



# INCEPTION REPORT

## **SUPPORT FOR THE DIGITALISATION OF SMES IN ALBANIA TO MITIGATE THE NEGATIVE ECONOMIC IMPACT OF COVID-19**

Assignment 1. Analysis and recommendations on SMEs access to ICT

October 2020



**European Bank**  
for Reconstruction and Development



# **Support for the digitalisation of SMEs in Albania to mitigate the negative economic impact of COVID-19**

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SMEs access to ICT**

## **Inception Report**

This Inception Report presents the initial understanding of the assignment of the consultant team and the proposed work plan for completion of the assignment.

**28 October 2020**

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# 1 Background & Project Objectives

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## 1.1 Background

While the Covid-19 outbreak may have brought a damaging impact to small and medium enterprises (SMEs), it may have also accelerated the digital transformation as businesses change their operations to cope with office closures, restricted movement and supply interruption. Indeed, it is often in times of crisis that these kinds of rapid progress take place. As SMEs in Albania look to endure in this challenging business environment, companies everywhere have been pushed into an accelerated state of digitalisation, whether they like it or not. Hence, change the digitalization process of SMEs in Albania is not auxiliary but a strong requirement for a sustainable future.

The European Bank for Reconstruction and Development (EBRD) provides policy support in a large range of topics in order to make the EBRD Countries of Operations (CoO) more resilient, well-governed, inclusive, integrated, green and competitive. In the context of the COVID-19 pandemic and EBRD Solidarity Package 2.0, the Bank will provide advisory services to support the design and implementation of business-supporting policy responses to help mitigate the economic impact of the pandemic.

A considerable number of the recommendations issued and endorsed in the last meeting of the IC in June 2020, addressed necessary support to SMEs, that have been severely impacted by the pandemic in almost all sectors of the economy, focusing on measures to support their digitalisation and maximise their access to Information and Communication Technologies (ICT). These recommendations are being taken over by the relevant Government Authorities for implementation.

In the framework of EBRDs support to the Ministry of Finance and Economy (MFE) with technical assistance in implementing in particular these recommendations, both aiming digitalisation of SMEs as a response to the pandemic crisis, IDRA Research & Consulting has been contracted by EBRD to conduct a deep analysis of the current situation and recommendations for the Government in setting up policies for the digitalisation of SMEs and improving their access to IC.

## 1.2 Project Objectives

The overall objective of this project is to support the Albanian Government in setting up and implementing support policies and measures for SMEs, to mitigate the negative economic impact of COVID-19. Both potential policies and one concrete measure supported through this project shall target the digitalisation of SMEs as an effective tool for adapting in and recovering from the pandemic crisis.

The specific objectives to be fulfilled by “**Assignment 1: Analysis and recommendations on SMEs access to ICT**” is to support the Government by providing a deep analysis and assessment of the status of business digitalisation in Albanian SMEs, and recommendations for improvements, focusing on:

1. assessing the demand for digital solutions and digital skills needs from SMEs across all economic sectors and regions of the country;
2. assessing the availability of suitable products to meet the needs of SMEs for digitalisation; and
3. recommending necessary tools, mechanisms and policies that could address those needs and could help SMEs exploit the benefits of the existing ICT.

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## 2 Methodology

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## 2.1 High Level Assessment of Digitalization of SMEs in Albania

### 2.1.1 Outline

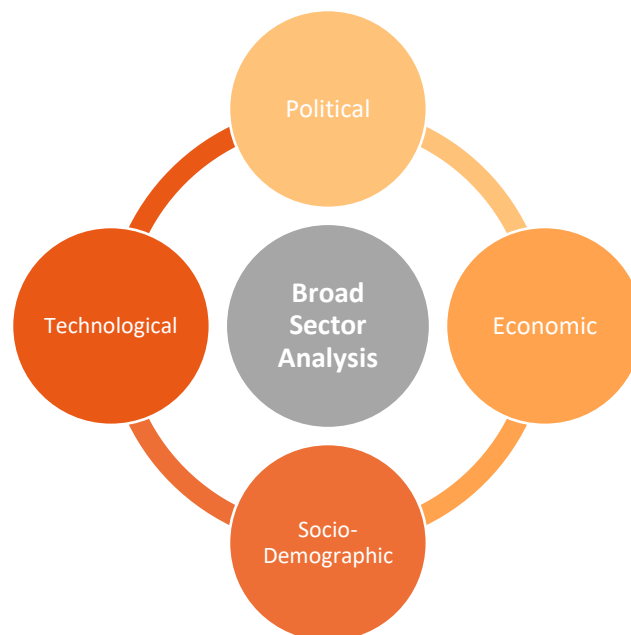
The outbreak of Covid-19 pandemic in various parts of the world gives a major impact on health and economy in terms of trade, investment and tourism. Likewise, in Albania, the implementation of total lockdown and afterwards physical distancing makes people very careful by limiting activities outside their home so that it impacts on various business actors, including SMEs.

In order to create a proper understanding of the situation we will conduct a high-level assessment of digitalization of SMEs in Albania using **desk research and secondary data**. Below we outline the proposed structure of this assessment:

#### 1. High level assessment of SMEs in Albania

The high-level assessment of SMEs in Albania, considered as a brief sector analysis will be conducted using the PEST (Political – Economic – Socio Demographic – Technological) analysis:

- Political factors. The extent to which policy makers are likely to intervene in the commercial environment.
- Economic factors. Economic factors have the most obvious impact on the profitability and overall attractiveness of a market or industry.
- Socio demographic factors. Social trends dictate work patterns and attitudes, consumer tastes and preferences, and the particular type, form, and volume of demand for a product or service.
- Technological factors. The sector technological framework, pace of innovation, adaption, usage and needs.



