



Institute for the Promotion of Social & Economic Development

“Non Financial Business Support Services Need Assessment”

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Introduction

This is an assessment of business support for small and medium enterprises (SMEs) with the focus on non-financial services. The objective of this research paper is to identify the main challenges that entrepreneurs / businesses encounter in starting-up and developing their business. The intention is to get a sense of what services are currently missing or need to be improved and who can deliver them. The analysis will point out the main bottlenecks in terms of governance and service delivery in the remit of private sector.

The study finds that the prospects for private sector development in Albania are significant. Yet growth is potentially dependent on reform processes and performance of institutions. Opportunities for economic and employment growth are thought to be particularly strong in tourism, travel and energy. In addition, ICT, services and agriculture are often singled out as sectors with the highest growth potential. Business services in their support are among the main factors that can accelerate economic and employment growth.

The potential demand for non-financial business services is strong. Entrepreneurs give priority to services that provide them information on the market, knowledge and skills to reach customers and make sales, improve employees' technical skills and develop linkages to new buyers and suppliers. Knowledge and skills to reach customers can be addressed through business management training, while improved management skills can also contribute to addressing the other priorities.

However, results from the fieldwork indicate that services would have to address fairly simple business issues. Current usage of advisory, information and innovation, human resources development, energy efficiency business services is very low. The study indicates that this is not due to lack of demand but because entrepreneurs are not aware and informed on the existing services, what is provided and how to access them. Only around 5% of users had paid for services. This does not reflect significantly on the willingness to pay for the non-financial services since the large majority of services had been provided within value chain relationships (by buyers and suppliers) and were therefore part of commercial transactions.

The typology of existing services is very poor and mainly relates to trainings. Furthermore, services are characterized by a low capacity to meet business needs and inadequate outreach. There is a limited business management training curricula available and mostly in Tirana, targeting students and corporates, but not particularly tailored to SMEs. There is no standard entrepreneurship or business management training available for SMEs. The situation with other services such as developing market networks, provision of market information, business consultancy services and technology training services is similar; they are either weak or non-existent - both in urban and rural areas. Entrepreneurs have assessed that potential trainings should be organized in locations, which are easy accessible in terms of distance.

Ownership and sustainability of these services is part of the overall analysis. Public sector providers are fully dependent on government budget, NGOs are very much dependent on donor funding whereas the private sector itself has no consolidated and structured capacities to take on this function. The analysis considers the role of government institutions in delivering business support. In successful international practises, dedicated support to small and medium enterprises is observed. The viability of such a service in Albania is considered with a particular entry point at the local level - in view of territorial reform and the new administrative division of the country.

Methodology

The fieldwork for this study was conducted in the period March - April 2016. As a start, a review of available studies, national and international practices and theoretical framework was completed. The secondary research was followed with the primary research comprising a sample survey of SMEs, focus group discussions (FGDs) and interviews with key informants. 60 interviews with SMEs and over 40 interviews were conducted with key informants, including development agencies, business service providers, banks and microfinance providers, government organisations, chambers and business associations, and value chain actors. Furthermore, 6 focus groups with key stakeholders in Tirana, Durrës, Shkodra, Vlora, Fier and Korça were conducted as the main regions with the higher concentration of businesses. Participants included entrepreneurs and potential entrepreneurs, local business associations, chambers of commerce, regional development agencies, public officers from local government units and social partners.

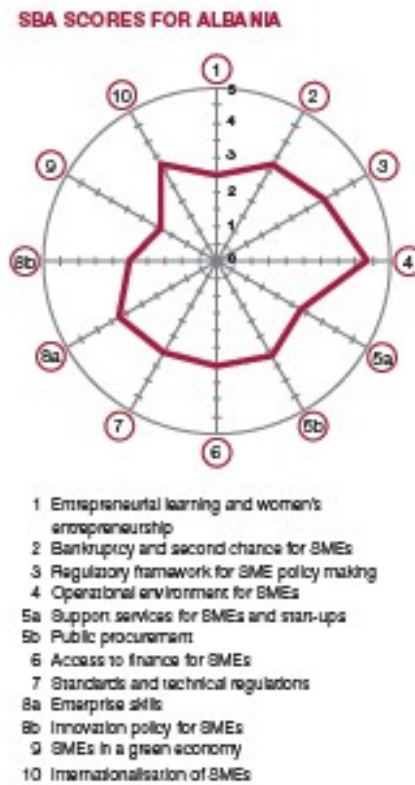
This methodology aimed to put together a sample that would allow the study to provide fairly reliable conclusions about SMEs potential for growth and challenges. Therefore, a combined sampling on the basis of geographical clustering was carried out. The questionnaire consisted of 20 questions on (i) general information about the enterprises in terms of type of business, age of the business, number of employees, owner's age, sex, education level; (ii) utilization of and demand for financial and non-financial services, type of services, source of services, usage rate, payment of fees; (iii) needs for business services, willingness to pay, and expected features of services; (iv) current situation related to the business environment, membership in business associations and registration of the businesses. As interviews were conducted in 6 regions (Tirana, Durrës, Shkodër, Fier, Vlorë, Korçë) a summary report with the main conclusions was prepared for each region.

OECD's SME Policy Index¹ was a reference point in constructing the hypothesis, questions and further analysis. This is a benchmarking tool for emerging economies to monitor and evaluate progress in policies that support small and medium-sized enterprises (SMEs). The tool is structured around the ten principles of the Small Business Act for Europe (SBA), providing a wide-range of pro-enterprise measures to guide the design and implementation of SME policies. The Index has been developed by the OECD in partnership with the European Commission, the European Bank for Reconstruction and Development, and the European Training Foundation in 2006 and has been applied to several regions (Western Balkans in 2006, 2009 and 2012, including Turkey for the first time; Eastern Partnership Countries in 2012 and North-African and Middle East regions in 2008 and 2013). As the main objective of the SME Policy Index is to provide governments with a framework to assess policies targeting SME development this research aims to orient and define through a qualitative input business development services in the country. Among others, the index assesses the following policy dimensions relevant to Albania:

- education and training for entrepreneurship
- cheaper and faster start-up
- better legislation and regulation
- availability of skills
- improving online access for tax filing and company registration
- taxation and financial matters
- strengthening the technological capacity of small enterprises

¹<http://www.oecd.org/globalrelations/smallandmedium-sizedenterprisessmepolicyindex.htm>.

- successful e-business models and top class business support
- developing stronger, more effective representation of small enterprises



Elements of the index relevant to Albania and to this particular research were identified for further elaboration in the questionnaire and focus group discussions.

I. Business development services - a theoretical framework

Business development services are those non-financial services and products offered to entrepreneurs and at various stages of their business needs. These services vary and cover several disciplines and are offered to micro; small, and medium enterprises overcome barriers to increased productivity and profitability. They have a problem solving character and are considered crucial to the entry, survival, productivity, competitiveness, and growth of micro and small enterprises². In more detail they consist of (i) facilitating access to markets; (ii) improving the availability of less expensive or higher quality inputs; (iii) introducing new or improved technologies and products; (iv) upgrading management and technical skills; (v) reducing or eliminating policy constraints; (vi) helping enterprises access appropriate financing mechanisms³. They can be defined along the lines of policy and strategic dimensions, equipment and soft interventions. They can also be categorized according to sectors, level of service provision (enterprise, meso, and macro level initiatives) as well as magnitude or scope of services (minimalist vs. package programs)⁴. Furthermore, UNDP groups them in two types: those intended to help entrepreneurs improve their business activities (increasing productivity, reducing the costs, accessing more profitable markets, etc.), and those providing assistance to start-ups i.e. establishment and operations (registration paper work, fiscal framework as well as purchase of equipment)⁵.

Different actors employ various models, approaches and tools across developed and developing countries aiming for business sustainability and cost-effectiveness. The growth of micro-credit movement initiated by Grameen Bank in Bangladesh triggered the need for accompanying services in support of entrepreneurs. Indeed, traditionally, business development services have consisted in training or business advice. Training has been and continues to be the most common form of intervention that accompanies financial support to businesses. Yet, various critical reviews (Durham University Business School, 1993; Grierson, McKenzie, 1996) point out that training is rather generic and relies on relatively standardized material. It is not easy to measure its impact or success. More importantly, the sustainability of these services appear to be the most difficult dimension as often they are provided by donor supported projects and entities or government institutions ill-equipped to be up to the task.

