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Research Report

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Albania

Assessment of financing needs of SMEs
in the Western Balkans countries

August 2016

Assessment of financing needs of SMEs in the Western Balkans countries

Country report: Albania



August 2016



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List of Acronyms

AAEF	Albanian-American Enterprise Fund
AECID	Spanish Agency for International Development Cooperation
AFSA	Albanian Financial Supervisory Authority
AIDA	Albanian Investment Development Agency
AITA	Albanian Information Technology Association
ALBAN	Albanian Business Angels Network
ALL	Albanian Lek (currency)
APEN	Albanian Professionals and Entrepreneurs Network
ASCU	Albanian Savings and Credit Union
BEEPS	Business Environment and Enterprise Performance Survey
BFC	Business and Finance Consulting
BKT	Banka Kombëtare Tregtare (National Commercial Bank)
BoA	Bank of Albania
BSTDB	Black Sea Trade and Development Bank
CAGR	Compound Annual Growth Rate (geometric mean)
CAR	Capital Adequacy Ratio
CPI	Consumer Price Index
EBRD	European Bank for Reconstruction and Development
EFSE	European Fund for Southeast Europe
EIB	European Investment Bank
EU	European Union
EUR	Euro (currency)
FDI	Foreign Direct Investment
FI	Financial Institution
FMO	Entrepreneurial Development Bank
GDP	Gross Domestic Product
GGF	Green for Growth Fund Southeast Europe
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GNI	Gross National Income
GoA	Government of Albania
GVA	Gross Value Added (GDP = GVA + taxes - subsidies)
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
INSTAT	Albanian Institute of Statistics
IT	Information Technology
KfW	German Development Bank
LGF	Loan Guarantee Fund
MFI	Micro-Finance Institution
MoE	Ministry of Economic Development, Tourism, Trade, and Entrepreneurship

MoF	Ministry of Finance
MSME	Micro, Small and Medium Enterprises
NACE	Statistical classification of economic activities in the European Community
NBFI	Non-Bank Financial Institution
NDFI	Non-depository Financing Institution
NGFARD	National Guarantee Fund for Agriculture and Rural Development
NPL	Non-Performing Loan
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
SBA	Small Business Act
SLA	Savings and Loan Association
SMEs	Small and Medium Enterprises
SOB	State-owned Bank
SOE	State Owned Enterprise
TA	Technical Assistance
USAID	United States Agency for International Development
USD	United States Dollar (currency)

End of period exchange rates used in this report

	2015	2014	2013	2012	2011	2010
EUR/ALL	137.28	140.14	140.20	139.59	138.93	138.77
USD/ALL	125.79	115.23	101.86	105.85	107.54	104.00

Source: BoA

About this report

This report is one of a series of reports produced by Business & Finance Consulting GmbH (BFC) for European Investment Bank (EIB) as part of the project “Assessment of financing needs of SMEs in Western Balkans countries.” The series of reports includes individual reports on Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia as well as a synthesis report which considers the results of all six reports. The purpose of the project is to assess the financing needs of SMEs in the Western Balkans and identify market failures that prevent SME access to finance.

The project was carried out from October 2015 to April 2016 by a team of three experts from BFC. On-site visits were conducted for each country in order to meet with representatives from financial institutions, development institutions, government organizations, and other relevant experts who can provide insights into the SME sector.

The visit to Albania took place from January 25 to February 2, 2016, during which time meetings were held with representatives from 30 organizations (including local financial institutions, international development institutions, government organizations, and SMEs).

The authors take full responsibility for the contents of this report. The opinions expressed do not necessarily reflect the view of the European Investment Bank.

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1 Executive summary

Despite signs of recovery and an expected gradual increase, Albania's economic growth remains below pre-crisis levels. Over the last decade, Albania's economy shifted from agriculture toward industry and service, allowing SME development in a variety of economic sectors. FDI inflows have increased significantly, but backward linkages to spur the development of the SME sector are lagging. Growing public debt has led the GoA to pass a new fiscal package, which increased the corporate income tax for large and medium companies but reduced the tax burden for smaller enterprises. With inflation significantly below the BoA's target rate, monetary easing is expected to continue in the near term. The business climate is likely to improve, as Albania became an EU candidate country in mid-2014.

SMEs in Albania play an important role in terms of employment, turnover, and value added. Trade still dominates and drives the SME sector, but other sectors have the potential to grow, with agriculture, tourism, hydro-power generation, and ICT sectors having the highest potential for growth. Despite a number of reforms that made it easier to do business in Albania, traditional bottlenecks remain unsolved or have been made even worse. It is widely recognized that Albanian firms have a weak technological capacity to upgrade by absorbing existing advanced technologies. The GoA has launched several programmes to support innovation and the supporting environment for SME innovation is gradually improving. Loans will continue to account for the largest part of the financing demand, which is expected to be driven by smaller enterprises from outside Tirana, especially those in agriculture, tourism, and hydro-power generation. Demand for non-loan products remains generally low due to a reduced awareness of their availability and/or benefits.

The country's banking sector is the main channel for SME financing, accounting for more than 88% of total supply. It is sound, profitable, and well-capitalized, although the high rate of NPLs remains a concern. There are several guarantee schemes for SMEs in Albania, with some of them being established very recently. Although the new guarantee schemes have potential to improve SMEs' access to finance, their success will largely depend on how efficiently they are managed. Non-bank financing is growing but still plays a modest role in funding for SMEs. Risk capital has been available in Albania for twenty years but the investment portfolio is very small. Customer deposits are the main source of funding, with borrowings from IFIs playing a minor role and demand for them being low given the high liquidity of the banking sector and decreasing deposit interest rates.

There is a moderate funding gap for loans in Albania, as the banks are more conservative due to high NPL levels. As lending is mostly collateral-based, the gap is higher in rural areas, with agriculture remaining largely underserved, and a rather large funding gap exists for people in the remote mountain areas. With a low loan-to-deposit ratio and high liquidity, banks have a reduced need for additional borrowings. Funding is not a priority for non-bank financial institutions either. Additional funding would be most needed to help raise awareness among SMEs of the benefits and principles of an equity or quasi-equity investment. As the potential demand for risk capital is high, especially among the start-ups in the IT sector, the gap for equity investment is judged to be large. The major opportunity for IFIs consists in a well-designed technical assistance component to be included in a funding package.

2 Macroeconomic environment¹

Key findings:

- *Despite signs of recovery and an expected gradual increase, Albania's economic growth remains below pre-crisis levels*
- *Over the last decade, Albania's economy shifted from agriculture toward industry and service, allowing SME development in a variety of economic sectors*
- *With inflation significantly below the BoA's target rate of 3%, monetary easing is expected to continue in the near term*
- *FDI inflows have increased significantly, but backward linkages to spur the development of the SME sector are lagging*
- *Growing public debt has led the GoA to pass a new fiscal package which increased the corporate income tax for large and medium companies but reduced the tax burden for smaller enterprises*
- *As Albania became an EU candidate country in mid-2014, the business climate is likely to improve*

2.1 Economic development and growth

Despite signs of recovery and an expected gradual increase, Albania's economic growth remains below its pre-crisis levels. 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. The fast economic expansion was interrupted by the global economic crisis of 2008–2010. 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 1.1% in 2013. Thanks to an increase in domestic demand supported by sound fiscal policies and structural reforms, growth picked back up in 2014. The economy is estimated to have grown between 2.5% and 2.75% in 2015. High vulnerability to external economic shocks, however, creates an unfavourable climate for investments and future development of the SME sector.

Unemployment reached its lowest rate of 13.0% in 2008 but has increased since then. In 2015, the unemployment rate (according to a national estimate) stood at 17.1%, with the lack of employment being more pronounced among youth and men. The youth unemployment rate has been increasing over the last decade and stood at 33.2% in 2015, up from under 20% in mid-2000s. Youth unemployment has become a top concern, given Albania's average population age of only 31. Young people face a number of challenges when it comes to finding a job, with the most important being a lack of appropriate skills and education to respond to the market needs. Registered SMEs account for about 70% of the formal, non-agricultural employment. Agriculture is estimated to account for about half of total employment, and about 30% of employment is believed to be informal.

The pre-crisis growth resulted in strong poverty reduction. The GNI per capita in PPP (purchasing power parity) terms in current international dollars² more than doubled from 4,900 in 2002 to 10,180 in 2014, and Albania is now classified as a middle-income country. The poverty rate, measured by national standards, decreased from 25.4% in 2002 to 12.4% in 2008, with remittances playing an important role in increasing household incomes, especially in rural areas. However, the effects of global and Euro-zone crises have halted that trend. The poverty rate slightly increased to 14.3% in 2012³, and the flow of remittances has been halved since 2007 when EUR 952 million represented 12% of Albania's GDP.

¹ Key macroeconomic indicators for the country are presented in Annex 1.

² An international dollar has the same purchasing power over GNI as a US dollar has in the United States. Source: the World Bank Development Indicators.

³ The most recent data

2.2 The structure of the economy

Albania's economy has undergone some dramatic structural changes over the last decade. Emigration and urbanization brought a shift away from agriculture and toward industry and service, allowing SME development in a variety of economic sectors. SMEs now account for about 70% of formal, non-agricultural employment in the private sector, which has more than doubled since 2000.

Despite this shift, agriculture remains one of the largest and most important sectors in Albania. Agriculture contributes around 23% to GVA and is a main source of employment and income – especially in the country's rural areas. SMEs account for 99.4% of total registered agricultural enterprises. Albania's agricultural sector, however, continues to face a number of challenges (including small farm size and land fragmentation, poor infrastructure, market limitations, limited access to credit and grants, and inadequate rural institutions) which hinder faster development of agricultural SMEs.

The SME sector is expected to be further dominated by trade. A relatively high level of remittances (almost 16% of GDP in the mid-2000s) helped increase the disposable income and purchasing power of the population. A consumption-oriented economy has been the main stimulus for the development of SMEs in trade. Although remittances now represent only 8–9% of GDP, their role is still high, and trade is generally expected to continue dominating the SME sector.

The role of construction, once a key driver of the economic growth, has decreased significantly. Remittances and income growth before the crisis of 2008–2009 also resulted in the rapid development of construction companies, more than 97% of which are SMEs. Construction contributed as much as 18.3% to GVA in 2008. Since then, however, the sector has shrunk significantly (10.6% of GVA in 2014) due to decreased demand and the current halt in construction permits issuance (see also section 3.4 below).

There is no discrimination between public and private companies operating in the same sector. After privatization, there are only a few state-owned enterprises (SOEs) in Albania. SOEs are mostly in the electrical sector (generation, transmission, and distribution), water supply, ports, railway, insurance, postal services, and hydrocarbon sectors. They operate as commercial companies in compliance with the Law on Entrepreneurs and Commercial Companies. SOEs are subject to the same tax levels, procedures, domestic accounting, and international financial reporting standards as all other commercial companies.

The informal sector represents an important part of the economy in Albania. The vast majority of informal sector activities provide goods and services whose production and distribution are perfectly legal. Informality in the economy (as high as 50%) makes tax administration a challenge. Albania has adopted a large variety of regulations to monitor labour abuses, but their enforcement remains weak due to persistent informality in the work force. According to the latest Business Environment and Enterprise Performance Survey (BEEPS V), competitor practices in the informal sector was the second biggest problem for Albanian firms. More than 40% of the firms surveyed reported competing against firms in the informal sector. This competition is highest among SMEs⁴ — 41% of them reported competing against unregistered firms compared to 27.8% of large firms. In September 2015, the GoA started a campaign consisting of massive controls and the application of penalties against the informal market. In addition, financial institutions are now required to disclose all available information about their clients. There is an agreement with banks to achieve full transparency by 2018.

2.3 Inflation and asset prices

Inflation remains low. The BoA maintains an inflation-targeting monetary policy which now faces the constraints of declining global prices, a persistent negative output gap, and low labour demand. Despite

⁵ According to Inf-93, a Tirana-based real estate agency (<http://inf-93.com/en/market-study>).

the reduction of the policy rate to an all-time low of 1.75%, the impact of monetary easing on credit has been modest thus far, reflecting high bank risk aversion, weak private sector balance sheets, and extensive euroization, all of which prevent the monetary transmission mechanism. With inflation significantly below the BoA's target rate of 3% (inflation is estimated at 1.9% for 2015, up from 1.6% in 2014), monetary easing is expected to continue in the near term.

The real estate market has been in a continuous decline since the economic crisis. Property prices tripled from 1996 to 2008⁵ but have been falling since then. Both primary and secondary markets have experienced decreased demand, resulting in fewer transactions (see also registering property in section 3.4 below). Moreover, many transactions with these properties take place informally and complicate the work of state authorities. Transaction costs and uncertainties as well as property conflicts concerning ownership discourage investments in these immovable properties.