## **2. Digital trends in SMEs in Albania**

Building up on the last component of PEST analysis, technological factors, we will conduct a more specific analysis on the digital trends in SMEs in Albania, considering prior research and available data on technological and digital progress.

The research will also focus on the “policy gaps” in supporting the digitalization process, by analyzing the policies undertaken by the Government and public entities during the years and their effect on this process.

## **3. Best practices in SME digitalization & digital trends in SMEs in COVID times in the world**

To complete the background of this assessment, we will conduct a desk research on the best practices in SME digitalization, with a specific reference to the latest pandemic situation which enhanced the need for a digitalization process. This piece of research will be guided by the following objectives:

- Create an understanding of the global SMEs digitalization process;
- Create an understanding of the digitalization process in Central Eastern Europe and Balkans;
- Identify best practices in the digitalization process and contextualize this to the Albanian situation outlined in the beginning;
- Identify global challenges brought up by the COVID-19 pandemic to the SMEs;
- Identify global digital trends developed by SMEs to overcome COVID-19 pandemic situation;
- Identify global policy trends developed by countries to enhance the digitalization of SMEs and identify best practices in the Albania context.

## **4. Availability of digital solutions**

On the other hand, the digitalization process is highly dependent on the level of supply of digital products. Hence, the last part of the assessment will deal with creating a context of the supply of these products. This will be conducted by:

- Identifying typical digital products used by SMEs in Albania;
- Examining level of digital technology available through this product range;
- Identifying companies offering digital products;
- Identifying costs of adoption of this product range;

### **2.1.2 Preliminary Sources**

During the inception phase, our team has identified several sources to be used during the drafting of this part, as presented during this section together with some main findings from the documents guiding the research process. Our research will include multiple types of documents such as country reports, specific sector report, sector strategic documents, academic research papers etc., as well as secondary data.



Eduardsen (2018) in his article ***“Internationalization Through Digitalization: the Impact of E-Commerce Usage on Internationalization in Small- and Medium-Sized Firms”*** highlights that firms using the Internet as a means to provide information about the firm exhibit a higher degree of internationalization while using the Internet to facilitate transactions was found to have a positive impact on the ratio of foreign sales to the total sales; however, these foreign sales are likely to be concentrated in fewer regions/markets.

In Albania, citing ***the INSTAT*** (2019), “social media was used by 59.5% of enterprises that have computers with internet access”. In comparison to the Western Balkans countries, Albania ranks first. More specific data will be acquired by the “SME's Innovation, Benchmark Report, Albania” of the Small Medium Enterprises Innovation Capacity Boost Project.

Praising the ***European Commission Report*** (2019)<sup>1</sup>, the main challenges in SMEs in Albania are the informal economy (notably in the tourism sector), lack of transparency in public procurement especially related to Public-Private Partnerships (PPPs), need for stable state institutions, unclear ownership of property titles, and issues regarding the enforcement of the rule of law. In the area of enterprise and industry policy instruments, the ***Albanian Investment Development Agency*** (AIDA) offers funding instruments to stimulate entrepreneurship in tourism, handicrafts, and innovation and to support toll manufacturing under inward processing regime and competitiveness. However, the implementation is not proceeding successfully or is limited. Access to finance remains a serious challenge for businesses.

Moreover, policies and funding to support innovation and industrial development barely exist: Albania does not yet have a business incubator, nor any science or technology park and has few institutional support services promoting innovation and linking universities and research centers with innovative SMEs. The limited administrative capacity of the Ministry of Economy and Finance impedes developing a strategic approach to SME development and to formulating support policies. (***Economic Reform Programme of Albania (2020-2022) Commission Assessment 2020***).

Over the years, Albania has received financial assistance from different donors, most of them rather focusing on Small and Medium Enterprise (SME) and employment promotion than on innovation promotion. Lacking coordination, these projects have not led to long-term sustainable structures but have kept service providers in the business. Long-running fully-fledged incubation programs are not in place and most activities focus on the ideation phase. Also, the capacities of support organizations to support start-ups are low. Yet, since the beginning of 2019, the number of support organizations in Tirana is growing again, offering more opportunities for potential start-ups to get engaged (***Entrepreneurial & Innovation Ecosystem in Albania, 2019***).

Besides, Albania participates in the ***EU's COSME program for SMEs and the Enterprise Europe Network*** through a consortium led by the Investment Development Agency. The second European Enterprise Network (EEN) project was completed by the end of 2018 and in 2019 the same consortium

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<sup>1</sup> Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. 2019 Communication on EU Enlargement Policy.

started the third EEN project. 53 companies have registered their profiles in the European Enterprise Network database and only five partnership agreements have been signed. Currently, the same consortium led by AIDA is implementing the 4th period of the project EEN for 2020-2021, now tallying 116 Albanian profiles in the network

In the ***Cross-Cutting strategy “Digital agenda of Albania 2015-2020”***, the government program has determined that the government will work on three main directions by setting out measurable objectives. First, adding and promoting electronic services for citizens, businesses, and administration. The increase of transparency and improvement of public administration services according to the Open Government Partnership initiative will remain a priority. Second, in using ICT for education to transcend the digital gap and to empower the youth. Policies will be oriented toward the improvement and expansion of human capacities to increase the number of consumers and to promote the development of e-service providers. Thus, the creation of youth jobs that can be employed in the Albanian and regional markets and beyond that will be encouraged. Third, in consolidating the digital infrastructure in the whole territory of the Republic of Albania, by strictly respecting the European principles of free and honest competition.

About sector policies, a fiscal incentive package was adopted in 2018 for 4-5-star hotels and will still remain in place. Incentives were introduced to the agro-processing industry. As of 01.01.2021 till 2029, for the businesses with an annual turnover of 0 to 10 million ALL VAT rate applied becomes 0%. Moreover, the companies with turnover from 0 to 14 million ALL will have 0 profit tax (***Approved by the Parliamentary Committees, 2020***).

