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Strengthening Innovation and Technology Policies for SME Development in Albania

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Summary

This paper describes the current economic policies in Albania, particularly in the development of innovative SMEs, identifying the key challenges to promoting innovation in the whole economy – and highlighting specific actions where the private sector has the opportunity and is called upon to take a more active role.

The purpose of this paper is to serve as a basis for discussion, primarily with Albanian private sector organizations, in order to agree on the key priorities for action to support innovation in Albania and to identify initiatives where these organizations can help catalyze change going forward.

Introduction

Science, technology and innovation (STI) are clearly recognized as fundamental factors in a knowledge-driven economy and are important at all stages of development, albeit in different forms or modes. The capacities to undertake scientific and applied industrial research, to transfer them, to adapt and assimilate new technologies into economic structures and diffuse them into society, and to creatively develop new products and services using technologies (product and service innovation), as well as through marketing, design and organizational change (non-technological innovation), are fundamental to national competitiveness. The European Union (EU), which Albania aspires to join, has set clear objectives related to research and innovation as part of its

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"Lisbon Strategy": to make the EU the most competitive economy in the world. Albania, like other Western Balkan candidate and associated countries, has lagged behind such developments due to the need to focus on laying the foundations for growth (through education, legal frameworks, alleviating poverty, etc.). However, the time has come to invest more in creating, diffusing and applying knowledge if Albania is to meet its long-term development goals

The rapidly growing importance of knowledge for welfare and competitiveness puts increasing focus on firms' and countries' ability to innovate. Institutional and organizational conditions, access to knowledge, capital and labor markets, managerial capabilities and other human capital issues, incentive structures and attitudes are some examples of factors that will strongly affect the extent and pace of enterprise development in general, and of SME development in particular.

In the words of the European Commission:

"*Competition through innovation appears to be as important as price competition as a reaction by enterprises to market pressures. In many business sectors, an enterprise that allows itself to lag behind in the race to generate new or improved goods and services, and better ways to produce or run them, is putting its future on the line…While research is a major contributor to innovation, if there is no entrepreneurial action, there is no value creation. It is the enterprise that organizes the creation of value. With the shortening of product cycles, enterprises face the need for more capital-intensive investment and must put more emphasis on the ability to react quickly. For enterprises, innovation is a crucial means to create competitive advantage and superior customer value*."
(*European Commission, 2003b: 6*)

As countries develop economically, the ability to innovate becomes an increasingly critical determinant of international competitiveness. In advanced nations today, competitive advantage "(…) must come from the ability to create and then commercialize new products and processes, shifting the technology frontier as fast as their rivals can catch up" (Porter & Scott, 2003: 1). Gradually, the ability to innovate has thus become accepted as a crucial prerequisite of enterprise development and entrepreneurship, and concepts such as "innovation policy" and "innovation systems" are increasingly attracting the attention of policymakers worldwide.

A number of factors affect countries' and firms' innovative capabilities:

- access to knowledge,
- the ability to transform knowledge into competitive products and services,
- the willingness to innovate (in terms of products, processes and organizational changes).

The above-mentioned factors, in turn, are strongly influenced by a range of national, regional and locally determined conditions. The table 1 summarizes some these critical conditions and identifies some of the indicators which might be useful for assessing the extent to which these conditions are fulfilled.

While the above table is neither set in stone nor exhaustive, it does provide a useful guide or scoreboard for policymakers seeking to assess or benchmark a specific country's situation and to identify principal policy challenges and areas for policy action. In this

