Interreg
Balkan-Mediterranean
INNOPLATFORM

2017

National Study of the Business Environment

National Study of the Business Environment

with a focus on the National Innovation Potential in Albania

Acknowledgement

This report is prepared in the framework of InnoPlatform project, in the framework of Interreg Balkan Mediterranean Programme and is co-funded by the European Union and National Funds of the participating countries.

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1. Background

Albania is located in the southwestern part of the Balkan Peninsula, covering an area of 28,748 square kilometers. It occupies a strategic geographical location in south-eastern Europe along the Strait of Otranto, which links the Adriatic Sea with the Ionian Sea and separates Albania from Italy. Albania shares borders with Greece, Former Yugoslav Republic of Macedonia, Kosovo and Montenegro. Albania is a country with 2.9 million inhabitants and Tirana is its capital city. Other major cities include Durrës, Vlorë, Fier and Shkodër. A large part of Albania's surface is mountainous and its highest peak is Mount of Korabi (2,753 m). The country is rich in water resources and the main rivers are extensively managed to generate hydro-electricity. The country has nearly 450 km of seacoast along the Adriatic and Ioanian Seas. Over a third of the territory of Albania is forested and the country is very rich in flora. Albania is distinguished by its rich biological and landscape diversity in the Mediterranean and Alpine regions. This can be attributed to the country's geographic position as well as its geological, hydrological, climatic, soil and relief characteristics (S.K.AEGIS, 2015).

According to UNESCO, three properties in Albania are inscribed on the World Heritage list. Two of these (Butrint and historic centers of Berat and Gjirokastra) are cultural properties and one is a natural property (Ancient and Primeval Beech Forests of the Carpathians and Other Regions of Europe - Gashi River and Rrajca)[1].

Albania is a parliamentary republic with legislative powers vested in parliament and executive power exercised by the government, led by the Prime Minister. Currently, Socialist Party (SP) leads the national government. A new constitution entered into force in November 1998, ratifying Albania as a parliamentary democracy based on the principle of separation of powers (UNDP, 2006). Women are underrepresented in public and political life, especially in decision-making positions (Byrne, 2014).

Albania shows an important economic growth and macroeconomic stability over the past two decades. The share of the people employed in the SMEs on the total number of employees is much higher than the average share in the EU27. Even

[1] http://whc.unesco.org/en/statesparties/al

though agriculture remains an important economic sector of Albania, the service sector is shown as a promising economic sector.

The country's economic achievements over the past two decades have been remarkable but the Albanian economy has still not replaced the loss of industries and jobs that occurred during transition, partly as a result of a high rate of emigration and internal migration from rural areas to the cities (S.K.AEGIS, 2015).

Like all the other countries of Balkan Mediterranean, the economic performance of Albania has been worsened by the international economic crisis, leading to a moderately high unemployment rate. Most people's average income hovers around the poverty line due to the low rates of incomes and employment across the board.

The legal framework for the protection of human rights is broadly in line with European standards. Albania has ratified most international human rights conventions. However, enforcement of human rights protection mechanisms needs to be strengthened (EC, 2016).

2. Methodology

The core methodology used in developing the National Studies of the business environment which focused on the National Innovation Potential is the methodology of the EIS 2017 Framework. The national innovation environment is assessed through four specific categories of factors: (1) the framework conditions, (2) the investment climate, (3) the existing innovation activities of companies and (4) the impact innovation has on the work of the companies and through them on the whole economy. The overall economy, the business environment and the socio-demographic trends affect these categories of factors, either supporting or challenging the innovation of the companies.

This report is based on desk research and secondary data. The structure of this study is based on the analysis of respective indicators. The analysis is largely descriptive and comparative based on collected data for the selected period 2010-2016.

2.1 Data collection

Data are collected from primary and secondary sources. Primary sources used national and international officially- recognised institutions such as INSTAT,

Eurostat, World Bank, UNESCO, OECD etc for the collection of necessary data concern. Secondary data sources are reports, publications and various national and international studies. The analysis consists of providing data for overall economy indicators, business environment indicators, socio-demographic environment indicators and innovation environment indicators.

Step No.1 - Assessment of Albanian Economy

The purpose of this analysis is the assessment of Albanian economy concerning GDP growth, macroeconomic stability (debt, inflation, interest rates) and structure of the economy.

Structure of the economy: Elaborated appropriate data was used to provide data concerning the indicator of composition of employment. INSTAT classified economic activities according to the nomenclature NACE Rev. 2 by identifying 6 main economic activities: (1) agriculture; (2) manufacturing; (3) construction; (4) mining and quarrying, electricity gas and water supply; (5) services; and (6) public administration. To find the number of employees for "Agriculture & Mining" category and "Utilities & Construction" category, a similar distribution of employees for "Mining & Quarrying" (Section B of NACE Rev. 2.) activity, "Electricity & Gas" (Section D of NACE Rev. 2.) activity and for "Water Supply" (Section E of NACE Rev. 2.) activity is hypothesised

Step no. 2 - Assessment of Business Environment

The purpose of this analysis is the assessment of business environment concerning structure of the private sector, top R&D spending enterprises, ease of starting a business and buyer sophistication.