2.4 Balance of payments

Large external imbalances are gradually being corrected, but external vulnerabilities remain. The current account deficit declined from its record high of 15.7% of GDP in 2008 to 10.2% in 2012, but the trend reversed starting in 2013 and reached 12.9% of GDP in 2014. Exports were growing until 2013 but started to fall in 2014. Mineral products, one of Albania's major export product groups, have increasingly dominated the export structure in Albania, putting the country behind Western Balkan peers in terms of export diversification. Albania's trade balance has been fluctuating between 18.2% and 18.9% of GDP over the 2012–2014 period.

FDI inflows are significant, but backward linkages to spur the development of the SME sector are lagging. The FDI annual inflow soared from 3.0% of GDP in 2002 to 11.2% of GDP in 2009 and has averaged close to 8.0% of GDP (or EUR 760 million) since then. The primary recipients of FDI inflows are extractive industries (primarily oil and gas), telecommunication, financial intermediation, and wholesale and retail sales. Although FDI projects offer good opportunities for increasing backward linkages with local companies, these are currently limited, thus restraining employment gains, net export growth, know-how sharing, and other FDI spillovers. Investments go primarily to large enterprises and SMEs are not benefiting much.

The BoA maintains a floating free exchange rate regime for its domestic currency. Even though the exchange rate regime is flexible with relatively little intervention, the ALL exchange rate against the EUR has changed little since 2011. In contrast, the ALL has depreciated by approximately 20% compared to the USD over the past two years (largely due to EUR depreciation).

2.5 The fiscal and political situation

Public debt has surged since the mid–2000s. The increase in public debt resulted from a loose fiscal policy, the need to support the state-owned power generation company, and external shocks. At the end of 2012, parliament revoked the 60% of public debt-to-GDP limit without replacing it with any other fiscal or debt anchor. According to the MoF (preliminary data), public debt stood at 72.2% of GDP in 2015, up from 57.7% of GDP in 2010. Over the last decade, domestic and external debt have been increasing at an average annual rate of 6.2% and 12.7%, respectively.

Growing public debt has led the government to pass a new fiscal package. In an effort to address the sharp decline in government revenues during 2012–2013 and growing public debt, the GoA, in consultation with the IMF, passed a new fiscal package in December 2013. The new fiscal package increased the corporate income tax from 10% to 15% for medium and large companies and reduced the tax rate from 10% to 7.5% for companies with less than USD 80,000 in annual turnover. The package also implement-

⁵ According to Inf-93, a Tirana-based real estate agency (<http://inf-93.com/en/market-study>).

ed a progressive personal income tax, removed the cap for health insurance contributions, and eliminated many tax breaks and incentives in the oil and gas sector. Fiscal measures have been taken on the expenditure side too. As a result, the fiscal deficit narrowed from 5.2% of GDP in 2014 to an estimated 3.8% of GDP in 2015. According to the World Bank, Albania's public debt is projected to fall below 60% by 2019 as sustained fiscal consolidation combined with solid GDP growth is expected to put public debt on a steep downward trajectory.

The energy sector poses significant fiscal risks and, at the same time, offers an opportunity for SMEs. About 98% of Albania's energy is generated from hydropower. Frequent energy shortages due to fluctuations in rainfall, high distribution losses (up to 45%), and regulated tariffs below energy costs have resulted in liquidity injections by the GoA to the energy generation company KESh and other fiscal support to the sector. Furthermore, low collection rates from energy consumers have contributed to significant financial difficulties of the state-owned distribution company OShEE. Overall, the Albanian energy sector is not financially self-sustainable. By the end of 2014, the GoA had introduced new tariffs and initiated an enforcement program to reduce the theft of electricity and improve revenue collections. As a result, losses decreased and the collection rate improved, but the level of losses and arrears remain high⁶. In February 2015, the GoA prepared a Power Sector Financial Recovery Plan which envisages a gradual shifting to market liberalization. IFC has assisted the GoA on concessioning and investing in medium-sized hydropower plants and is helping to draft a new renewable energy law to enable the private sector to develop and construct feasible plants.

EU integration is likely to improve the business climate. In June 2014, Albania became an EU candidate country and is now working to fulfil the necessary criteria that would pave the way for the start of accession negotiations. The integration process provides an incentive for Albania to continue with its reforms and improve the business climate.

⁶ Nevertheless, in early December 2015, the GoA decided to pardon late payment charges that households and small businesses owe to the OShEE. It affected some 25,000 households and 6,500 small companies, which owed about EUR 40 million and EUR 3.5 million, respectively. Moreover, the GoA announced that similar measures will continue to be applied for households and businesses.

3 Demand analysis

Key findings:

- SMEs in Albania play an important role in terms of employment, turnover, and value added
- Trade still dominates and drives the SME sector, but other sectors have the potential to grow. Agriculture, tourism, hydro-power generation, and ICT sectors have the highest potential for growth
- Despite a number of reforms that made it easier to do business in Albania, traditional bottlenecks remain unsolved or have been made even worse
- It is widely recognized that Albanian firms have a weak technological capacity to upgrade by absorbing existing advanced technologies. The GoA has launched several programmes to support innovation, and the supporting environment for SME innovation is gradually improving
- Total demand for SME loans is estimated at EUR 1.4 billion, and loans will continue to account for the largest part of the financing demand. The demand is expected to be driven by smaller enterprises from outside Tirana, especially those in agriculture, tourism, and hydro-power generation
- Demand for non-loan products remains generally low due to a reduced awareness about their availability and/or benefits

3.1 Size and growth of the segment

3.1.1 Size and definition of sector

The legal identification of SMEs in Albania is regulated by law. It is based on the number of employees and annual turnover or total balance sheet assets. INSTAT, however, defines company size based on the number of people employed, which is different from the number of employees⁷.

Table 1 Legal SME definition in Albania

Size	No. of employees	Annual turnover or total assets
Micro	0–9	Up to ALL 10 million (or EUR 72,844)*
Small	10–49	Up to ALL 50 million (or EUR 364,219)*
Medium	50–249	Up to ALL 250 million (or EUR 1,821,096)*

Note: * Exchange rate of year-end 2015

Source: Law No. 1042 of 22.12.2008

According to INSTAT, there were 112,537 active enterprises⁸ in 2014, out of which 101,025, or 89.8%, were enterprises with up to 4 people employed, including 85,654, or 76.1%, individual entrepreneurs. Enterprises with 5–9 and 10–49 employed had a share of 4.8% and 4.1%, respectively. Enterprises with 50 and more employed accounted for 1.3% of the total number of enterprises in 2014.

Table 2. Breakdown of active enterprises by number of employed, 2010–2014

No. of employed		2014	2013	2012	2011	2010
1–4	(micro)	101,025	99,782	95,520	97,836	92,798
5–9	(small)	5,387	5,235	5,636	5,194	5,018
10–49	(medium)	4,647	4,660	4,439	4,744	4,078
SMEs		111,059	109,677	105,595	107,774	101,894
50+	(large)	1,478	1,406	1,242	1,265	1,144
TOTAL		112,537	111,083	106,837	109,039	103,038

Source: INSTAT, Business Register

⁷ Employed are people who work at the enterprise regardless of whether they are paid or not. Thus, employed includes employees, owners and unpaid family members.

⁸ Enterprises include both legal entities and individuals that are engaged in an economic activity.

3.1.2 Importance of the sector

Although decreasing, the share of SMEs in total employment is still high. In 2014, the SME sector accounted for 60.3% of total employment (micro – 31.7%, small – 7.8%, medium – 20.8%)⁹, which is comparable to the 67% in EU countries. 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.

SMEs account for more than a half the total turnover and value added. In 2014, SMEs' contribution to total turnover was 55.5% (micro – 13.8%, small – 11.7%, medium – 30.0%). 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.

3.1.3 Other estimates

INSTAT reports statistics on enterprises in two annual reports. The total number of enterprises, their distribution across the economic sectors, and their sizes are reported in the Business Register while performance indicators (such as employment, turnover, value added, etc.) are reported in the Results on the Structural Survey of Enterprises. The two documents have major methodological discrepancies. The survey is reported in line with EU Structural Business Statistics and is different from the register in several ways:

- Economic activities do not include agriculture, hunting and fishing, financial and insurance activities, public and defense administration, compulsory social security, or extraterritorial organizations and bodies;
- Data are only provided on enterprises that, according to the statistical business register, were active in December of the reference year;
- Enterprises with 10 or more employed are surveyed exhaustively while enterprises with 1–9 employed are sampled.

3.1.4 Accuracy of estimates

The number of SMEs in Albania and their contribution to employment and value added, as reported by INSTAT, is understated. According to the legal definition (see table above) and, even more so, the EU definition of SMEs (i.e. firms that employ less than 250 people and have an annual turnover of no more than EUR 50 million or a total balance sheet that does not exceed EUR 43 million), virtually all enterprises in Albania can be categorized as SMEs with only a few companies being large. According to EuroStat, the SME share of the business population in Albania was 99.9% of registered entities (including micro – 95.1%, small – 3.9%, and medium – 0.9%) in 2013. Their contribution to employment and value added was 81.0% and 67.7%, respectively — both being well above EU-28 averages.

Conclusions and trends as measured over time have to be interpreted with caution. In 2014, size classes were redefined¹⁰ and the classification of economic activities changed¹¹, which made comparison over time less reliable.

3.1.5 Growth rate

The total number of enterprises has been growing at a CAGR of 2.2% since 2010. Growth is primarily driven by micro enterprises, whose number increased from 92,798 in 2010 to 101,025 in 2014. The share of SMEs in the total number of enterprises has been rather stable, fluctuating between 98.7% and

⁹ The size definitions are based on the INSTAT groupings

¹⁰ New classes include 1–4, 5–9, 10–49, and 50+ employed (it used to be 1-4, 5-19, 20-79, and 80+ employed).

¹¹ Economic activities are now classified according to NACE Rev. 2 (it used to be NACE Rev. 1).

98.9%. Despite an impressive growth of the number of large enterprises from 1,144 in 2010 to 1,478 in 2014, their share has never exceeded 1.3%.

3.2 Characteristics of SMEs

3.2.1 Economic activity

Almost 45,000 enterprises, or more than 40% of all SMEs, carry out their activities in the field of trade. More than 42,500 of trade enterprises have 1–4 employed. Since this economic sector generates high turnover, it accounts for about a third of value added by all non-agricultural, non-financial, and non-public SMEs. Wholesale and retail trade is also the largest employer, accounting for 34.0%.

The second largest group of SMEs includes enterprises in accommodation and food services. Some 18,000 enterprises, 95% of which are enterprises with 1–4 employed, generate 13.2% of employment. This is the only activity where micro-enterprises account for the largest value added (65%).

Other important activities are manufacturing and construction. SMEs generate almost 50% of the total manufacturing value added and more than 70% of value added in construction. In construction, small enterprises contribute the most (more than large companies) value added. These two sectors also account for a significant employment share.

Table 3. Breakdown of SMEs by economic sector, 2013*

Economic sector	Number of enterprises	Number of employees	Value added
Agriculture, hunting and forestry	1.5%	excluded	excluded
Mining and quarrying		1.6%	3.7%
Manufacturing	9.1%	15.0%	12.1%
Electricity, gas, and water		1.8%	4.7%
Construction	4.3%	10.7%	17.4%
Trade	40.8%	34.0%	33.5%
Accommodation and food services	16.2%	13.2%	5.5%
Transportation and storage	7.3%	7.5%	8.1%
Information and communications	2.2%		
Other services	18.5%	16.3%	14.9%

Note: * The most recent available data.

Source: INSTAT, Business Register (count) and Results on the Structural Survey of Enterprises (employment and value added).

3.2.2 Ownership

Most SMEs are privately owned. In 2014, foreign capital was present in 4,951 SMEs (or 4.5% of their total number), including 3,753 enterprises with 1–4 employed. The single largest origin of foreign investment is Italy, citizens of which invested in 2,116 Albanian SMEs (or 42.7% of all SMEs with foreign capital). Other countries include Greece, Turkey and Kosovo.

3.2.3 Regional distribution

Traditionally, most SMEs are located in the capital city of Tirana, and the trend has been moving upward from 38.3% in 2010 to 43.8% in 2014. Northern, central, and southern regions account for approximately 20% (almost half of which are in Durrës, the second largest concentration), 50% (including Tirana), and 30% of total SMEs, respectively.

3.2.4 Gender

Women's participation in business is slowly but steadily increasing. Women comprise over a quarter of business owners/administrators. Women's participation has been steadily increasing in micro and small enterprises while being stable in medium-sized companies. Almost 30% of micro-businesses are owned/administered by women.

