

ALBANIA E-COMMERCE DIAGNOSTIC

LEVERAGING THE DIGITAL TRADE OPPORTUNITY

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CONTENTS

1. Executive summary	6
E-commerce is a key growth opportunity for Albania	7
While Albania’s e-commerce sector is emerging, it lags behind regional peers	7
Reforms are needed to fully leverage the digital trade opportunity.....	8
Reforms need to be anchored in strong institutional foundations	10
Effective management of risks related to online markets is key	11
Concerted private and public sector action is crucial.....	11
2. Introduction.....	13
The rise of e-commerce is a unique opportunity for economic development.....	14
Nonetheless, the growth of the online economy also comes with risks	15
to leverage e-commerce, Albania can draw on international best practice	16
E-commerce can be a pathway to overcoming key obstacles to trade	16
The structure of this diagnostic report.....	18
3. The state of Albania’s e-commerce sector	21
Albania’s online consumers	22
Albania’s e-commerce businesses	26
Mapping the state of Albania’s e-commerce ecosystem.....	30
4. Strengthening logistics and customs.....	32
Postal and courier logistics	33
Customs procedures for small consignments	37
5. Leveraging electronic payments	47
Access and usage of electronic payments among Albanian customers	48
Access and usage of electronic payments among Albanian webshops	52
Leveraging international e-commerce platforms.....	59
Chapter summary.....	60
6. Upgrading private sector capabilities.....	63
Supporting e-entrepreneurship	64
Nurturing the e-commerce enabling ecosystem.....	71
Broadening the base of digitally savvy online customers.....	75
Chapter summary.....	76
7. Promoting digital connectivity.....	80
Fixed broadband	83
Mobile connections.....	87

Chapter summary.....	90
8. Bolstering the regulatory framework.....	93
Regulations on electronic transactions	96
Trust-building regulations.....	101
Platform regulation	113
Chapter summary.....	117
9. Conclusion	119

1. EXECUTIVE SUMMARY

E-COMMERCE IS A KEY GROWTH OPPORTUNITY FOR ALBANIA

E-commerce – defined broadly as the sale of goods and services facilitated through the internet – is a key growth opportunity for Albania. E-commerce is rapidly becoming an integral part of the global economy. Sellers can benefit from internet marketing, 24-hour online shopping and remote transaction settlement to reach more customers. Buyers, including both consumers as well as businesses that source their inputs, stand to gain through greater choice, convenience and market competition. With the emergence of new companies offering enabling services for e-commerce, including technology companies, payment services and logistics, a variety of new job opportunities is emerging.

The digital economy has the potential to play an important role in overcoming key obstacles to trade. First, e-commerce stands to overcome the physical distance between buyers and sellers – connecting Albania’s small domestic economy (population of 2.9 million) with larger and more affluent markets abroad (EU population of 512.4 million), while connecting Albania’s still significant rural communities with its urban centers. Second, e-commerce stands to overcome information frictions. Few Albanian firms have established internationally recognizable brands. Online search can enable customers to nonetheless find Albanian products. Listings through internationally established marketplace platforms and a track record of positive online customer reviews can establish trust and boost future exports. Third, e-commerce stands to overcome the limited financial resources available to most Albanian companies. Since products can be sold to customers online, without requiring large upfront investments such as the establishment of a physical store, firms can experiment with entering into new markets and then scale up at low cost.

During the ongoing COVID-19 pandemic, e-commerce has also emerged as an important pillar in the fight against the virus. First, e-commerce reduces the risk of new infections by limiting the need for in-person transactions. Second, it preserves jobs despite social distancing requirements, allowing businesses to sell to their customers without meeting physically. Third, e-commerce increases the acceptance of prolonged physical distancing measures among the population. The continued availability of online shopping and online services, including video chats, movie streaming, and online classes, likely makes the pandemic lockdown measures more bearable for Albanians.

WHILE ALBANIA’S E-COMMERCE SECTOR IS EMERGING, IT LAGS BEHIND REGIONAL PEERS

Albanian e-entrepreneurship is already emerging – some economic sectors, including the tourism industry and business process outsourcing (BPO), have been quick to embrace online markets. In recent years, Albanian hotels have rapidly leveraged e-tourism to attract guests through bookings.com and similar websites. A thriving Albanian industry is developing around the sale and delivery of online services abroad. This ranges from large business process outsourcing (BPO) companies all the way to individual freelancers offering their services online. On a per-capita basis, the penetration of Albanian freelancers on websites such as upworks.com already exceeds that of many advanced economies.

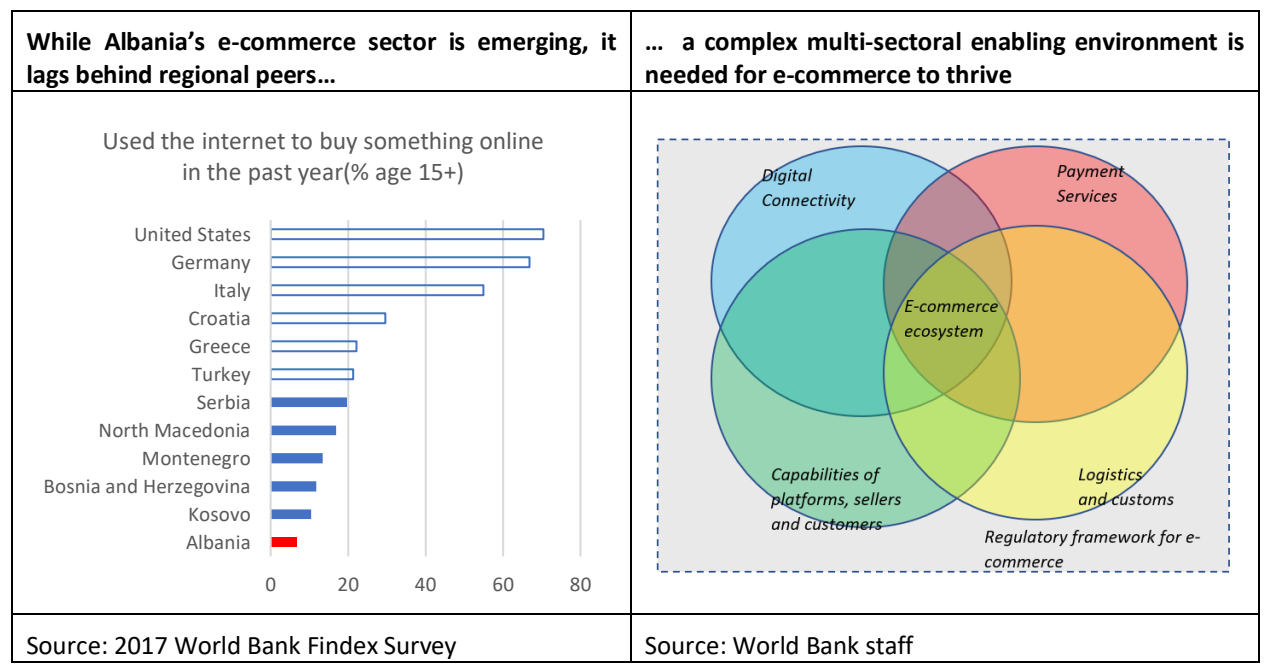
In 2020, the COVID-19 crisis has also led to a further big push forward for the digitalization of the Albanian economy. A [2020 World Bank Enterprise Survey](#) update reveals that almost 20 percent of surveyed Albanian firms have either started or increased online business activity during the ongoing COVID-19 pandemic. In a World Bank

survey of consumers, close to 55 percent of Albanian survey respondents report having increased their use of online shopping since the start of the pandemic.

However, Albania starts from a base of limited e-commerce penetration. In the latest globally comparable World Bank Findex survey of 2017, only 7 percent of Albanians reported purchasing products online, as opposed to an average of 14 percent in the rest of the Western Balkans region and 70 percent in the US market.¹ An Albanian entrepreneurship ecosystem is gradually emerging that re-sells (often imported) goods online on the domestic market. Yet, few Albanian businesses are selling their own products online.

REFORMS ARE NEEDED TO FULLY LEVERAGE THE DIGITAL TRADE OPPORTUNITY

This report reviews Albania’s e-commerce enabling environment and identifies 9 priority recommendations to help Albania better leverage the opportunities associated with digital trade. E-commerce thrives at the intersection of a complex multisectoral enabling environment, including (i) logistics and customs, (ii) digital connectivity, (iii) online payments, (iv) private sector capabilities and skills as well as (v) the e-commerce regulatory framework. The diagnostic reviews market constraints along each of these dimensions and proposes policy recommendations. Emphasis is placed on evidence-based assessments of current sector challenges - combining quantitative data analysis with qualitative interviews with stakeholders on the ground in Albania – as well as identification of policy recommendations based on international best-practice case studies. This executive summary highlights a selection of the key recommendations identified by the main report.



¹ The Western Balkans region is defined in this report as: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. The source of this data is the 2017 World Bank Global Findex Survey.

In the first instance, action is needed to support Albania's aspiring e-entrepreneurs. Albania's online entrepreneurs already show signs of dynamism. Government can play key role in enabling these businesses and allowing them to develop to their full potential. Key recommended actions that emerge from this diagnostic include:

1. **Strengthening trust in Albania's e-commerce companies:** This requires (i) introduction of an e-commerce industry code of conduct and a recognized trustmark that adhering businesses can display in their webshops, (ii) an outreach and enforcement campaign to formalize online sellers and ensure that web shops comply with e-commerce regulations and (iii) implementing a consumer protection framework fit for the digital age, including through an online dispute resolution mechanism and an information campaign dedicated to online shopping. The Albania Post (iv) could introduce a simplified e-commerce parcel returns service that web shops can offer to their customers in case products do not meet expectations.
2. **Creating a business environment fit for the digital economy:** in particular, (i) tax legislation and implementation procedures need to be amended to clarify the treatment of online sellers and online marketplaces, both in domestic and international transactions. The (ii) regulatory environment needs to become more conducive to innovation in online payments, including through full implementation of the new payment services law and the use of regulatory sandboxes to explore new business models. Finalizing (iii) the implementation of a domestic instant payment processing infrastructure could bring down the costs that businesses face when processing online payment transactions.
3. **Bolstering targeted support programs for e-entrepreneurs:** This includes establishing (i) dedicated financing and training programs for aspiring e-businesses, including strengthening incubator and accelerator programs for startups. (ii) Regular outreach events, such as business competitions highlighting e-commerce success stories, can inspire more Albanians to start their own venture. All such targeted interventions need to be combined with rigorous periodic impact evaluations to ensure value-for-money.

Second, e-commerce needs to be brought to those segments of the population that are currently underserved. Many Albanians are still poorly connected to conventional markets, either because they live in remote villages, because they are discriminated against or because they face other mobility challenges, such as old age or disability. For these Albanians, e-commerce can open up new opportunities. Yet, it is also exactly these Albanians that often lack access to the enabling infrastructure needed to participate in online markets. Key recommended actions that emerge from this diagnostic include:

4. **Broadening access to high-speed internet:** In particular, Albania's electricity transmission company (OST) has already connected large parts of Albania through fiberoptic cable. By sharing this infrastructure with internet service providers (ISPs), Albania can significantly expand access to broadband digital services, particularly outside of the urban centers, without requiring significant new investments.
5. **Expanding access to online payments:** This includes (i) finalizing the roll-out of a "basic payments account" framework for Albania, offering features such as broad right of access for all Albanian citizens, transparent statement of fees and a debit card. The (ii) Albania Post should roll out its own postal card and expand its e-wallet service.
6. **Connecting all Albanians with online business opportunities:** many Albanians still need to gain experience as online buyers and sellers, leveraging the opportunities available on online markets. This requires a cultural transition. But it also requires gradually building knowhow. For instance, sellers need to learn how to use online marketing tools, develop basic processes for sending goods to buyers and identify how buyers will pay them.

Established online marketplaces can facilitate this process, offering a package of services that enables a smooth and simple transaction experience for buyers and sellers. Training programs, such as the Kosovo Women in Online Work (WOW) project, could be brought to Albania, teaching disadvantaged groups how to access online marketplaces and how to sell their products online.

Third, the close interaction between greater regional integration and e-commerce needs to be fully exploited. For many Albanian customers, most of the immediate gains from e-commerce stem from access to the wide variety of products available on international e-commerce platforms. Similarly, Albanian e-commerce companies need access to international markets in order to develop meaningful economies of scale. The gradual emergence of a comprehensive regulatory framework for the digital economy in the European Union offers a natural anchor for reform efforts in the broader region, including for Albania. As such, unlocking e-commerce is closely connected with greater regional integration. Key recommended actions that emerge from this diagnostic include:

7. **Simplifying cross-border tax and customs procedures, in particular for small consignments:** the costs - in terms of money and time - of cross-border logistics need to be brought down. In the first instance, this implies agreement on simplified customs procedures for trade in goods with key trading partners (EU, CEFTA), including (i) establishment of a VAT online one-stop shop for importers and aligning the de-minimis level below which parcels are exempted from import duties to the EU level, (ii) reviewing the need for scanning fee charges for small parcels and (iii) full implementation of electronic, risk-based, small-parcel-friendly, transparent and predictable customs procedures. Down the road, this implies the need to move forward on (iv) customs union with key trading partners.
8. **Harmonizing the regional regulatory environment for e-commerce:** harmonization of regulations enables businesses to operate across multiple jurisdictions at lower cost. Jurisdictions need to meet international standards, ensuring that Albanian e-businesses are globally recognized as reliable partners. Key outstanding measures for Albania in this domain include (i) developing a harmonized regime for mutual recognition of digital signatures, including in judicial court proceedings, (ii) joining an international dispute resolution platform, (iii) upgrading privacy regulations to meet EU standards and (iv) clarifying intermediary liability, including with respect to intellectual property rights. In the first instance, a CEFTA level solution could be adopted that uses the EU framework as an anchor.
9. **Encouraging foreign direct investment that can catalyze growth of Albania's e-commerce ecosystem:** Pro-active engagement with international e-commerce companies is needed to encourage foreign direct investment, including establishing enabling services such as logistic fulfillment centers, online payment services and other e-commerce facilitation services in Albania. Besides directly creating jobs for Albanians, these investments can play a key role in jump-starting growth of the domestic e-commerce ecosystem. Harmonization of regulations with international standards as well as simplified cross-border regional trading procedures can help to make Albania a more attractive destination for such investments.

REFORMS NEED TO BE ANCHORED IN STRONG INSTITUTIONAL FOUNDATIONS

Albania needs to establish institutions that can ensure that the momentum on e-commerce reform is maintained and that reform announcements also translate into reform outcomes. A key challenge for e-commerce reform is the requirement for concerted action across multiple government line ministries, closely coordinated with the

private sector, international development partners as well as regional forums. Reform efforts are often technical and take time to bear fruit. In certain areas, international best practice still needs to fully mature and currently offers limited guidance. For e-commerce reform efforts to therefore be successful, strong institutional foundations are needed that can preserve the reform momentum despite these challenges.

As important step in this process, Albania has already established an inter-ministerial e-commerce working group to regularly review progress with implementation of e-commerce reforms and address bottlenecks, while monitoring new e-commerce developments and identifying new challenges that need to be tackled. At the regional level, the [Common Regional Action Plan 2021-24](#) anchors e-commerce reform into the broader Western Balkans integration agenda.

The Albanian e-commerce working group now needs to develop and adopt an e-commerce action plan, articulating actions, responsibilities and a reform timeline. This World Bank diagnostic aims to serve as an input for such a government action plan. A strong monitoring and evaluation framework needs to track the results achieved by the action plan – this will require strengthening data collection and tracking the performance of Albania’s e-commerce sector more closely going forward.

While several existing Albanian business associations advocate on behalf of e-commerce businesses, the private sector needs to become more organized. Besides advocating for a better business environment, an organized private sector should encourage professional networking and knowledge sharing events – playing an important role in encouraging the development of a strong Albanian e-commerce ecosystem and defending the interests of the industry.

EFFECTIVE MANAGEMENT OF RISKS RELATED TO ONLINE MARKETS IS KEY

A successful transition towards online markets requires that the risks associated with e-commerce are effectively managed. To the extent that e-commerce displaces some of the established local brick-and-mortar businesses, local communities need to be supported to adapt to these changes. Government agencies, such as the tax administration and customs, will have to upgrade their procedures to manage e-businesses efficiently, fighting informality in online markets as well as ensuring that international e-commerce players pay their fair share of taxes in Albania. Albania’s competition framework will need to find a practical way to protect customers from e-commerce giants that can dominate online markets and limit competition. While e-commerce companies are continually innovating to reduce their packaging and logistics footprint, the net impact of the rise of the digital economy on the environment needs to be closely monitored.

CONCERTED PRIVATE AND PUBLIC SECTOR ACTION IS CRUCIAL

Implementation of the 9 priority recommendations proposed by this diagnostic can help to create a stronger enabling environment for e-commerce in Albania – but, ultimately, these measures will only come to fruition if the private sector takes charge. The capabilities of companies offering enabling services for e-commerce – including domestic online marketplace and warehousing infrastructure, third-party logistics (3PL) companies, internet service

providers, payment service providers – need to grow. E-commerce players need to gain the trust of consumers by delivering a high-quality service on every transaction. Albanian e-sellers need to develop product offerings that can compete on international markets and strengthen their presence on international marketplace platforms. Storing inventory in local fulfilment centers close to the eventual customers – this is key to ensuring quick and reliable delivery upon an online sale. Only if both the private sector and the government do their part can Albania's e-commerce sector achieve its full potential.

2. INTRODUCTION

E-commerce – defined in this report as the sale of goods and services online - is creating new pathways for economic development. Between 2014 and 2019, global retail e-commerce sales nearly tripled - reaching US\$ 3.5 trillion by 2019. The COVID-19 crisis has further accelerated growth of the sector. In the second quarter of 2020, e-commerce sales in the US, by some estimates, increased to above 16 percent of all retail sales. Online marketplaces such as Amazon and Alibaba have become among the most valuable companies in the world. Taking into account online business-to-business (B2B) transactions – a market now estimated at US\$ 12.2 trillion – e-commerce is rapidly revolutionizing the way markets work.²

For sellers of goods and services, e-commerce represents a unique growth opportunity. Through an online sales channel, businesses can reach customers that may not be physically close – whether on the domestic market or abroad. By offering 24-hour online shopping and door-to-door delivery of products, companies can offer customers a new level of convenience. By potentially reaching more affluent customers with greater willingness to pay, online businesses can grow their margins. Online sourcing of supplies and equipment can help businesses identify new technology solutions and lower cost options.

New jobs can be created through the emergence of a rich eco-system of firms that facilitate online sales. Payment service providers enable sellers to process online transactions. Third party logistics (3PL) services facilitate delivery of purchases to the customer. Consultancies, IT companies and lawyers help sellers to navigate the process of developing an online business, from designing an online sales presence, to engineering back office processes and navigating the online regulatory environment. E-commerce platforms can offer standardized solutions to connect sellers and buyers online, starting with simple online matchmaking all the way to offering packaged payment, warehousing and delivery services.

Customers stand to gain through access to greater choice and convenience. Customers can make purchases at any time and from the comfort of their own home. At their fingertips, they have access to a much wider variety of product choices than would be available at local stores – selecting among both domestic and international online shops. Online product comparisons and product reviews can help customers make better purchasing decisions. Websites can identify visitors and offer a more personalized shopping experience. Greater competition through online shops can encourage low prices and customer service.

Box: What is e-commerce?

Given the rapidly evolving nature of the digital economy, the definition of what constitutes e-commerce can be elusive. The conventional picture that may first come to mind for e-commerce is that of a business selling goods online through an e-commerce platform to a household (ie. Amazon). However, the definition of online trade can be drawn much more broadly. This box highlights a range of activities that could all also be considered as e-commerce. Depending on how broad a definition of e-commerce is used, the term sometimes includes the following cases:

- Online sellers may be an individual rather than a business (ie many ebay sales)
- Online customers may be a business rather than an individual (ie amazon’s business platform)

² Data on e-commerce trends is available from statista.com. This includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment; excludes travel and event tickets.

- Online sellers may sell directly to customers, without intermediary e-commerce platform (ie apple.com)
- Online transactions may refer to the purchase of a service rather than a good (ie freelance online translation services)
- Instead of a payment per transaction, e-businesses may generate revenue through subscriptions (ie the movie-streaming service provided by netflix), advertisement (ie the search engine service provided by google) or other business models

This diagnostic uses a broad definition of e-commerce. Defining e-commerce as the sale of goods and services facilitated through the internet, the report encompasses all of the above types of transactions. In general, more emphasis will be put on conventional e-commerce with a discrete transaction and a payment for a good or a service. However, a range of recommendations developed in this report will also apply to other business models.

During the ongoing COVID-19 pandemic, e-commerce has also emerged as an important pillar in the fight against the virus. First, e-commerce reduces the risk of new infections by limiting the need for in-person transactions. Second, it preserves jobs despite social distancing requirements, allowing businesses to sell to their customers without meeting physically. Third, e-commerce increases the acceptance of prolonged physical distancing measures among the population. The continued availability of online shopping and online services, including video chats, movie streaming, and online classes, likely made the Spring 2020 lockdown measures more bearable for Albanians.

NONETHELESS, THE GROWTH OF THE ONLINE ECONOMY ALSO COMES WITH RISKS

Nonetheless, the growth of e-commerce also comes with risks for market participants. For established brick-and-mortar businesses, competition from e-commerce can eat into market shares and profit margins. To the extent that local shops – often pillars of the community - are driven out of business, the resulting economic disruption can cause considerable anguish. At the same time, the difficulty of regulating online businesses can increase the risk that customers become the victim of fraud. To the extent that e-commerce giants come to dominate markets and limit competition, customers can be forced into disadvantageous agreements – such as signing up to onerous terms of use.

Digital markets create new challenges for public revenue mobilization. Online transactions obviate the need for a physical store front, potentially making it more difficult for governments to enforce tax compliance. Tax systems need to be upgraded to fully reflect the complexity of modern global online businesses. Customs authorities, established to focus on large cross-border container and truck shipments, can struggle to enforce taxes and duties in a world in which small parcels move across borders in large volumes. To ensure that growth of the digital economy does not also lead to growth of the grey economy and tax avoidance, public revenue mobilization needs to modernize and confront the new challenges posed by the rise of e-commerce.

The environmental footprint of e-commerce needs to be monitored. On the one hand, e-commerce eliminates the need for customers to drive to physical stores and purchase products. More efficient inventory management and reduced need for showrooms can reduce the footprint of the retail sector. Digitalization of products, such as the purchase of online books instead of hardcopies, can de-materialize industries. On the other hand, the growth of small parcel delivery – a natural by-product of e-commerce in goods – increases use of packaging. To the extent that

e-commerce requires speedy deliveries of small consignments over large distances, it can lead to more extensive use of carbon-intensive air travel. While e-commerce companies are continually innovating to reduce their packaging and logistics footprint, the net impact of the rise of the digital economy on the environment needs to be closely monitored.

TO LEVERAGE E-COMMERCE, ALBANIA CAN DRAW ON INTERNATIONAL BEST PRACTICE

To leverage the opportunities from the rise of e-commerce, while managing risks, countries and international institutions around the world are developing e-commerce action plans. In 2015, the European Commission unveiled its [Single Digital Markets Strategy](#), setting out a roadmap for developing the European Unions’ digital economy, including e-commerce. In the political guidelines for the European Commission 2019-2024, the [digital economy](#) is one of the six key priorities that are singled out. In the emerging market context, widely cited government strategies and action plans include Egypt’s [“National E-Commerce Strategy”](#) (2016), the “Digital India” (2016) report and, Vietnam’s “E-Commerce Development Masterplan” (2016). In 2016, UNCTAD launched the [“etrade for all”](#) initiative to help countries develop their e-commerce markets. In 2019, the OECD launched its report [“Unpacking e-commerce”](#).

The World Bank Group is moving forward on an active and growing digital economy development agenda, with significant work focused on e-commerce. A range of global and regional reports have been published, assessing the opportunities, risks and reform needs linked to the rise of the digital economy. Seminal reports are the [“Digital Dividends” World Development Report](#) (2016) and the World Bank Report on [Reaping Digital Dividends: Leveraging the Internet for Development in Europe and Central Asia](#) (2017). A series of policy notes on [E-trade for Development](#) (2019) has developed a framework for e-commerce diagnostics. A cooperation with UNCTAD has assembled [a dashboard of e-trade indicators](#) by country, published on the World Integrated Trade Solutions (WITS) portal. In partnership with Google, the International Finance Corporation (IFC) released its [e-Economy Africa 2020 report](#). In the [Europe 4.0](#) report (2020), the World Bank analyzes how Europe can navigate the latest digital economy developments. Key regional and country diagnostics recently completed by the World Bank, assessing digital economy and e-commerce opportunities, include [China](#) (2019), [Lao](#) (2019), [Malaysia](#) (2018), [Philippines](#) (2020) and [South Asia](#) (2019).

E-COMMERCE CAN BE A PATHWAY TO OVERCOMING KEY OBSTACLES TO TRADE

For Albania, online markets can play a key role in overcoming traditional barriers to trade and economic development. Online markets can help (i) connect Albanians with markets, (ii) overcome information frictions between buyers and sellers as well as (iii) tackle limited access to finance. As such, the digital economy has the potential to play a catalytic role in Albania’s development.

Many Albanian customers and sellers are poorly connected to markets – e-commerce can help bridge physical distance. Reflecting its history of international isolation and communism, close to 40 percent of Albania’s population still live in rural communities away from urban markets. As a small economy (population of 2.9 million), Albanians are constrained by a limited domestic national market – physical distance, cumbersome border procedures, as well

as other trade barriers stand in the way of accessing affluent markets abroad (EU population of 512.4 million). In this context, e-commerce can play an important role in connecting Albanians with markets. By enabling customers and sellers to trade remotely, online shops can connect rural communities with urban markets, as well as Albania with the rest of the world. Many e-commerce platforms now offer services that promise to take the hassle out of trading across borders, including by offering off-the-shelf payment and logistics solutions for international trade, while providing support for completing administrative processes.

Few Albanian firms have established strong brands and international client relationships – online shopping can help put Albanian companies on the map and build trust with new buyers. Many Albanian companies are small and struggling to gain the trust of consumers.³ Limited international brand recognition and a lack of established relationships with buyers abroad is one of the reasons why only 16.4 percent of Albanian firms have developed significant exporting activities – behind other Western Balkan peers, including Bosnia and Herzegovina (36.4 percent) and Serbia (38.6 percent).⁴ In this context, e-commerce can play a key role in bridging information frictions. Online search and advertisement can enable customers to find Albanian products. A history of positive online reviews by other customers may convince shoppers to purchase a product that they may not have tried before. Listings through an established online marketplace platform can further establish trust. Buyers may be more comfortable sharing payment information with an established platform, rather than directly with an unknown online seller. In case of disputes, buyers may take comfort that a trusted platform is involved in the transaction and can intermediate.

Many Albanian businesses are small and face liquidity constraints – an online sales channel can enable entrepreneurs to scale their business at much lower cost than would be possible using only conventional means. Building a conventional business requires significant investments in sales channels. Companies need to establish their own stores or convince other wholesale/retail outlets to carry their products. Advertisement can be expensive. In a country like Albania, these costs can be prohibitive and deter entrepreneurship. Many businesses are small – 57.3 percent of Albanians report as self-employed, significantly above levels in most Western Balkan peers. In part reflecting this, 21.2 percent of firms report that access to finance is a major constraint for their business.⁵ In this context, e-commerce can enable business creation and expansion despite limited financing. Many online businesses can be started from home. Online marketing offers a low-cost way to gain the interest of customers. Listing on online marketplaces abroad can be a simple way of testing demand for a product in other countries – potentially establishing the foundations for more comprehensive exporting relations down the line, once a proof-of-concept has been established.

Box: What is the evidence base on the impact of e-commerce on the economy?

While rigorous evidence-based research on e-commerce is still limited, a body of literature is gradually emerging. Most research is centered on the US economy and finds sizeable consumer gains from e-commerce, including through access to a wider variety of products. A range of papers also find benefits from greater competition, lowering prices and reallocating market share towards more productive firms. Key papers include:

³ This issue is exacerbated by the lack of firms with internationally recognized quality certification. According to the [2019 World Bank enterprise survey](#), only 13.2 percent of Albanian firms have an internationally recognized quality certification, as opposed to 34.5 percent of Serbian companies.

⁴ [2019 World Bank enterprise survey](#)

⁵ [2019 World Bank enterprise survey](#)

- [Brown and Golsbee \(2002\)](#) conclude that internet shopping reduced the price of life insurance by 8-15 percent on the US market
- [Freund and Weinhold \(2002\)](#) and [Freund and Weinhold \(2004\)](#) find that greater access to the internet increases international trade, including in services
- [Brynjolfsson et al \(2003\)](#) estimate significant consumer gains from access to a greater variety of products through e-commerce on the US market, exceeding by 7 to 10 times the benefit from lower prices through greater competition.
- [Goldmanis et al \(2009\)](#) document that the rise of e-commerce is accompanied by significant shifts in market structure in key US industries, with a shift of market share towards higher productivity firms.
- [Orlof \(2011\)](#) finds that the internet has reduced price dispersion in US airline tickets.
- [Lendle et al \(2015\)](#) compare the impact of geographic distance on conventional trade flows and trade facilitated through ebay. They find that the effect of distance to be on average 65% smaller on eBay, reflecting reduced information frictions.
- [Dolfen et al \(2019\)](#) estimate significant consumer gains from online shopping, with gains from access to a greater variety of products exceeding gains from greater convenience from avoiding travel to a physical store.

A particularly relevant case study for the emerging market context is recent evidence on the impact of e-commerce in Chinese rural communities. On the one hand, the rapid emergence of Chinese villages with significant e-commerce activity (the so-called Taobao villages) is often seen as success story for online trading, connecting rural communities with urban markets, see [World Bank \(2018\)](#). On the other hand, [Couture et al \(2019\)](#) use a randomized controlled trial (RCT) to study the impact of e-commerce facilitation measures - subsidized logistics and establishment of local e-commerce support service centers – on rural Chinese communities. The results of the trial paint a more nuanced picture. The measures do not significantly increase the incomes of local businesses and workers. However, gains are achieved by lowering the cost of living for local consumers, in particular for younger, richer and more remote households. Local stores use access to e-commerce (or react to it) by expanding the variety of products they sell.

Another relevant body of research body considers the role of digital platforms in growing the tourism sector. [Hoonsawat \(2015\)](#) and [Lopez-Cordova \(2020\)](#) estimate gravity models of trade in tourism services and find that frictions affecting bilateral tourism flows have been attenuated by the advent of digital tools. [Zervas, Proserpio and Byers \(2017\)](#) find that market entry by Airbnb attenuates seasonal price fluctuations in the conventional hotel market. [Baker and Twining-Ward \(2018\)](#) discuss the consequences of the rise of peer-to-peer accommodation services for the tourism industry. [Salem and Twining-Ward \(2018\)](#) discuss how user-generated online content creates new opportunities and challenges for the tourism sector.

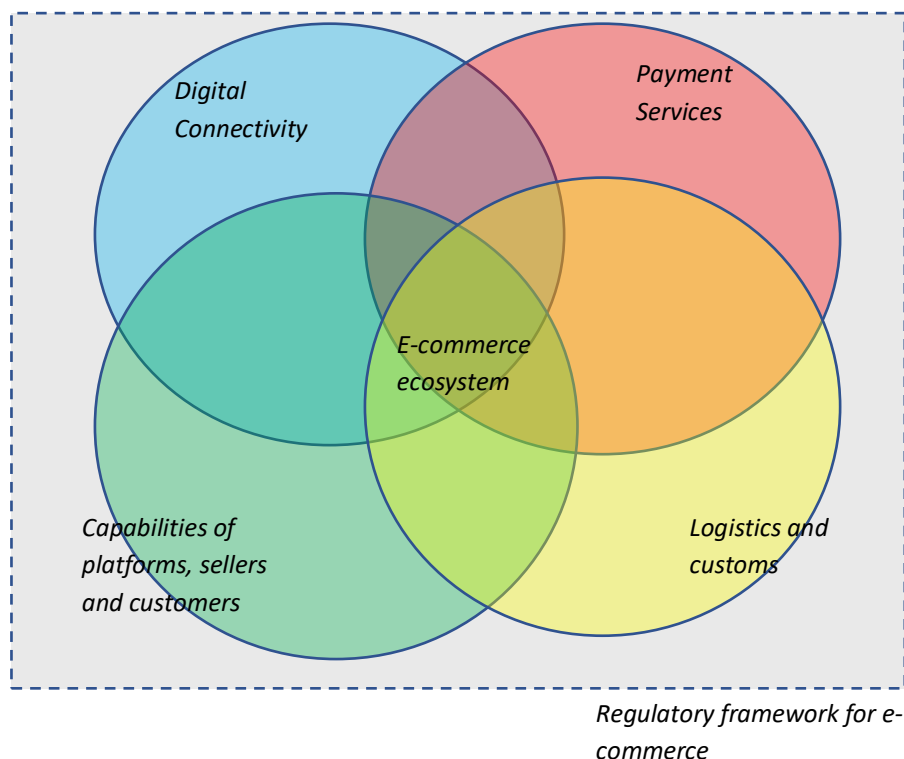
THE STRUCTURE OF THIS DIAGNOSTIC REPORT

This World Bank diagnostic provides an assessment of Albania’s e-commerce sector and identifies policy recommendations to help Albania leverage the opportunities of online markets, while managing risks. This report reviews the state of Albania’s e-commerce sector, assessing key constraints faced by buyers, sellers and enabling service providers – regarding both domestic and cross-border trade. The report then identifies policy recommendations.

To reflect the complex multi-sectoral enabling environment required for e-commerce to thrive, this report reviews constraints and reform opportunities in a wide range of sectors. E-commerce can only thrive at the intersection of

a complex multisectoral enabling environment. A strong foundational infrastructure is needed, including reliable high-speed broadband internet access, strong payment systems and an efficient logistics backbone for trade in goods. A modern legal environment for e-commerce transaction includes a strong trust architecture detailing the rights and responsibilities of e-buyers, e-sellers and e-platforms (consumer protection, data and privacy, intermediary liability and other), a transparent tax treatment as well as an effective market competition framework. Finally, an ecosystem of buyers, sellers and platforms needs to develop – requiring the gradual strengthening of e-commerce skills, formalization of businesses and deepening of English language skills.

Box: The Albania e-commerce Diagnostic Framework – digital trade can only thrive at the intersection of a complex multi-sectoral enabling environment



This report draws on a range of sources. Existing e-commerce diagnostics from other countries, developed by national governments, the World Bank and other international institutions, are used as reference. Extensive use of data benchmarking, through existing databases as well as new data collection, allows for an assessment of Albania’s e-commerce sector relative to Western Balkan peers (WB-6: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia), other regional peers (Croatia, Greece, Turkey) and aspirational peers (Austria, Germany, Italy, US). This has been supplemented with face-to-face interviews with Albanian government officials and e-commerce businesses, as well as an online survey of Albanian consumers on their online purchasing experiences.

This diagnostic has several objectives. In the first instance, this report strengthens the evidence base for reform of Albania’s e-commerce enabling environment. As such, it can represent a blueprint that Albania can use as basis for the development of its own e-commerce action plan. In the second instance, this report aims to sensitize the

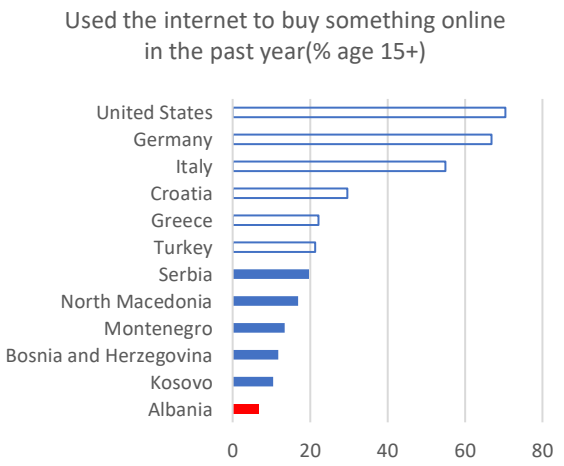
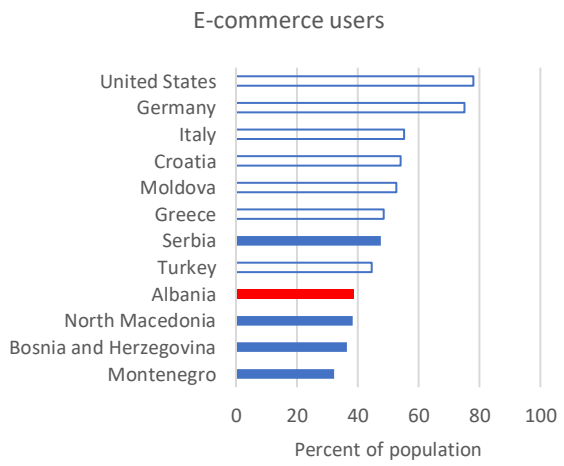
Albanian public to the rise of e-commerce, stimulating a discussion on the opportunities and risks of this ongoing change in the way markets work. In the third instance, by making the case for reform, this diagnostic aims to motivate change on the ground and contribute to the creation of stronger enabling environment – allowing Albania to better take advantage of the opportunities that come with the rise of e-commerce, while managing its risks.

3. THE STATE OF ALBANIA'S E-COMMERCE SECTOR

This chapter provides an overview of the current state of Albania’s e-commerce sector, setting the stage for this diagnostic. To better understand the perceptions of Albanian customers and businesses vis-à-vis e-commerce, the chapter summarizes findings from an online survey of Albanian online shoppers as well as a series of qualitative interviews with e-commerce companies, conducted by the World Bank as part of this diagnostic. This sets the stage for subsequent in-depth sector-by-sector analysis of this diagnostic.