Structure of the Private Sector The legal definition of SMEs in Albania is based on the number of employees and annual turnover. INSTAT defines enterprise size based on the number of people employed: (1) enterprises with 1 to 4 people employed are classified as microenterprises; (2) enterprises with 5 to 9people employed are classified as small enterprises; (3) enterprises with 10 to 49 people employed are classified as medium enterprises; and (4) enterprises with 50 and more people employed are classified as big enterprises.

Step no. 3 - Assessment of Socio-demographic Environment

The purpose of this analysis is the assessment of socio-demographic environment concerning demographic development (GDP per capita, population size, change in population, population aged 15-64 and population density), movements in the active labour force (by age, gender, educational background and employment status) and emigration.

- *Population size* Due to the lack of data, the population size in 2010 and 2012 is given by the sum of rural and urban population (on 1 January of each year).
- *Population aged 15-64* Data for the population aged 15-64 is based on the total number of male and female (on 1 January of each year) and on the percentage of male and female of age group 15-64.

Step no. 4 - Assessment of Innovation Environment

The purpose of this analysis is the assessment of innovation in Albanian SMEs, according to the Innovation Scoreboard indicators (Innovation Scorecard).

2.2. *Limitation*

Concerning the business environment analysis, the main limitation is related to the lack of data on some group of indicators such as employment structure, private sector structure, population, labour force. This is due to the gaps on the statistical recording system and the different manner of calculation of these groups of indicators. In order to fill data gaps we were forced to make appropriate assumptions.

Concerning the innovation environment analysis, one of the main limitations is related to the lack of data on some indicators of SMEs innovation in Albania. The second limitation relates to the fact that even when these data exist, in many cases they are not public by the companies. A third limitation is the lack of reports published by international bodies such as Eurostat (Community Innovation Survey), Community Innovation Scoreboard, Global Entrepreneurship Monitor (GEM), DG Research and Innovation, CWTS (Leiden University) etc. on the Albanian case of innovation management.

3. Economy, Growth and Macroeconomic Stability

3.1. Economic growth and macroeconomic stability

Concerning the economic situation, after 1997 the country restored macroeconomic stability and put structural reform back on track. It achieved sustained, strong economic growth, while containing inflation despite a setback in 2002 resulting from a crisis in the electricity sector and floods (UNDP, 2016).

In 2010, the Albanian performance economy was characterized by the consolidation of macroeconomic stability. According to the available data, the country reported GDP growth of 3.7% while the average annual inflation (3.6%) ranged close to the target of Albania's Bank. Economic growth was supported mainly by foreign demand and increased Albanian exports, while the domestic demand was sluggish (Bank of Albania, 2010). From 2010 – 2013, the Albanian economy was characterized by lower growth rates, due to a high number of uncertainties and weak aggregate demand. In 2013, the country reported the lowest growth rate (1.0%) compared with the other years of this study. Weak aggregate demand was accompanied by a weak growth of employment, weak inflationary pressures and even financial difficulties for enterprises. From 2014 - 2016, the Albanian economy was characterized by higher growth rates and improvement of the main indicators of economic stability. Growth in aggregate demand was accompanied by an increase in employment and a complete utilization of businesses production capacities. Consequently, internal inflationary pressures were strengthened and inflation showed clear signs of a convergence towards the target of Albanian's Bank.

According to the data of 2016, Albania has the potential for positive shifts. The country reported GDP growth of 3.4%, which suggests that further sustainable growth can be expected.

Table 3.1: GDP and Macroeconomic Stability

Indicator name		**Value**						
GDP & Macroeconomic stability		**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1	GDP growth rate (%)	3.7%	2.5 %	1.4 %	1.0 %	1.8 %	2.2ᵖ %	3.4ᵖ %
2	Debt (million ALL)	715,517	772,735	828,268	885,083	977,957	1,043,212	1,066,500
3	Inflation (%)	3.6%	3.5%	2.0%	1.9%	1.6%	1.9%	1.3%
4	Interest rate (%)	4.9%	5.1%	4.0%	3.5%	2.6%	1.9%	

Data source: Eurostat, Bank of Albania

3.2. Structure of the Economy

The agricultural sector still remains the main source of employment in Albania with 41 % of the workforce and 20.1 % (2015) share of GDP. Contribution of agriculture to economic growth is + 0.16 percentage point. Data from 2010-2012 shows an increase of the employment share in Agriculture & Mining. According to the available data, from 2013 on, the share of employment in this sector decreased. The service sector in Albania is a promising economic sector with 24 % of the workforce and the main share of 46.5% (2015) of GDP. According to the available data, the share of employment in this sector increased year-over-year. A significant contribution to economic growth is given by professional, scientific and technical activities, with + 0.44 percentage point. In public administration sector, the average share of employment is 16%, while its share in the economy is 11.1% of GDP. Contribution of this sector to economic growth is + 0.12 percentage point.