Table 4. Share of active enterprises with women as owners and/or administrators, 2010–2014

No. of employed		2014	2013	2012	2011	2010
1–4	(micro)	29.8%	29.1%	28.8%	28.4%	27.8%
5–9	(small)	16.9%	16.3%	15.9%	14.3%	13.9%
10–49	(medium)	15.6%	15.8%	15.7%	14.4%	14.3%
50+	(large)	16.1%	14.4%	14.5%	14.7%	15.0%
TOTAL		28.5%	27.8%	27.4%	26.9%	26.5%

Source: INSTAT, Business Register

3.3 Performance

3.3.1 Performance by economic activity

Trade and construction are the two largest income earners. In 2013, the trade sector generated more than 45% of all SME profit. Construction is another significant generator of profit, but earnings in this sector have been declining, which has resulted in a higher share of trade in total SME profit. Investments in infrastructure and real estate activities supported growth of the construction sector; however, growth eventually slowed as many larger construction projects were finished. Huge delays in payments from state institutions for public works performed by private companies also had negative effects on businesses.

Table 5. Contribution of SMEs to net income by economic sector, 2010–2013*

Economic sector	2013	2012	2011	2010
Mining and quarrying	4.1%	3.4%	10.0%	9.3%
Manufacturing	8.5%	7.3%		
Electricity, gas, and water	5.6%	–8.4%		
Construction	13.6%	11.8%	19.4%	16.0%
Trade	37.6%	31.2%	33.2%	21.7%
Transportation and storage	0.0%	9.5%	5.7%	4.7%
Accommodation and food services	5.5%	4.9%	7.5%	9.2%
Other services	8.1%	7.7%		
SME TOTAL	83.0%	67.4%	75.8%	61.0%
Large	17.0%	32.6%	24.2%	39.0%
TOTAL	100.0%	100.0%	100.0%	100.0%

Note: * 2014 data not available.

Source: INSTAT, Results on the Structural Survey of Enterprises.

Real estate activities have performed better than many other sectors. The GoA tries to foster economic growth by setting up economic zones (industrial parks and free zones). The development of these zones is based on public/private partnerships. One of the sectors profiting from this is the real estate sector, which performed better than the Albanian economy in general in terms of value added and employment.

Another fast growing sector is transportation and storage. The World Bank provided financial support and expertise to establish a modern infrastructure network and transport system, which, together with GoA efforts to improve the country's infrastructure, is driving the development of the transport sector.

3.3.2 Performance by size

In general, micro enterprises showed better performance compared to small and medium enterprises. Over the last few years, particularly good results were shown by micro and small enterprises in trade and small and medium firms in construction.

Table 6. Contribution of SMEs to net income by size, 2010–2013*

Size	2013	2012	2011	2010
Micro	33.0%	26.4%	27.8%	21.7%
Small	23.3%	28.4%	21.4%	18.7%
Medium	26.8%	12.6%	26.6%	20.7%
SME TOTAL	83.0%	67.4%	75.8%	61.0%
Large	17.0%	32.6%	24.2%	39.0%
TOTAL	100.0%	100.0%	100.0%	100.0%

Note: * 2014 data not available.

Source: INSTAT, Results on the Structural Survey of Enterprises.

3.4 Institutional and regulatory issues

Albania ranked 97 out of 189 countries in the World Bank's *Doing Business 2016*. This is 35 ranks lower compared to *Doing Business 2015*. Despite a number of reforms that made it easier to do business in Albania, traditional bottlenecks such as dealing with construction permits, getting electricity, registering property, paying taxes, and enforcing contracts remain unsolved or have been made even worse.

3.4.1 Starting a business

Globally, Albania stands at 58 in the ranking of 189 economies on the ease of starting a business, ahead of most countries in the Western Balkans. Starting a business in Albania requires 6 procedures, takes 5.5 days, costs 10.4% of income per capita and requires no paid-in minimum capital. The National Registration Centre was established in 2007 as a new central public institution which functions as a single window where entrepreneurs can complete company registration, tax registration, social insurance, health insurance and labour directorate registration with a single application procedure. The registration may be done online via e-Albania portal, which was launched in January 2015, but a majority of companies still register in person. Albania made starting a business easier by making the notarization of incorporation documents optional and by lowering registration fees.

3.4.2 Dealing with construction permits

No construction permits are currently issued. The new government first made dealing with construction permits easier by resuming the issuance of construction permits and by consolidating the land permit and construction permit into a single construction development permit. In 2014, however, the issuance of building permits was suspended by the new government in an effort to combat illegal building works. Over the past two decades, hundreds of thousands of buildings have been erected in Albania without a construction permit. The GoA intends to first legalise all unauthorized buildings and penalise constructions on the coast and in national parks.

3.4.3 Getting electricity

A reliable and affordable energy supply is one of the main factors that constrains the development of SMEs in Albania. Getting electricity requires 6 procedures, takes 177 days and costs 491.4% of income

per capita. According to BEEPS V, electricity issues remained the most severe obstacle for firms in Albania, although the percentage of annual revenue lost due to power outages decreased from 15% in 2007 to 7.7% in the latest survey.

3.4.4 Registering property

Despite improvements to ease property registration and transfer, property registration remains a significant obstacle. Previous improvements include the establishment of effective time limits and computerization of the records on immovable property. However, due to some imperfections in the legislation (the GoA is still in the process of returning properties to their pre-Communist period owners), there are properties with multiple owners. Fake title deeds are not rare since a number of buildings and new constructions lack appropriate permits. Many unresolved cases of ownership are still waiting to be processed by the Albanian judicial authorities while the number of cases addressed to the European Court of Human Rights is increasing rapidly. Illegally constructed buildings, not-yet legalized buildings, and undocumented or unregistered property all remain outside the formal property market because of unclear legal statuses. This situation does not allow property owners, including SMEs and their shareholders, to use this property as collateral or to sell it at fair market value.

Access to land is increasingly problematic for the business environment. According to BEEPS V (2013), some 44% of respondent firms noted access to land as a problem, which is considerably higher compared to 26% in BEEPS III (2005). In an attempt to tackle this, the legalization process was treated as a priority by the authorities. However, electoral pressures have made successful land administration reforms difficult.

3.4.5 Paying taxes

Albania scores low on paying taxes. On average, firms make 34 tax payments a year, compared to 19.2 in Europe and Central Asia and 11.1 in OECD high income countries. Albanian companies also spend considerably more time to preparing, filing, and paying taxes. Although paying taxes became easier with electronic filing and allowing corporate income tax to be paid quarterly, the total tax rate has increased. In 2014, the government increased the corporate income tax from 10% to 15% for medium and large companies and reduced the tax rate from 10% to 7.5% for companies with less than USD 80,000 in annual turnover.

3.4.6 Entrepreneurship and support programs

The level of entrepreneurship in Albania is generally considered to be low. The legacy of state ownership is still there. Many Albanians prefer a stable job working for somebody else (e.g. the government, banks, large enterprises) rather than owning an enterprise. Even if unsuccessful with employment, starting a business is not always seen as a good opportunity due to various reasons including low self-confidence and fear of failure, which comes from a lack of entrepreneurial knowledge. In an attempt to promote entrepreneurship, the GoA introduced the 'basics of entrepreneurship' module as a compulsory subject in vocational education curricula. The 'junior achievement' module, which was made available as a non-compulsory subject in secondary schools, was introduced at 94 vocational high schools and gymnasiums. They encourage students to establish their own businesses. The National Employment and Skills Strategy 2014–2020 aims to enhance employment by creating quality jobs and by fostering skills of the labour force. Self-employment, especially of the young population, is encouraged. Particular attention has been paid to supporting female entrepreneurship. Projects addressing disadvantaged people have also been launched. Introduction of a dual educational system is envisaged, combining vocational courses and apprenticeships in companies.

3.4.7 Trading across borders

Worldwide, Albania ranks relatively high when it comes to trading. However, the country is behind most of its neighbours in the Western Balkan region. For exports, the time for border compliance has been reduced by implementing an electronic, risk-based inspection system but still remains high.

3.4.8 Environmental issues

Albania is moving toward gradual approximation of its laws with EU environmental legislation, but the process is slow. According to the OECD, eco-efficient business and eco-innovation are poorly embedded in the national policy framework. The Business and Investment Strategy highlights the need to ensure environmental sustainability but does not outline concrete measures to reach this objective. Information on environmental issues and tools remains scarce, with the GoA playing only a minor role in providing environment related information to businesses. Green growth in the SME sector is also constrained by a lack of expertise on environmental issues. Businesses remain largely unaware of environmental management systems and standards, and the GoA has not yet put measures in place to encourage their adoption.

3.4.9 Enforcing laws

Law enforcement remains a problem. In 2015, Albania made the enforcement of judgements more efficient by introducing private bailiffs. However, the cost to enforce a contract remains high, and the overall judicial process is slow due to the lack of a court or division of a court dedicated solely to hearing commercial cases, lack of an expedited procedure for small claims, and a number of inefficiencies in case management. The Bankruptcy Law of 2002 has scarcely been used as the insolvency proceedings envisaged by the law are reportedly too complex and burdensome. It takes 525 days to enforce a contract following 39 procedures or 2 years to resolve insolvency, according to the latest *Doing Business* report. Issues with insolvency resolution have resulted in very high NPL levels on the banks' balance sheets, affecting their profitability and ability to grow their loan portfolio (see also section 5.4 below). The concern grows when taking into account the fact that NPLs are mainly in the construction and trade sectors, two vital sectors of the Albanian economy.

Transparency of the regulatory system is weak. Albania's regulatory system has improved in recent years, but challenges like uneven enforcement of legislation, cumbersome bureaucracy, and lack of transparency are all hindrances to the business community. Despite an impressive climb of 22 positions in the Transparency International *Corruption Perceptions Index* from 110th (last in Europe) in 2014 to 88th in 2015, corruption remains a persistent and pervasive problem at all levels of the Albanian society. Legislation and governmental structures designed to fight corruption are in place, but a culture of impunity is reportedly widespread and deeply rooted in Albania. According to the US Department of State's *Investment Climate Statement 2015*, both domestic and foreign companies can point to the judiciary, uneven enforcement of laws and property rights, the opaque regulatory environment, and government procurement as indicators of endemic corruption.

3.5 Innovation

It is recognized that Albanian firms have a weak technological capacity to upgrade by absorbing existing advanced technologies. According to the European Commission *2015 SBA Fact Sheet*, there is no data available for Albania for the indicators related to innovation. Based on interviews and desk research, it can be confidently assumed that there are SMEs that introduce product, process, marketing, or organisational innovations in Albania, although their number is believed to be rather low. In addition, in-house innovation remains weak. Economic competitiveness and exports are low with the economy still heavily skewed towards low technology. Specific measures are needed to strengthen innovation capacity by establishing stronger links between science, technology, higher education and businesses. The introduc-

tion of incubators, clusters and technological parks deserves more emphasis. Expenditure for scientific research and development in Albania is among the lowest in Europe.

Albania has established a foundation for innovation policies. The first National Strategy of Science, Technology and Innovation 2009–2015 was adopted in 2009, and the Albanian Agency of Research, Technology and Innovation was established to improve policy implementation. The Business Innovation and Technology Strategy 2011–2016 and the Strategic Programme for Innovation and Technological Development of SMEs 2011–2016 were launched in 2010 and 2011, respectively. The four main pillars of the strategy in 2011–2016 were: the Innovation Fund, business innovation services, Business Incubator Programme, and Albanian Cluster Programme. Implementation, however, has been sparse and slow. Innovation support was also emphasized in the Business and Investment Development Strategy 2014–2020.

The GoA has launched several programmes to financially support innovation and technology development. The Albanian Investment Development Agency (AIDA) was established in 2010 with its main objectives being to attract foreign investment, increase the competitiveness of the Albanian economy through support for SMEs, and innovation. The agency runs several programmes, including the Innovation Fund, Innovation Voucher Scheme, and Startup Fund. The Business Relay and Innovation Centre was set up under AIDA to be the executive arm for the implementation of the innovation strategy and provide both technical assistance and financial support for companies to engage in innovation.

The ICT sector currently leads the innovation process in Albania. The second National Strategy for Development and Integration 2014–2020 defines new priority sectors for research which include ICT, biotechnology, water and energy, and other fields. ICT, however, is regarded as a major driver of modernization and innovation. The Albanian Information Technology Association (AITA), established in 2007, has become the most important representative body of the Albanian IT domain and a leading force in innovation, technology and competitiveness in the ICT sector.

The supporting environment for SME innovation is gradually improving. Aside from the GoA, there are a number of organisations that actively support innovative startups and existing SMEs. The ProTIK ICT Resource Center was established in 2012 by the combined efforts of the GoA, USAID, the Albanian-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. Other innovation supporting initiatives include ADRIA-Tinn (a cross-border business ecosystem in the Adriatic area supporting energy, bio-economy and well-being SMEs in innovating, networking and growing), The Albanian Innovative Accelerator (a UK-based Gconsultancy's social innovation project), Ofiçina (an entrepreneurship and innovation lab that also runs an accelerator program for high-tech startups), the Albanian Open Innovation Center, and vaskeni.com (a blog dedicated to the Albanian and regional startup ecosystem)¹².

