million, the largest trade gap since 2008, driven by imports of mineral fuels, lubricants and related goods, metals and leather goods.

Table 3. Percentage surplus or deficit on balance of payments

2008	2009	2010	2011	2012	2013	2014	2015	2016
-15.8	-15.9	-11.3	-13.2	-10.1	-9.3	-10.8	-8.6	-7.6

Total inward investment into Albania from other countries was 6,465 million US\$ in 2016. Albania is in 2nd place in the Western Balkans in terms of total foreign direct investment, behind Serbia.

The top 5 countries investing into Albania are Italy (US\$ 3,665 million), Greece (US\$ 878 million), Canada (US\$ 536 million), Turkey (US\$ 494 million) and Austria (US\$ 470 million) (IMF 2017).

Outward investment from Albania in 2016 totalled US\$ 407 million – and most of this (US\$ 296 million) was invested into Kosovo (IMF 2017b). **Table 4** shows flows of foreign direct investment, which have remained relatively constant year-on-year. Consumption has remained remarkably stable over the past eight years, currently standing at US\$ 11.4 billion (at constant 2010 value) (**Table 5**).

Table 4. Foreign direct investment in Albania (US\$ billions current prices)

2009	2010	2011	2012	2013	2014	2015	2016
2.1	5.1	2.3	2.4	3.1	6.4	6.7	6.5

Note: Figures show outward counterpart country investment
Source: IMF (2017)

Table 5. Final consumption expenditure in Albania (constant 2010 US\$ billions)

2009	2010	2011	2012	2013	2014	2015	2016
11	10.8	11	10.9	11	11.6	11.4	11.4

Source: World Bank (2017a)

In 2016, gross domestic capital formation was US\$ 3.64 billion (at 2010 value); rising from its low point in 2014 (**Table 6**). This is a constantly rising indicator of growth in an economy with relatively low exports. Albania is positioned in third place, behind Serbia and Bosnia and Herzegovina in terms of value.

¹ The road project is estimated to cost at least €240 million and the government will liquidate its debts to the construction firm within 13 years. Arbri Road is one of Albania's most important road infrastructure investments, due to the fact that the road connects Tirana with Dibra (bordering city in Macedonia) and significantly reduces the distance between the two countries.

Table 6. Gross capital formation (constant 2010 US\$ million)

2008	2009	2010	2011	2012	2013	2014	2015	2016
3,911	3,949	3,615	3,830	3,529	3,459	3,302	3,435	3,640

Source: World Bank (2017b)

Role of Micro, Small and Medium-Sized Enterprises (MSMEs)

There are 104,534 structured businesses in Albania of which 99.9% are SMEs, 94.8% being micro businesses. After three years of very little growth in number of businesses, 2015 saw a surge of almost 20,000 micro businesses. The (formal) workforce comprised 443,555 as at end 2015 (latest available figures) (INSTAT, 2015).

It is important to note that official statistics in Albania do not include the Agricultural sector: these fall outside the definition of structured enterprises and there is no official data available on the number of enterprises in this sector – which is, of course, an important part of the economy. There are, 350,000 farms in Albania, most of which start and remain small, with an average landholding of 1.2 ha (10 times less than the EU average).

The European Commission's SBA fact sheet (2016) showed that SMEs account for just over two thirds of the economy and around 80% of all jobs and is shown in **Table 7** below.

Table 7. Business structure in Albania

Number of enterprises by size	2011	2012	2013	2014	2015	%
Micro (1 – 9 employees)	76,344	79,807	80,727	80,365	99,143	94.8
Small (10-49 employees)	3,002	3,105	3,230	3,977	4,360	4.2
Medium (50-249 employees)	531	580	721	733	892	0.9%
Total SMEs	79,877	83,491	84,678	85,075	104,395	99.9
Large companies (250+ employees)	92	100	112	130	139	0.1
Total	79,969	83,591	84,790	85,206	104,534	100

Source: INSTAT (2016)

The economy is very service driven: 87% of all enterprises work in (primarily) business related activities as shown in **Table 8** below

Table 8. Distribution of business by sector

Number of enterprises by Sector	2011	2012	2013	2014	2015
Total	79,969	83,591	84,790	85,206	104,534
Total Manufacturing/production	13,055	12,116	12,480	11,660	13,269
Extracting industry	461	513	528	619	626
Manufacturing industry	8,328	7,731	7,912	7,015	8,137
Elec., water, gas, water and waste treatment	441	409	542	531	679
Construction	3,825	3,462	3,497	3,495	3,827
Total services	66,913	71,475	72,310	73,546	91,265
Business	34,724	36,918	36,674	36,357	45,093
Accommodation and food service	12,773	13,678	13,784	14,637	18,586
Transport, information and communication	8,671	8,255	8,492	8,176	7,365
Other service	10,745	12,625	13,360	14,377	20,221

Source: INSTAT (2016)

Ease of Doing Business

In the 2018 Doing Business Report, Albania was ranked 65th globally for ease of doing business, a decline on its previous ranking of 58th (World Bank, 2018). A number of metrics are used to generate these rankings, including starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Albania's rankings for each of these is shown in Chart 2.

Chart 2. Ease of doing business in Albania



Source: World Bank (2018)

The country performs particularly well on the dimensions of: ease of starting a business (45th), the number of days taken to register and paid in minimal capital (there is no minimum capital required to form a business) being particularly favourable. Other key strengths include: getting credit (42nd), trading across borders (24th) and resolving insolvency (41st).

The Global Entrepreneurship Index 2018 (GEDI) provides another comparative measure based on different components of entrepreneurship. This positions Albania 83rd (out of 137 countries), its strongest area being Start-Up skills (*does the population have the skills necessary to start a business based on their own perceptions and availability of tertiary education?*) its weakest area being risk acceptance (*are individuals willing to take the risk of starting a business? Is the environment relatively low risk or do unstable institutions add additional risk to starting a business?*) (GEDI, 2018).

Conversely, the World Economic Forum's Executive Opinion Survey (WEF, 2017) identified the key barriers to doing business in Albania as high taxes, corruption, followed by access to finance and tax regulations.

EDUCATIONAL SYSTEM

Albania's education system is slowly making progress toward the EU education targets as set out in the OECD PISA tests but as **Table 9** shows the progress towards achieving the 2020 EU targets for skills and educational attainment. It also shows that there is still a long way to go, particularly with basic reading and mathematical skills.

There is a significant skills gap in Albania, which is recognised by businesses as a serious obstacle to their ability to effectively do business; the International Labour Organization highlighted the problem in a review as far back as 2014: *"The Business Environment and Enterprise Performance (BEEPS) indicates more than half of the companies reporting that lack of skilled labour force is an obstacle in doing business. Further, the Investment Climate Survey (ICS) has come to the conclusion that 51 % of the big companies, 41% of the exporters and 48% of the foreign companies consider the lack of skills as the main hindrance in their activity, whereas over 35% of the companies that have adopted new technologies mention that training of the labour force is a serious restriction in using them."* (ILO, 2014).

The IMF has recently reinforced the negative impact of the skills shortage, due to poor education standards and a brain drain of talent, on the country's economy – creating a bottleneck to raising productivity and growth. They note that *'the percentage of the labour force with only a primary school education is higher in Albania than in any other country in the CESEE. The shortage of skilled labour has also been exacerbated by the emigration of younger and relatively more educated people'* (IMF, 2017).

Table 9. Albanian progress in attaining education targets

	Albania		EU		EU2020 targets	
	2010	2015	2010	2015		
Early leavers from education and training (% aged 18-24)	31.9	21.3	13.9	11	<10	
Tertiary education attainment (% aged 30-34)	11.5	22.1	33.8	38.7	>40	
Employment rate (% aged 20-64)	60.3	59.3	68.6	70.1	>75	
Participation in training (% aged 25-64)	2.1	1.0	9.1	10.7	<15	
Underachievement (% aged 15)	Reading	56.7	50.3	19.7	17.8	<15
	Mathematics	67.7	53.3	22.3	22.1	<15
	Science	57.3	41.7	17.8	16.6	<15
Employment rate of recent graduates (% aged 20-24)	m	m	77.4	76.9	>82	

Source: ETF (2018)

The IMF has recently reinforced the negative impact of the skills shortage, due to poor education standards and a brain drain of talent, on the country's economy – creating a bottleneck to raising productivity and growth. They note that *'the percentage of the labour force with only a primary school education is higher in Albania than in any other country in the CESEE. The shortage of skilled labour has also been exacerbated by the emigration of younger and relatively more educated people'* (IMF, 2017).