A small share of employment is seen in Utilities & Construction and Manufacturing. Data from 2013-2016 shows an increase of the employment share in the manufacturing sector. Despite the fluctuation of construction sector on employment share, its contribution to economic growth is + 0.57 percentage point.

Table 3.2: Composition of employment (%)

	Composition of employment - Percentage %	2010	2011	2012	2013	2014	2015	2016
1	Agriculture & Mining [(e)]	42.9%	46.3%	48.0%	44.9%	43.5%	42.1%	41.1%
2	Manufacturing	8.2%	7.7%	6.4%	7.5%	8.6%	9.3%	10.1%
3	Utilities & Construction [(e)]	11.6%	10.2%	9.5%	8.6%	8.0%	8.5%	8.3%
4	Services	21.0%	20.3%	20.8%	21.9%	22.6%	22.9%	24.3%
5	Public Administration	16.3%	15.5%	15.3%	16.5%	16.8%	17.0%	16.1%

Data Source: Institute of Statistics (INSTAT)

3.3. Foreign Trade

Data for the last seven years shows an increase in the export of goods, except 2015, which had a decrease in exports. According to the available data, import of goods has been fluctuating (ups and downs) during this period. After a significant increase in 2011, imports started to show a descending trend. In 2013, exports increased by 15.7 %, while imports decreased by 2.1 %. The trade deficit decreased (14.1 %) compared with the previous year (INSTAT, 2014). In 2016, the annual

average of export increased by 4.6 % and the trade deficit improved by signing an average decrease with 0.2 % (INSTAT, 2017).

According to the available data, the groups of product that dominated Albanian exports concern mineral products, processing of textile products, footwear and base metals. The increase of exports of mineral products in 2013 is due to an increase in the export of chrome ore.

Data from 2010-2016 indicates that Italy remains the largest partner of Albanian exports. During this period, exports to Italy increased for almost all groups of goods, but the most significant growth is observed for mineral products, fuels and electricity, textile products and footwear.

Data from 2012-2016 show that exports to the EU countries occupied 76.6 % of total exports, while exports to CEFTA countries (Macedonia, Montenegro, Bosnia Herzegovina, Serbia, Kosovo and Moldova) occupied 12.4 % of exports (INSTAT, 2017).

According to the available data, the groups of products that dominated Albanian imports were mineral products, machinery, mechanical and electrical equipment and base metals. Italy is the largest import partner to Albania.

Weight of imports from China has continued to grow over the last five years, while imports from Italy and Greece have decreased.

Data from 2012-2016 show that imports from EU countries occupied 62.7 % of total imports, while imports from CEFTA countries occupied 7.3 % of imports (INSTAT, 2017).

Table 3.3: Trade balance (mln EUR)

	Trade balance (millions Euro, exports and imports)	2010	2011	2012	2013	2014	2015	2016
1	Trade balance (millions Euro, exports and imports)	-2,160	-2,467	-2,267	-1,938	-2,114	-2,154	-2,399

Data Source: Eurostat, Institute of Statistics (INSTAT)

4. Business environment

4.1. Ease of Starting a Business

Institutional and legal differences between countries may make it difficult to engage in business activities. The World Bank's Doing Business provides an index,

Ease of Starting a Business, which measures the distance of each economy to the "frontier" economy providing the most lenient regulatory framework for doing business. Countries with more favourable regulatory environments will obtain scores closer to the maximum score of 100.

Table 4.1: Ranking on doing business topics

Ranking on doing business topics		**VALUE**
Doing business indicators - RANK (ranking from 190 economies)		**2017**
1	Starting a business	45
2	Dealing with construction permits	106
3	Getting electricity	157
4	Registering property	103
5	Getting credit	42
6	Protecting minority investors	20
7	Paying taxes	125
8	Trading across borders	24
9	Enforcing contracts	120
10	Resolving insolvency	41

Data Source: World Bank's Doing Business Reports (2016-2018)

World Bank's Doing Business annual report assesses countries business regulations and their impact. Albania ranked 65th out of 190 countries in the World Bank's Doing Business report concerning the national performance for 2017. This is a drop of seven places in the rankings from 58th in 2016. However, taking into considering the improvement in 2016 which saw rankings move up 39 places from 97th in 2015, this drop is not so significant. In the "starting a business" category, Albania has slightly improved by moving up one place from 46th in 2016. Other categories in which Albania saw improvements compared to the previous o year include registering property (up 3 places from 106th), getting credit (up 2 places from 44th) and resolving insolvency (up two places from 43rd). The improvement in getting credit is due to introducing amendments to the Civil Code and the Law on Securing Charges and by adopting a new insolvency law. Categories in which Albania dropped compared with last year included getting electricity (a drop of one place from 156th in 2016), protecting minority investors (a drop of one place from 19th in 2016), paying taxes (a drop of twenty-eight places from 97th in 2016) and enforcing contracts (a drop of four

places from 120th in 2016). A significant drop is shown in the paying taxes category. Its rankings for dealing with construction permits and trading across borders remained unchanged. The unchanged rank in trading across borders category is due to the mandatory scanning inspections for exports and imports introduced in 2016, which increased the time and cost for border compliance. Starting a business requires procedures, time and cost. According to the report which was based on Albanian capital city experience, requesting and obtaining the Registration Certification and Unique Business Identification Number with National Registration Center (NRC) took a day and cost 0, 75 euro. Registering employees with the Employment Regional Directory took a day and was free of charge. Finalizing registration with the Municipality Bureau of Internal Revenue and obtaining a list of applicable local fees and taxes took one day, costing around 425 euro (includes cleaning fee plus temporary educational tax). Purchasing pre-printed invoices from Tax Authority took a day and cost 2, 7 euro (for a batch of 50 invoices). Making a company seal took one day, costing between 22 and 37 euro.

