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# Mini Country Report/Albania

**under Specific Contract for the Integration of INNO Policy  
TrendChart with ERAWATCH (2011-2012)**

## **Mini Country Report**

Thematic Report 2011 under Specific Contract for the Integration of  
INNO Policy TrendChart with ERAWATCH (2011-2012)

December 2011

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# Preface

The European TrendChart on innovation is the longest running policy benchmarking tool at European level. Since its launch in 1999 it has produced annual reports on national innovation policy and governance, created a comprehensive database of national innovation policy measures and organised a series of policy benchmarking workshops. The databases of INNO Policy TrendChart and ERAWATCH have been merged and a joint inventory of research and innovation policy measures has been created by the European Commission with the aim of facilitating access to research and innovation policies information within Europe and beyond.

With a view to updating the innovation policy monitoring, the European Commission DG Enterprise and Industry commissioned a contract with the objective to provide an enhanced overview of innovation and research policy measures in Europe and to integrate the INNO Policy TrendChart with the complementary ERAWATCH platform. This contract is managed by the ERAWATCH Network asbl. (<http://www.erawatch-network.com>) coordinated by Technopolis Group (<http://www.technopolis-group.com>).

During each of the two years of this specific contract three reports will be produced to complement data collection and to update the research and innovation policy measures: a trend report on innovation policy in the EU, an overview report on innovation funding in the EU and an analytical thematic report (the selected theme for 2011 is demand-side innovation policies). To this end, the objective of the present mini country report is to furnish those three reports with country specific information.

# Executive Summary

The European Union (EU), which Albania aspires to join, has set clear objectives related to research and innovation as part of the “Europe 2020 Strategy” that seeks to make the EU the most competitive economy in the world. Albania has made significant progress in transition reforms in recent years, but important challenges remain. The government has actively promoted pro-business and -investment policies, which have led to a sharp increase in foreign direct investment (FDI) since 2006 (increasing from €258m in 2006 to €705m in 2009). As measured by the World Bank Doing Business indicators, Albania moved from rank 136 in 2007 to 82 in 2010 and achieved the second-highest rank among the top 10 reformers worldwide in 2009.

However, the technological level of FDI remains relatively low, constrained by lack of availability of adequately skilled workers and low levels of productivity. Albanian private companies have tended to buy innovations on the market rather than investing in internal R&D, and there is minimal cooperation between public research performers and businesses. Albania, like other Western Balkan EU Associated countries, has lagged behind such developments due to the need to focus on laying the foundations for smart growth (through education, legal frameworks, alleviating poverty, etc.).

But as Albania seeks to play a more active role in the European economy and European Research Area (ERA), the government has made efforts since the mid-2000s to invest more in creating, diffusing and applying knowledge in order to help the country meet its long-term development goals. The reform of the research system since 2006 and the adoption of the National Strategy of Science, Technology and Innovation (NSSTI) 2009-2015 in July 2009 introduced major changes to improve the effectiveness of the country’s innovation system. Important steps were made in terms of establishing institutions and developing a strategy for a national innovation system, though it still needs to be better oriented toward real societal needs and increased research funding is needed to move the country from the 2009 estimated level of gross expenditure on research and development (GERD) of 0.2% of GDP closer to the EU average GERD of 1.9% of GDP and to raise competitiveness of the economy.

While seeking to increase public spending on R&D to 0.6% of GDP by 2015, the NSSTI also promotes innovation in businesses and seeks to bring together academic institutions with the private sector under the National Technology Programme. The NSSTI seeks to increase innovation in 100 medium and large private companies either through investment in own R&D or in partnership with academic research institutions or foreign partners. New structures (ARTI, NAIS, etc.), which may cooperate with the private sector in research and innovation initiatives, were set up to implement the NSSTI and the country’s Digital Albania initiative.

The Albanian Government has focused on ICT as a main driver of economic, political and social development in the country, evolving from a low-tech, inwardly looking state to a potential regional leader in e-Government, and connectivity, particularly as major infrastructural investments are being made. Now that a high level of digitalisation has been reached, particularly in the national level public administration and in the availability of online public services for businesses and citizens, the focus is shifting to infrastructure and services for society as a whole (broadband infrastructure, 3G technologies, digital TV) and the connectivity of the local government level. The private sector is also being encouraged by the Government to offer digital services to customers, for example Internet- and mobile-banking services. ICT is not only a national priority with its own National Research Programme, but also represents the sector with a large potential for private sector innovation as digital products are adapted to or designed for the specific needs of the Albanian market.

On the business front, the Strategic Programme for Innovation and Technology Development for SMEs 2011-2016 approved in February 2011 and its Action Plan, the Business Innovation and Technology Strategy (BITS), represent the main policy measures of the Ministry for Economy, Trade and Energy (METE) for promoting Innovation and technology dissemination in Albanian SMEs. The Business Relay and Innovation Centre (BRIC) will be the executive arm of METE for the implementation of the strategy and will provide both technical assistance and financial support for companies to engage in innovation.

It remains to be seen how effective these policies and structures will be in increasing private investment in R&D and the overall innovation capacity of the business community. Furthermore, transparency, competitiveness, management capacity and the ability to monitor and evaluate progress made, including standardised statistics on the R&D and innovation system of Albania, need to be improved. Also, so far the tax code does not foresee any fiscal incentives for companies also that investment in R&D or innovation.

## 1. Innovation policy trends

Given that Albania was not covered by the TrendChart analysis until 2011, it is not possible to take as a baseline the TrendChart Country Report for 2009 (<http://www.proinno-europe.eu/trendchart/annual-country-reports>). The current report is the first of its kind for Albania and thus represents the baseline for this country.

### 1.1 Trends and key challenges for innovation policy

Major changes have been taking place in overall policy priorities in Albania since 2006. If only the period since mid-2009 were to be considered, there were further changes not only in terms of the innovation policy framework, but also the organisations set up to help implement these policies. Albania's research system was reorganised at the beginning of 2006, following amendments to the Law on Higher Education, and underwent further restructuring in 2009 with the establishment of the [Agency of Research, Technology and Innovation](#) (ARTI). At the same time, the country's overall economic and social development strategy was elaborated in the [National Strategy for Development and Integration \(NSDI\) 2007-2013](#), which for the first time introduced an integrated and cross-sectoral approach to national development policy.

The most important innovation policy development was the adoption of the [National Strategy for Science, Technology and Innovation](#)<sup>1</sup> at the end of July 2009. A stimulus for the formulation of this strategy was not only the financial and economic crisis that started in 2008 and actually affected other countries in the region more severely than Albania, but the need to further develop the economy and society to take its place in an enlarged Europe and the European Research Area.<sup>2</sup> A new governance structure was put into place to design and implement research and innovation policies and define broad policy orientations on a multi-annual basis. Prior to adoption of this strategy, the country had no specific policy for innovation, nor did R&D enjoy a high social priority or play a role in the business sector.

Another important development was the adoption of the [Cross-cutting Strategy of Information Society](#) and the establishment of the [National Agency for Information Society](#) (NAIS). ICT is the key sector in which the country has introduced important innovations, particularly under the Digital Albania initiative. The Albanian government recognised the importance of digital technologies in driving the modernisation of the economy, the public administration and improving the access of citizens to information and public services. In this context, public sector innovation plays a key role. While at the present most ICTs are purchased on the market, it is hoped that the experience and knowledge gained in working with these mainly imported technologies and applications will stimulate endogenous innovation within the entities that use them and in giving rise to a new generation of ICT innovators in both the public and private sectors.

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<sup>1</sup> The National Strategy for Science, Technology and Innovation reports all main figures in terms of Euros.

<sup>2</sup> See the ERAWATCH Country Report 2010 on Albania and the online ERAWATCH Country Fiche for Albania which are the first reports of this type on Albania <http://erawatch.jrc.ec.europa.eu/>.

With regard to the development of the private sector, according to World Bank Doing Business 2011,<sup>3</sup> Albania's business environment has improved substantially since 2006 in the sense that doing business has become much easier, particularly setting up and registering a business (ranking 45 worldwide) through a one-stop shop, ease of getting credit (15) and protection of investors (15). In terms of overall global risk, Albania ranks 82 out of 183 economies, better than Croatia (84), Greece (109) and Bosnia-Herzegovina (110), but lower than Macedonia (38), Hungary (46) and Montenegro (66). The National Registration Centre (NRC) Law established the National Registration Centre which functions as a one-stop shop where an entrepreneur can complete company registration, social insurance, health insurance and labour directorate registration using a single application procedure.<sup>4</sup> The high ranking in investor protection is due to the fact that Albania has set up the Office for Protection of Intellectual Rights and an effective legal framework for intellectual property, based on best practices of developed countries. However, specific incentives or fiscal provisions for investment in R&D are lacking, and there are other conditions (difficulty in paying taxes, getting construction permits) that make the business environment less attractive than in some neighbouring countries—indicating that further reforms need to be undertaken.

While the country was successful in improving its business environment and attracting investments, with GDP growth averaging more than 6% annually during 1998-2010, the technological level of activities remains quite low. Albania's economy still has a very large agricultural sector (18% of GDP and 40% of employment),<sup>5</sup> though there has been a shift towards services and construction and manufacturing (particularly textiles and shoe manufacturing). Albania's private sector has around 430 large enterprises, 1,580 medium-sized companies and around 85,000 small businesses,<sup>6</sup> many of them single proprietorships. Innovation in companies has generally been understood as adopting ICTs or installing new machinery, mainly imported from abroad. Companies (especially SMEs) don't have the financial resources, knowledge and employees with the relevant background to make innovations. It is in this context that technologically oriented FDI and the knowledge and know-how of Albanian diaspora returning from abroad are particularly important for the development of new products and services that are needed on the market. A limited number of medium-to-larger firms, (e.g. in the agro-food sector) can potentially become actors in terms of investment in product development innovation. It is expected that with increasing foreign investment (especially in sectors such as mining, mineral and hydrocarbons extraction and agri-food) and further development of the private sector, business related innovation (reported in part as BERD) will increase. Among the major societal challenges that will need to be the focus of innovation in the business community are the environment and energy provision.

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<sup>3</sup> World Bank and IFC, Doing Business 2011—Albania, Making a Difference for Entrepreneurs, 2010.

<sup>4</sup> Article 59 of the law no. 9723 "On National Registration Centre: NRC"

<sup>5</sup> World Bank, Albania The New Growth Agenda: A Country Economic Memorandum, Report 53599-AL, November 2, 2010.

<sup>6</sup> Reported in National Strategy for Science, Technology and Innovation, version published August 2009.

In an effort to improve innovation in firms and bridge the gap with its more innovative and technologically ready neighbours (i.e. Montenegro, Croatia and the former Yugoslav Republic of Macedonia), the Ministry for Economy, Trade and Energy (METE) launched the [Business Innovation and Technology Strategy \(BITS\)](#), approved on July 19, 2010, and its respective Action Plan which will implement the [Strategic Programme for Innovation and Technology Development of SMEs for 2011–2016](#) (approved February 2011), supported by the Business Relay and Innovation Centre (BRIC) that was set up within the [Albanian Investment Development Agency \(AIDA\)](#) and became operational in June 2011. These have the potential to make an important impact on innovation in companies and cluster initiatives in the country, though they are only now starting to operate. The initiative's innovation fund will provide direct support (technical expertise and financial support) to enterprises introduce market/consumer-driven innovations. Business innovation services and a business incubator programme will be set up to support the emergence of innovative start-up companies.

It is clear from the above that Albania does not lack strategies or visions for introducing innovation into its public and private sectors. The challenge for the country lies mainly in transforming these strategies into concrete results through programmes, projects and supporting structures. While various supporting structures have been established since 2009, now it remains to be seen what impact they will have on scientific output, science and technology (S&T) developments and product or process innovations, patents, publications, and on the larger macroeconomic indicators such as employment, investment, and economic growth. Furthermore, a number of important governance reforms have been held up due to the political stalemate linked to unresolved issues in the electoral process, which threaten to slow or undermine implementation of some of the government programmes. While the recent education system reforms, the National STI strategy and reorganisation of the [Albanian Science Academy \(ASA\)](#) have helped strengthen university research capacities and improved public research structures, there need to be substantial improvements made in framework conditions for private investment in R&D, promoting public-private cooperation and knowledge transfer and overall transformation of Albania into a knowledge-intensive economy. Also improvements are needed in physical RTD infrastructure, including high-speed Internet connections, and in addressing imbalances between basic, interdisciplinary, and applied research, strengthening the knowledge base in technical disciplines. One important gap in the policy menu remains in the fact that there are no fiscal incentives for investment in R&D or innovation.