The OECD concluded that there is not yet a system-wide approach regarding entrepreneurial learning and business education is not an integral part of the national curriculum, though efforts are being made in this regard. Fostering links and dialogues between academia and business is an essential part of this process but so far, little progress has been made on an effective scale; individual programmes and projects have not been rolled out as best practice nationally *"There are examples of co-operation between universities and business, including student work placements that can be organised during or after studies. However, the recently revised policy and legal frameworks for higher education provide little evidence that much emphasis was placed on structured entrepreneurial learning and university business partnerships. Work placements during university studies and research need to be further enhanced, and co-operation with SMEs should be strengthened and further developed"* (OECD, 2016).

Government initiatives have been put in place to address this problem, based on VET (vocational education) programmes, and these have been slow to make traction in the country; under the auspices of the Ministry of Social Welfare and Youth (MoSWY). Enrolments in VET programmes at upper secondary

level grew from 17% in 2014 to just over 20% in 2015 and 2016, lower than in other Western Balkan countries. Awareness that the qualification helps to secure jobs has helped to improve take-up (ETF, 2017).

In May 2017, The Ministry of Social Welfare and Youth (MoSWY) published the 2016 Annual Progress Report against the objectives, targets and measures of the National Employment and Skills Strategy (NESS 2020), which showed that 48 of the 52 measures within the four strategic priority areas have been initiated. (The 4 actions not initiated related to the extension of employment services to rural areas, inclusion of persons with disabilities in rural areas and mechanisms for sectoral skills forecasting.) Major progress has been made in modernising the employment service and measures to get unemployed jobseekers into jobs. In contrast, progress in VET in line with the NESS 2020 measures was partly hampered by a lack of resource, strategic oversight and guidance on the part of the MoSWY.

The ETF stated in 2017 that it is satisfied with the infrastructure and progress made by Albania in terms of implementing VET *“and will continue to play a role in providing inputs and monitoring overall reform processes towards creating a modern VET system in Albania, facilitating mutual learning processes with local stakeholders and donors, and identifying challenges, next steps and suitable approaches together.”* (ETF, 2017)

Within this context of slow VET progress to date, it is not surprising that Albania has performed poorly with regard to nurturing innovation, even though a number of private enterprise organisations, networks and funders exist in the country to support entrepreneurial start up activity in this space (EIB, 2016).

However, The Ministry of Social Welfare and Youth (MoSWY) was dissolved in September 2017. The Departments' of Labour and Social Affairs was merged with the Ministry of Health and Social Protection. While the Youth Department joined the Ministry of Education, Sports and Youth. The newly established Ministry of Finance and Economy, has taken on the responsibility of VET programmes, which will hopefully lead to a greater focus on the implementation of the National Employment and Skills Strategy.

Some examples of individual initiatives include:

- Albania's Business Generation: <https://abg.org.al/>
An organization started by four students on March 2016 to empower entrepreneurship within Albanian youth. Activities have included intensive boot camps for students (to take their business ideas from zero to hero) with the objective educating Albanian youth on the subject of entrepreneurship and new ventures and shift their perceptions of starting their own businesses. To date, 106 students have participated in their programs.
- Young Entrepreneurs Albania, YEA!: <https://yea.al/blog/>
Set up in 2016, this educates entrepreneurship and develops entrepreneurial attitudes by empowering youth in schools and social organizations. YEA! offers unique, high quality training and the ability to practice the skills acquired, facilitated by partnership with the business community, social organizations, the academic community and the government.

INTERNATIONAL ACTORS AND SUPPORT

Key external key actors include: -

European Union: through accession preparations.

The Swiss Agency for Development and Cooperation: implements the Federal Council's foreign policy on humanitarian aid, development cooperation and cooperation with Eastern Europe. Switzerland's international cooperation for the 2017–20 period pursues seven strategic goals which are designed to meet foreign policy challenges and build on Switzerland's unique expertise.

Switzerland's cooperation with Eastern Europe in general, and Albania in particular, contributes to building democracy and social market economies. Cooperation with Albania currently involves 24 projects to promote the rule of law, democracy and the social market economy, and strengthen civil society. In this way, Switzerland contributes to stability in a politically volatile region and provides Albanian people there with better prospects. Six of the enterprise related projects include: -

- Skills Development for Employment Program: <http://bit.ly/2FKN5MI>
- Skills for Jobs: <http://bit.ly/2oBFNUi>
- Multi-Country Investment Climate Program: <http://bit.ly/2FMYCvn>
- Swiss Entrepreneurship Program: <http://bit.ly/2oz2LeO>
- Regional Development Program: <http://bit.ly/2F6KZFS>
- Making Labour Markets Work for Young People: <http://bit.ly/2CQPbla>

The World Bank: through dedicated projects.

The European Bank for Reconstruction and Development: The European Bank for Reconstruction and Development's activity in Albania, focuses mainly on supporting the country's integration into global markets through the offering of financing for SMEs, financial support for relevant projects (such as infrastructure construction) and the provision of business advice and support. To date, the EBRD has started 79 projects in Albania, with €994 million invested into the country (a current portfolio of €426 million, 40% of which is in infrastructure and 36% in Energy).

The IMF: remains focused on trying to reform the Albanian economy into being more open to outside investment and globally integrated, providing mainly advice and support to the government.

USAID: has invested large amounts into Albania in order to help the country's transition from communism. Investment has largely been into the financial sector and into the government, in an attempt to improve the rule of law and the abilities of local governments.

UNDP Albania: through specific programmes which support their agenda.

- Self-Employment Program: launched In March 2016, this targeted youths between 18-30 with business ideas: 440 young people from across the country applied to join and 75 were selected to take part in the program; 37 completed it.
- Specific support for young disadvantaged women and men to gain access to the labour market. With funding from the Swiss Government, UNDP is working with the Government of Albania to build a labour-market focused skills development system that is suited to enhance the employment and entrepreneurship aspects of the unemployed in urban and rural areas.

UN Women Program: a specific program ongoing since 2012: Women Economic Empowerment Programme supports national gender equality priorities outlined in the National Strategy and Action Plan on Gender Equality 2016-2020, in National Strategy for Development and Integration (NSDI) 2014-2020, the Business and Investment Strategy (2014-2020) and the ground-breaking National Action Plan for Women's Entrepreneurship (2014-2020), which was developed with the contribution of UN Women. Women Economic Empowerment in Albania aims to increase and empower women in the workplace and improve the regulatory framework for women².

² More information on the project can be found here: <http://eca.unwomen.org/en/what-we-do/economic-empowerment>

CURRENT GOVERNMENT POLICIES ON ENTREPRENEURSHIP

Following its victory in the June 2017 elections, one of the first tasks of the new government was to dismantle the old Ministry of Economic Development, Tourism, Trade and Enterprise (in September 2017) and part-replace it with a re-focused State Minister of Entrepreneurship Protection, Sonila Qato. This move was one of the main pre-election demands of business and Qato will be tasked with assisting and protecting private enterprises operating in Albania. This move was an urgent reform to demonstrate commitment to alignment with EU strategy.

These government efforts have been acknowledged by the EU, which is helping Albania implement the National Employment and Skills Strategy with a further EUR 27 million level of support, rewarding good performance and in implementing reform.

The new Minister has developed an extremely high profile in the short life of the Ministry to date, with Trade delegations, within the business community and with strategy implementation: after 100 days a new set of proposals tackling taxation, customs, licences and permits has been tabled and as, outlined in an interview in January 2018 a clear mandate has been announced, which includes further rationalising government structures by incorporating the National Economic Council into the Ministry and the introduction of a new mediation structure for dispute resolution.