ALBANIA’S ONLINE CONSUMERS

The penetration of e-commerce among Albanian customers significantly lags behind regional peers. According to the 2017 Global Findex Survey, which reflects the latest globally comparable database, less than 7 percent of the Albanians report having used the internet to buy something online over the past year.⁶ This is the lowest rate among the WB-6. It is also far behind other peer countries in the region with very similar income levels, such as Moldova. Estimated e-commerce user numbers from statista.com paint a somewhat less drastic picture – but continue to highlight Albania’s potential for further growth of its e-commerce sector.

Few Albanians make purchases online...	... though exact numbers differ according to source and period of measurement																																																				
<p>Used the internet to buy something online in the past year(% age 15+)</p>  <table border="1"> <caption>Used the internet to buy something online in the past year(% age 15+)</caption> <thead> <tr> <th>Country</th> <th>Percentage</th> </tr> </thead> <tbody> <tr><td>United States</td><td>70</td></tr> <tr><td>Germany</td><td>65</td></tr> <tr><td>Italy</td><td>55</td></tr> <tr><td>Croatia</td><td>30</td></tr> <tr><td>Greece</td><td>25</td></tr> <tr><td>Turkey</td><td>20</td></tr> <tr><td>Serbia</td><td>18</td></tr> <tr><td>North Macedonia</td><td>15</td></tr> <tr><td>Montenegro</td><td>12</td></tr> <tr><td>Bosnia and Herzegovina</td><td>10</td></tr> <tr><td>Kosovo</td><td>8</td></tr> <tr><td>Albania</td><td>5</td></tr> </tbody> </table>	Country	Percentage	United States	70	Germany	65	Italy	55	Croatia	30	Greece	25	Turkey	20	Serbia	18	North Macedonia	15	Montenegro	12	Bosnia and Herzegovina	10	Kosovo	8	Albania	5	<p>E-commerce users</p>  <table border="1"> <caption>E-commerce users</caption> <thead> <tr> <th>Country</th> <th>Percent of population</th> </tr> </thead> <tbody> <tr><td>United States</td><td>75</td></tr> <tr><td>Germany</td><td>70</td></tr> <tr><td>Italy</td><td>55</td></tr> <tr><td>Croatia</td><td>50</td></tr> <tr><td>Moldova</td><td>50</td></tr> <tr><td>Greece</td><td>45</td></tr> <tr><td>Serbia</td><td>45</td></tr> <tr><td>Turkey</td><td>40</td></tr> <tr><td>Albania</td><td>35</td></tr> <tr><td>North Macedonia</td><td>35</td></tr> <tr><td>Bosnia and Herzegovina</td><td>35</td></tr> <tr><td>Montenegro</td><td>30</td></tr> </tbody> </table>	Country	Percent of population	United States	75	Germany	70	Italy	55	Croatia	50	Moldova	50	Greece	45	Serbia	45	Turkey	40	Albania	35	North Macedonia	35	Bosnia and Herzegovina	35	Montenegro	30
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Source: 2017 World Bank Findex Survey	Source: 2020 statista e-commerce																																																				

Both (i) limited existing penetration of e-commerce and (ii) fast growth rates point to the significant potential of online markets in Albania and in the broader Western Balkans region. Statista.com estimates e-commerce revenue growth to range between 19 and 49 percent among the benchmark countries used for this diagnostic. For Albania, the growth forecast stands at 34 percent for 2020 (as of November 2020).

⁶ According to the Albanian Statistical Institute (INSTAT) Survey on Information and Communication Technologies (ICT) usage in Households and by Individuals 2018-19, online purchases were conducted by 10.1 percent of the population aged 16-74 over the previous 12 months.

The scope for greater e-commerce market penetration is large...	... reflecting in fast growth rates																																																				
<p style="text-align: center;">E-commerce revenue</p> <table border="1"> <caption>E-commerce revenue (Percent of GDP)</caption> <thead> <tr> <th>Country</th> <th>Percent of GDP</th> </tr> </thead> <tbody> <tr><td>Germany</td><td>2.3</td></tr> <tr><td>United States</td><td>2.0</td></tr> <tr><td>Turkey</td><td>1.5</td></tr> <tr><td>Greece</td><td>1.3</td></tr> <tr><td>Croatia</td><td>1.1</td></tr> <tr><td>Italy</td><td>1.0</td></tr> <tr><td>Bosnia and Herzegovina</td><td>0.9</td></tr> <tr><td>North Macedonia</td><td>0.8</td></tr> <tr><td>Moldova</td><td>0.7</td></tr> <tr><td>Montenegro</td><td>0.6</td></tr> <tr><td>Serbia</td><td>0.5</td></tr> <tr><td>Albania</td><td>0.4</td></tr> </tbody> </table>	Country	Percent of GDP	Germany	2.3	United States	2.0	Turkey	1.5	Greece	1.3	Croatia	1.1	Italy	1.0	Bosnia and Herzegovina	0.9	North Macedonia	0.8	Moldova	0.7	Montenegro	0.6	Serbia	0.5	Albania	0.4	<p style="text-align: center;">Forecasted revenue growth</p> <table border="1"> <caption>Forecasted revenue growth (Percent increase in 2020)</caption> <thead> <tr> <th>Country</th> <th>Percent increase in 2020</th> </tr> </thead> <tbody> <tr><td>Moldova</td><td>50</td></tr> <tr><td>Turkey</td><td>45</td></tr> <tr><td>North Macedonia</td><td>38</td></tr> <tr><td>Montenegro</td><td>35</td></tr> <tr><td>Albania</td><td>32</td></tr> <tr><td>Bosnia and Herzegovina</td><td>30</td></tr> <tr><td>Croatia</td><td>28</td></tr> <tr><td>Greece</td><td>25</td></tr> <tr><td>Italy</td><td>22</td></tr> <tr><td>Serbia</td><td>20</td></tr> <tr><td>United States</td><td>18</td></tr> <tr><td>Germany</td><td>15</td></tr> </tbody> </table>	Country	Percent increase in 2020	Moldova	50	Turkey	45	North Macedonia	38	Montenegro	35	Albania	32	Bosnia and Herzegovina	30	Croatia	28	Greece	25	Italy	22	Serbia	20	United States	18	Germany	15
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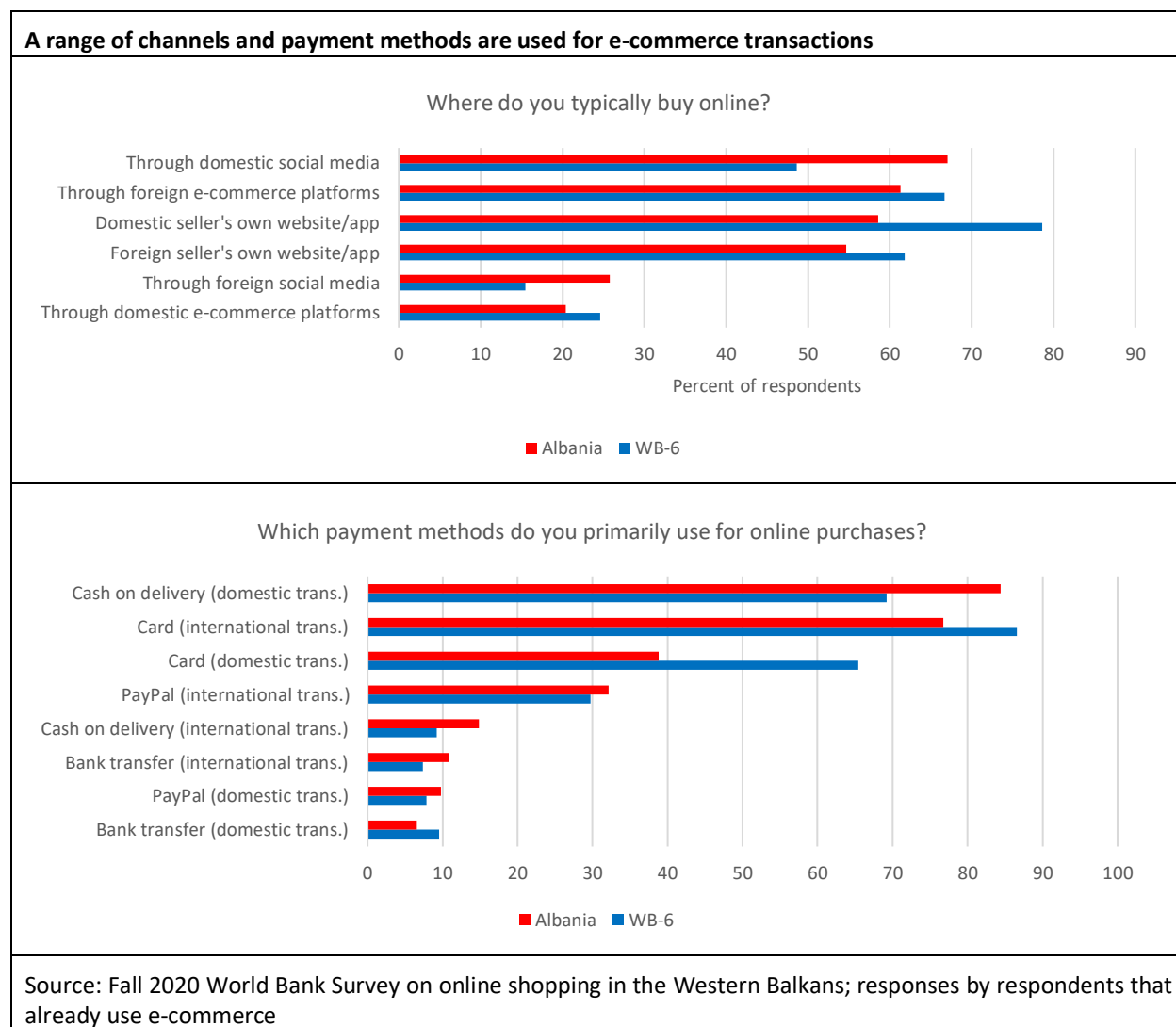
A Fall 2020 online survey on how consumers use e-commerce in the Western Balkans, conducted as part of this diagnostic, offers a useful window into the current state of play. Since the main dissemination channels were the World Bank Group regional social media accounts, the survey respondents inherently tend to represent a particular segment of the population – our typical participant is female (74 percent of Albanian respondents), from a capital city (69 percent) and has already shopped online (79 percent). Nonetheless, the survey offers a useful window into the perceptions of what can reasonably be approximated as the marginal e-commerce consumer in the region.⁷

The survey highlights that the COVID-19 pandemic has further accelerated the use of online shopping. 54 percent of Albanian survey respondents indicate that they have increased their use of online shopping during the crisis (WB-6 average: 62 percent). Out of these, 74 percent believe that they will continue to shop online more frequently once the pandemic is overcome (WB-6 average: 85 percent). Out of those Albanian survey participants that have not yet used e-commerce, 69.3 percent indicate that they expect to try it in the near future (WB-6 average: 68 percent).

Online markets in Albania are characterized by (i) domestic sales through social media and local webshops settled through cash on delivery as well as (ii) e-shopping on international e-commerce platforms settled through card transactions. Out of Albanian survey respondents that already use e-commerce, 67 percent highlight that they use social media to buy from domestic sellers, while 61 percent declare buying from international marketplaces. The predominant means of payment for domestic transactions is cash on delivery (84 percent declare that cash on delivery is one of their primary payment methods for e-commerce transactions), while international transactions are largely settled through card payments (77 percent). While these are trends that are seen across the Western

⁷ The online survey was open from 28 October to 22 November 2020, collecting a total of 1533 responses. The data presented here includes 748 respondents from Albania, 122 respondents from Bosnia and Herzegovina, 258 respondents from Kosovo, 129 respondents from Montenegro, 128 respondents from North Macedonia and 148 respondents from Serbia.

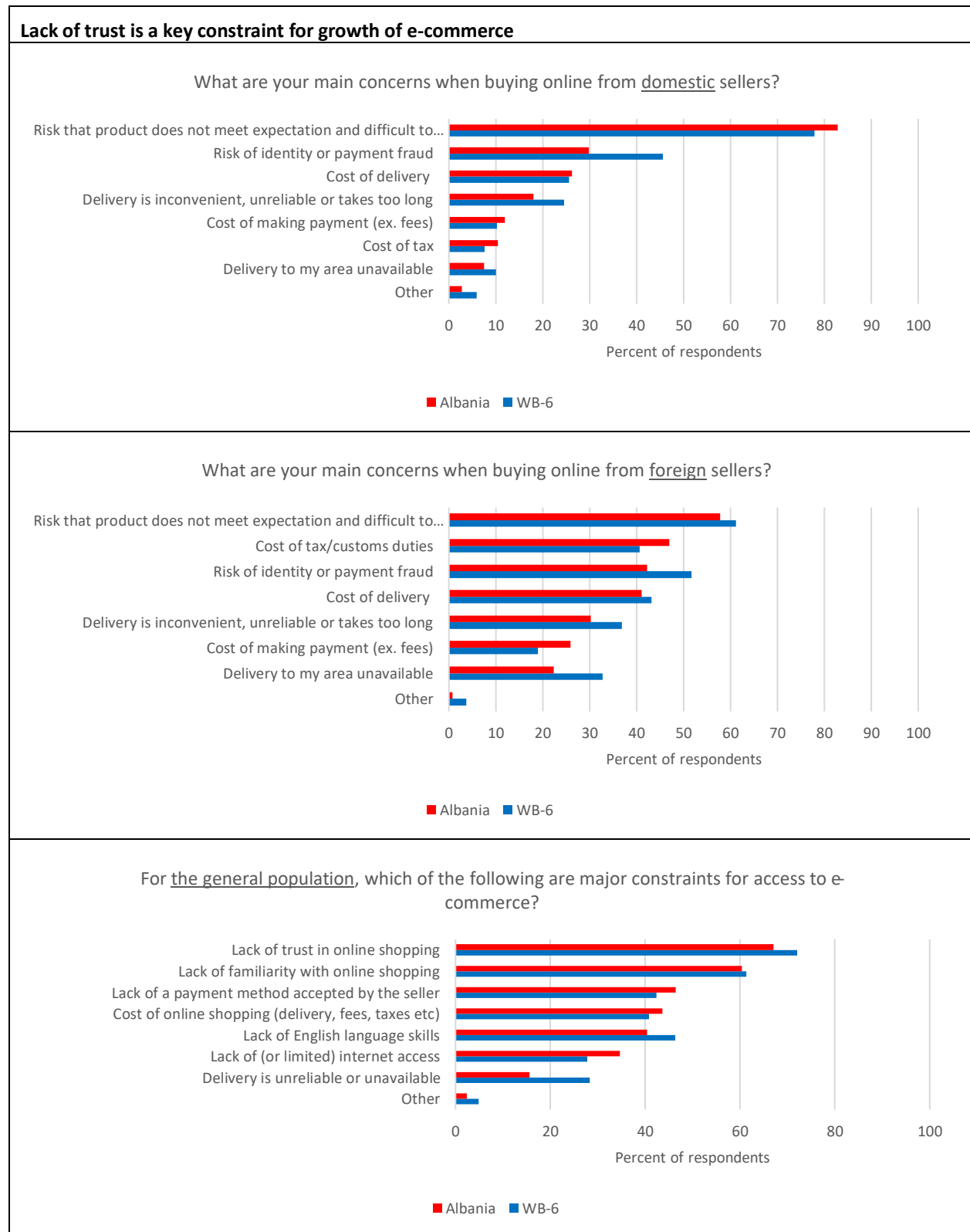
Balkans, results are more pronounced in Albania. Relative to the rest of the Western Balkans, sales from the seller’s own website are relatively less common – likely reflecting a less developed e-commerce sector in Albania.



A key constraint for growth of online markets is a lack of trust in webshops, particularly when it comes to domestic sellers. 83 percent of Albanian survey respondents highlight that the risk of ordering a product that does not meet expectations is a key constraint for online purchases from domestic sellers (WB-6 average: 83 percent). 30 percent see as main concern the risk of identify and payment theft. When it comes to cross-border transactions, these trust concerns remain a major factor. However, in addition, survey respondents highlight high delivery costs and the cost of customs duties.

For the general population, access to accepted payment methods, lack of English language skills and lack of internet access remain other key challenges. While our online social media survey can only reach a selected sample of the population, we try to counteract this by asking respondents for their perceptions as to key e-commerce constraints for the general population in their country. This uncovers that access to online payments (highlighted as

key issue by 46 percent of Albanian survey respondents), lack of English language skills (40 percent) and lack of (or limited) internet access (35 percent) are seen as other key constraints for the general population.

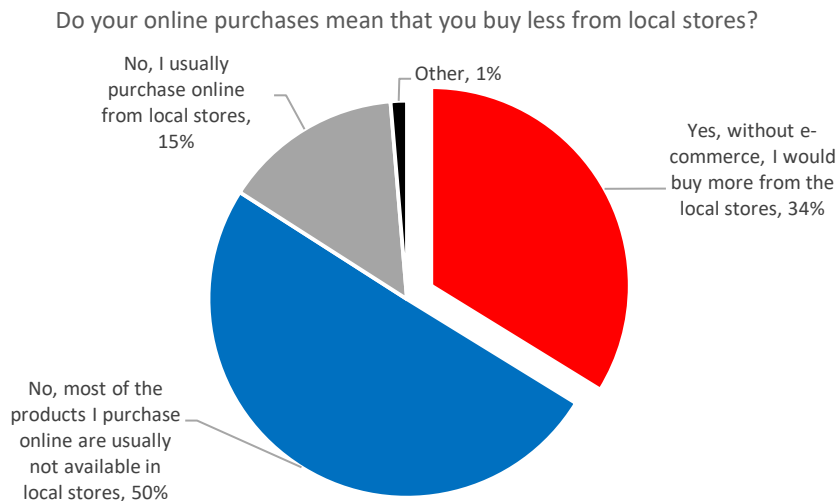


Source: Fall 2020 World Bank Survey on online shopping in the Western Balkans; responses by respondents that already use e-commerce

Consumers view time saving and greater product choice as key benefits of shopping online. Looking beyond the need for social distancing during the ongoing COVID-19 pandemic, 80 percent of Albanian respondents highlight time saving as key benefit of e-commerce (WB-6 average: 80 percent). 57 percent view greater product choice (beyond what is available in local stores) as core value proposition (WB-6 average: 67 percent).

For around half of Albanian survey participants, for the moment, e-commerce is a complement to purchases from brick-and-mortar shops, rather than a substitute. 34 percent of Albanian respondents indicate that their online shopping has displaced some purchases they would have otherwise made from local shops. 50 percent indicate that they mostly use e-commerce to purchase goods that are not available on the local markets. 15 percent report mainly using online shopping to buy from local stores. This suggests that, at its current stage of development, e-commerce still largely complements analogue markets in Albania – rather than replacing them.

Around one third of Albanian respondents to our survey report that e-commerce has displaced some of their purchases from local shops

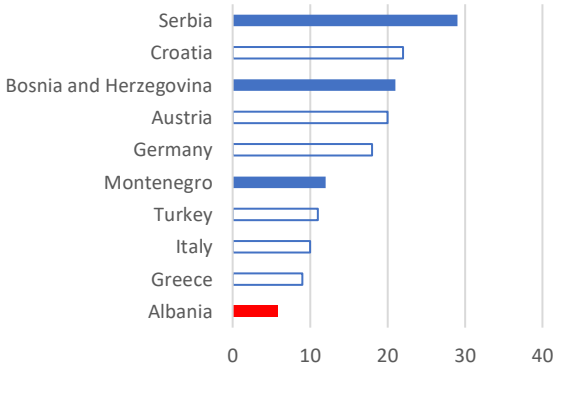
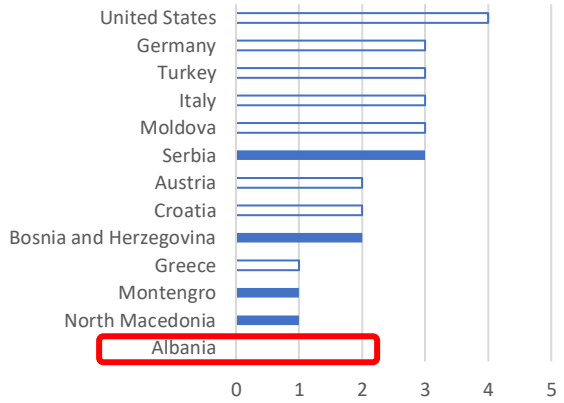


Source: Fall 2020 World Bank Survey on online shopping in the Western Balkans; responses by respondents that already use e-commerce

ALBANIA'S E-COMMERCE BUSINESSES

Few Albanian businesses are selling their own products online. According to the Albanian Statistical Institute (INSTAT) Survey for Information and Communication Technologies in Enterprises (2019), only 5.8 percent of Albanian

enterprises have e-commerce sales.⁸ The vast majority of Albanian firms selling their own physical products online, which were identified in the course of this diagnostic, were small scale businesses, selling niche artisanal products through domestic and international marketplaces.⁹

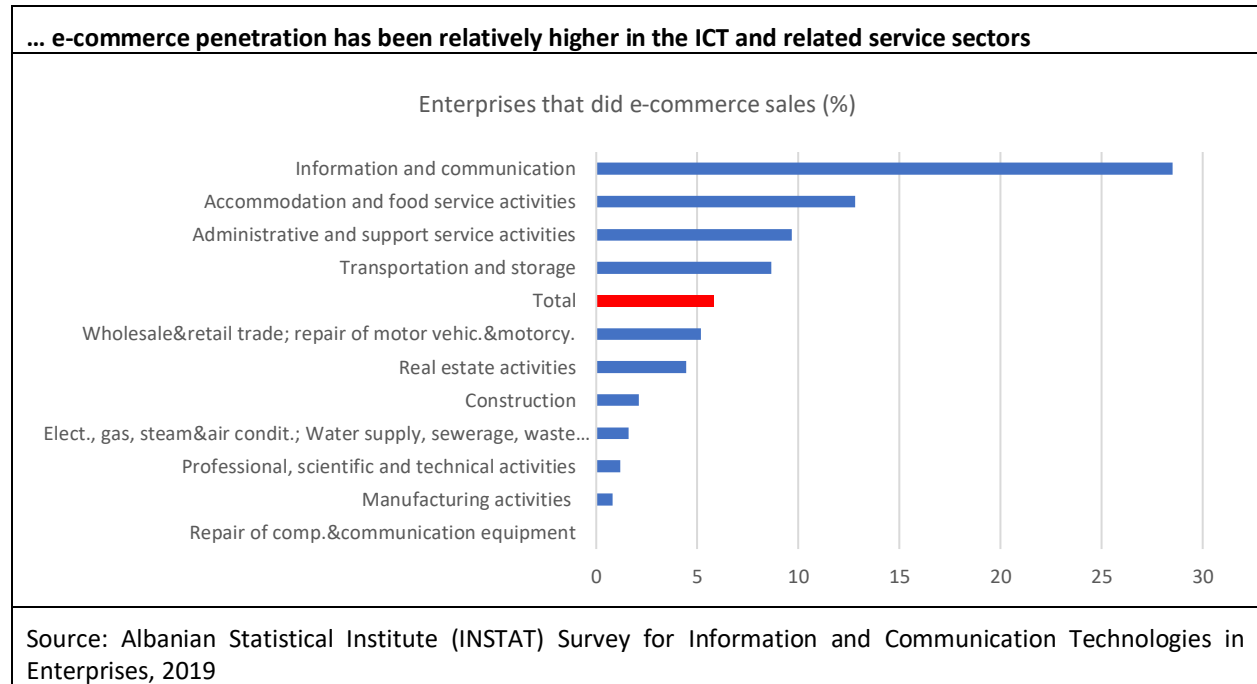
Compared to regional leaders, the scope for Albanian firms to grow e-commerce is large...	...the penetration of online marketplaces in Albania remains comparatively low...																																																		
<p style="text-align: center;">Enterprises selling online (% of firms with 10+ employees, excludes finance)</p>  <table border="1"> <caption>Enterprises selling online (% of firms with 10+ employees, excludes finance)</caption> <thead> <tr> <th>Country</th> <th>Percentage</th> </tr> </thead> <tbody> <tr><td>Serbia</td><td>30</td></tr> <tr><td>Croatia</td><td>22</td></tr> <tr><td>Bosnia and Herzegovina</td><td>21</td></tr> <tr><td>Austria</td><td>20</td></tr> <tr><td>Germany</td><td>18</td></tr> <tr><td>Montenegro</td><td>12</td></tr> <tr><td>Turkey</td><td>11</td></tr> <tr><td>Italy</td><td>10</td></tr> <tr><td>Greece</td><td>9</td></tr> <tr><td>Albania</td><td>5</td></tr> </tbody> </table>	Country	Percentage	Serbia	30	Croatia	22	Bosnia and Herzegovina	21	Austria	20	Germany	18	Montenegro	12	Turkey	11	Italy	10	Greece	9	Albania	5	<p style="text-align: center;">Number of marketplaces among the Top-20 most visited websites in the country</p>  <table border="1"> <caption>Number of marketplaces among the Top-20 most visited websites in the country</caption> <thead> <tr> <th>Country</th> <th>Number of Marketplaces</th> </tr> </thead> <tbody> <tr><td>United States</td><td>4</td></tr> <tr><td>Germany</td><td>3</td></tr> <tr><td>Turkey</td><td>3</td></tr> <tr><td>Italy</td><td>3</td></tr> <tr><td>Moldova</td><td>3</td></tr> <tr><td>Serbia</td><td>3</td></tr> <tr><td>Austria</td><td>2</td></tr> <tr><td>Croatia</td><td>2</td></tr> <tr><td>Bosnia and Herzegovina</td><td>2</td></tr> <tr><td>Greece</td><td>1</td></tr> <tr><td>Montenegro</td><td>1</td></tr> <tr><td>North Macedonia</td><td>1</td></tr> <tr><td>Albania</td><td>2</td></tr> </tbody> </table>	Country	Number of Marketplaces	United States	4	Germany	3	Turkey	3	Italy	3	Moldova	3	Serbia	3	Austria	2	Croatia	2	Bosnia and Herzegovina	2	Greece	1	Montenegro	1	North Macedonia	1	Albania	2
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However, an Albanian entrepreneurship ecosystem is gradually emerging that re-sells imported goods online on the domestic market. Different setups exist, in which the e-commerce company either acts as pure market maker or is itself the re-seller of the product. Relative to the established international e-commerce websites, these Albanian e-commerce players have generally developed tailored business models for the Albanian market. Because goods have already been imported in bulk, they can be delivered to the final customer more quickly and at lower cost (and the final customer is fully shielded from customs procedures). Because Albanian firms cooperate with local logistics companies which accept cash-on-delivery (COD), Albanians can order online without access to electronic payment systems. Websites are generally fully accessible in Albanian, meaning that no language barriers need to be overcome. Despite these advantages, these Albanian online re-sellers are still in the process of establishing their credibility and gaining customers. Their product offering is still limited and further growth is needed to better exploit the economies

⁸ While the Balkan Business Barometer of the Regional Cooperation Council uses an alternative survey to find a higher number, it also concludes that Albanian firms trail Serbia and North Macedonia in the use of online sales channels.

⁹ In part, this is likely to reflect an underlying shallow Albanian production base. Given a small domestic economy, still recovering from half a century of international isolation and repression under a brutal communist regime, there are simply still few domestic companies ready to produce the type of product that can compete on international online markets.

of scale inherent in the digital economy. At time of writing, no domestic or international online marketplace has penetrated in the top 20 websites visited by Albanians.



A thriving Albanian industry is developing around the sale and delivery of online services abroad, particularly in business process outsourcing (BPO). On one hand of the spectrum, [Risi Albania estimates](#) that Albania’s BPO companies employ between 25,000 to 32,000 professionals. These firms are gradually evolving beyond basic call centers towards providing financial, HR and IT services. They range from homegrown companies to international players establishing Albanian subsidiaries. On the other hand of the spectrum, many Albanian self-employed have been quick in adopting online freelance websites such as upwork.com to offer on-demand online services, including website design, financial planning and translation services. On a per-capita basis, the penetration of Albanians on these freelance websites often exceeds that of many advanced economies. Given a skilled multilingual workforce, limited local wages as well as the still significant barriers to emigration, Albania is ideally placed to provide online services at-distance to the European and American market.

Albania’s growing tourism sector is adopting online sales channels. Albania’s tourism potential has long been under-explored. With an extensive Mediterranean coastline, a plentiful endowment of forests, mountains and rivers as well as a rich cultural and historical heritage, Albania has plenty to offer for leisure and adventure travelers. Yet, besides country branding, key bottlenecks include limited tourism infrastructure, such as high-end tourism resorts with close airport access, as well as few standing arrangements with international package tourism companies. To overcome these obstacles, local Albanian service providers have been quick to adopt online platforms to directly reach out to new domestic and international customers that are willing to take the initiative and make their own independent travel arrangements to explore Albania. The growing use of online platforms such as booking.com has played a key role in the expansion of Albania’s tourism market. Between 2014 and 2019, annual arrivals of foreign citizens into Albania grew by 74 percent, reaching 6.4 million arrivals in 2019.

<p>Albania has successfully built an industry selling online services (mostly to businesses) abroad...</p>	<p>... while Albania’s tourism sector has been quick to adopt digital markets to reach new customers</p>																																																						
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Around the e-commerce companies themselves, a growing eco-system of Albanian firms is emerging that provides support services. A range of Albanian and international courier services provide 3PL services for domestic and international delivery of goods, complementing the offering of the Albanian Post. A range of consultancies, law firms and IT companies offer specialized packages to support e-commerce companies set up their business, helping entrepreneurs to navigate the often complex legal, technical and strategic decisions needed to build an online sales channel. Albanian electronic payment providers are emerging, including easypay, which offer new payment options for Albanian e-customers and e-sellers.

In interviews with Albanian e-commerce companies, conducted as part of the preparation for this diagnostic, Albania’s large informal economy stood out as important constraint for the development of Albania’s formal digital economy. In general, the development of Albania’s formal economy is held back by unfair competition from its still significant informal economy, since the latter does not face the costs that come with tax and regulatory compliance. However, in the context of emerging online markets, pressures from the informal economy are heightened. Digital markets make it easier for informal businesses to reach more customers – accentuating competitive pressures. As many customers make form their first impressions of online markets, a negative experience with an informal company offering inferior services can undermine consumer confidence in the e-commerce sector in general.

Albanian firms need to gain the trust of customers – online platforms are often playing a key intermediating role in this process. In general, Albanian firms suffer from the many negative stereotypes that are unfortunately still associated with the Albanian country brand. In the context of e-commerce, these concerns can be heightened. Customers are purchasing goods online sight unseen. When making electronic payments, they are sharing personal information with the vendor. They need to trust in the vendor’s assurance that returned products will be refunded, if they do not meet expectations. In this context, trusted international online market platforms can play a key intermediating role and bridge trust gaps. By handling payment processing and explicitly or implicitly providing

assurances on product quality and return services, the platforms can facilitate transactions between sellers and customers that do not have existing trusted relationships.

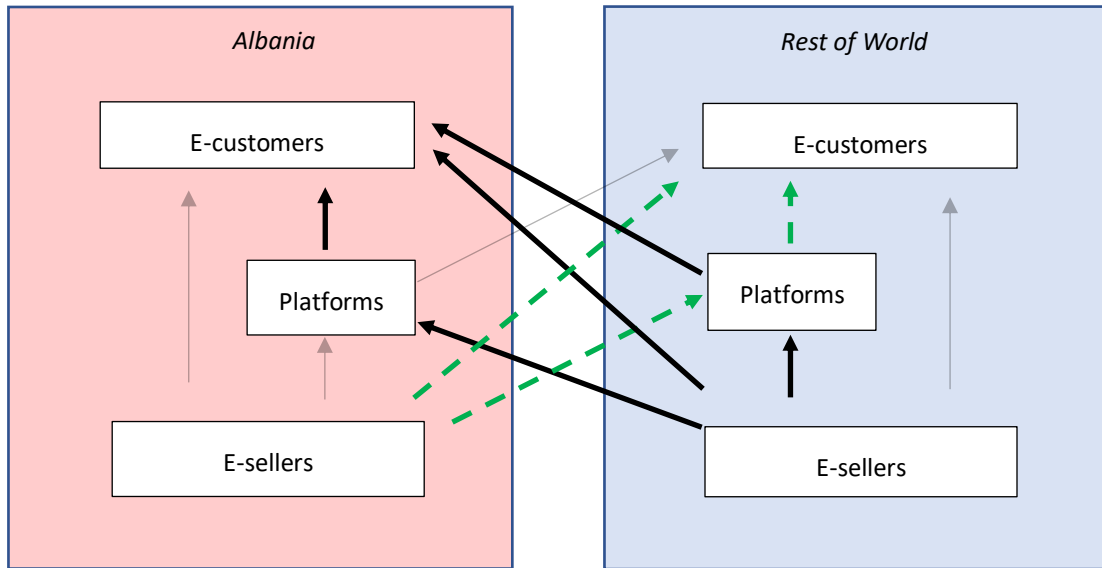
Interviews with Albanian e-commerce companies highlighted a range of constraints specific to the digital economy. These include (i) limited adoption of electronic payments, (ii) limited logistics and difficult border procedures, (iii) a tax system that does not fit e-commerce and (iv) a lack of digital skills among customers and among workers. The prevalence cash and the limited use of electronic payments significantly complicates the business model of e-commerce companies. Expensive and slow logistics, including customs border procedures, limit the ability of businesses to reach their customers. An unclear and disadvantageous tax treatment hold e-commerce companies back. Many Albanian customers are still not comfortable participating in the digital economy. The pool of IT and e-commerce specialists that can help bring businesses online remains limited. The subsequent chapters of this report will review these challenges, as well as possible policy actions to address them, in greater detail.

MAPPING THE STATE OF ALBANIA'S E-COMMERCE ECOSYSTEM

Overall, Albania's main current e-commerce activity is focused on (i) the import of foreign goods into Albania and (ii) the export of Albanian services to the advanced economies – these fundamental patterns reflect the existing underlying structural realities of the Albanian economy and will be slow to change. The pattern of online trade in goods is to a large extent driven by Albania's still limited base of internationally competitive domestic goods producers. On the one hand, this limits the online sale of "made in Albania" goods to niche products. On the other hand, this leads Albanians to purchase more foreign-produced goods online, as Albanian incomes and demand for advanced products grow - an ecosystem of Albanian firms is emerging that play an intermediating role in this process (e-commerce platforms, but also logistics companies, electronic payment providers, consultancies etc), creating new jobs for Albanians. The pattern for online trade in services reflects the availability of a relatively skilled and low-cost Albanian labor force. The digital service industry allows Albanians to enjoy (digital) access to labor markets that offer better pay, while avoiding outright emigration – which requires often painful uprooting from their local communities and (as-of-yet) navigating complicated emigration processes to advanced economic zones like the EU.

Yet, our scan of the Albanian e-commerce landscape also reveals a range of specific measures Albania can take in the short and medium-run to make fuller use of its existing digital markets opportunity – these actions are the subject of the subsequent sections of this report. While economic fundamentals will continue to shape the major pattern of Albanian e-commerce trade flows for the years to come, individual Albanian e-customers and e-producers are also constrained by a myriad of smaller and yet sizeable constraints that prevent Albania from making better use of its existing digital markets opportunity. Many of these constraints can be alleviated in the short and medium term through concerted government and private sector actions – and in turn, by creating new economic opportunities for Albanian businesses, workers and consumers, they can lay the foundations for more fundamental structural progress of Albania's economy. These policy actions are the focus of this report. The subsequent sections of this report will in turn review recommended policy actions in the domain of (i) logistics and customs, (ii) payment services, (iii) digital connectivity, (iv) private sector e-commerce capabilities and skills and (v) the regulatory and tax environment.

Box: Albania's main existing e-commerce trade flows are (i) the import of foreign goods into Albania and (ii) the provision of Albanian services to the rest of the world



Note: arrows indicate trade flows; thick black arrows indicate main existing channels of trade in goods; dashed green arrows indicate main existing channels of trade in services

4. STRENGTHENING LOGISTICS AND CUSTOMS

Reliable, fast and low-cost logistics services are foundational enablers for the growth of e-commerce in goods. E-commerce companies that sell goods online need to either develop in-house logistics capabilities or, more likely, establish partnerships with 3rd party logistics (3PL). International and domestic bulk shipment is needed to move goods to local warehouses and delivery centers. International and domestic postal and courier services are needed for final last-mile delivery of parcels to customers.

Efficient clearance at the border is crucial for cross-border e-commerce. Both bulk shipments and small consignment parcels need to be able to cross borders without facing undue tariffs/fees, complicated administrative procedures or time delays. This requires customs procedures that have adapted to a world in which a large volume of small e-commerce parcels are delivered across borders. Customs formalities need to be predictable and follow the rule of law.

Given (i) a large body of existing work on challenges for international bulk shipment in Albania and (ii) the particular challenges facing trade in small consignments, this section of this e-commerce diagnostic focuses on actions needed to facilitate small parcel delivery. Relative to bulk container shipments, many of the challenges faced in small parcel logistics are heightened. Administrative steps that may appear small for a container can become significant if they are applied separately for each package in a large courier shipment. At the same time, challenges for trade in bulk shipment in Albania are already amply analyzed in other technical assistance reports, including this [UNECE \(2015\)](#) report. This section of the diagnostic therefore focuses on logistics and customs challenges for small consignments.