Currently it is difficult to make precise statements on the functioning of the 'innovation' system in general and the level of investment in favour of science, technology and innovation (STI) or the innovation performance of the public, academic or business organisations as R&D and innovation statistics are not collected to international (OECD, Eurostat or UNESCO) standards. However, since 2009 the government has considered innovation a priority and undertook concrete policy changes, while acknowledging that the most important thing for Albania is to gain more awareness of what knowledge will be needed in the economy and to frame this within a policy perspective. The table below summarises the recent policy changes introduced during 2009 – 2011.

Figure 1 Main recent policy changes and strengths and weakness of context

Recent policy changes	Institution Responsible	Type of Document	Assessment of strengths and weaknesses
<a href="#">National Strategy for Development and Integration (NSDI) 2007-2013</a>	Council of Ministers	National Strategy is a strategic document which combines country medium and long-term economic & social development objectives in accordance with EU integration and NATO agendas, as well as with Millennium Development Goals, approved by CoM Decision No. 342 dated on 12.03.2008	<i>Substantial progress in institutional and strategy development;</i>
<a href="#">National Strategy for Higher Education 2007 - 2013</a>	Ministry of Education and Science	National strategic document which raises long-term goals and objectives for higher education system and presents policies for strategic priorities through 2013, approved by CoM Decision No. 1509, dated on 30.7.2008	
<a href="#">Strategy of Business Development and Investments 2007 - 2013</a>	Ministry of Economy, Trade and Energy (METE)	Strategic document aiming to establish a sustainable public -private partnership and encourage a pro investment business climate, approved by CoM Decision No. 795, dated on 11.07.2007	<i>Substantial progress in institutional and strategy development;</i>
<a href="#">National Strategy for Science, Technology and Innovation 2009 – 2015</a>	Ministry of Education and Science	National inter-sectoral document, which constitute long-term platform for research and innovation in Albania, which set goals for Innovation for the period 2009-2015, approved by CoM Decision No. 863, dated on 29.07.2009	<i>Substantial progress in institutional and strategy development;</i> <i>Despite budget constraints, slight increase in financial support to research achieved;</i> <i>Lack of research orientation toward economic and social needs;</i> <i>Lack of transparency of recruitment policies and non-competitive payment systems;</i> <i>Low scientific output.</i>
<a href="#">Cross-Cutting Strategy of Information Society 2008 – 2013</a>	Minister for Innovation, Technology of Information and Communication (MITIC)	Inter-sectoral strategic document based on National ICT Strategy adopted by Decision No. 216 dated 10.4.2003, which sets goals and some priority measure to enable development of ICT in Albania, approved by CoM Decision No. 59, dated on 22.1.2009	<i>Substantial progress in institutional and strategy development;</i> <i>Promote economic and social prosperity in three main aspects: Government – Business, Government – Citizens and Government – Government.</i> <i>Highly instrumental in ensuring implementation of this concept, the Government portal (e-Albania) (portal of Digital Albania initiative) offers a unique access point for business, citizens and Government with regard to services provided on-line</i> <i>Lack of capacities to evaluate &amp; monitor scientific projects and introduce statistical standards;</i> <i>Budgetary constraints;</i> <i>Objectives in strategy too broad;</i> <i>Goal-oriented interventions difficult to identify, unlikely to generate expected benefits;</i>

Recent policy changes	Institution Responsible	Type of Document	Assessment of strengths and weaknesses
<a href="#">Business Innovation and Technology Strategy (BITS)</a>	Ministry of Economy, Trade and Energy (METE)	National programme, which aims at providing concrete support to SMEs by promoting the innovation process, improving technological capacity, and establishing an innovation system that will enhance interaction with institutions that support enterprises. It seeks to address enterprise needs by involving companies in the process of innovation.	<i>Substantial progress in institutional and strategy development;</i> Lags behind other countries in innovation, putting at risk competitiveness and sustainability;
<a href="#">Strategic Programme for Innovation &amp; Technology Development of SMEs 2011–2016<sup>7</sup></a>	Ministry of Economy, Trade and Energy (METE)	<i>Approved in 2011 (Addition to Strategy "for Business Development and Investment", adopted by Decision no. 795, dated 11.7.2007 of the Council of Ministers)</i>	<i>Rapid increase in registered businesses, high level of entrepreneurship;</i> Low technological level of SMEs and staff competencies; BRIC not yet fully operational, Clusters initiatives still to be established.

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<sup>7</sup> Document prepared with the assistance of the Project IPA 2007 “Supporting SMEs to become more competitive in the EU market.”

## 1.2 Innovation governance

### A. Institutional set-up

Beginning in 2006, the Albanian Government undertook a complete overhaul of its research and higher education system and introduced important legislation and set up new institutional bodies that have a direct or indirect role in innovation governance. The country's overall economic and social development strategy was defined in the [National Strategy for Development and Integration \(NSDI\) 2007-2013](#), which for the first time introduced an integrated and cross-sectoral approach to national development policy. This cross-sectoral approach was also reflected in the [National Strategy for Science, Technology and Innovation 2009-2015](#) and the [Cross-cutting Strategy of Information Society](#) (2008-2013), which meant that different ministries and agencies would have to work together in a more coordinated manner. In this respect, the establishment of the [Agency of Research, Technology and Innovation](#) (ARTI), which became operational in 2010, was an important step in ensuring a cross-sectoral approach to the national initiatives promoting R&D and innovation, as well as an organisation that could function as an interlocutor between the public sector and private sector..

The following are the main institutions that play a role in the governance of innovation:

- The **Ministry of Economy and Science (MES)** is responsible for education, science and R&D policy and was the initiator of the [National Strategy for Science, Technology and Innovation 2009-2015](#), which was the country's first innovation policy. Since the MES provides funding to universities and sets the standards for curriculum in the public higher education institutions, it has an important role in funding those universities that offer programmes that focus on innovation and cooperate with the private sector.
- The [Albanian Agency of Research, Technology and Innovation \(ARTI\)](#) was established by decision of CoM in August 2009 (operating since March 2010) to improve policy implementation in the fields of R&D, S&T and Innovation. It is responsible for managing a number of policy instruments that fund research as well as supporting the establishment of Albanian Centres of Excellence involving the private sector.
- The [Ministry of Economy, Trade and Energy \(METE\)](#) is the government institution responsible for drafting the policy framework for promoting Innovation and Technology dissemination among Albanian SMEs. The METE's Department of Competitiveness Policy and Department of Business Promotion play an important role in designing policies for investment, exports and SMEs; and encouraging development of business innovation to raise competitiveness in regional and global markets. The Department of Business Promotion is also responsible for strengthening the ability of the relevant Albanian institutions to develop, implement and monitor SME policy, supporting entrepreneurship and innovation programmes. This department is also involved in designing policies that support business innovation, including: access to finance; access to human resources; adequate basic physical infrastructure; firm-level capabilities; inter-firm linkages and collaboration; general business services; etc. METE developed the [Business Innovation and Technology Strategy \(BITS\) \(2011 - 2016\)](#). The Government has recently adopted the *BITS Action Plan (BITAP)*, through the Decision of the Council of Ministers (DCM) no. 104, dated 09.02.2011.

- METE oversees the activities of AIDA and BRIC and periodically monitors them.
  - The [Albanian Investment and Development Agency](#)<sup>8</sup> (AIDA) is an investment promotion agency established by Law on July 2010 as a key player for attracting FDI (formerly AlbInvest). AIDA supports enterprises in developing exports and internationalisation; undertakes initiatives to support private sector development and improve the business climate, helping private commercial entities in all phases of economic activity as well as intermediating and cooperating with investors and state authorities.
  - The [Business Relay and Innovation Centre](#)<sup>9</sup> (BRIC) was recently established (June 2011) by METE as a special department within AIDA that will provide services to enterprises related to innovation and technology transfer.

Other new institutions set up during the 2009 – 2011 period that are involved in promoting, drafting, and implementing technological innovation and ICT policy measures are:

- The [Ministry of Innovation, Technology of Information and Communication](#) (MITIC) established in April 2010, deals with policies regarding technological innovation, research and development of new technical solutions. It has the main responsibility for ICT policy. The ministry has a small staff and two main dependent agencies: the [National Agency for Information Society](#) (NAIS) and the National Authority for Electronic Certification (AKCE). It also oversees an independent, regulatory body in the field of electronic communications and postal service, the Authority of Electronic and Postal Communications (AKEP).
  - The National Agency on Information Society (NAIS) was established earlier than MITIC by the Albanian Council of Ministers in 2007 and became fully operational in 2008. Its mission is to coordinate all of the government's activities in the field of information and communication and implement the [Cross-cutting Strategy of Information Society](#) (2008 - 2013) (approved in 2009) under the oversight of MITIC. The strategy requires the review and coordination of commitments related to the creation of an information-based economy in order to ensure a coordinated society-wide implementation by the relevant actors.

Further government bodies that have a role in overseeing or promoting innovation in their respective sectors include the following:

- The [Ministry of Agriculture, Food and Consumer Protection](#) (MAFCP) financially supports applied research and technology transfer in fields relevant to the agricultural community (the production of higher value crops, livestock, processing, and some agricultural niche markets). Five *Agricultural Technology Transfer Centres* (ATTC) were established in 2006. The country's large farming sector is supported by *Agricultural Information Centres* (established in 2002), which provide farmers with agricultural information on the basis of their requirements and needs.
- The [Ministry of Environment, Forests and Water Administration](#) implements relevant sectoral policies at the national level, defines priority environmental and forestry investments; develops national research programmes in the environmental field, and coordinates environmental protection-related activities of the other ministries and local authorities. It may propose measures for the protection and preservation of the environment, forestry and water resources and is responsible for the implementation of water policy and forestry policy.

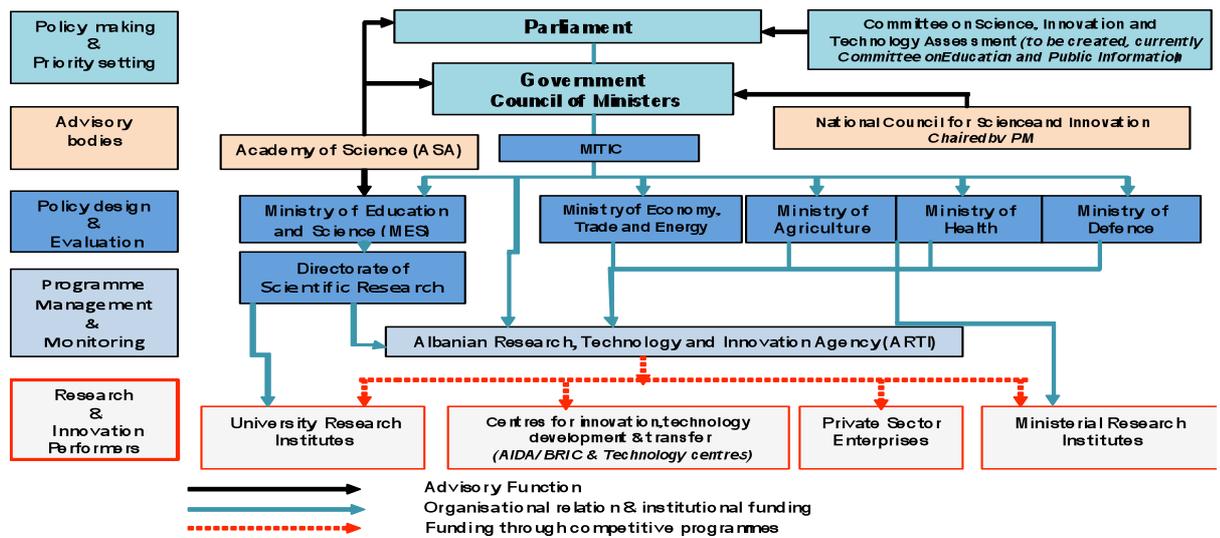
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<sup>8</sup> Law no. 10303, dated 15.07.2010 "On creation and organization and functioning of the Albanian Investment Development Agency" that entered into force on 26 August 2010.