My role as a government ombudsman will result in the direct solution of complaints by entrepreneurs. Above all, my office will work for the removal of those administrative and corruptive barriers for which the government has already launched a deep reform of deregulation; we also plan on restructuring the inspectorates and government agencies that co-operate with enterprises. (Sonila Qato, 2018)

Other priorities for the new Ministry include:

- Improving business conditions in the country; creating enough space for a competitive economy without barriers and bureaucratic delays, positive fiscal policies that have an impact on the growth of the country's economy, by providing security to any foreign or domestic investor who wants to invest or re-invest their capitals in our country.
- Taking measures to unblock any constraints on inward investment.

Government incentives to encourage entrepreneurship

A number of incentives have historically been provided by the government to Business Start-Ups and foreign investors in Albania:

- No prior government authorisation is needed and no sector is closed to foreign investment.
- There is no limitation on the percentage share of foreign participation in a company – 100% foreign ownership is possible.
- Foreign investors have the right to expatriate all funds and contributions in kind of their investment.
- Albania's tax system does not distinguish between foreign and domestic investors
- Imported goods in Technical and Economic Development Areas (TEDAs) are exempted from import duties and VAT.
- Albanian goods that enter TEDAs are VAT exempted.
- Goods can be transported from one TEDA to another without paying import duties or VAT.
- Capital expenses are 20% deductible for a period of two years if developers and users invest in TEDA within three years of its operation.
- Developers and users are also exempted from 50% of the profit tax rate (currently at a rate of 15%) for a period of five years. A developer's project is exempted from infrastructure taxes.
- Buildings in TEDAs are exempted from real estate taxes for a period of five years. • Buildings transferred to a TEDA are not subject to the transfer tax on real estate.
- Wages and social costs are 150% deductible for the first year and new expenses for wages and social costs compared to the previous year are 150% deductible for the subsequent years.
- Training costs are 200% deductible for a period of ten years.
- Research and Development costs are 200% deductible for a period of ten years."

Source: PWC (2012); KPMG (2017)

Government funding is currently available for specific market sectors e.g.

- In the fishing industry, 50% loan subsidies for construction of jetties, boats and refrigeration with a EURO 20 million fund (from the Rural and Development Agency)
- Tourism industry: 60-80% funding of approved expenditure over the 2017-2019 to support established micro/small businesses in the industry, with a US\$ 260,000 (39 million LEK) fund via the Albanian Investment Development Agency.

BANKING SYSTEM AND ACCESS TO FINANCE

The country has a robust banking sector comprising 16 main banks, the two biggest of which – Raiffeisen Bank and the National Commercial Bank – collectively control 45% of the banking sector (Tafa, 2015).

Table 10 below, produced by the European investment bank shows the size of the banking industry:

Table 10. Structure of Albanian Banking Sector

	2014	2013	2012	2011	2010
Number of banks	16	16	16	16	16
Number of bank branches	499	529	538	534	529
Total assets (EUR million)	9,231.6	8,804.0	8,510.5	8,062.8	7,138.7
Gross loans (EUR million)	4,246.7	4,045.4	4,139.4	4,075.6	3,537.3

Source: EIB (2016)

All banks in Albania serve SMEs to some degree and a few smaller banks such as First Investment Banka and International Commercial Bank exclusively lend to SMEs. The total loan portfolio of Albanian banks that is given to SMEs is estimated to be around 25%. Overall commercial lending flows were around €2.81 billion (370.2 billion LEK) in 2016 (ACB, 2017), 25% of this flow amounts to around €702 million Euro lending to SME's. The Authors estimate that lending demand for entrepreneurs (both SMEs and self employed) in their first two years of operation is likely to be around €62 million a year. This contrasts to an estimated Albanian SME loan demand of €1.4bn (EIB, 2016)

Table 11 shows the main indicators of SME access to finance in Albania. Lending to young enterprises (under 2 years old) as lenders lack credit and audited business or tax records to lend against.

Table 11. Albanian SME Finance indicators

	Firms Facing Finance Constraint	Loan Rejected	Too Complex	Interest Rate	Collateral Needs	Poor Loan Terms (Amount / Time)	Expect No For Answer	Collateral Greater Than
Albania	60%	2.0%	11.8%	80.4%	3.9%	2.0%	0.0%	175%

Source: Moder and Bonifai (2017)

Discussing individual banks in turn, Intesa Sanpaolo Bank Albania is the guarantor for the EBRD funding. It is third largest in terms of assets with 32 branches in 12 cities and has approximately 165,000 customers.

Raiffeisen Bank is the guarantor for the Western Balkans Enterprise Loan Albania is one of the largest banks in the country. Raiffeisen Bank International purchased the Albanian Savings Bank in 2004 and over the last 12 years has completely transformed the old State Bank into a full service bank. It has the largest number of branches and ATMs network in the country. The Enterprise loan facility at preferential rates is much needed in an economy where credit is seen as available to SMEs but is not always affordable.

Whist still in its infancy as a form of finance for SMEs elsewhere, microfinance is more established and has a greater presence in Albania, championed by The Albanian Microfinance Association (AMA)- to which Albanian MFIs with an outstanding loan portfolio of approximately US\$ 120 million (€97 million Euro) and 61,000 clients. Totalling close to 350,000 loans, Albanian MFIs have injected more than US\$ 1 billion into the economy, directly impacting self-employed individuals, small entrepreneurs, farmers, craftsmen and unemployed individuals. Microfinance represents 20% of all active loans in the country (although these are likely to be predominantly retail-based) (EIB, 2016).

In his review of the second half of 2017, the governor of the Bank of Albania's assessment of the

Albanian economy was one of calm, interest rates on deposits and loans in the Albanian currency near historic lows but with sluggish lending which will only grow with an improvement in both demand and supply. He advised that the banking sector should be more proactive in terms of its lending policies (Central Bank of Albania, 2017).

Alternative Finance Sources

Alternative sources of funding are available to SMEs, although it seems these are neither well known nor sufficiently well-resourced to make an impact. Key sources include:

Western Balkans Enterprise Development and Innovation Facility: an EU funded initiative, headed by the European Investment Fund, which aims to increase the finance available to SMEs, it has four main pillars:

- **WB EDIF Guarantee Facility (WB EDIF GF):** providing guarantees to Financial Intermediaries operating in Western Balkan countries to encourage them to increase their lending to SMEs in the region
- **Enterprise Innovation Fund:** supporting new, or expanding innovative, SMEs in the Western Balkans by providing equity finance through local fund management companies. A EUR 17 million portfolio of preferential SME loans was agreed in February 2017, delivered through Raiffeisen Bank. A full list of the intermediaries supported by the EIF is available on: http://www.eif.org/what_we_do/where/al/index.htm
- **Enterprise Expansion Fund:** supporting the expansion of SMEs with high growth potential in the Western Balkans
- **Support Services Facility:** technical (non-financial) assistance to Western Balkan governments to implement policy reforms that support innovative and high growth SMEs.

EBRD: supporting the development of women entrepreneurship in Albania with a €2 million senior loan to Intesa Sanpaolo Banka Albania (ISBA), one of the leading banks in the country. The loan is being extended under the EBRD's €20 million Western Balkans "Women in Business"-programme for on-lending to women-led small and medium-sized enterprises (SMEs) in Albania. ISBA will be the first bank to join the framework in Albania. The financing will be complemented by technical assistance to partner financial institutions and tailored advisory services for women-led SMEs. The programme is jointly supported by the governments of Italy, Sweden and Luxembourg and the EBRD Shareholder Special Fund. Since the start of its operations in Albania, the EBRD has invested almost €1 billion in some 70 projects in various sectors of the country's economy.

Government Funds: these appear not to be well communicated to SMEs, consequently there is low awareness and take-up: such funds include:

- Albanian Guarantee Fund
- Rural Credit Guarantee Fund
- USAID Loan Portfolio.