4.2. Structure of Private Sector and R&D Activities

The innovative activities in the country will depend on the structure of its private sector and its R&D activities. Available data show an increase of R&D expenditures in public sector and education. There is no data on investment in R&D in business. However, venture capital investment is increased from 85,756 (ALL mill.) to 221,413 (ALL mill). Data on firm investment in R&D are missing for the whole selected period.

4.2.1. Structure of Private Sector

Table no. 4.2: Trend analysis of private sector structure

Structure of the private sector (trend analysis)		**VALUE**						
Percentage %		**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1	**Micro enterprises (0-9 employees)**	90.06%	89.73%	89.41%	89.83%	89.77%	89.61%	90.53%
2	**SMEs (10-249 employees)**	8.83%	9.11%	9.43%	8.91%	8.92%	9.30%	8.42%
3	**Large enterprises (250+ employees)**	1.11%	1.16%	1.16%	1.27%	1.31%	1.08%	1.05%
4	**Share of foreign controlled enterprises**	1.70%	2.10%	2.30%	2.70%	2.90%	2.60%	2.53%

Data Source: Institute of Statistics (INSTAT)

According to INSTAT, there were 160,679 active enterprises in 2016, out of which 145,456 or 90.1%, were micro enterprises. SMEs and large enterprises have a share of 8.4% and 1.1% respectively.

Value added is seen to have a very large fluctuation from 2011-2013. The highest growth rate of value added is 31.7 % during 2012. The lowest growth rate, as well as the negative growth rate occurred during 2011 and 2013 by respectively -6.4 % and 3.3 %. During 2014 and 2015 the situation has been normalized. Growth rate of value added in 2014 and 2015 is increased respectively by 4.2 % and 6.8 %.

In 2016, the micro sector accounted for 32.7% of total employment. Employment, in general, has been increasing at an average annual rate of 8.3% since 2010. Since growth is mainly being driven by larger enterprises, the share of SMEs in total employment has been decreasing. In 2016, SMEs' contribution to total turnover was 55.5% (micro – 15.3%, small – 10.3%, medium – 29.9%). Despite their increasing number and ever growing turnover, SMEs' share in total turnover has been decreasing over the last years due to a higher growth rate in the turnover generated by large enterprises. Albanian SMEs provide about 50% of the value added, slightly below the 58% in the EU countries.

Although the number of producers of goods has increased over the last two years, the producers of services still dominate in number (69.8%).

Data from 2016 shows that 2.5% of active enterprises are foreign and 3.5 % are foreign and joint enterprises, of which 47.2 % originate from Italy and 9.2 % from Greece. According to available data, foreign enterprises has had a slight increase in number during the period from 2010-2014. The last two years show a slightly decrease in the number of foreign enterprises.

According to available data, 34 % of active enterprises continue to exercise their economic activity since 2010.

4.2.2. R&D Activities

Albania is not part of the EU study concerning the spending of enterprises on R&D, but the following data shares a view of the innovation situation in the country.

Based on Global Competitiveness Ranking, concerning innovation, Albania has improved by 22 places from 109th in 2015. Based on the two components related to R&D of this pillar, Albania has improved. "Company spending on R&D" component moved up 47 places from 104th in 2015. Also "University-industry collaboration in R&D" moved up 35 places from 104th in 2015.

Table no. 4.3: Buyer sophistication

	Buyer Sophistication (1, worst - 7, best)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1	The degree of Buyer sophistication measures on a scale from 1 (low) to 7 (high)	3.06	3.52	3.53	3.24	3.01	3.01	3.07

Data source: Global Innovation Index, 2016, 2017

According to the Global Innovation Index, Albania is ranked 93rd out of 127 countries analyzed, which shows a drop compared to the last year. Concerning the indicators of innovation input and output used for the calculation of the innovation index, no improvement has been made. Compared last year, no changes are shown for the two sub-indices of the innovation process, while the indicator of innovation output still shows a weakness. This leads to lack of improvement in the efficiency of the innovation activity for 2016 (a ratio of 0.4). According to the Global Innovation Index, the comparative strengths of Albania are associated with the business environment on the ease of starting a business, implemented international standards and the export of ICTs services. The comparative weaknesses are associated with the ranking of the universities by QS rankings, local competition, the development of clusters and interaction between universities and the use of information and communication technologies to improve and change the business model.