The questionability over these services' sustainability started to be addressed in the 90's with the shift from supply-driven to demand-driven and market-responsive programs. Indeed, sustainability, impact, outreach/scale, and cost-efficiency became standard performance indicators for business development services. On the other hand, in the age of Internet and globalization and large venture capital opportunities, the drive for successful entrepreneurial models, approaches and profit has given business development services another boost of demand. Innovation, start up gatherings, computer-based learning, distance online mentoring are providing additional incentives for more qualitative, structured and mainstreamed business development support.

Business development services can be delivered through various techniques and methods but some of the most popular ones include the voucher schemes that makes the supply of services more responsive to

² <http://www.seepnetwork.org/bdsguide.html>

³ Simel Esim: See How They Grow. Business Development Services for Women's Business Growth: Business Development Services and Business Growth

⁴ Committee of Donor Agencies for Small Enterprise Development 1998

⁵ UNDP Regional Centre Bratislava: Business Development Services: How To Guide, July 2004.

demand; self help groups or nucleus approach that analysis internal challenges of a certain sector or professions and then generates ideas and action plans how to solve them. Both approaches are championed by GIZ and have been applied in many countries – including Albania. Another tool, developed in Sweden and taken on by ILO is the “How to Start and Improve your Business” packages. It is believed to be the largest management training systems in support of micro and small enterprises. It consists of a step by step approach (generate, start, improve and expand) that aims to enable local Business Development Service (BDS) providers to support the start of viable businesses, to increase the viability of existing enterprises, and to create quality employment for others in the process. Despite the fact that it had an institutional character as it targeted organisations that provided business support services (chambers of commerce, employers’ associations, training instructions) the main dimension of this package was training. Recognizing the limitations it appears that efforts are currently directed towards more systemic approaches to private sector development. National SME agencies are established and furthermore, SME support is also being rolled out at the local level based on the principle that if the government has to be involved, it should seek to be as close as possible to SMEs by decentralizing its services.

While, business development has been long subject to subsidies, one of the most popular means to facilitate and provide business development services is through the establishment of fee based business centres. While this approach has proven to be successful in advanced and large markets, its success is rather uncertain due to the limited resources of family based micro and small enterprises that characterize a developing economy.

Albania’s nascent private sector is characterized by mostly micro and small enterprises. Their development challenges are no different from other countries in South Eastern Europe. UNDP outlines that these challenges consist of mainly lack of management skills, hostile business environment, insufficient access to finance and particularly relevant to this study lack of without appropriate institutions able to support private sector development.

Traditionally, business development services have been provided through some sort of subsidy arrangement in order to keep costs low. In the absence of structured demand and market provision, the role of government - central or local becomes primary. Government support can be provided in the form of regulatory framework, legal enforcement, setting of standards and quality assurance, coordination and market facilitation, provision of information as well as support to research and development. This supply driven approach struggle to achieve satisfactory outreach, as this is limited by the available funding and subsidies. Institutional sustainability is the weakest point as these programmes often cease when public funds are exhausted.

Fee based services is the model that logically provides the sustainability character that donor and government funded initiatives miss. This has to be seen through the demand versus supply interventions that are shaped by the peculiarities of a specific market and its level of development. The demand optic focuses on potential benefits of business development whereas the supply one introduces new models of doing business and developing new products.

Regarding the institutional set up, actors participating in BDS market development activities may be: individuals, private for-profit firms, NGOs or non-for-profit sector, government agencies, business associations, small enterprises, business networks, firms whose core business is not services but who provide them as part of a broader transaction or business-to-business relationship (intermediaries, exporters, etc.).

Indeed, private sector businesses are the most appropriate suppliers of sustainable business development.

In their absence or in underdeveloped markets additional actors fill in the gap – either through non-profit or through newly established service providers through donor funding. Yet practice has shown that even in advanced economies a certain mix – private sector and government-backed support are useful mechanisms that boost the success rate of business development. For instance, America’s nationwide network of Small Business Development Centers (SBDCs) is the most comprehensive small business assistance network in the United States. It aims to help new entrepreneurs and to assist existing businesses to remain competitive. It is hosted by leading universities, colleges and state economic development agencies, and funded in part by the United States Congress through a partnership with the U.S. Small Business Administration. Free business consulting and fee based training are provided on writing business plans, accessing capital, marketing, regulatory compliance, technology development and international trade⁶.

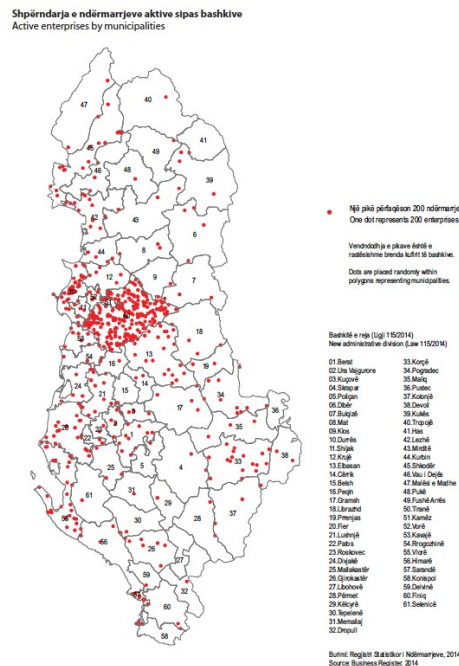
Albania has improved the operational environment for businesses, in particular by facilitating company registration through initiatives such as a one-stop shop for company registration, single company identification numbers and online registration. Progress has been made in entrepreneurial skills and education, with business knowledge recently introduced as a subject across the secondary school curriculum (11 and 12 grades)⁷. AIDA is playing an increasing role in sector support and attraction of foreign direct investment. Yet, the provision of business services is still considered as a challenge especially in light of AIDA’s insufficient capacities.

In view of the current contraction of economic growth in Albania, business development can be a useful incentive. The Business and Investment Development Strategy 2014 - 2020, outlines SME development as one of the four main pillars of the strategy that among others defines the road map for businesses to develop and improve their competitive skills focusing on innovation of products and services, promoting long-term sustainable growth in international markets and creating conditions for attracting foreign investment. The strategy highlights that compared to 2005, the number of active enterprises in Albania has increased by about 72%. The number of women entrepreneurs by 27, 4%. Referring to their structure, active enterprises in 2012 noticed that SMEs are dominated by micro enterprises with 1 to 9 employees, which constitute 95.3% of the total number of active enterprises. The spread of active enterprises by economic sector are: trade 43.4%, hotels & restaurants 16.2%, transport and communication 9.9%, industry 9.6%, construction 4.3%, agriculture and fishing 1.7% and other services 14.9%. It is to be noted that the composition of trade, hotels, coffee bars and restaurants is dominated by domestic businesses and a slight shift towards international trade has only happened in the recent years, especially in summer time due to tourists’ inflow in the country (BIDS 2014 – 2020). INSTAT’s Enterprise Survey 2014 display the following business presence where unsurprisingly the central part features the largest number of active enterprises.

⁶<http://americassbdc.org>

⁷ Junior Achievement Albania: <http://junior-albania.org/programet-ja>

Active enterprises by municipality (2014)



In recent years, the government has undertaken important reforms to formalize the Albanian economy. The National Registration Centre and the simplification of the licensing procedures through the National Licensing Centre and the recent merger between the two into the National Business Centre are considered as successful reforms. Yet the country's ranking in World Bank's Doing Business is still struggling with deterioration as reported in the 2016 edition. While most of the indicators have to do with enabling environment issues such as property rights, construction permits and so on business support is not faring that badly with the country ranked 54th. Compared to other reform minded countries such as Macedonia (2nd), Albania is still lagging behind.

It is widely accepted that the SME sector has played a key role in the process of transition. Albania went through a liberalisation and privatisation process in wide scale, leading to the development and expansion of the small and medium enterprises. SMEs role towards new jobs, exports, innovation and regional development has been vital to national development. Indeed, micro, small and medium-sized enterprises (MSMEs) form the backbone of a dynamic market economy. Entrepreneurship support has seen a particular boost in the past few years and a variety of activities are underway from a diverse network of actors, mostly private but also international as well as public.