Donor Fund initiatives:

- **Japan International Cooperation Agency:** US\$4.6 million fund available to 40,000 Albanian SME entrepreneurs in the agricultural sector. The four year project will provide support regarding financial procedures, product marketing strategies, information about the market and the best international practice applied in the agriculture sector. This is continuation of previous support provided by JICA to Albanian private sector development, starting in January 2018. <https://follow-businessalbania.com/jica-to-support-rural-smes-with-4-6-mln-fund/>
- **Albanian-American Development Foundation:** The mission of the foundation is to facilitate the development of a sustainable private sector economy and a democratic society in Albania, and to contribute to stability in South Eastern Europe. The AADF will sponsor the following programs to further its mission: education for sustainable development; entrepreneurship; leadership development; and support for cultural tourism and eco-tourism. The Albanian-American Enterprise Fund (AAEF) was established pursuant to the Support for Eastern Europe's Democracy Act of 1989 (SEED Act). Incorporated in 1995, the AAEF's primary purpose is to promote private sector development in Albania. The Fund was created with a committed capital of US\$30 million, which was administered as a grant by USAID. The Fund's reach and visibility has extended well beyond its

modest initial financial resources. With a capital base of just US\$30 million, the AAEF has directly invested US\$109 million in 77 investments in 40 companies. Over 7,000 new jobs have been created and over US\$2 billion has been contributed to Albania's GDP by current and former portfolio companies. During the time that the Fund was the owner of the American Bank of Albania, US\$977 million in financing were provided to companies in Albania which contributed US\$2.2 billion to the Albanian GDP³.

Equity Capital: There are a number of risk capital providers that are ready to invest in Albanian SMEs: more than a dozen regional funds have Albania as their focus, or amongst their target countries. The available supply of risk capital is small, but still exceeds current demand due to limited knowledge of the availability of risk capital. The European Investment Bank (2016) lists these as:

- NCH Capital: manages several investment funds and is one of the largest and earliest private investors in the region. In Albania, it started its operations in 2007. Two of NCH funds wholly own Transitz Financial (2010), a company that positioned itself as a provider of non-traditional products to SMEs, including equity and quasi-equity.
- Crimson Finance Fund, a newly established foundation (mid-2015; US\$3.4 million).
- Yunus Social Business Balkans: started its operations in Albania in 2012 with the support of the GoA. It was created as an equity fund but is now a business accelerator that incubates and finances local entrepreneurs that can generate potentially high social impact. In 2015, it expanded to cover all six countries in the Western Balkans region. In Albania, Yunus currently has a portfolio of four companies (US\$ 750,000 in total).
- Bedminster Capital, a US-based private equity and venture capital firm, seeks to invest in companies in South- Eastern Europe. Currently, it has two investments in Albania. In 2008, the Southeast Europe Equity Investment Fund II invested in a private hospital and one of the largest internet service providers.
- SIMEST, the development finance institution charged with supporting and promoting Italian companies in Italy and abroad, can invest in equity of foreign firms both directly and through its venture capital funds. In Albania, SIMEST has invested a total of EUR 13 million in 29 projects, including 13 equity investments in SMEs.
- Other regional funds that cover Albania include ARGUS Capital (central and southeast Europe), ARX Equity Partners (central and southeast Europe), Blue Sea Capital (ex-Yugoslavia), and KD Private Equity Fund (southeast Europe).

Business Angels Networks: There are a few Business Angel networks operating in Albania, the main one being ALBAN, which connects investors to SMEs for investment and sharing of knowledge. It's website can be found here: <http://albaniangels.org>

Leasing: appears to be in decline in Albania; the current portfolio of bank leasing is c. 50 million Euros (EIB, 2016).

³ More information can be found here <http://www.aadf.org/entrepreneurship/>

LOCAL SUPPORT ORGANISATIONS

European Bank for Reconstruction and Development

<http://www.ebrd.com/work-with-us/advice-for-small-businesses/albania>

The European Bank for Reconstruction and Development works through partners when dealing with smaller companies, especially providing a network of consultants and advisers who can be accessed on a co-payment basis.

Balkan Environmental Association

<http://benaweb.gr/>

As its name suggests, the Balkan Environmental Association is a think tank that advises on ways to improve the environment of the Western Balkans. They do work with SMEs, such as hosting conferences, to help them develop in a more sustainable way.

Balkan Small Business Association

<http://www.mbb-org.eu/en/>

Based in Bulgaria, the Balkan Small Business Association works regionally (including Albania) primarily with small businesses that have some sort of craft focus, in order to provide training and business support. They publish a number of studies giving a point of view on how businesses should best promote themselves

European Training Foundation

<http://www.etf.europa.eu>

The European Training Foundation (ETF), based in Turin, is an established European Union agency that focuses on enabling vocational training for both entrepreneurs and workers in developing countries. It provides online resources and runs workshops across several countries and has been operational since 1994. In Albania the ETF has worked specifically to promote social inclusion and strengthen the network of qualifications available to both adults and youths.

Enterprise Europe Network

<http://een.ec.europa.eu/about/branches/albania>

The Enterprise Europe Network is a co-operative of business centres and foundations supported by the European Commission to disseminate relevant information to SME's. There are partners located in Tirana and Tirane in Albania. They are available to help SMEs with advice, support and opportunities for international partnerships.

Social Impact Lab

<http://socialimpactlab.co/en/programs/sia>

Social Impact Lab run workshops to help attract young people to entrepreneurship, capping interest with a competition for business ideas and innovation that has a 6000 euro prize fund. They have recently started working in Albania.

Union of Albanian Business (BiznesAlbania)

<http://www.interreg-balkanmed.eu/project-partner/134/>

The Union of Albanian Business aims to safeguard the interests of business owners in Albania, lobbying the government and providing training and information to business owners across the country.

Chamber of Commerce and Industry Tirana

<http://cci.al/en/>

A business association that organizes conferences and works closely with the government to connect them to businesses. Provides businesses with certifications, as well as publishing research on the nature of business within Albania. Recently (January 2018) the Chamber (alongside its counterpart Kosovo

Chamber of Economy) has lobbied for streamlining and simplifying customs procedures between Albania and Kosovo. The two institutions propose the two countries' custom clearances should use a dedicated road lane for transportation vehicles from Albania and Kosovo. The vehicles will not have to undergo a detailed custom control, a joint authority will issue authorizations where vehicles will declare the merchandise they are transporting.

Union of Chambers of Commerce and Industry in Albania

<http://uccial.al/>

Similar to the above, this organization connects business people across Albania, spreads information on best practice in the country and organises conferences and networking opportunities.

Swiss Entrepreneurship Program

<http://www.swisscontact.org/en/country/albania/projects/projects-albania/project/-/show/swiss-entrepreneurship-program.html>

The overall objective of the Swiss Entrepreneurship Program is to create jobs by strengthening the entrepreneurship ecosystem in six target countries. The program works with relevant ecosystem organizations (incubators, accelerators) and provides strategic support in improving their business model and acceleration programs and thus increase their performance. Consequently, the program does not work directly with companies, however growth-oriented entrepreneurs, start-up teams and companies at an early stage will profit from state of the art services to grow and sustain their business, offering incubator and accelerator support, mentoring, Angel investment and Media Buzz: The program aims to create 4,000 jobs by end 2019; businesses that go through the enhanced acceleration programs are expected to increase turnover by 50%.

UK-Albania Tech Hub:

<https://www.gov.uk/government/news/uk-albania-tech-hub>

A new programme to support the partnership between Albania and the UK in the technology sector, aimed at boosting tech start-ups in Albania and creating opportunities to do business with the UK, launched in August 2017; this is jointly sponsored by the British Council Albania and the British Embassy, Tirana. It includes a three step approach:

- A workshop series on international and UK business in the tech sector;
- Exchange program to explore business opportunities in the UK tech sector;
- A programme to boost the performance of selected start-ups.