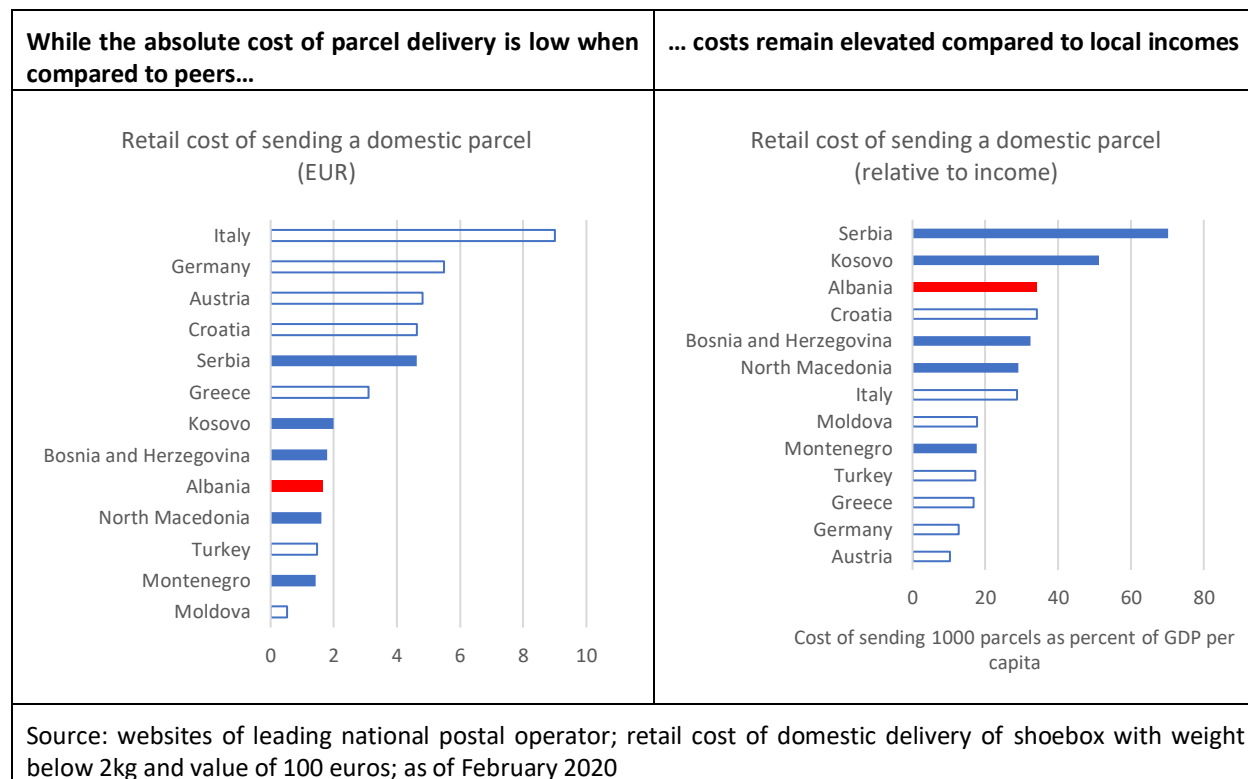
POSTAL AND COURIER LOGISTICS

Albania has 15 registered postal and courier operators, with the dominant player being the Albania Post.¹⁰ The Albanian Agency for Electronic and Postal Communications (AKEP) regulates the sector and maintains a register of official operators. According to its 2018 annual report, the Albanian Post – a strategic state-owned enterprise (SOE) of the Government of Albania - generates 66 percent of market revenues, followed by DHL and Ulysses/Fedex. Besides the official postal operators, market participants report a large number of informal businesses that offer letter and parcel delivery services, creating significant competition for formal operators.

While Albania Post offers a low-cost postal service across Albania, prices are still elevated relative to local incomes – key drivers of operational costs include (i) the limited scope for economies of scale in a small national market and (ii) an imbalance between inbound and outbound international parcel shipments. While basic parcel delivery prices are low in absolute terms compared to peers, affordability relative to local incomes remains elevated. Several structural factors drive up the operational costs of postal delivery. First, national postal operators have limited scope for developing economies of scale in a national market of 2.9 million inhabitants. This is particularly acute given the need to service Albania’s many rural communities, where low volumes limit revenue margins. Second, the cost of international postal service is driven up by a significant imbalance between inbound and outbound parcel deliveries. According to the Universal Postal Union (UPU), more than three times as many parcels enter Albania as are sent

¹⁰ The full list of companies is Albanian Post, DHL, TNT, Albanian Courier, Albanian Cargo Services, United Transport, Fedex/Ulysses, Sky Net Logistics, Albanian Delivery Express, Youth Albania Professional Services, RAD MAIL, FAST DELIVERY, E-KOMPLET, COEX, Albanian Parcel Distribution.

abroad (a pattern also mirrored in Albania’s overall trade balance) – meaning that planes and trucks on outbound trips are often not loaded to capacity, driving up the unit cost of delivery.



Albania’s unreliable address system is a structural obstacle to cost-effective and timely postal delivery. Given rapid urbanization and the frequent change of street names, the Albanian address system remains unreliable. Many Albanians are uncertain about their own address. While postal operators have learned to cope - employing local staff with knowledge of the local community, encouraging senders to add description of local landmarks to address labels, calling recipients to locate them – this is still driving up day-to-day operational costs of delivery and causes delays. A key action to bring down the cost of domestic parcel delivery is therefore:

- Modernization of the Albanian address system:** a renewed effort is needed to establish a transparent address system for Albania, requiring a concerted and coordinated efforts by Albania’s local governments. A strong outreach effort is needed to ensure that local communities accept the resulting address system and start to use it in their daily life. The World Bank book [Street Addressing and the Management of Cities \(2005\)](#) offer a useful collection of international experiences with such reform efforts.

The coverage of Albania Post is comparable to international peers – but there is scope to strengthen reliability. The Albania Post continues to offer a strong network of local offices, connecting Albanians with each other and with the rest of the world. According to UPU statistics, 96 percent of the population receive their mail delivered at home. Rural areas are serviced on average three times a week. Nonetheless, the reliability of the service can be further improved. According to the UPU’s reliability score, based on the average and variability of delivery times, Albania ranks low compared to regional and aspirational peers. In its 2019 overall postal development ranking, combining scoring on reliability, reach, relevance and resilience, the UPU ranks Albania 83rd out of 172 countries.

<p>An imbalance in international parcels received by Albanians, relative to international parcels sent, drives up the costs of cross-border logistics</p>	<p>Reliability of service has scope to improve</p>																																																																				
<p>International parcel traffic (Albanian postal service)</p> <table border="1"> <caption>International parcel traffic (Albanian postal service)</caption> <thead> <tr> <th>Year</th> <th>Inbound</th> <th>Outbound</th> </tr> </thead> <tbody> <tr><td>1997</td><td>12000</td><td>2000</td></tr> <tr><td>1998</td><td>17000</td><td>4000</td></tr> <tr><td>1999</td><td>16000</td><td>5000</td></tr> <tr><td>2000</td><td>16000</td><td>6000</td></tr> <tr><td>2001</td><td>19000</td><td>8000</td></tr> <tr><td>2003</td><td>17000</td><td>6000</td></tr> <tr><td>2004</td><td>17000</td><td>5000</td></tr> <tr><td>2007</td><td>23000</td><td>4000</td></tr> <tr><td>2010</td><td>31000</td><td>6000</td></tr> <tr><td>2012</td><td>30000</td><td>7000</td></tr> <tr><td>2013</td><td>30000</td><td>8000</td></tr> <tr><td>2016</td><td>23000</td><td>5000</td></tr> <tr><td>2017</td><td>23000</td><td>7000</td></tr> </tbody> </table>	Year	Inbound	Outbound	1997	12000	2000	1998	17000	4000	1999	16000	5000	2000	16000	6000	2001	19000	8000	2003	17000	6000	2004	17000	5000	2007	23000	4000	2010	31000	6000	2012	30000	7000	2013	30000	8000	2016	23000	5000	2017	23000	7000	<p>UPU Postal reliability score (2018 or latest)</p> <table border="1"> <caption>UPU Postal reliability score (2018 or latest)</caption> <thead> <tr> <th>Country</th> <th>Reliability Score</th> </tr> </thead> <tbody> <tr><td>Croatia</td><td>90</td></tr> <tr><td>United States</td><td>90</td></tr> <tr><td>Germany</td><td>85</td></tr> <tr><td>Serbia</td><td>85</td></tr> <tr><td>North Macedonia</td><td>80</td></tr> <tr><td>Greece</td><td>75</td></tr> <tr><td>Italy</td><td>75</td></tr> <tr><td>Turkey</td><td>70</td></tr> <tr><td>Moldova</td><td>65</td></tr> <tr><td>Bosnia and Herzegovina</td><td>50</td></tr> <tr><td>Albania</td><td>40</td></tr> <tr><td>Montenegro</td><td>20</td></tr> </tbody> </table>	Country	Reliability Score	Croatia	90	United States	90	Germany	85	Serbia	85	North Macedonia	80	Greece	75	Italy	75	Turkey	70	Moldova	65	Bosnia and Herzegovina	50	Albania	40	Montenegro	20
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Recognizing the growth potential of e-commerce, Albania Post is gradually rolling out value-added services to better support the digital economy – but scope for further strengthening its product offerings is large. Given the worldwide trend in e-commerce and recognizing the resulting revenue opportunity, the Albania Post has taken a range of measures to better serve the growth of digital markets. Notably, in 2018, the Albania Post introduced pre-payment of border tax and customs duties for international parcels arriving in Albania on behalf of recipients, making online shopping from foreign websites significantly more convenient for Albanians.¹¹ In 2019, the Albania Post introduced at-home parcel delivery in urban areas (rural customers still have to collect their parcel at the closest post office). In 2020, the Albanian Post is rolling out a first series of automatic 24-hour parcel lockers, enabling Albanians to collect parcels outside of business hours and with minimal wait. Nonetheless, scope to introduce further services for e-commerce customers remains vast, including:

- Simplified returns procedures:** Currently, product returns require the customer to start new paperwork and pay for a new parcel shipment at the Post Office. Instead, agreements with major e-commerce companies could make returns more convenient. A bar code system could be set up that would identify the product return when brought to the Post Office and automatically generate labeling for the return box. E-commerce companies would have the option to offer customers a service under which the company pays for the return shipment. The Albanian Post is already building these capabilities. But they now need to be marketed and offered as part of a standard package service for e-commerce business accounts. Such services are routinely offered by postal operators in other countries such as [UPS](#).

¹¹ Pre-2018, Albanian recipients of international parcels subject to VAT and/or customs duties generally had to pay the border customs office, before parcels could be released for delivery. Under the new pre-payment arrangement, the Albania Post pre-pays VAT and customs to ensure the release of the parcel at customs. The recipient then compensates the Albania Post when collecting the parcel. This saves the parcel recipient the administrative burden of separate transactions with the customs office and the Albania Post.

- **International collect-on-delivery (COD) payment solution:** one reason Albanian e-sellers currently do not reach many Western Balkan online shoppers is the relatively low penetration of electronic payments in the region. Within Albania, the Post therefore already offers a COD product – with the Post collecting payment for the product, on behalf of the seller, on delivery of the product to the customer. Extending such an offering to international delivery, particularly in the Western Balkans, could significantly strengthen the reach of Albanian e-sellers in the region. The [Postpak scheme](#) between Bosnia and Herzegovina, Montenegro and Serbia is an interesting existing example for this type of initiative.
- **Online label printing service and adoption of internationally harmonized parcel label:** adoption of latest harmonized labeling standards (such as the standard introduced by [IPC Interconnect](#)) will allow international parcel shipments to benefit from faster handling abroad. By offering the option of online label printing before bringing the package to the Post office, administrative costs for both e-sellers and the Albanian Post can be reduced.

Service offering of the Albanian Post For Small Parcel Delivery	
Business accounts, with payment by invoice and reduced tariffs	Yes
Parcel track and trace option, domestic	Yes
Parcel track and trace option, international	Yes
Parcel delivery on signature option, domestic	Yes
Parcel delivery on signature option, international	Yes
Parcel delivery to address of the recipient	Yes, in urban areas
Simplified goods return procedure, domestic	No, not offered as standardized product
Simplified goods return procedure, international	No
Collect-on-delivery (COD), domestic	Yes
Collect-on-delivery (COD), international	No
Payment of tax and customs duties for incoming international consignments on arrival in Albania	Yes, to be subsequently collected from customer together with processing feed supplement
Payment of tax and customs duties for outbound international consignments on arrival in destination country	No
Option to fix delivery time window	No
Parcel lockers	Limited availability
IPC Interconnect Harmonized Label	No
Delivery on Saturdays	No
Online registration, payment and label printing for parcels	No
Dedicated website and phone service hotline for e-commerce businesses	No
Fulfillment Center – Warehousing	No

The formal private courier market focuses on offering premium express services – measures to strengthen competition can potentially further improve services available to e-commerce companies. Two key constraints prevent the courier market from working more efficiently. First, the growth of registered formal courier services is held back by unfair competition from a large number of informal operators, which often provide inferior service, but – without tax and regulatory burden – can offer better prices. Second, competition among formal courier companies is limited by the nature of the market. While there are few legal restrictions¹² to new market entry, effective barriers particularly for international parcel delivery are high: courier services need to become registered customs agents to go through customs on behalf of their customers, establish strong relationships with the customs office, build partnerships with courier offices in destination countries, build significant operational knowhow to execute international shipments and achieve the volumes necessary to break even. Price transparency is limited, given e-commerce companies generally negotiate bilateral volume-based tariffs at substantial discount relative to headline prices offered to retail customers. In this environment, the following measures can strengthen the courier market:

- **Rigorously enforce formalization of the private courier market:** by rigorously enforcing that all operators comply with regulations and taxes, a more level playing field can be established, allowing the most competitive couriers to grow. As sub-standard informal courier services are forced to exit the market, e-customers are more likely to benefit from quality logistics services and have a positive e-commerce user experience.
- **Regular compilation and publication of domestic and international tariff comparison tables among courier services:** To strengthen competition among the existing registered courier services, the AKUM could consider mandating regular publication of a postal and courier service tariff comparison table – as recently introduced by the EU through its [cross-border parcel directive](#).

CUSTOMS PROCEDURES FOR SMALL CONSIGNMENTS

The quality of trade and customs procedures is key to fully exploiting the benefits of cross-border e-commerce. Besides the direct cost of paying taxes and duties at customs, the burden of administrative procedures impacts on the cost, speed and convenience of cross-border trade. In the case of cross-border e-commerce and the delivery of small parcels, these concerns are heightened – with the cost of administrative procedure often large relative to the value of the shipment itself.

While tariffs are generally low, burdensome non-tariff measures and border clearance procedures are still significant barriers for international trade. Albania's imports tariffs are relatively low and transparent, relative to other countries in the region. Through its Stabilization and Association Agreement (SAA) with the EU and as a member of the Central European Free Trade Agreement (CEFTA), Albania also faces no or low tariffs when exporting to key trading partners. However, while Albania imposes limited non-tariff measures (such as health and product standards, technical and labelling requirements, etc.) on imports, non-tariff measures in key trading partners create significant barriers for potential Albanian exporters. The existing production of Albanian firms often does not meet the onerous standards required by advanced market. When the standards are met, firms often need to go through

¹² Article 14 of Law no. 46/2015 "On Postal Services in Albania" - new players need to meet basic service standards and register with AKEP.

costly and complicated procedures to receive the certifications validating that the standards are met. Equally, the border clearance procedures of Albania and other Western Balkan countries continue to rank low.

<p>Tariffs faced by Albanian exporters and importers are not particularly high...</p>	<p>... and the Albanian tariff system is relatively simple</p>																																																								
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In line with international best practice, Albania has a simplified regime for cross-border trade in small consignments. A “de minimis” value of 22 euros has been set, below which imports are exempt from import VAT and customs duties, saving on administrative costs. Authorized traders that are processing a large number of cross-border parcels (such as logistics companies handling a large number of parcels on behalf of cross-border e-sellers)

can file simplified declarations for each item, to be followed through filling of a supplementary summary declaration within 24 hours. Schemes for “Local Clearance” and “Authorized Economic Operator (AEO)” status have been legalized and have the potential to further reduce the administrative costs of frequent traders – though they are not widely used in Albania yet.

Nonetheless, postal and courier operators report high administrative costs in clearing small consignments at Albanian customs – (i) driving up the fees that operators charge for handling customs and (ii) contributing to delivery delays. Operators report the need for frequent and drawn-out negotiations with customs officials, who are sometimes unfamiliar with the procedures for export/import of small consignment parcels (particularly at land borders) and who request submission of additional documents that are not technically required under the customs code.¹³ Operators face significant administrative costs in handling VAT and customs payments on imports, either (i) because they process the payment on behalf of the sender/recipient or (ii) because they need to wait until the customer has paid taxes/duties and the customs office releases the parcel for circulation. To reduce administrative burden at customs and to speed up procedures, the following actions can be considered:

- **Ensure transparent and predictable application of customs procedures, by creating a simple online manual for small consignment customs procedures and strengthening training of customs officials.** To clarify customs procedures, the customs office could maintain a transparent website explaining in non-technical language document requirements for import and export. All front-line customs officials should be trained in the particular procedures necessary for processing small parcel consignments, ensuring consistent and predictable implementation of the customs procedures.
- **Simplify payment of tax and customs duties for imports, by (i) introducing an Albanian online VAT one-stop shop (OOS) to replace import Vat for registered traders and (ii) raising the “de minimis” value for import duties to the EU level of 150 euros:** by allowing selected importers to charge VAT to end-customers online and to pay on the OSS, products of such importers could be exempt from VAT on importation at the customs office. This measure is planned to be adopted in the EU by 2021 under its [VAT e-commerce package](#). By combining this measure with an increase of the “de minimis” for customs duties from currently 22 euros to 150 euros, hence aligning the customs code with the EU, significantly more small consignments could be exempt from VAT/duties on entering Albania – lowering administrative costs and time delays at the border.

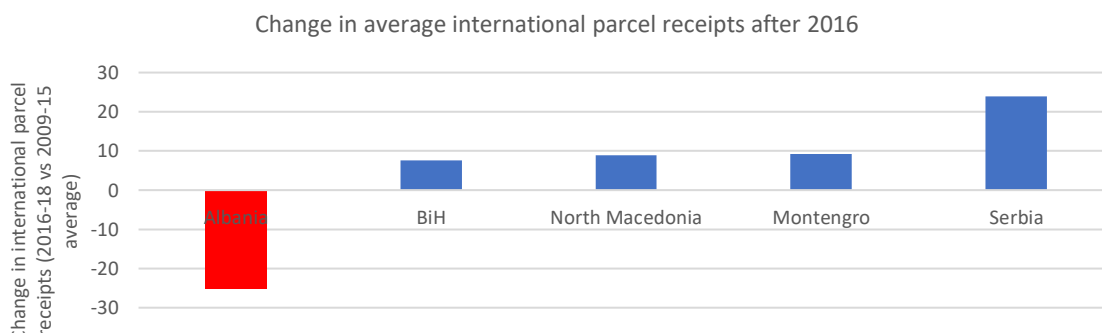
Box: Decline in Albanian parcel imports after reduction in VAT and duties de minimis in 2016 to 22 euros

Many countries set a “de minimis” value below which small consignment parcels are exempt from import VAT and duties at customs. However, the appropriate level of the “de minimis” is subject to considerable debate. On the one hand, a “de minimis” allows customs officials to avoid costly administrative procedures on small parcels that will yield few revenues. E-commerce companies and e-customers also gain, because they do not have to pay at customs (both a direct financial saving and an administrative time saving). On the other hand, the “de minimis” leads to a loss in direct revenue collection of the State on small consignment imports. This is exacerbated in countries with poor internal tax compliance, where border customs is often the most effective point in the value chain to enforce revenue collection. Furthermore, the “de minimis” means that foreign e-commerce companies selling at-distance can offer their products without attaching the cost of VAT and customs duties, distorting competition vis-à-vis local firms that are subject to VAT (and that do pay customs duties when importing larger shipments in bulk for domestic re-sale).

¹³ A key issue of contention reported by courier services is the need for certification of origin for exports.

In 2016, Albania lowered its high “de minimis” from 160 euros to 22 euros – both for VAT and for customs duties. This measure aligned the VAT “de minimis” with the EU level. However, it also means that the Albanian “de minimis” for customs duties is now significantly lower than the EU level (150 euros).

Albania’s international parcel receipts declined following drop in de minimis



Source: Universal Postal Union (UPU) statistics; averages are formed for each country based on years for which data is reported in a given year interval

As a result of this measure, purchases by Albanian residents from foreign e-commerce websites became significantly more costly and cumbersome after 2016. After years in which Albanians had become used to purchasing from abroad without facing VAT and import duties on most products, the change in policy led to a sharp increase in costs. Albania’s VAT standard rate is 20 percent and other duties average 2.4 percent. The change in policy also made foreign purchases more cumbersome, since (in the absence of arrangements for the e-seller to cover customs duties) the Albanian e-customer had to pay customs duties to the Albanian customs office before the parcel could be released.¹⁴

A sharp drop in international parcel receipts by Albanians mirrors this policy change. While other Western Balkan peers saw continued growth of small parcel consignment arrivals, Albania saw a close to 25 percent decline in inbound parcels in 2016-18. Reflecting continued discontent about the change in “de minimis”, the Albanian e-customers in the e-commerce survey conducted for this diagnostic continue to highlight high VAT and import duties as their most pressing concern when buying online.

Charging practices by customs officials discourage trade, particularly for small consignments. First, a scanning fee is due on consignments entering or leaving Albania (equivalent to 22 euros if the value of the consignment is over 1,000 euros or 5 euros if the value is below the said threshold). This constitutes an unusual and implicit tax on both exports and imports, which is particularly onerous for small parcels – for which the scanning fee can be a significant fraction of the underlying value of the good. Second, importers report that customs officials routinely correct declared import valuations upwards – driving up the effective import VAT and customs duties charged. The WTO

¹⁴ Since 2018, Albania Post has introduced an arrangement under which the Post will pre-pay customs duties. This allows customers to pay for customs duties at the Post Office when collecting their parcel, instead of making a separate transaction at the customs office.

Valuation Agreement (which is transposed in Albanian legislation) requires customs officials to follow a sequence of valuation methods¹⁵ until the value of a good can be established. However, officials routinely ignore the primary valuation method that should be used – the transaction value method – because they do not trust the commercial invoices submitted by the importer, particularly if goods are sold at discount. Instead, officials revert to use of a valuation database with reference prices – which often leads to a significantly higher valuation than what has been declared by the importer.

- **Eliminate the scanner fees for low-value consignments:** the Government could abolish the scanning fee, which is a drag on Albania’s e-commerce performance. In the absence of this, the Government could consider waving the scanning fee for low-value consignments (a natural threshold could be 150 euros, which is the EU “de minimis” for customs duties).¹⁶
- **Strengthen valuation methods used at customs:** train customs officers (i) to use the commercial invoice provided as primary valuation method, (ii) to use the reference pricing database as a tool to identify problematic invoices, rather than a source of “correct” valuations, and (iii) to rely more frequently on post-clearance control functions to identify fraud cases. Customs should publish clear guidelines for its officials to follow when dealing with cases in which the prices of the same good may vary considerably, or cases in which the declared price is well below the market level.

Customs procedures for small consignments			
	Albania	EU (2020)	EU (2021)
Standard VAT rate	20%	17%-27%	17%-27%
“De minimis” value above which import VAT is charged	22 euros	22 euros	None
VAT online one-stop-shop, including collection of VAT at point of sale rather than on importation	No	No	Yes
Option to claim back import VAT when foreign products are returned due to defects	Yes	No	No
Relief from import VAT when home products are returned and re-enter from abroad	3 years	3 years	3 years
Weighted average applied tariff (%; WEO GCI 2019)	2.21	1.12	1.12
“De minimis” value for duties	22 euros	150 euros	150 euros

¹⁵ The sequence of valuation methods recommended under the WTO Valuation Agreement: (i) the transaction value, (ii) the transaction value of identical goods, (iii) the transaction value of similar goods, (iv) the deductive method, (v) the computed method and (vi) the fall-back method.

¹⁶ Since the scanning fee is paid to a Public Private Partnerships (PPP) that runs the border scanners and the contract with the concessionaire may be difficult to modify, the 5 euro fee for low-value parcels could be paid by the Government on behalf of the trader.

Other fees (except VAT and duties) charged by customs officials during import/export procedures	Scanning fee (5 euros for goods valued below 1000 euros, 22 euros if above)	Not in regular cases	Not in regular cases
Option to claim back import duties when foreign products are returned due to defects	Within 12 months, on application	Within 3 months, on application	Within 3 months, on application
Relief from customs duties when home products are returned and re-enter from abroad	3 years	3 years	3 years
Authorized Economic Operator (AEO) Program	Yes	Yes	Yes
Local Clearance Procedure	Yes	Yes	Yes

Box: Managing the impact of international e-commerce on domestic brick-and-mortar retailers

This chapter recommends a range of measures that will make it more affordable and convenient for Albanians to purchase goods from international webshops. Introducing an online VAT one-stop shop, raising the de minimis for import duties, eliminating scanning fees for low-value consignments – all these measures will make it more affordable and convenient for Albanians to purchase goods from international webshops. Clear winners from these measures will be the Albanian consumer, but also international e-commerce websites.

While Albanian customers will gain, these measures may hurt existing Albanian brick-and-mortar shops if customers use international online shopping to replace domestic offline purchases. In the facebook survey prepared for this e-commerce diagnostic, 65 percent of Albanians responded that the products they buy online are not available in local shops. This suggests that, at the current stage of development of Albania’s e-commerce industry, cannibalization of offline sales through online shopping is limited. However, as ample anecdotal evidence from advanced economies has demonstrated, as e-commerce becomes more pervasive, it can become competition for traditional retailers.

To respond to greater competition through international e-commerce, Albanian brick-and-mortar shops will need to adapt their business models. On the one hand, many Albanian businesses will need to develop their own online sales channels to compete with international webshops - turning their physical (and cultural/language) proximity to local customers into a key competitive advantage in local online markets. For instance, domestic shipments can be done more quickly and cheaply than shipments from abroad. Albanian brick-and-mortar shops can offer their Albanian online customers the option to return products at physical store locations – which can be more appealing to customers than to negotiate returns by phone/email and then to send the product back as international parcel shipment. On the other hand, Albanian businesses need to focus on the value-added services that only brick-and-mortar shops can provide. This can mean an even greater emphasis on in-store personalized customer advice by sales representatives and more attention on making shopping “an experience”. To the extent that Albanian brick-and-mortar shops respond to international e-commerce competition by strengthening their own business models, opening up can play an important role in helping Albania move towards a more productive economy.

To contain disruption of domestic businesses through increased competition from international e-commerce, the transition towards a more open economy needs to be managed carefully. It is likely that some local

businesses will become unviable in the face of more intense competition from international e-commerce. In those cases, government needs to play a key role in buffering the shock for the affected firms and workers, redistributing the gains from greater international trade more evenly across Albanian society. This means strengthening the social safety net, providing training opportunities for workers to re-tool, offering job matching services to help workers find new employment opportunities and strengthening the business environment to enable the creation of new jobs.

Going beyond these measures, a large reduction in the cost of international trade will require eliminating customs procedures by joining into a customs union with key trading partners. Negotiating customs will always generate administrative burden and create time delays – for parcel services, these issues will always be particularly acute. To significantly bring down the cost and time of border clearance procedures, it is necessary to eliminate customs procedures by joining a customs union. The EU offers a useful example on the potential for cross-border e-commerce once border customs procedures are dropped. EU e-commerce platforms can offer significantly more attractive delivery prices and times within the EU than outside - among other reasons because intra-EU trade does not require dealing with customs. Partly as a result, cross-border e-commerce within the EU is significantly more developed than with the rest of the region (differences in the level of development of the local logistics sector are also likely important explanatory factors). A key policy measure, which could – among many other consequences – also catalyze Albania’s e-commerce market is therefore:

- **Eventually, integrate into regional economy by joining a customs union, such as EU, CEFTA or at the WB-6 level.**

<p>A customs union can play a key role in bringing down the cost and time delays for cross-border e-commerce...</p>	<p>... which can help international e-trade gain traction</p>
<p>Source: delivery time and cost for ordering paperback copy of “Harry Potter and the Sorcerer’s Stone” from amazon.de; February 2020; red triangles identify EU countries; black square identifies Turkey as special case given EU-Turkey customs union</p>	<p>Source: Eurostat 2019 data; all enterprises (10+ employees); excludes financial sector</p>

The private sector can bring down the costs of logistics by developing warehousing and delivery center capabilities in the country of their customer. Ordering goods online to be shipped as a cross-border parcel is costly and leads to long delivery times. If customs procedures are involved, the customer often needs to make a second payment to customs for import VAT and customs duties before the parcel is released at the border and can be delivered. As such, Albanian e-customers stand to gain from the expansion of Albanian domestic warehousing and delivery center infrastructure. Under this business model, e-commerce companies ship products in bulk to Albanian warehouses. When an e-customer orders the good, she then only pays for the additional parcel delivery within Albania – and receives the good within the usually significantly shorter domestic delivery delays. While Albanian warehousing and online platforms are already emerging, the sector remains nascent. None of the leading international e-commerce platforms have established an Albanian warehousing hub so far. Equally, few Albanian e-sellers have established a strong enough EU and US business to warrant building stocks in local warehouses in those countries. Yet, as e-commerce grows, the case for such arrangements will become stronger – bringing down the per-unit cost of cross-border logistics. The private sector needs to proactively seek opportunities for the establishment of local warehousing and delivery services.

- **Developing warehousing and delivery center capabilities in the country of the customer:** Albanian e-sellers need to stock inventory at warehousing/delivery centers in the country of their customer. Equally, Albanian and international e-sellers need to either develop their own Albanian delivery centers or stock inventory at delivery centers operated by other companies in Albania.

Summary of recommendations to strengthen logistics and customs

Area	Recommendations	Responsible entity	Case study
Post office	<p>Develop tailored post office offering for e-commerce, including:</p> <ul style="list-style-type: none"> - dedicated e-commerce account offering, including features such as (i) simplified domestic (and eventually international) goods return service, (ii) international collect-on-delivery (COD) option, (iii) dedicated web interface for e-sellers and service hotline for e-commerce questions etc - Introduce internationally harmonized label and online pre-printing option - expand offering of parcel lockers to facilitate after-hours pick-up 	Albanian Post	<p>Collisimo (France); PostPak service</p> <p>(BiH, Montenegro, Serbia)</p> <p>IPC Interconnect</p> <p>EU, US widespread expansion of lockers</p>
Courier services	<p>Strengthen the infrastructure backbone needed for an efficient postal and courier sector, including:</p> <ul style="list-style-type: none"> - Coordinate reform of Albania's address system, working with Ministry of Interior and local governments - Rigorously enforce formalization of the private courier market - Encourage competition and efficiency in parcel delivery, including through regular collection, assessment and publication of cross-border parcel delivery pricing structure of all market players 	Postal regulator AKEP	<p>Case studies: Street Addressing and the Management of Cities (2005)</p> <p>EU cross-border parcel directive</p>
Customs office	<p>Strengthen the customs office to make border clearance more efficient, particularly for small consignment, including:</p>	Ministry of Finance and Economy /	

	<ul style="list-style-type: none"> - Ensure transparent and predictable application of customs procedures, by strengthening training of customs officials and creating a simple online manual for small consignment customs procedures. - Simplify payment of tax and customs duties for imports, by (i) introducing an Albanian online VAT one-stop-shop (OOS) to replace import Vat for registered traders and (ii) raising the “de minimis” value for import duties to the EU level of 150 euros - Eliminate the scanner fees for low-value consignments - Strengthen valuation methods used at customs, including by training customs officers (i) to use the commercial invoice provided as primary valuation method, (ii) to use the reference pricing database as a tool to identify problematic invoices, rather than a source of “correct” valuations, and (iii) to rely more frequently on post-clearance control functions to identify fraud cases. 	<p>Customs Office</p>	<p>EU VAT e-commerce package</p>
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5. LEVERAGING ELECTRONIC PAYMENTS

Electronic payment instruments play a central role in facilitating e-commerce. Online payments allow remote processing of transactions, without seller and buyer (or an intermediary) physically meeting. For consumers, easy-to-use online payments can play a key contributing role in ensuring a seamless and convenient online shopping experience. By avoiding cash, merchants can save on the administrative costs of handling coins and bills, while reducing the scope for employee fraud and facilitating book-keeping. The main electronic payment instruments used for e-commerce include debit cards, credit cards, credit transfer, direct debit and e-money.

This chapter reviews key constraints to the adoption and use of electronic payments in e-commerce, both from the perspective of Albanian customers and online shops. The aim is to benchmark adoption of electronic payments, review key constraints and then to highlight recommendations to address market obstacles. This work builds on extensive existing analytical work on payment service diagnostics, including the 2018-23 [National Payments Strategy](#) of Albania (prepared by the Bank of Albania with World Bank Technical Assistance) and the World Bank (2016) global report on [electronic payments adoption by small retailers](#).

Box: Introduction to Albania’s existing landscape for payment services

The Bank of Albania (BoA) plays various critical roles in the Albanian national payments system. It acts as operator of payment systems, overseer of the national payments system, and catalyst of change. BoA is legally empowered as the regulator and overseer of the Albanian national payments system. These powers explicitly cover payment and securities settlement systems, as well as payment instruments.

The National Payment Systems Committee of Albania (NPSC) is another relevant consultative body, chaired by the BoA and consisting of various public and private sector stakeholders (e.g. government agencies, banks, non-bank payment service providers, among other). The purpose of the NPSC is to support and contribute to increasing the security, stability and efficiency of the national payment system in Albania. The NPSC does not have juristic personality, and its decisions are not binding for participating members but rather have a consultative role. Participants in the committee are banks, non-banks financial institutions which are institutions licensed and supervised by BoA and government agencies.

The main providers of payment instruments, services and infrastructure in Albania are commercial banks, although there are also some non-bank providers such as e-money issuers, money transfer operators, and the Albania Post.

Government payments are to a large extent already digitized in Albania (on both, the collection and disbursement side). However, certain use cases still rely on cash: pensions and social assistance programs, which are primarily channeled through the Albania Post; payments for certain government obligations, mainly enabled through paper-based credit transfers.

A legal framework that promotes innovation and competition in the payments marketplace is developing in Albania. Laws and BoA regulations have been amended to accommodate new technologies and business models. For example, the new Law on Payment Systems provides the possibility for non-banks to compete in the payments market. Further, the legal foundations for the provision of digital financial services have been established, including for electronic payments, electronic signatures, electronic communications and electronic identification of customers. Nevertheless, more remains to be done in order to keep up with the fast-evolving technologies and business models in the electronic payments industry.

Many Albanians still lack access to transaction accounts - a prerequisite for most electronic payment instruments. According to the 2017 World Bank Findex survey, only 40 percent of Albanian adults have access to a transaction account with a financial institution – less than in any other country of the Western Balkans and significantly behind equivalent rates in the EU. Mirroring low account penetration, the usage of electronic payments instruments by Albanians severely lags behind peers.

<p>The penetration of accounts lags behind regional peers...</p>	<p>... household surveys suggest that key drivers are a lack of funds and the cost of accounts</p>																																																						
<p>Account ownership at a financial institution or with a mobile-money-service provider (% of population ages 15+)</p> <table border="1"> <thead> <tr> <th>Country</th> <th>Account ownership (%)</th> </tr> </thead> <tbody> <tr><td>Germany</td><td>100</td></tr> <tr><td>Italy</td><td>95</td></tr> <tr><td>United States</td><td>90</td></tr> <tr><td>Croatia</td><td>85</td></tr> <tr><td>Greece</td><td>85</td></tr> <tr><td>North Macedonia</td><td>80</td></tr> <tr><td>Serbia</td><td>75</td></tr> <tr><td>Turkey</td><td>70</td></tr> <tr><td>Montenegro</td><td>70</td></tr> <tr><td>Bosnia and Herzegovina</td><td>65</td></tr> <tr><td>Kosovo</td><td>60</td></tr> <tr><td>Moldova</td><td>50</td></tr> <tr><td>Albania</td><td>40</td></tr> </tbody> </table>	Country	Account ownership (%)	Germany	100	Italy	95	United States	90	Croatia	85	Greece	85	North Macedonia	80	Serbia	75	Turkey	70	Montenegro	70	Bosnia and Herzegovina	65	Kosovo	60	Moldova	50	Albania	40	<p>Reason for no account (% of those without account; 15+)</p> <table border="1"> <thead> <tr> <th>Reason</th> <th>Percentage (%)</th> </tr> </thead> <tbody> <tr><td>Insufficient funds</td><td>80</td></tr> <tr><td>Financial services too expensive</td><td>40</td></tr> <tr><td>Financial institutions too far</td><td>30</td></tr> <tr><td>Family member has account</td><td>25</td></tr> <tr><td>Lack of necessary documentation</td><td>20</td></tr> <tr><td>Lack of trust in fin.l institutions</td><td>15</td></tr> <tr><td>Religious reasons</td><td>5</td></tr> <tr><td>No need for financial services ONLY</td><td>2</td></tr> </tbody> </table>	Reason	Percentage (%)	Insufficient funds	80	Financial services too expensive	40	Financial institutions too far	30	Family member has account	25	Lack of necessary documentation	20	Lack of trust in fin.l institutions	15	Religious reasons	5	No need for financial services ONLY	2								
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A range of structural factors hold back the penetration of basic payment services among Albanians – these will take time to tackle. First, for many Albanians, low incomes and savings mean that an account (or electronic payment services) offers limited direct benefits. 77 percent of Albanian Findex survey respondents indicated a lack of funds as main reason for lack of access to an account. Second, a key contributing factor is likely the prevalence of the grey economy. According to the International Labor Organization (ILO), 31.9 percent of non-agricultural employment in Albania is informal (2016 data). The IMF estimates a VAT compliance gap of 30 percent of revenues (2016). Given the scale of undeclared economic activity, many Albanian workers and firms are likely reluctant to use financial services, which would leave a formal record that could be used to deduce their economic activity. Third, without more use-cases in their daily lives, many consumers and businesses have little to gain from acquiring electronic payment capabilities. A 2018 World Bank and Bank of Albania report on [“The Retail Payment Costs and Savings in Albania”](#) concludes that Albanian consumers make and receive day-to-pay payments overwhelmingly in cash (96 percent of payments initiated as compared to 90 percent of payments received).¹⁷ Equally, businesses accepting electronic payments are limited to 15 percent of the business sample. Without more businesses and government offices accepting electronic payments, customers have limited incentive to gain access to these services. In turn, without more customers requesting electronic payments, firms have limited incentive to invest in the necessary infrastructure. This further entrenches the habit of customers and businesses to settle transactions in cash.