<sup>9</sup> Decision of the Council of Ministers (DCM) no. 104, dated 09.02.2011., entered into force on June 2011

- The [Ministry of Health](#) drafts the health policy for the national level and determines the development and planning of the health service at the national level and according to the areas priority. This ministry plays an important role in determining what type of equipment, services, technologies and pharmaceutical products will be adopted in the public health system, thus representing an important customer for innovative products.
- The [Ministry of Defence](#) is also expected to play a role in Albania's new scientific research establishment with the intensification of R&D activities for security and defence envisaged as part of a long-term plan for the Development of Military Forces 2020.

Figure 2 National Innovation System (ACER 2011)



## B. Policy coordination mechanisms

The new Minister of Innovation and Information Communication Technology (appointed in April 2010) co-ordinates various ministries concerned with technological development and innovation, and in collaboration with the Agency for Research, Technology and Innovation (ARTI) and National Agency for Information Society (NAIS) co-ordinate the national, bilateral and international programmes and projects and co-operates with different institutions in the field of R&D. ARTI contributes to the establishment of infrastructure and instruments, which implement R&D policies by playing a leading role in the implementation of the National Strategy of Science, Technology and Innovation. NAIS contributed in coordinating the activities for implementation of the Cross-cutting Strategy of Information Society.

A number of the bodies mentioned above are also engaged in coordination of policies that promote innovation.

- **ARTI** has taken over some of the coordinating functions for technology transfer and R&D support from the **Ministry of Education and Science (MES)**, and operates as a coordinating and guiding structure for sustainable technological and innovation development of the country. ARTI cooperates with institutions in the field of science and technology in line with national priorities, development of scientific and technological policies and management of Research and Development institutes.
- The **NAIS** coordinates all of the Government of Albania's activities in the field of *Information and Communication* oversight by MITIC, and as a consequence interfaces with other government Ministries and institutions as well as the private sector ICT companies.

- Although only recently established, **BRIC** is responsible for the implementation of the Action Plan of the BITS, and therefore must engage in systematic coordination and periodic monitoring of the *business innovation and technology policy*, which will later on be carried out by a Quality Management System that is to be set up within the BRIC.

At the national level, the process of coordinating the Cross-cutting Strategy of Information Society activities is guided by the Inter-Institutional Group (established by Order of the Prime Minister No. 72, dated 11.6.2008), under the chairmanship of the Deputy Prime Minister. The group operate at a decision-making level, while in operational terms NAIS plays the role of coordinator for developing the Information Society. NAIS cooperates with all institutions involved in the inter-agency group and with the other key institutions, such as: Procurement Agency, Public General Tax Directorate, the General Directorate of Archives etc., which are invited to participate in inter-agency working group to implement the Cross-cutting strategy for developing information society.

### C. Involvement of stakeholders

Within the framework of the IPA-funded EU SME Project Albania, a working group consisting of representatives of the main stakeholders of the initiative was set up to facilitate the strategic formulation process not only of the Albanian Business Innovation and Technology Strategy (BITS), but also for the functioning of the BRIC. In order to assure that the promotion of innovation in the private sector foreseen in the Strategy addresses the needs of end users, an active and continued participation of stakeholders is ensured through the *Business Innovation and Technology Strategy Development Group (BITSDG)*, which involves the aforementioned BRIC and representatives from METE, AIDA, ARTI, the Albanian Science Academy, the Regional Development Agency Network and the Chamber of Commerce and Industry (CCI) of Tirana. This forum plays an important advisory role, allowing an exchange of views between public and private sectors on issues of innovation and R&D – a first in Albania.

Besides this new Strategy Development Group, which involves the CCI of Tirana representing the private sector, other new Government stakeholders which play roles in the governance of the country's innovation system include the following:

- [Agency of Environment and Forestry](#) (AEF) envisaged to act as the central focus for environmental monitoring and to provide high quality reference and general laboratory services, as well as to restore, improve and protect the environment, while ensuring sustainable development.
- Agency of Nuclear Energy (ANE), a new agency aimed at preparing the full legal framework for the national nuclear programme in accordance with EU legislation (started June 2010).
- [National Agency of Natural Resources](#) (AKBN) is responsible for development and supervision of the rational exploitation of natural resources based on Government policies, and the monitoring of their post-exploitation in the sectors of mining, hydrocarbons and hydropower.
- [National Employment Service](#) (NES) supports employment, training and self employment.

#### **D. Priority setting**

The [Albanian Parliament](#) is the legislative body that plays the main role in policy priority setting. Through its permanent Committee on Education and Public Information (as the Committee on Science, Innovation and Technology assessment is not yet operational), it appoints plenary Parliamentary subcommittees by field (education, science, innovation, culture, youth, and sports, visual and print media) to discuss draft laws. The Albanian Parliament is advised on setting priorities for innovation and technology policies by the Academy of Science of Albania (ASA).<sup>10</sup>

The [Council of Ministers](#) (CoM) submits to the Parliament the draft laws on technology and innovation activities in the country and passes decisions on the establishment, dissolution and merging of research institutions, centres of innovation, technology development and transfer agencies. The CoM passes decisions on the allocation of the budget to higher education and research institutions. The CoM approves, in principle, the bilateral and multilateral agreements in the field of science and technology.

The CoM is advised on innovation and technology policy priority setting by the National Council for Science and Innovation (NCSI), which was set up as an advisory body to the MES and the Council of Ministers. Its main role is to advise on strategies and national programmes, priority policies, and their financial resources. The Prime Minister chairs the NCSI, which has two committees: one on Business Innovation advising the Minister of Economy, Trade and Energy, the other on Higher Education and Science advising the Minister of Education and Science).

Based on the identified priorities, education and research policies are developed by the Ministry of Education and Science (MES) in close co-operation with the Academy of Science (ASA), the line ministries and the other central institutions with the full participation of scientific institutions and universities. Subsequently, the policies are submitted to the Council of Higher Education and Science (CHES). Together with the opinion expressed by the CHES, the policies are brought to the attention of the Council of Ministers in order to be included in the government programmes concerning the social and economic development of the country.

The Rectors' Conference, representing Albanian higher education institutions, also plays an advisory role regarding research undertaken in their universities and on programmes involving cooperation with the private sector.

Based on the identified priorities, innovation policies are developed by the Minister of Innovation, Technology, of Information and Communication (MITIC) in close collaboration with National Agency for Information Society (NAIS, as well as advised by the [National Forum of Digital Albania](#) (established by Order of CoM on June 2010), which consult various stakeholders (business, higher education and research institutions) on strategies and initiatives on information society and technological innovation. Innovation Policies are brought to the Council of Ministers.

#### **E. Policy analysis, evaluation and monitoring**

From the institutional viewpoint, the coordination and monitoring of policy implementation is carried out by three central institutions: The [Department of Strategy and Donor Coordination](#) (acronym DSDC) under the [Council of Ministers](#), the [Ministry of Finance](#), and the [Ministry of European Integration](#). These institutions regularly monitor the performance of the ministries and prepare periodical progress reports. The main monitoring instruments (available also for innovation policy and MITIC as the responsible Ministerial institution) are:

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<sup>10</sup> According to the Albanian Constitution, the President of the Republic nominates the Chairman of the Academy of Sciences and the rectors of public universities pursuant to law.

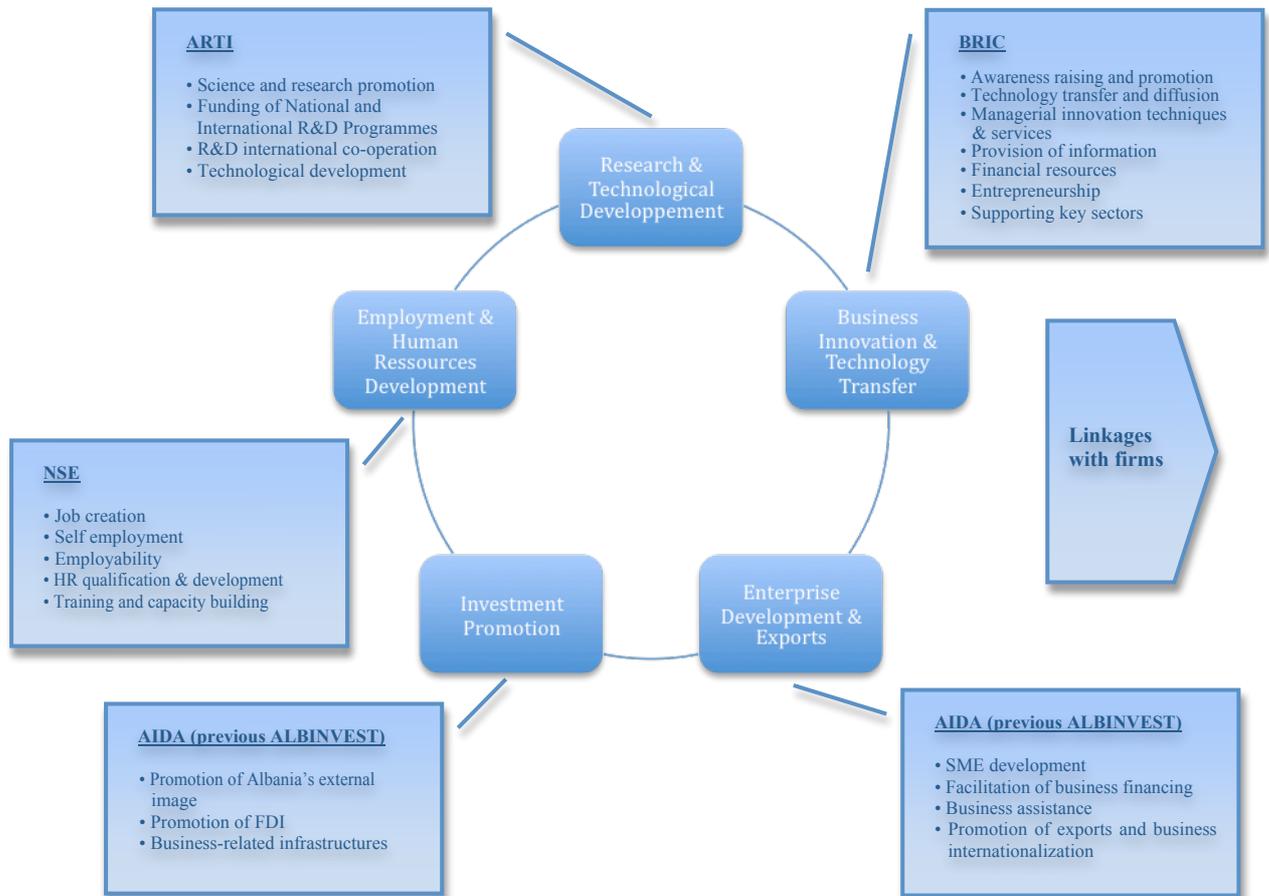
- The annual progress report of the [National Strategy for Development and Integration](#) (NSDI) "2007-2013, compiled annually by the Department of Strategy and Donor Coordination (DSDC). The progress report presents the progress and results of the fundamental government policies, based on a high level indicators set out in NSDI. The report relies on the statistical data, mainly from INSTAT (the Institute of Statistics), the line ministries, other central institutions (such as Bank of Albania), as well as data from reports of international bodies and institutions. The progress report undergoes a consultation process with the line ministries and central institutions, as well as non-governmental organisations, academia, experts and donors.
  - The latest available progress report dates on 2008. The progress report 2009 - 2010, was supposed to be prepared and completed in the first half of 2010, however due to the parliamentary and local elections during 2009 – 2010, this report has been postponed and it is still in process. For 2009 -2010, this report will include a progress report on foreign assistance.
- The annual report developed by each ministry on the results of the implementation of the Integrated Plan of the Ministry. In the context of the Integrated Planning System, every year each minister prepares an *Integrated Plan for the Ministry* (together with a [Monitoring Plan with the most important annual performance indicators](#)), as a planning instrument at the level of the ministry.
  - Considering that the responsible [Minister for Innovation, Technology of Information and Communication](#) is established in 2010, no policy analysis has been completed yet. The next [NSDI](#) progress report 2009 – 2010 is expected to include also progress and results on innovation, and TIK policies. Also, as AIDA (and BRIC as an integral unit) are recently established, [METE](#) is expected to report on business innovation on the latest 2009 – 2010 progress report of [NSDI](#).
  - The relevant Ministries perform policy analysis and report on the technological and innovation activities of the institutions under their supervision (for example, [MES](#) report on the public higher education and research institutions activities, [METE](#) report on BRIC activity, and [MITIC](#) report on [NAIS](#) performance).
  - *An Information System for the Integrated Planning System (ISIPS)*<sup>12</sup> is currently under construction, which aims to consolidate policy monitoring.
- *The Ministry of Finance* monitors the budget on a quarterly basis and prepares monitoring reports for each line ministry. These quarterly reports are an important basis for revising the budget in the current year, drafting the budget for the following year, and to prepare the *Draft Medium-Term Budget* (acronym MTB).
- *The Ministry of European Integration* regularly monitors the progress of the implementation of the *Plan for the Implementation of the Stabilisation and Association Agreement*.