Regarding international experience, the ***“OECD SME and Entrepreneurship Outlook Report”*** (2019) gives a comparative analysis of regulatory frameworks and policies to enhance contributions by SMEs and entrepreneurs and delivers a forward-looking perspective on the opportunities and challenges SMEs and entrepreneurs face in doing business and scaling up their activities.

One of the central activities of the ***EU4Digital Facility*** (2020) in the area of ICT Innovation is supporting the establishment of a common legislative framework on ICT innovation in the Eastern Partnership region that would favor ICT innovation, based on the EU norms and best practices. Working towards this objective, the EU4Digital Facility identified the best EU practices for regulation in the policy areas that had been pre-selected by the Eastern partner countries:

- Intellectual property rights management for digital innovations (Armenia);
- New organizational forms for supporting ICT Innovation (Azerbaijan);
- Digital innovation SMEs’ access to finance (Georgia, Ukraine);
- ICT innovation ecosystems for start-ups and scale-ups (Moldova);
- Digitizing industry (digital transformation of SMEs in traditional sectors) (Belarus).

The article for the ***EU4Digital Facility*** (2020) provides an overview of the EU best practices in the area of Digitizing industry (digital transformation of SMEs in traditional sectors), selected as a priority policy area in Belarus. Concerning the program and strategy for digitizing enterprises in traditional industries, the EC is boosting the digitalization of the European industry with special attention to the traditional sectors,

small and medium enterprises, and regional disparities. The first EU industry-related initiative ‘Digitizing European Industry’ (DEI) was launched within the Digital Single Market package in April 2016. The Initiative’s objective is to ensure that businesses of all sizes, locations, and sectors in Europe can draw full benefits from digital innovation.

Moreover, the study *“Guidebook on SME Embracing Digital Transformation”* states that SMEs are the backbone behind the economic development of the APEC region. When faced with changes brought by the digital economy, SMEs should embrace digital technologies and promote digitalization. They should also learn from the successful companies in e-commerce, sharing economy, IoT, NextGen innovation, and other new business models and seek the opportunity to increase their own added value in the wave of digitalization (*Asia-Pacific Economic Cooperation, 2020*).

Referring to the *“Strategic Policy Forum on Digital Entrepreneurship”* (2016), the recommendations given from the best practices countries such as Germany, Luxembourg, the Netherlands, Spain, Portugal are as follow:

- Adopt and invest in digital technologies to innovate and improve your competitiveness
- Exploit the new opportunities offered by big data analytics
- Roll out training to upgrade the digital skills of your employees
- Collaborate with other businesses and universities to develop new applications

## 2.2 Digitalization of SMEs Survey

### 2.2.1 Survey Design

As proposed in the ToR the design of this survey will be mainly based on the European Commission’s Digital Economy and Society Index (DESI)<sup>2</sup>, and more precisely the “Integration of Digital Technology”<sup>3</sup> component of the index, adapted at the level of SMEs and create specific proxy to “Integration of Digital Technology” components<sup>4</sup>:

- (i) Electronic Information Sharing;
- (ii) Social media;
- (iii) Big data;
- (iv) Cloud;
- (v) Online selling;
- (vi) e-Commerce turnover;
- (vii) Selling online cross-border.

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<sup>2</sup> <https://ec.europa.eu/digital-single-market/en/desi>

<sup>3</sup> <https://ec.europa.eu/digital-single-market/en/integration-digital-technology>

<sup>4</sup>Components 4a1 to 4b3 accessible at: <https://digital-agenda-data.eu/datasets/desi/indicators>

The DESI has a three-layer structure as depicted in the table below. It is composed of 5 principal dimensions, each divided in a set of sub-dimensions, which are in turn composed by individual indicators. The indicators composing the index are extracted through multiple sources (studies, surveys, or reported data). The first three dimensions: (1) connectivity, (2) digital skills/human capital and (3) use of internet by citizens, together with dimension (5) digital public services are composed of **non-business-related data**. Considering the scope of our study and survey, we can only yield comparative data to the fourth dimension, focused only on SMEs. In relation to this, another important source of our survey design will be the “Eurostat - ICT Enterprises survey”, specifically adapted for SMEs – while also offering a comparative base to more international (European) data.

Dimension	Sub-dimension	Indicator
1 Connectivity	1a Fixed Broadband	1a1 Fixed Broadband Coverage
		1a2 Fixed Broadband Take-up
	1b Mobile Broadband	1b1 4G coverage
		1b2 Mobile Broadband Take-up
	1c Fast Broadband	1c1 Fast Broadband Coverage
		1c2 Fast Broadband take-up
	1d Ultrafast Broadband	1d1 Ultrafast Broadband Coverage
1d2 Ultrafast Broadband take-up		
1e Broadband Price Index	1e1 Broadband Price Index	
Source of indicators: <ul style="list-style-type: none"><li>Eurostat - Community survey on ICT usage in Households and by Individual;</li><li>European Commission, through the Communications Committee (COCOM) and Eurostat - Broadband coverage in Europe studies for the European Commission by IHS Markit, Omdia and Point Topic;</li></ul>		
2 Digital Skills/Human Capital	2a Basic Skills and Usage	2a1 Internet Users
		2a2 At Least Basic Digital Skills
	2b Advanced skills and Development	2b1 ICT Specialists
		2b2 STEM Graduates
Source of indicators: <ul style="list-style-type: none"><li>Eurostat - Community survey on ICT usage in Households and by Individual</li><li>Eurostat - Labour force survey</li><li>Eurostat</li></ul>		
3 Use of Internet by Citizens	3a Content	3a1 News
		3a2 Music, Videos and Games
		3a3 Video on Demand
	3b Communication	3b1 Video Calls
		3b2 Social Networks
	3c Transactions	3c1 Banking
3c2 Shopping		
Source of indicators: <ul style="list-style-type: none"><li>Eurostat - Community survey on ICT usage in Households and by Individual</li></ul>		