In the short term, some immediate steps can be taken to broaden access to affordable electronic payment services which can be used for online shopping. 47 percent of Albanian Findex survey respondents without account indicate that the cost of financial services is a deterrent. In part, this likely reflects that many Albanians – having never had an account – are likely to over-estimate the effective costs of an account (which are often complex and difficult to understand) and undervalue its benefits. However, in part, this likely also reflects that traditional banks have limited interest in offering no-frills basic accounts to attract low-income depositors – since these depositors are often seen as unlikely to become significant profit generators for the bank going forward. Given the significant social benefits of allowing more Albanians to become users of financial services, including (but not limited to) access to e-commerce, this creates a rationale for Government and central bank intervention to broaden access to basic accounts and electronic payment services.

- **Legislate a “basic payments account”, ensuring access to a transparent and low-cost starter bank account and debit card for those that have never held an account before and are part of vulnerable groups (e.g. low income, rural residents, pensioners, out of labor force):** roll-out of “basic payments account” framework, requiring banks to offer broad right of access for all Albanian residents to a basic low-cost bank account with transparent statement of fees and debit card service. This is already among the high priorities of the Bank of Albania under the technical assistance of the World Bank and was also decided on during the IV National Payments System Council meeting. To strengthen competitive pressure to bring down fees, the Bank of Albania has already established a fee comparison website to compare the costs of different account offerings. To further leverage competition, the legislative provision should also include a simple protocol that allows account holders to move from one institution to another. This would follow the principles laid out in the [2014 EU directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features](#). In the process, BoA has to monitor closely the due diligence process that is being followed for onboarding customers. The fact that Albania was included in the grey list of the Financial Action Task Force (FATF) for Money Laundering in 2020 means that financial institutions might impose more stringent

¹⁷ The report was part of a broader ongoing technical assistance (Remittances and Payments Program) that the World Bank is providing to Bank of Albania on various aspects of retail payments and remittances market (e.g. infrastructure, interoperability, legal/regulatory, financial education).

due diligence and know-your-customer (KYC) procedures (that go beyond the requirements set by BoA) in order to comply with recommendations. However, it is imperative that this is not done disproportionately at the expense of the more vulnerable communities that are the most in need of transaction accounts and electronic payment services.

- **Ensure that Albanians are informed about how to activate their debit cards for online purchases:** as a safety measure in order to reduce potential card fraud, banks in Albania require their debit card holders to “activate” their debits cards before they make the first online transaction. However, many customers are not aware of this procedure and they wrongly assume that debit cards cannot be used for e-commerce transactions. As such, it is imperative for banks to inform their customers consistently of this requirement and of the option to use debit cards for e-commerce purchases.
- **Roll out a basic payments card through the Albania Post, including for online shopping:** leveraging its license as a non-bank financial institution and benefitting from the new Payment Services Law which allows for card issuance, the Albania Post could offer a prepaid card through its large existing network of postal branches which could be used for online purchases. This would also require agreements with commercial banks and potentially the international card networks. A blueprint for this could be [PostePay Card](#) offering of the Italian Post, which enables online payments on all Visa-affiliated webshops.

Albanians need to become more confident in using online payment options. In the survey of Albanian e-commerce users developed for this diagnostic, close to 35 percent of respondents highlighted the risk of identity or payment fraud as a key concern when shopping online. While confidence in online payment is likely to develop over time, as more customers gain experience in online shopping or more trusted Albanian e-commerce websites emerge, key measures can be taken now to encourage Albanians to make full use of online payments for e-commerce transactions.

- **Implement a financial education campaign specifically on the use of electronic payments for online shopping:** use communications to businesses and potential customers, educating them on (i) the benefits of using electronic means of payments online (including convenience, greater security etc.), (ii) the rights of consumers and businesses during online transactions as well as (iii) precautions that consumers and businesses can take to avoid becoming a victim of online fraud. One of the aims of such a financial education campaign needs to be to alleviate fear of dealing with unresponsive, complicated systems prone to operational error and the perceived loss of privacy. The World Bank has already provided assistance to Bank of Albania and others in the design of [financial education programs](#) pertaining to electronic payments. Some of those principles and design methods/tools (e.g. surveys, focus groups, awareness campaigns) could also be applied in the context of electronic payment usage for e-commerce. In the process, the OECD Policy Handbook on the design of National Financial Education Strategies could also be utilized.¹⁸
- **Rigorously follow-up on cases of online payment fraud and identity theft:** the incidence and types of online payment fraud should be monitored by the relevant service providers and regularly reviewed by Bank of Albania (in their supervisory and oversight role). A working group of the National Payment Systems Committee of Albania (NPSC) could also focus on this topic by sharing with the relevant agencies and the private sector international experience and best practices on how to better protect against online fraud going forward. The

¹⁸ The OECD Handbook can be found at: <http://www.oecd.org/finance/National-Strategies-Financial-Education-Policy-Handbook.pdf>

Albanian Consumer Protection Agency needs to be reinforced to ensure that online fraud cases are rigorously followed up on.¹⁹ In addition, international examples such as the Observatory for the Security of Payment Means (OSPM) in France could also be followed.²⁰ The OSPM is a body whose purpose is to facilitate the exchange of information and the consultation among all relevant parties (consumers, businesses, banks and PSPs, public authorities) pertaining to the fight against fraud.

ACCESS AND USAGE OF ELECTRONIC PAYMENTS AMONG ALBANIAN WEBSHOPS

Prominent Albanian e-commerce websites largely rely on cash-on-delivery (COD) to settle transactions – adapting their business model to the demands of many Albanian customers. The many Albanians without access to electronic payment instruments want to be able to participate in e-commerce while paying with cash. As Albanian online marketplaces are gradually establishing their credibility, customers prefer to avoid sharing payment information online and contain the risk of online data theft. By paying cash on delivery, customers can avoid making an online payment for a product that might not arrive or that may not meet expectations.

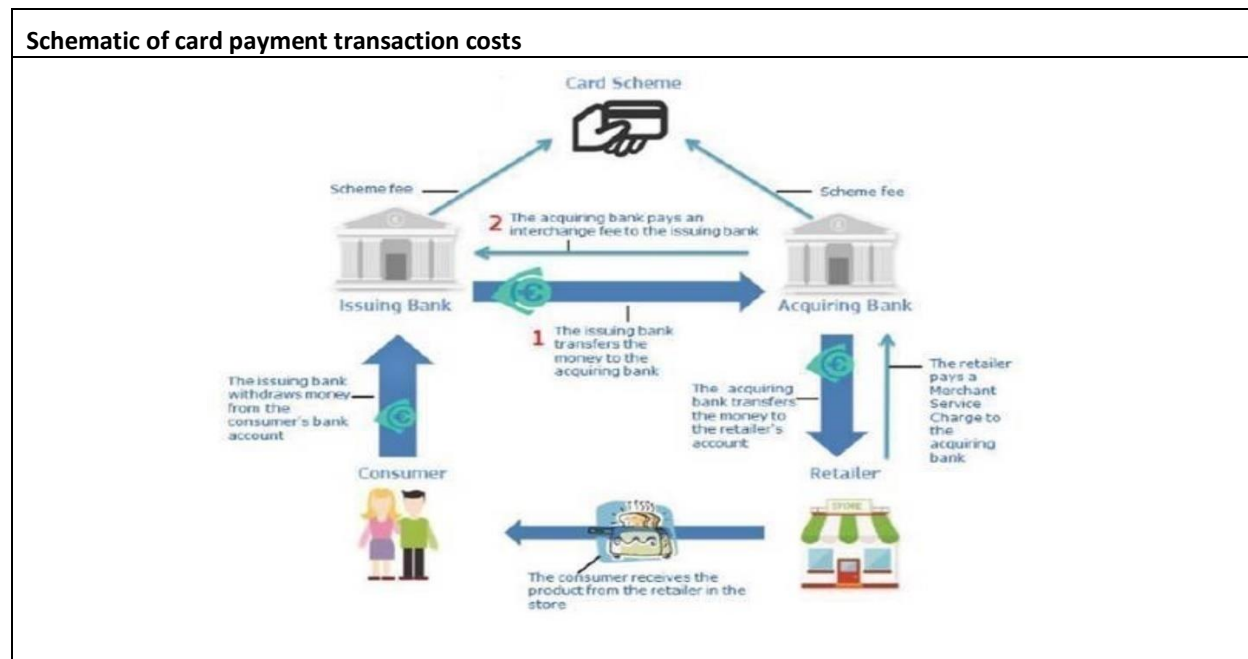
Selected companies	Accepted payment method				
	Card	Paypal	Wire transfer	COD	Other
	International websites				
Aliexpress.com	Yes	Yes	Yes	No	Yes
Amazon.com	Yes	No	US accounts	No	No
Ebay.com	Yes	Yes	No	No	No
Facebook	Yes	Yes	No	No	No
Asos.com	Yes	Yes	No	No	No
Booking.com	Sometimes	Sometimes	No	Sometimes	No
	Domestic Albanian e-commerce websites				
Aladini.al	Yes	Yes	Yes	Yes	Yes
Gjejevete.al	No	No	No	Yes	No
Baboon.al	No	No	No	Yes	No
Gjirafa50.com	Yes	No	Yes	Yes	No
Topshop.al	No	No	No	Yes	No
Clicheshop.al	No	No	No	Yes	No

¹⁹ A 2017 report from US Payments Forum examined global cases of fraud arising from e-commerce card payments and synthesized lessons learned can be found here:

<https://www.uspaymentsforum.org/wp-content/uploads/2017/03/CNP-Fraud-Around-the-World-WP-FINAL-Mar-2017.pdf>

²⁰ More on OSPM available at: <https://www.banque-france.fr/en/financial-stability/observatory-security-payment-means>

Nonetheless, without offering electronic payment options, Albanian webshops limit their reach, both on the domestic and international markets. Customers need to physically meet the parcel delivery service in order to settle the transaction, which can be inconvenient and time-consuming. International customers may be reluctant to transact on websites that do not offer the electronic payment options that they are used to. Most Albanian e-commerce companies can only offer cash-on-delivery on the domestic market, where they have established partnerships with local logistics companies or where they can deliver using in-house logistics capabilities – making their webshop (in absence of electronic payment options) effectively inaccessible for foreign customers.



Two Albanian banks offer virtual points-of-service (POS) for cards (VISA, Mastercard etc) that can be integrated into webshops – but merchants face complex and expensive setup procedures as well as high transaction costs. The traditional approach for a webshop to have electronic payment capabilities is to open a merchant account with a bank and to set up a payment gateway (which could be offered by the bank itself or by a third party provider that collaborates with the bank or provides the service distinctly) to enable online payment acceptance. This requires significant upfront investments and technical expertise – investments which only become profitable if enough customers then use the service. In addition, high fees for processing debit/credit card payments in the Albanian market can deter e-commerce companies from making the necessary investments to accept card payments.

One factor driving up costs is that Albanian card transactions are processed through international card payment networks. The overall variable (transaction) cost to the merchant for every card payment accepted is called the Merchant Discount Rate (MDR), or Merchant Service Charge (MCS), and is paid to the acquiring bank (that represents the merchant). MDR consists of three main components: the interchange fees (set by the international card networks such as Visa and MasterCard) and is passed from the acquiring bank to the issuing bank (that represents the payer); dues and assessment fees which go to the card networks; acquirer fee, which covers the cost of the acquirer to provide the service as well as profit. It is worth highlighting that the largest component of the MDR is the

interchange fee and thus, changes in interchange fees can drastically impact MDR (assuming no changes in the other components). The interchange fees for online card payments could go up to 2.5 percent in Albania.²¹

- **Upgrade the domestic payment processing infrastructure:** if Albania had a modern processing infrastructure that would process electronic payments within the country across different use cases and channels (including fast payments capability), some of the transactions currently processed through the international card payment schemes could migrate to the domestic infrastructure, and this could lower the cost of electronic transactions within Albania. Other benefits would include the instant access to funds for the payees. As such, the Bank of Albania and the private market are encouraged to explore the possibility of establishing a domestic payment processing infrastructure (either upgrading one of the existing payment systems or implementing a new system) in order to reduce reliance on the international card networks for card transactions taking place in Albania.²² This is also among the high priorities of the central bank which has started working on a feasibility study in this respect.
- **Expand use of credit transfers:** If the buyer and seller have access to bank accounts, e-commerce payments can also be facilitated through direct account-to-account credit transfers. If interbank, the payments are processed through Albania's existing domestic payments infrastructure, namely the Albanian Electronic Clearing House (AECH) operated by the Bank of Albania – such transactions are associated with low processing costs. However, for interbank credit transfers, the e-seller might still need to have an integrated payment gateway, which could be costly to incorporate. In the absence of it, the e-seller would need to share bank account information with the buyer. Furthermore, the buyer would have to initiate the transfer via their internet banking options. Those steps add to complexity and also make e-sellers hesitant to share bank account information. The bottlenecks could be avoided by third party providers that can facilitate account-to-account e-commerce payments via APIs. However, such models are still not seen in the Albanian market. The new payment services law, which paves the way to open banking and APIs, is likely to make it easier for third party service providers offering such APIs to come into the market.

Box: Regulating card interchange fees

The level of card interchange fees depends on a range of cost factors. In general, fees will reflect compensation for the issuing financial institution to cover card issuance, handling of fraud and bad debt costs and other risks involved in approving transactions. Inherently, to the extent that costs and risks per merchant are likely to be higher in less mature markets, this reflects also in differences in interchange fees across countries.

Beyond cost factors, however, the level of interchange fees may also reflect the market power of international card networks over businesses and consumers - some countries have therefore regulated ceilings on interchange fees. For instance, the [EU interchange regulation](#) caps interchange fees at 0.2% and 0.3% respectively for consumer debit and credit cards. The [US](#) also caps interchange fees. In 2018, [Serbia](#) introduced interchange fee caps (same levels as the EU) in the Western Balkans region.

²¹ More information available at:

https://www.kansascityfed.org/~media/files/publicat/psr/dataset/intl_if_august2019.pdf

²² The implementation of the Instant Payment System in Serbia constitutes a relevant case study of a domestic payment processing infrastructure deployed in the Western Balkans region:

<https://nbs.rs/internet/english/15/mediji/vesti/20181022.html>

The effectiveness of regulating interchange fees needs to be closely reviewed on a country-by-country basis. Just as with any price regulation, interference in markets needs to be well-justified. A too low interchange fee can blunt the incentive for financial institutions to issue cards to their customers, delaying the adoption of electronic payments. However, if the market power of card systems drives interchange fees too high, then high card transaction fees can deter businesses from accepting card payments – leading to continued reliance on cash. The recent cap imposed in Serbia will offer an interesting test case for the impact of regulating interchange fees in the Western Balkans region.

<p>Credit card fees for Albanian sellers are significant, also compared with the EU...</p>	<p>.. but, despite this, Albania has seen growth in virtual POS for online card payments</p>																																												
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Nonetheless, the Bank of Albania has recorded a gradual pickup in virtual POS issued, suggesting that Albanian webshops are gradually adopting electronic payments. There are only two banks that acquire e-merchants in Albania. Nevertheless, in 2019, approximately 3 million debit/credit card purchases took place online in Albania (with cards issued by Albanian banks). This represents about 38 percent of all card purchases in the country for the same year.²³

One-stop-shop payment service providers, like Paypal, 2checkout or Stripe, have significant potential as enablers of electronic payments, (i) making it easier for e-commerce companies to integrate electronic payments into their webshops and (ii) alleviating customer concerns about fraud. Relative to traditional online card payment solutions requiring opening a merchant account with a bank and integrating a customized payment gateway into the webshop, these wholistic payment service providers offer simple and transparent plug-in solutions and application programming interfaces (APIs) that e-commerce companies can build into their websites without incurring large

²³ Bank of Albania statistics.

upfront costs. Financial data, such as card or bank account details, is shared with the payment service provider, who then credits the web-shop once the payment has occurred – alleviating customer concerns that their financial data will be compromised during the transaction. As such, these integrated service providers have significant potential as entry-level electronic payment options to help emerging Albanian webshops grow.

However, existing international integrated payment service providers so far offer only limited or no functionality on the Albanian market. Their services need to be integrated within the local financial eco-system, including by building relationships with local financial institutions so that payments can be transferred quickly and at low cost to and from the financial accounts of the users. On the other hand, the upsides for entering a small market like Albania can appear limited for large international companies. Given a small Albanian producer base and a shallow e-commerce industry, there are relatively few natural sellers that could use the payment service. Moreover, with the low penetration of bank accounts and payment cards among Albanian households, in an already small country, there are few natural buyers. As a result of high entry costs and limited perceived business opportunity, international payment service providers have been relatively slow to expand their services to the Albanian market.

Other innovative e-commerce payment models, such as Amazon PayCode, offer hybrid solutions for markets with low penetration of electronic payment services – but these are also generally not available in Albania yet. Under the Amazon Paycode model, a customer can shop products from Amazon and select the PayCode payment option during check-out. For this option, the customer does not need to have a payment card, or any other electronic instrument, registered with Amazon. They receive a transaction code and then make the payment using cash at a participating local Western Union agent. Western Union handles the currency exchange aspects, settlement and money movement.

Box: PayPal Case Study				
<p>The payment service PayPal for instance, though known for its broad international reach, offers – so far – limited functionality in Albania. PayPal is not registered with the Bank of Albania to operate and provide their services in Albania. Businesses registered in Albania can make and receive payments through PayPal, but they face elevated transaction fees and they need to cash-out either through a US-registered bank account or by paying a fee to withdraw through a domestic VISA card at the end of each month. This means that withdrawals are cumbersome and time intensive. Since Paypal cannot process payments in Albanian lek, Albanian customers paying through Paypal online need to pay in foreign currency (usually euro or USD) and Albanian businesses face additional foreign exchange fees to convert proceeds back into Albanian lek.</p>				
PayPal functionality by country				
Country of registration of the business	Make / receive payments	Local withdrawal of funds	Local currency accepted	Fee for receiving domestic commercial payment (/1)
Kosovo	No/No	NA	NA	NA
Turkey	No/No	NA	NA	NA
Montenegro	Yes/No	NA	No	NA

North Macedonia	Yes/No	NA	No	NA
Albania	Yes/Yes	Transfer to local card subject to fee	No	3.4% + fixed
Bosnia and Herzegovina	Yes/Yes	Transfer to local card subject to fee	No	3.4% + fixed
Moldova	Yes/Yes	Transfer to local card subject to fee	No	3.4% + fixed
Serbia	Yes/Yes	Free transfer to local card	No	3.4% + fixed
Croatia	Yes/Yes	Free transfer to local card	No	3.4% + fixed
Greece	Yes/Yes	Free transfer to local bank account	Yes	3.4% + fixed
Italy	Yes/Yes	Free transfer to local bank account	Yes	3.4% + fixed
Austria	Yes/Yes	Free transfer to local bank account	Yes	3.4% + fixed
Germany	Yes/Yes	Free transfer to local bank account	Yes	2.5% + fixed
USA	Yes/Yes	Free transfer to local bank account	Yes	2.9% + fixed

The need for new business models in Albania’s electronic payments landscape is creating an opportunity for growth of local companies that can facilitate e-commerce transactions. EasyPay for example, an Albanian electronic money institution that offers e-money payment services through mobile phone or desktop, has been adopted as a payment option by several Albanian webshops. Like the service provided by international integrated payment service providers, e-money providers allow webshops to accept electronic payments (i) without incurring the high upfront costs needed for integrating a traditional virtual POS into the website and (ii) using the e-money provider as intermediary in handling the sensitive financial data of buyers. However, for the moment, local e-money providers offer only a partial alternative to traditional electronic payment methods such as cards. Albanian e-money providers accept payments only in Albanian lek and both the merchant and the payer need to have an account with a particular provider for the online transaction to take place. E-money accounts are currently not interoperable with bank accounts, meaning that funds cannot be directly transferred from one to the other, although this is expected to change with the current revisions of the regulatory framework by BoA whereas e-money institutions and payment institutions can be direct participants to the ACH.

Albania needs to establish a comprehensive regulatory environment that allows its electronic payment ecosystem to keep up with the newest developments. Key measures include:

- **Implement bylaws for the newly approved Law on payment services, aligning Albania’s regulatory framework with the [EU Payment Systems Directive \(PSD-2\)](#):** full implementation of the regulatory framework will eliminate regulatory uncertainty, clarifying rights and responsibilities of payment service providers - thereby encouraging domestic and international payment service providers to expand their services in Albania. Through alignment with the EU framework, international companies – who are generally already compliant with EU

regulation – will be able to expand their services to Albania at limited additional cost, while Albanian companies will set up their service in a way that will make it simple to expand to other countries in the region that follow the EU framework. The PSD2 transposition would enable and provide more clarity pertaining to a variety of issues that are also relevant for e-commerce: open banking; APIs; tokenization and aliases; interoperability; among other. Open APIs can be particularly helpful in the context of e-commerce, given that they can facilitate cost-efficient and seamless integration of payment platforms into webshops.

- **Foster innovation by exploring the establishment of a regulatory sandbox in the context of FinTech, spanning e-commerce:** a regulatory sandbox refers to a mechanism for businesses to conduct tests of new products, services, delivery channels, or business models in a live environment, with regulatory oversight and subject to certain conditions and safeguards. The critical feature that distinguishes a regulatory sandbox from other tools used to facilitate innovation is testing in a live environment—that is, real transactions with real customers or counterparties. Sandboxes are often implemented as part of broader initiatives to facilitate innovation or promote competition. The most common of these other tools, often referred to as an “innovation hub,” or innovation lab, is a dedicated office or point of contact within a regulatory agency that facilitates engagement with companies seeking guidance about new products or services. These tools facilitate engagement between regulators and innovative financial services firms to address areas of regulatory uncertainty. In that sense, a sandbox may be thought of as one part of a process—by which businesses and regulators work together to understand and address the regulatory risks of innovative products or services with the objective of facilitating their safe introduction to the marketplace. In the case of Albania, establishing a regulatory sandbox in order to accommodate and explore new business models in the area of FinTech, including for e-commerce, could be attractive for new players.²⁴
- **Create a conducive market environment to encourage international payment service providers to expand their services in Albania.:** Bank of Albania and government agencies could work toward attracting international service providers, including by (i) clarifying the regulatory requirements that the service providers need to comply with when operating in Albania via informational sessions and digital events, (ii) ensuring short times for application reviews and license granting.

Box: International experience on direct incentives to encourage customers and businesses to use electronic payments

A recent World Bank (2020) report on “[Electronic payments acceptance incentives](#)” offers a summary of international experience on deploying more direct incentives to encourage use of electronic payments. Given the significant positive externalities from developing an electronic payments ecosystem – including (going beyond e-commerce) as steppingstone for households and businesses to access more advanced financial services, as means of reducing informality and as means of avoiding the extensive transaction costs of a cash-based economy – a range of instrument have been deployed, including:

²⁴ The UK is one of the first jurisdictions to implement regulatory sandboxes and their experience offers valuable lessons.

<https://www.fca.org.uk/firms/innovation/regulatory-sandbox>

- Tax incentives for electronic transactions, such as VAT refunds or income tax deductions (ie Argentina, Colombia, Japan, South Korea)
- Lottery schemes on electronic transactions (ie India, Mexico, South Korea)
- Subsidy and/or tax incentive for merchant POS installation (ie Argentina, Japan, Mexico)
- Limits on cash transactions and/or mandated acceptance of electronic means of payments by merchants (ie France, Turkey, Greece, Italy, Sweden, Norway, the Netherlands, Czech Republic, Denmark, South Korea)

The report highlights some evidence that these more direct interventions have, in some cases, supported the adoption of electronic payments. However, international experience also highlights drawbacks. Some countries have eventually withdrawn these direct incentives, given concerns that they disproportionately benefit the better off (who are more likely to already use electronic payments). Tax and lottery schemes can be difficult to implement and administratively burdensome. Fiscal measures can be costly - regular cost-benefit analysis is needed to ensure that these instruments achieve value-for-money.

LEVERAGING INTERNATIONAL E-COMMERCE PLATFORMS

Instead of selling through an Albanian webshop, Albanian e-sellers can sell through an international e-commerce platform and benefit from the mature integrated payment solutions these platforms offer. In this case, transactions generally take place in the currency of the country in which the platform is native – meaning that Albanian e-sellers face currency conversion fees (i.e. Amazon.com transactions take place in USD, though aliexpress.com allows buyers to purchase in Albanian lek). Equally, the website is generally only available in the language of the country in which the platform is native (this is the case for amazon.com, though aliexpress.com is also available in Albanian auto translation). Finally, Albanian e-sellers may be required to register her/his business and open a bank account in the country in which the platform is native (this is the case for aliexpress.com, but not for Albanian e-sellers on amazon.com).

- **Reach out to major international e-commerce platforms to encourage them to facilitate sign-up of Albanian e-sellers:** key measures the platforms can take are (i) enable Albanian e-sellers to sign up with their Albanian business registration, (ii) enable Albanian e-sellers to be paid in Albanian lek on their Albanian bank account (or there should be an integration with an international payment service such as payoneer.com that facilitates payment to a lek-denominated bank account), (iii) provide Albanian language support on the website (potentially through auto translation), both to help Albanian sellers navigate the website and to allow Albanian buyers to use the platform.²⁵

²⁵ The example of China constitutes an interesting use-case of how local and international players entered the e-commerce market and started offering innovative payments products in the context of e-commerce.

<http://documents.worldbank.org/curated/en/552791574361533437/pdf/E-commerce-Development-Experience-from-China.pdf>

Albania's nascent domestic e-commerce sector largely settles transactions through cash-on-delivery – this holds back further growth of the sector. While COD reflects current market conditions in Albania (including customer demands to pay in cash), in the medium term this can become a key bottleneck to further growth. Electronic payments can make e-commerce more convenient for domestic customers. The capability of webshops to accept online payments is also often a sine-qua-non to attract orders from abroad. Equally, Albanians need to adopt online payments to be able to order from most international e-commerce websites.

Growth of online payments requires a concerted effort to equip both Albanian customers and webshops with electronic payment capabilities. As outlined in this chapter, the foundations for this are a stronger legal enabling environment for payment services as well as a comprehensive and interoperable payment system infrastructure. This needs to be complemented with a change of Albania's payments culture, reflected in upgraded payment capabilities of both customers and webshops.

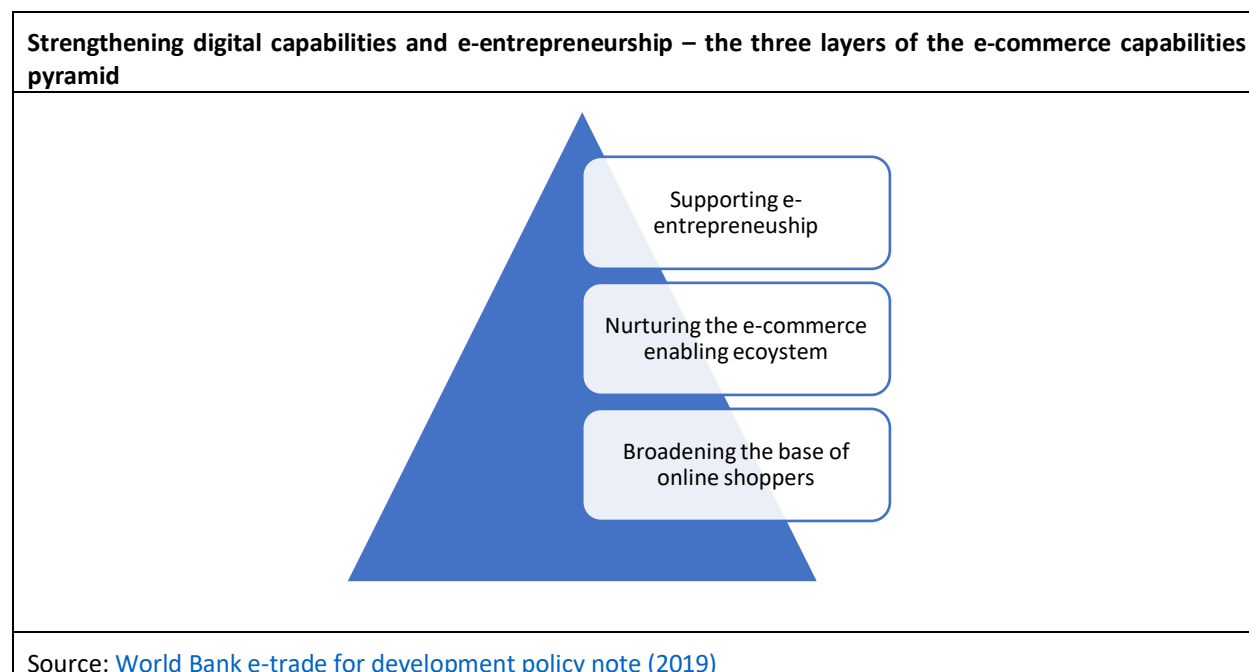
Summary of recommendations to strengthen payment services

Area	Recommendations	Responsible entity	Case Study
Legal/Regulatory	Finalize the implementation of bylaws for the new Law on Payment Services, clarifying the rights and responsibilities of payment service providers (aligning with EU directives)	BoA	EU Payment Services Directive (PSD-2)
	Finalize the roll-out of a “basic payments account” framework, offering features such as broad right of access for all Albanian citizens, transparent statement of fees, comparison website, debit card, simple protocol for switching institutions (aligning with EU directives)	BoA	EU Directive on payment accounts
	Foster innovation by exploring the establishment of a regulatory sandbox/innovation lab that would enable of new e-commerce payment business models, among other	BoA	Regulatory Sandbox in the UK Regulatory Sandboxes in Georgia Regulatory Sandbox in Thailand
Infrastructure	Finalize the implementation of a domestic payment processing infrastructure	BoA and Market Actors	Instant Payment System – Serbia
Financial Education and Trust Building	Ensure that financial education campaigns incorporate aspects on the use of electronic payments for online shopping	National Payment Systems Committee of Albania (NPSC)	Strategies for Financial Education

	Establish a working group that regularly reviews reported cases of online payment fraud and identity theft and recommend industry/policy responses	NPSC	Online Payments Fraud around the World
	Inform customers of requirements on usage of debit cards online	Market Actors	Observatory for the Security of Payment Means – France
Market Dynamics	Roll out postal card and e-wallet service	Albania Post	Italian Postepay Cards
	Finalize the evaluation work initiated by the NPSC on whether Albanian card interchange fees are competitive and consider measure that can lower the cost of debit/credit card transactions in Albania for merchants	NPSC	Serbia interchange fee law
	Reach out to major international e-commerce platforms to encourage them to facilitate sign-up of Albanian e-sellers	Market Actors	Experience of China

6. UPGRADING PRIVATE SECTOR CAPABILITIES

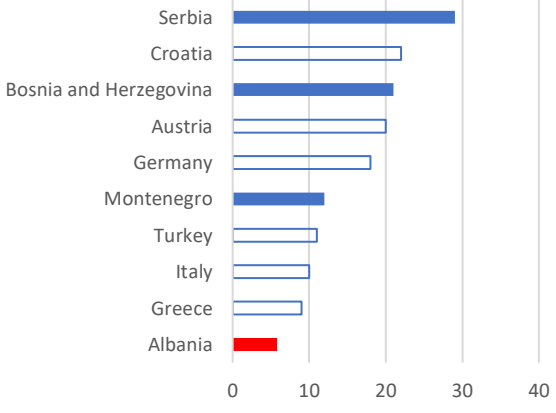
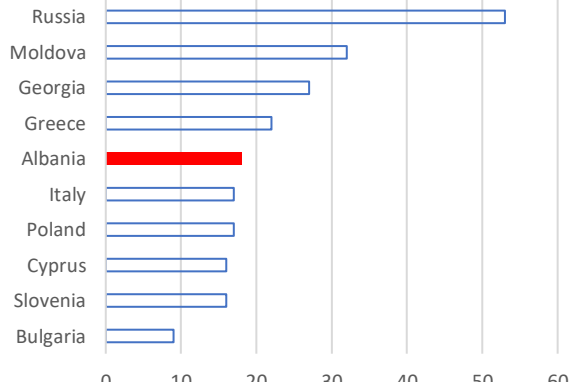
Strong private sector e-commerce capabilities, skills and knowhow are a crucial ingredient for developing Albania’s online markets. First and foremost, e-commerce is driven by individual e-entrepreneurs that seize the opportunity presented by online markets, either by adding an online sales channel to their existing brick-and-mortar business or by starting a new online venture. Second, to enable such e-entrepreneurship, a capable e-commerce supporting ecosystem is needed. Businesses need access to a pool of skilled employees, including e-commerce specialists, online advertising, web-design, programming and others. An ecosystem of enabling businesses (online marketplaces, e-commerce business advisory, integrated software solutions for payments/logistics/accounting etc) facilitates entry into e-commerce. Third, at a basic level, the development of online markets requires a broad base of domestic customers that are digitally literate and that are comfortable with online shopping. This chapter reviews key measures to address the existing constraints at each of these three layers of the e-commerce capabilities pyramid in Albania.



SUPPORTING E-ENTREPRENEURSHIP

Many Albanian brick-and-mortar businesses have not yet invested in developing an online sales channel. Only 5 percent of Albanian businesses reported online sales in 2018, significantly lagging behind regional peers. Though a [2020 Enterprise Survey](#) update reveals that almost 20 percent of surveyed Albanian firms have either started or increased online business activity during the ongoing COVID-19 pandemic – suggesting a big forward jump in digitalization to cope with the crisis – this response lags other countries in which the survey was performed. In part, this reflects the fundamentals of the Albanian economy. For certain business activities prominent in Albania (for instance agriculture), developing online sales channels is inherently more difficult. A limited domestic base of online shoppers makes investing in an online shop less attractive. However, these structural factors are likely exacerbated by more immediate constraints faced by Albanian firms. For instance, given insufficient knowledge about e-commerce, businesses may underestimate its advantages and overestimate the cost of going online. In some

instances, financing constraints are likely to preclude the necessary investments. General status-quo bias may also prevent some firms from making changes to their business model and upgrading to e-commerce.

Compared to regional leaders, the scope for Albanian firms to grow e-commerce is large...	... though the 2020 COVID-19 pandemic gave online business activity a major push																																												
<p data-bbox="284 472 714 535">Enterprises selling online (% of firms with 10+ employees, excludes finance)</p>  <table border="1" data-bbox="219 567 771 976"> <caption>Enterprises selling online (% of firms with 10+ employees, excludes finance)</caption> <thead> <tr> <th>Country</th> <th>Percentage</th> </tr> </thead> <tbody> <tr><td>Serbia</td><td>28</td></tr> <tr><td>Croatia</td><td>22</td></tr> <tr><td>Bosnia and Herzegovina</td><td>21</td></tr> <tr><td>Austria</td><td>20</td></tr> <tr><td>Germany</td><td>18</td></tr> <tr><td>Montenegro</td><td>12</td></tr> <tr><td>Turkey</td><td>11</td></tr> <tr><td>Italy</td><td>10</td></tr> <tr><td>Greece</td><td>9</td></tr> <tr><td>Albania</td><td>5</td></tr> </tbody> </table>	Country	Percentage	Serbia	28	Croatia	22	Bosnia and Herzegovina	21	Austria	20	Germany	18	Montenegro	12	Turkey	11	Italy	10	Greece	9	Albania	5	<p data-bbox="885 472 1356 556">Percent of firms that started or increased online business activity since the start of the COVID-19 pandemic</p>  <table border="1" data-bbox="828 598 1404 976"> <caption>Percent of firms that started or increased online business activity since the start of the COVID-19 pandemic</caption> <thead> <tr> <th>Country</th> <th>Percentage</th> </tr> </thead> <tbody> <tr><td>Russia</td><td>52</td></tr> <tr><td>Moldova</td><td>32</td></tr> <tr><td>Georgia</td><td>28</td></tr> <tr><td>Greece</td><td>22</td></tr> <tr><td>Albania</td><td>18</td></tr> <tr><td>Italy</td><td>17</td></tr> <tr><td>Poland</td><td>16</td></tr> <tr><td>Cyprus</td><td>15</td></tr> <tr><td>Slovenia</td><td>14</td></tr> <tr><td>Bulgaria</td><td>8</td></tr> </tbody> </table>	Country	Percentage	Russia	52	Moldova	32	Georgia	28	Greece	22	Albania	18	Italy	17	Poland	16	Cyprus	15	Slovenia	14	Bulgaria	8
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A range of measures can support Albanian businesses to go online, overcoming information frictions, financial frictions and status-quo bias:

- Establish information websites (and seminars) with how-to guides on moving businesses online and increasing awareness about Albanian e-commerce success stories:** a low-cost starting point for intervention would be the establishment of an information website that explains what companies need to take into account when going online, including links to applicable legislation, a step-by-step guide on decisions the business will need to make to go online and case studies of domestic businesses that have successfully built their online presence. Good examples for such websites can be found in the [UK](#), [US](#) and also in the Western Balkans region (i.e. [Croatia](#)). The webpage could be hosted in the website of MFE or AIDA.
- Create financing and training programs to support businesses in opening online sales channels:** while financing (usually in the form of a matching grant scheme to finance consulting/training/website development/market research) and/or the free provision of training services is a key component of these programs, it also serves as an anchor to prompt businesses to take action and commit to e-commerce development. Business advisory expertise helps bridge information frictions. Programs therefore can, and should be, designed to overcome a range of barriers: financing, information asymmetry, and status quo bias. In the Albanian context, such financing and training programs could either be established as new structures (potentially with the support

of international development partners) or within existing government structures (such as within the existing grant program portfolio financed by the Albanian Investment Development Agency - AIDA). Programs should integrate strong monitoring and evaluation components. Rigorous impact evaluations should regularly review whether programs achieve value-for-money.

Whenever possible, government should explore designing programs in close partnership with the private sector - for instance, in collaboration with e-commerce platforms. E-commerce platforms have an incentive to attract more online sellers to their website. The platforms also bring to the table deep sector expertise. As example of such private-sector-led initiatives, see Jumia (equivalent of Amazon in Africa and MENA) which has created Jumia University to train vendors, including through the creation of guidelines to help vendors make professional packages that are compliant with Jumia's standards of quality. ShopGo in Jordan is another example, which provides several tutorials imported from San Francisco to help vendors improve their experience selling goods online. Another example is the Veezeta platform, an online medical care scheduling service and search platform, which has made software and hardware investments to foster supply-side take-up.