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<sup>11</sup> The National Strategy for Development and Integration 2007-2013 (NSDI) represents the fundamental strategic document in the country, which combines sustainable economic and social development perspectives, EU integration and NATO structures into a single strategic document.

<sup>12</sup> The Integrated Planning System (IPS) was adopted by the Albanian Government with Council of Ministers' Decision No. 692 on 10 November 2005.

Figure 3 Innovation Support Organisations within the National Innovation System (METE, 2011)



### 1.3 Recent changes in the innovation policy mix

Emerging from a closed and centralised system where all research and academic activities were under public control, beginning in 2006 Albania implemented a substantial restructuring of its R&D and innovation system and adopted a new policy mix. Within the framework of Albania's membership in the NATO and the EU accession process, the required high rates of socio-economic development necessitated strengthening the role of science, technology and innovation.<sup>13</sup>

Since 2009, the main components of an innovation policy and innovation support mechanisms have been put into place and are functioning effectively. The *National Strategy for Science, Technology and Innovation*<sup>14</sup> assign a high political priority to research and innovation and represented the country's first ever innovation strategy, spelling out specific priorities and allocating public funding not only to research that would be undertaken by public institutions, but also private firms. It also highlighted the importance of foreign funding in the development of Albania's innovation system. The responsibility for managing such funding programmes was to be transferred in large part from the MES to the new agency ARTI (set up in 2010), though this is still ongoing. ARTI is also foreseen to become an important interlocutor between the government, universities and private firms operating in priority sectors.

<sup>13</sup> UNESCO, Science Policy for Sustainable Development, Minister of Innovation and Technology, Mr. Gene Pollo, Presentation of the Cross-Cutting Strategy of Science, Technology and Innovation, Source: <http://www.unesco.org/new/en/natural-sciences/science-technology/sti-policy/south-east-europe/albania/>

<sup>14</sup> The National Strategy for Science, Technology and Innovation reports all main figures in terms of Euros.

Under the [Cross-cutting Strategy of Information Society](#) (2008-2013) the Albanian government continued to embrace ICT as a driver of innovation, recognising the importance of digital technologies in driving the modernisation of the economy, the public administration and improving the access of citizens to information and public services. The Government, through NAIS, has been engaged in an ambitious Information Society programme, starting with the public administration and developing the tools for electronic communications and business practices for its interactions with citizens and businesses and installing a modern high-speed telecommunications infrastructure. As mentioned previously, it is hoped that the experience and knowledge gained in working with ICTs will stimulate endogenous innovation within the entities that use them and lead to a new generation of ICT innovators in both public and private sectors, as well as to companies in other sectors that will be able to successfully exploit the capacity of these new systems in their business dealings.

It was recognised that Albanian firms' "technological capacity" to upgrade by absorbing existing advanced technologies is weak and that innovation is a firm-based process; however Albania did not have a specific and targeted strategic approach to business innovation and technological development. Thus, the most important step in this direction was METE's launch of the [Business Innovation and Technology Strategy \(BITS\)](#), approved July 19, 2010, and its respective Action Plan which will implement the [Strategic Programme for Innovation and Technology Development of SMEs for 2011–2016](#) (approved February 2011). This is to be implemented by the **Business Relay and Innovation Centre (BRIC)** that was set up within AIDA and became operational in June 2011.

#### *Commercialisation of research, getting ideas to the market*

Establishment of ARTI and BRIC were positive steps toward supporting innovation in the private sector. In order to effectively deliver results, the two agencies need to collaborate and focus on two types of innovation - research and business driven - linking potentially exploitable R&D results and innovative business opportunities (i.e. commercialisation of research, getting ideas to the market; matching SMEs' strategic development needs with technological development potential in the country's research and production systems; synergising national, bilateral and international funding opportunities and schemes for Research and Technological Development and SME Innovation and Competitive Development). ARTI and BRIC have key roles to play in the realisation of the National Strategy for STI objective to increase innovation in 100 private companies either through investment in own R&D or in partnership with academic research institutions or foreign partners. The BRIC's *Innovation Fund* will provide direct support (technical expertise and financial support) to enterprises to introduce market/consumer-driven innovations. Business innovation services and a business incubator programme will be established to support the emergence of innovative start up companies. A *cluster development programme* and *awareness raising* activities will also be promoted.

### *Public sector innovation*

*Promotion of innovation in the public sector*, mainly in ICTs, has been a key priority in the policy mix. Over the past decade, the Albanian Government has focused on ICT as a main driver of economic, political and social development, evolving from a low-tech, inwardly looking state to a potential regional leader in e-Government, and connectivity, particularly as major infrastructural investments are being made. The Minister of Innovation, Information Technology and Communication (MITIC) has cooperated with the line Ministries to promote e-Government since 2010 (ongoing initiatives such as electronic public procurement; on-line tax payment services, on line Customs services and, e-health positive are examples of inter-ministerial cooperation), which has facilitated communication and interaction between public institutions and the private sector. In April 2011 MITIC presented a plan for the implementation of information systems in the health system (HCII) and initiated the process for drafting the Strategy for e-health, marking an important step toward the realisation of the knowledge society and the fulfilment of the government programme, Digital Albania. In accordance with the *Cross-cutting Strategy on Information Society*, all public higher education institutions now have internal computing networks and access to Internet services. ICT is also one of the seven priority sectors in the National R&D programmes.

In *public procurement of innovative goods and services*, probably the most important move is the plan to develop the **National Broadband Network Infrastructure** through innovative public-private partnerships, as stated in the Albanian Electronic Communication policy of 2010 – “broadly speaking, our initiatives can be divided into measures taken by the state to improve the probability that private investors will invest in ICTs (especially in order to offer services) and actions by the state to increase the use of ICTs by state institutions.” The adoption of the Electronic Communications Policy Paper (adopted in 2010) was a step further in defining the mid-term vision for the sector.

### *Services innovation*

Now that a fairly high level of digitalisation has been reached, particularly in the national level public administration and in the availability of online public services for businesses and citizens, the Government’s policy focus is shifting to developing infrastructure and services for society as a whole (broadband infrastructure, 3G technologies, digital TV) and the connectivity of the local government level. The private sector is also being encouraged to offer digital services.

### *Design, creativity*

Emphasis on design and creativity for innovation has not played a noticeable role in the policy mix in Albania.

### *Social innovation*

The [Sectoral Strategy on Employment and Vocational Training 2007–2013](#),<sup>15</sup> promoted by the Ministry of Labour and Social Affairs, supports instruments that contribute to the enhancement of *social innovation*. The job creation target is focused on SMEs and on encouraging FDI. Although the specific term “*innovation*” has not been used in the Strategy, the “development and strengthening of competition in the market through production of more competitive goods, transfer of new technologies and know-how” is one of the principal aims in supporting SMEs.

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<sup>15</sup>

Approved by the Council of Ministers, Decree Nr. 751, 7 November 2007

#### 1.4 Internationalisation of innovation policies

Albania has received substantial assistance from international donor organisations in the development of its innovation policies. For example, UNESCO provided direct support in the formulation of the National Strategy of Science Technology and Innovation 2009-2015 and the standardisation of the R&D statistics, while the World Bank is to support the Research Infrastructure Fund foreseen in the NSSTI.

The EU's IPA programme is supporting the **EU SME Project Albania 2009 – 2011: “Supporting SMEs to become more competitive in the EU market”**, which led to the development and adoption of the BITS and its respective Action Plan (BITAP) (July 2011). Albania is eligible to benefit from the EU's Competitiveness and Innovation Programme (CIP), which promotes innovation, entrepreneurship and growth in SMEs; however, Albania though eligible to EIP is not yet participating in the Enterprise Europe Network or EIP's financial instruments<sup>16</sup>.

As a result of the donor support, different key programmes and instruments have been created to support activities that initiate and foster innovation and development in Albania and encourage the country to be part of the international programmes that support innovation measures. However, few of these have been designed or delivered through joint initiatives or co-operation with individual countries.

Among the only joint initiatives that could be considered somewhat relevant is the agreement between ARTI and the Institute of Information Science in Maribor, Slovenia, on cooperation in setting up a research information system for Albania, E-CRIS.AL, which includes interconnected databases on research organisations, researchers and research projects and is managed by ARTI, functioning as the Albanian National E-CRIS Centre. USAID and the German GIZ projects support enterprise development and competitiveness, but do not provide any support to the design or delivery of innovation policy.

#### 1.5 Evidence on effectiveness of innovation policy

While Albania has been very successful in attracting FDI and improving conditions for the establishment and operation of businesses,<sup>17</sup> the [EU's Albania 2010 Progress Report](#) indicates that SMEs concentrate on the domestic market and lack export competitiveness. Support to export-oriented and innovative companies is weak. Only a few components of an innovation policy and effective innovation support mechanisms are already in place. The report indicates that current initiatives related to strategies, governance and support, such as the establishment of the Agency for Research, Technology and Innovation (ARTI) and the Business Relay Innovation Centre (BRIC), are encouraging signs of development of the institutional framework for Albania's innovation policy, but it is too soon to assess their real effectiveness.

Albania's global competitiveness index (GCI) of 88 for 2010-2011 lags behind that of most of its Balkan neighbours, except Serbia and Bosnia and Herzegovina. This represents an improvement from the 2009-2010 GCI of 96<sup>18</sup> and is only five places behind EU-member Greece, though the latter ranks far higher in innovation and technological indicators. When examining the Global Competitiveness Report's subindexes “*innovation and sophistication factors*,” Albania ranks only 104, while for “*technological readiness*” it ranks a more encouraging 72, which still places it below most of its Western Balkan neighbours, except Serbia and Bosnia and Herzegovina.

The 2009 World Bank Report “Building Competitiveness” notes that the share of firms in Albania that report having introduced a new or improved product in the last three years is reasonably high by regional standards: 59% of manufacturing firms in Albania reported in 2007 to have introduced a new or improved product in the last three years,

<sup>16</sup> [Enterprise Europe Network](http://www.enterprise-europe-network.ec.europa.eu/about/branches), Source: <http://www.enterprise-europe-network.ec.europa.eu/about/branches>

<sup>17</sup> [Doing Business 2011](#) gives Albania an overall rank of 82, but with high scores for getting credit, protecting investors and starting a business.

<sup>18</sup> [Global Competitiveness Report 2010-2011](#), World Economic Forum, 2010.

the second highest level in the Balkan region after Croatia with 67%.<sup>19</sup> Albanian firms that introduced various types of innovation experienced faster average employment growth. The average growth in employment (2004-2006) amongst firms that upgraded an existing line in 2006 was 43.3%, versus 19% for those which did not. However, the World Bank regarded Albanian firms' capacity for technological improvement as weak.