3.6 Demand for finance

3.6.1 Estimate of demand

Total demand for SME loans is estimated at EUR 1.4 billion, which is about 14% of GDP and 34% of the total loans of the financial system. This figure was derived using the loan volume breakdowns collected from SME lenders, data from INSTAT and the Business Register, and World Bank estimates of firms not needing a loan. The calculation is shown in the table below.

Calculation of demand for loans from MSEs

¹² A comprehensive list of various supporters of the Albanian startup eco-system is provided by StartUs Magazine (<http://magazine.startus.cc/tirana-startup-city-guide>).

Step in Calculation	Value	Source
A. Number of SMEs	111,059	INSTAT, Business Register
B. Average loan size demanded (EUR)	35,667.8	BFC calculations
C. % of enterprises needing a loan	36.0%	World Bank Enterprise Surveys ¹³
D. Total demand (EUR million)	1,426.0	= A * B * C

The demand estimate is only intended to give a general idea of the level of demand. The methodology of the calculation is simplistic and based on a number of assumptions. Since there is no available survey data on the loan size demanded from SMEs, the average loan size disbursed was used as a proxy for loan size demanded. The average loan size disbursed was calculated by dividing the estimated SME loan portfolio (see section 5.6) by the estimated number of borrowers. The number of borrowers was estimated based on the total number of SMEs in Albania and the percentage of firms with a bank loan/credit line as reported by the World Bank Enterprise Survey. Each data source uses a different definition of SMEs, which reduces the accuracy of the estimate. There are no reliable data that could be used to estimate the demand for non-loan products such as equity, leases and letters of credit.

3.6.2 Demand by type of SME

Demand is uneven across economic sectors. The size of each economic sector directly affects the demand for finance. Furthermore, the demand will grow or decrease for each economic sector depending on the expected development of the sector. Trade is expected to continue driving the SME sector and, thusly, the overall SME demand for finance. In addition, there are several sectors that the GoA has identified as key sectors for development and actively supports. In particular, the main priority of the GoA is for the country to become self-sufficient and be able to fulfil all of its energy needs through a network of small, hydroelectric power plants. In 2014, the GoA has rolled out the Textile and Footwear Industry Package, giving a strong stimulus to this sector. The new Law on Strategic Investments, which entered into force on January 1, 2016, defines four strategic areas for the country:

1. Energy and mining
2. Transport, tele-communications, infrastructure and urban waste
3. Tourism
4. Agriculture and fisheries

Accordingly, the Albanian Investment Development Agency encourages investment in renewable energy; exploration, exploitation and processing of mineral ores; tourism; manufacturing (especially in the textile and footwear industry); transport and logistics; and the ICT sector. Construction is on halt as no construction permits are currently issued.

Smaller enterprises will drive the demand for SME finance. In terms of size, smaller enterprises will most likely lead in demand. Micro-enterprises perform better, and their number and contribution to turnover and value added have been increasing. The number of small enterprises is expected to increase due to successful micro-enterprises moving up the classification ladder. The demand from medium-sized companies is expected to be stable.

Demand from outside Tirana will increase. If the efforts of the GoA prove successful and the identified key sectors start growing faster, the demand for finance will grow accordingly. While some industries are concentrated in Tirana (e.g. the IT sector), other sectors are outside the capital (e.g. agriculture, tourism, power generation). Despite existing difficulties in agriculture (small scale production, land ownership disputes, limited processing capacity, etc.), this sector is largely expected to grow due to increased attention from the GoA and financial institutions.

¹³ The World Bank surveys report the % of enterprises not needing a loan, from which the percent of enterprises needing a loan is inferred as 100% minus the % not needing a loan.

3.6.3 Demand by instrument

Loans will continue to account for the largest part of demand as the banking system is the most developed and perceived as the most reliable, and loan products are the most familiar. In terms of loan purpose, no significant change in demand is expected. Overdrafts, working capital, and investment loans will account for about 30%, 20%, and 50%, respectively as it has been over the last five years. The demand for ALL-denominated loans will probably continue to increase but at a relatively low pace.

Demand for trade finance will grow further. As a small country, Albanian economic growth depends on trade with other countries. Real and sustainable growth is believed to be driven by SMEs that manage to do business outside Albania. Trade finance is thus expected to become more important, and the demand for it will most probably grow.

Demand for leases is low and loans are preferred over leases. Loans are more attractive for a number of reasons. SMEs are less familiar with leasing; loans are often cheaper; and getting a loan is frequently easier. As most leasing companies are affiliated with commercial banks, lease products seem to just supplement the banks' product range and are not made particularly attractive. In addition, Albanians tend to own rather than rent.

Demand for equity is also low, even when external financing is much needed. Equity financing is largely unknown in Albania. The limited knowledge about risk capital (as opposed to traditional bank lending) makes many smaller entrepreneurs feel uncomfortable with this instrument. Without properly understanding the risk and profit sharing principle, SMEs are generally reluctant to consider equity financing since it involves giving up some ownership (and/or control) to a stranger. The exception is probably the IT sector, having many potential entrepreneurs with innovative ideas looking for risk capital to start a business.

4 Supply analysis

Key findings:

- The total supply of SME loan and lease financing is estimated at EUR 1.3 billion, or about 30% of total gross portfolio
- The country's banking sector is the main channel for SME financing, accounting for more than 88% of total supply. It is sound, profitable, and well-capitalized, although the high rate of NPLs remains a concern
- There are several guarantee schemes for SMEs in Albania, with some of them being established very recently. Although the new guarantee schemes have potential to improve SMEs' access to finance, their success will largely depend on how efficiently they are managed
- Non-bank financing is growing but still plays a modest role in funding for SMEs
- Risk capital has been available in Albania for twenty years but it was mostly unsuccessful. The current investment portfolio is very small
- Customer deposits are the main source of funding, with borrowings from IFIs playing a minor role and demand for them being low given the high liquidity of the banking sector and decreasing deposit interest rates

4.1 Number and type of intermediaries

4.1.1 Banks

The banking system is the backbone of the Albanian financial sector. The 16 Albanian commercial banks accounted for 90.3% of total financial sector assets in 2014¹⁴. While the number of banks has remained unchanged since 2007, the total assets of the banking system have been growing at an average annual rate¹⁵ of 7.5% over the last five years, much faster than the country's GDP. As a result, the intermediation rate (measured as total assets to GDP) increased from 81.0% in 2010 to 91.6% in 2014, which is still relatively low.

Table 7. Number of institutions, total assets, and gross portfolio of the 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: BoA

Concentration in the banking system is very high and increasing. The largest two banks (Raiffeisen Bank and the National Commercial Bank, commonly known and referred to as BKT for its name in Albanian: Banka Kombëtare Tregtare) accounted for 45.2% of total financial sector assets in 2014, up from 43.5% in 2010¹⁶, whereas the top five banks (adding Intesa Sanpaolo Bank, Banka Credins, and Tirana Bank) accounted for 73.8% in 2014, up from 71.9% in 2010.

Foreign capital continues to dominate the capital structure. Foreign investors' share in Albanian banks' capital stood at 89.5% in 2014. Austria (through Raiffeisen Bank) and Turkey (through BKT) are the largest investors in terms of volume while Greece is the largest investor in terms of number of banks (Tirana Bank, Banka NBG, and Alpha Bank). The share of domestic investors is modest but increasing. There is no Albanian state capital in any of the commercial banks.

¹⁴ Including the insurance sector, pension funds, investment funds, and fund management companies, all of which are under the supervision of the Albanian Financial Supervisory Authority

¹⁵ Calculated as compounded annual growth rate (CAGR) on amounts expressed in EUR

¹⁶ Raiffeisen Bank is the successor of the Savings Bank of Albania, and BKT is the result of a merger between the Albanian Commercial Bank and National Bank of Albania, thus taking over the extensive branch network built during Soviet times.

In 2015, the ownership of one commercial bank changed. Credit Agricole Bank was acquired by Tranzit, a non-bank financial institution which is jointly controlled by two equity funds (see sections 5.1.2 on non-bank financial institutions and 5.1.6 on private equity and venture capital funds)¹⁷. As a result of this acquisition, the bank has changed its name to American Bank of Investments in October 2015.

All banks serve the SME sector, although at various degrees. A number of smaller banks, including First Investment Bank and International Commercial Bank, focus on SME lending exclusively. While some banks have no minimum loan amount and directly compete with the NBFIs for micro-enterprises, other banks prefer not to deal with very small businesses at all. The share of SME credit in the total loan portfolio of the banking system is estimated at about 25% (EUR 1.1 billion), based on financial statements, a BFC survey, and interviews with five banks.

4.1.2 Non-bank financial institutions

Non-bank financing is growing but still plays a modest role. The Albanian non-bank sector includes two groups of institutions. The first group includes lenders, micro-credit operators¹⁸, leasing and factoring companies and is under the supervision of the BoA (hereinafter, only this group is referred to as the NBF sector). Practically speaking, the institutions defined as “lending” in the table, could also be considered MFIs, although they have a different regulatory classification, as all of them are making microloans. The second group, which includes the insurance sector, pension and investment funds and fund managers as well as securities market operators, is under the supervision of the Albanian Financial Supervisory Authority (AFSA). Despite the increase in number of NBFIs and their assets, the gross loan portfolio has been stagnant over the past five years and accounted for only 3.2% of the country's total loan portfolio in 2014. In terms of total assets, NBFIs, the insurance sector, and securities market players accounted for 2.3%, 1.7%, and 4.5%, respectively.

Table 8. Number of institutions, total assets, and gross portfolio of the NBF sector

	2014	2013	2012	2011	2010
Non-bank financial institutions					
Lending	6	4	4	5	4
Micro-credit	2	2	2	2	2
Leasing	6	6	6	6	6
Factoring	3	3	3	2	1
Total assets (EUR million)¹	230.0	214.1	214.6	216.4	207.5
Gross loans (EUR million)	140.8	140.4	143.6	144.3	139.1
Insurance market					
Insurance companies	10	11	11	10	10
Insurance brokers	8	8	7	6	8
Insurance agents	3	3			
Total assets (EUR million)²	177.1	158.4	148.4	139.4	130.0
Securities market					
Investment funds	2	2	2	0	0
Pension funds	3	3	3	3	1
Market operators ³	42	42	40	39	36
Total assets (EUR million)⁴	459.3	427.1			

¹⁷ In February 2016, the Credit Agricole's CEO announced that the French bank was selling the 25% stake it holds in more than three dozen regional lenders, reducing its retail-banking business and focusing on asset management and investment banking. This was done in an attempt to simplify its corporate structure, which has been criticised for dragging down its market value.

¹⁸ The BoA differentiates between lenders and micro-credit operators, the latter having, among other requirements, a cap of ALL 600,000 (about EUR 4,300) on the loan amount. Non-bank lenders have no limit but are required to have at least ALL 100 million (about EUR 715,000) in capital. In contrast, the minimum capital requirement for micro-credit institutions is only ALL 5 million (about EUR 35,700).

Notes: ¹ Assets of the Albanian Post are excluded.
² Not included are assets of insurance brokers and agents, which do not have to disclose the value of their assets.
³ Includes brokers, custodians, and investment advisors.
⁴ Not included are assets of market operators, which do not have to disclose the value of their assets.

Source: BoA, AFSA

There is less foreign capital in NBFIs than in banks. Compared to the banking sector, the share of domestic investors is much higher in NBFIs. Foreign capital participates in less than half the NBFIs. The state owns two institutions, including the Albanian Post (through the MoE) and First Albanian Financial Development Company (through the MoF).

NBFIs remain a small source of funding for SMEs. The sector's size determines the modest role NBFIs play in SME funding. It should be noted, however, that NBFIs primarily target enterprises rather than individuals. In 2014, business clients accounted for 92.3% of the NBFIs' loan portfolio and 57.6% of the leasing portfolio.

4.1.3 Savings and loan associations

Savings and loan associations (SLAs) were severely impacted by the economic crisis of 2008-2010. Some of them could not survive, and the total number of SLAs has dropped from over 130 in 2009 to 113 in 2014. The remaining associations were able to absorb migrating members and even attract new ones. The total membership has increased by 34.3% since 2009, boosting the sector's total assets a little.

Table 9. Number of institutions, total assets, and gross portfolio of the SLA sector

	2014	2013	2012	2011	2010
Number of SLAs	113	121	126	126	126
Number of members	51,195	51,291	48,092	44,638	41,663
Total assets (EUR million)	76.1	69.5	75.7	70.5	69.9
Gross loans (EUR million)	47.6	45.6	51.0	51.3	51.0

Source: BoA

Although SLAs do not represent a significant source of SME funding, they are important in rural areas. In 2014, SLAs accounted for just 0.7% of total financial system assets. However, even though SLAs are associations of individuals that lend to members of the association only, lending is done for business purposes only. SLAs operate at the local level and are important in rural areas.