Box: Financing and training programs to encourage businesses to establish online sales channels

The World Bank has partnered with a range of countries to establish financing and training programs that support businesses to develop online sales. These programs offer useful example schemes that can be deployed in Albania:

1/ Programs that support micro, small and medium-sized enterprises (MSMEs) to develop their own web-shops: For instance, the [Moldova Export Competitiveness Project](#) provides matching grants (matching up to 50 percent of the firm's own funding contribution) for selected business development services (BDS) and equipment to strengthen export capabilities. In practice, a significant fraction of grants supports the development of online sales channels, including website design and marketing. The average project costs US\$19,800 (of which \$10,000 is provided by the project beneficiary).

2/ Programs that support SMEs to sell through online marketplace intermediaries: For instance, the World Bank is currently running an [e-Commerce and Women-Led SMEs in MENA](#) project that trains e-commerce advisors, who will in turn train women-led SMEs to sell through online marketplaces, including abroad. Similarly, a pilot project in Egypt is training micro enterprises to use facebook for product advertising and provides financing support to cover initial advertising costs. A pilot program in Georgia is providing training to SMEs to establish sales channels through online marketplaces and provides a subsidy (in the form of an initial online order) to program participants that successfully establish such a channel.

But governments and other development partners have also rolled out their own programs. For instance, the [UK e-exporting program](#) provides support to companies who are new to e-commerce or look to expand into new markets. The International Trade Center (a joint agency of UN and WTO) has launched the [ecomConnect](#) initiative, running projects in a range of countries.

Source: World Bank staff

E-entrepreneurs need to be supported by a business environment that has adapted to the digital economy – currently, the unclear tax treatment of online businesses stands out as a particularly prominent bottleneck.

Albanian tax laws are generally – despite some references to services supplied electronically (e-services) - silent about e-commerce. In a way, this suits some online traders that aim to avoid taxation and stay informal. However, this also acts as powerful disincentive for honest businesses that are considering an online sales channel. Without legal certainty, unclear interpretation of tax provisions for online sales exposes businesses to the risk of potential penalties and fines. Firms are vulnerable to how individual tax administration officials interpret how Albania's tax law applies to their specific online business. This makes long-term business planning challenging.

- **Broaden acceptance of digital invoices for tax purposes:** a key cost for online businesses is digital advertising, including through international digital platforms (google, facebook, etc). These providers use digital invoicing to certify payments, which are generally not available in Albanian language or in accordance with the Albanian invoicing format. As a result, Albanian e-entrepreneurs report that the Albanian tax authorities generally do not accept these digital invoices as proof of business expense for tax purposes. Adjustment of Albanian tax legislation and tax administration operational guidelines to respond to the peculiarities of digital businesses can play a key role in creating a more conducive business environment for e-entrepreneurship. A 2019 legal amendment already allows for the use of electronic invoicing for VAT purposes, as long as the authenticity of the content, the integrity of the content and the readability are guaranteed. However, according to the income taxation law, for expenses to be deductible, an original invoice is needed. To simplify digital invoicing, all laws should be aligned to clarify that electronic invoices are acceptable, that the tax authority will accept invoices in any language (though it may request document translation to be provided by the business) and that all invoice formats will be acceptable, as long as minimum information requirements are met. The acceptability of “invoices issued by the buyer” with regards to digital invoices (including foreign) needs to be clarified and the tax administration needs to renew efforts to ensure that all businesses are aware about how to use this invoicing procedure.
- **Clarify deductible expenses for income tax purposes:** in Albania, all necessary and reasonable expenses incurred for a business activity and that are properly documented are deductible, with some exclusions. Yet e-entrepreneurs report that advertisement and trainings are key expenses that are often contested by the tax authority. As in other countries, the legal framework could strengthen the position of companies by highlighting explicitly that these specific expenditure categories are eligible for income tax deduction.
- **Review the tax legal framework to clarify the treatment of online marketplaces (intermediators between buyers and sellers):** Online marketplaces operating in Albania need to have clarity on when they are (or not) legally liable (i) to ensure that buyers and sellers that use their marketplace comply with the taxation framework and (ii) under what circumstances the marketplace itself is considered to be a seller for tax purposes. The [EU VAT e-commerce package](#) offers a useful international example in this regard.
- **Ensure that businesses are aware of CIT withholding tax provisions when foreign businesses sell to Albanian businesses:** Non-resident juridical persons (ie foreign registered companies) are subject to withholding tax of 15% (a substitute of corporate profit tax) for income sourced in Albania (ie income earned from services offered to Albanian companies).²⁶ The withholding tax is deducted by the Albanian company (receiving the services)

²⁶ In case there is a Tax Treaty in force between Albania and the country where the foreign supplier of services is a resident, the provisions of such a treaty prevail over the Albanian legislation; Some of the Tax Treaties Albania is part of, provide for a reduced withholding tax (5-15%) when certain criteria are met.

from the gross value of the foreign supplier's invoice and declared and paid to the tax office by the Albanian company. In case the Albanian company does not withhold and pay the tax, then the 15% withholding tax, along with fines and penalties are charged to the Albanian company, and/or the cost of service is not accepted as deductible expenses for CIT purposes. It is crucial that Albanian e-commerce businesses – which often purchase advertising, hosting and other services from international e-commerce platforms – are fully aware about these tax obligations.

- **Train tax administration staff to deal efficiently and consistently with the peculiarities of the taxation issues faced by e-businesses:** tax administration staff need to be trained to deal with the peculiarities of the digital economy. For instance, Albanian firms reported during preparation for this study that the tax administration in multiple cases refused to accept expenses for the purchase of software downloaded from abroad, since the firm could not produce customs declaration documents. Small Albanian exporters reported lack of clarity on how to deal with returned goods from foreign customers, which they ended up treating as new imported goods on which customs duties and taxes were due. Tax administration staff need to develop simple and transparent protocols to deal with these special cases, providing e-entrepreneurs with clarity on how different types of expenses will be treated for tax purposes (including documentation requirements).

A more conducive business environment can help more e-entrepreneurs to formalize, reducing distortions from Albania's informal digital economy, creating a more level playing field for Albania's formal e-commerce sector and encouraging fair market competition. Faced with unclear and burdensome regulations, some businesses react by staying informal or not complying with certain elements of the regulatory/tax regime. So-called “social commerce” on platforms such as facebook and Instagram, often largely executed by informal freelancers and companies, is thriving in Albania and often informal. Informality in turn holds these e-entrepreneurs back – they cannot access bank loans and they need to stay small to stay undetected. In some cases, informal online businesses – unburdened by regulation and taxation – create unfair competition for formal e-commerce companies, cannibalizing market share. A poor online shopping experience when buying from an unregulated informal shop can hurt the reputation of the entire Albanian e-commerce industry – also punishing formal businesses. In the worst case, a faulty product bought from an unregulated firm can create a health and safety risk for the customer. A stronger business environment – combined with continued anti-informality enforcement campaigns – can therefore play a key role in encouraging formalization of the e-commerce industry and upgrading of online business capabilities.

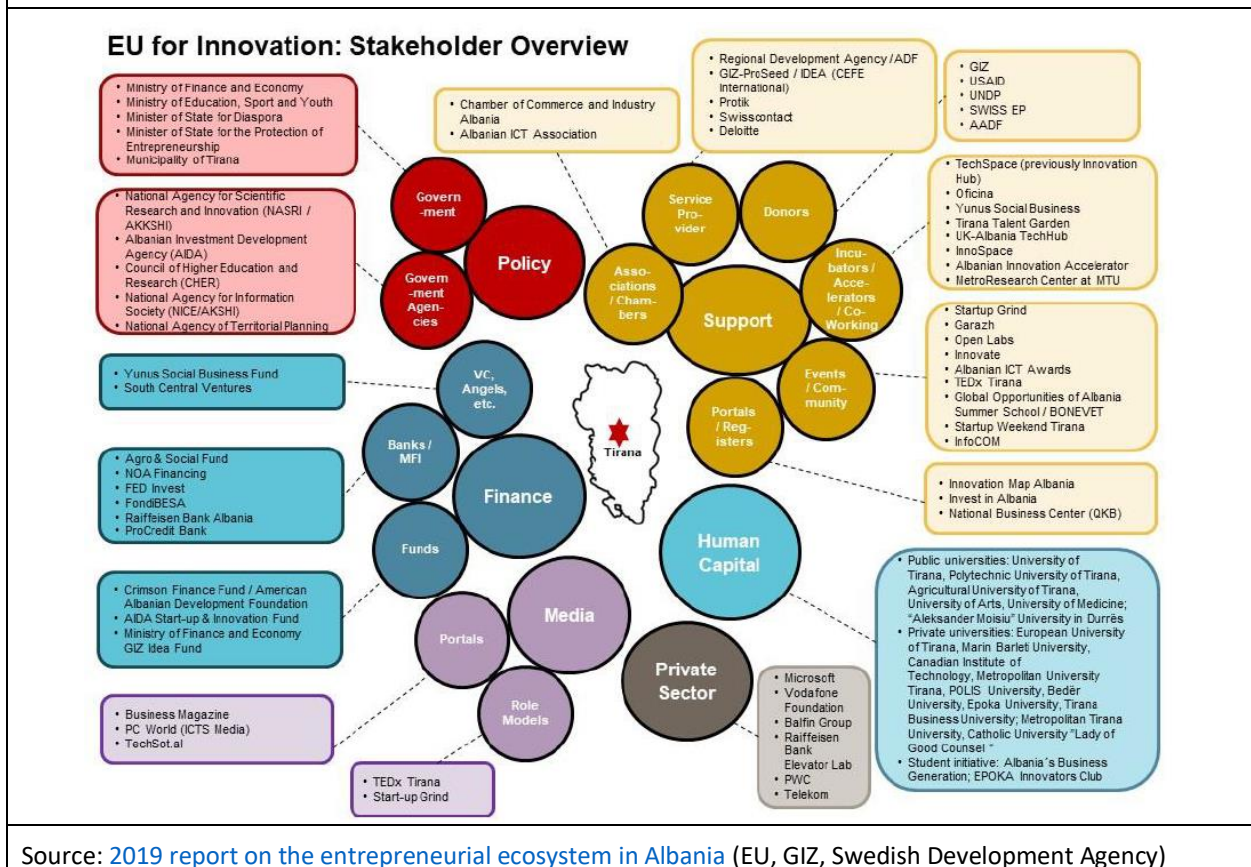
Albania's digital startup eco-system remains nascent. Albania has a young, multilingual and ICT-literate population. Thus many of the fundamental factors for the development of a dynamic startup ecosystem for online businesses are present. Yet, the digital startup scene remains nascent. Universities and development partners implement a range of initiatives to encourage entrepreneurship, but many of these initiatives remain disjointed. Grant programs for young businesses exist, but they are often too small to make a difference. A [2019 report on the entrepreneurial ecosystem in Albania](#) indicates that both government and donor programs to support entrepreneurship are perceived as not sufficient to address the existing business needs. Private sector early-stage financing is largely non-existent. For example, Albania is the only country in the Western Balkans without its own angel investor network – partly also because investors report that there are not yet many attractive investment prospects in Albania.

- **Strengthen access to early-stage financing options for digital startups:** given limited current private sector financing, this will in the first place require strengthening existing government (for example AIDA) and international donor grant programs for startups. In particular, a shift is needed towards (i) larger more meaningful grants per company, (ii) less cumbersome and digitalized application procedures, accompanied by inclusive communication campaigns to encourage take-up, (iii) closer accompaniment of those startups that are accepted into the grant programs to establish accountability for results and support entrepreneurs with

mentorship and (iv) more systematic impact evaluations to identify grant program features that work and those that do not – ensuring that these support programs gradually achieve better value-for-money.

- **Strengthen incubator and accelerator programs:** the [2019 report on the entrepreneurial ecosystem in Albania](#) in particular identifies the need for the establishment of a stronger incubator and accelerator ecosystem. Incubator programs are needed that (i) accept applications throughout the year, (ii) offer close linkages with local universities and their entrepreneurship ideation programs and (iii) offer close linkages with international e-commerce industry insiders that can act as mentors. Partnerships with Silicon Valley (such as the partnership of [Serbia's Startit accelerator with google](#)) offer potential paths to reinvigorating Albania's startup scene.

Figure: Mapping of stakeholders in the Albania innovation eco-system



One sector in which Albanian e-entrepreneurship has already demonstrated clear potential is the sale and delivery of online services abroad, particularly in business process outsourcing (BPO). [Risi Albania estimates](#) that Albania's BPO companies employ between 25,000 to 32,000 professionals. These firms are gradually evolving beyond basic call centers towards providing financial, HR and IT services. They range from homegrown companies to international players establishing Albanian subsidiaries. In addition, many Albanian self-employed have been successful in building a presence on international online freelance websites such as upwork.com to offer globally on-demand online services, including website design, financial planning and translation services. On a per-capita basis, the penetration

of Albanians on these freelance websites exceeds that of many advanced economies. Given a skilled multilingual workforce, competitive local wages as well as the still significant barriers to emigration, Albania has great potential to build on current progress and to create even more jobs providing online services at-distance to the European and American markets.

Albania’s growing tourism sector has also rapidly adopted online sales channels. Albania’s tourism potential has long been under-explored. With an extensive Mediterranean coastline, a plentiful endowment of forests, mountains and rivers as well as a rich cultural and historical heritage, Albania has plenty to offer for leisure and adventure travelers. Yet, besides country branding, key bottlenecks include limited tourism infrastructure, such as high-end tourism resorts with close airport access, as well as few standing arrangements with international package tourism companies. To overcome these obstacles, local Albanian service providers were able to adopt online platforms to directly reach out to new domestic and international customers that are willing to take the initiative and make their own independent travel arrangements to explore Albania. The growing use of online platforms such as booking.com has played a key role in the expansion of Albania’s tourism market. Between 2014 and 2019, annual arrivals of foreign citizens into Albania grew by 74.4 percent, reaching 6.4 million arrivals in 2019. In 2020, the ongoing COVID-19 crisis is a severe setback for Albania’s tourism industry – but the fundamental long-term trend of tourism as an Albanian growth industry is expected to re-emerge once the pandemic is overcome.

Albania has successfully built an industry selling online services (mostly to businesses) abroad...	... while Albania’s tourism sector has been quick to adopt digital markets to reach new customers																																																						
<p style="text-align: center;">Freelancers and agencies on upworks.com offering services in "web, mobile and software development"</p> <table border="1"> <caption>Data for Freelancers and agencies on upworks.com</caption> <thead> <tr> <th>Country</th> <th>Number of Freelancers/Agencies</th> </tr> </thead> <tbody> <tr><td>Serbia</td><td>1050</td></tr> <tr><td>North Macedonia</td><td>800</td></tr> <tr><td>Albania</td><td>450</td></tr> <tr><td>BiH</td><td>450</td></tr> <tr><td>Montenegro</td><td>450</td></tr> <tr><td>Croatia</td><td>400</td></tr> <tr><td>USA</td><td>350</td></tr> <tr><td>Greece</td><td>150</td></tr> <tr><td>Austria</td><td>100</td></tr> <tr><td>Italy</td><td>100</td></tr> <tr><td>Germany</td><td>100</td></tr> <tr><td>Turkey</td><td>100</td></tr> </tbody> </table>	Country	Number of Freelancers/Agencies	Serbia	1050	North Macedonia	800	Albania	450	BiH	450	Montenegro	450	Croatia	400	USA	350	Greece	150	Austria	100	Italy	100	Germany	100	Turkey	100	<p style="text-align: center;">E-tourism index</p> <table border="1"> <caption>Data for E-tourism index</caption> <thead> <tr> <th>Country</th> <th>Index (per thousand inhabitants)</th> </tr> </thead> <tbody> <tr><td>Montenegro</td><td>5.2</td></tr> <tr><td>Croatia</td><td>3.2</td></tr> <tr><td>Italy</td><td>1.2</td></tr> <tr><td>Greece</td><td>1.2</td></tr> <tr><td>BiH</td><td>1.0</td></tr> <tr><td>Albania</td><td>0.8</td></tr> <tr><td>Austria</td><td>0.7</td></tr> <tr><td>Serbia</td><td>0.6</td></tr> <tr><td>North Macedonia</td><td>0.5</td></tr> <tr><td>Germany</td><td>0.4</td></tr> <tr><td>USA</td><td>0.3</td></tr> <tr><td>Turkey</td><td>0.2</td></tr> <tr><td>Kosovo</td><td>0.1</td></tr> </tbody> </table>	Country	Index (per thousand inhabitants)	Montenegro	5.2	Croatia	3.2	Italy	1.2	Greece	1.2	BiH	1.0	Albania	0.8	Austria	0.7	Serbia	0.6	North Macedonia	0.5	Germany	0.4	USA	0.3	Turkey	0.2	Kosovo	0.1
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A strategy to support e-entrepreneurship in Albania could be to dedicate resources to support these two Albanian sectors that have already demonstrated high potential for using online sales channels:

- **Pilot training programs to help Albanians access online global freelancer opportunities including in the BPO sector:** an interesting pilot that Albania could replicate would be the [Kosovo Women in Online Work \(WoW\)](#)

program, which trained women in front-end web development, coding, graphic design and digital marketing. The program then helped the program participants to advertise their services on online freelancer websites (such as upworks.com) and win international contracts. The Pilot has proved the concept and was joined by number of other donors (such as USAid, Swiss). It is now scaled up nationally to include the youth of both genders.²⁷

- **Pilot training program to help Albanian businesses in the hospitality sector better advertise and sell their services online:** governments, international organizations, hospitality schools, universities and private training companies offer numerous courses on digitalization of tourism including digital transformation and innovation. A good example is the [Tourism Online Academy](#) launched by the IE University and the United Nations World Tourism Organization (UNWTO). This online platform allows participants to take courses to acquire managerial skills in digital marketing, finance, strategy, operations, innovation and digital transformation. The academy offers free and paid training modules. For an example of a government-driven training program, see the trainings offered for the hospitality sector in [Malta](#) for instance.

Albania's e-commerce sector needs to organize and defend its interests, advocating for a stronger enabling environment for online businesses. Currently, among the WB-6, only [Serbia](#) and [North Macedonia](#) have dedicated e-commerce business associations. Yet, such associations play an important role in self-regulating the industry, creating networking opportunities (see the annual [North Macedonia e-commerce conference](#)) and representing the interests of national e-commerce businesses vis-à-vis policy makers and in international settings. Currently, The Albanian Chamber of Commerce is playing an important role in representing the business sector, including when it comes to digital economy issues. The Albanian Business Services Association ([ABSA](#)) represents the BPO sector and is also contributing to the debate on the needs of Albania's e-commerce sector more broadly. Furthermore, the Albanian ICT Association ([AITA](#)) was established in 2007 as an initiative of Albanian enterprises working to address the needs of the IT sector.

- **Albania's e-commerce sector needs to organize and defend its interests, advocating for a stronger enabling environment for online businesses:** [Serbia](#) and [North Macedonia](#) have dedicated e-commerce business associations that could offer useful blueprints.

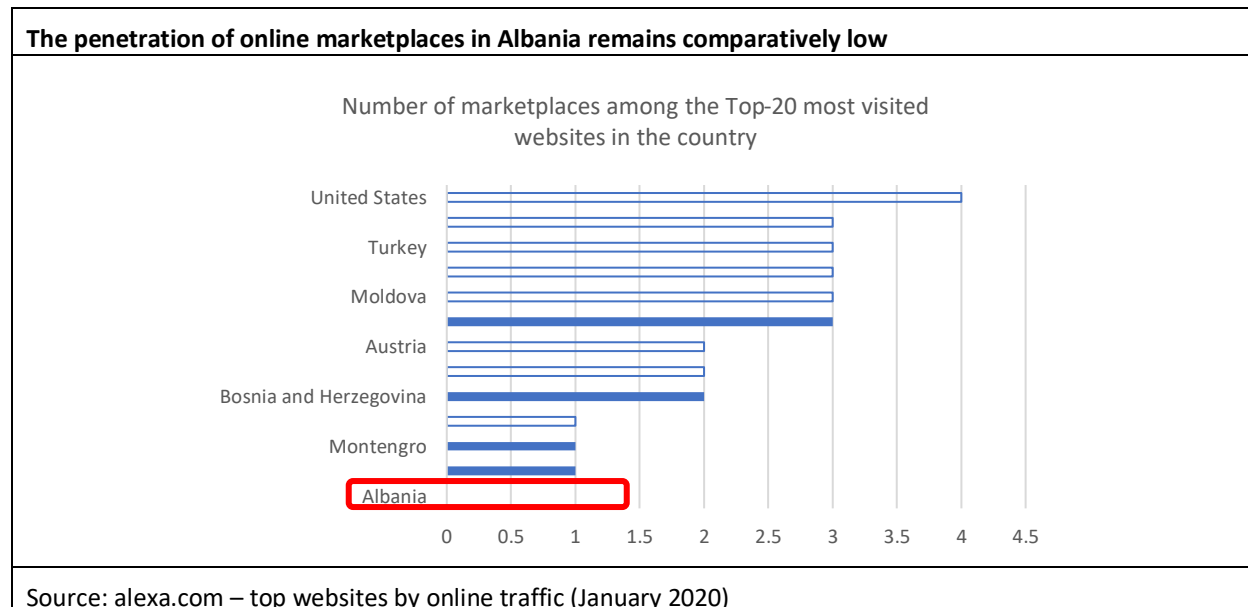
NURTURING THE E-COMMERCE ENABLING ECOSYSTEM

The penetration of online intermediary marketplaces remains low. Selling through an established online marketplace intermediary (such as amazon, Alibaba or more specialized marketplaces such as etsy) offers an attractive entry point into the digital economy. Avoiding the significant setup costs of a stand-alone webshop, selling through an established marketplace can be significantly cheaper. Since marketplaces offer a pre-packaged and (often) user-friendly service product (combining basic features such as product placement with more advanced features such as payment processing and logistics handling), they are also often a convenient solution for e-entrepreneurs.²⁸ Given significant existing traffic on online marketplaces, reaching customers can be easier. By

²⁷ The scale up was implemented through the World Bank financed [Kosovo Digital Economy \(KODE\) Project](#).

²⁸ International pre-packaged webshop solutions are available in Albania (though sometimes with restricted functionality).

acting as intermediary, marketplace brands can establish a basic level of trust between customers and new e-entrepreneurs. As such, online marketplaces can play the role of critical infrastructure enabling the growth of e-commerce. Yet, in Albania, both local and international marketplaces – while existent – have low market penetration, limiting their usefulness. International marketplaces generally offer only limited functionality for businesses based in Albania or businesses that aim to sell in Albania. Few international marketplaces offer Albanian language functionality.



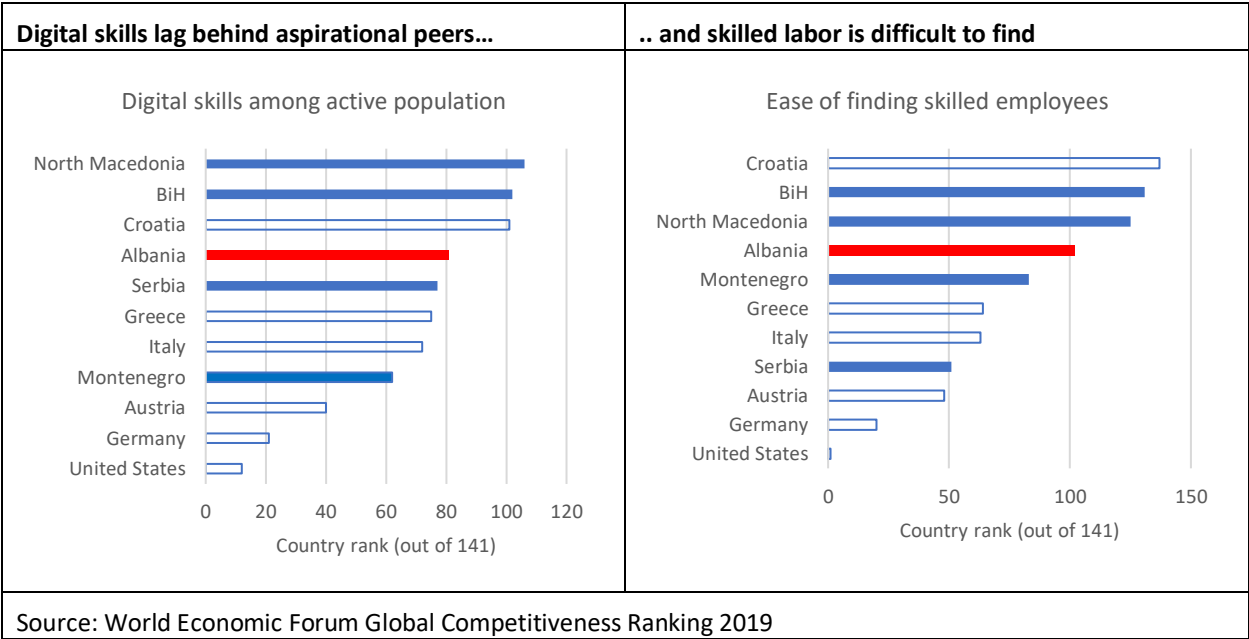
Pre-packaged webshop solutions offer an alternative low-cost entry point to e-entrepreneurship, but functionality in Albania remains limited. International platforms such as shopify, bigcommerce and volusion offer pre-packaged webshop solutions. These are generally also available to Albanian companies, though sometimes with restricted functionality. They generally do not offer Albanian language functionality.

A range of boutique Albanian e-commerce business advisory and support agencies are emerging to support e-entrepreneurs. Albanian companies such as [Evolv Studio Albania](#) and [DM Consulting](#) are gradually gaining experience accompanying and supporting e-entrepreneurs in their journey towards establishing an online sales channel. Given e-commerce experience remains scarce in Albania, these companies can potentially play a pivotal role in helping spread information about how to connect to online markets amongst Albania’s business community. Relative to international companies, they can tailor their advice to their Albanian clients and help them navigate domestic and international markets. Webshops can be designed catering to the needs of an Albanian customer base.

While Albania’s ICT sector is growing rapidly, skilled employees needed by e-commerce companies remain difficult to find. Albania has a relatively young population. According to the EF English proficiency index, Albania ranks 50th out of 100 countries. More than 20 percent of students graduate from STEM universities (UIS, 2018). These are good foundations for developing a strong ICT sector. Yet, according to the World Economic Forum Global Competitiveness Indicators (2019), Albania ranks 81st in terms of digital skills among the active population and 102nd in terms of ease of finding skilled employees (out of 141 countries). Confirming these statistics, Albanian e-entrepreneurs interviewed for this diagnostic report that the domestic talent pool they can draw on is shallow. A range of measures are needed:

- **Strengthen the ICT curriculum in the formal education system:** Serbia incorporates tech education into the curriculum from primary school onwards. Since 2017, coding classes are compulsory for all students from age 11. This [emphasis on ICT in education is often credited as one reason for Serbia’s vibrant ICT industry](#).
- **Expand on initiatives to motivate (i) youth to pursue a career in the digital economy and (ii) life-long learning to gain ICT skills:** Initiatives such as the [Albania ICT Academy](#) offer ICT courses for children of all ages as well as adults. The [Kosovo Women in Online Work \(WoW\)](#) program, discussed in the previous section of this chapter, offers another useful regional example of a successful program aimed at teaching marketable ICT skills. Further such private sector and public sector initiatives should be encouraged to make ICT accessible, motivate Albanians to consider this career choice and broaden ICT skills in the general population.
- **Reinforce on-the-job training incentives for employers:** The [2018 Albania STEP survey](#) conducted by the World Bank found that “on average, less than 15 percent of firms provide internal or on-the-job training to their workforce; and less than 5 percent provide external training.” Yet, such trainings are crucial to nurture a skilled workforce. A key deterrent for such trainings is often that employers fear that they will bear the cost of trainings and investing in their employees – only to then see the employee leave for another job. The firm then faces all costs of the training, but the firm does not receive any of the benefits. To align incentives, Albania can clarify the conditions under which firms can use training payback clauses (requiring the employee to take charge of training costs if he/she leaves the firm within a certain period after receiving the training).²⁹ Tax incentives or subsidies for training costs can also be considered, if subject to regular impact evaluations to ensure value-for-money. An expanded discussion on challenges with training workers can be found in the [World Bank report \(2012\) “The Rights Skills for the Right Job?”](#).
- **Attract foreign direct investment in the ICT sector, including by proactively reaching out to Albania’s diaspora to encourage them to establish business at home:** proactively seek to attract international technology companies to set up hubs in Albania. Such FDI would contribute to (i) creation of a pool of skilled engineers that could stimulate the local tech industry and (ii) inspiring the youth to choose a tech career path. Regional examples for this development path exist. For instance, the establishment of the Microsoft Development Center is widely credited as an important element in the success story of Serbia’s vibrant ICT ecosystem. [Serbians working for Microsoft abroad played a key role in establishing Microsoft’s office in Serbia](#).
- **Join forces with other Western Balkans countries to leverage on FDIs and integrate into global value chains.** Albania and the other Western Balkans countries have joined affert in the Multi-Annual Action Plan for a regional economic area ([MAP REA](#)) and have identified not only digital integration, but also investments as key focus areas. An [upcoming World Bank analysis](#) highlights at least three main ways in which FDI can in particular help the Western Balkans integrate into Global Value Chains (GVCs) and boost growth, jobs, technology transfers: attracting FDI into manufacturing sectors such as automotive and machinery (see Bosnia and Herzegovina, North Macedonia, Serbia); focusing on specific industry segments that are relatively labor-intensive; leveraging on FDIs in tourism services to create jobs and improve travel infrastructure.

²⁹ It is important that such payback clauses balance employee and employer rights. While employers need assurances that they will recoup employee training costs, employees need to preserve the right to change jobs. Payback clauses should not be abused by employers to chain workers to their current job. Dynamic reallocation of workers to those companies that are most promising and that offer the best employment conditions is an important feature of many successful economies – it is important that payback clauses do not unduly restrict such reallocations.



Box: The interrelation between e-commerce, the ICT skills gap and emigration

Stemming the steady tide of emigration is a key challenge to deepening Albania’s pool of skilled workers. Besides being a beneficiary of resolving this challenge, Albania’s e-commerce sector can also be a key part of the solution. As highlighted in the [2020 Western Balkans Labor Market Trends](#) report of the World Bank and the Vienna Institute for International Economic Studies (wiiw), the ICT sector is among the industries most affected by talent emigration across the Western Balkans. A [cooperation between LinkedIn and the World Bank](#) identifies the key skills of LinkedIn members that leave Albania in the period 2017-19. All top 5 skills being lost are linked to ICT. This points to a key challenge. It is not sufficient to increase the ICT proficiency of Albanians. For Albania to reap full the reward of training its workers, sufficient attractive domestic job opportunities need to be available to persuade the highly skilled to stay in the country. Workers skills and job opportunities need to be developed jointly. As such, Albania’s e-commerce sector can play a key role in tackling the skills migration challenge. By creating attractive ICT jobs in Albania, e-entrepreneurs can persuade more Albanians to stay close to their families and help build Albanian businesses at home, thereby stemming the steady drip of skills leaving the country and instead deepening the domestic talent pool.

Top five industries in the Western Balkans most affected by the net flows of migration between Western Balkan and all other countries

Albania	Bosnia and Herzegovina	North Macedonia	Serbia
Net	Net	Net	Net
Industry loss	Industry loss	Industry loss	Industry loss

Tele-communications	-323	Information Tech & Services	-320	Compute Software	-294	Internet	-213
Banking	-330			Information Tech & Services	-252	Financial Services	-237
Higher Education	-498					Higher Education	-246
International Affairs	-290					Research	-384
Information Tech & Services	-339					International Affairs	-324

Top five skill losses in Western Balkans countries, due to net migration flows between Western Balkan and all other countries

Albania		Bosnia and Herzegovina		North Macedonia		Serbia	
Skill	Net loss	Skill	Net loss	Skill	Net loss	Skill	Net loss
Computer Networking	-3072	Development Tools	-1842	Development Tools	-1888	Dentistry	-1062
Web Development	-2746	Web Development	-1707	Software Testing	-1765	Genetic Engineering	-812
Development Tools	-2297	Computer Networking	-1587	Web Development	-1755	Development Tools	-785
Data Storage Technologies	-2194	Software Testing	-1541	Computer Networking	-1247	Phys. Medicine and Rehab	-693
Tele-communications	-1691	Music	-1344	Music	-1010	Web Development	-693

Note: The net gain or net loss in skills is a normalized migration rate among LinkedIn users, computed as the net gain or loss of members from another country with a given skill divided by the number of LinkedIn members with that skill in the target (or selected) country, multiplied by 10,000. Note that there are no data available for Montenegro and Kosovo.

Source: 2018. "World Bank LinkedIn Digital Data for Development" by World Bank Group & LinkedIn Corporation, licensed under CC BY 3.0.

BROADENING THE BASE OF DIGITALLY SAVVY ONLINE CUSTOMERS

While most Albanians are regular internet users, for some, distrust of online transactions remains a key constraint to full participation in the digital economy. In our survey of Albanian online shoppers prepared for this e-commerce diagnostic, close to 83 percent of respondents view as key concern the risk that a product purchased online does not meet expectations and is then difficult to return. Close to 30 percent are concerned about identity or payment fraud.

- **Establish an e-commerce trustmark for Albanian webshops:** establish (i) a code of conduct for Albanian e-commerce businesses to abide to, (ii) branding that allows members of the trust mark to identify themselves to consumers, (iii) a verification mechanism that regularly checks that members of the trustmark abide to the code of conduct and (iv) an effective dispute resolution mechanism (DRM) in case consumers have complaints about a webshop that carries the trustmark. A natural starting point and template for designing such a trustmark could be the [Ecommerce Europe Trustmark](#) or the global [Safe.Shop Trustmark](#). To increase recognition of the trustmark abroad, partnerships with established international trustmarks could be explored. One option would be the introduction of a CEFTA-wide or Western Balkans ecommerce trustmark.
- **Implement a consumer protection awareness campaign:** the campaign should highlight the rights of online shoppers as well as options for seeking redress when those rights are not respected (including prominent advertising of the consumer complaints hotline and website). The campaign(s) could be organized by the [Consumer Protection Commission](#) (KMK), jointly with local government authorities and other stakeholders, as

consumers' unions. Other collaborations may include private sector partners. In 2020, in Italy, a [joint campaign](#) has been organized by eBay and National Consumers' Union (UNC – Unione Nazionale Consumatori) to raise awareness on consumers' rights when buying online. The campaign includes not only a brief guidance, but also videos and other social media content. The use of social media to reach consumers is crucial. The KMK could revitalize its social media channels, incl. Facebook and YouTube, and leverage the tools embedded in the portals to boost the awareness campaigns.

- **Rigorously follow up on reported cases of misconduct among Albanian e-commerce businesses:** ultimately, rigorous enforcement by Albania's consumer protection agency and other government entities is needed to remove bad actors from Albania's e-commerce ecosystem, giving Albanian customers the confidence needed to participate in the digital economy and ensuring that Albanian businesses actively aim to meet regulations and avoid penalties.

While companies build their reputation, they can offer additional services to make consumers feel more secure and persuade them to try e-commerce. Offering a cash-on-delivery payment option, which is already widespread in Albania, allows customers to physically receive the product before making the payment. Setting up escrow accounts, which release payment only after satisfactory receipt of the product, also help protect customers against scams. The use of online consumer reviews helps companies to demonstrate a track record of reliable service.

CHAPTER SUMMARY

Putting in place the legal and physical infrastructure for e-commerce is necessary, but not enough. Ultimately, e-commerce is driven by people. Entrepreneurs need to take initiative and leverage the opportunities of the digital economy. A skilled workforce needs to build high-quality online shops, offering a smooth purchasing experience and reliable delivery. Customers need to be digitally-savvy and comfortable with buying online. This chapter highlights a range of policy recommendations that Albania can implement to more directly support this dynamic process and foster growth of the e-commerce capabilities ecosystem. Building private sector capabilities is a complex task, but significant international experience - including the case studies highlighted in this chapter – offers a useful starting point for Albania. In many areas, Albania can build on existing initiatives already in place in the country. Rigorous impact evaluations, identifying what interventions work and which ones do not work in the Albanian context, are crucial to help learn from experience and further improve the support package over time.