The gaps in competitiveness are manifest in the main exporting sectors of the Albanian economy: apparel, footwear and leather and agro-food. The OECD notes that the ICT sector is growing quickly, but is still lagging behind at the regional level. The sector is challenged by infrastructure problems and the largely inadequate quality of the labour force, lack of adequate technological means to provide business with relevant knowledge and technical skills<sup>20</sup>. The ICT sector is important as an enabler of other sectors' improvements, including the public administration as noted above. Firm-level surveys from 2007 suggest that the share of Albanian firms that are using modern ICTs for their business operations is the lowest in Eastern Europe: 37% of firms in Albania surveyed in 2007 had a website, compared to 63% in South-Eastern Europe.<sup>21</sup>

Innovation policy (NSSTI, BITS) and its dedicated agencies and government departments (AIDA, BRIC, ARTI, NAIS, MITIC) have been fairly recently introduced, therefore evaluation and monitoring have not yet been implemented—thus making it difficult to determine the effectiveness of innovation policy to date. Improvements noted in the GCI mentioned above seem to be linked more to the business environment and investment condition rather than endogenous innovation factors. On the other hand, the Government's e-Government initiative could be regarded as representing success within a quite difficult context.

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<sup>19</sup> World Bank, 2009, p31).

<sup>20</sup> Strategic programme for innovation and technology development of the SMEs for the period 2011-2016, pg. 2, Source: [http://www.mete.gov.al/doc/20110218092915\\_english\\_draft\\_programi\\_strategjik\\_dt\\_10.01.2011.pdf](http://www.mete.gov.al/doc/20110218092915_english_draft_programi_strategjik_dt_10.01.2011.pdf)

<sup>21</sup> "Albania: Building Competitiveness, October 2009, World Bank, Source: [http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/03/31/000333038\\_20100331010718/Rendered/PDF/478660ESWov20A1Codisclosed031291301.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2010/03/31/000333038_20100331010718/Rendered/PDF/478660ESWov20A1Codisclosed031291301.pdf)

## Case 1 Digital Albania Initiative

Development of the information society is one of the priorities of the government and internalized in its program for the period **2009-2013**, through the initiative “Digital Albania” which is in accordance with the latest EU initiatives. It is aimed at providing the country with a networking platform, which will help citizens become active players in the knowledge-based society and will help the country develop a knowledge-based economy.<sup>22</sup> The Albanian Government has undertaken an extensive adoption of information technology in state institutions in all branches and at all levels that were either related to operational decision-making or in providing direct services to citizens and businesses. The project is being supported by the One UN programme in Albania, financed through the United Nations Coherence Fund.

Target groups included citizens, businesses and the public administration itself. This effort has allowed Albania to move quickly into the community of countries with a high level of administrative modernisation and digitalisation. Main objectives of Digital Albania programme are:

- All inclusive e-governance;
- Real efficiency and effectiveness of the administration;
- Implementation of services with a high impact;
- Interoperability of systems as a fundamental aspect;
- Strengthening of public participation in the decision-making process.

Main results of Digital Albania initiative are:

### *E-government & Public services*

- Electronic tax services are offered
- Customs Services - ASYCUDAWorld (AW) is now fully operational in the Albanian Customs Administration headquarters and all Customs offices—it is a web-based system where all customs declarations are automatically consolidated in the customs database.
- A project to establish public access points in all Post offices is ongoing. After equipping all schools with computer labs connected to the Internet, 550 post offices across the country today have free internet service.

### *Education & knowledge*

- Public schools are equipped with PC laboratories and connected with broadband Internet and ICT curricula are adopted.

### *E-business*

- All public procurements are undertaken through electronic means.
- Online business registration is offered, based on the “one-stop shop” principle
- Business licensing through one-stop-shop services and quick procedures reduces the administrative barriers to free enterprise, the costs of business related to the licensing process and minimises the level of informality, thus considerably improving the business climate in Albania.
- In 2010, second-tier banks (i.e. Raiffeisen Bank and National Trade Bank) were encouraged to offer I-banking (Internet Banking) and Mobile Banking and are in process of setting them up.

To achieve the above results of “Digital Albania” it was required investment in infrastructure, institutional reforms, legislative improvements, capacity building and, above all, effective implementation of these policies.

Lessons learned:

- The project improved the legal and technical foundations for IT infrastructure.
- The increased use of ICTs in Albania has shown the high public utility of these tools and their contribution to increased quality and efficiency in carrying out public functions.
- Make local and national systems more transparent and accessible to the public.

For further information: [E-Albania](#) (Digital Albania portal)

<sup>22</sup> [http://www.dsdc.gov.al/dsdc/pub/governmentdonordialogue\\_issue\\_no\\_50\\_may\\_2011\\_840\\_1.pdf](http://www.dsdc.gov.al/dsdc/pub/governmentdonordialogue_issue_no_50_may_2011_840_1.pdf)

## 2. Innovation policy budgets – an overview

The 2009 TrendChart reports included a detailed analysis of available budgets based on the data contained in the policy measure templates for each country.

However, no analysis was undertaken for Albania in 2009. Thus, this section reports the first analysis exploring the issue of the budgets for implementing innovation policy. It is recognised that not all Government departments/agencies allocate specific budgets to specific measures and that actual expenditure year-on-year can vary considerably from that initially declared in policy documents or programming documents. Equally, not all important policy measures are based on significant direct public funding (e.g. the enforcement of a regulatory measure may have an indirect cost for public or private sector stakeholders that is not easily quantifiable prior to adoption).

### 2.1 Trends in funding of innovation measures

Funding of innovation measures in Albania is underlined in the three main policy documents targeting innovation policies and their support measures. There is no specific fund/item in the state budget which clearly indicates the exact amount of funding to be allocated to innovation measures. However, the information outlined below provides an overview of trends in funding innovation measures as stated in the main policy documents as well as gained from the analysis of specific government programmes and relevant agencies.

The [National Strategy for Science, Technology and Innovation 2009 – 2015](#) promotes innovation in businesses and business cooperation with academic institutions. The overall budget of the Strategy for 2009-2015 was reported as €151.95m, including €3.3m from the World Bank for research infrastructure funding, €3.25m for ARTI and €8.15m for the Fund for the transfer of technology and innovation<sup>23</sup>. It is not possible to determine the share of this budget which is specifically dedicated to innovation policy.

Some innovation related research projects for the scientific community to cooperate with SMEs have been financed through national, bilateral and multilateral programmes. But so far the participation of the business community has been very low, and only in some research projects in the fields of food industry, agriculture, etc. The new structures (ARTI, NAIS) may co-operate with the private sector in research and innovation initiatives, facilitated through the agencies' competitive funding. The latest **National Technology Programme** seeks to bring together consortia of academic research institutes with the private sector or other public sector organisations (for example, water or energy utilities) in order to develop a medium-term programme of applied research with a social or economic impact. The aim is to launch at least one such programme in the period 2010–2015 and two or three more by 2020.

In order to increase innovation in Albanian firms, particularly SMEs, METE is promoting the [Business Innovation and Technology Strategy \(BITS\)](#) and supporting the [Strategic Programme for Innovation and Technology Development of SMEs for 2011–2016](#), which provides funding for the implementation of the BITS through BRIC. For the period 2011-2016, the initiative has a total budget of €10.31m, of which €4.35m is dedicated to the Innovation Fund which award grants to SMEs.

The [Cross-Cutting Strategy of Information Society 2008–2013](#) highlights ICT as a priority of the Albanian Government where the key fields are, **infrastructure**,

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<sup>23</sup> NSTI, Pg 24, Source: [http://www.mash.gov.al/File/Legjislacioni\\_MASH/Aneks%202-STRATEGJIA%20KOMBETARE%20E%20SHKENCES.%20TEKNOLOGJISE%20DHE%20INOVACIONIT%20-%20VKM%20Nr.863.%20dat%C3%AB%2029.7.2009.pdf](http://www.mash.gov.al/File/Legjislacioni_MASH/Aneks%202-STRATEGJIA%20KOMBETARE%20E%20SHKENCES.%20TEKNOLOGJISE%20DHE%20INOVACIONIT%20-%20VKM%20Nr.863.%20dat%C3%AB%2029.7.2009.pdf)

**electronic government and public services, education and know-how, electronic business and the legal framework.** The total funding dedicated to this sector is approximately €3.7m (all for grants) with an allocation rate of 39.4% (approximately €1.5m).<sup>24</sup>

The ICT sector also receives foreign donor support mainly from the EU, Italy and the United States. Donors are supporting a methodical assessment of electronic communications and the integration of digital processes in the administrations of the main cities of Albania to improve government quality by speeding up the exchange of a larger range of information inside government, by increasing public administration transparency through ICT, increasing public access to information (GovNET), and by providing technical assistance to NAIS, the Telecommunications Regulatory Entity, the Ministry of Finance and others. The UN has supported the Estonian E-Government Academy in providing assistance to NAIS and installing Voice Over IP (VOIP) systems (voice communications through computer) in 14 line ministries and the Albanian Council of Ministers. During 2006-2008 the US Government supported the Millennium Challenge Programme to reduce the time needed for business registration, installing an electronic procurement system and e-services for tax payment linked to the National Registration Centre. The programme continues during 2009-2011 and further supports government reform of tax administration by establishing the National Business Licensing Centre and improving efficiency of the permitting system through a national electronic register for expansion and building permits, planning and construction codes and for warnings and announcements regarding construction projects.

Regarding the development of the private sector, the government is providing €30m to the SME credit line programme to support the SMEs as well as technical assistance services, some of which support innovation. Businesses in Albania also receive important financial support from the international community, thanks to Albanian participation in different international organisations and various multi-bilateral agreements. These financial incentives usually take the form of guarantees, like those offered by the Multilateral Investment Guarantee Agency (MIGA) of the World Bank and the European Investment Bank (EIB), or grants, loans and soft-loans, like those from the European Bank for Reconstruction and Development (EBRD), World Bank (IBRD, IFC), EIB, European Investment Fund (EIF), etc., that finance between 25% and 50% of the total project cost. Moreover, there is an EU programme, the JOP Phare area, that provides support to the internationalisation of SMEs and is structured in four facilities essentially providing grants. The Albanian Reconstruction Equity Fund (AREF) of the EBRD is a venture capital fund that provides support to private investments in the productive and service sector. Other sources of credit and assistance could be the SIMEST<sup>25</sup> and Mediocredito Centrale, for Italian firms, or the Albanian American Enterprise Fund (AAEF).

Albania also participates in the Competitiveness and Innovation Framework Programme (CIP) in the period 2007 -2013. Since signing a Memorandum of Understanding (MoU) with the European Commission in June 2008, Albania joined the CIP and is eligible for the Entrepreneurship and Innovation Programme (EIP), the first pillar of CIP, but it is not yet participating in the Enterprise Europe Network or EIP's financial instruments<sup>26</sup>.