4 Integration of Digital Technology by Businesses	4a Business digitisation	4a1 Electronic Information Sharing
		4a2 Social Media
		4a3 Big Data
		4a5 Cloud
	4b E-commerce	4b1 SMEs Selling Online
		4b2 E-commerce Turnover
4b3 Selling Online Cross-border		
Source of indicators: <ul style="list-style-type: none"><li>Eurostat - ICT Enterprises survey</li></ul>		
5 Digital Public Services	5a eGovernment	5a1 eGovernment Users
		5a2 Pre-filled Forms
		5a3 Online Service Completion
		5a4 eGovernment Services for Businesses
		5a5 Open Data
	5b eHealth	5b1 eHealth
Source of indicators: <ul style="list-style-type: none"><li>Eurostat - Community survey on ICT usage in Households and by Individual</li><li>eGovernment Benchmarking Report</li><li>European Data Portal</li></ul>		

Source: <https://digital-agenda-data.eu/datasets/desi/indicators>

This approach will be blended with more country specific modules, which will be guided by the ToR framework, specifically:

- Assessment of the actual situation and level of digital penetration and connectivity
- Assessment of SMEs digital needs and level of their readiness for digital solution and digital transformation adaptation
- Detailing of the existing data at national level into regional level, mapping the areas with higher concentration of SMEs
- Current situation of the access of SMEs in the already available digital public services provided by the Government

To conduct this survey, we will use a sample of **600 SMEs** nation – wide. The questionnaire be 15-minute-long conducted through CATI (Computer Aided Telephone Interview) method.

## 2.2.2 CATI Method and Sample Distribution

IDRA uses CATI (Computer Assisted Telephone Interviewing) method to conduct this survey. IDRA has long established a survey system's telephone interviewing software and survey sample management module.

Based on the Law No. 8957/2002 (Amended), SMEs are defined as enterprises composed of less than 250 employees. Considering the INSTAT "Statistical Register of Enterprises", they have the following distribution:

- Micro Enterprises (0 – 9 employees) – 107,883 enterprises<sup>5</sup>.
- Small and Medium Enterprises: (10 – 249 employees) – 8,916 enterprises.

If the sample would be proportional to this distribution, 96% of the sample (561 interviews) would be composed of Micro Enterprises and only 5% of the sample (39 interviews) would be composed of Small and Medium Enterprises.

However, to produce indicators comparable to the DESI “Integration of Digital Technology” components and to the digitalization indicators of the “Eurostat - ICT Enterprises survey”, we will engage a **quota distribution at type-of-enterprise-by-size level**. A larger sample of 10+ enterprises will be composed, while keeping a smaller, but robust sample of micro enterprises (1-9 employees). Such a sample will have the following distribution:

1. **Micro Enterprises (1 – 9 employees) – 200 interviews**
2. **Small and Medium Enterprises (10 – 249 employees) – 400 interviews**

Further, the sample will be distributed proportional to economic activity and region, within the two categories divided by size. Based on the data obtained from INSTAT 2019, the **Small and Medium category** is composed of 8,916 enterprises, 32% of which are producers of goods and 68% producers of services, each subdivided based of their economic activity. To ensure representation of all types of activities, we will distribute the number of interviews as proportional to the share of the type of activity.

Economic Activity	No. of enterprises	Share (%)	No. of Interviews
Agriculture, forestry, and fishing	77	1%	3
Industry	1,827	20%	81
Construction	944	11%	42
<b>Producers of goods</b>	<b>2,848</b>	<b>32%</b>	<b>126</b>
Trade	1,855	21%	84
Transport and storage	262	3%	12
Accommodation and food service activities	863	10%	39
Information and communication	268	3%	13
Other Services	2,817	32%	126
<b>Producers of services</b>	<b>6,065</b>	<b>68%</b>	<b>274</b>
<b>Total</b>	<b>8,913</b>	<b>100%</b>	<b>400</b>

Source: INSTAT, 2019<sup>6</sup>

To ensure nationwide representation of the sample, we will distribute the number of interviews as proportional to their regional distribution share.

Region	No. of enterprises	Share (%)	No. of Interviews
<b>Berat</b>	<b>231</b>	<b>3%</b>	<b>10</b>

<sup>5</sup> In this category agricultural enterprises with one employee (which from 2015 constitutes almost entirely of farmers registered with Tax ID Number) are omitted.

<sup>6</sup> [http://databaza.instat.gov.al/pxweb/sq/DST/START\\_BR\\_BR0/NewBR0003/?rxid=30bbaad3-ab6f-464f-9b5c-89fdf9548922](http://databaza.instat.gov.al/pxweb/sq/DST/START_BR_BR0/NewBR0003/?rxid=30bbaad3-ab6f-464f-9b5c-89fdf9548922)

Dibër	217	2%	10
Durrës	987	11%	44
Elbasan	440	5%	20
Fier	544	6%	24
Gjirokastër	216	2%	10
Korçë	410	5%	18
Kukës	132	1%	6
Lezhë	271	3%	12
Shkodër	469	5%	21
Tiranë	4,496	50%	202
Vlorë	503	6%	23
<b>Total</b>	<b>8,916</b>	<b>100%</b>	<b>400</b>

Source: INSTAT, 2019<sup>7</sup>

Based on the data obtained from INSTAT 2019, the **Micro category** is composed of 107,883 enterprises, 32% of which are producers of goods and 68% producers of services, each subdivided based of their economic activity. Again, to ensure representation of all types of activities, we will distribute the number of interviews as proportional to the share of the type of activity.