Table 1. Key Determinants for Innovative Capabilities

Key determinants	Contributing factors	Indicators
Access to knowledge	• national science base (strength and access through industry--academic cooperation) • private sector R&D • ability to tap into international sources of knowledge generation through ICT (information and communications technology)	• expenditure on R&D • scientific publications • researchers in the labor force • ICT access and usage (telephone, mobile phone, internet penetration) • ICT expenditure as % of GDP • human development indicators • international cooperation on R&D
The ability to transform knowledge into products and services	• human capital • competitive private sector • access to capital • innovative activities	• education statistics • patenting activity • venture capital supply • FDI • international competitiveness rankings • growth/development of SMEs • sector composition of manufacturing • level and composition of foreign trade
The willingness to innovate	• stable economic and political conditions • entrepreneurship • incentive structures • collaboration between private sector and academia • clustering and international networking activities	• political and macroeconomic framework conditions (GDP growth, inflation, corruption, informal economy, etc.) • number of start-ups • number/performance of incubators, science or techno parks (or the like) • regional development and clustering activities • changes in firm organization, including firm demography

Source: IKED.

paper, we assess Albania's innovation capacity and performance and identify some areas of particular interest to decision makers. Following the examination of some key indicators and/or determinants of innovativeness, we look at how innovation policy is designed, organized and implemented in here.

1. Albania joins EU innovation & competitiveness programme

The following EU candidate and potential candidate countries have already joined the CIP (Competitiveness and Innovation Programme): Croatia and the former Yugoslav Republic of Macedonia in October 2007, followed by Turkey in February 2008 and by Montenegro in March 2008. Albania is the fifth country of the group of EU candidate and potential candidate countries to join an important part of the EU's Competitiveness and Innovation Programme (CIP) Under the CIP, the European Commission promotes innovation, entrepreneurship and growth in small and medium-sized enterprises (SMEs). At 27 June 2008, European Commission Vice President Günter Verheugen and Mr. Genc Ruli, Minister for Economy, Trade and Energy of the Republic of Albania at that time, signed a Memorandum of Understanding formalizing the Republic's entry to the EIP, the

entrepreneurship and innovation pillar of the Competitiveness and Innovation Framework Programme (CIP).

The decision of Albania to join the CIP confirms the European aspirations of Albania and the progress already achieved. This is a win-win situation for Albania and for the EU. The challenges of today's global world are best faced by integration and ever closer co-operation.

Albania will be able to take part in the framework of the European Charter for Small Enterprises by making direct ties with EU Member States and learning from good practice in promoting entrepreneurship and innovation in all its various forms. This will strengthen Albania's own policy and delivery capability for the benefit of Small and Medium Sized Enterprises (SMEs). Albanian policy stakeholders and experts can now join the relevant policy groups which the European Commission will set up under CIP to assist to develop an SME friendly policy, which is key to achieve sustainable growth and more and better employment opportunities. It is another step to bring Albania, which has an EU Membership perspective closer to the EU. It will benefit Albanian SMEs as it will benefit those SMEs from the EU with business ties to Albania, to develop together.

With small and medium-sized enterprises (SMEs) as its main target, the Competitiveness and Innovation Framework Programme (CIP) supports innovation activities (including eco-innovation), provides better access to finance and delivers business support services in the regions. It encourages a better take-up and use of information and communication technologies (ICT) and helps to develop the information society. It also promotes the increased use of renewable energies and energy efficiency.

The CIP programme, which runs from 2007 to 2013 with a budget of 3.6 billion EUR, is divided into three operational programmes. Each programme has its specific objectives, aimed at contributing to the competitiveness of enterprises and their innovative capacity in their own areas, such as ICT or sustainable energy:

- Entrepreneurship and Innovation Framework Programme (EIP): EIP fosters the competitiveness of enterprises for example by providing co-guarantees and co-investments for local banks and risk capital funds so that they can improve access for SMEs to loan and venture capital finance. EIP also supports providers of business and innovation services in all EU regions or helps to link innovation actors and clusters in European networks.
- Information and Communication Technologies Policy Support Programme (ICTPSP): ICTPSP accelerates the development of a sustainable, competitive, innovative and inclusive Information Society stimulating a wider adoption and more efficient take up and better use of ICT.
- Intelligent Energy-Europe Programme (IEE): IEE promotes energy efficiency and new and renewable energy sources in all sectors including transport.