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<sup>24</sup> See Annex

<sup>25</sup> Italian Association for Foreign Enterprises

<sup>26</sup> WBC-INCO.NET "Innovation Infrastructures: Albania (FINAL VERSION), 22 July 2011, pg. 26

Figure 4 Broad share of available budgets by main categories of research and innovation measures

Broad category of research and innovation policy measure	Approximate total annual budget for 2010 (in euro)	Commentary
<b>1. Governance &amp; horizontal research and innovation policies</b>	<u>NSSTI</u> : TOTAL € 14.45m for 2010	Total planned budget of NSSTI for 2009-2015 is <b>€151.95m</b> <b>2010 breakdown:</b> <ul style="list-style-type: none"> <li>• Baseline funding for HEI research institutes €8.25m</li> <li>• Fund for research infrastructure €4m</li> <li>• Fund for centres of excellence in research €1.5m</li> <li>• Fund for new researchers/Research Eagles grants €0.2m</li> <li>• Fund for transfer of technology and innovation €0.15m</li> <li>• Agency for Research, Technology and Innovation €0.5m</li> </ul>
<b>2. Research and Technologies</b>	<u>ARTI</u> : TOTAL €1m for 2010 - “National Programmes of Research and Development” and “Bilateral Programmes” totalling 140,000,000 ALL (€1,015,965.16, of which Bilateral cooperation with Slovenia is valued at €36,284.47 in 2010)	ARTI began operating in 2010 <b>National Programmes for Research and Development Budget 2010 – 2012 (planned)</b> <ul style="list-style-type: none"> <li>• Social Sciences and Albanology (€366,959.3 or 51,000.000 ALL)</li> <li>• Information Systems and Technologies (ICT) (€575,622.4 or 80,000.000 ALL)</li> <li>• Biodiversity and the Environment (€352,568.7 or 49,000.000 ALL)</li> <li>• Agriculture (veterinary, zoo-technical), Food and Biotechnology (€568,427.1 or 79,000.000 ALL)</li> <li>• Health (€330,982.9 or 46,000.000 ALL)</li> <li>• Water and Energy (€338,178.1 / 47,000.000 ALL)</li> <li>• Materials (€230,249 or 32,000.000 ALL)</li> </ul>
<b>3. Human Resources (education and skills)</b>	Total €279,131 for 2010	<ul style="list-style-type: none"> <li>• <u>Brain Gain programme</u> for 2010</li> <li>• Actual expenditures</li> <li>• Project Total: \$1,000,000, of which UNDP Contribution \$300,000 &amp; Donor Funding Sought \$700,000) April 2006-Dec. 2011, to continue in 2012-2013.</li> <li>• Also note above under NSSTI: Basic funding for HEI research institutions <b>€8.25m for 2010</b></li> <li>• Fund for new researchers/Research Eagles grants <b>€0.2m</b></li> </ul>
<b>4. Promote and sustain the creation and growth of innovative enterprises</b>	<u>BITS</u> : not yet in operation in 2010—started in June 2011	€10m over a 6-year period. Budget only for 2011: <ul style="list-style-type: none"> <li>• Awareness Raising €28,650</li> <li>• Business Innovation Services €182,650</li> <li>• Innovation Fund €355,200</li> <li>• Clusters Programme 2012 start-up €141,650</li> <li>• Incubation Programme 2012 start-up €82,500</li> </ul> <b>TOTAL for 2011: €566,500</b>
<b>5. Markets and innovation culture</b>	No specific initiatives can be determined	See above—awareness raising –BITS as promoted by the BRIC is supposed to promote an innovation culture among SMEs

## 2.2 Departmental and implementing agency budgets for innovation policies

Figure 5 Innovation budgets of the main government departments and agencies

Name of the organisation (with link)	Number of staff responsible for innovation measures (% of total)	Innovation budget managed (2011 <sup>27</sup> )	Estimated share of budget earmarked for specific policy measures
<a href="#">MITIC</a>	12 of 12 (100%)	€###m	<ul style="list-style-type: none"> <li>e.g. €##m earmarked for cluster development</li> <li>Digital Albania</li> </ul>
<a href="#">AIDA</a>	20 of 20 (100%)	€ 29,061,870 (2010 <sup>28</sup> )	<ul style="list-style-type: none"> <li>AIDA € 29,061,870</li> <li>From this:</li> <li>Support for SMEs €26,475 (Loan)</li> <li>Institutional Support for BITS €2,587,050 (Loan)</li> </ul>
<a href="#">BRIC</a>	5 of 20 (25%) BRIC is under AIDA	€566,500	<ul style="list-style-type: none"> <li>Awareness Raising €28,650</li> <li>Business Innovation Services €182,650</li> <li>Innovation Fund €355,200</li> </ul>
<a href="#">ARTI</a>	3 of 15 (20%)	€431,654 <sup>29</sup> (2010 – 2012)	<ul style="list-style-type: none"> <li>National Research and Development Programme: Information Technology €431,654</li> </ul>
<a href="#">NAIS</a>	40 of 40 (100%)	€5,065,514.28	<ul style="list-style-type: none"> <li>Computer equipment for ministries and government agencies €142,800</li> <li>VAT payment for computer equipment for ministries and government agencies €142,800</li> <li>Purchase of office equipment €14,200</li> <li>Agreement with Microsoft €750,000</li> <li>Total 2009: €1,050,000</li> </ul>

Figure 2 above shows the budgets of the different organisations that support innovation policy in Albania. METE has the largest budget, supporting not only business innovation but also AIDA which assists SMEs that seek to export. The most relevant organisation is BRIC which implements the proposed BITS Programmes and Supporting Actions according to the innovation strategy. BRIC will provide funding (through the Innovation Fund) for SME projects and the renewal of SME technological equipment. The total planned budget for the implementation of the Business Innovation and Technology Strategy is about €10.3m for a period of six years (2011–2016). About 60% of the budget will be allocated to the Innovation Fund and the respective Innovation Services and the remaining 40% for the Cluster and Incubation Programmes.

The BRIC budget is to be financed by both international donor programmes (EU through IPA -€2.87m and IFIs- €5m) through grants and (soft) loans, and Albanian state budget contributions. The total national contribution will be around €2.4m (23% of the total budget). This contribution covers staff and operational costs of BRIC as a department within AIDA.

<sup>27</sup> Exchange Rate, Yearly Average 1 Euro = 139,0 ALL

<sup>28</sup> <http://www.mete.gov.al/mat.php?idm=957&l=a>

<sup>29</sup> [http://www.akti.gov.al/PKKZH\\_Sistem\\_Teknologjise\\_Informacionit.html](http://www.akti.gov.al/PKKZH_Sistem_Teknologjise_Informacionit.html)

### 2.3 Future challenges for funding of innovation policy

In the Global Competitiveness Report 2010-2011, Albania is listed as a country in Stage 2 of development in the terms competitiveness. This indicates that the country is an efficiency-driven economy characterised by “efficiency enhancers” such as higher education and training, goods market efficiency, labour market efficiency, financial market development, technological development and market size. However, it still lacks the innovation and sophistication factors that characterise the Stage 3 innovation-driven economies. Albania has not yet reached the innovation-driven stage in which companies must compete by producing new and unique products using sophisticated production processes and innovation. According to the World Bank Report on Building Competitiveness in Albania (2009), private companies’ “technological capacity” to upgrade by absorbing existing advanced technologies is weak.

There are two main factors that present challenges for funding of innovation policy. Firstly, there is the limited share of GDP dedicated to R&D and innovation in the country. The National Strategy for Science, Technology and Innovation (NSSTI) foresees raising GERD from 0.2% of GDP to only 0.6% of GDP, which is still far below either the European average for 2009 (1.9%). Secondly, is the still-constrained innovation creation and absorption capacity resulting in part from the fact that the country has tended to purchase innovations on the market rather than developing them domestically. Given government budgets constraints, it is evident that additional funding will have to come from international donors and the private sector, including foreign investors which might set up research facilities in Albania to develop tailor-made products or technologies for the Albanian market. In fact, the NSSTI specifically seeks to increase innovation in 100 medium and large private companies either through investment in own R&D or in partnership with academic research institutions or foreign partners.

The main public source of innovation policy funding is the Business Innovation and Technology Strategy, which is to be mainly supported by foreign donors (of its €10.3m budget, €7.893m or 76.5% is expected from the EU and other donors). In specific the innovation fund (€4.848m, of which €3.879m expected from donors) also covers adoption of ICT solutions in target sectors in addition to support to product development, process improvement through technology adoption. This indicates that at least through 2016 the Albanian government expects to fund business innovation policy mainly through donor assistance, an approach which cannot be maintained if the country seeks to reach Stage 3 as an “innovation-driven” economy—where the business community must be the driver of innovation.

Albania’s most important exports are clothing, footwear and leather and agro-food products which have fairly high levels of foreign investment; however these branches of the private sector tend to have a low level of innovation and technology. The ICT services sector is probably the most innovative in the country, but its operations have also been heavily funded by Government investment in information society and e-Government programmes and infrastructure. The technology was mainly imported.

Probably the best prospects for funding of private sector innovation lie in the hydrocarbons extraction sector, especially in offshore exploration and production, and in environmental services, also required by the EU accession process in which technologies and processes must be adapted to or developed for Albanian conditions. Eco-efficiency and environment-related businesses have emerged as a key area for innovation and business development, and they will become increasingly important in developing Albania's overall competitiveness. In this context, these areas of business development may fall within the general scope of the envisaged BITS and thus the BRIC's activities. It is likely that funding opportunities will arise for the BRIC to develop specific actions in this field, in the framework of supporting SME technological development and enhancing R&D-business co-operation. A limited number of medium-to-larger Albanian firms, e.g. in the agro- food sector, may potentially become investors in product development R&D.

### 3. Thematic report: Demand-side innovation policies

For the purposes of this report, the following categorisation of demand-side innovation policy tools is adopted:

Figure 6 Categorisation of demand-side policies

<b>Demand side innovation policy tool</b>	<b>Short description</b>
<b>Public procurement</b>	
Public procurement of innovation	Public procurement of innovative goods and services relies on inducing innovation by specifying levels of performance or functionality that are not achievable with 'off-the-shelf' solutions and hence require an innovation to meet the demand. <sup>30</sup>
Pre-commercial public procurement	Pre-commercial procurement is an approach for procuring R&D services, which enables public procurers to share the risks and benefits of designing, prototyping and testing new products and services with the suppliers <sup>31</sup> .
<b>Regulation</b>	
Use of regulations	Use of regulation for innovation purposes is when governments collaborate broadly with industry and non-government organisations to formulate a new regulation that is formed to encourage a certain innovative behaviour. <sup>32</sup>
Standardisation	Standardisation is a voluntary cooperation among industry, consumers, public authorities and other interested parties for the development of technical specifications based on consensus. Standardisation can be an important enabler of innovation. <sup>33</sup>
<b>Supporting private demand</b>	
Tax incentives	Tax incentives can increase the demand for novelties and innovation by offering reductions on specific purchases.
Catalytic procurement	Catalytic procurement involves the combination of private demand measures with public procurement where the needs of private buyers are systemically ascertained. The government acts here as 'ice-breaker' in order to mobilise private demand. <sup>34</sup>
Awareness raising campaigns	Awareness raising actions supporting private demand have the role to bridge the information gap consumers of innovation have about the security and the quality of a novelty. <sup>35</sup>
<b>Systemic policies</b>	
Lead market initiatives	Lead market initiatives support the emergence of lead markets. A lead market is the market of a product or service in a given geographical area, where the diffusion process of an internationally successful innovation (technological or non-technological) first took off and is sustained and expanded through a wide range of different services <sup>36</sup> .
Support to open innovation and user-centered innovation	Open innovation can be described as using both internal and external sources to develop new products and services <sup>37</sup> , while user-centered innovation refers to innovation driven by end- or intermediate users. <sup>38</sup>

<sup>30</sup> NESTA (2007) Demanding Innovation Lead Markets, public procurement and innovation by Luke Georghiou

<sup>31</sup> [http://ec.europa.eu/information\\_society/tl/research/priv\\_invest/pcp/index\\_en.htm](http://ec.europa.eu/information_society/tl/research/priv_invest/pcp/index_en.htm)

<sup>32</sup> FORA, OECD: New nature of innovation, 2009, <http://www.newnatureofinnovation.org/>

<sup>33</sup> Commission Communication: Towards an increased contribution from standardisation to innovation in Europe COM(2008) 133 final 11.3.2008

<sup>34</sup> Edler, Georghiou (2007) Public procurement and innovation – Resurrecting the demand side. Research Policy 36. 949-963

<sup>35</sup> Edler (2007) Demand-based Innovation Policy. Manchester Business School Working Paper, Number 529.

<sup>36</sup> COM 2005 "Industry Policy" [http://ec.europa.eu/enterprise/enterprise\\_policy/industry/index\\_en.htm](http://ec.europa.eu/enterprise/enterprise_policy/industry/index_en.htm) and Mid-term review of industrial policy

<sup>37</sup> Chesbrough (2003) Open innovation. Harvard Business School Press

<sup>38</sup> Von Hippel (2005) Democratizing innovation. The MIT Press, Cambridge

### 3.1 Trends in the use of demand-side innovation policies

This section presents and discusses the current trends in the use of demand-side innovation policies at the national level, since the regional level is not particularly relevant in Albania. The main demand-side innovation policy tool that has been used in Albania is *public procurement of innovation*. The Albanian Government has pursued a policy of ICT-led public sector development as a cornerstone in the realisation of its innovation policies, in fields such as ICT infrastructure, electronic government and digital public services, education and know-how, electronic business and the relevant legal framework.