The sector currently undergoes structural changes. At year-end 2014, the sector was made of two independent SLAs and two SLA unions. The Albanian Savings and Credit Union (ASCU) was the largest player, covering 85% of SLAs and accounting for 80% of total SLA members. In 2015, several members of ASCU left the union to operate independently while remaining members decided to merge and create one entity called FED Invest. The new institution received its licence in early 2016.

4.1.4 Government programs

The GoA has a number of programs to support SMEs. The government effort to support SME development includes activities and financial support by the Albanian Investment Development Agency. The agency runs several national grant and co-financing schemes and a few international programs (see section 4.2 on funding instruments and section 3.5 on innovation).

4.1.5 Guarantee funds

There are several guarantee schemes for SMEs in Albania, including the Albanian Guarantee Fund (EUR 2.5 million, within the Italian-Albanian Program for SME Development since 2009), the Rural Credit Guarantee Fund (EUR 4 million, supported by KfW, operational since late 2015), USAID's Loan Portfolio

Guarantee Agreements with commercial banks (USD 15 million to ProCredit Bank and BKT in 2012-2017 to support SMEs in agriculture), and the National Fund of Guarantee for Agriculture and Rural Development (a new governmental financing program in collaboration with the EBRD, launched in 2015 and not yet operational).

4.1.6 Private equity and venture capital

Private equity has been available in Albania for twenty years, but it is mostly unsuccessful. The Albanian-American Enterprise Fund (AAEF) was created in 1995 by the US Government with a total of USD 30 million in committed capital (a grant from USAID) and the primary purpose of promoting private sector development in Albania. The AAEF has directly invested in 40 companies, and the fund has passed its lifetime (there are still four pending exits though), and, despite the reportedly successful experience, no follow-up equity fund has been established. There were a few more unsuccessful attempts to create a risk capital market in Albania, including the Anglo Adriatic Investment Fund (an investment fund set up to hold privatisation vouchers issued by the government of post-Communist Albania, 1996–1998), the Albania Reconstruction Equity Fund (an equity fund with a total capital of USD 14 million, equally co-financed by the EBRD and the Italian Government, to support SMEs in Albania, 1998–2000), and the Euromerchant Albania Fund (a multi-donor venture capital fund for SMEs).

Currently, several private equity and venture capital providers are available for Albanian SMEs, but the total investment portfolio is very small:

- 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 Tranzit Financial (2010), a company that positioned itself as a provider of non-traditional products to SMEs, including equity and quasi-equity.
- Risk capital is also made available by the Crimson Finance Fund, a newly established foundation (mid-2015; USD 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 (USD 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 South-east 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). Regional funds, however, are not known to have invested in Albanian SMEs.

Equity investments are also available from angel investors, although the investment amount is currently very low. The Albanian Business Angels Network (ALBAN) is an affiliate member of the European Business Angel Networks. Albanian Professionals and Entrepreneurs Network (APEN), a US-based organisation for the Albanian diaspora, and *Albanian Excellence*, an initiative to identify the most successful Albanians within and outside Albania, both include a number of successful Albanians that are willing to support entrepreneurs back home. *Angel.al* is an Albanian-American network of angels that offers financing for Albanian startups.

4.2 Type of funding instruments

4.2.1 Loans

Bank loans are the main source of funding for SMEs. Between 2008 and 2011, bank lending shifted towards the business sector. The share of business lending increased from below 62% in 2008 to more than 70% in 2011. Since then, businesses accounted for about 70% of total loan portfolio. Investment loans (both equipment and buildings) represent about 50% of the business loan portfolio, followed by overdrafts (about 30%) and working capital loans (about 20%).

In general, credit is available but not always affordable. With over 6,800 employees and 500 branches and agencies across the country, banks serve enterprises of any size. Loans are provided in ALL and foreign currency (mainly EUR and USD) for any maturity up to eight years with a grace period and flexible repayment schedules. The maximum loan amount is generally not a constraint, and interest rates have been decreasing. Moreover, funds are available from numerous sources, provided by IFIs at preferential conditions. Collateral requirements are relatively soft. Only half of the business loan portfolio is secured by real estate, and the share of the uncollateralized business loans increased from about 20% in 2009 to almost 30% in 2014. Over the years, increased competition resulted in better terms and conditions for SME loans.

4.2.2 Loan guarantees

Under certain conditions, loans can be extended with a loan guarantee. Under the Italian-Albanian Program for SME Development, loan guarantees are provided for up to 60% of the loan amount. The scheme was joined by eight commercial banks and is rather successful. The guarantee fund has EUR 2.5 million and will be supplemented with additional EUR 2.5 million in 2016. KfW's Rural Credit Guarantee Fund (EUR 4 million) guarantees up to 50% of loan amounts and is available for rural loans provided by both banks and MFIs. Financial institutions were reluctant to join though, awaiting the National Guarantee Fund for Agriculture and Rural Development (NGFARD), which is expected to have better conditions and will start operations soon. Under NGFARD, the GoA provides the first loss guarantee of 20% with the remaining risk being shared equally between the bank and EBRD. Despite better conditions, however, a number of market players are sceptical about the fund given that it is going to be managed by the GoA.

4.2.3 Leases

Lease products are meant to supplement the banks' product range. As five out of six operators are subsidiaries of commercial banks (in addition, leasing is also provided by some commercial banks directly), leasing companies are obviously acting as departments of commercial banks. The total lease portfolio has been in a continuous decline since 2011 and is currently slightly above EUR 50 million, a small fraction of bank lending. Vehicles account for more than 80% of the lease portfolio (almost equally split between personal and business vehicles). The share of equipment in total lease portfolio has been increasing and stood at 16.7% in 2014.

4.2.4 Trade finance

SMEs increasingly use trade finance products and services. All major banks and some other non-bank financial institutions provide trade finance loans, guarantees, and letters of credit. A few banks offer factoring/forfeiting among their products and services as well. As of mid-2015, three surveyed banks, which account for over a quarter of the estimated SME gross loan portfolio in Albania, reported their off-balance sheet exposure to the SME sector, which included EUR 17.4 million in loan guarantees and EUR 3.3 million in letters of credit, representing 7.7% of their combined SME gross loan portfolio. A number of banks participate in the IFC Global Trade Finance Program and EBRD Trade Facilitation Program. In Albania, trade finance is also available from the BSTDB.

4.2.5 Risk capital

A number of risk capital providers are ready to invest in Albanian SMEs. There are a few Albania-focused risk capital providers, more than a dozen regional funds that have Albania among their target countries, and several networks of angel investors that are willing to provide risk capital. Risk capital that they are ready to provide comes in the form of equity (common or preference) and/or quasi-equity (unsecured subordinated debt, convertible debt, or any other debt that has traits of equity). Each risk capital provider has its own set of terms and conditions, including eligibility criteria (which may be related to target SME groups: size, sector, region; legal form; profitability; level of corporate governance and accounting transparency), maximum participation in a single company, maximum exposures per instrument, interference with company management, investment return formula, and exit policy.

4.2.6 Cost sharing grants

SMEs can benefit from the financial support provided by the Albanian Investment Development Agency. The agency runs several national grant and co-financing schemes, including:

- Competitiveness Fund (ALL 28 million, or EUR 200,000, for 2016) provides cost sharing grants to SMEs that are willing to improve their competitiveness on foreign markets. Eligible companies can obtain a maximum of ALL 1.4 million, or EUR 10,000. The fund focuses on toll manufacturing (mainly the textile and footwear industry), light industry, agro-processing, and research and development.
- Creative Economy Fund (ALL 10 million, or EUR 71,400, for 2016) aims at supporting the handi-craft sector in Albania, with a maximum project support of ALL 500,000, or EUR 3,570.
- Female Entrepreneurship Support Fund (ALL 10 million, or EUR 71,430, for 2016) covers 50% of interest paid on investment loans taken by SMEs which are owned/administered by women, with a maximum support of ALL 1 million, or EUR 7,140.
- Startup Support Fund (ALL 10 million, or EUR 71,400, for 2016) provides grants of up to ALL 300,000, or EUR 2,140 and not more than 70% of the costs involved to new companies.
- Innovation Fund (ALL 20 million, or EUR 142,860) subsidises 50% of the costs related to the assessment of innovation needs, identification of technology suppliers, licensing, and patenting. SMEs can receive up to ALL 400,000, or EUR 2,860.
- Innovation Voucher Scheme (ALL 9 million, or EUR 64,290) covers 85% of eligible innovation-related costs up to ALL 350,000, or EUR 2,500, per company.

4.2.7 Other

One institution focuses on debt purchasing. Tranzit Finance is a financial company that provides debt purchasing, collection, and financing solutions in Albania. In 2013, Tranzit Finance successfully completed the first secondary market transaction in the country, purchasing a large portfolio of consumer and small business loans from one of the largest banks. Through similar transactions, Tranzit contributes to the creation of a secondary market for the local banking system that was previously unavailable. Given the high level of NPLs in the Albanian banking system, the desire of banks to get rid of them, and high expectations for an improved insolvency resolution environment (see also section 5.4 below), Tranzit plans to purchase more NPLs from banks in the near future.

The stock market is not operating at present. The Tirana Stock Exchange began operations as a department of the BoA in 1996. It functioned as a department of the central bank until it was spun off as an independent entity in 2002. Currently, the only stock exchange in Albania is shut down, with its web account (<http://tse.com.al/>) having been suspended. Although the BoA has announced plans to reanimate the market, no specific date for its opening is set.

4.3 Characteristics of funding recipients

The SME portfolio is dominated by trade. About 35% of the estimated SME portfolio is loans made to the trade sector. The rest of the loan portfolio is distributed as follows: agriculture (10%), manufacturing (13%), services other than trade (17%), all other activities (25%)¹⁹. Credit distribution by economic activity has not changed significantly since 2010, with the exception of construction and real estate services. At year-end 2014, loans to construction and real estate were down 15% and 60% compared to year-end 2012. It should be noted that the share of agriculture in the SME portfolio is significantly higher compared to the share of agriculture in the total business portfolio (about 2%).

The SME portfolio has some regional peculiarities. The Tirana-Durres corridor accounts for more than 50% of the SME portfolio due to a high concentration of SMEs in these cities and between them. The northern part of the country is the most disadvantaged and is characterised by higher poverty rates. The SME loan portfolio in the northern regions (i.e. north of the Durres-Tirana corridor) accounts for some 10–15% of total SME credit.

SME lending is concentrated in urban areas. Although banks have a rather sophisticated branch network across the country and are well-suited to on-lend funds from various development and support programs in the regions, the SME portfolio is concentrated in urban areas. Non-bank lenders tend to be more active in rural areas than banks. Nevertheless, the majority of SMEs operate in urban areas, which explains the urban nature of the SME loan portfolio.

4.4 Institutional and regulatory issues

Lending to SMEs remains constrained due to an ineffective regulatory and legal framework related to non-performing loans. NPLs rapidly rose after the economic crisis. In autumn 2015, the outstanding NPL portfolio was about 21%, a slight improvement from 22.8% and 23.5% in 2014 and 2013, respectively. NPL resolution, however, is hampered by a set of issues covering bankruptcy, execution of collateral, and debt restructuring as well as regulatory and fiscal aspects. Despite the high level of NPLs, the Albanian Bankruptcy Law from 2002 has scarcely been used. There is a consensus in the market that the insolvency procedures set by the law are too complex and burdensome and may result in it taking two years to resolve an insolvency case. The high level of NPLs has had a negative impact on banks' earnings, capitalizations, and risk appetites. Progress to date in cleaning up these troubled loans has been limited. In 2015, the BoA introduced mandatory write-offs of loans classified as "lost" for more than three years. As a result, banks have already written off considerable amounts of old, dated NPLs to comply with the new requirement²⁰. To address the expedition of NPL resolution, a high-level working group was established, comprising representatives from all relevant agencies, private stakeholders and international partners. Addressing the high stock of NPLs through enhanced supervision, debt restructuring, and insolvency reform is a key for reviving credit in Albania.

The legal framework for SLAs was reviewed, aiming to better regulate the sector. In 2014, SLAs were included in the national deposit insurance scheme. SLAs are awaiting the new law (going into effect in early 2016) which will allow them to broaden their product portfolio. In addition to deposits and loans, they will be able to issue credit cards and offer payment services.

SLAs' role as SME finance providers is constrained by their size and the loan amount cap imposed by the regulator. The maximum loan amount that SLAs can provide is 12% of their capital. The cap does not allow attracting many SMEs and keeps SLAs at the very micro level. In order to effectively compete with MFIs and banks, member-SLAs of the Albanian Savings and Credit Union decided to merge into one entity. Based on the increased capital base of the bigger entity, the maximum loan amount will raise as well.