2. Innovation performance in Albania

Albania is a small country, both physically and in terms of population size, and has relatively low levels of income, even after two decades of rapid growth. Albania has

successfully maintained macroeconomic stability over the last 10 years with steady growth and low inflation. Growth has been above five percent annually in all but one of the last ten years, and inflation below five percent in all years. While progress is visible in restructuring of the economy and productivity growth, competitiveness is still low and based on factor (labor) costs rather than high value added products or services. There are only about 750 medium and larger companies in the country, and the sectoral composition is heavily skewed towards low technology activities (agricultural employment remains relatively high), while exports are low in both absolute and relative terms. To assist a structural adjustment towards more knowledge intensive economic activities, an effective STI policy is necessary to complement other measures supporting economic modernization.

While it may be easy to acknowledge the importance of competitiveness and innovative capacity for a country's long-term prosperity, measuring and comparing innovation is another thing entirely. A number of indicators have been developed in recent years, aimed at capturing and measuring countries' and firms' innovative capacity, such as, for example, investment in R&D, patents, levels of internet access and penetration, science and technology graduates, etc. There are many caveats when it comes to assessing both how much a country invests in innovation, or innovation inputs, and what returns it gets on this investment ('what it gets out of it'), or innovation outputs.

Some indicators do provide quite useful insights into both the priorities of and the demands on policy-making, even in countries marked by wide regional and other forms of diversity. One such indicator is R&D, which remains one of the most important and most internationally comparable indicators of a country's innovative capacity and potential. Regarding R&D, however, one should be careful to disaggregate the data to look at its different components, and also use complementary indicators or data to analyze how R&D relates to other activities which are essential for innovation, such as upgrading of relevant skills in the work force, organizational change, entrepreneurship, incremental innovation, and so on (Black and Lynch, 2000; OECD[1], 2001a).

At the present, it is difficult to make precise statements about the level of investment in favor of STI the performance of the public, academic or business organizations performing research or about the functioning of the 'innovation' system in general. R&D and innovation statistics are not collected currently to international (OECD, Eurostat or UNESCO) standards. Some of the indicators required are simply not available in Albania today, at least not in a way that allows for satisfactory comparison with other countries. However, the most important thing for Albania itself is to become more aware of what knowledge is needed from a policy perspective.

Limited data on scientific publications and patent indicators confirm the low level of output of the research system. There are no data or studies available that allow any estimate of the extent of innovation activity (innovation expenditure, etc.) or outputs in the enterprise sector (e.g. sales from new products or services, etc.). Innovation surveys in other 'catching up' countries tend to show a relatively high rate of investment in information and communication technologies, innovation through acquisition of

[1] Organization for Economic Co-operation and Development

embodied technology and organizational change rather than formal R&D. A similar picture could be expected in Albania with most enterprises requiring first and foremost advice on best-available technologies and related organisational change in production process and training of staff. A limited number of medium-to-larger firms, e.g. in the agro-food sector, potentially becoming actors in terms of investment in product development R&D.

While innovation indicators should therefore be used with caution, they nonetheless serve as important proxies for measuring both the capacity and the progress a country is making towards increased innovativeness, and, hence, increased growth and international competitiveness.

If we compare some indicators with selected other countries, we may find out that Albania is ranked near the bottom in most of the indicators listed. To prove it, we might state that, in comparison with the other countries of the Balkans region, Albania is the last one ranked according to the innovation indicators, as seen in table 2.

The Indicators Innovation System is the simple average of the normalized scores on three key variables: Total Royalty Payment and receipts, Patent Applications Granted by the US Patent and Trademark Office, Scientific and Technical Journal Articles. These variables are available in two forms: scaled by population (weighted) and in absolute values (unweighted). In Innovation, absolute size of resources matters, as there are strong economies of scale and because knowledge is not consumed in its use; this is why we have used the unwighted ones.

The table 2 shows us clearly that Albania does not have a good ranking between the selected countries. Globally speaking, it is ranked 112-rd among 146 countries, the last one in Europe.