Through NAIS, which is spearheading the Digital Albania programme, the Government has become a major demander for innovative technologies, processes and services in the field of ICT as well as an active partner in defining levels of performance and adaptation to the specific needs of the Albanian public administration. NAIS has been active in the *standardisation*. NAIS determines the *ICT standards* which the Prime Minister's Office, ministries and institutions under the Council of Ministers/Prime Minister/Minister will use. These standards are published in the Bulletin of Public Notices; in cases where standards are absent and/or are impracticable, all institutions mentioned above are obliged to ask for NAIS opinion, before starting public procurement procedures. Thus all private ICT suppliers must follow NAIS standards to deliver their products and services to the Albanian government.

The Albanian government has directly or indirectly supported development in certain fields of high technology: digitisation of identity cards and passports and the border control monitoring system (TIMS); the issuing of 3G licenses,<sup>39</sup> and introduction of digital pay television, and most recently (2011) MITIC encouraged banks to offer Internet and Mobile banking services. While these all represent examples of imported technologies, indigenous O&M capacities have been developed, providing opportunities for young professionals and technicians to work with cutting-edge technology.

While not directly representing innovation, the following initiatives have created conditions that are favourable to innovation and might also represent *process innovation* in the Albanian context. In order to help safeguard not only the websites of national e-Government portals, but also those of private entities such as banks or utilities, a Computer Emergency Response Team (CERT) centre is to be set up to identify hackers and unlawful behaviour on line. In addition, a number of initiatives have been organised to *raise awareness* about Digital Albania as well as related Internet safety for various interest groups such as schools, families, financial institutions, business companies, consumer associations, IT associations, etc.

Another move that improves conditions for innovation is the establishment of the Office for Protection of Intellectual Rights as well as the accompanying legal framework.<sup>40</sup> The law is based on the best practices of developed countries and provides measures for both quick and early recognition of intellectual rights as well as strict punishment for those who violate them. Still, even with the legal framework in place to help promote and protect innovators and researchers in quickly commercialising their ideas, efforts to promote innovation in the country continue to be insufficient.

Some large privatisations have contributed significantly to increase FDI which introduces innovative technologies, like those of the telecommunications companies, ARMO oil-refining and a number of contracts competing for e.g. mobile phone licenses, building contracts and hydroelectric power plant operations with domestic and external investments. FDI has also been facilitated by the adoption of new regulations on electronic procurement, on-line tax payment and on-line business

<sup>39</sup> <http://www.mete.gov.al/mat.php?idm=1020&l=a>

<sup>40</sup> [http://www.zshda.gov.al/docs/776936171927LIG.J%20\(1\).pdf](http://www.zshda.gov.al/docs/776936171927LIG.J%20(1).pdf)

registration, as well as for accreditation, metrology and standardisation, and intellectual property. Promotion of foreign investment in mining and hydrocarbons extraction was among the short-term priorities for 2009-2010 of METE. Oil extraction and mining companies require the introduction of new technologies and practices to the country and employ local staff, which can gain relevant knowledge and skills. However, there are no policies specifically aimed at attracting R&D performing or innovative foreign investment. Nor are there tax incentives for companies to invest in innovation, other than VAT exemptions in some activities linked to biofuels (see section 3.3).

With regard to support to open innovation and user-centred innovation, METE has only launched the BITS in 2011, so that there has not yet been any experience with this. So far, no evaluations or impact assessments have been conducted to understand the effects of demand-side innovation policies, including Government ICT procurement. As stated above the GoA has changed the monitoring system into an [Integrated Planning System \(IPS\)](#), so as all ministries are preparing progress reports at the strategies level that are based on selected evaluation indicators for each ministry. Yet, it has been referred by DSDC that such ministerial documents (METE and MITIC included), as well as the progress report 2009 – 2010 of the NSDI are on drafting process, and not available to publications.

### 3.2 Governance challenges

METE is the main government body responsible for proposing regulatory initiatives and promoting innovation and technology dissemination towards Albanian SMEs, while MITIC coordinates and monitors demand-side innovation, information society, and technology policies in the country. MITIC implements its tasks through the government agencies ARTI and NAIS, while the METE operates through AIDA/BRIC, which assist in identifying demand-side policies and implementing the respective measures. In concrete terms, MITIC is responsible for developing a comprehensive legal framework for ICT and the Postal Services and ensuring its effective implementation. In addition, it has an intermediary role in engaging in e-governance projects and promoting the integration of ICT in all fields of economic development to best serve the needs of a knowledge- and information-based society.

An Advisory Group, the "National Forum For Digital Albania," chaired by MITIC, was established by CoM decision, dated 9.6.2010, as a permanent platform to exchange information, experiences, best practices, and discuss all matters on the Information Society. The forum consultations support the state administration structures responsible for the development of Albania's digital agenda. Activities of the Forum include: providing advice on government initiatives and strategies in the field of Information Society to ensure promotion, development and sustainability of the sector; promoting the development and improvement of technical capacity in order to accelerate the country's progress in this sector and address integration challenges in the global market. The Forum meets, upon announcement of the chairman (Minister for Innovation & Information, and Communication Technology) no less than four times a year, and reports to the Prime Minister on the activities and conclusions of the meetings. The Forum members include the high officials of MITIC, Council of Ministers, other line ministries, national agencies (e.g. ARTI, NAIS), academia (Academy of Sciences, Universities), business representatives, and if needed the donor community, and civil society representatives.

With regard to METE's governance of innovation policy, there is a requirement for the definition and implementation of a set of indicators allowing the measurement of the respective impacts of the Business Innovation and Technology Strategy (BITS) and the BRIC. In particular, such impacts will be considered in two following domains:

- Improvement of Albania's score in the 10 dimensions of the European Charter for Small Enterprises, as compared to score from the base year 2008.
- Improvement of Albania's position in the World Bank Index of "Doing Business."

### 3.3 Recent demand-side innovation policy measures

The main demand-side innovation policy measures to date seem to have been mainly in the ICT sector related to e-government services for citizens and business and Internet connectivity, as described below, and promoted by NAIS. In particular, NAIS is involved in:

- Development and implementation of an integrated strategy to enable extensive use of ICT in order to promote a knowledge-based economy;
- Enabling development of new electronic services for businesses and citizens and pushing forward the harmonisation of the legal framework pertaining to the field with that of the European Union.
- Development of a complete legal framework for ICT and Postal Services and ensuring its effective implementation.
- Engaging in e-governance projects and promoting the integration of ICT in all fields of economic development to best serve the needs of a knowledge- and information-based society.

NAIS' Digital Albania initiative has generated a huge demand for sophisticated ICT technologies and services.

The BITS to be implemented by the BRIC seeks to help SMEs in implementing innovative activities—the Innovation Fund should become instrumental in this once the BRIC is fully operational. Below are the main innovation policy measures managed by BRIC and the Fund for Transfer of Technology and Innovation managed by ARTI:

Figure 7 Key demand-side policy measures

Measure name (duration)	Short description of objectives, main activities or types of funding support, etc.	Key implementation details
<b>Innovation Fund (2011- 2016)</b>	<ul style="list-style-type: none"> <li>• It aims to increase innovation in enterprises in order to improve their competitiveness. Programme actions focus on enabling and developmental assistance.</li> <li>• Enabling assistance will provide financial support, in the form of subsidies, to enterprises to engage experts to audit their innovation and technology needs and to identify technology suppliers and partners in other countries. These actions enable enterprises to choose the optimum development path.</li> <li>• Development assistance will provide financial support to enterprises, in the form of subsidies and/or convertible loans, for investment in new products, process improvement through technology adoption, ICT strategic development and internationalisation. Enterprises will need to demonstrate that the supported investments are vital for competitive development and bring tangible results.</li> <li>• €4,848,200</li> <li>• Through a specific funding operation with an <u>International Financial Institution (IFI)</u> such as the World Bank or the European Investment Bank. National Contribution for the first two measures (IFI project) is equal to 12.2%</li> </ul>	<ul style="list-style-type: none"> <li>• €1,255,420 available for two components of IFI Project</li> <li>• Funding for technology adoption and new product development</li> <li>• BRIC</li> <li>• SMEs, Business Service Providers</li> <li>• <a href="http://www.aida.gov.al">www.aida.gov.al</a></li> </ul>

Measure name (duration)	Short description of objectives, main activities or types of funding support, etc.	Key implementation details
<b>Business Innovation Services (2011-2016)</b>	<ul style="list-style-type: none"> <li>• Business Innovation Services are aimed at enabling SMEs to assess their current positions and options on innovation management and technology and to undertake optimum development.</li> <li>• The programme is composed of the following actions:</li> <li>• The provision of information services to SMEs in matters of innovation and technology improvement;</li> <li>• Integration of Business Service Providers (BSPs) into the information provision and advice network coordinated by the BRIC and enhanced by EEN;</li> <li>• Capacity building of BSPs in innovation and technology auditing and with regard to innovation management;</li> <li>• Development of finance facilitation services to enable SMEs to access appropriate finance.</li> <li>• €1,428.900</li> <li>• Through a specific funding operation with an International Financial Institution such as the World Bank or the European Investment Bank. National Contribution is equal to 12.2%</li> </ul>	<ul style="list-style-type: none"> <li>• €1,255,420 available for two components of IFI Project</li> <li>• Funding for Business innovation support service</li> <li>• BRIC</li> <li>• Business Service Providers (BSPs), such as Regional Development Agencies (RDAs)</li> <li>• <a href="http://www.aida.gov.al">www.aida.gov.al</a></li> </ul>
<b>Clusters Programme (2012 – 2016)</b>	<ul style="list-style-type: none"> <li>• Albanian Cluster Programme aims to increase the national production of value through support provided to clusters with the largest development potential.</li> <li>• The Programme will stimulate the processes of collaborative value creation through innovation and internationalisation.</li> <li>• It will be based on close cooperation between companies and supporting institutions to achieve success at national and international levels.</li> <li>• €2,514,250</li> <li>• Within Competitiveness Component of upcoming IPA 3 support. National Contribution for the last 2 measures (IPA project) is equal to 4.9%.</li> </ul>	<ul style="list-style-type: none"> <li>• €506,730 available for two components of IPA3 Project</li> <li>• Funding for collaborative</li> <li>• infrastructure for competitiveness</li> <li>• BRIC</li> <li>• SMEs, governmental institutions</li> <li>• <a href="http://www.aida.gov.al">www.aida.gov.al</a></li> </ul>
<b>Incubation Programme (2012 – 2016)</b>	<ul style="list-style-type: none"> <li>• Business Incubator Programme establishes and develops permanent infrastructure that will support the emergence of innovative start-up companies.</li> <li>• This involves actions in finding and equipping premises, developing and maintaining business support structures, provision of an integrated range of specialised services and promotion of the concept and contents of business incubation to stakeholders in Albania.</li> <li>• Initially, the business incubator programme will consist of launching a Pilot Incubator in Tirana, closely linked to BRIC. Based on this experience, lessons learned and mobilisation of other additional stakeholders and resources, there will be a call to support business incubator initiatives in Albania.</li> <li>• €21,334,897</li> <li>• Within Competitiveness Component of upcoming IPA 3 support. National Contribution for the last 2 measures (IPA project) is equal to 4.9%.</li> </ul>	<ul style="list-style-type: none"> <li>• €506,730 available for two components of IPA3 Project</li> <li>• Funding for Physical space and soft services for the development of business</li> <li>• BRIC</li> <li>• SMEs</li> <li>• <a href="http://www.aida.gov.al">www.aida.gov.al</a></li> </ul>

Measure name (duration)	Short description of objectives, main activities or types of funding support, etc.	Key implementation details
<b>Awareness Raising (2011 – 2015)</b>	<ul style="list-style-type: none"> <li>The BRIC needs to make itself known to the business community in Albania as a resource for their benefit. This can be accomplished through activities on individual programmes, but value added is created through an overarching activity.</li> <li>The specific objective of this activity is to make the BRIC recognizable as a destination providing a full scale and comprehensive set of services, with the goal of boasting internationalisation, innovativeness and competitiveness of Albanian Small and Medium-sized Enterprises (SMEs).</li> <li>The four principal purposes are: <ul style="list-style-type: none"> <li>Awareness raising of enterprises of the benefits of technologies &amp; technological updating</li> <li>in targeted sectors to stimulate them to improve their competitive positions</li> <li>Promotion of the BRIC's role to assist enterprises and as a centre of excellence for business innovation</li> <li>Complementing the promotion of individual programmes for innovation</li> <li>Overall raising awareness of importance of innovation for long term economic and social benefits</li> </ul> </li> <li>€184,300</li> <li>National Budget contribution 6.4%</li> </ul>	<ul style="list-style-type: none"> <li>€655,250</li> <li>BRIC</li> <li>SMEs</li> <li><a href="http://www.aida.gov.al">www.aida.gov.al</a></li> </ul>
<b>Fund for the Transfer of Technology and Innovation (2009 – 2013)</b>	<ul style="list-style-type: none"> <li>It represents an important policy measure to stimulate innovation demand.</li> <li>As spelled out in the National Strategy of STI, under the National Technology Programme this is going to support innovation in bilateral projects, such as the Albanian National E-CRIS system, which includes interconnected databases on research organisations, researchers and research projects which can facilitate cooperation in innovation.</li> <li>€8.15m out of the National Strategy of STI total budget of €52.5m</li> </ul>	<ul style="list-style-type: none"> <li>€8.15m</li> <li>ARTI</li> <li>public and private sector</li> </ul>

There is no information on specific policies to promote public procurement of products with high R&D and innovation content; however, all public procurements now need to be undertaken using electronic means and the acquisition of the technologies used to realise “Digital Albania” represent very significant public procurements of ICT and related services.