Some of the most prominent efforts have been donor driven and run by international organisations. The Turn Around Management (TAM) and Business Advisory Services (BAS) Programme is an essential component of the European Bank for Reconstruction and Development transition toolkit. The programme - the longest running in the country (since 1996) has provided direct support to individual enterprises, helping them to grow their businesses. The key success factor has been the degree of willingness and eagerness of the staff of assisted enterprises to learn from the TAM team. On the other hand, the BAS grant is a key component of BAS assistance, thus helping financially constrained enterprises to access consultancy services. In a nutshell, the support is driven by the size of enterprises - where small ones are favoured; their geographic location - where grants are given to enterprises outside the capital; and type of

advisory service - higher grants are given to support projects aiming to improve management effectiveness, to reduce costs, and to improve environmental management⁸.

GIZ has been actively involved in support of economic development in Albania. Five business associations (Olive Oil, Tourism Association, Horticulture Association, Livestock Association, Women Entrepreneurs as well as Business Albania and AIDA have established the Nucleus approach. It is an association that offers services for business development⁹. Through additional support, selected companies from the Albanian textile and garment industry in taking have started the development and marketing of collections by Albanian designers. Furthermore, the Albanian Tourism Association (ATA) is playing its part in promoting competitive tourism in the country and the municipalities of Korça, Shkodra and Tirana have set up Local Economic Development (LED) Offices to promote economic development and tourism.

In another German supported endeavour in cooperation with AIDA, 120 innovative start-ups are being currently supported with entrepreneurship competences and business capabilities from generating ideas to business plan preparations. Indeed, such start up support has become quite widespread in the country with many actors performing ad-hoc and donor supported projects. The most recent one Oficina Albania - an accelerator programme is offering business advisory and support services in terms of coaching, information and training as well as mentoring¹⁰. It offers also an accelerator programme to also serve as experts in their own field of expertise. Yunus Social Business Albania is also another entity that has been providing business development support through accelerator programmes through consulting, coaching, mentoring, training and network building for social business entrepreneurs. It provides also investments into the most promising social entrepreneurs and ideas¹¹. Other activities such as Talent Garden, Start up Weekend are contributing to the creation of a diverse eco-system in support of businesses in the country.

⁸<http://www.ebrd.com/work-with-us/advice-for-small-businesses/albania-overview.html>

⁹<http://nucleus.al/rreth-nesh/>

¹⁰<http://www.oficina.al/#>

¹¹<http://ysbbalkans.com>

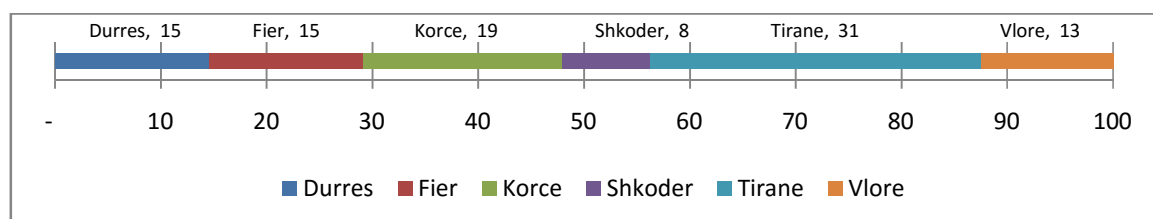
II. Survey on non financial business support needs

The objective of the business survey was to gather standardized information using a survey of semi closed questions to confront business perception on the needs for business non financial support services devoted to small and medium enterprises with existing services provided through private, public or a nexus of private-public partnership. SMEs in an economy that is under structural adjustments favours business consolidation of businesses and SMEs progress is strongly conditioned on their efficiency and competitiveness improvement. Business support services especially those on technology and innovation, information systems and business intelligence service, management and legal compliance are perceived crucial to business efficiency gain.

This study uses the information and feedback given by business representatives in management and decision-making level through standardized questionnaire. The information gathered is read carefully, attempts to generalize findings are carefully done when enough evidence is provided through the data.

A combined sampling on the basis of geographical clustering of SMEs was carried out. The survey covered 6 locations – Tirana, Durres, Shkoder, Fier, Vlore, Korce and sampling, despite being small, was distributed among regions to reflect the distribution of economic activity carried on by SMEs businesses. Most of interviews were performed in Tirana which remains the main hub of economic activity in the country; other important areas surveyed were Korca, Fier and Durres (see figure 1).

Figure 1: Distribution of business interviews per regions



Source: Survey data and author calculations

The results are not analyzed using the geography but rather business typology especially business size and sector of operation. A gender prospective was applied on data analyses, as an effort to capture differences on business needs for support services. Empowering women entrepreneurs remains a challenge in Albania and a strategic objective of policy support.

II.1 Survey results on non financial business support services

This section summarizes the main characteristics of the businesses and service providers surveyed. Overall 100 businesses were surveyed, 60 representatives from the demand side SMEs needing or demanding non-financial support services. Questionnaires targeting supply side of the non-financial business service amounted to 40 interviews completed by service providers and key stakeholders.

II.1.1 Business Survey Characteristics

Micro and small businesses (with less than 25 employees) interviewed represented 70.2% of the sample, 58% of them had fewer than 5 employees. Only 17% of companies were large companies, with more than 100 employees.

Companies have not always provided information on their turnover as a measure of company size, 22.9% of companies have not responded to that question. Among those companies providing data and information on turnover, 45.8% of companies have declared to have a turnover of 8 up to 50 Mio ALL annually, 18.8% of companies seem to be medium ones with turnover between 50 and to 250 Mio ALL (see table 1). The structure of companies as per their size remains similar throughout sectors and gender of the owner.

There were no significant business size differences among the different sectors; manufacturing, services and trade businesses were all more likely to be small organizations. Also, no difference in size was found between female and male-owned businesses and SMEs.

Table 1: Distribution of SMEs

Company Years of Operation	Frequency (in %)	Company Size by Number of Employees	Frequency (in %)
0-5 Years	35.4%	Micro and Small Businesses (1-25 employees)	70.2%
6-10 Years	12.5%	Medium Enterprises (26-100 employees)	12.8%
Over 10 Years	52.1%	Large Enterprises (More than 100 Employees)	17.0%
Company Sector	Frequency (in %)	Company's Turnover Range	Frequency (in %)
Agro Processing	14.6%	No Answer	22.9%
ICT	16.7%	Turnover up to 8 Mio ALL	20.8%
Manufacturing	12.6%	Turnover 8.1 up to 50 Mio ALL	25.0%
Service	20.8%	Turnover 51 up to 250 Mio ALL	18.8%
Tourism	22.9%	Turnover above 250 Mio ALL	12.5%
Trade	12.5%		

Source: Survey data and author calculations

64.6% of the surveyed SMEs are older than 5 years (see table 1), while 35.4% of the companies have been set up during the last five years. Young enterprises are particularly found in the service sector, while older enterprises are more often in the construction, tourism and manufacturing sector. There are no gender differences in the distribution of companies as per their years of active operation in the market.

The survey was structured to have equal representation of male and female business owners. This small-scale survey could not capture any significant gender differences regarding business ownership. However, interviews and FGDs indicate that women's involvement in enterprise as owners and managers is strong. In most SMEs, both husband and wife work in the enterprise.

The age of entrepreneurs ranged from 21-63 years. More than half of them (62.5%) were below 40 years of age (with 37.5% below 30). The age group of 41-50 years old represented about 18.8% of the total

owners interviewed. Only 21% of entrepreneurs were more than 50 years old. These shares were similar for women and men.

The survey indicated that 90% have higher formal education while only 10% have completed secondary education and VET schools. FGDs confirmed that the education level of entrepreneurs is generally tertiary education level. However, key informants met were of the opinion that the majority of entrepreneurs have not completed more than secondary education raising concerns about the quality of university degrees of MS entrepreneurs.