Incubators and Accelerators:

- **The ProTIK ICT Resource Centre:** <http://www.protik.org/>
Established in 2012 by the combined efforts of the GoA, USAID, the Albania American Development Foundation, Microsoft, Cisco, and Albtelecom to catalyze the development of the ICT sector in Albania. ProTIK aims to become the Albanian ICT hub, a connection point for those seeking the latest and most innovative ideas, products, and services. Among other programs, ProTIK has an accelerator programme for startups.
- **ADRIA-Tinn:** <http://www.adriawealth.eu/project/adriatinn/>
A cross-border business ecosystem in the Adriatic area supporting energy, bio-economy and well-being SMEs in innovating, networking and growing.
- **The Albanian Innovation Accelerator:** <https://www.aianetwork.org/>
A UK-based consultancy's social innovation project.
- **Ofiçina:** <http://www.oficina.al/about-us/mission-goals/>
A strategic initiative focused in supporting Albania's transition to a knowledge-based economy. Its mission is to invest in, incubate, and help develop a new-technology industry in Albania. Ofiçina is a vibrant working environment in the heart of Tirana located in the workshops complex buildings of Harry Fultz Institute. Ofiçina runs an Annual Accelerator Programme for high tech startups and organises an array of programs and events for new entrepreneurs, professional and to develop their business skills and utilization of e-skills and networking.

- **the Albanian Open Innovation Centre:** <http://aoi.al>
Innovation hub dedicated to new start-ups, networking and training conferences.
Medium, entrepreneurship Albania: <https://medium.com/entrepreneurship-albania>
An online networking, news and support platform for entrepreneurs.
- **Partners Albania:** <http://partnersalbania.org>
An independent Albanian NGO established in 2001, working to support civil society and facilitate inter-sector cooperation in order to strengthen democratic institutions and advance economic development. It is a member of Partners Network, a partnership of 22 independent, local organizations in Europe, the Americas, Africa and the Middle East working for peaceful and democratic change. Partners Albania is also a member of several European and regional networks such as Euclid, BCSDN, ECAS etc.
- **Gjirafa Lab:** <http://gjirafalab.com/>
Gjirafa is the most successful startup in the Albanian-speaking world. It originated in 2013 as an Albanian search engine and news aggregator akin to Yandex in Russia, but pivoted to also helping build the region's entrepreneurial spirit in early 2017 through a partnership with its three parent institutions — StartupYard, Rockaway Capital, and USAID.

Peer to Peer Networks

Peer to peer networks are essentially online and newer. It is likely that more will spring up in the near future, but a key network is:

- **Start Us Magazine :** <https://magazine.startus.cc>
Start Us is a magazine and online hub that aims to connect entrepreneurs across Europe. The magazine will often write about issues affecting Albania and allows SME owners and employees to connect with each other. The website also contains a job board.
- **CEED Business Club:** <http://ceed-albania.org>
CEED Business Club is a community of entrepreneurs in Albania, with over 100 members that are distinguished by growth potential, international orientation, desire for connecting and exchange of knowledge and experience.

Events and individual aid are aimed at getting to know foreign markets, access to domestic and foreign investors, learning about successful business practices and successful foreign entrepreneurs and connect in Albania and internationally

SURVEY RESULTS: THE ENTREPRENEUR PERSPECTIVE

Introduction

A programme of primary research, with telephone interviews among potential/new business start-ups was undertaken specifically for this project, across the six Western Balkans states to provide a regional overview of entrepreneurial activity and explore individual experiences of setting up and running a business. The programme allows us to look individually at each market, and also compare the experiences and attitudes of entrepreneurs in Albania to those of their peers across the region. As part of this programme, 100 interviews were carried out in Albania from mid-December 2017 to early January 2018.

Profile of respondents

For the purposes of this report, we refer to these respondents as entrepreneurs. It is pertinent, however, to appreciate how respondents see themselves, as this may be an indicator of future growth and success:

- 16% described themselves as entrepreneurs;
- 80% described themselves as self-employed; and
- 4% described themselves as businesspeople.

Table 12 shows age bands and levels of education by self-description.

Table 12. Age band and level of education, by self-description

Q1: Which age band do you fall into?	Total	Entrepreneur	Self-employed
Sample size	100	16	80
Under 25	23%	13%	23%
25–34	42%	69%	39%
35–44	35%	19%	39%
Q2: What is the highest level of education you achieved?			
No higher education after school leaving age	7%	13%	6%
Technical qualification or higher	93%	88%	94%

Respondents were equally split between those intending to start a business in the next 12 months (50%) and those who had set up a business in the last two years (new start-ups). Of those who already ran their own businesses, 22% were employing five or more staff. The survey focused on young entrepreneurs under the age of 45. Within the sample:

- 23% were under 25 years old;
- 42% were aged 25–34; and
- 35% were aged 35–44.

Table 13 shows the highest level of education achieved and self-description, by age.

Table 13. Level of education and self-description, by age band

Q2: What is the highest level of education you achieved?	Total	Under 25	25–34	35–44
Sample size	100	12	43	45
No higher education after school leaving age	7%	4%	7%	9%
Technical qualification or higher	93%	96%	93%	91%
Q10b: Would you describe yourself as:				
An entrepreneur	16%	9%	26%	9%
Self-employed	80%	78%	74%	89%

Similar to their peers elsewhere in the region, respondents were well e-connected or engaged with the world of business. On a daily basis they stayed abreast of news/current affairs (Q25) via:

- online media using a desktop computer or laptop 23%
- online via smart phone 56%
- printed media (publications/press) 25%

They also engaged mainly on issues which concerned them directly rather than further afield, including news and events relating to their business sector (76%) the local economy (64%) national politics (40%) foreign affairs (34%).

Just one in seven businesses were in opportunity-focused sectors, defined as technical, professional and creative arenas or those requiring high capital investment, compared with household-focused businesses (directly servicing and selling to households, or producing goods which will be used by households) (**Table 14**).

Table 14. Opportunity-focused and household-focused businesses

Business activity	Total	
Sample size	100	
OPPORTUNITY FOCUSED	Professional, scientific and technical activities	6%
	Real estate activities	2%
	Arts, entertainment and recreation	1%
	Manufacturing	3%
	Electricity, gas, steam and air conditioning supply	2%
HOUSEHOLD FOCUSED	Wholesale and retail trade; repair of motor vehicles and motorcycles	29%
	Accommodation and food service activities	25%
	Administrative and support service activities	7%
	Transportation and storage	6%
	Agriculture, forestry and fishing	5%
	Construction	2%
	Education	1%
	Other service activities	9%

Business scope and operations

Respondents' businesses were largely locally-focused, and the opportunity- focused businesses in the survey only traded domestically (unlike their peers in other markets, who were likely to trade abroad). Only 10% of businesses were involved in exporting or importing activity (**Table 15**).

Table 15. Business scope and field of operations

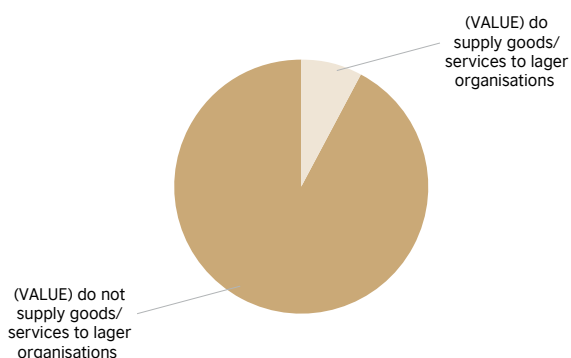
Q9: Do you (expect to)...	Total
Sample size	100
Operate only within Albania	88%
Q9c: Where do you operate within Albania? Sub-sample size	88
At a national level	11%
At a local level	89%
Export goods/services to other countries Sample sizes too small for meaningful breakdown of destinations	10%
Import goods/services from other countries Sample sizes too small for meaningful breakdown of destinations	9%

Working within a supply chain

Very few of all businesses (a mere 7%) in the survey supply larger organisations (**Chart 3**).

Chart 3. Businesses as part of supply chains

Q6: Does your business make products or supply services that will be used by other, larger, organisations?



The key industry sectors in which these businesses operate is set out in **Table 16**. However with only seven responses, this number is too small to be of as much use as the other five surveys.

Table 16. Industry sectors of businesses

Q6a: Which industry sectors does your [intended] business service or supply?	Top 5 sectors
Sample size	7
Tourism	57%
Perfumes/cosmetics	27%
Business Services	23%
Textiles	4%

Business trading models

The trading channels and payment methods accepted indicate that these entrepreneurs use very simple, and probably unsophisticated, business models, almost entirely face-to-face and very strongly cash-based - although one in four accepted payment cards online (**Table 17**).