Economic Activity	No. of enterprises	Share (%)	No. of Interviews
Agriculture, forestry, and fishing	85	0%	0
Industry	7,803	7%	14
Construction	3,782	4%	7
<b>Producers of goods</b>	<b>11,670</b>	<b>11%</b>	<b>22</b>
Trade	42,469	39%	79
Transport and storage	5,352	5%	10
Accommodation and food service activities	17,577	16%	33
Information and communication	2,821	3%	5
Other Services	27,994	26%	52
<b>Producers of services</b>	<b>96,213</b>	<b>89%</b>	<b>178</b>
<b>Total</b>	<b>107,883</b>	<b>100%</b>	<b>200</b>

Source: INSTAT, 2019

To ensure nationwide representation of the sample, we will distribute the number of interviews as proportional to their regional distribution share.

Region	No. of enterprises	Share (%)	No. of Interviews
Berat	3,872	4%	7
Dibër	1,989	2%	4
Durrës	10,694	10%	20

<sup>7</sup>[http://databaza.instat.gov.al/pxweb/sq/DST/START\\_BR\\_BR1/BR0018/?rxid=28f37208-017c-4a07-b6cb-7da755733ef7](http://databaza.instat.gov.al/pxweb/sq/DST/START_BR_BR1/BR0018/?rxid=28f37208-017c-4a07-b6cb-7da755733ef7)

Elbasan	7,355	7%	15
Fier	9,206	9%	17
Gjirokastrë	2,367	2%	4
Korçë	6,025	6%	11
Kukës	1,107	1%	2
Lezhë	3,750	3%	6
Shkodër	6,162	6%	11
Tiranë	47,271	44%	88
Vlorë	8,085	7%	15
Total	<b>107,883</b>	<b>100%</b>	<b>200</b>

Source: INSTAT, 2019

IDRA will use a multistage sampling procedure for this survey. IDRA possesses the list of businesses (more than **120 000 registered businesses**) from National Business Registration Center which has the following information:

- 1) NIPT
- 2) Name of Business
- 3) Date of Registration
- 4) Type of Business (Ltd, JSC, Physical Person, etc)
- 5) Location Address
- 6) Founding Capital
- 7) Legal Representative
- 8) Status (Active, Passive, under bankruptcy)

IDRA Database has more than 120 000 registered businesses. Based on this database we can select randomly businesses by location and then go through a **“Screening procedure”**:

1. **Contact the business** (using different sources of contacts that IDRA possesses from own databases, extracts from NRC, Chambers of Commerce, yellow pages, etc.)

2. **Screen the business** (through e mini-survey over the phone) in terms of:

- Size
- Main Activity

3. If it fits in the **quotas** (interlocking quota – region, size, ownership) then **ask for a meeting for the main questionnaire**. Such a stage would give us a possibility to preliminary set meetings, explain the purpose of the survey and ask for the appropriate respondent within the company to respond. Normally, when surveying businesses, it is advisable to preset meetings with the respondents.

The team of screening operators will then prepare an agenda for field enumerators who would be given directions where and who to interview.

Such a process is more difficult in terms of logistical coordination, but it ensures that we are capturing the right information regarding the companies interviewed and also ensuring that the field teams are not sent



out without proper contact information. Accurate contact information (addresses and phone numbers) is normally missing in the official business databases.

### 2.2.3 Preparatory Phase

In close collaboration with EBRD, IDRA will draft and finalize the research instruments providing insights from its vast experience in conducting surveys of large scales.

After programming of the questionnaire, IDRA will perform pilot interviews (for both survey components), (10-15 pilot interviews with businesses) to understand and assure the regular and logical flow of questions as well as assess the timing needed for the correct completion of the instruments. The pilot interviews will be conducted by our most experienced enumerators in order to capture every nuance of understanding for all questions. After gathering the results from the piloting phase, the final changes will be made to the questionnaire if need be and communicate them to the Client for further potential changes, feedback and approval.

### 2.2.4 CATI Fieldwork

IDRA intends to employ up to 12 CATI operators to conduct the telephone survey. There will be also 3 fieldwork coordinator each one supervising a team of 4 operators.

The CATI operators will undergo a thorough training on the questionnaire. The trainings will be conducted through Zoom online meetings.

Every day the supervisors will report on the conducted surveys from their teams and issues faced. They will randomly be checked registered audio of telephone calls of their team members to check for quality. They will also look at the dashboard of the online platform which would have pre-build data validation rules and see whether there any mistakes or issues with the data.

## 2.3 Qualitative Component

### 2.3.1 Focus Groups

In order to deep dive into the digitalization context of SMEs in Albania, IDRA will conduct **8 (eight) Focus Groups** with three main objectives:

1. Current situation
2. Needs for digitalization
3. Resources to enhance digitalization of their enterprise

In the preparatory phase IDRA will see to the: a) Preparation of Recruitment Screener, b) Drafting and finalization of Moderation Guide, c) Piloting of the guide, d) Recruitment of focus group participants, more specifically:

- Recruitment screener - The participants' screening questionnaire will be designed in close collaboration with EBRD. The questionnaire will include all relevant questions needed to ensure that all focus group participants fall in the "right" profile, which will be decided with EBRD's input. Here the key principle is the selection of the right profile based on economic profile (Goods producers, services etc.), by number of employees [Small (10 – 49); Medium (50 – 249)], and geographical location.