Regarding fiscal policy promoting innovation, Albanian legislation provides tax relief related to R&D costs only insofar as they concern educational services activities, which were exempt from VAT as of 1 October 2010. In addition, the supply of services and goods by/between certified contractors and their subcontractors engaged in research and development linked to hydrocarbon operations is exempted from VAT. Furthermore, the Law No. 9876, dated 14 February 2008 "On the production, transportation and trade of bio-fuels and other renewable fuels for transport" has been approved for eco-efficient activities. This law is aimed at promoting production and use of bio-fuels and other renewable fuels to replace use of petroleum products in the transport sector. To contribute to the fulfilment of commitments undertaken under the Kyoto Protocol on climate change and to ensure the supply and promotion of renewable energy sources, promotion of the cultivation of energy plants to protect the environment is important. Incentives for the development of this activity are provided under Article 10 of this Law by defining a different tax regime for biodiesel products including a zero excise rate until 2018. Economic operators working in this field have a special regime since they are exempted from customs duties and VAT on imported machinery and equipment, which serve and are part of the biofuels production facilities and other renewable fuels.

### *3.3.1 Sectoral specificities*

ICT remains a priority sector for the application of demand-side innovation policy measures. Such initiatives are coordinated by NAIS, which was set up as the body for e-government services to maximise the ease of sharing public information across government agencies and providing online public services addressed to businesses and citizens. By setting up these services, the Albanian government seeks to generate demand for advanced ICT services and products, in addition to improving the efficiency and transparency of government:

The National Broadband Network Infrastructure is being established through innovative public-private partnerships, as stated in Albanian Electronic Communication policy of 2010. The objective is to improve the probability that private investors will invest in ICTs (especially in order to offer services) and actions by the state to increase use of ICTs by state institutions. IT penetration (Internet usage) increased sharply from 2.1% in 2005 to 45% in 2010, according to estimates of NAIS, while broadband connections rose from 0.1% in 2005 to 3.5% in 2010.

The Albanian government has also directly or indirectly supported development in certain other fields of high technology related to ICT: digitisation of identity cards and passports and the border control monitoring system (TIMS); the issuing of 3G licenses, and introduction of digital pay television. While these all represent examples of imported technologies, indigenous O&M capacities have been developed, providing opportunities for young professionals and technicians to work with cutting-edge technology. The first 3G license was issued in autumn of 2010, while in June 2011 the Minister for Innovation, Information, Technology and Communication authorised a tender for the second license for 3G mobile telephony operators. Mobile companies are able to provide a much higher capacity for data transmission via mobile and wireless devices, and can significantly improve Internet access in these devices through the use of 3G technology. The adoption of 3G technology has signified a further important step in the realisation of Digital Albania. Furthermore, in 2010, second-tier banks, among them Raiffeisen Bank and National Trade Bank, were encouraged to offer I-banking (Internet Banking) and Mobile Banking and are in the process of setting them up.

While Albania has an Agricultural University established to help the agricultural sector grow, there is little exchange between it and farmers. Co-operation between farmers and the university could become an important instance of private-public co-operation, particularly with regard to plant protection advances, introduction of new varieties and new cultivation techniques. As it further develops with increasing FDI, the food industry could become an important source of demand for innovation in the agricultural sector. The five centres of Agricultural Technology Transfer (QTTB) that were set up in recent year could play an important role in the innovation of agricultural practices, methods and materials; however it is not clear what level of demand for innovation will come from Albanian farmers in the next few years.

### *3.3.2 Good practice case*

Given that some of the most important policy instruments have only been put into place in 2011, there are as of yet no good practices regarding demand-side innovation policy.

## Appendix A Research and innovation policy measures for Albania

Name of the Support measure	1 <sup>st</sup> Priority	Start date	End date	Status (CC to complete)	Estimated public budget in 2010 in euro	Comment
<b>Innovation Fund</b>	4.3.1 Support to innovative start-ups incl. gazelles	2011	2016	New to be created	€355,200 (2011 budget)	<ul style="list-style-type: none"> <li>Programme actions focus on enabling and development assistance to SMEs.</li> </ul>
<b>Albanian Cluster Programme</b>	1.3.1 Cluster framework policies	2012	2016	New to be created	€141,650 (2012 budget)	<ul style="list-style-type: none"> <li>It will be based on close cooperation between companies and supporting institutions</li> </ul>
<b>Business Incubation programme</b>	2.2.3 R&D cooperation (joint projects, PPP with research institutes)	2012	2016	New to be created	€82,500 (2012 total budget)	<ul style="list-style-type: none"> <li>Initially, the business incubator programme will consist of launching a Pilot Incubator in Tirana, closely linked to BRIC.</li> </ul>
<b>Business Innovation Services</b>	4.2.1 Support to innovation management and advisory services	2011	2016	New to be created	€182,650 (2011 budget)	<ul style="list-style-type: none"> <li>Enabling SMEs to assess their current positions and options on innovation management and technology and to undertake optimum development.</li> </ul>
<b>Fund for the Transfer of Technology and Innovation</b>	2.2.3 R&D cooperation (joint projects, PPP with research institutes)	2009	2015	New to be created	€8.15m (total budget)	<ul style="list-style-type: none"> <li>Seeks to bring together consortia of academic research institutes with the private sector or other public sector organisations in order to develop a medium-term programme of applied research with a social or economic impact, thus stimulating public-private cooperation.</li> </ul>
<b>Research Infrastructure Fund</b>	2.1.4 Research Infrastructures	2009	2015	Created	€27.15m (total budget)	<ul style="list-style-type: none"> <li>To help improve the quality of equipment and facilities available</li> <li>Part of this is the fund of the World Bank "Research Infrastructure funding" (€3.3m 2009 - 2015)</li> </ul>
<b>Albanian Centres of Excellence in Science (ACES)</b>	2.2.3 R&D cooperation (joint projects, PPP with research institutes)	2009	2015	New to be created	€9.15m (total budget)	<ul style="list-style-type: none"> <li>Aims at developing four or five centres of excellence, bringing together a minimum of 20 researchers (principal researchers, post-graduate researchers and PhD candidates) from at least two separately affiliated research institutes.</li> </ul>
<b>Research Eagles Grants</b>	3.2.2 Career development (e.g. long-term contracts for university researchers)	2009	2015	New to be created	€1.5m (total budget)	<ul style="list-style-type: none"> <li>Aims to increase the number of Master and Doctoral graduates in the science and engineering fields by providing financial support to the institutions with graduate/doctoral programmes as well as to individual researchers and projects.</li> </ul>
<b>Brain Gain Programme</b>	3.2.3 Mobility of researchers (e.g. brain-gain, transferability of rights)	2006	2011	Created	\$1,000,000 (total budget)	<ul style="list-style-type: none"> <li>Seeks to attract, integrate and retain the intellectual labour resources that return from abroad (from the diaspora and graduating students studying abroad).</li> </ul>

## Appendix B Estimated budgets for implementing ICT and IS policies

### 1) Improvement of Information and Communication Technology (ICT) infrastructure

Programme	Budget (F=foreseen; E=estimated)		Period	Budget Source	Notes
"Inter-Ministerial Computer Network GovNet"	€1.8 million	€1 million	2010	Is allocated under component 08.10 "Improvement of the existing ICT for all Ministries that will offer online information in real-time in IPSIS 32 and EAMIS33", of the Project Capacity Building and Support to Implement the Integrated Planning System in Albania (IPS)".	IPSIS - Integrated Planning System for Information System; EAMIS- External Assistance Management Information System.
		€800,000			
Extending this project in all 12 regions of Albania	€2.5 million		2010-2012.	State budget	The mid-term budget of this project estimated
"Building the e-Gov infrastructure in Albania, in order to increase the efficiency and transparency of public administration, guaranteeing the protection of personal data according to European standards"	€3.3 million	Components 1 and 3 of this Project	2010-2012.	A joint project of EU and Albanian Government in the framework of IPA 2009	Consolidation of IT Infrastructure in the central administration. They will also establish a system for the administration of paperwork and digital archives in all the Ministries and the Council of Ministers.
		€0.8 million	2010-2012.	Contribution of the Albanian Government	
In order to increase the public access to Internet, Albanian Government in cooperation with Albanian Post s.a. has foreseen an investment	€1.5 million		2010-2012.	State budget	Enable the access to public services in Internet in 550 postal offices around Albania. This project aims mainly at increasing the Internet usage in rural areas.

## 2) Development of electronic government

<b>Programme</b>	<b>Budget (F=foreseen; E=estimated)</b>	<b>Period</b>	<b>Budget Source</b>	<b>Notes</b>
Territorial planning and construction permits	€2.5 million	2009	State budget	
Development of the first e-Health applications	€1.5 million	2010	State budget	They will be used to establish the information system which will administer the health system. This investment is one of the components of the project on modernisation of the health service.
Institute of Social Insurance (ISI) online administration of social insurance services	€12 million	2010-2013	State budget	Institute of Social Insurance (ISI) has planned to fully implement the project on administration of the social insurance services
Tax system, in order to fully implement the e-taxes system.	€4 million	2010-2014	State budget	
implement the system of registration and equipping with license plates the vehicles that enter Albania for the first time, as well as the automation of all other processes of the General Directorate of Road Transport	€600 000	2010	State budget	Implement the system of registration and equipping with license plates the vehicles that enter Albania for the first time, as well as the automation of all other processes of the General Directorate of Road Transport
General Directorate of Road Transport	€1 million	2011-2013	State budget	to fully implement the system of online services for all activities of General Directorate of RoadTransport
Ministry of Interior	€1 million	2010	State budget	to implement the first phase of Integrated Border Control System
NAIS	€500 000	2011	State budget	To implement the identification and authentication users of levels 3 and 4 of online services, via <a href="http://www.e-albania.al">www.e-albania.al</a> .

### 3) Education and spreading of knowledge

Programme	Budget (F=foreseen; E=estimated)		Period	Budget Source	Notes
E-School programme - second phase	€35 million	30 million ALL (€220 000)	2009	State budget	(an First stage investment of €20 million)
E-School programme - second phase			During 2010	State budget	Is estimated to be invested in teaching premises for vocational education
E-School programme - second phase		65 million ALL (€500 000)	During 2011	State budget	Foreseen to be invested in equipment and labs for the Centres of Vocational Training.

### 4) Encouraging the use of interactive services (e-services)

Programme	Budget (F=foreseen; E=estimated)		Period	Budget Source	Notes
E-services	€1 million EUR		2010-2012	State budget	To advertise the use of e-services and to educate citizens and businessmen about the benefits of the use of such services and on the safe usage of the Internet.