Summary of recommendations for building private sector e-commerce capabilities and skills

Area	Recommendations	Responsible entity	Case study
Supporting e-entrepreneurship	Establish information websites (and seminars) with how-to guides on moving businesses online and increasing awareness about Albanian e-commerce success stories	Ministry of Finance and Economy	UK, US, Croatia International Trance Center's learning courses
	Create financing and training programs to support businesses in opening online sales channels	Ministry of Finance and Economy / AIDA	Moldova Export Competitiveness Project e-Commerce and Women-Led SMEs in MENA Jumia University UK e-exporting program International Trade Center ecomConnect program E-commerce grant program of the Newport News (VA, USA) and York County (VA USA)
	Adapt the tax regime to meet the needs of the digital economy <ul style="list-style-type: none"> - Broaden acceptance of digital invoices for tax purposes - Clarify deductible expenses for income tax purposes 	Ministry of Finance and Economy / General Directorate of Tax (GDT)	EU VAT e-commerce package

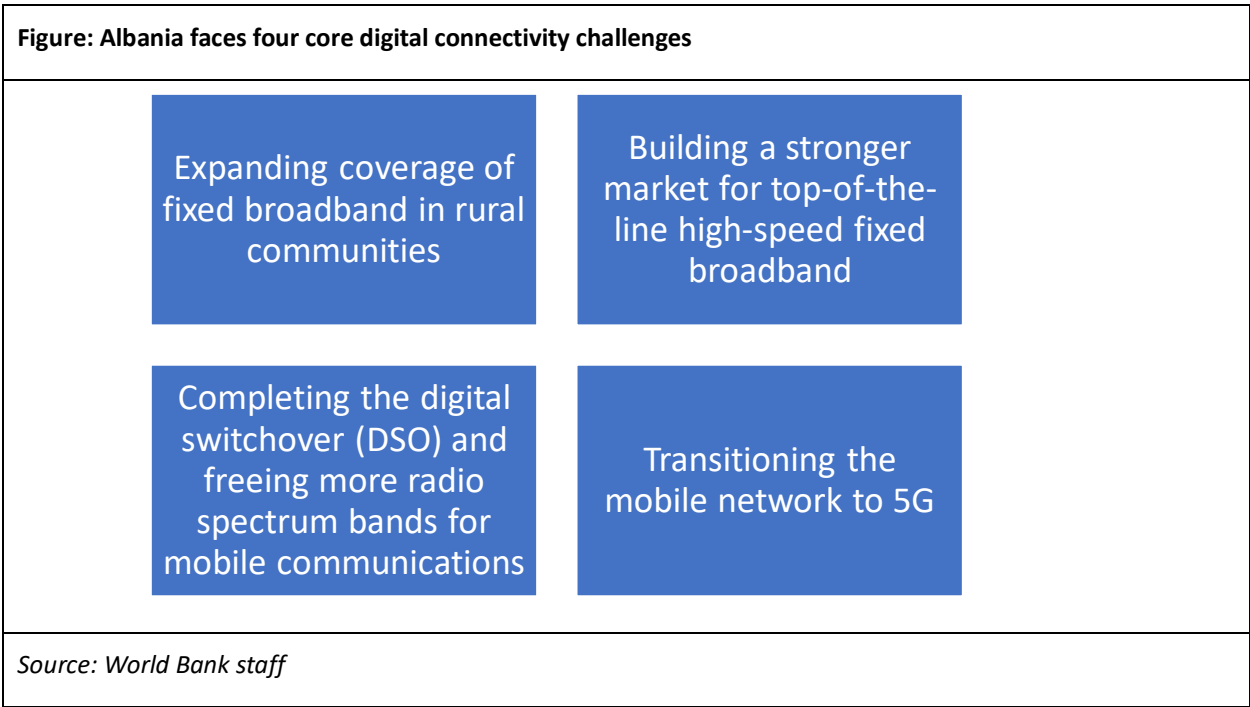
	<ul style="list-style-type: none"> - Review the tax legal framework to clarify the treatment of online marketplaces (intermediators between buyers and sellers) - Ensure that businesses are aware of CIT withholding tax provisions when foreign businesses sell to Albanian businesses - Train tax administration staff to deal with the peculiarities of tax issues faced by e-businesses 		
	Strengthen access to early-stage financing options for digital startups	Private sector/ Ministry of Finance and Economy / AIDA	
	Strengthen incubator and accelerator programs	Ministry of Finance and Economy / Ministry of Entrepreneurship / AIDA	Serbia's Startit program mLabs (South Africa)
	Pilot training programs to help Albanians access online global freelancer opportunities including in the BPO sector	Ministry of Finance and Economy	Kosovo Women in Online Work (WoW)
	Pilot training program to help Albanian businesses in the hospitality sector better advertise and sell their services online	Ministry of Tourism and the Environment	Tourism Online Academy
	Albania's e-commerce sector needs to organize and defend its interests, advocating for a stronger enabling environment for online businesses	Private sector	Serbia, North Macedonia e-commerce business associations
Nurturing the e-commerce enabling ecosystem	<p>Strengthen ICT skills</p> <ul style="list-style-type: none"> - Strengthen the ICT curriculum in the formal education system - Expand on initiatives to motivate (i) youth to pursue a career in the digital economy and (ii) life-long learning to gain ICT skills - Reinforce on-the-job training incentives for employers 	Private sector	Serbia Albania ICT Academy, Kosovo Women in Online Work (WoW)

	<ul style="list-style-type: none"> - Attract foreign direct investment in the ICT sector, including by proactively reaching out to Albania's diaspora to encourage them to establish business at home: proactively seek to attract international technology companies to set up hubs in Albania. Such FDI would contribute to (i) creation of a pool of skilled engineers that could stimulate the local tech industry and (ii) inspiring the youth to choose a tech career path. Regional examples for this development path exist. For instance, the establishment of the Microsoft Development Center is widely credited as an important element in the success story of Serbia's vibrant ICT ecosystem. - Join forces with other Western Balkans countries to leverage on FDIs and integrate into global value chains by attracting FDI into manufacturing sectors; focusing on specific industry segments that are relatively labor-intensive; leveraging on FDIs in tourism services to create jobs and improve travel infrastructure. 	Private sector/ Ministry of Finance and Economy / AIDA	Microsoft Development Center Serbia. World Bank (forthcoming) IMF (2004)
Broadening the base of digitally savvy Albanian online customers	Establish an e-commerce trustmark for Albanian webshops	Private sector / Ministry of Finance and Economy	Ecommerce Europe Trustmark, Safe.Shop Trustmark
	Implement a consumer protection awareness campaign	Ministry of Finance and Economy	
	Rigorously follow up on reported cases of misconduct among Albanian e-commerce businesses	Ministry of Finance and Economy	

7. PROMOTING DIGITAL CONNECTIVITY

Widely available and affordable high-speed internet access is a natural prerequisite for e-commerce. Such interconnection between buyers and sellers typically goes beyond mere access of a customer to web shop. In more sophisticated settings, it oftentimes includes interconnection between payment systems of different merchant banks, interconnection between the web shop and its suppliers and logistic/distribution partners, interconnection within the logistics network and its interconnection with the customer.

This chapter reviews the state of digital connectivity in Albania - in terms of coverage, quality and affordability - and identifies key reform needs. In many Albanian cities, broad-based and relatively affordable access to basic internet services is already available. However, four key digital connectivity challenges now face Albania. First, fixed broadband coverage remains an issue for many rural communities. A mixture of private sector and public sector solutions is needed to bridge these connectivity gaps. Second, even in urban areas, the market for top-of-the-line high-speed fixed broadband remains under-developed. This translates into high effective costs for those companies that do need such fast connections, such as the business process outsourcing (BPO) sector. In the EU, regular households subscribe to at least 30 Mbps connection. In Albania, such high-speed subscriptions are rare for firms and almost not used by households. The market for high-speed broadband needs to be developed more actively and market participants need to take a more forward-looking perspective, following global connectivity consumption trends. Third, while basic mobile internet already has significant coverage across the country, it is crucial to transition television broadcasting to digital technology, thereby freeing lower bands on the radio spectrum for mobile telephony and further improving mobile connection coverage, particularly in rural areas. Fourth, Albania needs to put in place now the basis for adoption of mobile network 5G technology, which is set to shape the next generation of digital entrepreneurship opportunities.



The chapter builds on many other existing reports on digital connectivity challenges facing Albania. Notably, it builds on [Albania’s 2020-2025 broadband strategy](#), released by the Ministry of Infrastructure and Energy in July 2020. It also synthesizes work ongoing under the existing [World Bank Digital Highways project](#).

The chapter reviews both fixed and mobile networks in Albania – both matter for e-commerce. It is important to note that both types of networks are essential for digitalization of the economy and development of both should thus be promoted. While more Albanians have access to mobile internet than to fixed broadband and while individuals increasingly use their mobile phones to purchase online directly, it is the fixed network that interconnects

the elements of the mobile networks (of which on only the last tenth of meters are wireless in urban areas³⁰). Many still feel more comfortable making purchases through their computer and laptop, connected through fixed broadband. The vast majority of webshops use fixed broadband to manage their online marketplace.

Box: Sector stakeholders	
<p>The Ministry of Infrastructure and Energy (MIE) is responsible for policy in the Information and Communication Technology (ICT) Sector, including Broadband. The Electronic and Postal Communications Authority (AKEP) is the sector regulator for electronic communications, including broadband, in Albania. MIE and AKEP execute the Law on Electronic Communications which is a primary Law of the sector. AKEP has power to adopt regulations that implement the Law. Major stakeholders and their respective roles are listed in the Table 1 below.</p>	
Table 1. Major stakeholders	
Ministry of Infrastructure and Energy (MIE)	The Ministry of Infrastructure and Energy is responsible, among other tasks, for the development of telecommunications (including broadband) policies and mid-term and long-term strategies for this sector.
Electronic and Postal Communication Authority (AKEP)	The Electronic and Postal Communications Authority is the telecommunications regulator for Albania. It administers the <i>Law on Electronic Communications</i> . AKEP is an independent authority, appointed by the Parliament, with well-defined regulatory objectives and competencies.
National Agency for Information Society (AKSHI)	The National Agency for Information Society (AKSHI) is an institution of the Albanian Government supervised by the Prime Minister's Office. AKSHI's mission is to coordinate the development and administration of state information systems and to promote the development of the information society in Albania.
Audiovisual Media Authority (AMA)	AMA is a regulatory authority in the field of audio and/or visual broadcasting programs and related services.
Local Government Units (LGU)	As per Law no. 115/2014, dated 31.07.2014 " <i>On the administrative-territorial division of local government units in the Republic of Albania</i> " Albania is divided into 61 municipalities. The Municipalities are further subdivided into local administrative units, which ensure that municipalities services are also carried out in distant areas, incl. issuance of the construction permits essential for the broadband network construction.
ALBtelecom	ALBtelecom is Albania's incumbent operator, and the largest fixed line telephone company in the country. On October 1, 2007, the CETEL Company, member of ÇALIK Holding, in consortium with Turk Telekom, became the owners of ALBtelecom, presently with 80.27% of the shares. The remaining shares -19.73%- are owned by the Albanian government and other shareholders majority of whom are employees of Albtelecom.

³⁰ In rural areas wireless connections usually cover a greater distance - the last hundreds of meters.

Mobile operators	There are three mobile operators in Albania: Vodafone, Telekom Albania (previously known as Albanian Mobile Communications/AMC) and Eagle Mobile (owned by ALBtelecom). The largest is Vodafone which concentrates its operations in mobile telephony.
Other Telecom Operators	ABCom (Albanian Broadband Company), Tring, Abissnet, and Digicom are among the biggest alternative operators owning about 43% of the number of subscribers of fixed broadband, after the incumbent ALBtelecom (31.2%) and smaller alternative operators (25.3%). ALBCom continues to be the biggest fixed alternative operator with close to 75,000 retail subscribers. Until recently ABCom and Tring (formerly known as Albanian Satellite Communications/ASC) were the two biggest alternative operators present in the market with “triple play” offers, i.e. providing broadband internet, telephony and TV. Since February 2020 ABCom became part of Vodafone Albania.
The Electricity Transmission System Operator	The Transmission System Operator (OST) is a state-owned, legally unbundled company, which operates the electricity transmission system of Albania and performs central dispatching of the electricity loads, and also is a Market Operator. OST possesses a substantial fiber-optic network (2,002 km ³¹) that is soon to be commercialized.
<i>Source: World Bank staff based on MIE, TeleGeography (2020) and EIB (2019)³²</i>	

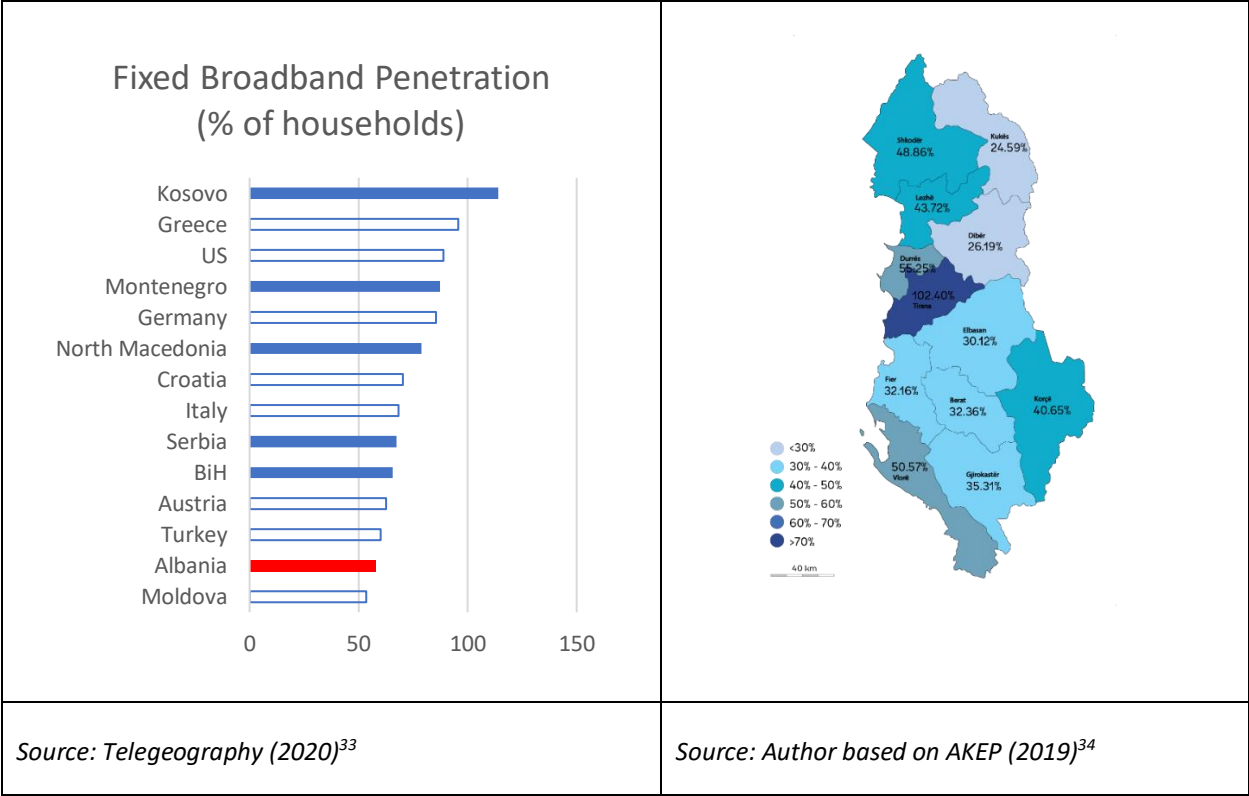
FIXED BROADBAND

At the end of December 2019, fixed broadband penetration stood at 58 percent of Albanian households – driven by low coverage rates in rural areas. Penetration of fixed broadband access is highly uneven and is ranging from 81.5 percent of households in Tirana to the lowest of 27.8 percent in the county of Kukes. Overall, fixed broadband penetration stands at 86.5 percent of households in urban areas, whereas only 20.4 percent of rural households have access. At the village level, out of a total of 2995 villages, 2862 are not connected.

Figure: In terms of fixed broadband penetration, Albania lags regional and aspirational peers	Figure: Fixed broadband penetration varies significantly within Albania
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³¹ OST (2019), as recorded in Summary of Balkans Digital Highway Pre-feasibility Studies, May 2019, the World Bank, <http://documents.worldbank.org/curated/en/936201561361920622/Summary>

³² Albania. GlobalComms Database. TeleGeography. Accessed on March 16, 2020; EIB Inception Report (July 2019).



With urban areas mostly connected, fixed broadband penetration growth will be determined by the growth of newly connected rural households, businesses, and institutions. Currently, low consumer density and high deployment costs (70 percent of Albania’s terrain is mountainous) limit the business case for expansion of private sector broadband connectivity into rural areas. Where rural connections have been provided, over three quarters (79.5 percent) are run by small local internet service providers (ISPs), with market share of below 2 percent, many of whom rely on their own built networks at the local level (and not on the incumbent’s network).

Albania has adopted a new national broadband strategy in June 2020 – this offers a roadmap towards tackling the rural connectivity challenge.³⁵ The Ministry of Infrastructure and Energy (MIE) is now working to operationalize a dedicated government program/project to address the poor broadband coverage in rural areas, where it is not possible for operators to extend networks due to lack of a commercial business case. In these cases, public support is needed in order to broaden access to the internet.

- **Implement the recently adopted national broadband strategy:** adoption of this strategy has been an important milestone towards a coordinated approach to tackling broadband connectivity gaps in Albania. It is now urgent to proceed with implementation.
- **Finalize design and implement a program/project to mobilize public financing for broadband expansion into rural areas:** a feasibility study was recently concluded with the European Investment Bank (EIB), a financing

³³ Note Kosovo data may be based on cases when households have more than 1 fixed broadband connection. Eastern Europe. GlobalComms Database. TeleGeography. Accessed on March 16, 2020

³⁴ AKEP. Private communications. January 13, 2020.

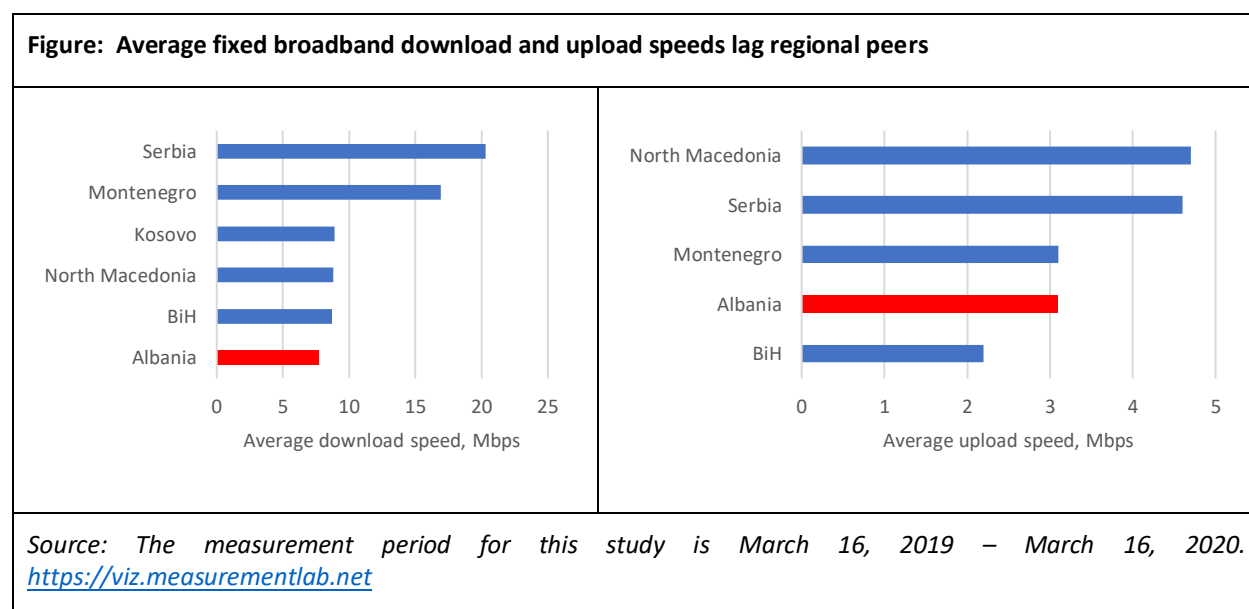
³⁵ <https://www.infrastruktura.gov.al/wp-content/uploads/2020/07/National-Plan-BBAnd-EN.pdf>

partner of the future program/project, and the final workshop was conducted in July 2020.³⁶ [Appropriate investment models need to now be selected and implemented.](#)

In addition, a range of measures need to be taken to make it more attractive for private internet service providers to expand their network coverage on a commercial basis. Key measures could include:

- **Create a more detailed mapping of broadband infrastructure (within national GIS-enabled broadband atlas):** this will allow new network deployments to be better planned and coordinated.
- **Ease the fixed broadband network expansion construction process through lighter and faster administrative procedures:** as has recently been recommended by the World Bank in the context of the draft 5G strategy, the Government could scan existing administrative procedures to identify measures that can ease bureaucracy with regards to new network construction.
- **Exploit the potential for infrastructure sharing, whenever possible, to support broadband expansion:** for instance, the scope for aerial deployments using existing electricity distribution poles should be fully exploited. Albania’s electricity transmission company (OST) changed its statute at the end of 2019 to enable it to lease its infrastructure to be used by ISPs. It is now crucial to finalize agreements on the terms of use and for OST to start actual partnerships with ISPs. The [World Bank Digital Highways project](#) provides extensive analysis on the potential and the benefits of infrastructure sharing for digital connectivity in the Western Balkans.

Besides coverage, a key issue is the quality of the connection – Albania lags behind in terms of registered average download and upload speeds. According to the M-Lab web tool during a specific period of measurements³⁷, the average download and upload speeds in Albania were 7.7 Mbps and 3.1 Mbps, respectively. Highest download speeds were recorded in Serbia (20.3 Mbps), Montenegro (16.9 Mbps) and Kosovo (8.9 Mbps) respectively.



³⁶ https://eeas.europa.eu/delegations/albania/83464/regional-broadband-infrastructure-development-albania-closing-workshop_en

³⁷ The measurement period for this study is March 16, 2019 – March 16, 2020. <https://viz.measurementlab.net>

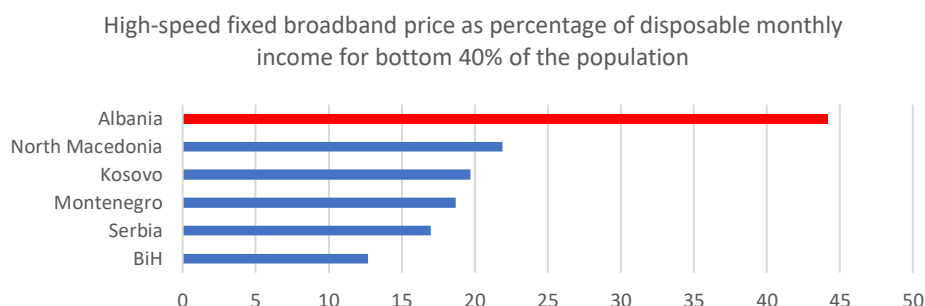
Within Albania, the highest speeds have been historically recorded in the city of Tirana. During the same measurement period, the average download speed there was 9.7 Mbps and the upload speed was 3.3 Mbps. Over three quarters of all connections in the city (76.7 percent) were in the range of up to 12Mbps, with the majority (over a third) up to 4Mbps. Less than 10 percent of all connections in the capital could be considered high-speed, i.e. at least 30Mbps³⁸. Yet competitive pressures have been growing in recent years, prompting infrastructure improvements bound to facilitate provision of faster speeds at lower prices³⁹.

Box: Top-of-the line download and upload speeds matter for e-commerce

The quality of the internet service plays a critical role in e-commerce shopper’s experience and impacts the success of the e-commerce business. 47 percent of shoppers expect the website to load in mere 2 seconds. 41 percent of visitors abandon a website that takes more than 3 seconds to load. It is estimated that if an e-commerce site is making USD 100,000 per day, a 1 second delay in page loading could potentially cost USD 2.5 million in lost sales every year.⁴⁰ New trends in e-commerce are putting even greater pressure on internet service quality requirements. For instance, visual commerce⁴¹ premised on the use of virtual and augmented reality (VR/AR) is poised to affect the future of digital commerce in the next 5 to 10 years.⁴² Strategic development of an enabling environment for such investments in new technologies⁴³ is therefore of utmost importance for e-commerce development in any country, with Albania being no exception.

Source: World Bank staff; research reports cited in footnotes

Figure: High speed internet connections are less affordable in Albania than in regional peers



Note: The affordability analysis compares 30 Mbps and comparable cheapest public service offerings (excluding promotions) from the biggest ISPs with cumulative consumer market share above 50 percent (March 17, 2020).

Source: World Bank staff analysis

³⁸ The measurement period for this study is March 16, 2019 – March 16, 2020. <https://viz.measurementlab.net>

³⁹ Albania. GlobalComms Database. TeleGeography. Accessed on March 16, 2020

⁴⁰ <https://neilpatel.com/wp-content/uploads/2011/04/loading-time-sml.jpg>

⁴¹ Visual commerce enables users to interact with a brand’s products in a visual, immersive manner. Visual commerce technology spans 360-degree video, 2D and 3D configuration, visual search, augmented reality (AR) and virtual reality (VR)

⁴² <https://www.gartner.com/smarterwithgartner/top-10-trends-in-digital-commerce/>
https://hbr.org/2016/09/virtual-and-augmented-reality-will-reshape-retail?referral=03759&cm_vc=rr_item_page.bottom

⁴³ such as fiber-based internet access networks (FTTx), newest generation mobile networks (5G)

While basic fixed broadband connections are affordable, the cost of top-of-the-line high-speed internet is much higher (compared to incomes) in Albania than in regional peers. [Albania's 2020-2025 broadband strategy](#) highlights a range of statistics suggesting that baseline fixed broadband is generally affordable for Albanians. However, According to the Ministry of Finance and Economy of Albania, broadband costs for an unlimited 10 Mbps Cable/ADSL line is one of the most expensive, when compared with the competing business process outsourcing (BPO) destinations in the region.⁴⁴ The affordability of fixed broadband trails most mature BPO locations⁴⁵ and regional peers⁴⁶. World Bank analysis confirms that 30 Mbps (high-speed) fixed broadband packages cannot be considered affordable for the general population – affordability lags regional peers and significantly exceeds the commonly used 2 percent monthly disposable income affordability threshold.⁴⁷

The market for top-of-the-line high-speed broadband remains niche – explaining low quality of effective internet connections and low affordability for high-speed connections. [Albania's 2020-2025 broadband strategy](#) highlights: “In relation to fixed broadband by download speed, in 2018 a majority of 62% of subscribers was on 4-10Mbps, 24% on 10-30 Mbps (54,000 in 2017 and 89,000 in 2018), and 12% of subscribers were still below 4Mbps. As regards fast and ultra-fast BB above 30 Mbps, while subscriptions delivered more than doubled in 2017, the total proportion is still low at 2%.” Given limited demand for top-of-the-line high speed internet, private sector investments in advanced technologies such as fiber (FTTx) is limited. The service is marketed to a limited audience of early adopters and specialized ITC companies at premium price – a nice product. For comparison, in the EU, subscription of at least 30 Mbps currently accounts for 63 percent of all broadband subscriptions, while in 16 Member States, its market share is greater than 75 percent.⁴⁸

As Albania's digital economy matures, demand and supply for high-speed fixed broadband is expected to grow – moving such services into the mainstream and increasing competitive pressures among ISPs. By growing Albania's e-business ecosystem and adopting latest technologies, more businesses will demand top-of-the-line internet speeds. Households will also demand higher speeds, as they adopt more demanding online services (video streaming, cloud services, online gaming). As a result, ISPs will have greater incentive to upgrade their fixed broadband infrastructure. Greater competition and business volume will make it attractive for ISPs to market high-speed broadband connections for mainstream customers, making the service more affordable. To accelerate this process, Albania needs to ensure open and fair competition between ISPs, both in terms of prices and on speeds. To help companies upgrade their infrastructure, easing construction permits and opening the way for greater infrastructure sharing (as recommended above) play a key role. In addition, uncompetitive practices must be stopped:

- **Formalize all ISPs:** some local ISPs are reported to operate without official license in the grey economy. This gives them an advantage compared to law-abiding ISPs and prevents fair competition. Enforcement action is needed to ensure that all ISPs compete on an equal footing, abiding by the tax and regulatory regime.
- **Ensure equal access to buildings for all ISPs:** according to the law, buildings should enable all ISPs to offer their services to occupants. In practice, [Albania's 2020-2025 broadband strategy](#) highlights that some buildings make exclusivity agreements with one ISP. This distorts competition and contradicts existing law. The law needs to be enforced, ensuring fair competition between ISPs.

MOBILE CONNECTIONS

⁴⁴ Bulgaria, North Macedonia, Poland, Romania, Serbia.

⁴⁵ India, the Philippines.

⁴⁶ “Business Process Outsourcing” [Presentation]. Ministry of Finance and Economy of Albania. Accessed on February 26, 2020.

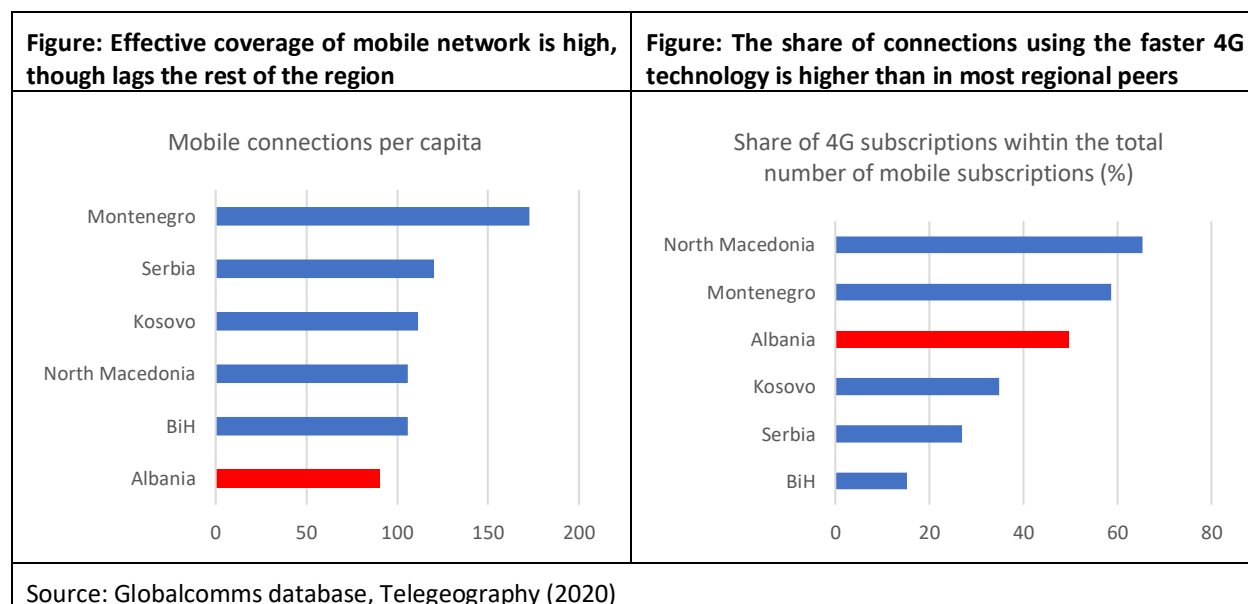
⁴⁷ set by the United Nation's agency to telecommunications (International Telecommunication Union, ITU)

⁴⁸ <https://ec.europa.eu/digital-single-market/en/connectivity>

Albania’s mobile market is home to an estimated 2.6 million subscribers at the end-2019, representing a per-capita penetration rate for mobile subscriptions of 90.2 percent.⁴⁹ Comparing to other countries in the region, Albania has the lowest mobile subscription penetration, with the highest being Serbia and Montenegro respectively.

All three mobile network operators (MNOs) are running 3G and 4G mobile networks, with the latter technology being available mostly in the urban areas and along major transport corridors. 3G signal covers 97 percent of the population⁵⁰. In terms of 4G coverage, only Vodafone covers over 95 percent of the populated territory. Telekom Albania’s coverage is up to 85 percent and ALBtelecom covers 75 percent⁵¹. Overall, 90 percent of the population lives in settlements with 4G signal⁵².

Effective coverage of mobile network is high, though lags the rest of the region. The share of connections using the faster 4G technology is higher than in most regional peers. Around three quarters of all mobile connections are provided over 4G technology. In this regards Albania along with North Macedonia are relatively advanced when compared to other countries in the region. Advancement on this front is important, as upcoming 5G networks will be deployed using existing 4G infrastructure. In this regard countries with higher 4G coverage may be considered more 5G-ready. Out of the benchmark countries for this e-commerce diagnostic, Italy, Austria, Germany and USA have already launched commercial 5G deployments.



The affordability of mobile broadband in Albania comparable to the Western Balkans average – though still costs are high compared to disposable incomes of the bottom 40 percent. World Bank analysis suggests that mobile broadband subscriptions cost around 13 percent of the disposable income for the bottom 40 percent of the population. This is significantly more affordable than in North Macedonia (21 percent of disposable income of

⁴⁹ The market exit of the smallest provider in January 2018 led to an around 20 percent decline in subscribers in Q1 2018, with AKEP recording over 700,000 net disconnections during this time period. The extreme level of decline is attributed to the removal of inactive subscribers from the user-base by the remaining operators and stronger-than-usual seasonal volatility.

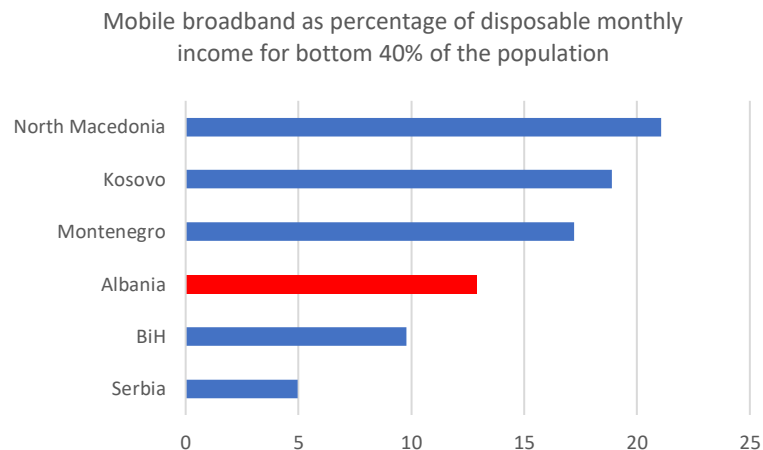
⁵⁰ Albania. GSMA Mobile Connectivity Index 2018. <http://www.mobileconnectivityindex.com/#year=2018&zoneIsoCode=ALB>

⁵¹ Albania. GlobalComms Database. TeleGeography. Accessed on March 16, 2020

⁵² EIB Inception Report (July 2019).

bottom 40 percent), but significantly less affordable than in Serbia (5 percent of disposable income of bottom 40 percent).

Figure: The affordability of mobile broadband is comparable to the region – though still costs are high compared to disposable incomes of the bottom 40 percent



Note: Based on the analysis of the cheapest (basic) mobile internet offerings of top three MNOs by market share as of March 17, 2020. Underlying analysis on income consumption per decile comes from PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank (<http://iresearch.worldbank.org/PovcalNet/povOnDemand.aspx>), on population and PPP conversion rate from the World Bank Open Data indicators, on market shares from Albania. GlobalComms Database. TeleGeography.

Source: World Bank Staff Analysis

In absence of fixed networks, internet access in rural Albania occurs mainly through mobile and this will likely be the way in which many citizens will access e-commerce in the near future. Enabling better quality for such access will require freeing radio spectrum allocations in lower bands (700 MHz band) for mobile communications. Lower bands transmit signals that can travel further – allowing to ensure mobile coverage with less investment in base stations in rural areas in which there are fewer structures. The 700 MHz frequency band is also necessary for future 5G networks’ development⁵³. Yet, these bands have historically been used for analog television broadcasting in Albania and were not released just yet.

Currently, Albania is in the process of implementing a nationwide analogue-to-digital switchover (DSO) for television broadcasting, which will allow re-assigning radio spectrum from television to mobile communications.⁵⁴ Five counties⁵⁵ have transitioned to digital broadcasting and more than 80 percent of the population having access to digital audio-visual transmissions. Some of the upper segment frequencies (Digital Dividend 1 (DD1) 700-800 MHz band) have thus been released already. However, digital broadcasters still occupy the frequency, preventing mobile network operators from launching commercial 800 MHz LTE. Also, the remaining frequencies (Digital Dividend 2 (DD2) 700 MHz band) were re-assigned to broadcasting companies via 15 year licenses.

⁵³ Spectrum requirements for 5G networks are considerably higher than for 4G networks

⁵⁴ "The switchover to digital television [from analogue to digital terrestrial television] gives broadcasters more capacity for additional channels or high-definition television, even while freeing part of the radio spectrum (“the Digital Dividend”) for mobile connections.

⁵⁵ Berat, Fier, Korça, Tiranë, Durrës.

- **Update the DSO strategy and finalize reallocation of radio frequencies for mobile communications:** Albania will need to go through the refarming process to recover and reallocate the radio frequencies that are feed by the DSO and make them available for mobile communications. The deadline for freeing up those frequencies is June 30th, 2022.

Albania is preparing the grounds for 5G technology deployment through development of the national 5G strategy.⁵⁶ 5G infrastructure is expected to provide new service capabilities and will become the central infrastructure and enabler for large parts of the national digital economy. Migration to 5G will require major densification in the radio access network⁵⁷ and therefore significant investments for deployment works. The draft 5G strategy identifies a number of bottlenecks in mobile infrastructure deployment process.

- **Complete preparation and adoption of 5G strategy:** include time bound coverage and quality objectives aligned with strategic directions of the EU.
- **Simplify the permit granting process for micro sites:** Deployment procedures should be aligned with the “light-touch” approach used for Wi-Fi deployment.
- **Abandon the bundling practice for permit issuance for cell-sites:** currently, construction permits for cell-sites are not issued on a first-come-first-served basis. Instead, the responsible authority accumulates a number of projects, then reviews and deals with the request as a bundle. If there is a delay with one of the projects, the entire bundle will be delayed. Such practice constrains the ability of operators to invest on the timely manner.
- **Promulgation of guidelines on the leasing of street furniture (such as street lights, traffic lights, various cabinets) for the deployment of mobile networks.**

CHAPTER SUMMARY

Widely available and affordable high-speed internet access is a natural prerequisite for e-commerce. Much has already been achieved in Albania, but a range of key challenges still need to be overcome. First, fixed broadband coverage needs to be brought to more rural communities. Second, a broader market for top-of-the-line broadband is needed to allow Albania to compete at the frontier of digital technology. Third, in terms of mobile connectivity, finalizing the digital switchover for television broadcasting holds the promise of further improving mobile communications availability in Albania. Fourth, to prepare Albania for the next generation of e-innovations, the seeds need to be sown now to reap the rewards of the coming 5G technology. If these challenges can be overcome, they can play a key role in bringing equitable access to digital services, including e-commerce, to all Albanian citizens – including those less privileged and with limited access to conventional services and product markets. This chapter synthesizes a range of policy recommendations that can help Albania achieve this policy objective.