Table 17. Accepted forms of payment

Q7. Does (will) your business?	Total
Sample size	100
Have a digital (online) interface with customers	15%
Have a telephone interface with customers	15%
Service your customers face-to-face/in person	99%
Q8: And do (will) you accept payments ...?	
Sample size	100
Online (via payment cards)	28%
Over the telephone (via payment cards/bank debits)	4%
Through automated bank credits/cheques	8%
In cash	91%

Motivations for setting up a business

The key motivation for setting up business was the opportunity to make money and, offset unemployment (**Table 18**).

Table 18. Motivation for starting a business

Q10a: What are your key motivations for setting up your own business?	Total	Self-description	
		Entrepreneur	Self employed
Sample size	100	40	55
Opportunity to make money	54%	63%	54%
Offset unemployment	46%	19%	53%
Utilising skill sets	45%	44%	46%
Providing long term financial security for family	35%	38%	35%
To build financial independence	35%	31%	35%
Natural progression	23%	25%	24%

In total, 63% had started a business in an area which was familiar to them, or within their skill sets, but the key influence in their choice of business and/or sector was the support and encouragement of their family. Very few had chosen their business as a result of the availability of incentives; however, It is useful to note the very high proportion of entrepreneurs in our Albanian survey who were educated at degree level (**Table 19**).

Table 19. Reasons for choosing a sector and/or business

Q5b: Why have you chosen to start a business in this specific activity?	Total
Sample size	100
It is my profession/skill set	63%
I am seizing a good opportunity	43%
Continuing/extending a family business	14%
Encouraged by family/the experience of others	13%
It is easy to set up a business doing this	4%
There are incentives available to set up a business doing this	2%

Perceptions of the business climate and business confidence

The process of setting up a business was usually swift. Almost all respondents (98%) had taken less than six months to register their business and obtain any necessary licenses. Compared to other markets in the research programme, respondents were more likely to consider the business climate in Albania to be unfavourable to businesses: more than one in three saying unfavourable compared to 18% of respondents who felt that the current (domestic) business climate is favourable to businesses (**Chart 4**).

Chart 4. Perceptions of business climate

Q11a. From your position, how would you describe the business climate in this country? (five-point scale)



1: Unfavourable

5: Favourable

The key reasons for sensing an unfavourable business climate were:

- Administration, bureaucracy 47%
- No State assistance/incentives/guarantees 33%

- Taxes 33%
- Low standard of living and consumer spending power 30%
- Competition (from larger organisations) 5%

(Q11b: in what way is the business climate unfavourable for businesses? Sample size 43)

This is linked to perceptions of the barriers to business growth, which relate to taxes, bureaucracy and paperwork as much as the market conditions themselves (**Table 20**).

Table 20. Barriers to doing business

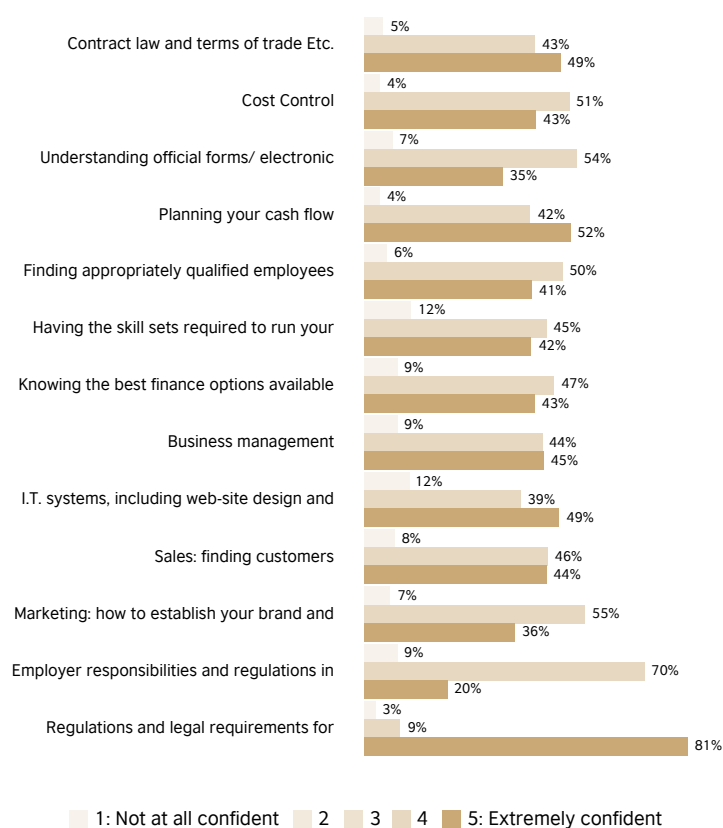
Q12. What do you perceive is the biggest barrier to (setting up) (growing) a business? (open ended, grouped responses)		
Rank	Sample size	100
1	High taxes, administration, paperwork	43%
2	Economic situation, crisis, small purchasing power	27%
3	Lack of support from the state and municipalities	15%
4	Many competitors	12%
5	Poor market; lack of buyers	3%

Levels of confidence

Chart 5 shows that entrepreneurs are not particularly confident about many aspects of setting up/running their businesses, particularly relating to marketing, I.T and how to access finance options. These levels of confidence are the second lowest across the six countries within the research programme (**Chart 5**).

Chart 5. Levels of confidence in aspects of running a business

Q13. How would you describe your own level of confidence in each of these aspects of setting up/running a business? (Sample size 100)



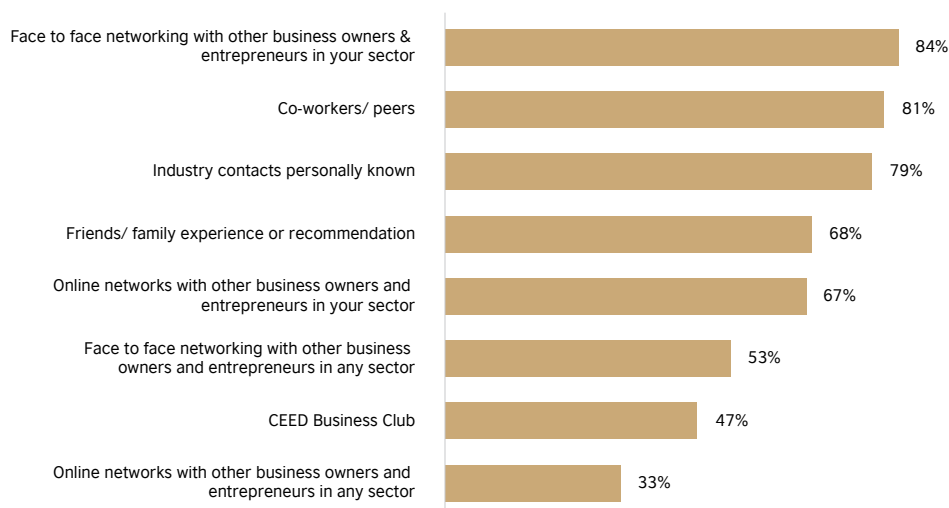
Advice and support

Instinctively, Entrepreneurs are more likely to turn to those around them in the first instance for advice and support and the closer to their own experiences the better. Interestingly, as Chart 6 indicates, our Entrepreneurs were less likely to turn to family and friends than experts in their business sector, and there is a welcoming attitude toward any and all sources of advice, whether face to face or on-line.

The appeal of engaging with like-minded individuals resonates strongly with the findings of the British Council's programme: *encouraging youth entrepreneurship in the Western Balkans project September 2015 – March 2016* and suggests a large target audience for local, targeted programmes and resources which, as that report showed - have demonstrably succeeded in improving skill acquisition, preparedness and motivation among young entrepreneurs.

Chart 6. Sources of advice and support

Q14. Here are some sources that people might turn to for support and advice when setting up and running a business. Please tell me how appealing each one is to you.
Sample size: 100



It is likely that young entrepreneurs often work in isolation without ready access to expert business advice. Family members featured very strongly as their most trusted advisers (Table 21).