¹⁹ Sources: BoA and BFC bank survey.

²⁰ Banks wrote off about ALL 16.8 billion (or EUR 120 million) from their balance sheets in the first three quarters of 2015 after the new regulation requiring the mandatory write-off of loans. This is about 3% of their gross loan portfolio.

With the consolidation, ASCU members plan to more than double their loan portfolio in three-year time, with the major growth coming from SME lending. Other SLAs, however, remain small and will continue to mainly serve micro-clients.

The legal framework for the NBFi sector is relatively weak. Despite rapid modernization of the basic legislation of the financial sector, the legal framework for a number of financial services needs to be significantly improved. The Law on Financial Leasing, for example, does not cover operational leasing, and there is no specific law regulating factoring and micro-finance institutions (although there are regulations and decisions regulating their operations). Furthermore, adopted laws have flaws, omissions, and conflicts as they are not well-harmonized (e.g. application of VAT is not clear in the case of leasing). The interviewed NBFis also pointed out the poor transparency in the sector and a general lack of market information.

4.5 Funding of intermediaries

4.5.1 Deposits

Traditionally, Albanian commercial banks' main source of funding is customer deposits. Deposits account for more than 80% of total liabilities, and the loan-to-deposit ratio has decreased to below 60% since the economic crisis. Over the last five years, total deposits grew at an average rate of 9.3% per year, faster than total assets (7.9%) and much faster than gross loans (5.8%). Growth in customer deposits is driven by individuals, with their share steadily increasing compared to corporate clients. Term deposits of individuals represent the bulk of all customer deposits. A key reason for bank deposit growth seems to be a lack of attractive alternatives.

Deposits are also significant in the funding of SLAs. Deposits now account for more than 50% of total liabilities. The importance of deposits as a source of funding has been rapidly increasing in recent years with growth rates in customer deposits exceeding 20% per year.

Deposits are guaranteed regardless of the deposit's currency and depositor's residency. The deposit guarantee is paid in ALL and limited to ALL 2.5 million (or EUR 17,850) per depositor per bank or ALL 2.0 million (or EUR 14,300) per depositor per SLA. Only deposits of individuals are insured. The Deposit Insurance Agency is the body which runs the deposit insurance scheme in Albania.

Deposit interest rates decreased significantly after the financial crisis and are currently at their historical low. The average deposit interest rate went down from 6.4% in 2010 to 1.9% in 2014²¹. Deposits can be opened in ALL or foreign currencies, but deposits in ALL bear higher interest rates, the premium being about 2.0 percentage points in 2014²².

4.5.2 Borrowings

Loans from IFIs are not a significant source of funding for banks. Only a few banks have negotiated loans with IFIs (e.g. EBRD, IFC, EFSE, GGF). At year-end 2014, the total outstanding amount of borrowings from IFIs stood at ALL 7.8 billion (or EUR 55.5 million), less than 1% of total deposits.

At the same time, borrowings from IFIs play a much more important role for NBFis. Given that NBFis are not allowed to take deposits, borrowings from international sources, especially for on-lending to specific groups (e.g. MSEs, agricultural producers, women, etc.), are of a major importance. Borrowings can be as high as 80% of the total assets in some NBFis. International lenders include EBRD, EFSE, BSTDB, FMO,

²¹ Source: World Development Indicators (<http://data.worldbank.org/indicator/FR.INR.DPST>).

²² In 2015, deposit interest rates fell further. As of October 2015, the average interest rates on one-year term deposits in ALL, USD, and EUR were 1.34%, 0.54%, and 0.33%, respectively.

responsAbility, Blue Orchard, Oiko Credit, CoopEst, and Symbiotics as well as the Spanish Agency for International Development Cooperation (AECID).

4.5.3 Government

Funds are available from the state-run SME development program. A total of EUR 25 million was borrowed from the Italian Government in 2009 to support SME development in Albania. Currently, eight banks participate in the program, although some banks have not disbursed any loans yet. In 2016, an additional EUR 11 million will be provided by the Italian Government. More than 100 Albanian SMEs had benefited from the program. According to representatives of the Italian Development Cooperation Office in Tirana, the program could have been more successful with raised awareness and proper communication of the financing conditions as many SMEs still believe that the funds are being provided by the GoA as grants.

4.5.4 Parent banks

Parent bank funding is equally as important as borrowings from IFIs. 14 Albanian banks have a parent (i.e. a shareholder with more than 50% control), including one bank with an Albanian parent. The inflows into the banking system were largely in the form of equity investment rather than borrowings from parent banks and wholesale funding markets. Additional equity injections are rare, with parent funding mostly taking the form of subordinated debt. Aside from customer deposits, parent funding and borrowings from IFIs are equally important, although their relative importance varies significantly among banks. It should be noted, however, that both parent and IFI funding are negligible if compared to customer deposits.

A number of banks use subordinated debt from their parents. The primary purpose of these funds is to increase tier 2 capital and comply with capital requirements set by the BoA. In most cases, subordinated debt is a quasi-equity instrument because of its convertibility into equity. The interest rates can be either fixed or variable and vary significantly among the institutions.

Table 10. Parent finance, as of 31 December 2014, EUR million

Bank	Parent (country) – ownership	Parent finance			
		Share capital ¹	Subordinated debt	Borrowed funds	Deposits
Alpha Bank	Alpha Bank (GR) – 100%	78.2	16.0	-	-
Credit Agricole Bank	IUB Holding (FR) – 100%	49.7	9.0	5.0	-
First Investment Bank	First Investment Bank (BG) – 100%	10.8	-	-	-
International Commercial Bank	Financial Group ICB Holding (CH) – 100%	9.3	-	-	-
Intesa Sanpaolo Bank	Intesa Sanpaolo (IT) – 100%	49.6	-	-	-
National Commercial Bank (BKT)	Çalık Finansal Hizmetler (TK) – 100%	136.8	-	24.0 ³	-
NBG Bank Albania	National Bank of Greece (GR) – 100%	54.1	12.0	-	0.1
ProCredit Bank	ProCredit Holding (GE) – 100%	24.2	5.0	-	-
Raiffeisen Bank	Raiffeisen SEE Region Holding (AU) – 100%	101.2	51.0 ²	-	-
Société Générale Bank	Societe Generale (FR) – 88.64%	42.6	-	-	-
Tirana Bank	Piraeus Bank (GR) – 98.83%	116.3	-	18.7	0.0
Union Bank	Financial Union Tirana (AL) – 84.9%	16.7	0.0	4.8	-
United Bank	Islamic Development Bank (SA) – 86.7%	10.9	-	-	-
Veneto Bank	Veneto Banca Holding (IT) – 100%	33.8	-	-	-

Notes: ¹ Portion of share capital based on shareholding.

² Subordinated loan provided by Raiffeisen Bank International (AU).

³ Borrowed from Aktif Yatirim Bankasi (TK), controlled by Çalık Holding.

Source: Annual Reports

4.5.5 Local commercial sources

NBFIs may be funded by local commercial banks. As most leasing companies are subsidiaries of local commercial banks, their funding heavily relies on their domestic shareholders and/or foreign affiliated financial institutions. MFIs also borrow from domestic banks (e.g. BKT, Tirana Bank, Société Générale Bank, Raiffeisen Bank), and some of them practice back-to-back loans to minimize exchange rate exposure. Banka Credins finances SLAs, while ASCU is a shareholder of Banka Credins (3.651%).

4.5.6 Other sources

Some banks have subordinated debt on their balance sheets from non-parent sources. BKT obtained a subordinated loan facility of EUR 10 million from GGF in 2012 and another EUR 25 million in 2015. At year-end 2014, Banka Credins had outstanding subordinated loan amounts from EFSE (EUR 6 million), the Swiss Investment Fund for Emerging Markets (EUR 4 million), and a number of individuals. ProCredit Bank has recently used subordinated debt financing from ResponsAbility SICAV (EUR 1.5 million), Credit Suisse Microfinance Fund Management Company (EUR 3.5 million), and DWM-SNS Institutional Microfinance Fund II (EUR 4 million).

4.6 Supply estimate

The total supply of SME loan and lease financing in Albania is estimated at EUR 1.3 billion in 2014, which is about 30% of the total loan and lease portfolio. Banks account for more than 88%, with the balance being split among MFIs, SLAs, and leasing and factoring companies.

Table 11. Estimate of SME loan supply at 31 December 2014

	Banks	NBFIs	Total
A. % of FIs offering SME loans	100%	100%	n/a
B. SME loans to total loans (survey)	26.3%	80.5%	n/a
C. Total loans (EUR millions)	4,246.7	188.4	4,435.1
D. SME loan supply estimate (=A*B*C)	1,117.1	151.6	1,268.7

The estimate may somewhat underestimate or overestimate the real supply due to a number of approximations:

- The share of the SME portfolio in the banking sector is based on the average calculated from data collected (or publicly available) from eleven banks (accounting for 86.9% of total assets and 85.7% of total gross portfolio) and then extrapolated to the entire sector;
- The SME portfolio of SLAs is based on a breakdown of the total portfolio between business and retail lending, which can be obtained from the audited financial statements, and the assumption that SLAs do not lend to large enterprises (i.e. SMEs account for the whole business loan portfolio);
- The SME portfolio of non-bank lenders (including micro-credit institutions) is based on the known information for the three largest MFIs (accounting for 95.8% of total gross portfolio) and then extrapolated to the entire sector;
- The SME leasing portfolio is based on the known share of legal entities of 56.7% of total portfolio and the assumption that SMEs account for half of it;
- The SME factoring portfolio is based on the known share of legal entities of 100% of total portfolio and the assumption that SMEs account for all of it.

The total supply of risk capital could not be estimated. It is known that several risk capital providers have already invested in a number of Albanian SMEs (e.g. Bedminster Capital, Yunus Social Business, SIMEST) and that equity investments are possible by Tranzit Finance and Crimson Finance Fund. However, little is disclosed about the invested and committed amounts. In addition, angel investors and regional venture capital and private equity funds could also have invested, but such investments could not be identified.

5 Gaps in private sector financing

Key findings:

- There is a moderate funding gap for loans in Albania as a result of banks being more conservative due to increased NPL levels
- As lending is mostly collateral-based, the gap is higher in rural areas with agriculture remaining largely underserved
- A rather large funding gap exists for people in the remote mountain areas
- With a low loan-to-deposit ratio and high liquidity, banks, in general, have a reduced need for additional borrowings. Funding is not a priority for non-bank financial institutions either
- Additional funding would be most needed to help raise awareness among SMEs of the benefits and principles of an equity or quasi-equity investment
- As the potential demand for risk capital is high, especially among the startups in the IT sector, the gap for equity investment is judged to be large
- The major opportunity for IFIs consists in a well-designed technical assistance component to be included in a funding package

5.1 Gaps by instrument

Summary of gaps by instrument



5.1.1 Loans

The funding gap for loans is moderate. Closing the gap, however, faces a number of challenges on both sides: demand and supply. In general, credit is available (as determined by branch coverage and product range) but not always affordable (determined by product characteristics such as interest rate, maturity, collateral requirements, etc.). Given the decreasing interest rates and generally better terms and conditions for SME loans, the main constraint that reduces affordability is the lack of sufficient collateral. However, even if a loan is offered on reasonable terms, access to finance can be restricted if the lending institution is not convinced in the ability of the potential borrower to repay the loan. In addition to banks being more conservative due to high NPLs, this third component (ability) seems to currently play a major role in the creation of the demand-supply gap.

Lenders cite a number of constraints that do not allow them to grow their SME portfolios faster. Lenders argue that SMEs bear a higher risk as their earning capacity is less certain. Risk assessment of SMEs is more difficult due to insufficient, and often unreliable, information, causing the need for a different approach²³. Furthermore, smaller loan amounts translate into higher transaction costs. Most banks seem to have already dealt with all these obstacles. They normally have separate units and staff members to deal with large and SME clients separately. Some banks even further distinguish between micro-enterprises and SMEs. From the banks' point of view, the most important limitation is the general scarcity of feasible business projects. Banks are not satisfied with the entrepreneurial skills and financial liter-

²³ Inability to properly assess a client's future profitability and feasibility of project ideas is the main explanation of why the cash-flow-based approach is generally not practiced.

acy of their potential SME clients. As a result, many loan applications get rejected and banks end up investing in government securities instead. Financial support is necessary to facilitate SME development, but SME development is necessary to justify financial support.

SMEs see the situation from a different perspective. SMEs complain about complex and cumbersome lending procedures and excessive documentation requirements. In addition, many of them cannot provide sufficient collateral and are not very well informed about the guarantee schemes that are available to them. SMEs also find it difficult to fully understand all the costs involved and blame banks for not properly disclosing them. Most respondents, however, are of the opinion that access to finance is not the biggest constraint to SME growth in Albania.