Another benchmark of Albania's ability to compete in the knowledge-based economy is provided by the World Bank's Knowledge Assessment Scorecards which evaluate Albania's general position relative to other countries. These scorecards reveal Albania's relative strengths and weaknesses. In comparison to the Europe and Central Asia countries (ECA) scorecard, it displays a relative strength in the governance indicators, more precisely related to the press freedom and the voice and accountability. Another strength is shown in the area of dates to start a business, part of the economic regime indicators and in the areas of adult literacy rate and life expectancy at birth, part of the education indicators.

However, in the vast majority of the areas, Albania's position is much weaker than the ECA average: royalty and license fee receipts, university-company research collaboration, availability of venture capital, private sector spending on R&D, and gross foreign direct investment. Some of these indicators are shown in the Figure 1, along with some other ones regarding innovation, economic regime and ICT indicators:

Both the European Innovation Scoreboard and the World Bank Knowledge Assessment Scorecard point out Albania's weak position in several innovation indicators. Though some of the indicators shown above are not completely evaluated due to missing data, they still highlight the most pressing issue areas for action.

There are many areas where we see room for improvement and for initiatives by government, private sector or academia, and, ideally, for joint initiatives bringing together

Table 2. Innovation indicators, 1995-most recent

Country	Innovation		
	most recent	**1995**	**Change**
Denmark	9.49	9.55	–0.06
United Kingdom	9.24	9.40	–0.16
Hong Kong, China	9.04	8.69	0.35
France	8.66	8.95	–0.29
Slovenia	8.31	7.91	0.40
Iceland	8.07	7.92	0.15
Italy	8.00	8.34	–0.34
Croatia	7.67	7.49	0.18
Greece	7.57	7.40	0.17
Argentina	6.89	7.16	–0.27
Slovak Republic	6.89	7.09	–0.20
Lithuania	6.70	5.29	1.41
Serbia	6.15	7.79	–1.64
Turkey	5.83	5.04	0.79
Ukraine	5.83	6.10	–0.27
Romania	5.74	4.89	0.85
Jordan	5.59	6.17	–0.58
Venezuela, RB	5.46	5.16	0.30
China	5.44	4.07	1.37
Moldova	4.79	4.43	0.36
Macedonia, FYR	4.67	4.43	0.24
Africa	4.31	4.57	–0.26
Ecuador	4.00	4.55	–0.55
Kenya	3.83	3.89	–0.06
Angola	3.62	2.48	1.14
Indonesia	3.19	2.38	0.81
Bosnia and Herzegovina	3.11	2.93	0.18
Albania	***2.82***	***3.38***	***–0.56***
Vietnam	2.72	2.34	0.38
Bangladesh	1.60	2.16	–0.56
Ethiopia	1.39	2.22	–0.83
Europe and Central Asia	*6.99*	*6.90*	*0.09*

Source: World Bank, 2009.

Figure 1. World Bank Knowledge Assessment Scorecards for Albania, Macedonia FYR and ECA Region

Albania (most recent)

Macedonia, FYR (most recent)

Europe and Central Asia (most recent)

Source: World Bank, 2009.

two or more stakeholders or key actors in the Albanian innovation system. Some of the areas, who have general relevance to supporting innovation in the Albanian economy, are categorized as follows:

- access to Knowledge (R&D, Secondary and Tertiary education level, ICT),
- ability to transform Knowledge (Labor Productivity),
- willingness to innovate (science-industry collaboration, business environment, innovation).

In the following part, we will discuss more briefly about some areas that have a specific relevance to the small and medium enterprises (SMEs), which are known as the best way to lead an economy by using innovation as their primary tool to challenge the changing environment.

3. The rising importance of SMEs in the Balkans

Small enterprises are the backbone of the Western Balkans' economies. They make a major contribution to job creation and economic development and are behind the expansion of the services, construction and transport sectors that are driving economic growth in the region. Clusters of small enterprises moving into higher value added operations are emerging, spreading innovation throughout many parts of the Western Balkans.

Until a few years ago, small enterprise policy received relatively little attention in the region. The focus of governments was on consolidating macro-economic stabilisation, and on managing the restructuring and privatisation of large companies. Only limited support was available for small enterprises.