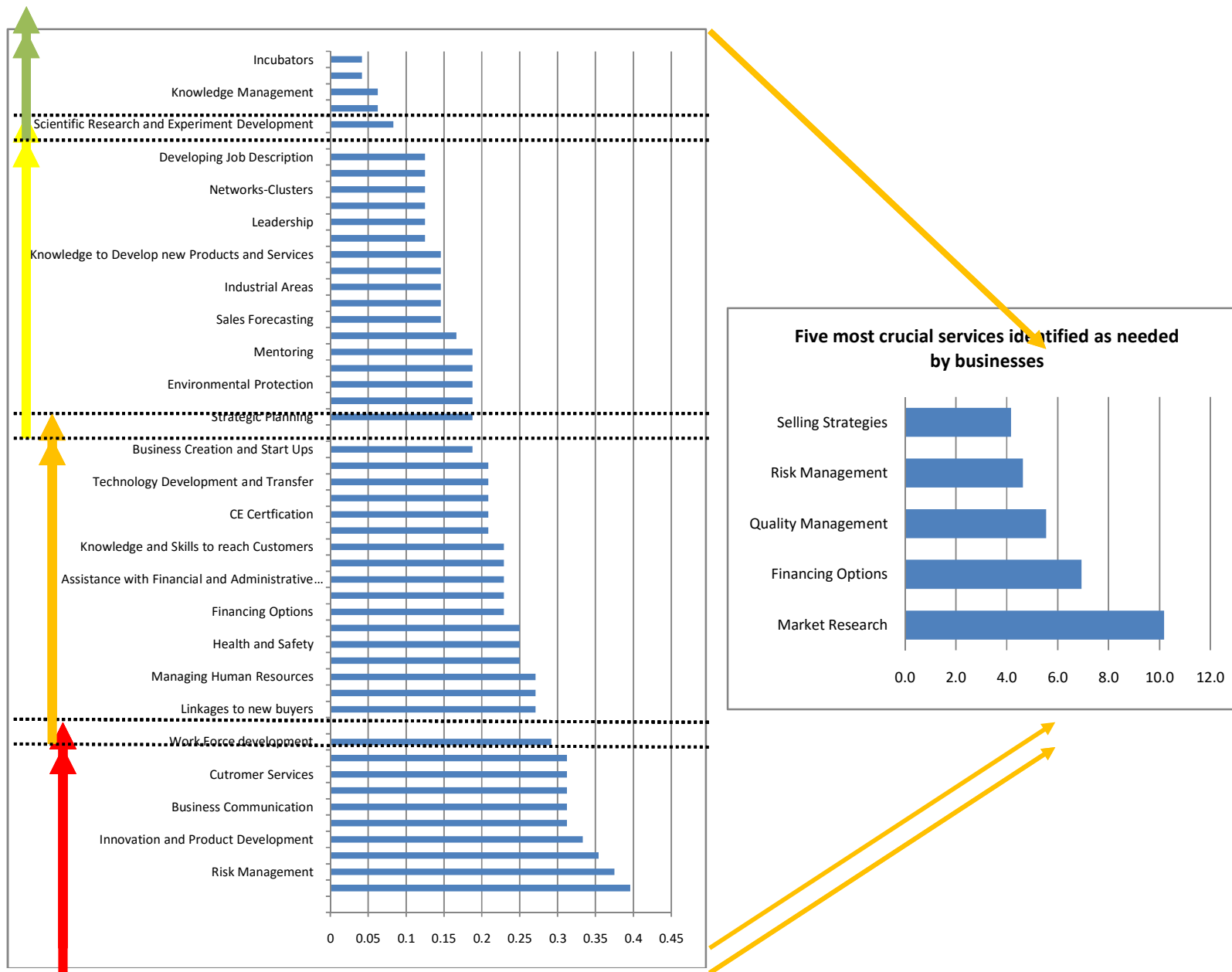
In small enterprises, male workers were found to be in the majority. Female workers were found mostly in trading and services. This was also validated through the FGDs indicating also that a large majority of SMEs employ family members and relatives.

Most of the SMEs surveyed have started with their own investment, while 28% have declared to take a loan for the expansion of business. Whereas, about 52% of enterprises plan to further invest over the coming 12 months. There were mainly male entrepreneurs' that planned to undertake such investments.

II.1.2 Business needs for non-financial business support services

The survey questionnaire included a set of questions which enables gathering information on the business needs/demand for non-financial business support services. The interviewed businesses were asked to think only on any type of support services they ever needs in their business operations. They were asked to consider only their needs and ignore any constraints such as affordability issues or availability of service. They were provided with an extensive list of services helpful to solve problems or situations in a business operational environment. After this exercise businesses were asked to prioritize their needs and rank 5 most crucial services they ever needed for their business progress or development. In answering this question they were asked to consider their business environment, problems and constraint they face.

Figure 1: Non financial business support services needed by businesses (survey data)



The business support services needed are ranked by the frequency they were selected; a higher frequency of selection is interpreted as an approximation of business perception on the need for such service (see figure 1). Businesses, under a hypothetical situation of no constraints, have identified market research, risk management, networking and communication, quality management, customer services and product development as the most needed non financial business support services to help their business progress and development. To a lower degree of importance businesses have ranked services helping them in technology transfer, staff and personnel policies, quality assurance of their business operation such as certification, needs to support administrative (tax) and financial procedures legal compliance as needed. Support related to research and development, human resource management or job quality, support to comply with environmental friendly engineering and recycling have been ranked among those services that are less needed by businesses. The complexity of this need identification exercise did not allow us to specify needs of businesses depending on business characteristics.

Business report on the five most crucial business support services ranks market research and marketing strategies, quality and risk management as well as support to find financing options as those most crucial business support services need to ensure business progress (see figure 1). There is some common pattern among needs reported by small and medium enterprises, they report needing market research and information support in innovation and product development including technology transfer as well as intervention to ensure quality management and mentoring.

Table 2: Five most crucial business services needed by businesses, presented per business size

Micro Enterprises¹²	Freq. (in %)	Medium Enterprises	Freq (in %)	Large Companies	Freq (in %)
Market Research	11%	Market Research	14%	Work Force Development	12%
Financing Options	9%	Innovation/Product development/Technology Transfer	10%	Financing Options	6%
Quality Management	5%	Quality Management	7%	Assistance with financial and administrative procedures	6%
Innovation/Product development/Technology Transfer	3%	Information on the Market	7%	Tax Planning	6%
Information on the Market	3%	Mentoring	7%	Technology Development and Transfer	6%
Mentoring	3%	Customer Services	7%	Developing Personnel Policies	6%

Source: Survey data

Micro enterprises suffer lack of financing means; they report as crucial, support that enables them to identify ways of financing their business. Medium enterprises on the other hand appear to be more focused on their customers, since customer service improvement is one of the areas ranked as crucial by them.

¹² Small and micro companies – 0-25 employees; medium companies 25-100 employees; large companies those with over 100 employees.

Staff development support (including training and management practices) appears important for large companies, for which identifying financing options, improving technology through technology transfer as well as complying with tax administration rules and procedure are also important area of support to be provided.

Businesses were asked to identify crucial business support services they needed during the start up phase. The top five ranked non-financial business services needed by businesses during their start up phase are summarized in table 3. The ranking criteria were the frequency of selection for each service, businesses were asked to rank at least five services.

Table 3: Five most crucial business services needed in the start up phase, presented per business size

General Sample		Small and Micro		Medium Enterprises		Large Enterprises	
Type of Service	Freq (In %)	Type of Service	Freq (in %)	Type of Service	Freq (in %)	Type of Service	Freq (in %)
Market Research	35%	Market Research	36%	Business Planning	50%	Business Planning	38%
Business Planning	27%	Business Planning	18%	Market Research	17%	Market Research	38%
Financing Options	13%	Capacity Building	15%	Business Creation	17%	Financing Options	38%
Capacity Building on management and start up	10%	Business Creation	12%	Financing Options	17%	Sales Forecasting	25%
Business Creation	10%	Mentoring	12%	Assistance with financial and administrative procedures	17%	Assistance with financial and administrative procedures	13%

*the list is cropped to the top five mentioned services and the frequencies do not add to 100%

Source: Survey data

Market research and business planning seems to be a need phased by each business being in the start up phase, mainly because both studies represent tools for reducing the risk of uncertainty and the unknown. Small and Micro enterprises have identified a need for capacity building and mentoring services especially in the management field at the initial stage. Given the fact that most of the small and micro enterprises are family initiative backed up by know-how on business earned in a job environment or migration spell, the need for mentoring is understandable. Financing options in a start up phase are needed by medium and large companies, which also declare a need for assistance in ensuring financial and administrative compliance (see table 2).

More than half of companies (53% of the overall asked companies) have declared not to be provided with any type of business support services. A set of around 12 services has been given to companies. Small and micro enterprises have declared that support was given to them to develop new products, certify products and access foreign markets, hire and train employees, management support and marketing. Medium companies have been provided with support on legal issues, marketing and capacity building trainings. Large companies have benefited financial and accounting support, marketing and customer support as well as help to start up and capacity building.