⁵⁶ World Bank is supporting Albania in preparation of the 5G strategy through technical assistance

⁵⁷ Increase in cell-sites

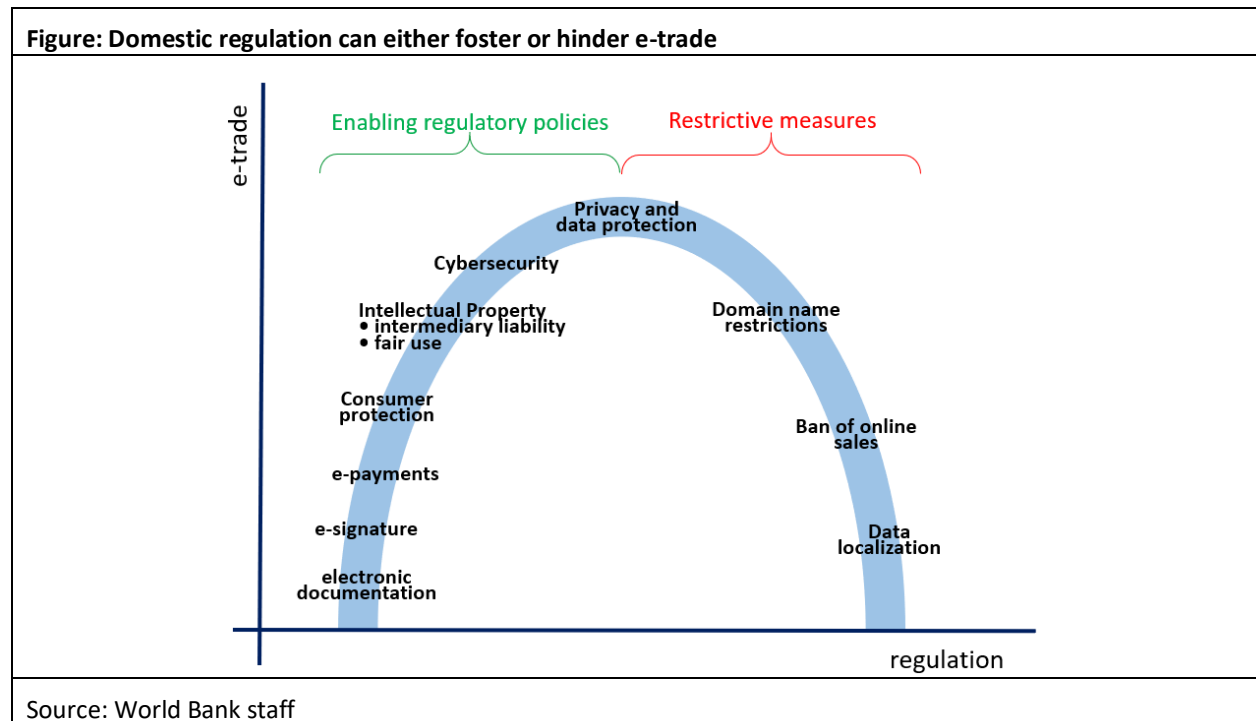
Summary of recommendations for ensuring equitable access to digital connectivity

Area	Recommendations	Responsible entity	Case study
<p>Fixed Broadband</p>	<p>Proceed with implementation of the national broadband strategy 2020-25</p>	<p>MIE</p>	<p>Connectivity for a Competitive Digital Single Market - Towards a European Gigabit Society - COM(2016)587</p> <p>Study on National Broadband Plans in the EU-28</p>
	<p>Finalize design and implement a program/project to mobilize public financing for broadband expansion into rural areas</p>	<p>MIE/ MFE</p>	<p>Shaping Europe's Digital Future – Investment Models</p>
	<p>Develop a more detailed mapping of broadband infrastructure (within national GIS-enabled broadband atlas) so that network deployments could be better planned and coordinated</p>	<p>ARKEP</p>	<p>Germany: broadband Atlas</p>
	<p>Ease construction processes through lighter and faster administrative procedures, starting with a systematic review of current procedures and identifying bottlenecks</p>	<p>Municipalities, MIE</p>	
	<p>Actively facilitate non-telecom infrastructure sharing through dedicated meetings with infrastructure owners and sectorial regulators, including:</p> <ul style="list-style-type: none"> - whenever possible, consider supporting aerial deployments, e.g. using electricity distribution poles; - OST assets, through infrastructure sharing, should be leveraged for extension of fiber networks, esp. in rural areas with uneven presence or absence of cooper network 	<p>ARKEP, ERE, Other sectoral regulators as needed, Utility operators</p>	<p>Toolkit on Cross-Sector Infrastructure Sharing</p> <p>Kosovo</p>

	<p>Ensure fair competition among ISPs, including through:</p> <ul style="list-style-type: none"> - Enforcing formalization of all ISPs - Ensuring all ISPs have access to all building (no exclusivity agreements) 	ARKEP	
Mobile Broadband	Update the DSO strategy and finalize reallocation of radio frequencies for mobile communications by the established deadline	MIE, AMA, ARKEP	GSMA: Practical recommendations for Digital Switchover
	Complete preparation and adopt 5G strategy with time bound coverage and quality objectives aligned with strategic directions of the EU;	MIE	5G for Europe: An Action Plan
	<p>Ease construction processes through lighter and faster administrative procedures, including:</p> <ul style="list-style-type: none"> - aligning regulatory framework for micro-sites with the “light-touch” approach used for Wi-Fi deployment; - Abandon bundling practice for cell-site permit issuance 	Agency for the Territory Development (AZHT) and National Council of Territory (KKT) in collaboration with MIE	EC Recommendation on cybersecurity of 5G networks Commission Staff Working Document on 5G Global developments
	Promulgation of guidelines on leasing of street furniture at reasonable rates to facilitate mobile connection infrastructure deployment	AKEP	ITU: Setting the scene for 5G

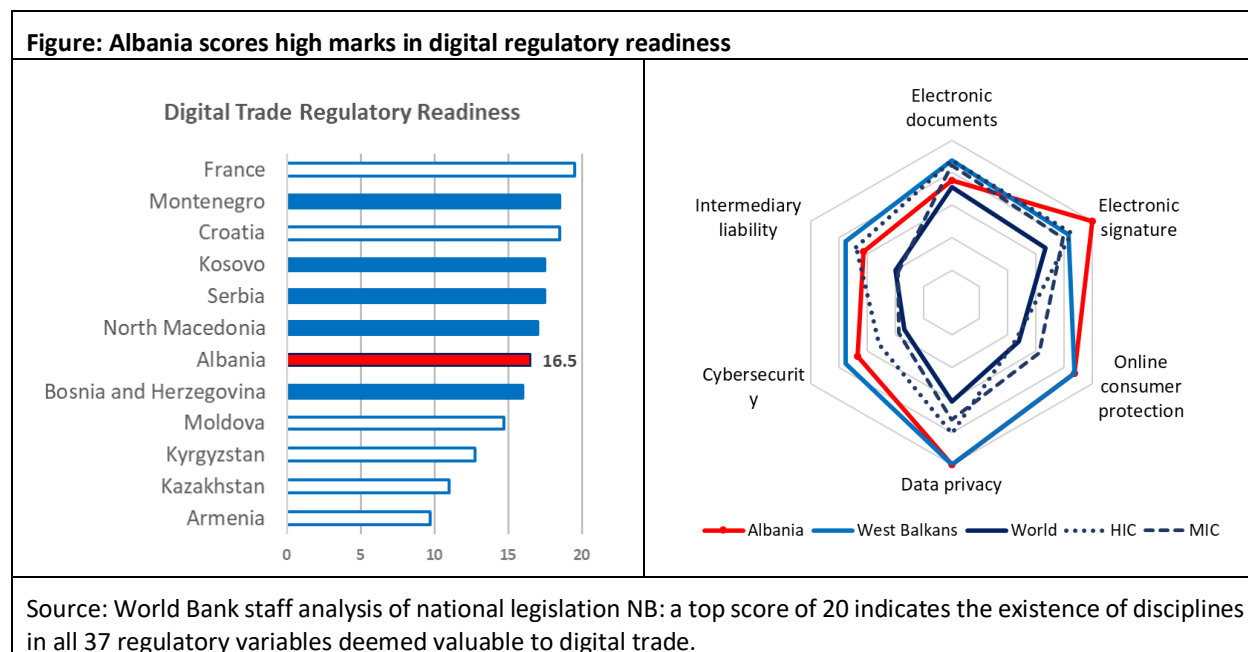
8. BOLSTERING THE REGULATORY FRAMEWORK

Regulation plays a central role in building the foundations of digital markets. An enabling regulatory framework supports e-commerce and digital trade through two main channels: First, it provides essential tools for remote transactions, such as electronic documents and signatures. Second, it fosters consumers’ trust in digital markets by ensuring data protection and privacy and protecting consumers’ rights, hence increasing reliance and bringing new actors to digital transactions. Yet, regulations can also introduce restrictions that hamper the conditions for digital markets: by restricting the types of goods and services that can be bought online; by limiting or increasing costs for the transfer of data—which is necessary for the transactions—or creating burdensome conditions for online marketplaces, platforms, and services providers, which ultimately limits the offer of goods and services in digital markets.



This diagnostic concludes that Albania has put in place many of the building blocks for a modern and comprehensive regulatory framework on digital trade – though several areas for further progress remain. Following the mandate to gradually harmonize its regulatory framework with the EU acquis, Albania has adopted a strong framework that includes the main regulatory pillars of digital trade, while maintaining an open and non-discriminatory regime for foreign digital services. Albania’s regulations on data governance, online consumer protection, electronic signature, and intermediary liability, in general, are in line with the most advanced regulations, protecting individuals and consumers, while limiting the costs and restrictions faced by digital businesses. In other areas, such as cybersecurity, regulation is still evolving, with a general framework being complemented by sector-specific regulation. Smaller regulatory gaps need to be addressed, such as on e-documentation. Importantly, Albania does not maintain other typically restrictive regulations found in other jurisdictions, such as burdensome licensing requirements for e-commerce platforms, limitations on the type of goods that can be sold online (other than for generally accepted public policy considerations), and restrictions on cross-border data flows.

This is reflected in Albania’s strong performance in the World Bank’s Digital Trade Regulatory Readiness Index. The Digital Trade Regulatory Readiness Index reviews and scores a key set of regulations for digital trade for a total 47 countries around the world, including Albania and its Western Balkan neighbors.⁵⁸ Out of a total of 20 points for six categories of regulation, Albania scores a total of 16.5 points. All Western Balkan countries in fact perform well in the regulatory index, scoring between 15.5 and 18.5, reflecting the regulatory efforts done in the context of their association agreements to the EU.



With the regulatory framework largely in place, adequate implementation remains a challenge due to institutional capacity constraints and limited private sector awareness. Albania has also advanced in building the institutions to oversee this regulatory framework, but progress has been partial. Areas like e-signatures and data privacy, where capable regulatory bodies are in place, could benefit from some improvement in practices and innovations. Other areas, like consumer protection and cybersecurity, instead, still require substantial efforts to build modern and effective regulatory bodies. Albanian businesses stress that regulations are irregularly or only partially implemented, and often their content is interpreted differently by different government agencies. For instance, the consumer protection regime currently lacks an effective supervisory authority to oversee compliance, create awareness of consumers’ rights and solve e-commerce disputes. Equally, key regulations remain largely unknown to the private sector - on data protection and cybersecurity, for example. Few businesses make use of electronic signatures, even though the legal framework is in place. Lack of awareness about regulations limits their effectiveness and, worse, fosters uncertainty about the applicable rules.

In what follows, this study reviews the main policy areas that constitute the regulatory framework for Albania’s digital market. The study considers a set of regulatory areas of central importance to digital markets and assesses

⁵⁸ The database includes 12 mostly non-OECD high income countries, 29 middle income countries including all Western Balkans and MENA countries, and 3 low income countries

the domestic regulatory frameworks in light of recent international trends and regulatory models. In particular, the study addresses electronic documentation and signature; online consumer protection; data and privacy protection; cybersecurity; and intellectual property regulations. These different regulatory areas have in common that, taken together, they offer a set of basic rules that create tools for remote transactions (e-document and e-signature) or clarify conditions of digital transaction that enhance consumers' and businesses' trust (such as online consumer protection, data governance and cybersecurity).⁵⁹

REGULATIONS ON ELECTRONIC TRANSACTIONS

The legal recognition of electronic documents and electronic signatures as adequate tools for remote businesses is a crucial step in building a thriving digital market. As communication technologies connect people and businesses around the world with increasing ease and convenience, businesses engaged in digital trade also expand their network of clients and suppliers across borders. A conducive regulatory framework for digital trade should hence guarantee that contracts concluded remotely through electronic channels are valid and legally enforceable, just as those concluded in person.

Box: The development of Albania's legal framework for electronic transactions and the e-Albania initiative

A key driver for the development of Albania's legal framework for electronic transactions has been the Government's E-Albania initiative. The E-Albania portal seeks to offer citizens an electronic channel to fulfill a wide range of official procedures, such as registering a business, obtaining a birth certificate, or paying taxes. To implement this initiative, a key foundational block was putting in place key regulations and institutional arrangements to recognize electronic documents and signatures.

Challenges during the implementation of the E-Albania initiative highlight the difficulty of implementing an electronic transactions framework. The rolling out of the E-Albania portal casts lights on legal, regulatory and institutional channels that need to be addressed to ensure an adequate framework for electronic transactions, such as the interaction of digital regulation with fiscal legislation or other statutes, such as the regulation on notarized documents.

Given a focus on building an electronic transactions framework suitable for transactions with the Government, spillovers to e-commerce and digital businesses have been slow to materialize. While the regulatory solutions

⁵⁹ There are a number of additional policies of relevant to digital trade that are not covered in this chapter: regulations related to competition policy, taxation, intellectual property, as well as the conditions for business licenses can also make or break a conducive framework for digital businesses. In assessing these regulatory fields, the analysis focuses on selected regulatory options within each of these fields, so as to assess the regulations in the country in a comprehensive manner. For example, when assessing the regulation of electronic signature, the study discusses the scope of the signature and legal validity given to the electronic signature. While an in-depth assessment of the regulation of electronic signature in a specific country would require discussing several other aspects that are referenced only in passing in this analysis (e.g. the nature of the signature certifying authority), the assessment of these key regulatory options provides a picture of the level of sophistication of the regulation and its timeliness in keeping with the policy challenges introduced by digital transactions.

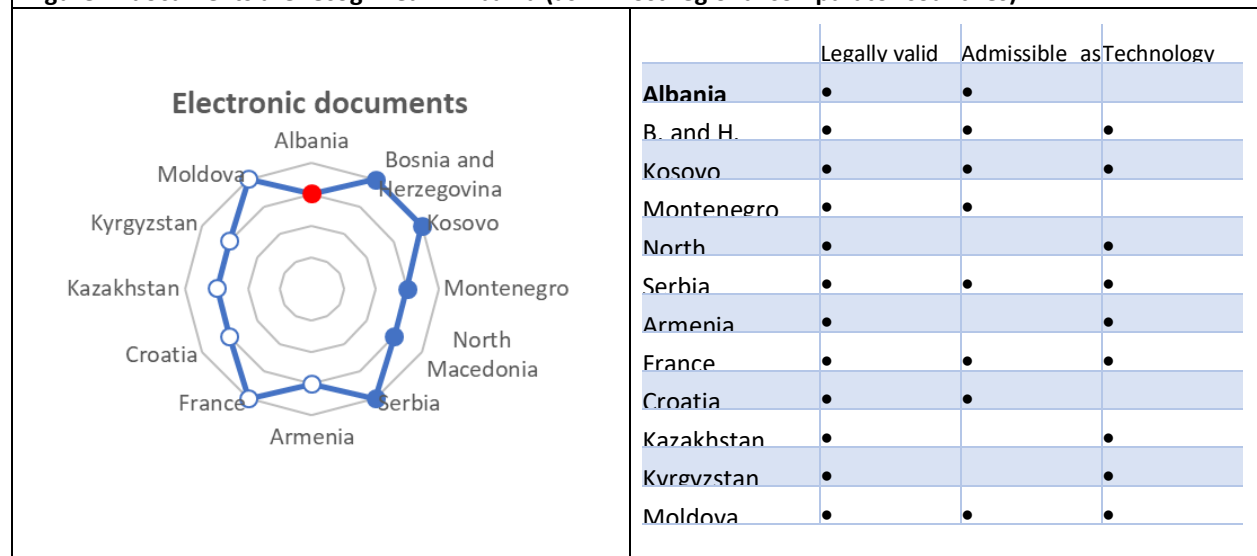
for e-documents and e-signatures developed by Albania are sound and conform to international guidelines, they provide for strict procedures that are suitable for governmental procedures such as fiscal declarations, but lack the flexibility that is valued in private transactions. The regulation on electronic signature, for instance, could be improved by allowing parties to a remote (private) contract to choose the type of digital signature that best suits their needs, rather than using the stringent electronic signature solution currently used by the Government.

Electronic documentation

A strong and reliable framework for e-documents is particularly important for digital firms focused on business-to-business (B2B), such as the business processing outsourcing (BPO) sector. Transactions by final consumers, such as those on e-commerce platforms like Aliexpress or Gjeveve and app-based services like Airbnb, do not typically entail major documentation exchanges and can be concluded even without a specific regulatory framework for electronic transactions. However, for business relations that require a degree of customization of the products and services and that are provided over time, such as those that allow suppliers to connect to global value chains and/or services that require peripatetic delivery over extended contract periods, the ability to conclude a contract or amend its terms remotely in a secure and reliable manner is a key step towards engaging in business-to-business digital trade.

UNCITRAL Model Law on Electronic Commerce (MLEC) of 1996 is the international standard on regulation of electronic documents. The main objective of the MLEC is to facilitate remote transactions by establishing rules to allow the electronic equivalent of paper-based documents to be legally recognized, thereby removing obstacles encountered in the use of electronic means. The MLEC promotes the principles of non-discrimination, technological neutrality, and functional equivalence in the treatment of electronic documentation. The principle of non-discrimination is the cornerstone of the regulation, as it ensures that a document would not be denied legal effect, validity, or enforceability solely on the grounds that it is in electronic form.

Figure: E-documents are recognized in Albania (as in most regional comparator countries)



Source: World Bank staff analysis of national legislation

Albania’s regime on electronic documentation broadly follows international guidelines. Albania’s Law on Electronic Documents⁶⁰ in 2010 provides solutions in line with UNCITRAL MLEC recommendations. In line with all other Western Balkan and ECA countries reviewed, the Law recognizes electronic documents as legally equivalent to paper-based documents. Equally, the Law includes details on the admissibility of e-documents as evidence. However, Albania’s regulation remains unclear about the recognition of technological neutrality. The Law includes a provision requiring the “inviolability of the electronic document” during storage of the electronic document⁶¹. While this condition appears to promote cybersecurity measures, it can also be understood as requiring specific cybersecurity requirements for storage of electronic documents, which would unnecessarily limit the type of electronic documents. Under a strict reading, this would suggest that documents such as email or non-encrypted documents may not be fully recognized as electronic documents equivalent to paper documents. This requirement can be unduly restrictive as parties to a contract should be free to decide what is most appropriate based on their circumstances.

- **Clarify the regulatory framework on electronic documents to reinforce the principle of technology neutrality:** The government could consider issuing a guidance indicating what type of measures would be sufficient to comply with the requirements for the storage of e-documents or, if needed, amending the Law on Electronic Documents to ensure its technological neutrality.

Electronic signature

Digital activity involves engaging in remote—often international—contracts on a routine basis, and the legal recognition of electronic signatures is key for digital trade. At a minimum, a regulatory framework should recognize that electronic signatures are a legally valid form of accepting an obligation or terms of a document. Further, the framework should also ensure that, when an electronic signature meets certain requirements, it has full recognition of validity and enforceability, just like a handwritten signature.⁶²

Box: International standards for electronic signatures
UNCITRAL Model Law on Electronic Signatures (MLEs) of 2001 provides the standards required for an e-signature to be considered legally equivalent to a hand-written signature. It also lays out basic rules of conduct regarding the responsibilities and liabilities of the parties, including the signatory, the certification service provider (CSP) and the relying party. If deemed sufficiently reliable, foreign certificates and electronic signatures are recognized regardless of the place of issuance of the certificate, creation or use of the signature, or place of business of the issuer or signatory.

⁶⁰ Law No. 10273 of 2010 on Electronic Documents.

⁶¹ Articles 6.C, 18.

⁶² Handwritten signatures, in addition to being legally valid, are also enforceable as they create the presumption that they were indeed inserted by the designated person (a *rebuttable* presumption, that allows the interested person to show proof, for instance, that the signature had been forged). Electronic signatures can be recognized as legally valid but may or may not be given full enforceability depending on the technology and procedures in use. Typically, only “digital signatures” that use some type of encryption technology are given full enforceability. An electronic signature that is not fully enforceable would require that the person claiming its validity also provide evidence that such electronic signature was indeed inserted by the designated person.

With the growth of e-commerce around the world, governments have enacted legal instruments to give recognition and legal validity to electronic and digital signatures. While the objective of all these regulations is to recognize some kind of electronic representation as a legally valid signature, three different regulatory models are currently in place ((Frederick Fischer, 2001); (Blythe, 2011)):

- On one end of the spectrum, the **prescriptive approach** only recognizes one type of e-signature as legally valid – typically, secure digital signatures that have adopted specific encryption mechanism and have been issued following prescribed procedures. ((Blythe, 2011); (Adobe, 2019))
- A “**minimalist**” or “permissive” approach, on the contrary, allows parties to choose the technology they prefer, giving any selected technology equal legal validity. The United States, Canada, Australia, and New Zealand have adopted this approach (AssureSign, 2019).
- A hybrid or “**two-tiered**” approach is a mix between these two, recognizing all technologies as legally valid while giving certain presumptions only to secure digital signatures. Like the prescriptive approach, it describes the requirements of a secure digital signature, and includes rules of conduct regarding the rights and responsibilities of the parties, including the signatory, the certification service provider (CSP), and the relying party. The EU has further elaborated the two-tiered model to offer greater liberty to private parties in adopting secure digital signatures through technologies of their own preference –a “**two-tiered +**” category. With a view to increasing security while reducing costs of adoption, the EU Electronic Identification and Authentication Services Regulation (eIDAS) of 2016 allows the parties to adopt a digital signature that meets all the security requirements of the *secure* digital signature (called “qualified Electronic Signature”) but enjoys greater freedom on the selection of the certification authorities. A similar intermediate step was already present in Singapore’s ETA regulation, which allowed private parties to adopt other commercially available technology or procedures for a secure digital signature to the extent that it can provide equivalent security as the prescribed mechanism.

Albania has adopted a strong regulatory framework for electronic signatures. Albania’s e-signature regulation is modeled after the UNCITRAL Model Law on Electronic Signatures (MLEs) of 2001. According to Albania’s Law on Electronic Signature, e-signatures are recognized and admissible as evidence, granting legal recognition to electronic transactions. The regulation adopts a two-tiered approach (Table 2). Qualified digital signatures must be certified by a designated certification authority and verifiable by a public key encryption key. If they meet these requirements, they are deemed equivalent to hand-written signatures and they enjoy a rebuttable presumption in court. Importantly, the Albanian legislation allows for commercial firms to provide legally recognized certifications, reducing the costs of adoption.

In the context of E-Albania, Albania is implementing a nation-wide digital identification that includes a digital signature. AKCESK leads the digital signatures, electronic identification and trusted services initiatives in Albania. Among AKCESK core functions are registering and accrediting Trusted Service Providers (i.e. CSP) and overseeing their activity. Two agencies are recognized by AKCESK to issue digital signatures: the National Agency for Information Society (NAIS) issues certification for official signature by government officials, and a public company (ALEAT) administers digital signatures for the rest of the citizenship on behalf of Ministry of Interior. These digital signatures are based on public key infrastructure (PKI) -- a common, and sound, technical solution to ensure the

trustworthiness of the signature—and requires two in-person visits (one for application, one for picking up the ID) at one of 100+ ALEAT offices spread throughout Albania.⁶³

But use of digital signatures for commercial matters remains low. Stakeholders point that the current procedures for obtaining a qualified digital signature are too onerous for a widespread adoption of in private commercial contracts. Furthermore, despite the Law’s framework for “advanced digital signatures” that offer greater flexibility, Albania’s small domestic market does not appear as a priority for the establishment of firms offering trust services on a commercial basis. As a result, while Albania has adopted a conducive regulation for electronic signatures, their use in private businesses remains limited. Awareness campaigns can ensure that both the public and private sectors are able to take advantage of the benefits provided by the law.

AKCESK has recently engaged in several initiatives to facilitate the use of digital signatures. The electronic signature law was amended to recognize digital signatures certified by trust services providers in EU Member States. This is a positive development for Albania businesses, especially as the EU market is the main destination for Albania’s services exports. Now, they can rely on “advanced digital signatures” with certificates issued by companies based in the EU, with the confidence that they will be recognized in Albania. Additionally, a trust services agreement was reached with other Western Balkans countries, which should also increase facilitate remote contracts, particularly for B2B transactions.

- **Harmonize regulation on electronic signature, including registration of CSPs, to support integration of digital markets in the Western Balkans.** In the CEFTA context, Albania and its CEFTA partners could advance to a harmonized framework for digital signatures that would not only facilitate remote contracts in the region by ensuring mutual recognition, but would also expand incentives for trust services providers to establish in the region.

Table: Legislation on electronic signature in ECA countries		
	Model adopted	Certification authorities may be private parties
Albania	Two-tiered +	Yes
B. and H.	Two-tiered +	Yes
Kosovo	Minimalistic	Yes
Montenegro	Two-tiered	Yes
New Macedonia	Two-tiered	Yes
Serbia	Two-tiered	Yes
Armenia	Prescriptive	Yes
France	Two-tiered	Yes
Croatia	Two-tiered	Yes
Kazakhstan	Two-tiered	Yes
Kyrgyzstan	Two-tiered	Yes
Moldova	Two-tiered	Yes

⁶³ ALEAT <https://www.aleat.al/en/id-card>

Importantly, electronic documents and signatures must be recognized also by the courts. Beyond convenience and cost savings, an essential factor for stakeholders to rely on digital signatures and documents is the certainty that the documents will be recognized by the courts should a dispute arise. The Law on Electronic Documents (Article 12) expressly mandates as much. Yet stakeholders in Albania point to court procedures, in particular the requirement to notarize the documents being brought to the court, as an obstacle to the recognition of digitally signed documents in the country. A specific review of conditions of use and recognition of electronic documents and signatures by Albanian courts would help shed light on this matters. Simple and clear procedures for incorporating electronic document and signatures in court proceedings should be considered a priority in the regulation of digital transactions in the country, especially as the growth of e-signature under the e-Albania initiative is likely to

- **Assess the conditions of use and recognition of electronic signatures in court proceedings:** The GOA should coordinate with the judiciary branch and with the notary association to review and assess the procedures involving the presentation of electronic documents and signatures in court proceedings, in order to ensure that digital documents can be admitted in court on equal terms as hand-signed contracts, in compliance with the principles set out in the Law on Electronic Documents.

TRUST-BUILDING REGULATIONS

Regulation plays an essential role in bolstering digital markets by promoting trust. As digital markets are still in their infancy, the top reason for not engaging in online purchases, at least in developed markets, remains the lack of trust in remote electronic transactions (Figure 3). Consumers typically have no face-to-face contact with vendors, which leads to few “visual cues”, such as location, facilities, and personalized interaction, which helps consumers gauge the retailer’s or supplier’s professionalism. In this environment, consumers are asked to disclose sensitive information and personal data either to a retailer, online intermediary, or digital platform. As a result, one important limiting factor in both developed and developing economies is the perception that cross-border online transactions and delivery are less secure, and remedies do not exist for when something goes wrong (World Economic Forum, 2019). A recent WB study in Albania confirms that lack of trust is one of the main barriers to the expansion of e-commerce services in the country.⁶⁴



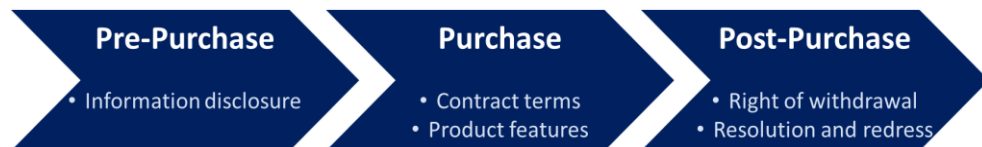
⁶⁴ Global Cyber Security Capacity Centre & World Bank (2019). Cybersecurity Capacity Review of Albania.

Online consumer protection

Online consumer protection is crucial to enhance consumer trust in e-commerce. Distance shopping presents challenges, such as the inability to assess products in person before confirming a transaction. Online consumer protection laws aim to ensure “a level of protection not less than that afforded in offline commerce” (UNCTAD, 2017) (Bartley Johns, Hoppe, Molinuevo, Nghardsaysone, & Daza Jaller, 2017). To that end, *online* consumer protection builds on the principles and mechanisms of traditional consumer protection regimes, extending and adapting those protections to digital markets, in order to reduce some of the challenges of buying and selling online, such as the rights and obligations involving an electronic transaction, or the way to rescind it if necessary (OECD, 2000).

A detailed framework for online consumer protection should include digital-specific protections at all stages of the transaction. Consumer concerns include whether the information they enter online is safe and the terms of the transaction (pre-purchase), whether the goods purchased online will meet their expectations when they arrive (purchase), and whether they are entitled to any remedies if any problems arise during or after the transaction (post-purchase). These can be addressed through regulations addressing information disclosure requirements, the right to withdraw from a transaction, dispute resolution, and redress (Figure 4).

Figure: Stages of consumer protection regulations



The key principles for online consumer protection are recognized in two main international soft-law instruments. In 2016 the OECD revised its Recommendation on Consumer Protection for E-commerce of 1998, modernizing its approach to fair business practices, information disclosures, payment protections, unsafe products, dispute resolution, enforcement and education (Box 1). Similarly, the UNCTAD Guidelines on Consumer Protection of 1985 (revised 1999) were updated in 2015 to include recommendations directed to protecting online consumers and improving transparency in online transactions. The Guidelines also recommend cooperation among countries, including in terms of information exchange and enforcement activities.

Box: General Principles for E-commerce Consumer Protection - OECD Recommendations

Pre - Purchase

1. Transparent and effective protection: consumers who participate in e-commerce should be afforded transparent and effective consumer protection that is not less than the level of protection afforded in other forms of commerce
2. Fair business, advertising and marketing practices: businesses engaged in e-commerce should pay due regard to the interests of consumers and act in accordance with fair business, advertising and marketing practices as well as the general principle of good faith

3. Online disclosures: online disclosures should be clear, accurate, easily accessible and conspicuous so that consumers have sufficient information to make an informed decision regarding a transaction. Online disclosures comprise the following areas of recommendations:
 - a. Information about the business: businesses engaged in e-commerce with consumers should make readily available information about themselves that is sufficient to allow, at a minimum: i) identification of the business; ii) prompt, easy and effective consumer communication with the business; iii) appropriate and effective resolution of any disputes that may arise; iv) service of legal process in domestic and cross-border disputes; and v) location of the business
 - b. Information about the goods and services: businesses engaged in e-commerce with consumers should provide information describing the goods or services offered that is sufficient to enable consumers to make informed decisions regarding a transaction
 - c. Information about transaction: businesses engaged in e-commerce should provide information about the terms, conditions and costs associated with a transaction that is sufficient to enable consumers to make an informed decision regarding a transaction. Consumers should be able to easily access this information at any stage of the transaction

Purchase

4. Confirmation process: businesses should ensure that the point at which consumers are asked to confirm a transaction, after which time payment is due or they are otherwise contractually bound, is clear and unambiguous, as well as the steps needed to complete the transaction, especially for new payment mechanisms

Post - Purchase

5. Dispute resolution and redress: consumers should be provided with meaningful access to fair, easy-to-use, transparent and effective mechanisms to resolve domestic and cross-border e-commerce disputes in a timely manner and obtain redress, as appropriate, without incurring unnecessary costs or burden. These should include out of court mechanisms, such as internal complaints handling and alternative dispute resolution. Subject to applicable law, the use of such out-of-court mechanisms should not prevent consumers from pursuing other forms of dispute resolution and redress (see below sub-section on online dispute resolution and redress)
6. Privacy and security: businesses should protect consumer privacy by ensuring that their practices relating to the collection and use of consumer data are lawful, transparent and fair, enable consumer participation and choice, and provide reasonable security safeguards (see section on data privacy)

Other

7. Education, awareness and digital competence: governments and stakeholders should work together to educate consumers, government officials and businesses about e-commerce to foster informed decision making. They should work towards increasing business and consumer awareness of the consumer protection framework that applies to their online activities, including their respective rights and obligations, at domestic and cross-border levels

Albania features a comprehensive regulatory framework for consumer protection in digital transactions. In line with international good practices, Albania's Law on Consumer Protection of 2008 explicitly recognizes online transactions in a chapter dedicated to distance contracts. Specific disciplines on online consumer protection offer the opportunity to fine tune the regulation to online transactions, and hence provide for more comprehensive and tailored solutions that are often absent from general consumer protection laws. Albania is amongst the top performers in the regional comparative analysis. This reflects that most countries in the Western Balkans have, like Albania, advanced in adopting consumer protection principles pioneered by the EU and its Members States –who generally feature some of the strongest consumer protection systems in the world.

Albania’s regulatory framework currently adopts most main features relevant to online consumer protection. Informed decision making relies on knowledge about the merchant, about the product or services, and about the parties’ rights after purchase.

Albania’s Law addresses this, requiring the disclosure of essential information on product specifics and transaction conditions. Since online customers are unable to inspect a product before purchasing it, the right of withdrawal from the transaction is particularly important, allowing customers to return the product within a certain period of time, escaping the contractual obligation with no repercussions. The Law includes the right of withdrawal with a cooling-off period of fourteen days. Customers are not required to provide a reason for returning the product, which is essential for the right of withdrawal to be effective. Merchants must provide redress for harm suffered as a consequence of a product that is defective, damaged, or does not meet the advertised quality criteria. In the case of defective or inadequate products, consumers are entitled to a refund, repair, replacement, or price reduction under the Law.

Figure: Adoption of regulation on online consumer protection in ECA countries



Source: World Bank staff

There is currently no legally mandated online dispute resolution mechanism. Traditional judicial mechanisms are poorly suited to e-commerce disputes, particularly when they involve cross-border transactions. Modern regulations increasingly call for e-commerce firms to feature an online dispute resolution (ODR) mechanism that leverages technology and automated procedures to resolve small claims, allowing for a quicker and less expensive alternative to traditional disputes. In Europe, currently only France, Croatia and Montenegro (these two latter having passed a new law on the matter in 2015 and 2014, respectively) provide this option to online consumers. The adoption of online dispute resolution can increase trust in online transactions and can be done in a cost-effective manner by subscribing to existing international mechanisms rather than building one specific for the country. Econsumer.gov, for instance, is a partnership of thirty-six consumer protection agencies worldwide that provides, among other services, an international platform to address cases of cross-border claims. It is one of the first examples of an international ODR platform, meant to help consumers and agencies to combat international scams. It allows consumers to make cross-border fraud complaints in several languages and across many industries. This solution, together with a consumer protection regulation that expands consumer rights by providing an online dispute resolution mechanism, would create a stronger framework for online consumer protections in Albania.

Table: Regulations on online consumer protection in ECA countries

	Pre-Purchase	Post-Purchase		
	Information disclosure requirements for online merchants (*)	Withdrawal	Options for redress	Online dispute

	a.	b.	c.	d.	without reason	Refund	Other	resolution
Albania	•	•	•	•	•	•	•	
B. and H.	•	•	•	•	•	•	•	
Kosovo	•	•	•	•	•	•	•	
Montenegro	•	•	•	•	•	•	•	•
North Macedonia	•	•	•	•	•	•	•	
Serbia	•			•	•	•	•	
Armenia								
France	•	•	•	•	•	•	•	•
Croatia	•	•	•	•	•	•	•	•
Kazakhstan	•	•			•	•	•	
Kyrgyzstan	•	•	•		•	•	•	
Moldova	•	•	•			•	•	

(*) Information on: a. merchant's address; b. product specifications; c. delivery conditions and/or payment process; d. complaint procedures

Albania's main shortcoming on consumer protection is the lack of an effective dedicated institution to support the regime. Despite Albania having adopted a strong and modern regulation on consumer protection, the lack of an institutional framework to support the regulation severely limits the effectiveness of the system. To date, the consumer protection regime lacks a high-level, independent or semi-independent agency similar to those backing other aspects of digital regulations, such as digital signature (with the support of AKCESK, and NAIS) or data privacy (overseen by the Information and Data Protection Commissioner (IDPC)). Rather, the role currently rests on the Consumer Protection Commission, headed by five Commissioners and with the support of one expert. The Commission has a broad mandate in terms of consumer protection, but lacks the structure and resources of other similar bodies. For dispute resolution, the Commission's Technical Secretariat (a directorate of the Ministry of Finance) receives consumer complaints submitted through the Ministry of Finance website, but the process remains a traditional one. Given the weak institutional setting, it may not come as a surprise that stakeholders in the ecommerce sector do not seem aware of the consumer protection framework in Albania. Beyond the government, the Albanian Consumer Association (ACA) focuses on the protection of consumers and provides for an active traditional dispute resolution mechanism. However, the efforts of the ACA have so far not extended into the ecommerce sector.

- **Strengthen the institutional capacity of the Consumer Protection Commission or other relevant body to implement and monitor a comprehensive e-commerce consumer protection framework.** The Government should coordinate with the relevant agencies to streamline procedures under one dedicated institution. The establishment of a strong consumer protection agency, including with disciplines on online transaction and online dispute resolution should be considered a priority in the development of an e-commerce strategy.

Data privacy

Consumers are increasingly aware of the value of their personal data. Lack of trust on the way personal data is managed leads consumers away from electronic transactions, limiting the growth of digital markets. Certainty about online data use and handling increases trust in digital trade. At the same time, burdensome regulations on the use and transfer of individual data can create substantial costs for businesses, especially small and medium enterprises. The goal is hence to allow data transfers in a manner that supports the expansion of digital markets, while increasing consumer trust that their private information remains secure and under their control.