5. Socio-demographic environment

5.1. Demographic development of Albania

The demographic developments of recent years show that the population of Albania is decreasing, while its structure shows that the population is ageing. This is a result of increased life expectancy and fertility, which, although growing rapidly, continues to be below the replacement level. Population changes are the result of two

components: natural increase and net migration. The natural increase has declined over the last two years due to a decline in the number of births and an increase in the number of deaths. Net migration has played an essential role in the declining population. In the last five years the population density has decreased slightly by 1.0%.

Table no. 5.1: Demographic development

Indicators		Value						
		2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
1	**GDP per capita PPS (EUR)**	3,088.42	3,190.72	3,304.89	3,322.93	3,450.41	3,546.96*	
2	**GDP growth (%)**	3.7%	2.5%	1.4%	1.0%	1.8%	2.2[p]%	3.4[p]%
3	**Population size (millions)**	2,918,674[(e)]	2,831,741	2,902,190 [(e)]	2,898,782	2,895,947	2,893,005	2,886,026
4	**Change in population (%)**				- 1.0[e]	- 1.3[e]	- 2.2[e]	
5	**Population aged 15 - 64 (number) [(e)]**	2,101,464	2,093,419	1,973,489	1,985,251	1,997,550	1,995,688	1,567,573
6	**Population density (persons per km2)**	101.3	101.0	100.9	100.7	100.5	100.2	100.0

Data source: *Eurostat, Institute of Statistics (INSTAT)*

Available data shows a decrease in the population of age group 15-64. A significant decrease of this age group dates back to the period 2015-2016. This indicator for men has remained relatively unchanged, whereas progress has been noted in women's participation in the labour market, from 50 % in 2013 to 58 % in 2016.

5.2. Movements in the active labour force

According to available data, the labour force participation rate for the population of age group 15-64 is 66.2. The analysis shows that the labour force participation rate has increased over the years. The labour force participation rate for males is higher than that of females.

From 2011- 2014, the employment rate has increased. The employment rate has decreased since 2014 even though the decrease from 2014-2015 was only a slight one. In 2016, the employment rate for the population of age group 15 – 64 is 55.9 %.

Employment rate for males is 61.9 % and for females 49.7%. The gender gap in employment for this age-group is 12.2 percentage points.

The agricultural and services sectors have the highest share of employed people with respectively 40.2 % and 40.4 % of the total employment.

Analysis of the employment rate by educational level shows that in 2016 it was higher among persons with a primary school education, followed by those with a high school and/or higher education. According to available data, employment among persons with a primary and high school education has decreased from 2011-2013. Since 2013, employment among persons with these educational levels has fluctuated. Although employment among persons with higher education has increased over the years, employment among persons with a primary and high school education still remain high.

Table no. 5.2: Labour force by age and gender

	Movements in the active labour force	2010	2011	2012	2013	2014	2015	2016
1	**Age (15-64) (%)**	62.3%	68.5%	64.9%	59.6%	61.5%	64.2%	66.2%
2	**Gender (%)**							
	Total (%)	62.3%	68.5%	64.9%	59.6%	61.5%	64.2%	66.2%
	Men (%)	72.3%	76.4%	73.4%	70.2%	72.2%	73.4%	74.1%
	Women (%)	52.9%	60.8%	56.4%	50.1%	51.3%	55.1%	58.3%

Data source: *Institute of Statistics (INSTAT)*

The unemployment rate for the population of age group 15-64 is 15.6 %. The unemployment rate for males of this age group is 16.4 % and for females is 14.6 %. Data for this age group show that the male unemployment rate at 1.8 % is higher than females. Compared to the previous year there is a decrease in the unemployment rate by 1.9 %. This difference shows that males are more active in the labour market. Compared to the previous year, youth unemployment rate has decreased by 4.3 %.

Analysis of the unemployment rate by educational level shows that the unemployment rate in 2016 was higher among persons with high school education (17.5 %) followed by those with higher education (16.9 %). According to the available data, the unemployment rate among persons with higher education increased until 2015, after which it started to decrease. Unemployment rates among persons with a high school education showed a significant increase from 2013-2014, after which it started to decrease.

Table no. 5.3: Employment status

4	Employment status (numbers)	2010	2011	2012	2013	2014	2015	2016
	- employed	1,167,.376	1,160,477	1,140,097	1,023,688	1,037,061	1,086,612	1,157,177
	- unemployed	190,653	188,547	175,703	194,043	219,797	223,864	207,770