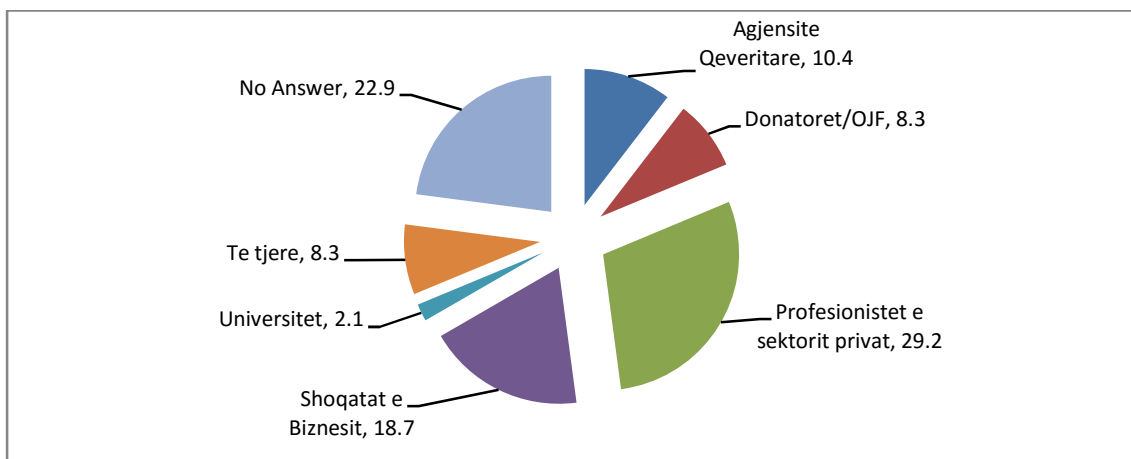
Table 4: List of non-financial support services provided

	Small & Micro Enterprises	Medium Enterprises	Large Enterprises
CE Certification/Foreign Market	√		
Development of new services	√		
Financial and accounting support service and counselling			√
Legal counselling		√	
Management support	√		
Marketing	√	√	√
Employment support program	√		
Start Up Support			√
Customer Support			√
Training and Capacity Improvement	√	√	√

Source: Survey data

Most of services were provided by the private sector, 29.2% of business interviewed declared professionals of the private sector supported them. Business associations have been important providers for support to businesses, alongside government agencies and non-for profit sector that has provided 8.3% of services. Universities, despite having knowledge and expertise engage the least with businesses, only 2% of businesses have been given services by a university.

Figure 2: Business service Providers



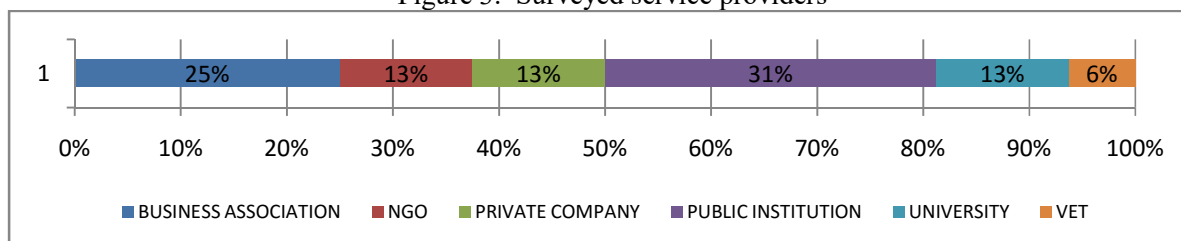
Source: Survey data

87% of companies have declared that business services they hired were mainly driven by an internal need, few cases business services have been hired to respect contractual obligations or demands of the business partner. Around 70% of companies have paid services received, and this general trend remains valid even if businesses size is considered. The perception that services are fairly provided is similar to those that think services are expensive. However costs have never been mentioned as a reason why businesses have not received services they need.

II.2. Survey of Service providers – main findings

The survey on non-financial services needs was performed on both sides of the market, demand and supply. Business services providers surveyed were mainly business associations and public institutions, both categories were representing 55% of all institution interviewed. Some minor representations from public sector education system were involved in the survey (19% of the sample companies surveyed) including universities and VET schools. Best practices have shown that education institutions are important actors in providing support to businesses given the human resources they engage. The survey was also covering non-for profit and for profit operators in business services provision.

Figure 3: Surveyed service providers



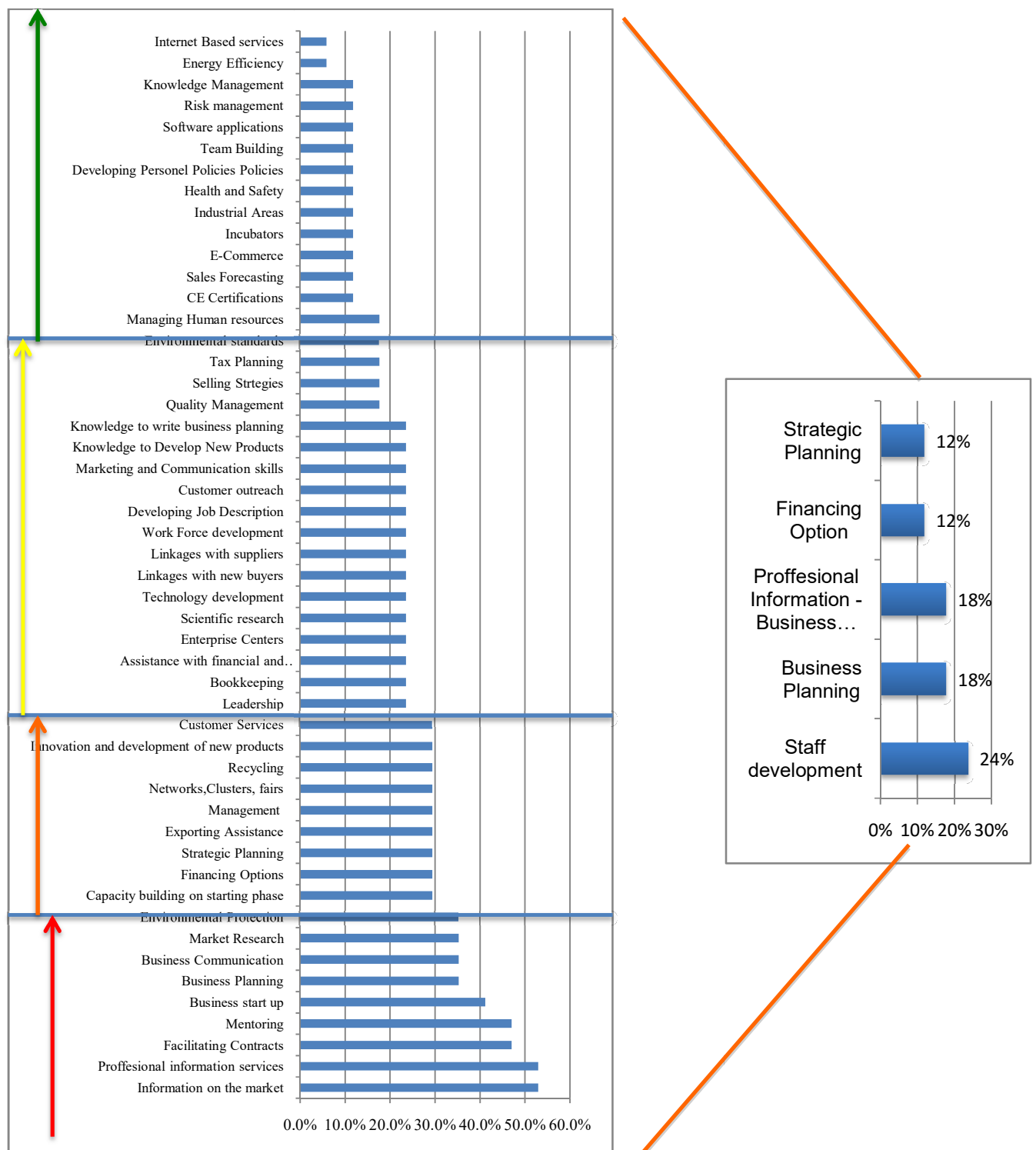
Source: Survey data

The survey was completed at the management level since the nature of information required high level of exposure to strategic decisions and market information. We asked companies offering services to identify those that to their experience need to be offered in order to support businesses to grow. They are asked to select from an extensive list of services that could be offered to businesses without considering constraints that emerge in the services now.