- Recruitment process - Participants will be recruited through our aforementioned database of businesses. As soon as we have the profile of the participants, the screener, our fieldwork coordinators will start the recruitment process. The screener determines whether a potential participant is recruited for a focus group ensuring the correct number of participants in each group for optimal results. Those who are recruited for a focus group are called a second time to rescreen by re-asking the original qualification questions to double checking their answers and ensure group eligibility. Once their eligibility is confirmed and their participation assured they are informed with details about their group (such as date, time, and location). They are also contacted a third time the day before the group to confirm participation to ensure optimal attendance.
- Research instrument - At the same time, IDRA will focus on conceptualizing the Moderation Guide. The guide will contain all necessary elements to guarantee i) the creation of a relaxed atmosphere where each of the participants can candidly express his/her opinion, ii) a logical flow of all questions etc. After being conceptualized, the moderation guide will be sent to EBRD for potential changes, feedback and approval. The instrument will be piloted during the first focus group discussion before being used extensively in the other focus groups envisioned by the study. The pilot group will provide the research team with the opportunity to identify all possible problems in the moderation guide, establish whether certain topics are too broad and should be narrowed down, test the flow of questions and fine tune the language. EBRD will be informed of all possible changes implemented on the moderation guide for feedback and approval.

Focus group discussions will be held online via skype and moderated by one of the most experienced IDRA moderators that has also been engaged in the moderation and report writing of numerous previous studies. All online FG's will be audio/video recorded making sure that each of the participants is informed of audio/video recording facilities and assured that their identity and information provided by them will be kept strictly confidential and used solely for analysis purposes.

IDRA will prepare and deliver:

- Transcripts of all focus groups
- Combined Qualitative & Quantitative report

The conclusions and interpretation for the overall report will be accompanied / illustrated with quotes from group participants translated in English.

### **2.3.2 In Depth Interviews**

Building up on the assessment of the supply side of the digitalization process, IDRA will conduct **15 In Depth Interviews (IDIs)**.

9 of these interviews will be conducted with representatives of digital product companies. These companies will be identified and broadly examined (i.e. types of products) during the desk research and survey phase. The list then will serve as a guide to select and contact this companies, making sure to cover all range of products. A high-level representative (manager or higher) will be selected to be interviewed

through face-to-face, or online means, by IDRA's more experienced moderators, that will later engage in writing up the respective analysis of the findings from such interviews.

Keeping the same approach, IDIs will be conducted also with other stakeholders:

- 2 IDIs with high level officials at the Ministry of Finance and Economy in charge of SMEs policy development;
- 2 IDIs with high level officials at the National Agency of Information Society
- 2 IDIs with Albanian Banking Association members in relation to the financing of the SMEs in general and their digital needs in particular;

## 2.4 Recommendations

The final part of the analysis will consist in blending conclusions from the three components to outline recommendations on measures and actions that could be undertaken by the Government, as well as orientation on potential for investment/interventions and services from the private (digital) sector for further developments and digitalization of SMEs.

## 2.5 Key Cooperation Stakeholders<sup>8</sup>

It is evident that initiatives in support of SMEs are not lacking and in spite of their different scopes, some of them contribute to the same areas from different perspectives and targeting specific matters. Nevertheless, this proximity of activities makes coordination particularly important for maximizing synergies and minimizing overlaps and this is fully relevant for the current project. We intend to cooperate with multiple stakeholders (at the very least just to request data) in order to comprehensively achieve the objectives of the study.

- Ministry of Finance and Economy (MFE) as the main beneficiary, but also as the main policymaking actor in this context will be our primary cooperation stakeholder.
- Ministry of Infrastructure and Energy as key policymaking actor on digitalization.
- Other governmental/public entities directly or indirectly related to the policies regarding digitalization of SMEs:
  - The Albanian Investment Development Agency (key actor in facilitating funds to support entrepreneurship/ SMEs)
  - National Agency for Information Society (AKSHI)
  - National Agency for Scientific Research and Innovation (AKKSHI)
- INSTAT – As being the main data source for enterprise related data (hence SMEs related data), especially when composing the “Integration of Digital Technology” of DESI, in order to have relevant data from “Survey on the Use of Information and Communication Technology” or “SME's Innovation, Benchmark Report, Albania”.
- International Donors supporting innovation and digitalization of SMEs in Albania:

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<sup>8</sup> The list includes preliminary stakeholders. During the desk research phase, while drafting the high level assessment, we will further identify all possible actors and with the support of the client to ensure their cooperation.

- Swedish International Development Agency (SIDA) – SIDA aims to promote innovation and entrepreneurship, start-ups and organizations in order to receive financial support and training through so-called “challenge funds”, a funding method in which donors use competition to find solutions to local problems. The intervention is financed by the EU delegation in Albania and implemented by SIDA in cooperation with the German organization, GIZ.
- Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) - On behalf of the German Federal Ministry für Economic Cooperation and Development (BMZ) the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH has been actively engaged in Albania. GIZ as a federal enterprise supports the German Government in achieving its objectives in the field of international cooperation for sustainable development. The ProSME program aims at increasing the competitiveness of Micro, Small and Medium-sized Enterprises (MSMEs) with focus on innovation and entrepreneurship promotion. It is implemented by the Albanian Ministry of Economic Development, Trade and Entrepreneurship (MEDTE) as well as GIZ on behalf of the German Government.
- Agenzia Italiana Cooperazione Allo Sviluppo - The Italian - Albanian Bilateral Agreement of Cooperation provides for the use of financial and non-financial instruments through the Programme for Development of the Albanian Private Sector, aimed at supporting the development of small and medium enterprises in Albania (SMEs), through interventions aimed the creation of favorable conditions for facilitating access to banking credit, in order to improve technology and to strengthen their competitiveness on the local and international market through technological innovation and improvement of production standards.
- Swisscontact - Swisscontact promotes economic, social and environmental development by successfully integrating people into local economic life. Swisscontact creates opportunities for people to improve their living conditions as a result of their own efforts.
- American Albanian Development Foundation (AADF) – AADF focus on the development of present and future executives, entrepreneurs and leaders through business development projects, training and educational programs. The goal is to provide the necessary resources to Albanian entrepreneurs so that they can turn their ideas to ventures, maximize their impact and build strong businesses. Successful entrepreneurs are critical to the expansion of an economy because their initiatives lead to innovation, community development and economic growth.
- Yunus Social Business - Yunus Social Business gives new entrepreneurs the skills and tools to design, test, build and grow startup initiatives that have the potential to positively impact the lives of people in the Western Balkan countries.
- Main companies offering digital products and services such as:
  - DM Consulting Services - DM Consulting Services (DMCS), as a Business Support Organization(BSO), was established in 2005 to provide clients with top-quality, innovative, reliable, cost effective, and time-saving business and IT solutions.
  - Telelink Albania (TBS) - TBS is an innovation powerhouse that enables people and organizations to adopt new technologies and explore their full potential in the digital