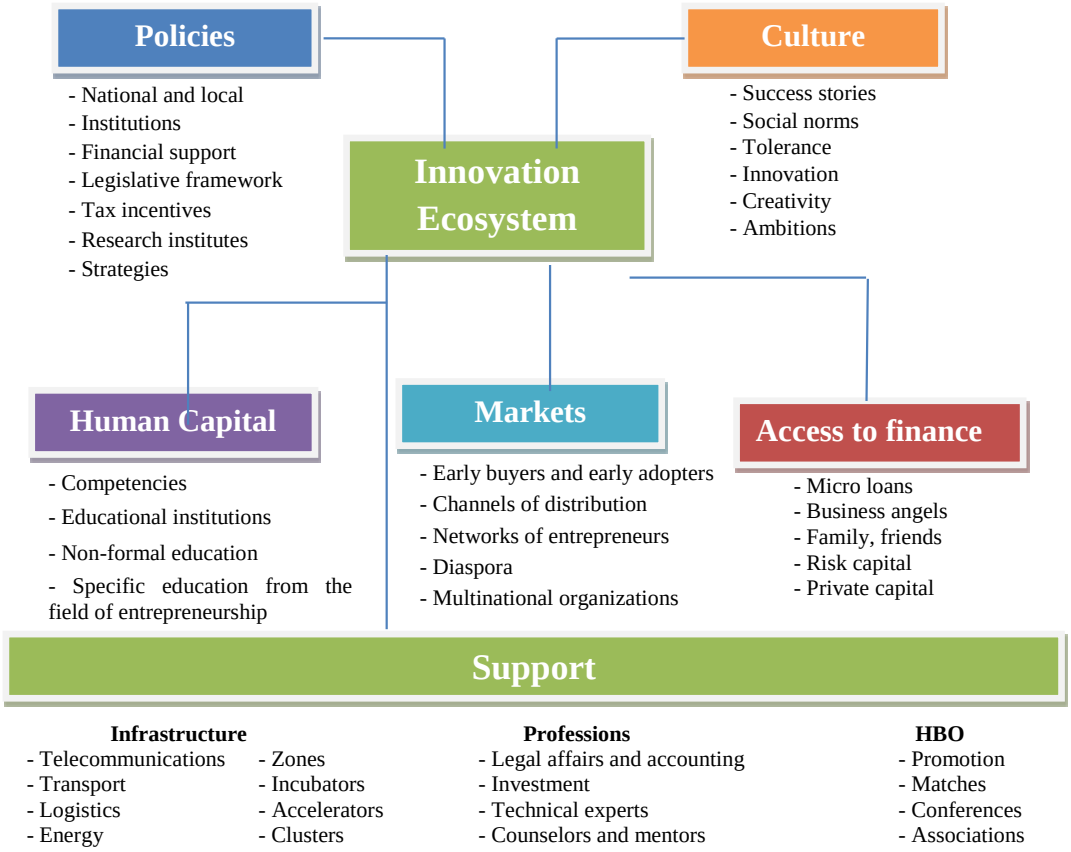
Data source: *Institute of Statistics (INSTAT)*

From 2010 – 2013 employment has decreased significantly by 12.3%. Since 2013, there has been a slight increase in employment and from 2014-2016 it has increased by 13%. In 2016, the number of unemployed people was 207,770. According to the available data, unemployment has increased by 8.9 % over the years.

6. Innovation Environment

6.1. Description of the National Innovation system

Figure no. 6.1: Stakeholders in the Ecosystem that supports the development of the Innovations



Having an innovation ecosystem implies in the first place the well-functioning of the so-called "Triple-Helix", the continuous interaction between different actors: government, business and university or research centres (Etzkowitz & Leydesdorff, 2000). A close interaction among universities, business and government would result in much effective and efficient generation of innovative ideas and their successful implementation would benefit both directly and indirectly involved stakeholders. Finally, a fourth pillar has been added, civil society, closely related to the ethical principles and social responsibility that must accompany the 'technological boom' of the digital era.

The start-up and ICT ecosystem in Albania has undergone significant improvements over the last few years. This finding is explicitly stated in the ICT Centric Innovation Ecosystem Country Review - Albania (2016) Report of the International Telecommunication Union (ITU). According to this report, startups and entrepreneurial initiatives of our country in the field of ICT have managed to solve the needs of the national and international market at very satisfactory levels compared to

previous years. However, one of the main concerns raised by stakeholders in ICT ecosystems is the lack of co-operation among these stakeholders, underlining the operation of each of them in different directions. The second and very important concern is the lack of innovative entrepreneurial culture. These concerns reiterate the necessity for cooperation among all stakeholders of the ecosystem in Albania.

As highlighted in the ITU Report (2016), the ICT ecosystem in Albania consists of 6 key stakeholders and close cooperation among them is a critic determinant for development of country in a long-term perspective: Public Sector; Private Sector; Young Entrepreneurs and Startup Ideas; Academia; Supporting Network and Financial Sector. The well-functioning and sustainability of this ecosystem will create opportunities for the development of multi-dimensional innovation at the same time, thus enhancing country's competitiveness potential at international level and enriching the innovation database for Albania in domestic and international instances.

6.2. Framework conditions

6.2.1. Human resources

Number of doctorate graduates is increased from 28 in 2011 to 240 in 2015. Although data for 2010 and 2016 are missing, it is again noted a considerable increase in the number of doctorate graduates, in correlation to the increased number of population for the 25-34 age group, from 355,811 in 2011 to 398,940 in 2015.

Number of people falling under the considered age group with some form of post-secondary education from 2010 to 2011 has increased, compared to the number of population between and including 25 and 34 years.

There is no clear information about number of participants in lifelong learning aged 25-64 years. This information is supposed to be public in national reports. Actually we can find evidences about lifelong learning participation from public servants but we cannot get information in general.