The adoption in 2003 of the European Charter for Small Enterprises – a pan-European instrument developed under the framework of the Lisbon Agenda – by all the Western Balkan countries[2] and UNMIK/Kosovo contributed to a change in policy perspective. Since then, the Charter's policy guidelines have become a key reference for enterprise policy development in the region.

The assessment of where Albania and the Western Balkan countries stand with respect to enterprise policy development, based on the Charter, has been carried out using a common evaluation framework: the SME Policy Index.

The Index is structured around the Charter's ten policy dimensions:

1. Education and training for entrepreneurship;
2. Cheaper and faster start-up;
3. Better legislation and regulation;
4. Availability of skills;
5. Improving on-line access;
6. Getting more out of the Single Market;
7. Taxation and financial matters;

[2] Albania, Bosnia and Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro and Serbia.

8. Strengthening the technological capacity of small enterprises;
9. Successful e-business models and topclass business support;
10. Developing stronger, more effective representation of small enterprises' interests.

Progress with the implementation of the Charter has been uneven, both across the region and across the ten dimensions. In some policy areas the Western Balkan economies are advancing together. Soon, for example, each will have an SME Development Strategy and an SME Agency. Concerning entrepreneurship education, pilot projects have been initiated in each of them. In other areas there are clear differences. Croatia, for example, is ahead of the other Western Balkan economies in the dimensions associated with technological development.

There is increasing recognition of the need for quality statistics on the business sector, and particularly on SMEs. Policymakers require SME demographic statistics (e.g. entry and exit rates, businesses' stock and related measures) to understand the dynamics of the sector, as a measure of economies' ability to shift resources to growing and more productive areas, and to adjust the production structure to meet consumers' changing needs. Business indicators, on the other hand, are required to monitor the performance of the sector and, especially in transition countries, to measure employment creation and poverty alleviation.

SME statistics in the Western Balkans have several shortcomings:

- Weak international comparability;
- Low accessibility and usability;
- Inadequate level of detail and limited reliability;
- Incomplete information about employment and turnover.

4. The present and future of SMEs in Albania

Since the early 1990s, Albanian Government has undertaken several structural reforms, involving land reform, financial market liberalization and privatization. During this time, almost all Small and Medium-sized Enterprises (SME) have been privatized and lately significant progress has been made in the privatization of strategic sectors, like telecommunications and banking. The banking sector has gradually increased the amount and quality of loans and financial services to SME-s.

The development of the private sector is crucial for maintaining a sustainable path of economic growth. The dynamics of private sector development in Albania can be observed by looking at changes of employment in the private and public companies for the non-agriculture sector. Increasing the competitiveness of Small and Medium size Enterprises (SME) is crucial for the Albanian economy. Small and Medium size Enterprises (SMEs) already make up the vast majority of private businesses operating in Albania, and because of their size and adaptability they are likely to be one of the key sources of employment in the future (Institute for International Studies, "Progress of the SMEs' Sector in Albania". Tirana, 2006, p. 11).

Within the private sector the SME sector plays an important role for an economic stable development. The SME sector contribution is estimated around 64% of the GDP and 66% in employment.

The Albanian Government has adopted a new bankruptcy law and established a new Agency for supporting the deposit insurance scheme. On October 2002 a new Law on SME-s was adopted, followed by a broader strategy on SME-s, which subsequently led to the establishment of the Agency for SME Development in June 2003. These actions enabled the private sector in Albania to become the driving force for economic growth. Government has signed the European Charter on Small Enterprises, and the SME Agency is carefully monitoring all targets laid out in the Charter. The newly established SME Development Agency seeks to be the promoter of SME Development in Albania by developing policy guidance for the Government. This work is crucial to Albania's development, precisely because SME-s play a vital role in the economy.