- world. They tap into a global talent and compelling next-generation IT solutions to help to transform digitally and seize new opportunities.
- InfoSoft Systems - InfoSoft Systems, specialized in system integration, provides technological consultation, implementation and support services to small, medium and large size organizations.
  - Protik - Protik provides access to resources for ICT entrepreneurs and business innovators. The centre aims to get involved in the creation of a business incubator, as the next step of stimulating entrepreneurship and sustaining SME's growth in Albania.
  - TechSpace (previously Innovation Hub) - The National Agency for Information Society (AKSHI in Albanian), as the key institution regarding the digitalization of public administration and public services provided to citizens and businesses, operates based on the Decision of the Council of Ministers no. 673, dated 22.11.2017. Based on its scope, NAIS decided to open the newest technological centre "Tech Space" being responsible for designing programs in supporting and developing start-ups.
  - Albanian ICT Association - The Albanian ICT Association was established in 2007 as an initiative of Albanian enterprises working to address the needs of the IT sector; as well as to transform the association into the most important representative body of the Albanian IT domain.
  - ICTS Albania - ICTS Albania is a wholly owned subsidiary of ICTS Europe, a global provider of security services for the corporate sectors.
  - EXINN Technology Centre - EXINN Technology Centre is a research, development and innovation enterprise. It offers access to finance services to micro, start-ups, small and medium companies as well as investment management consulting services to private and public companies. EXINN's work is related with the development of proof of concepts, laboratory research, experimental product/service design, prototype testing, scientific and field research for small, medium and large enterprises.
- Municipalities in Albania actively supporting innovation and digitalization of SMEs: There are 6 municipalities that support mainly innovation and entrepreneurship in Albania. The Municipality of Tirana numerates the biggest number of active enterprises. Among all the cities, Korça accounts for the second biggest city in terms of economically active enterprises followed by Elbasan.<sup>9</sup>
    - Municipality of Tirana -Most entrepreneurship activity is concentrated in and around the capital city Tirana. There are currently around 53,767 businesses operating out of Tirana. This has also urged the emergence of several support organisations. Most of these organisations target the ideation stage and offer batch-based programmes. However, since the beginning of 2019 new actor have entered the start-up ecosystem slowly diversifying the service offerings for aspiring entrepreneurs and also targeting later stage businesses with their support. Most support organisations lack sustainable funding, thus, depend on short-sighted donor funding. As a result, many support organisations are dutiful tied to their funding agencies and implement whatever desired by international

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<sup>9</sup> The "EU for Innovation" project funded by the European Union, the German Federal Ministry for Economic Cooperation and Development (BMZ) and the Swedish International Development Cooperation Agency (SIDA), implanted by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH and Embassy of Sweden Tirana.

organisations. While earlier almost non-existent, a few universities, especially private ones, have started to engage in the start-up sector by conducting start-up events such as boot camps, pitching competitions and hackathons. Some are even aspiring to open dedicated incubation centres. Nevertheless, cooperation between support organisations remains ad hoc and mostly event based. Especially universities do not cooperate due to high competition for the few good students.

- Municipality of Korça - Korça is the second biggest town in terms of business activity with most businesses operating in the service, trade and goods sector. Especially, the agriculture sector has seen a steep rise since 2010 from 29 active businesses to 1,517. Shifting from infrastructure development to economic development, the Municipality of Korça is looking to implement a holistic ICT program to retain talent and offer job opportunities to the youth. The municipality has not yet drafted a concrete strategy or action plan to realise this vision. Yet, current implementation partners include ICTS Labs, CodeX and the Regional Economic Development which has been mandated to operate the Business Incubator established by the municipality to enhance entrepreneurship in the town. However, the incubator lacks activities, staff and a concrete strategy, thus remains mainly underutilized. The municipality recently unveiled plans to transform some parts of the local library to a co-working space. Unlike other municipalities, the city of Korça offers fiscal incentives such as zero taxes for ICT businesses and entrepreneurs operating in the handicraft and tourism sector for the initial two years. Additionally, the University of Korça has set up an Innovation Hub as part of an IPA project which also undertakes basic functions of a Technology Transfer Office such as supporting researchers to access public funds. The Innovation Hub is currently conducting an entrepreneurship competition. However, it lacks additional capacity and funds to offer more services. Cooperation between the university and the Business Incubator is sporadic despite evident synergies.
- Municipality of Elbasan – After Tirana and Korça, it is the city with the third highest number of businesses operating in the town. Elbasan recently elected a new mayor who envision to transform the city into an economic hub. For this purpose, the municipality wants to establish an Innovation Hub jointly with the University of Elbasan, supporting entrepreneurship and the youth. While a rough strategy for the Innovation Hub has been developed, the municipality does not have a dedicated budget yet and is seeking for further support from international organisations to draft a detailed action plan and subsequently support it. Other plans of the municipality include the implementation of a smart city programme involving students and aspiring entrepreneurs to develop ICT solutions benefiting the municipality. The university to date has not engaged in any other entrepreneurship activities due to a lack of funds and decreasing student numbers. However, theoretical and practical entrepreneurship courses were recently introduced in the curricula of the university as part of a REBUS project. While a few international organisations such as World Visions conduct activities in the town, there is a general lack of support organisation seeking to enhance entrepreneurship.
- Municipality of Durrës – Durrës is the city with the fourth highest entrepreneurship activity among all six cities, with approximately 12,921 active businesses. However, it