5.1.2 Leasing

There is a moderate gap for leasing. Leasing accounts for just over 1% of the total SME finance supply. Leasing companies suffer from inferior product offerings compared to banks since they are acting as departments of commercial banks without a significant motivation to make leases more attractive. As a result, the demand for leasing (as it is currently offered) is low. If the legal framework improves and the benefits of leasing are effectively communicated to the SME market, the demand for leasing could be much higher, resulting in a moderate or even moderate-to-high gap.

5.1.3 Risk capital

The available supply of risk capital is small but exceeds the current demand. The supply of risk capital has been around in Albania since the mid-1990s. At the same time, a few Albania-focused equity investors could never use all of the committed funds due to the scarcity of suitable investments. More than a dozen regional private equity and venture capital funds, which have Albania among their target countries, are not known to have invested in any of the Albanian SMEs. The limited knowledge about risk capital (as opposed to traditional bank lending) makes many smaller entrepreneurs feel uncomfortable with this instrument. Those few who consider risk capital as a financing option oftentimes do not qualify for various reasons, including not only non-compliance with the investor's eligibility criteria, but also a lack of proper understanding of the risk and profit sharing principle of an equity investment.

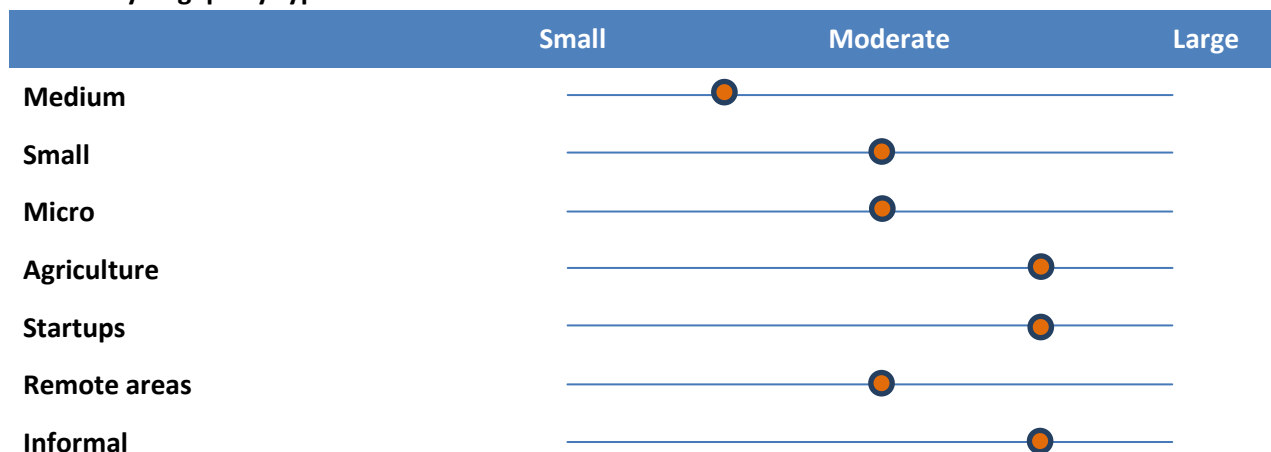
However, demand can be spurred, especially from startups, and it could potentially be high. Demand could be created by raising SME awareness of the benefits and principles of an equity investment and SME willingness and readiness to accept an equity investor. This is already being done by several supporting organisations (e.g. Yunus Social Business, the Albanian-American Development Foundation, Crimson Finance Fund, Center for Entrepreneurship and Executive Development) through their various educational and acceleration programs.

5.1.4 Trade finance

The funding gap for trade finance is relatively small. As a small country, Albanian economic growth depends on trade with other countries. Real and sustainable growth is believed to be driven by SMEs that manage to do business outside Albania. Thus, trade finance is expected to become more important, and the demand for it will most likely grow. At the same time, financial institutions are not very constrained and could satisfy this growing demand.

5.2 Gaps by type of SME

Summary of gaps by type of SME



5.2.1 Size

Generally, the smaller the business, the more difficult it is to access finance. Depending on size, SMEs generally have one or two of the following options: remittances, informal lenders, savings and loan associations, microfinance institutions, leasing companies, commercial banks. Funding gaps are higher for micro and small businesses. Access to finance for medium-sized enterprises is better, but banks are currently more cautious than before due to high NPL levels. Banks also cite a huge communication gap between themselves and SMEs (with the gap growing as the company size decreases), whereas non-bank institutions have limited capacity to serve these unbankable clients.

5.2.2 Economic activity

Agriculture has been underserved by the financial sector. Agriculture, and agri-business in general, is one of the much discussed and strategic sectors in Albania. It has been a priority of both GoA policies and international projects for a long time but only now seems to have become the focus of the financial sector too. For many years and many reasons, agriculture has been underserved. Agricultural enterprises were perceived as being riskier, more expensive to monitor due to longer distances, having little collateral, and being difficult to assess. The existing supply was largely limited to funds within various projects financed by IFIs. The non-bank financial sector does its best to close this gap, but it is too small to make a substantial change. Most commercial banks have only recently started to approach the agricultural sector in a different way. Considerable unmet demand exists for investments in modern agricultural technologies, storage and post-harvest facilities, and replacement of the outdated equipment.

5.2.3 Development stage

Start-ups face a moderate-to-large funding gap. On one hand, there is an abundant supply of credit in Albania, but enterprises in their early stage are mostly unbankable due to high risk and non-compliance with eligibility criteria. On the other hand, risk capital, which normally funds startups, is scarce. Fortunately, some banks and NDFIs do make loans to startups, and there are a few venture capital funds that do financially support new companies. In addition, the Innovation Fund, Innovation Voucher Scheme, and StartUp Fund, which are run by the Albanian Investment Development Agency (AIDA), offer some financing solutions to innovative startups.

5.2.4 Regional

As lending is mostly collateral-based, the gap is higher in rural areas. There is a large segment of SMEs which lack appropriate and/or sufficient collateral and, thus, have limited access to banks. With real estate being the preferred collateral and the value of houses outside urban areas being low, entities with difficulties in financing are more likely to be in rural areas and classified as either micro or small enter-

prises. Similarly, SMEs in urban areas outside Tirana are more limited in accessing finance than those in the capital city. In addition, there are mountainous areas in Albania which are characterized by a higher share of the rural poor with lower household income and limited access to finance. Although the First Albanian Financial Development Company, a state-owned MFI, provides credit to SMEs in the rural mountainous areas, the gap in remote areas is judged to be moderate to large.

5.2.5 Degree of formality

It is harder to access finance for informal enterprises. The share of registered enterprises that practice tax avoidance and other means of not adhering to laws and regulations (normally through underreporting income) is high. Banks try to estimate unreported income when assessing a loan application, but their estimates are very conservative. In addition, as financial institutions are now required to disclose all available information about clients (an effort by the GoA to combat the informal market), informal entrepreneurs are reluctant to share much of their unreported information, which results in higher rejection rates or worse financing terms.

5.3 Gaps in funding of intermediaries

5.3.1 Banks

With a low loan-to-deposit ratio and high liquidity, banks, in general, have a reduced need for additional borrowings. If conditions are attractive enough, banks are willing to consider additional funding despite a reduced need from a low loan-to-deposit ratio and high liquidity. There are several elements that attract a bank to additional funding: a) competitive interest rates, b) less restrictions on eligibility of end-borrowers and investment projects (e.g. within the Italian-Albanian SME Development Program, end-borrowers have to spend at least 70% of the loan amount on goods and services of the Italian origin), c) reasonable future performance indicators, d) provision of a grace period, e) availability of an efficient loan guarantee facility, f) provision of the TA for banks and advisory services for SMEs.

There is a need for loan guarantee funds (LGFs) to mitigate the problem of insufficient collateral among SMEs given the rather conservative approach of the banking sector and the preference for collateral (with real estate in the capital city being the most desired). However, to be successful, LGFs need to better meet the requirements of both the supply and demand sides. In particular, the LGFs have to be faster in approval and more transparent.

5.3.2 Non-bank institutions

The SLAs and MFIs have a rather small level of funding gap. Both depository and non-depository lending institutions cannot rely on customer deposits due to regulatory restrictions. At the same time, non-bank lenders have succeeded in building long-term partnerships with a number of IFIs and development organisations.

Funding, *per se*, is not a priority for the leasing companies. Additional funding would need to have a TA component to assist companies (that really want) to improve leasing products, operations, and technical skills.

5.3.3 Risk capital providers

Funding is needed to help raise awareness of benefits and principles of an equity or quasi-equity investment. Additional funding would help the few existing organisations provide a larger set of services to a larger number of SMEs. For example, ProTIK Center aims at becoming the Albanian ICT hub and has, among other programs, an acceleration programme for startups. Similarly, the Macedonia-based Balkan Unlimited Foundation has an acceleration programme for IT startups called SuperFounders and is looking for partners to establish a regional venture capital fund.

5.4 Potential and capability of IFIs to fill gaps

5.4.1 The World Bank Group

The World Bank has supported Albanian SMEs with a number of programs and projects. Most recently, the World Bank, in close collaboration with IFC, has provided support to put the energy sector on a financially sustainable path. Ensuring an adequate supply of energy is critical to improving the business environment. In addition, IFC has assisted the GoA on concessioning and investing in medium-sized hydropower plants and, via an ongoing Balkans Renewable Energy advisory program, is helping the GoA to draft a new renewable energy law to enable the private sector to develop and construct feasible plants.

IFC activities are expanding in Albania, with its investment services being focused on increasing access to finance by supporting the development of local financial institutions, especially those that concentrate on SMEs. Current investment projects include EUR 10 million to Banka Credins. IFC's advisory services in Albania aim to improve the investment climate, improve the performance of private sector companies, improve access to finance, and attract private sector participation in the development of infrastructure projects.

5.4.2 EBRD

In Albania, EBRD focuses on the sustainable development of the private sector, building on the strong entrepreneurial spirit in the economy, enhancing the commercialization of infrastructure projects, and promoting sustainable energy and environmentally sound investments. EBRD has cumulatively invested EUR 944 million in 72 projects in Albania to date (with the private sector accounting for 40%) and has a current portfolio of EUR 480 million.

Currently running programmes or those with an advanced approval status include:

- A standby credit line of up to EUR 100 million to the Albanian Deposit Insurance Agency, fully guaranteed by the Government of Albania;
- A framework operation of up to EUR 100 million for the implementation of the Albania Agribusiness Support Facility, which will consist of a combination of credit lines for agribusiness lending and unfunded risk-sharing facilities for agribusiness loan portfolios of selected partner financial institutions in Albania;
- A senior unsecured loan of up to EUR 5 million to NOA, a non-bank microfinance lending institution, for on-lending to agribusinesses – the first project under the Albania Agribusiness Support Facility; the loan will be complemented by a First Loss Risk Cover, contributed by the GoA, and technical assistance to NOA for capacity building as well as advisory services to NOA's existing and potential clients.

5.4.3 KfW

Albania is one of Germany's development cooperation partner countries, which means that the two have a programme of close cooperation based on intergovernmental agreements. Germany has been supporting the country's transformation since 1988. Albania is one of the most important partner countries in development cooperation in southeast Europe. Currently, German-Albanian cooperation has three pillars: energy sector (energy efficiency and renewable energy), municipal infrastructure (water, wastewater, waste disposal), and sustainable economic development (promoting MSMEs, municipal credit lines). Aggregate German funding provided since 1988 amounts to approximately EUR 810 million, making Germany one of Albania's biggest and most important bilateral donors. For Albanian-German development cooperation in 2014 and 2015, Germany provided around EUR 23 million in financial cooperation loans and grants and around EUR 12 million in technical cooperation.

Regarding sustainable economic development, the aim is to create sustainable and inclusive employment and earning opportunities. This is done by several projects, including:

- Good economic governance for improving the investment climate in Albania (ProINVEST);

- Increasing the competitiveness of MSMEs by promoting innovation and entrepreneurship (ProSME);
- Vocational education and training (VET) programme;
- Open regional funds for southeast Europe – foreign trade promotion (Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, Serbia);
- Zoran Djindjic Internship Programme of German Business (Albania, Bosnia and Herzegovina, Kosovo, Croatia, Macedonia, Montenegro, Serbia).

5.4.4 EFSE and GGF

The European Fund for Southeast Europe provides loans to micro and small enterprises (defined as those involving loans of up to EUR 100,000) through partner lending institutions. In Albania, EFSE has three partner institutions, including BKT, fondiBESA, and NOA.

The Green for Growth Fund, Southeast Europe provides investments in the energy efficiency and renewable energy sectors both indirectly, through financial institutions, and directly to non-financial institutions such as renewable energy companies or projects, energy service companies, energy efficiency service and supply companies as well as companies in general. In Albania, GGF has two partner institutions: BKT and Lengarica & Energy, a small hydro-power project.