Service providers have ranked in the group of most needed services to support business growth those that provide information and research on markets, information technology and system of information design, the star up phase to the service providers remain a crucial stage that needs support. Supporting business management can be supported through mentoring, while businesses need legal support to facilitate contractual agreements preparation and compliance including here compliance to environmental regulation. Businesses support are needed in a moderate way on operating areas of financing and financial compliance, product development and technology update, customer services, management, introducing technologies especially those related to recycling. Export practices, clusters and networking are also services that providers believe are moderately needed by businesses to grow. The set of services ranked as less needed by businesses encompasses areas of support that helps businesses to manage human resources and develop their capacities. The service providers do not rank incubators or industrial areas, as strongly needed by businesses. They also rank support to ensure compliance with certification, quality assurance and risk management practices as area that businesses need low level of support (see figure 4).

The services that providers believe businesses mostly need and will be willing to pay are business planning and strategic planning, staff development practices, professional business intelligence and information and bookkeeping or accounting practices. The list is cropped to introduce the five most cited services, however at similar rates services related to technology transfer and new product development were also mentioned. The business and at this point providers and demanders agree need counselling and advising on identifying and engaging the best financing options to support company growing (see figure 4).

Figure 4: Non-financial business support services as ranked by service providers (survey data)



Around 64.7% of service providers have offered payment-based services, around 60% of service providers also believe that businesses are willing to pay for benefiting business support services. The data

also show that services for which businesses are more willing to pay are actually those that services providers do provide. The supply sector innovation and expansion is lead or constraint by the demand patterns. Having identified the space where there is potential demand from businesses and possible shortage from the service provider, we believe that these services could lead the supply. Main obstacles identified to constraint the service sector take off and grow relate to lack of financial resources and infrastructure facilities, including here information systems and office space. Human resources, market sensitization as a measure to generate new demand and market regulation are also mentioned as obstacle for the sector to develop. Service providers have declared that they have done market need assessment (76.5%) and lobbied for policy support (47.1% of service providers have declared so). Policy intervention and support such as trainings, incubators and one stop shop model of business service provision will improve the quality of non-financial business services offered. Service providers agree that strengthening cooperation among sector actors will improve the sector prospective to grow, so far the service providers cooperate with other sector representatives through formal cooperation, information sharing, networking and visiting.

Table 1: Service Providers perception on different aspect of sector operationally and obstacles to develop

Questions	Frequency (in %)	Questions	Frequency (in %)
Have Offered Services with Fee or Payment	64.7	What Measures Can improve Business Services Provision	
Services Offered (Mostly)		One Stop Shop Model Improves Business Services	41.2
Financial Counselling	11.8	E-Services	29.4
Market Research	23.6	Entrepreneurship Centred under Local Government	29.4
Trainings	17.6	Incubators/Business Parks/Technology Centred	58.8
		Trainings	52.9
Companies willing to Pay	58.8	Customer Centred Services	17.6
Services for which business willingness to pay is higher			
Business plan	5.9	Have performed a Business need assessment	76.5
Feasibility assessment	5.9		
Financial counselling	11.8	Have Lobbied for Policy support	47.1
Legal services	5.9		
		Main forms of cooperation with other service providers	
Marketing services	5.9	Cooperation agreements	17.7
Risk Management	5.9	Information Sharing	23.5
Training	5.9		
Main Obstacles in the service sector development		Counselling	5.9
Financial obstacles and Infrastructure capacities	29.4	Internships	11.8
Market regulation	29.4	Other Forms(visiting, service exchange)	23.6
Human Resources Development	23.5		

Source: Survey data

III.1 The need for business support services - the demand and supply viewpoint

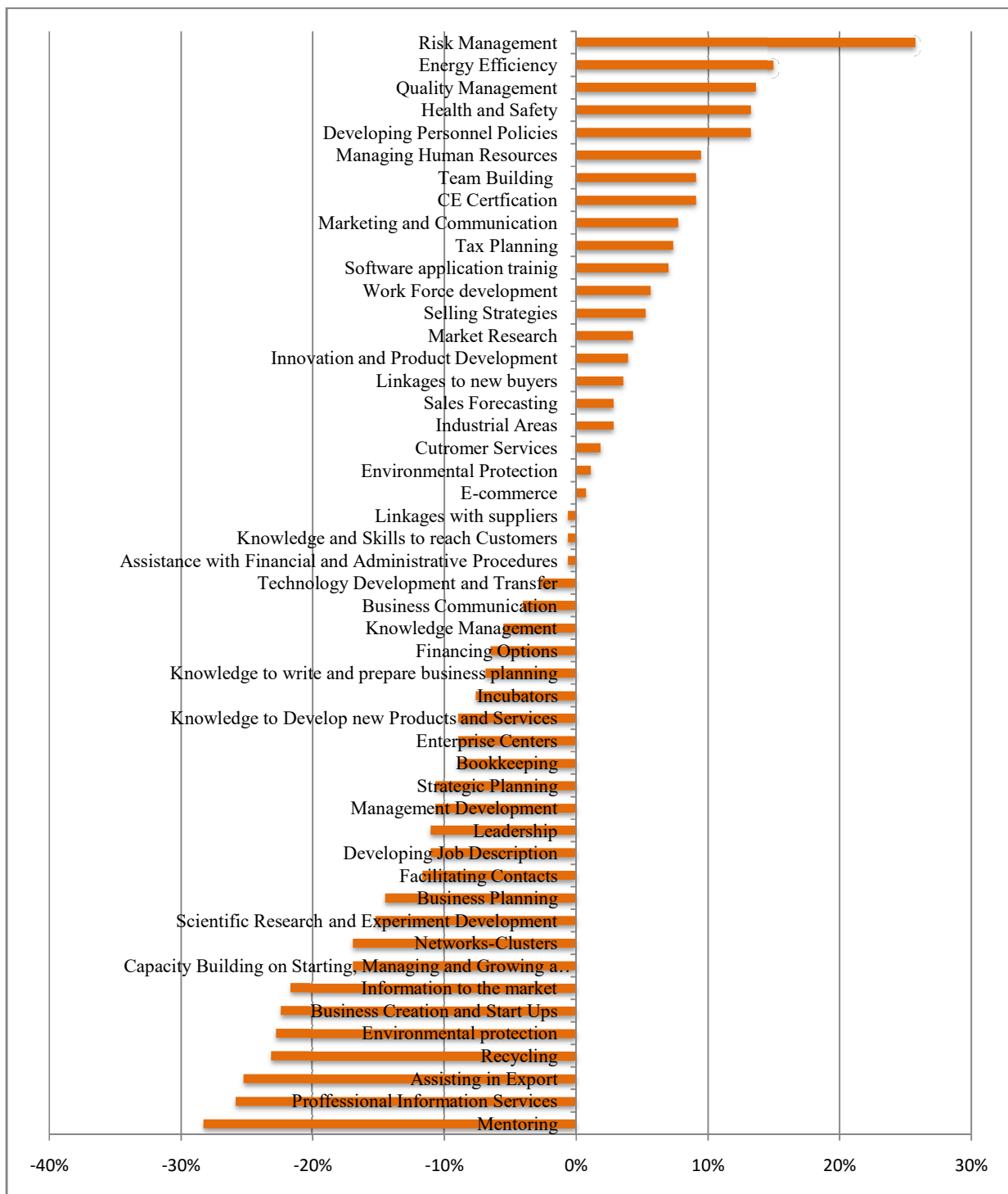
In order to understand if business needs are matched by services actually provided we compared services ranked as needed by business representatives and supply provides. This demand to supply comparison tries to identify shortages' or surplus of non-financial measures provided currently to businesses. The figure below present the net difference between the frequencies of a service identified as needed by business representatives (a demand side proxy) with the frequency of confirmation as needed by providers (a supply proxy). The positive difference means that the service has more probability to be offered than demanded, leading to an excess supply where resources are wasted in services that are not so needed by the business. The negative difference means that services are needed by the businesses but have low probability to be offered since providers have the perception they are not needed by businesses.

The services that would be mostly needed by businesses but will probably face a shortage in providers relate to strategic planning, business planning in start up phase and business growing stage. In the management aspect there is a strong gap among the need that management needs for direct support through mentoring and the service provided for mentoring services

The need to be supported in paper work and legal compliance regarding tax law compliance, fulfilling procedural obligations, export procedures, environmental requirements, bookkeeping and identifying financial resources. Businesses also feel a strong need to get information on market and market opportunities, reach and outreach their customer and developing business communication, which service providers have not yet perceived rightly.