Little progress can be reported in the area of SME financing. The new leasing law, adopted in 2005, is now being implemented as a financing alternative for Small and Medium Enterprises. Italy and Albania have concluded an agreement to set up a € 30 million Small and Medium Enterprises credit facility, but establishment of the facility has been delayed for two years. Despite some progress in the procedures for establishing a guarantee fund for Small and Medium Enterprises, it remains seriously delayed and is not yet operational.

Businesses in Albania also receive an important financial support from the international community, thanks to Albanian participation in different International Organizations and various multi-bilateral agreements. These financial incentives usually take the form of guarantees, like those offered by the Multilateral Investment Guarantee Agency of the World Bank (MIGA) and the European Investment Bank (EIB), or grants, loans and soft-loans, like those of the European Bank for Reconstruction and Development (EBRD), World Bank (IBRD, IFC), EIB, European Investment Fund (EIF), etc., that finance between 25 and 50% of the total project cost. Moreover, there is an EU programme, the JOP Phare area, that gives support to the internationalization of SMEs and is structured in 4 facilities providing essentially grants. The Albanian Reconstruction Equity Fund (AREF) of the EBRD is a venture capital fund that provides support to private investments in the productive and service sector. Other sources of credit and assistance could be the SIMEST[3] and Mediocredito Centrale, for Italian firms, or the Albanian American Enterprise Fund (AAEF).

The Government has established a new umbrella organization, Albinvest, integrating the Albanian Investment Agency (ANIH), the Small Medium Enterprises Agency (SMEA) and the Albanian Export Agency (ANE), and reporting directly to the Minister of Economy, Trade and Energy. This new structure is in line with government policy to reduce the operational cost of public administration and is expected to enhance sustainability. The capacity of Albinvest to provide effective assistance as a one-stop shop to foreign investors is being tested by an increasing number of trade and investment missions that are visiting Albania.[4]

[3] Italian Association for Foreign Enterprises

[4] Official website of the Ministry of Economy to be consulted via www.legjislacionishqiptar.gov.al

Albania has made significant progress in transition reforms in recent years but significant challenges remain. Business environment suffers from a high level of corruption, serious shortcomings in the judiciary, and very weak institutional and law enforcement capacity. Despite sizeable investments in recent years, infrastructure is far from being adequate for private sector development, including substandard road network, lack of reliable power supply, and limited regard paid to environmental consequences of rapidly expanding economic activity. Poverty is also a significant issue, particularly outside the main Tirana – Durres area.

The main challenges for the new government are: improving access to finance, particularly for SMEs and enterprises outside the main Tirana – Durres area, as well as improving the business environment for foreign direct investments ("FDIs") that would contribute to the development of the industrial sector.

5. Albania – strengths and areas for improvements

Albania has made good progress in establishing the basic framework for the Charter, particularly in terms of:

- More effective representation (dimension 10), especially creating effective SME networks and structured public/private consultation;
- Taxation and financialmatters (dimension 7), where Albania has approved bankruptcy and leasing laws and established a cadaster;
- Improved legislation and regulation (dimension 3), through adopting in March 2006 a comprehensive regulatory reform strategy that has already shown evidence of implementation.

Some areas are less advanced, particularly in regard to Charter measures encouraging innovation and the adoption of new technology and e-business (notably dimensions 5, 8, and 9), and the enhancement of skills availability (dimension 4).

- In dimension 5 (improving on-line access) the lack of means to file taxes on-line, as well as applications and permits, is particularly noticeable;
- Concerning the technological capacity of SMEs (dimension 8), there is no evidence yet of either support for training on technology or of schemes to promote cooperation on innovation.

Each value of these dimension is calculated as overall weighted average of respective elements taken in account per each dimension as follow:

1. Education and training for entrepreneurship: (Policy framework, Lower secondary and upper secondary education, Good practice, Non-formal learning).
2. Cheaper and faster start-up: (Issuing of company registration certificate, Company identification numbers, Crafts registration, Completion of the overall registration process).
3. Better legislation and regulation: (Regulatory impact analysis (RIA), Silence is consent Institutional framework).
4. Availability of skills: (Training needs analyses Policy, Quality assurance, Access to training, Start-ups, Entreprise growth).