5.4.5 USAID

Since 1992, USAID has delivered over USD 500 million in foreign aid to support Albania's development, stability, and integration into Europe. Currently, USAID is working with the GoA and the private sector on transformational reforms to strengthen democratic institutions and sustain economic growth. Two components of USAID's program have a direct impact on SME sector development: a) strengthening the rule of law by building the skills of lawyers and judges and ensuring that courts function properly and b) improvement of business competitiveness while strengthening the financial sector to better support economic development and financial security. In March 2016, USAID announced plans to begin a new five-year, USD 8.8 million project to improve court performance in Albania. This is in addition to USD 60 million that USAID has invested in Albania's justice sector from 2000 to 2015.

5.4.6 Italian Development Cooperation

The Italian Government has provided the GoA with a soft loan to finance the Italian-Albanian SME Development Programme (2009–2015). In particular, the programme aimed at supporting Albanian SMEs by facilitating their access to the local credit system and enhancing the business environment. The programme had three components: i) a credit line for SMEs of EUR 25 million; ii) a guarantee fund for SMEs of EUR 2.5 million; and iii) a grant of EUR 1.7 million for capacity development support to the MoE, the Chamber of Commerce, and business associations.

As the programme has been generally successful, another EUR 15 million have been provided within the Italian-Albanian Bilateral Agreement of Cooperation to fund a follow-up initiative called the Integrated Assistance Programme for the Development of Albanian SMEs (2015–2018). The programme provides additional funds for the credit line (EUR 11 million) and a guarantee fund (EUR 2.5 million) as well as EUR 1.5 million for direct assistance to SMEs, the Chambers of Commerce and Albanian trade associations in the form of services and benefits.

5.4.7 The EIB Group

Together with EBRD and the European Commission, EIB is one of the founding partners of the Western Balkans Enterprise Development and Innovation Facility. This facility consists of an early-stage venture capital fund, the Enterprise Innovation Fund (ENIF), a growth-stage fund, the Enterprise Expansion Fund (ENEF, managed by EBRD), a loan guarantee facility, and a support services facility offering technical assistance directly to SMEs and other stakeholders. The guarantee facility is working with ProCredit Bank

Albania with a guaranteed portfolio amount of EUR 20 million. A new agreement between EIF and Pro-Credit Bank as part of the InnovFin program will facilitate the funding of innovative SMEs in Albania and other countries in the region by providing a loan portfolio guarantee.

Outside of the area of access to finance, EIB is involved in infrastructure development, such as highway construction, in Albania. EIB's investments in Albania represent 6% of its total investments in the six target countries, with the majority of exposure in the transportation sector.

5.5 Recommendations

Given the rather conservative approach of the banking sector and preference for collateral (with real estate in the capital city being most demanded), there is a need for loan guarantee funds to mitigate the problem of insufficient collateral among SMEs. At the same time, the loan guarantee funds need to meet the requirements of both supply and demand sides to be successful. In particular, the loan guarantee funds have to be fast in approval and transparent. The support might come in three ways:

- increase the size of the WB EDIF Guarantee Facility (only one Albanian bank benefits from the facility);
- invest in existing funds (the KfW's Rural Credit Guarantee Fund or the EBRD's National Guarantee Fund for Agriculture and Rural Development);
- establish a new guarantee fund, which would be open for SMEs from all sectors (not just agriculture) and which would serve as an example of an efficiently and transparently run guarantee fund.

With low loan-to-deposits ratio and high liquidity, banks, in general, have a reduced need for additional borrowings. However, if the conditions are attractive enough, they are willing to consider funding from an IFI. In terms of improved attractiveness, it is recommended to consider the following:

- less restrictions on the type of SMEs that can borrow (i.e. while the funding can target specific groups or regions, it must not exclude any other groups, even if they are perceived as over-served);
- less restrictions on the origin of assets to be financed (in contrast to, for example, the Italian-Albanian SME Development Program, where end-borrowers have to spend at least 70% of the loan amount on goods and services of the Italian origin);
- provision of TA for banks (e.g. sales techniques, SME assessment);
- provision of advisory services for SMEs (e.g. business planning, financial literacy).

Sector-specific loans for agriculture have good potential to reduce the gap for agricultural enterprises, especially if accompanied by TA designed to improve the capability of banks to quickly and efficiently evaluate agricultural risk and cash flows, thus reducing the cost to serve these enterprises.

Funding *per se* is not a priority for the leasing sector. Leasing companies in Albania suffer from inferior product offering compared to banks. They are acting as departments of commercial banks without a significant motivation to make leases more attractive. It is thus recommended to include a TA component that would be necessary to assist the companies (those that really want) to improve the product, operations, and technical skills.

The success of the risk capital providers in Albania is highly dependent on the SMEs' understanding of the benefits and disadvantages of an equity or quasi-equity investment, and professionalism of the field staff that would inspire trust and confidence and, at the same time, be closer to the SME sector. Funding is thus needed to help raise awareness among SMEs. It is recommended to support the existing organizations that are few steps ahead in terms of creating a network of potential clients, improving their entrepreneurial skills, and establishing acceleration programs for start-ups. Additional funding would help them provide a larger set of services to a larger number of SMEs.

To improve the youth unemployment problem, interventions should focus on three key areas:

- jobs: ensure that enough good jobs exist for young people who seek them and improve the entrepreneurship ecosystem to promote the startup and expansion of SMEs;
- skills: teach young people how to identify opportunities, align their interests with market needs, and acquire relevant skills that will let them succeed in sustainable careers;
- experience: overcome practical barriers to initial workforce entry by young people through apprenticeship programs, school-to-work programs, services for out of school youth, and employer partnerships to ensure access to real jobs.

Annex 1: Macroeconomic indicators

Indicator	2015 (e)	2014	2013	2012	2011	2010
GDP (nominal, EUR millions)	10,524	9,994	9,633	9,548	9,362	8,933
Population (thousands)	2,886	2,893	2,896	2,899	2,902	2,907
GDP (nominal) per capita (EUR)	3,647	3,435	3,325	3,292	3,223	3,067
GDP (PPP) per capita (current International USD)	n/a	10,304.7	9,821.7	9,647.3	9,640.1	9,297.5
Real GDP growth rate	n/a	2.0%	1.1%	1.4%	2.6%	3.7%
Inflation rate (CPI)	1.9%	1.6%	1.9%	2.0%	3.5%	3.6%
Exchange rate (EUR, end of period)	137.28	140.14	140.20	139.59	138.93	138.77
Change in exchange rate	-2.04%	-0.04%	0.44%	0.48%	0.12%	0.59%
Unemployment rate (official)	17.1%	17.5%	15.9%	13.4%	14.0%	14.0%
Poverty rate (national poverty line)	n/a	n/a	n/a	14.3%	n/a	n/a
Current account balance (% of GDP)	n/a	-12.9%	-10.9%	-10.2%	-13.1%	-11.4%
Trade balance (% of GDP)	n/a	-18.9%	-18.2%	-18.6%	-22.7%	-20.6%
Capital account balance (% of GDP)	n/a	0.9%	0.5%	0.8%	0.9%	1.0%
FDI, net (% of GDP)	n/a	8.1%	9.6%	6.8%	6.5%	9.2%
Public debt (% of GDP)	72.2%	69.8%	65.5%	62.1%	59.4%	57.7%
Fiscal balance (% of GDP)	-3.8%	-5.2%	-5.0%	-3.4%	-3.5%	-3.1%

Sectoral distribution of GVA (% of total)

Sector/activity	2014	2013
Agriculture, forestry and fishing	22.9%	22.5%
Mining and quarrying	6.1%	5.7%
Manufacturing	5.5%	5.6%
Electricity, water, etc.	2.9%	3.2%
Construction	10.6%	11.9%
Trade	12.7%	12.5%
Transport	3.2%	3.3%
Accommodation and food service	1.9%	2.0%
Telecommunications	1.9%	2.1%
Financial services	2.9%	2.6%
Real estate activities	7.1%	7.3%
Public administration and defense	4.7%	4.6%
Education	5.0%	5.2%
Other services	12.7%	11.5%
TOTAL (GROSS VALUE ADDED)	100.0%	100.0%

Annex 2: Financial sector indicators

Banking sector indicators

Indicator	2015 Q2	2014	2013
Structure of the sector			
Number of banks by type:			
Large	13	13	13
Medium	2	2	2
Small	1	1	1
Total banks	16	16	16
Number of state-owned banks	0	0	0
Assets of SOBs to total bank assets	0.0%	0.0%	0.0%
5-bank concentration ratio	n/a	73.8%	72.3%
Bank branches per 1,000 population	n/a	0.17	0.18
Financial indicators (EUR millions)			
Total assets	9,358.4	9,231.6	8,804.0
Total gross loans	4,261.6	4,246.7	4,045.4
Total net loans	3,648.3	3,596.9	3,425.3
Total deposits	7,638.1	7,597.1	7,229.1
Total equity	850.3	791.9	737.1
Total regulatory capital	905.4	832.6	821.3
Total net profit	59.3	79.9	46.8
Financial ratios			
Capital adequacy:			
Tier 1 CAR	13.6%	13.8%	14.9%
Total CAR ($\geq 12\%$)	16.0%	16.8%	18.0%
Equity to total assets	9.1%	8.6%	8.4%
Liquidity:			
Loans to deposits	55.8%	55.9%	56.0%
Growth rate of deposits	1.3%	5.0%	3.6%
Regulatory liquidity ratio ($\geq 20\%$)	42.0%	40.4%	34.7%
Cash and equivalents to assets	n/a	49.6%	49.4%
Profitability:			
Return on average assets	1.3%	0.9%	0.5%
Return on average equity	14.2%	10.4%	6.4%
Net interest margin	4.4%	4.2%	3.9%
Cost-income ratio	61.2%	68.4%	74.7%
Asset quality:			
Growth rate of loan portfolio	0.9%	4.9%	-1.8%
NPL ratio	20.9%	22.8%	23.5%
Others:			
Growth rate of total assets	3.0%	4.8%	3.9%
Bank assets to financial sector assets (%)	90.2%	90.3%	90.7%

Annex 3: The largest lending institutions

Banks by asset size at 31 December 2014

	Bank name	Website	Assets* (EUR mln)
1	Banka Kombetare Tregtare	http://bkt.com.al	2,263.3
2	Raiffeisen Bank	http://raiffeisen.al	1,964.3
3	Intesa SanPaolo Bank Alb.	http://intesanpaolobank.al	1,056.3
4	Banka Credins	http://bankacredins.com	927.7
5	Tirana Bank	http://tiranabank.al	725.8
6	Alpha Bank Albania	http://alphabank.al	563.7
7	Banka Societe Generale Alb.	http://societegenerale.al	510.4
8	Banka NBG Albania	http://nbgbank.al	315.9
9	ProCredit Bank	http://procreditbank.com.al	262.6
10	Union Bank	http://unionbank.al	255.6
11	Veneto Banka	http://venetobanka.al	192.0
12	Credit Agricole Albania Bank	http://credit-agricole.al	191.3
13	First Investment Bank	http://fibank.al	113.8
14	IC Bank Albania	http://icbank-albania.com	63.7
15	United Bank of Albania	http://uba.com.al	44.7
16	Credit Bank of Albania	http://creditbankofalbania.al	13.9
	Adjustment [†]		-233.6
	TOTAL		9,231.6

Notes: * Based on the banks' financial statements prepared in accordance with the IFRS.

[†] Excess over the known total, which includes BKT's Kosovo operations and Union Bank's subsidiary Landeslease (unconsolidated statements not available)

NBFIs by asset size at 31 December 2014

	NBFI name	Website	Assets (EUR mln)
1	fondiBESA	http://fondibesa.com	58.1
2	NOA	http://noa.com.al	1.5
3	All other NBFIs		140.4
	TOTAL		230.0

SCAs by asset size at 31 December 2014

	SCA name	Website	Assets (EUR mln)
1	Albanian Savings & Credit Union	http://ascunion.org.al	31.3
2	Union of SCAs Jehona	n/a	44.7
3	Alb-Progres	n/a	
4	Perlat	n/a	
	TOTAL		76.1

Annex 4: World Bank Doing Business Indicators

Source: Doing Business 2016 (<http://doingbusiness.org/reports/global-reports/doing-business-2016>)

Indicator	2016 Rank	2015 Rank
Ease of doing business	97	62
Starting a business	58	54
Dealing with construction permits	189	122
Getting electricity	162	159
Registering property	107	104
Getting credit	42	36
Protecting investors	8	18
Paying taxes	142	130
Trading across borders	37	37
Enforcing contracts	96	96
Resolving insolvency	42	40

Getting credit indicators

Indicator	2016 Value	2015 Value
Strength of legal rights index (0–12)	7.0	7.0
Depth of credit information index (0–8)	6.0	6.0
Public registry coverage (% of adults)	27.1	16.7
Private bureau coverage (% of adults)	0.0	0.0



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