To a lower extend, but still noticeable is the difference between the need businesses have expressed for being supported to adopt new technology and develop new products, even by getting closer to the activity of scientific research and development. Businesses also accept the need to be supported by business-dedicated infrastructure such as incubators or business centres (see figure 5).

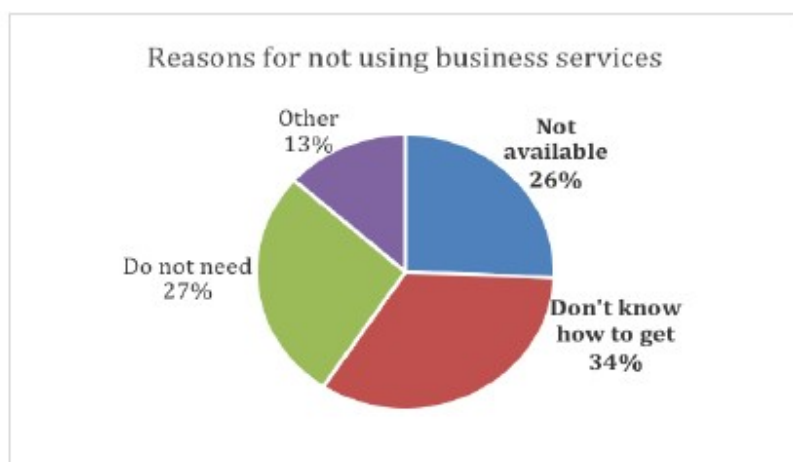
Figure 5: Non financial business support services shortage



Source: Survey data and author calculations

Another interesting argument is the low awareness about the existing services and the need for professional business support. The awareness on the available services and providers is low, which is demonstrated by a low usage rate - at just 19.7% of interviewed SMEs. Surveyed SMEs that did not use business services were asked why. Not knowing how to access business services was most frequently mentioned (Figure 6). This can be attributed to a lack of understanding from businesses as well as limited availability of services and lack of dedicated pro-active support. While almost interviewed businesses stated that they could identify areas for improving their business operations, about 27% of them stated they did not use business services because they did not need them. They simply rely on support from their network such as family members, relatives or friends.

Figure 6: Reasons for not using business services



Source: Survey data and author calculations

IV. Focus groups and interviews

6 focus groups were organized in support of this analysis. They took place in some of the biggest urban centers of Albania - Tirana, Durrës, Korça, Fier, Shkodra and Vlorë. Focus group discussions were structured based on the questionnaires used for the survey and fine-tuned following the interviews with policy makers and key informants during the initial phase, which helped the team to identify and confirm key areas of importance for this research. Focus groups served not only to gather qualitative and more in-depth information. They validated also the survey findings.

Focus groups were particularly effective for analyzing issues such as the satisfaction level on services provided, which can also be a tricky concept, difficult to quantify and addressing a conventional questionnaire-style survey. The use of focus groups enabled us to better understand the different

perceptions of users and service providers. There are many ways that private companies can interact with the providers of the services, and their experiences can vary significantly.

IV.1 Perceptions on business support

Private sector representatives interviewed and those participating in the focus group discussions showed great interest on business services. Yet businesses are not capable to identify what services do they need and where to get them from. This is an issue across the country. On the other hand, policies in support of service providers are non-existent. Policies for greater competitiveness, improved quality and expand the spectrum of services in support of businesses have always been scarce.

It is interesting to note that many businesses do not have a consolidated understanding how a business needs to function. Indeed, private sector in Albania is not well organized. It lacks a proper union voice for its needs. It is generally passive and those organisations active only pay attention to major issues that require policy attention at the macro level.

Businesses tend to find loopholes and avoid legal and financial documentation. Entrepreneurs do not have a core set of information on who would help with preparing business plans or where accounting expertise can be obtained. The best way of accessing this information is through informal channels from one another and not on official basis.

It is broadly accepted that private sector outfits are not ready to receive training services for their staff in order to standardize and improve their services. Another interesting point is that entrepreneurs do not invest in their staff training. Strengthening staff capacities and performance evaluation is not yet part of internal operations. The staff turnover issue that is commonly attributed to central and local government is widespread among private enterprises too. Competition in the market is harsh. Large businesses do not support small ones - they consider them as rivals.

It is also widely accepted that there is no information available about opening a business. Vocational training centres are also not very responsive to the needs of enterprises and should be more flexible and open to the skills needs as requested by the private sector. A lack of a structure or institution that can inform and guide the private sector regarding investment opportunities is noted across interviews and focus groups. Services that are offered from the local government and private enterprises can be diversified and expanded.

IV.2 Current practices

Business start up, planning, certification, export support, environmental protection, recycling, health and safety, innovation and new product development, technology transfer, market information, vocational training and business networking are the most in demand services.

Service provision do takes place in Tirana and start-up support, initial capacity development, management and planning, quality assurance, certification and market research are offered by banks upon payment as requested. Non-for profit actors like Foundation AB perform these services free of charge. Current services in Vlora include research and product development as well as assistance in telemarketing.

Regional Development Agencies offer fee-based services for feasibility studies, business plans and training. VET providers seem to be out of the loop from this potential line of business that they may develop. Shkodra features several service providers that include the chamber of commerce as well as the university, vocational education schools and the association of professional and craft women. In Korca the spectre of services consist of management, supply chain, research, training and counselling. While students are engaged through professional practices a lack of qualified labour force is reported.

Business only seeks outside support to comply with legislation and not necessarily for growth and improvements. Even for those that they hire outside expertise the opinion is that these services are expensive. Enterprises approach in some cases their own partners from abroad or a business association or group.

Interviewed businesses in Fier stated that they do not receive any support service at all. Admittedly the most useful services would be (i) market research; (ii) management; (iii) sales forecast; (iv) sales strategies; (v) risk management; (vi) team building; and (vii) networking. Participation in fairs seems to be a common way of having access to markets - internal or foreign. Export oriented products and services were underlined as those that should be at the centre of any government support.

The sustainability and continuity of support projects is questioned. Trainings are offered free of charge through available international funding. Yet, this is not quite valued by entrepreneurs as training is seen as an unneeded activity.

In some limited cases (Durrës) the chambers of commerce are the providers upon payment whereas generally associations offer these services free of charge. Service providers generally admit that they collect business needs for services conducted in through continuous contacts, interviews and surveys. In terms of their views of the private sector difficulties and challenges, the lack of standards and professionalism, adoption to fiscal regimes and relations with state bureaucracy. The general view is that chambers of commerce should be more involved in supporting businesses. Sporadic donor projects have not yet equipped them with a sustained line of support to entrepreneurs and running businesses.

IV.3 Private Sector challenges

Fines from the tax department were singled as one of the greatest problems that enterprises deal with. They maintain that fines are often issued without even informing the subject. Fines sometimes are issued due to a lack of information on certain change in legislation. Informality and unfair competition are reported as the biggest challenges of the private sector especially in Shkodra. Capacities of the chamber of commerce are limited and a structure in support of business can be created so the chamber can perform just like its European counterparts. The work of National Registration Centre was commended but no support policies for start-ups are registered. In addition, businesses do not feature a culture of cooperation as in other countries.

In touristic areas - such as Vlora for instance, the ratio of seasonal workers with those permanent ones is 70%-30%. This means that there is no stability in the labour market and businesses do not make any effort to extend the season and offer services throughout the year.

Delays in payments, hidden real wages and life insurances are some of the challenges that are observed as far as employees are concerned. Many people leave their jobs, as conditions are not acceptable - contributing to a sense of instability and under-performing capacities in the private sector

Other challenges of the private sector include financial uncertainties, the tax system as well as lack of equipment as well as a shortage of sector specialists. In many cases the region is active in coordinating information sharing and awareness on policy changes regarding the private sector.

On the other hand, the private sector points out the need for funds and resources so they can improve their services and products and improve their competitiveness. Updated information on market developments would also be beneficial about competition trends. The Tax Council has been established at the Ministry of Finance that takes in to consideration comments and suggestions from chambers of commerce.