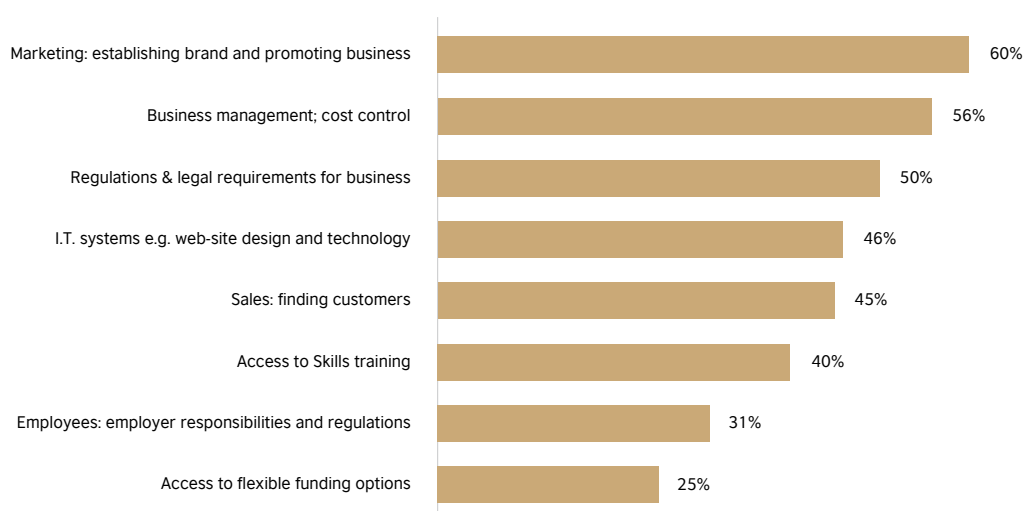
Table 21. Most trusted advisers

Q18. Who are your most trusted advisers?	Total
Sample size	100
Personal friends and family	67%
Accountant	12%
My college/employees	11%
Lawyer	6%
Financial adviser	4%

Entrepreneurs were particularly interested in support with marketing and business management. Understanding regulations was the third most popular area for support. Almost one in three would probably to take up the opportunity to understand more about employing staff (**Chart 7**).

Chart 7. Areas in which support is required

Q16. If you could access training and support on any of the following, which would you be likely to take up? (Sample size 100)



Our respondents had a preference for face-to-face delivery mechanisms, including both training and networking opportunities, rather than online resources (**Table 22**).

Table 22. Type of support required

Q17. What form of advice and support delivery would be helpful to you?		Ranking
Sample size	100	
Peer to peer support	57%	1
In-person training courses	45%	2
Networking	37%	3
Access to Incubators/innovation hubs	32%	4
Online resources e.g. downloadable content; online training and chat facility	22%	5
Financial incentives	21%	6
Mentoring	9%	7

Future ambitions

Respondents were optimistic about their growth and development plans. Over the next two years, the majority were planning to invest in new forms of product development and business assets (**Table 23**).

Table 23. Future ambitions

Q19a. How likely will you be to access the following over the next 2-3 years? % saying likely/very likely		Ranking (most likely)
Sample size	100	
Product or service development costs	53%	1
Purchase or leasing business assets (equipment, vehicles etc.)	52%	2
Hiring staff	46%	3
Legal expenses	37%	4
Opening new markets at home or abroad	31%	5
Patenting	31%	6
Premises/ office relocation	30%	7

Unsurprisingly, business growth was perceived to be primarily dependent upon the development of a customer base. It is notable that, with such growth plans, fewer than one in three entrepreneurs in the survey identified that an injection of capital is necessary to achieve growth (**Table 24**).

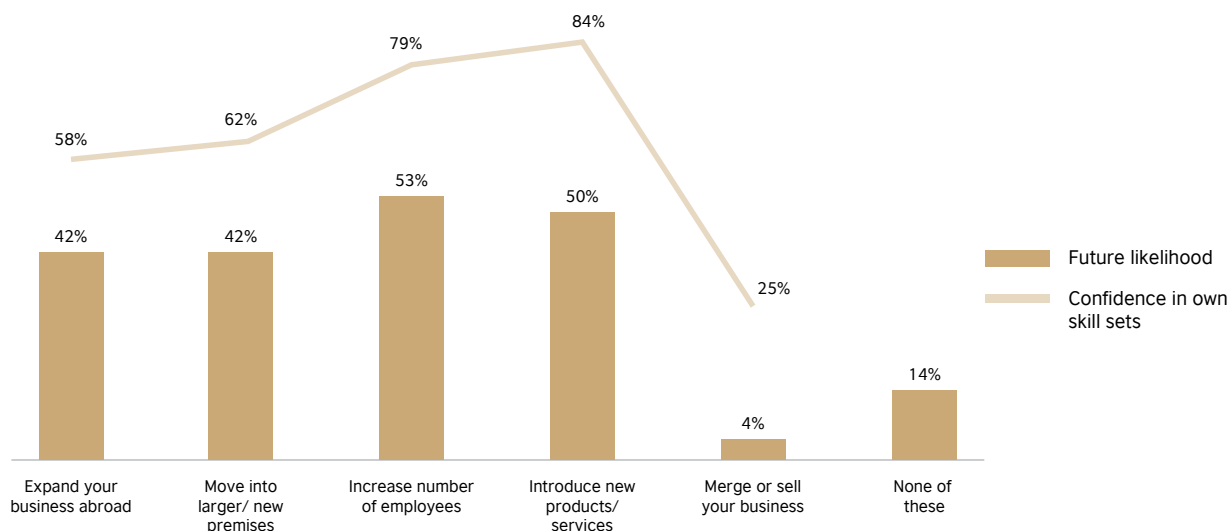
Table 24. Key drivers of growth

Q23. Thinking about the next 2-3 years, what do you perceive to be the key drivers for success in your business?	Total	Ranking
Sample size	100	
More customers	60%	1
Product/service development	41%	2
Change of premises	33%	5
Increased skill sets/employee training	21%	4
Capital injection	18%	3

Our survey respondents were ambitious for the future, and largely confident in their ability to achieve their ambitions (**Chart 8**). This can only be seen as a positive trend for the future, but such ambitions also need to be supported.

Chart 8. Ambitions and level of confidence

Q24a. Thinking ahead 2 - 3 years, it is your ambition to do any of the following?
 Q24b. At this stage, how confident are you that you have the knowledge and skills sets to enable you to do this?
 Sample size 100

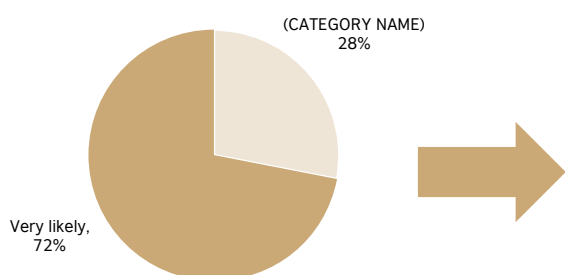


Access to finance

Four out of five Albanian entrepreneurs felt it likely/very likely they would be seeking finance in the near future, and perhaps worryingly the most likely purpose of this is for cashflow/working capital rather than growth/development. Even so, when asked 55% considered it extremely difficult to obtain funding whilst only 8% felt it was easy (Q21 c) (**Chart 9**).