forms an industry corridor with Tirana that hosts most businesses in Albania. Similar to other regional cities, Durrës lacks innovative and scalable start-ups. Entrepreneurship is mostly cantered around trade, tourism and the service sector. With the Albanian Innovation Accelerator (AIA) the city officially has a support organisation aiding local entrepreneurs. While AIA in the past has conducted boot camps jointly with the University of Durrës, the organisation seems to have downscaled its activities, however, continues to support boot camps in other regional cities. The University of Durrës is looking to set up an entrepreneurship club. However, the university has recognised that there is a need for follow-up activities to guide potential entrepreneurs in realising their ideas as initiatives in the city are mostly ad hoc and sporadic. Unlike other regional cities, the University has a good network of industry partners. Nonetheless, these companies see students mostly from an employment perspective but not as potential partners for developing innovative ideas.

- Municipality of Vlora - Vlora is a seaside tourism spot that currently hosts 11,665 active enterprises in the trade, tourism, services and goods sector. Through the municipalities infrastructure development projects, especially along the promenade, the tourism sector has seen a significant push in recent years. Since 2010 the number of accommodation and service companies has increased from 809 to 1,203. As most businesses are seasonal in the tourism sector, the sector is faced with a lack of skilled manpower. The University of Vlora is with 7,000 students the city's main education institute. Unlike other universities located in the regions, the university has developed a comprehensive strategy in three intervention fields: a) Internationalisation, b) Smart University and c) Becoming a leader in providing talent based on market needs. The university is currently setting up a Clinic of Business as part of an IPA project which seeks to enhance entrepreneurship in the region and Northern Greece. Furthermore, the university has also opened a "Clinic for Law" which is a consultancy run by students giving legal advisory services to businesses. The municipality does currently not engage in entrepreneurship promotion and cooperation with the university is low, despite significant potential for cooperation in the tourism sector. Other mostly ad hoc and donor-funded activities in entrepreneurship promotion are conducted by IDEA and AULEADA, a Regional Economic Development Agency. However, instead of having a clear mandate, these actors do activities commissioned and designed by donors. For instance, AULDA as part of a project has set-up a Centre for Innovation which after the end of the programme is mostly idle and unutilized, despite being in the centre of the city.
- Municipality of Shkodra – Shkodra sees the lowest entrepreneurship activity among all six major Albanian cities. Most entrepreneurship activity in Shkodra is small-scale in sectors such as tourism and handicraft. The North of Albania has seen high support from Italian NGOs which have also supported rural entrepreneurship. The city has its own university. The University of Shkodra consists of six faculties hosting approximately 7,000 students. The university currently does not conduct any entrepreneurship activities and is faced with decreasing student numbers. The municipality is focusing mostly on infrastructure development and has not engaged in the start-up sector. Cooperation between the municipality and the university is mostly superficial, not benefiting aspiring entrepreneurs



or existing local businesses. While professional support is almost non-existent for aspiring entrepreneurs, a few NGOs such as Go2 or the women association “Hapa Të Lehtë” that has supported the implementation of Start-up Boot camps jointly with Yunus Social Business on behalf of UNDP in the city, exist, however, support mostly rural and small-scale entrepreneurship. Like other organisations in the country, these NGOs are disproportionately focused on donor demands and unsystematic in their support offerings.



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# 3 Workplan

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IDRA will be able to conduct this study this period of time, according to the timing below.

Activity	Weeks																							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
<b>Inception Report</b>																								
<b>Progress Report</b>																								
<b>Drafting “High Level Assessment of Digitalization of SMEs in Albania”</b>																								
<b>Digitalization of SMEs Survey</b>																								
Questionnaire design																								
Programming of Tablet PCs																								
Sampling for national survey																								
Training of CATI enumerators																								
Fieldwork conduction																								
Data cleaning																								
Data processing & analysis																								
Writing survey report																								
<b>Qualitative Component</b>																								
Design of Research Instrument (Recruitment Screeners & Moderation Guide, IDI guide)																								
Recruitment of FG participants																								
Conduction of FGs																								
Drafting FGs Results																								
Setting up IDIs																								
Conducting IDIs																								
Drafting IDI Results																								

Activity	Weeks																							
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
<b>Draft Report</b> (Merging results from all components)																								
<b>Review and Final Report</b>																								

\*Deliverables 

## Key Progress Dates

Activity	Date
Start of the Project	21 September 2020
Delivery of Inception Report	05 October 2020
Delivery of the Revised Inception Report	27 October 2020
Delivery of the Draft Questionnaire	2 November 2020
Delivery of the Final Questionnaire (after clients' review)	9 November 2020
Delivery of the First Draft of "High Level Assessment of Digitalization of SMEs in Albania"	20 November 2020
Delivery of the Final Draft of "High Level Assessment of Digitalization of SMEs in Albania" (after clients' review)	30 November 2020
Delivery of the First "Focus Group Moderation Guide" Draft	11 December 2020
Delivery of the First "In-Depth Interview Moderation Guide" Draft (after clients' review)	18 December 2020
Delivery of the Final "Focus Group Moderation Guide" Draft	11 December 2020
Delivery of the Final "In-Depth Interview Moderation Guide" Draft (after clients' review)	18 December 2020
Sharing Preliminary Data from the Quantitative Component	05 February 2021
Summary of Main Results from Focus Groups	05 February 2021
Summary of Main Results from IDIs	12 February 2021
<b>Draft Report (Merging results from all components)</b>	01 March 2021
<b>Final Report (Merging results from all components)</b> (after clients' review)	12 March 2021



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