Table no. 6.1: Human Resources

		Value						
Sub Indicator	**Nominator**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
New doctorate	Number of doctorate	-	28	117	209	57	240	-

graduates per 1000 population aged 25-34	graduates							
Percentage population aged 25-34 having completed tertiary education	Number of persons in age class with some form of post-secondary education	-	22687	25002	30510	29550	33335	-
Percentage population aged 25-64 participating in lifelong learning	All persons in private households aged between 25 and 64 years.	-	-	-	-	-	-	-

Data source: Ministry of Education, Sports and Youth; Ministry of Social Welfare and Youth; INSTAT

6.2.2. Attractive research system

Regarding the scientific research system, shortcomings in concrete evidence are apparent. The only information that can be obtained is about the number of scientific publications/ year. This number is increased from 2010 (88 publications) to 2014 (154 publications). Meanwhile, data for 2015 and 2016 are missing. It is also difficult to provide information regarding the number of foreign doctors who have completed the third level of studies in Albania. There is, however, no information regarding the number of scientific publications in the top 10% most cited world publications for Albania.

6.2.3. Innovation – friendly environment

Due to the fact that Albania is not part of GEM (Global Entrepreneurship Monitor), there are no available data on broadband penetration and opportunity-driven entrepreneurship in Albania.

6.3. Investments

6.3.1. Finance and support

R&D expenditures in public sector and education increased (data available until 2015). This investment has been duplicated, showing a positive impact for the innovation in public sector and education. There is no data on investment in R & D in

business. However, venture capital investment (defined as private equity being raised for investment in companies) is increased from 85,756 (ALL mill.) to 221,413 (ALL mill). Data on firm investment in R&D are missing for the whole considered period.

Table no. 6.2: Finance and support

		Value						
Sub Indicator	**Nominator**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
R&D expenditure in the public sector (percentage of GDP)	All R&D expenditures in the government sector and the higher education sector (in mill euro)	19.2	22.3	24.3	28.9	33	39	-
Venture capital (percentage of GDP)	Venture capital investment is defined as private equity being raised for investment in companies.	621	902	1028	1164	1295	1487	1616

Data source: INSTAT; Ministry of Finance and Economy; Ministry of Education, Sports and Youth

6.4. Innovation Activities

6.4.1. Innovators (SMEs introducing product, process, marketing or organizational innovation)

Data about number of firms introducing product, process, marketing or organizational innovation in Albania are not available. For sure, most of SME have their own statistics about this indicator but there is no general statistic in national level about this indicator. There are also missing data about in-house innovation activities.

6.4.2. Linkages

There are missing data about number of public-private co-authored research publications. It is also difficult to find data about all R&D expenditures in the government sector and the higher education sector, financed by the business sector, but there are data available about all R&D expenditures in the government sector and the higher education sector, financed by all sources of founding such as national found, world bank, Agency of Research, Grant programs etc. These funding have increased significantly since 2010 (11.2 mill EUR) until 2015 (19 mill EUR).

Table no. 6.3: Linkages

		Value						
Sub Indicator	**Nominator**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Innovative SMEs collaborating with others (percentage of SMEs)	Number of SMEs with innovation co-operation activities							
Public-private co-publications per million population	Number of public-private co-authored research publications.	-	-	-	-	-	-	-
Private co-funding of public R&D expenditures (percentage of GDP)	All R&D expenditures in the government sector and the higher education sector, financed by the business sector	19.2	22.3	24.3	28.9	33	39	-

Data sources: Ministry of Education, Sports and Youth; INSTAT; AIDA

6.4.3. Intellectual assets

PCT patent applications in 2014 (13 applications) and 2015 (14 applications) can be considered as a positive result compared with 0 applications in 2010, 2012 and 2013. Number of trademark applications from 2010 to 2014 is decreased from 3,848 applications to 3,326 applications. There is no evidence for number of trademark applications in 2015 and 2016.

Number of individual designs applied for at EU Intellectual Property Office (EUIPO), is higher in 2011 (12 application) and 2014 (14 applications) and the lowest one in 2012 (0 application).

Table no. 6.4: Intellectual assets

		Value						
Sub Indicator	**Nominator**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
PCT patent applications per billion GDP (in PPS)	Number of patent applications filed under the PCT, at international phase	0	3	0	0	13	14	-
Trademark applications per billion GDP (in PPS)	Number of trademark applications applied for at (EUIPO) plus number of trademark applications applied for	3848	3834	2700	3308	3326	-	-

	at (WIPO)							
Design applications per billion GDP (in PPS)	Number of individual designs applied for at European Union Intellectual Property Office (EUIPO)	6	12	0	8	14	4	-

Data sources: General Directory of Marks and Patents

6.5. Impact

6.5.1. Employment and sales impact

There is no evidence about number of employed persons in knowledge-intensive activities in business industries. Number of employees in high-growth enterprises in 50% 'most innovative' industries is also missing. As per regarding to data on medium and high-tech exports, the highest result is in 2015 (15,123,662 mil EUR) and the lowest one in 2014 (917,486 mil EUR). These results are interesting compared to value of total product exports, which in 2015 and 2015 have been almost the lowest one. According to exports of knowledge-intensive services data, ICT export services can be considered. According to World Bank (2010-2016), the highest level of these exports is in 2016 (327,381,791 $). There are positive evidences about total turnover for all enterprises, especially during last three years of the considered period but there is no data available on sum of total turnover of new or significantly improved products, either new-to-the-firm or new-to-the-market, for these enterprises in Albania.