Chart 9. Access to funding

Q19. How likely are you to seek funding in the next 2-3 years? (Sample size 100)



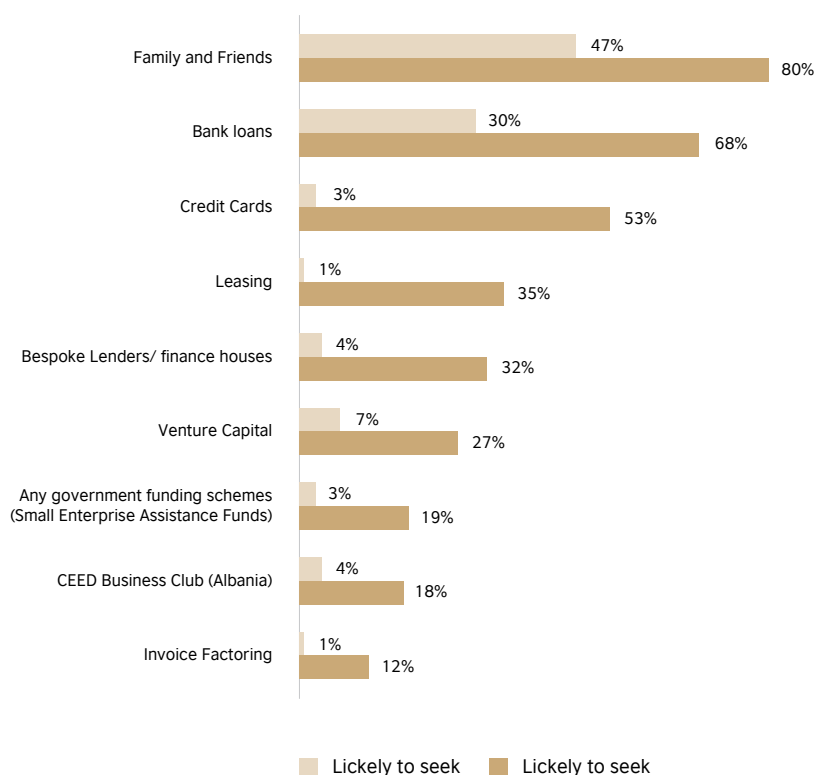
Q19b. What do you envisage you will need funding for? (Sample size 95)		
1	Working capital/Cashflow	35%
2	Purchase or leasing of business assets	26%
3	Opening new markets at home or abroad	17%
4	Product or service development costs	17%
5	Hiring staff	15%
6	Premises/office relocation	14%
7	Legal expenses	10%
8	Patenting	9%

Chart 10 shows that awareness of any form of finance other than bank loans is quite low. Entrepreneurs are therefore most likely to rely on informal sources of funding, particularly family and friends. Awareness of venture capital and government funding schemes was relatively low (27% and 19%), but a proportion of those who were aware would approach these sources for finance.

Chart 10. Awareness and use of forms of funding

Q20. Which of these forms of funding are you aware of? (Sample size 100)

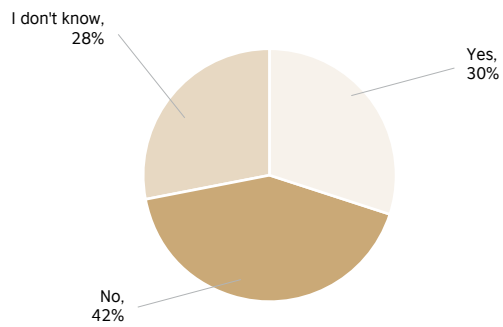
Q21a. Which form of funding would you be most likely to seek? (Sample size 100)



Almost one third of respondents feel that the ability to offer trade credit would have an impact (and a significant one at that) on their business growth. However, one in four were unaware of trade credit: given their greatest need for finance was stated to be cash flow/working capital, this is an area in which greater awareness (and take up) would be beneficial to them (Chart 11).

Chart 11. Use of trade credit

Q8b. Would your business expand if you could offer trade credit? (Sample size 100)



This concludes the findings of the primary research undertaken specifically for this project, involving 100 telephone interviews with new or prospective business start-ups in Albania. Fieldwork was undertaken in December 2017 and January 2018.

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ANNEX I – ESTIMATION METHODOLOGY FOR EARLY STAGE LOAN DEMAND

Overview

We have sought to separate out the loan demand for an MSME or a self-employed person's first two years of operation. This is often the most difficult and challenging period to fund, because lenders suffer from extreme information asymmetry. These business lack an audited trading/tax declaration record, credit rating data is likely to be sparse and the lending officer may have no detailed sector or local environment knowledge. The problems of information asymmetry have been highlighted by Stiglitz and Weiss (1981).

We have sought to estimate this “funding gap” by adopting a “bottom up” approach, estimating funding needs for MSMEs and self-employed people differently, on the basis that their funding needs are likely to differ. Our estimates are very rough and need further research and rigorous testing. We have included them because they are indicative pointers to the sufficiency or otherwise of existing schemes to support entrepreneurs in their first two years of activity.

Self-Employment

Self-employed people were an important component of our survey results. We assumed that each self-employed person would require seed capital or initial finance equal to three months of the 2015 euro current price per capita GDP for their home country. We took the data for this from the IMF (2018). We converted US\$ from the IMF date to € at 1.1998 US\$ = 1 EUR (an approximate 2017 year-end rate). The number of new self-employed people is based upon 5% of the self-employed population joining/leaving self-employment each year. The self-employed numbers were from the International Labour Organisation (2017).

MSMEs

For new MSMEs, we assumed a blanket requirement of EUR 5,000 for their start-up capital needs in the first year. For the number of businesses being registered, we relied on World Bank data (World Bank, 2017d).

Year One Seed Capital

Taking these together, we calculated the seed (or first year) capital requirement by country, shown in

Table A.1.

Table A.1 Western Balkans seed capital requirement for first year of operations

Number of New Limited	New Self Employed Estimate	Euro Per Cap GDP 2015	Seed Per Limited Liability	Seed Per Self Employed	Limited Liability Seed	Self Employed Seed	Total Est Seed Req
2,679	30,000	3,280	5,000	820	13,395,000	24,600,790	37,995,790
2,814	7,000	3,489	5,000	872	14,070,000	6,106,259	20,176,259
3,993	4,000	2,922	5,000	730	19,965,000	2,921,811	22,886,811
5,686	9,000	4,046	5,000	1,011	28,430,000	9,102,698	37,532,698
2,818	1,000	5,388	5,000	1,347	14,090,000	1,346,977	15,436,977
8,236	43,000	4,365	5,000	1,091	41,180,000	46,922,483	88,102,483
Total					131,130,000	91,001,017	222,131,017

Source: Authors

Year Two Calculation

For year two, we assumed that 25% of the new SMEs would reach the growth phase, and that those MSMEs would require the average SME loan value for their country. The average MSME loan value was taken from Table 11 in Hauser et al. (2016).

For the remainder of companies and self-employed people, we made the blanket assumption that those that survived their first year would have grown but not have reached full cash self-sufficiency. They were therefore likely to require additional finance equal to the entire (for all firms) amount required in the first year. These parameters give the calculated requirement for Year 2 in **Table A.2**.

Table A.2. Year 2 start-up finance requirement

Number of New Limited Liability companies	New Self Employed Estimate	Average Loan Size	% Year 2 Full Loan Demand	Total Fast Growers	Total Rest	Grand Total Year 2
2,679	30,000	35,668	25%	23,888,643	37,995,790	61,884,433
2,814	7,000	34,409	25%	24,206,732	20,176,259	44,382,991
3,993	4,000	30,507	25%	30,453,613	22,886,811	53,340,423
5,686	9,000	45,052	25%	64,041,418	37,532,698	101,574,116
2,818	1,000	47,519	25%	33,477,136	15,436,977	48,914,112
8,236	43,000	25,753	25%	53,025,427	88,102,483	141,127,910
Total				229,092,968	222,131,017	451,223,985

Source: Authors

Total First Two Year Finance Requirement vs Total MSME Lending By Country

We took these findings and combined them into **Table A.3**, then compared them to overall SME lending in each Western Balkans state. The overall MSME lending figures come from Table 14 in Hauser et al. (2016).

Table A.3. Total entrepreneur first two year finance requirement vs total MSME lending by country

Number No SMEs	Euros Av Loan	%	Millions Euros				
			Total SME Loan Demand	Seed Year 1 Est. Demand	Early Stage Year 2 Est. Demand	Total Early Stage Est. Demand	SME Loan Demand % Early Stage
111,059	35,668	36.0%	1,426	38	62	100	7.0%
186,341	34,409	51.5%	3,302	20	44	65	2.0%
45,985	30,507	52.2%	732	23	53	76	10.4%
70,453	45,052	40.1%	1,273	38	102	139	10.9%
22,313	47,519	52.8%	560	15	49	64	11.5%
280,845	25,753	61.8%	4,470	88	141	229	5.1%
Regional Total In Millions Euro			229,092,968	229,092,968	222,131,017	451,223,985	229,092,968

Source: Authors

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