Figure 2. Albania's performance in each of the Charter's ten dimensions

Source: www.oecd.org

5. Improving on-line access: (Interaction with government services, Information).
6. Getting more out of the Single Market: (Export promotion programmes, SME competitiveness, National SME promotion events).
7. Taxation and financial matters: (Taxation, Access to finance).
8. Strengthening the technological capacity of small enterprises: (Promote technology dissemination, Foster technology co-operation, Develop inter-firm clusters).
9. Successful e-business models and topclass business support: (SMEs support facilities and services, Information for SMEs).
10. Developing stronger, more effective representation of small enterprises' interests: (SME networks, Public-private consultations).

Conclusions

There is a strong entrepreneurial culture in Albania, and as in all other European countries, small and medium sized enterprises (SMEs) form the backbone of the private sector – representing by far the largest percentage of companies and employment in Albania. The existence of a critical mass of innovative, internationally competitive SMEs that have the ability and willingness to grow will be a critical condition for Albania's future growth and prosperity. SMEs play an important role in Albania – fuelling the

economic growth, providing flexibility, engaging in bridge-building between Albania and the European Union, and promoting employment.

However, despite this recognition, unfavourable framework conditions prevent SMEs from developing sufficiently. Official start-up rates of new businesses are very low in Albania, in particular in and around the suburban areas, although it should be borne in mind that there are extensive activities in the informal sector and that lack of reliable entrepreneurial data further complicates comparisons in this field. Inadequate access to finance for entrepreneurial companies and weak international profiles among SMEs are identified as two of the main obstacles for securing a supportive SME environment in Albania. Policy action is required in order to improve the business climate, especially for small firms.

Based on the preliminary analysis, we lists the following key challenges to innovation and SME development in Albania:

- Forming a more coordinated and functional structure for innovation policy governance;
- Improving the national ICT infrastructure;
- Developing local/regional action plans for innovation;
- Fostering better conditions for SME growth and entrepreneurial activity;
- Strengthening the supply chain of financial sources and investors;
- Facilitating foreign direct investment and strengthening absorptive capacity of the domestic economy from spillover effects;
- Continuing to strengthen economic and political stability and rule of law;
- Promoting increased awareness of and participation in EU Programmes on terms that balance opportunities for cross-broder knowledge flows and restructuring with the costs of growing administrative burdens.

Albania must address a number of challenges to strengthen its basis for innovation, competitiveness and growth. The need for a STI strategy in Albania is recognised by a wide-group of stakeholders and is now placed firmly on the policy-making agenda. This national strategy and action plan enhance innovation capacity, in which better conditions for SME-development and more active involvement by the private sector constitute critical elements.

The private sector (chambers of commerce, employer and trade associations, financial organisations, companies and family trusts) in Albania offers a wealth of entrepreneurial drive, financial resources and strong leaders throughout the country. These assets should be levered, together with public policy action, to strengthen business conditions and growth prospects for SMEs. In turn, stronger enterprises and closer constructive and transparent public-private sector collaboration aid innovation prospects and create a more appealing environment for foreign direct investment.

The private sector (through its chambers and trade associations) has the most-developed regional and local networks and is therefore best able to gauge the specific needs of companies – particularly the smaller companies which do not yet have a broad network themselves. The role of collecting and conveying companies' needs to the public sector in a systematic and structured way has high importance. It is this link that better enables the public sector to prioritise action areas, and strengthens the national innovation system.

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Znaczenie innowacji i polityki technologicznej dla rozwoju małych i średnich przedsiębiorstw w Albanii

Streszczenie

Artykuł opisuje aktualną politykę gospodarczą Albanii, ze szczególnym uwzględnieniem działań podejmowanych dla rozwoju stopnia innowacyjności podmiotów funkcjonujących w sektorze małych i średnich przedsiębiorstw. Identyfikowane są również kluczowe działania w zakresie promocji innowacji, które są nakierowane na wykazanie istotnej roli nowych technologii w życiu gospodarczym krajów rozwijających się.