Table no. 6.5: Sales impact

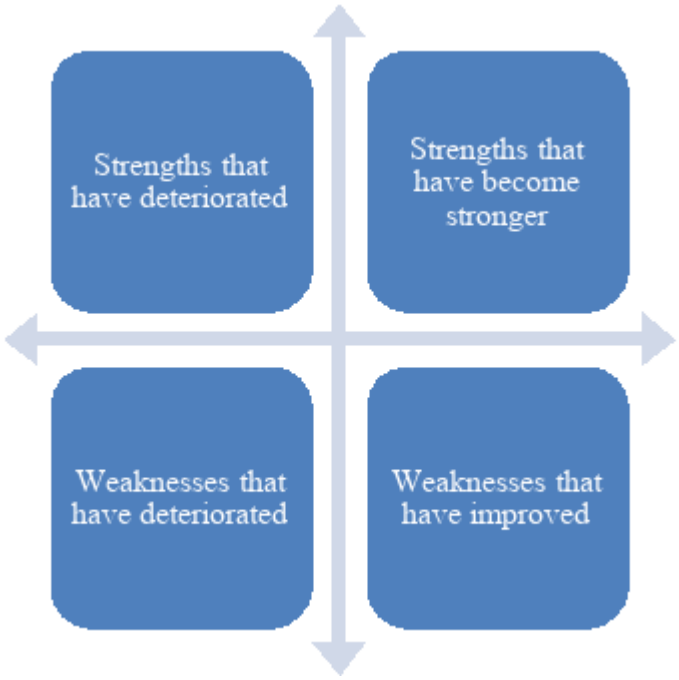
		Value						
Sub Indicator	**Nominator**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**
Exports of medium and high technology products as a share of total product exports	Value of medium and high tech exports (in mill euro)	8585833	6202700	4819147	6256686	917486	15123662	-
Knowledge-intensive services exports as percentage of total services exports	Exports of knowledge-intensive services is defined as the sum of credits in EBOPS 2010 items	280700042	296619954	282135521	269228304	247276338	226651279	327381790
Sales of new-to-	Sum of total	-	-	-	-	-	-	-

market and new-to-firm innovations as percentage of turnover	turnover of new or significantly improved products, either new-to-the-firm or new-to-the-market, for all enterprises (in mill euro)							

Data Sources: INSTAT; AIDA

7. Strengths and Weaknesses

Suggested length (1-2 pages) with two maps: one compared to the EU and another compared to the countries in the BM region



8. Conclusions and Recommendations

Despite the shifts that the Albanian economy has gone through in the last number of years, its shows sustainable growth and macroeconomic stability.

Export of goods has increased predominantly for goods such as mineral products, textile products, footwear and base metals.

Albania has made improvements concerning the ease to start a business in terms of procedures and times required. Impacts on improvements made are due to introducing reforms and changes in laws that facilitate the way of doing business. However, there is still much to be done in terms of the ease of doing business.

Despite their increasing number and ever growing turnover, SMEs' share in total turnover has been decreasing due to a higher growth rate in the turnover generated by large enterprises.
The demographic developments of recent years show that the population of Albania is decreasing, due to a decline on natural increase and net migration.

Participation of the population age group 15-64 in the labour force has increased over the years. Agriculture and services represent the sectors with the highest employment rate. Besides the fluctuation of employment rates over the years, the recent data shows an improvement which can lead to further increase of employment in the country. Although employment among persons with high education has increased over the years, employment among persons with primary and high school education still remain high. Despite the potential positive shift of the employment rate, unemployment in the country is still an issue of concern when looking at its increase over the years.

SMEs are the backbone of economic development in Albania. The development of SME innovation would strongly support Albania in its way towards a long-term sustainable development and provide a good prospect for an increase in its competitiveness in international markets. Nonetheless, existing data regarding the level of SME development in Albania is very limited. This study attempts to summarize in a single material all possible existing scenarios with regard to indicators that measure innovation at the firms' level.

Despite the lack of data regarding innovation management in Albania, existing data provides a good indication as to the country's approach to innovation. In principle, it can be concluded that the Albanian economy and, specifically, the private sector with specific focus on SMEs, are not innovation driven. In a nutshell, the most problematic results are the lack of evidence regarding R & D investment, the number of employees in R & D and the level of cooperation among ICT and innovation ecosystem.

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Appendixes

- List of responsible institutions
- List of corresponding strategies, programs and other public measures for supporting the innovation environment.
- Other

National Study of the Business Environment

Interreg
Balkan-Mediterranean
INNOPLATFORM

InnoPlatform project is co-funded by the European Union
and National Funds of the participating countries