IV.4 The role of local authorities

Apart from fiscal issues, businesses do not usually approach local authorities to communicate their issues. In terms of municipalities' role, the only scope it has is the licensing. In case a greater role is envisaged, the legislation on permits and licenses should be amended. Indeed, the role of municipalities is considered as multidimensional. Enterprises are generally not clear about their obligations to the municipality. Changing fiscal regimes obviously does not help and tax departments usually do not proactively share information, they just care about the collection. Most notable difficulties for a new business are the issuing of local permits and delays in the documentation.

The private sector is not involved in the decision-making processes of local authorities. There are no channels of communication and cooperation not only between local authorities and service providers but also among businesses themselves. This seems to be the generally the case, with the exception of Tirana. A Business Council established at the Municipality of Tirana facilitates the communication and cooperation in a range of issues such as long procedures for a construction permit, fiscal issues and legislation, business development permits, city advertising taxes and other issues related to doing business in the city.

Key to resolving this missing support service is the partnership between municipalities with chambers of commerce through the assistance of national government and international organisations. Apart from Tirana there are no start up funds in the municipalities. A tourist centre like Vlora does not have an information office for touristic guides. The municipality of Durres does not have in its structure a dedicated department for tourism. In Shkodra too, businesses maintain that they have not received any kind of support from the local government. No effort has been made for any kind of support to new start ups from the municipality.

The cooperation between private sector entities and the government - central and local is scarce as there is a clearly a certain degree of mistrust from the private sector. For instance, tourist operators claim that they were not informed about the details of the new law on tourism and how they can make the best out of it in terms of offered services.

It should be the job of local governments to inform and channel the needed updates for the legislation. This is seldom done. There is a general opinion about the role that the municipality can play in support of business - the expectation is that more should be done reducing administrative procedures and improvements of infrastructure and fiscal relief.

Expectations for the engagement of the municipality are oriented towards fiscal relief as well as organisations of fairs and forums that can boost market activity and facilitate networking. The region of

Durres has been active in trying to raise funds for a variety of projects (15) that directly or indirectly support the business sector and tourism.

There is a sense of expectation among focus group participants that central government should subsidize in several ways a variety of business sectors. On the other hand, local government units should apply more favourable fiscal policies in the management of local taxes and tariffs.

V. Conclusions and Recommendations

Albania is already a dynamic and entrepreneurial country. Changes that have taken place during these two decades of transition are very much fuelled by a thriving private sector and a very strong sense of entrepreneurialism. Generally there is a broad level of policy attention to business issues that despite changing tax regimes has been able to provide a rather favourable institutional support to businesses. Not only specialised agencies such as AIDA, NBC but also consultative bodies such as National Business Council or National Investment Council are providing voice and support to the private sector. However, the private sector in Albania has a very distinct micro and family based character. As such it is not uncommon that no separation of capital takes place. Business assets are often regarded as personal assets and they could be affected by debts or obligations of the owner. At the same time, the owner is personally assuming the risks of the business, with no protection of his personal assets. In this regard, business development is not seen as a crucial part of business processes. In a nutshell while supply is unstructured and un-sustained and demand is also scattered and very weak.

The objective of the research was to analyse the potential of non-financial business services and the viability of anchoring such services to local level institutions. In view of the territorial reform, an opportunity arises for the promotion of local economic development and related services. The decentralization drive provides ample opportunities to tap into the potential of local economies. In the absence of strong chambers of commerce and professional associations that provide similar services, professional associations supporting an enabling environment for micro, small and medium enterprises at the local level has become important.

However, those capacities at the local level are rather limited and the strategic vision that such engagement requires can be considered insignificant. The new territorial division is still at the embryonic stage as services are still to be defined and structures to be fully operational. Nonetheless, this new territorial set up offers a very timely opportunity for funnelling and nurturing entrepreneurship ideas among young people and beyond.

The main interventions to develop the market for non-financial business services need to initially invest in developing a structured supply side. Indeed, efforts to develop the supply of business services should focus on the private sector and, possibly, NGOs operating at local level. When it comes to private sector support, there is an array of issues that prevent the government in becoming the partner of choice. Issues of trust, severe budget, bureaucratic and transparency constraints and lack of capacities are some of the aspects that inhibit a greater role of the government in business support. Current schemes delivered at AIDA are not only very small in scale and their delivery has seen varying degrees of success over the years. Yet, local governments hold a potential that currently is untapped and could be well developed along the lines of new territorial structures and services.

It is important that business services should be adapted to the specific needs of the target markets, i.e. market characteristics, gender roles, localities and vulnerable communities. The study has not found significant differences between the needs of (potential) male and female entrepreneurs. On the other hand, the potential outreach of services is greatest in urban areas. Rural areas offer unexploded potentials that should be taken into consideration from the newly established municipalities. Once more services become available, targeted promotion by the providers is likely to be more effective than large-scale campaigns. This could start to evolve the use of business associations and chambers.

The general picture of the business services seems distorted by the crowded and uncoordinated efforts such as donors, government subsidies and incentives. Therefore, any initiative should be undertaken to bring stakeholders together to coordinate the development of sustainable and viable services for businesses from the newly established municipalities. The need for investment in the development of a capacity to provide entrepreneurs with business start-up and business management support is something that could be considered beneficial. Crucial aspects such as financial management of start-ups and marketing-related skills and knowledge can be part of structured and standardized training curricula that can be adopted.

Certain recommendations came out of interviews and focus groups. Facilitation of exchanges and meetings between investors and new entrepreneurs through a platform that ensures good communication was considered to be helpful to new start-ups. Internet has become a large communication and information tool. A business support portal can be acting as a repository of documents and available online support for queries and even information sharing about legislative changes. This could be shaped as an online forum hosted at the municipality's website.

Additional recommendations for local governments are directed towards the promotion of the territory with its own touristic and cultural heritage in order to boost economic development. Promotion of agro-tourism and the improvement of agricultural products is also another aspect where the municipality has a greater scope of engagement and support.

Interviewees and focus group participants expressed that state institutions should play a more active role in promoting and supporting women entrepreneurs as they face more barriers due to discrimination. For new start ups there should be an office that provides support and information on the market trends and opportunities. Indeed, mentoring of new businesses is definitely an activity that could be well delivered by the municipality at least from those that have the practical means and resources to do so. In terms of better linking service provision with the private sector, it is suggested that services ought to be better informed and updated about the real challenges and needs of entrepreneurs so these services can be aligned to the market and not just be standard and irrelevant. Finally, as any service, business development should feature a customer-oriented function.

Based on this rationale, a proposition is formulated as a matter of recommendation that could be subject of discussions and validation. The establishment of a municipal Business Development Facility can provide a wide-range of business development services such as common facilities and start up advice and support to assist and promote new entrepreneurs with emphasis on young and women.

This facility - not dependent on any donor funding but fully integrated in municipal service delivery as part of economic development departments can contribute to micro, small and medium enterprise development and increased job opportunities. Through community participation it will eventually strengthen the business environment and leads to inclusive growth and sustainable local economic development at a certain locality.

While its main focus can be new micro and small business enterprises, support to upgrading of existing ones can also be part of the scope of work at a second stage. Such a permanent facility that can eventually turn into a city business development hub can arrange, coordinate and provide periodic and on demand technical, business and related skills training services for young entrepreneurs and vulnerable communities wishing to start and expand business. Beyond a narrow scope of a business incubator, such a facility can provide business to business support, act as a lead in the organization of fairs or sector networking events and can provide financial advisory for sources of funding and venture capital.

Its management structure can also be subject to innovative partnerships. The idea is not to set up an office with a local municipal staff that provides a routine service among many others. On the contrary, such a facility can be municipality based but can be established with support from AIDA and National Business Centre. Through such a structure, AIDA can reach out at the local level and provide a missing service as part of its SME support very well tied to its current financial support schemes. The participation of private sector is also something that could be envisaged. Indeed, depending on the locality, market demands or development trends, it can acquire a sector character. Such a facility can be focusing on ICT, tourism or agriculture or simply be flexible enough to respond to the demand. The proposal is for a vibrant, proactive, well-staffed and equipped facility that can become a resource centre for aspiring entrepreneurs or existing businesses. Linking services with information on sources of financing (banks, micro-credit institutions and other sources of venture capital) could only complete the functions of this facility. Furthermore, extending partnerships with existing public and private service providers - universities, vocational training centres or specialised agencies can only bring an added value and give the facility a truly comprehensive character for a modern and innovative public service.

Annexes

Annex 1: List of Interviewed companies and individuals

Annex 2: Questionnaire

Annex 3: Focus group reports and survey findings