Data privacy legal frameworks consist of entitling rights for all or certain types of individuals (also called data subjects) regarding the collection, usage, storage, and disposal of their personal data. They also create obligations for controllers and processors while enacting derogations in certain circumstances (state security, public safety, etc.). Security processes for data controllers (either public or private) ensure the appropriate processing of personal data.

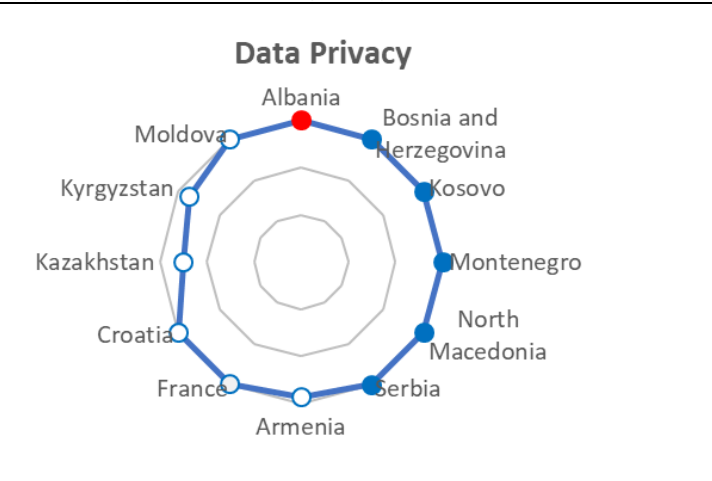
Box: Key principles of data privacy regulation

Several international instruments have been focused on setting out the key principles of data privacy regulation. The Asia-Pacific Economic Cooperation (APEC) Privacy Framework of 2015 promotes a flexible approach to privacy protection, with a focus on avoiding the creation of unnecessary barriers to information flows. The Convention “108+” by the Council of Europe is an international human rights treaty focused on data protection, setting out principles that are compatible with the requirements of the European regulation. In 2013, OECD members updated their Guidelines on the Protection of Privacy adopted in 1980 to account for the new reality of digital data flows. The OECD Guidelines declare digital risk an economic risk and they aim to protect privacy and individual liberties with respect to personal data processes in the public or private sector. They include eight basic principles for data protection:

- **Collection limitation principle:** limits the collection of personal data and suggests lawful and fair means for collection, as well as consent of the data subject where appropriate
- **Data quality principle:** calls for relevance of the personal data to the purposes for which they are to be used. Additionally, it calls for data accuracy, completion, and maintenance
- **Purpose specification principle:** data controllers should specify the purpose for which the data are collected no later than at the time of data collection. Subsequent use of the data should be limited to those purposes and the data subject should be notified of any change of purpose
- **Use limitation principle:** limits the use of the data for purposes other than those specified, with the consent of the data subject or by the authority of law
- **Security safeguards principle:** calls for reasonable protection of the data from risks such as loss or unauthorized access, destruction, use, modification, or disclosure of the data
- **Openness principle:** suggests a general policy of openness regarding developments, practices, and policies with respect to personal data
- **Individual participation principle:** the data subject should have the right to request data from a data controller or a confirmation of whether the data controller has personal data relating to the individual. If the data controller has such data, it should be provided to the data subject within a reasonable time, in a reasonable manner and in a form that is readily intelligible to the data subject
- **Accountability principle:** the data controller should be held accountable for abiding with principles of the Guidelines

Albania has implemented an advanced and comprehensive regulatory and institutional framework for data privacy. In close cooperation with the EU, Albania adopted a new Law on Protection of Personal Data in 2008, which mandated the establishment of the Information and Data Protection Commissioner (IDPC) as the main authority charged with policy making and regulating personal data in Albania. The Law on Protection of Personal Data incorporates the main principles and provisions of the EU Data Protection Directive of 1995. The promotion of data privacy principles is an area of substantial interest for the EU Commission and several EU

Figure: Regulation on data privacy in ECA countries



Source: World Bank staff

Member States, and a priority area for technical assistance, especially for other European countries that have a strong digital trade link with EU Members States. As a result, the high performance of Albania in this field is not unique. In fact, all Western Balkans countries and Moldova score top marks in terms of their regulation for data privacy, in line with EU Member States France and Croatia. Other countries in the sample also feature comprehensive regulations for data privacy, but miss some important features.

Albania’s Law on Personal Data Protection covers all main regulatory areas of digital privacy. First, specific rules govern sensitive personal data, such as political views, sexual orientation, medical history, religion, or ethnical origin - thereby safeguarding deeply personal values and preventing discrimination or other forms of misuse. Second, the law specifies that legitimate reason is needed for collecting and processing personal data. The central requirement is obtaining the consent of the data subject. In addition to consent, some additional basis for the collection and processing of data is possible under the law. Allowing for data to be transferred and processed on the basis of contractual obligations allows businesses to outsource some of their data management needs, such as HR, payroll, or consumer analytics. A strong public purpose can override the need to seek consent.⁶⁵ Third, the law enshrines the ability to retrieve one’s personal information, request its amendment or demand its deletion as an essential right of data subjects. Fourth, the law includes guidance on the conditions for data to be transferred to other jurisdictions. In this context, Albania follows the EU model of allowing transfers of personal data to jurisdictions that offer an “adequate level of protection”. Transfer of personal data to third countries that do not have an adequate level of protection may be done upon authorization of the IDP.

⁶⁵ For instance, during the COVID19 pandemic, personal data, collected through smartphones, specially geolocation or proximity to other individuals, proved to be an effective asset for assessing the risks and identifying potential outbreaks.

Table: Domestic regulation on data privacy(*) in ECA							
	Sensitive data	Legal bases for data collection and processing				Data subject's rights	Cross-border data transfers
	Special treatment	Consent	Contract	Legal obligation	Public Interest	Access / Deletion	Rules on transfers
Albania	•	•	•	•	•	•	•
Bosnia and H.	•	•	•	•	•	•	•
Kosovo	•	•	•	•	•	•	•
Montenegro	•	•	•	•	•	•	•
North Macedonia	•	•	•	•	•	•	•
Serbia	•	•	•	•	•	•	•
Armenia	•	•	•	•		•	•
France	•	•	•	•	•	•	•
Croatia	•	•	•	•	•	•	•
Kazakhstan		•		•		•	•
Kyrgyzstan	•	•			•	•	•
Moldova	•	•	•	•	•	•	•

Digital trade with the EU could be facilitated by recognition of Albania’s privacy regime as “adequate” privacy protection. This decision from the European Commission would remove obstacles to transfers of personal data to and from Albania, reducing costs for Albania’s digital businesses. Since Albania’s regime is based on the European Data Protection Directive 95/46/EC, which sets the basis for the EU’s General Data Protection Regulation (GDPR) of 2018, and Albania is a potential EU enlargement country, Albania is in a good position to seek a decision on “adequacy” that could make Albania part of the GDPR-compliant countries.

- **Advance data protection framework in order to seek EU recognition of Albania’s privacy regime as “adequate”, facilitating digital trade:** To that end, Albania may need to advance first in updating its privacy framework to incorporate new GDPR rules, including aspects related to definition of personal data, consent and opt-in requirement for data processing, “right to be forgotten”, and data breach rules.

The regulation on data privacy is supported by a capable data protection authority. The Information and Data Protection Commissioner (IDPC) is Albania’s main data protection authority. IDPC is an independent institution, with a Commissioner elected by Albania’s Assembly. The agency currently counts with 37 employees focused on overseeing the implementation of the legislation on the right to information and personal data protection by public agencies as well as business. IPDC also has an active collaboration framework with international partners, in particular the European Data Protection Board (EDPB). Reflecting its strong international cooperation, Albania hosted a successful 41st edition of the high-level International Conference of Data Protection and Privacy Commissioners in October 2019, hosting over 700 delegates at the Palace of Congress premises in Tirana.

While the Government is making progress implementing data protection, awareness about this effort is limited among ordinary Albanians and small businesses. Concerns about how personal data is being used and protected have hindered the wide adoption of e-government services in Albania.⁶⁶ Most of IDPC’s focus is geared toward promoting implementation of data protection rules by government and private entities. To that end, it monitors the adoption of “transparency programmes” on the use of personal data by public authorities and oversees compliance by individual firms either by investigating complaints received from individuals or by conducting their own ex officio investigations. IDPC’s outreach to civil society supports these goals. Yet consultations with stakeholders and experts suggests that the level of awareness of Albania’s data protection regimes by individuals and small businesses (including those in the IT sector) remains low, curtailing individuals’ trust in Albania’s e-commerce and other digital firms.

- **Strengthen data protection awareness-raising campaigns targeting ordinary Albanians and small businesses:** IPDC may consider strengthening its awareness-raising campaigns as a tool to both incentivize implementation by firms and to promote trust in Albania’s emerging e-commerce sector. Public and private sector stakeholders could collaborate periodically to share information on privacy and cybersecurity risks and best practices.

Cybersecurity

While less visible to the individual consumers, cybersecurity regulation is an essential component for promoting trust in digital markets. Major data breaches, like that which Yahoo witnessed in 2013—affecting 3 billion user accounts— not only compromise people’s privacy, but can also have a chilling effect for digital markets, as consumers realize how vulnerable their information is. In 2015, the OECD declared digital risk an economic risk (OECD, Recommendation of the Council on Digital Security Risk Management for Economic and Social Prosperity 2015). Personal data must be stored and processed securely in order to minimize the risk of data breaches.

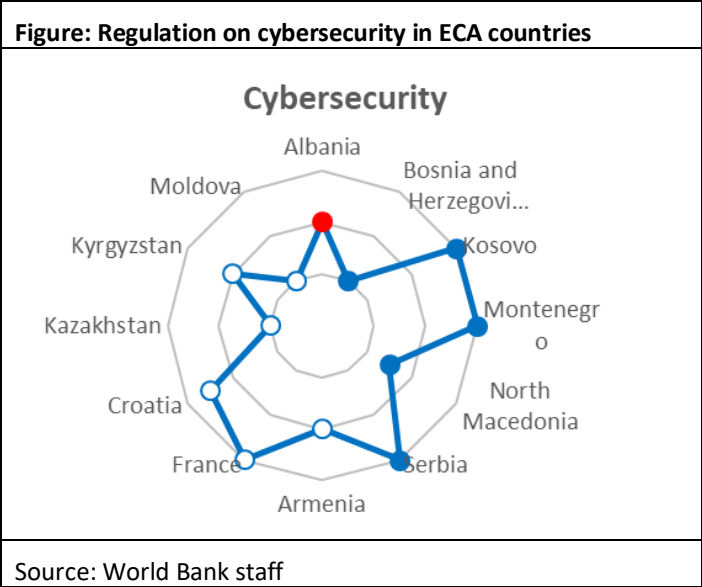
Security requirements consist of organizational and technical measures as well human resources. These may include mandatory encryption of personal data, implementation of rigorous internal policies, and the appointment of a data manager. Assessment of the risk to a data subject’s privacy helps determine the adequate safeguards that need to be implemented (OECD, Privacy Guidelines 2013). Countries without adequate data protection regulations risk being avoided by companies due to the lack of certainty about compliance and data handling (Trade 2015). The EU’s General Data Protection Regulation (GDPR), which went into effect in 2018, introduces updated provisions to protect the personal data and privacy of EU citizens, including cybersecurity requirements.

Table: EU GDPR cybersecurity requirements	
Security of processing	Controllers and processors must ensure a level of security appropriate to the risk through measures such as data pseudonymization and encryption
Breach notification	In case of a personal data breach, controllers must notify the supervisory authority within 72 hours of becoming aware of the breach. In cases where the breach is likely to result in a high risk to the individual rights, the controller must notify the data subject of the breach without undue delay

⁶⁶ Global Cyber Security Capacity Centre & World Bank (2019). Cybersecurity Capacity Review of Albania.

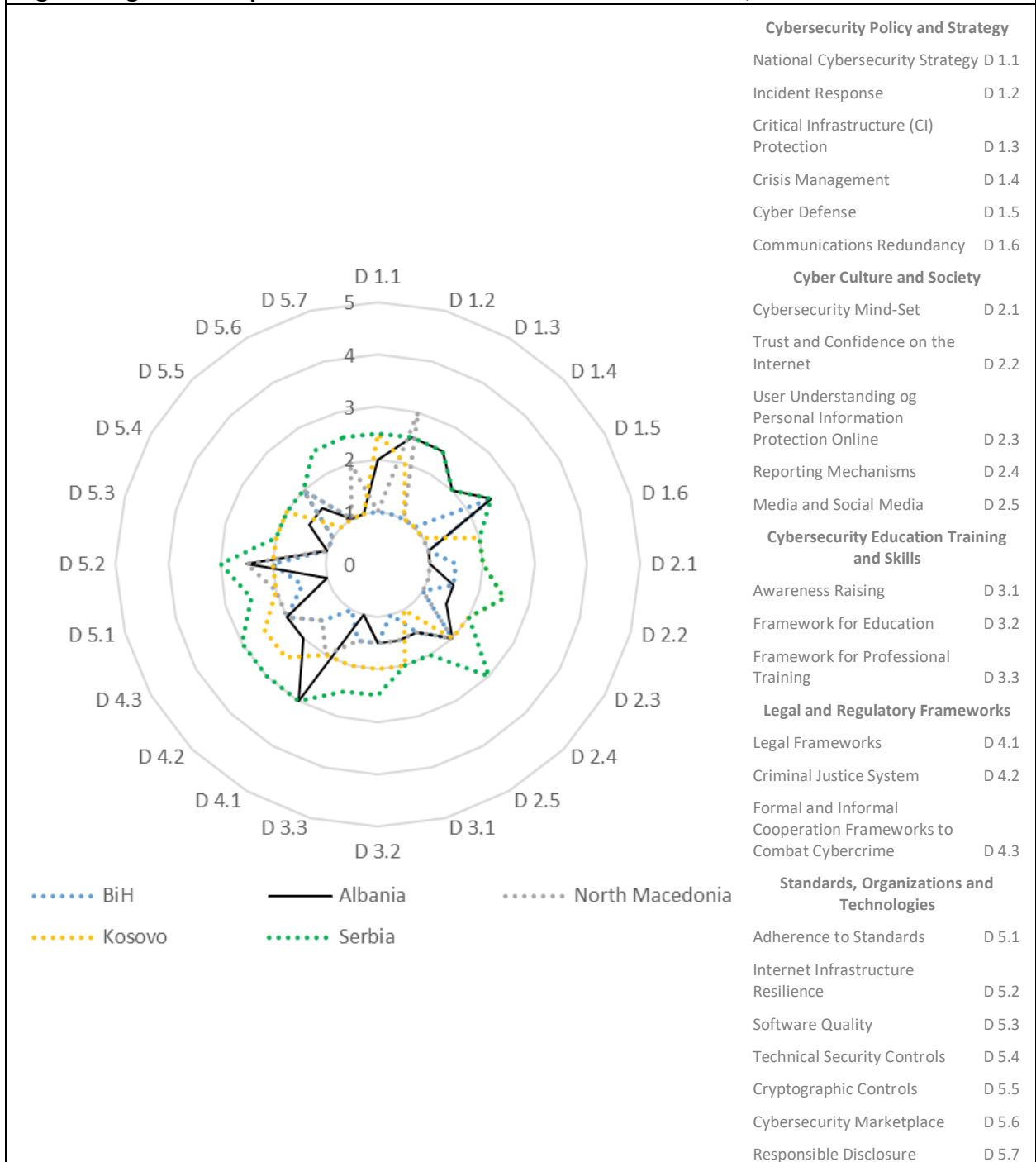
Impact assessment	Where data processing is likely to result in a high risk to individual rights, the controller must conduct an impact assessment prior to processing, including the foreseen measures to address the risks
Designation of data protection officer	Controllers and processors must designate a data protection officer under certain circumstances, including if the bulk of the processing activities require regular and systematic monitoring of data subjects on a large scale, or if it consists of processing of sensitive data on a large scale

Cybersecurity rules appear as the most underdeveloped segment of digital regulations in Albania. This limited progress on cybersecurity is not unique to Albania. The comparative analysis highlights that, unlike most other digital regulations assessed in this review, cybersecurity rules have seen irregular adoption in the Western Balkans region as well as in Europe and Central Asia altogether (Figure 8).⁶⁷ The twelve countries that have been reviewed appear rather evenly distributed in three groups: those with top marks, including France, Croatia, Kosovo, and Serbia, feature an advanced and comprehensive framework; Bosnia and Herzegovina, Kazakhstan and Moldova feature instead only basic, general rules. Albania is in a middle group, together with North Macedonia, Armenia and Kyrgyzstan, that have adopted a framework for cybersecurity, with some requirements to protect the user’s data, but leaving out substantial provisions designed to strengthen data security.



⁶⁷ This analysis focuses on cybersecurity requirements relating to personal data protection. As such, it captures regulatory requirements in general cybersecurity laws and regulations as well as laws on data protection in the context of data privacy. The analysis does not address cybersecurity requirements that may be set out in sectoral laws, including those related to critical infrastructure or other sector-specific regulations.

Figure. Regional Comparison based on National CMM assessments, 2018-2020



Despite limited progress, cybersecurity regulations and policy appear relatively advanced compared to other aspects of Albania’s cybersecurity environment. In 2018-2019 the World Bank in collaboration with the Global Cyber Security Capacity Centre (GCSCC) of the University of Oxford and AKCESK assessed the state of maturity of

Albania’s cybersecurity framework.⁶⁸ It relied on the Cybersecurity Capacity Maturity Model for Nations (CMM) methodology, developed by GCSCC in collaboration with global experts. The assessment was released by AKCESK (CMM Report) and found that, while some efforts have been put into providing for functional and defined regulatory and policy framework for cybersecurity, areas like cybersecurity standards, education and training, and culture and societal conditions for cybersecurity were only at a very nascent level of maturity and should be tackled in parallel with policy and regulations.

Albania does not have an all-encompassing regulation that deals explicitly with cybersecurity. There is no obligation to implement national (or sector-specific) ICT security standards. Albania, through AKCESK, has adopted official guidelines that refer to cybersecurity issues. Further, some cybersecurity elements are set out in the Law on Personal Data Protection and the Law on Cybersecurity. In particular, the Law on Data Protection requires that data controllers adopt and publish an internal policy for the protection of the personal data that comes under their control. The law mandates the IDPC with the oversight of this cybersecurity requirement. However, the broader policy and regulatory mandate for cybersecurity lies with AKCESK, who incorporated the role of the National Agency for Cyber Security (ALCIRT) and is in charge of participating in preparing the national cybersecurity strategy, drafting relevant legislation, and cooperating with all relevant institutions on the matter. Albania’s Law on Cybersecurity of 2017 provides a general framework that requires further elaboration; however it does include the requirements to appoint a data manager responsible for data security and a mandate for data controllers to notify users when there have been security breaches that may have exposed personal data.

Table: Cybersecurity requirements in ECA						
	Encryption	Internal policy	Data manager	Risk assessment	Breach notification	Supervisory authority
Albania		•	•		•	•
Bosnia and H.		•				•
Kosovo	•	•	•	•	•	•
Montenegro	•	•	•	•	•	•
North Macedonia		•	•			•
Serbia	•	•	•	•	•	•
Armenia	•	•			•	•
France	•	•	•	•	•	•
Croatia		•	•	•	•	•
Kazakhstan		•				•
Kyrgyzstan		•	•		•	•
Moldova		•				•

⁶⁸ https://cesk.gov.al/publicAnglisht_html/Publikime/2019/AlbaniaCMMReport.pdf

Further progress on the development of the cybersecurity legal framework and implementation of policies would improve Albania's performance in the area of cybersecurity. Albania should expand regulations for cybersecurity, including adding requirements such as mandating the encryption of personal data and the adoption of risks assessments on cybersecurity practices. Additionally, aligning the legislative framework with provisions of the EU Directive on security of network and information systems and data protection framework would strengthen the system. The report by the Global Cyber Security Capacity Centre with the World Bank (2019) further suggests that the development of a National Cybersecurity Strategy and the allocation of a dedicated budget to ensure the implementation of a national cybersecurity program would help achieve greater cybersecurity capacity.

Increased visibility and greater awareness about the cybersecurity legal framework in place could help strengthen users' trust in Albania's digital sector – an important enabler for e-commerce nationally and internationally. The GOA could consider creating an online portal available to all with information on cybersecurity risks and threats. A general observation from conducting CMM Report is that the interviewed participants pointed to a lack of cybersecurity awareness skills across all levels of the population and a need to address this from the top down. Although the private sector is starting to consider cybersecurity awareness, this is still a nascent process. Even among the most prominent corporations in Albania, there is a growing knowledge about cybersecurity issues but not about how these issues may affect them.

- **Update and expand regulatory framework for cybersecurity in line with EU framework:** including requirements for data encryption and risk assessment.
- **Adopt National Cybersecurity Strategy and allocate budget to ensure the implementation of cybersecurity strategic plans.** Strategic plans might consider the implementation of the Directive on security of network and information systems (the NIS Directive) and GDPR Directives. Strengthen domestic capacity in cybersecurity by implementing a program for cybersecurity researchers.
- **Consider creating a national single online portal linking to appropriate cybersecurity information and disseminate the cybersecurity awareness program.**

PLATFORM REGULATION

The internet's unparalleled ability to connect billions of individuals worldwide has boosted platform-based business models in which an intermediary stands between vendors and consumers. E-commerce platforms like Alibaba, E-bay, and Mercado Libre are based on offering consumers products from thousands of different providers rather than their own stock. "Gig economy" apps offer services such as rides, lodging, or delivery of food or groceries from firms and individuals. Other services rely on content such as video (YouTube, Vimeo), opinions and reviews of products or services (Yelp, Google), or information (blogs) developed by thousands of users, most of whom remain relatively unknown to the final consumer. The relationship between the intermediary (websites and apps) and the firms or individuals offering their own products or services is hence essential to the functioning of those digital transactions.

Intermediary liability rules are the set of provisions that distribute the liability between intermediaries (website and apps) and actual vendors or content developers when things go wrong. In other words, intermediary liability is the responsibility that falls upon online intermediaries, such as search engines, application platforms, social networks, and broadband companies, for third-party content featured in, or products and services offered through,

their website or apps. Just like intermediation is not a novel business model, intermediary liability rules are not new a legal concept – most such rules can be traced back to Roman law. Intermediary liability rules can in fact be broader rules that apply not only to online intermediaries (Gasser & Schulz, 2015). However, specific rules of digital intermediaries are more likely to reflect the particular conditions of digital markets.

Intermediary liability

Rules on intermediary liability need to strike a balance between protecting consumer rights and supporting the expansion of digital markets, including through intermediary platforms. On the one hand, while the goods, services, or content may be offered or developed by third parties, intermediary platforms benefit from them by building their businesses around it. Digital intermediaries manage the relationship with the customer, and they are often the largest, most sophisticated actor involved in the transaction. As such, regulations can impose on intermediaries (jointly with the third party) liability for fake or faulty products or services, or for offensive or illegal content, transacted through or featured in their services. On the other hand, intermediaries often do not have full knowledge of everything that is being offered by producers and content developers on the platform. Excessive liability can therefore deter the development of platform-based services.

For digital intermediaries, responsibility may arise mainly from two types of conducts: the offering for sale of counterfeited products, or the publication of unlawful content, such as images or text, by their users. The offering of fake products would normally entail a violation of intellectual property rules (typically trademark protection). Unlawful content can instead run against intellectual property rules when the content is unduly featuring other people’s work (a violation of copyright protection) by, for instance, reproducing music or video without the authors’ permission, or it may violate criminal law provisions such as rules against libel, hate speech, or child pornography, the protection of individual privacy or classified information, or amount to lèse-majesté or other speech crimes.

Typically, rules on online intermediary liability have two components: one attributing responsibility to the intermediary and another reducing its liability by removing the violation (“safe harbor”). For example, the intermediary would be held liable if it had knowledge that the product being offered was fake but could be exonerated from responsibility if it took steps to remove the product from its listings upon obtaining knowledge of the violation. Rules on responsibility pivot between no responsibility, actual knowledge of the infringement (the platform knew the content was unlawful), duty of knowledge (the platforms should have known that the content was unlawful), or absolute responsibility (the platform is responsible under all conditions). Safe harbor provisions typically involve notice and stay-down procedures, which require that upon receipt of a notice regarding infringing content, the intermediary search and remove all copies of the infringing content and ensure it is not uploaded again.

Box: Manila Principles for the treatment of Intermediary Liability

The Manila Principles for Intermediary Liability were developed to protect online freedom of expression and to provide governments with standards for censorship and takedown laws that respect the users’ rights. The effort involved civil society groups from around the world, led by the Electronic Frontier Foundation (EFF, USA), the Centre for Internet and Society (CIS, India), Article 19 (UK), KICTANET (Kenya), Derechos Digitales (Chile), Asociación por los Derechos Civiles (ADC, Argentina) and Open Net (South Korea).

The proposed principles are:

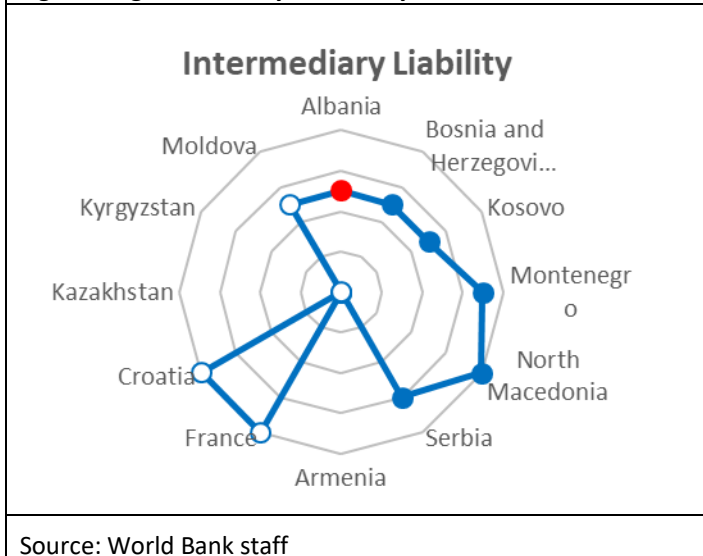
1. *Intermediaries should not be liable for third party content: intermediaries should be exempt from liability for third party content where they did not modify the content; they must not be required to routinely monitor content on their network or platform;*

2. *An order by a judicial authority must be required for content restriction: an order from an independent and impartial judicial authority must be required for content restriction;*
3. *Requests for restrictions of content must be clear, be unambiguous, and follow due process: where an intermediary receives a restriction request before a court order is issued, they need not evaluate the legality of the content; the request must include its legal basis; sanctions should be imposed for bad faith restriction requests;*
4. *Laws and content restrictions orders and practices must comply with necessity and proportionality tests: restrictions should be specific to the content at issue, if applicable, limited in geographical scope; and not extend beyond its duration;*
5. *Laws and content restriction policies and practices must respect due process: parties must be provided the right to be heard and to appeal against restriction orders;*
6. *Transparency and accountability must be built into laws and content restriction policies and practices: applicable rules and transparency reports must be published online in a timely manner.*

Source: Stanford University, Center for Internet Studies, World Intermediary Liability Map (WILMap) (<https://wilmap.law.stanford.edu/>)

Albania has introduced a solid framework on intermediary liability. Albania’s 2009 Law on Electronic Commerce includes a chapter on the conditions for liability of different types of digital services providers. The law builds on the EU E-Commerce Directive of 2000, and provides a framework for the conditions of liability for (i) telecom infrastructure operators who only transmit data through their networks (“mere conduit”) or store data temporarily for the effectiveness of the transmission (“caching”) and (ii) “hosting” service providers that store information provided by third parties. The latter includes intermediaries like ecommerce or digital content platforms. This framework in itself is a key step towards increasing transparency about the rules on intermediary liability.

Figure: Regulation on cybersecurity in ECA countries



In line with international best practice, Albania’s legal framework provides a “safe harbor” for platform services such as digital platforms. The regulation provides a channel for digital platforms to be exempt of liability for unlawful material uploaded by third parties. “Hosting” providers are exempt from wrongdoing if they lack knowledge of infringing content or they remove it upon acquiring knowledge of such content. This conditional exclusion of liability is in line with modern international practices, as it seeks to strike a balance between the liberty of the intermediary to allow third parties to exchange information and views, and the responsibility to avoid unlawful content. Under this framework, for example, a news video-sharing platform like YouTube or Vimeo would not be immediately responsible for a video featuring, say, hate speech, if it took action to remove it once they were informed of its existence. Similarly, an e-commerce platform like Gjirafa.com or Gjeveve would only be liable for the sale of illegal drugs by a vendor if it failed to block it once it came to their knowledge. This is also the approach adopted by the EU regulations and the EU Members States.

Table: Legislation throughout the ECA region addresses infringing content posted online, holding intermediaries liable for third-party content.					
	Specific Rules	Safe Harbor	Covers IP rules	Notice and take-down	Court order for content restrictions
Albania	•	•		•	
Bosnia and H.	•	•		•	
Kosovo	•	•		•	
Montenegro	•	•	•	•	
North Macedonia	•	•	•	•	•
Serbia	•	•		•	•
Armenia					
France	•	•	•	•	•
Croatia	•	•	•	•	•
Kazakhstan	•	•		•	
Kyrgyzstan					
Moldova	•	•		•	

However, the legal framework can be further strengthened. Firstly, despite early attempts to adopt secondary regulation setting out the conditions of operation of the safe harbor provision of the E-Commerce Law, no such guidance has been adopted to date. The adoption of such rules would help strengthening the system, as well as to clarify the safe harbor and notice-and-takedown procedures for digital platforms, especially SMEs and start-ups that do not have advanced internal policies yet. Secondly Article 2 of the E-Commerce Law explicitly excludes matters relating to intellectual property from its coverage. The Law seems to aim to address situations involving criminal or civil sanctions, such as content that violates individual privacy, public morals, or national security. As a result, digital intermediaries are (partially) sheltered from criminal conduct for unlawful content (e.g. hate speech, child pornography, etc) uploaded by third parties, but they can be found fully liable (jointly with the third party) for content that infringes intellectual property rights, such as copyright for video or text, or trademarks for counterfeit protects. This is a key issue for content platforms (YouTube) or social media (Facebook) or smaller local social platforms, who depend on content uploaded by third parties and may find themselves liable for violations incurred by their users. The IP Law of 2016 (Law No. 35/2016 of March 31, 2016, on Copyright and Related Rights) was updated to reflect obligations under the Copyright Directive of 2001, including the rights of copyright holders and remedies available for the violation of those rights. While the Law does address the matter of liability of digital intermediaries in its article 163:1,, the provision is not directed to developing a safe harbor regime, but only to extending the right of copyright holders to seek compensation in court from online intermediaries in case of a violation. As such, the provision fails to reduce liability of intermediaries for third party content, and also fails to create a simplified mechanism that allows IP rightsholders to seek the prompt removal of copyrighted content from the internet. Finally, Albania’s existing legal framework includes a provision requiring intermediaries to restrict the

content upon notice by the court or competent authorities. Making this requirement strictly dependent on an order from a judicial authority would prevent arbitrary orders and overreach from the government.

- **Amend E-Commerce law to expand scope of intermediary liability rules to intellectual property rights, and regulate the conditions for safe-harbor and notice-and-takedown procedures:** Such a broader scope of the e-commerce law has also been applied in other European countries, including Croatia, Montenegro, North Macedonia and France.

CHAPTER SUMMARY

A conducive regulatory framework is necessary for vibrant digital markets. Regulation can provide the legal tools necessary for remote contracts, clarify the rights and obligations of the multiple actors involved in digital transactions, and establish a framework that promotes consumer trust in digital markets, even when the consumer does not know the merchant or when the merchant is in a different country.

Albania has made valuable progress in providing a conducive and comprehensive legal and regulatory framework for digital trade. Albania’s regulatory framework for digital trade has benefitted substantially from the Association Agreement with the EU and the resulting partnerships with EU institutions and Member States, so that laws and regulations have drawn on EU lessons and guidance. These efforts are particularly valuable given the nascent nature of the digital sector in the country, particularly those related to e-commerce, which suggest a vision to leverage digital technologies and digital businesses as a pillar of economic growth. These regulatory advances, however, should be completed with adequate resources and technical capacity in the government bodies to ensure their effectiveness. Further, a comprehensive awareness campaign to disseminate these efforts in the digital trade sector would be a cost-effective initiative to ensure compliance with laws and regulations, as well as to foster synergies between the private sector and policymakers.

A number of regulatory and institutional initiatives would further help fostering digital trade and e-commerce by increasing trust in digital transactions. Some specific recommendations resulting from the analysis include:

Summary of recommendations for strengthening the regulatory framework for e-commerce			
Area	Recommendations	Responsible entity	Case Study
Electronic document	Issue guidance or amend Law on Electronic Documents to ensure technological neutrality regarding the storage of e-documents	AKCESK	Kosovo Law on the Information Society Services No. 04/L-094 - Art. 8
Electronic signature	Implement awareness raising campaigns for the use and acceptance of electronic signatures	AKCESK	eIDAS

	Assess conditions of use and recognitions of electronic signatures in court proceedings	AKCESK	Albania Law on Electronic Documents No. 10 273, Article 12
Online Consumer protection	Strengthen Consumer Protection Commission in staffing, expertise, and budget to fulfil its role of monitoring regulatory compliance, advocacy, and dispute resolution	Consumer Protection Commission	Consumer Protection Network
	Adopt online dispute resolution (ODR) mechanism, ideally by sign up to existent ODR platform	Consumer Protection Commission	Econsumer.gov
	Implement awareness raising campaigns for online consumer protection for e-commerce firms and for individuals	Consumer Protection Commission	EU Consumer Rights Awareness Campaign
Data Privacy	Update privacy regulation in order to seek Adequacy decision by EU	IDPC	EU Adequacy Decisions
	Bolster awareness campaign directed to data subjects as a tool for increasing trust in digital firms.	IDPC	Croatian Personal Data Protection Agency
Cybersecurity	Update and expand regulatory framework for cybersecurity in line with EU framework, including requirements for data encryption, risk assessment.	AKCESK	EU Cybersecurity Act
	Strengthen domestic capacity in cybersecurity by implementing a programme for cybersecurity researchers	AKCESK	ENISA Cybersecurity Skills Framework
Intermediary Liability	Adopt regulations setting out conditions for safe harbor and notice-and-takedown procedures	AKEP	US Online Copyright Infringement Liability Limitation Act (OCILLA) (DMCA 512)
	Amend E-Commerce law to expand scope of intermediary liability rules, including safe harbor procedures, to intellectual property rights to balance liability for digital platforms.	Parliament	EU Directive on Electronic Commerce 2000/31/EC Article 1

9. CONCLUSION

This report reviews Albania’s e-commerce enabling environment and identifies recommendations to help Albania better leverage the opportunities associated with digital trade. E-commerce thrives at the intersection of a complex multisectoral enabling environment. Constraints on all dimensions need to be tackled to support Albania’s e-commerce ecosystem:

- **Logistics and customs:** postal services and other logistics companies need to develop tailored solutions to support e-commerce companies. The customs administration needs to adapt and strengthen processes to effectively handle the low-value high-volume consignments typically associated with e-commerce. In turn, e-commerce companies need to invest in their warehousing strategies, storing inventory close to the eventual customers – enabling fast, reliable and affordable last mile delivery when an online purchase is made.
- **Digital connectivity:** public and private sector solutions are needed to expand access to high-speed broadband connectivity, which requires mobilizing financing for infrastructure investments as well as streamlining the processing of permits. Beyond this, investment in mobile technologies - including roll-out of 5G – is crucial for preparing Albania for the next generation of online business opportunities.
- **Online payments:** On the one hand, broadening access to electronic means of payments among customers is key. On the other hand, businesses need to invest in developing their capabilities to accept online payments. Growth of either side of the market can accelerate development of the other, setting in motion positive feedback loops.
- **Private sector capabilities and skills:** online markets need a well-developed e-commerce private sector capabilities pyramid. Albanian e-entrepreneurs need to be supported, both through financing and training solutions, but also by developing an overall supportive business environment - for instance, creating a transparent and business-friendly tax and customs framework for e-commerce. E-commerce enabling businesses, such as consultancies, IT companies and logistics players, are important strategic assets that can help local businesses to make the jump and develop online sales channels. Finally, Albanian customers need to be educated – making them confident online shoppers that know their rights and responsibilities, while avoiding scams. Developing gradual familiarity with online shopping - learning by doing – will be key.
- **E-commerce regulatory framework:** online transactions need to be underpinned by a strong regulatory framework. The law needs to provide protection for all parties involved, building trust in the digital economy. The emergence of online platforms calls for the need to develop a dedicated legal infrastructure clarifying the rights and responsibilities faced by these new types of businesses.

As Albania’s e-commerce ecosystem develops, it will be crucial to also manage risks associated with the growth of online markets. Given Albania’s nascent e-commerce ecosystem, this report has prioritized strengthening the enabling environment for digital trade. However, as the market grows, key risks associated with online markets will also need to be managed. To the extent that e-commerce displaces some of the established local brick-and-mortar businesses, local communities need to be supported to adapt to these changes. Government agencies, such as the tax administration and customs, will have to upgrade their procedures to manage e-businesses efficiently, fighting informality in online markets as well as ensuring that international e-commerce players pay their fair share of taxes in Albania. Albania’s competition framework will need to find practical solutions to protect customers from e-commerce giants that can dominate online markets and limit competition. While e-commerce companies are

continually innovating to reduce their packaging and logistics footprint, the net impact of the rise of the digital economy on the environment needs to be closely monitored.

Albania needs to establish institutions that can ensure that the momentum on e-commerce reform is maintained and that reform announcements also translate into reform outcomes. A key challenge for e-commerce reform is the requirement for concerted action across multiple government line ministries, closely coordinated with the private sector, international development partners as well as regional forums. Reform efforts are often technical and take time to bear fruit. In certain areas, international best practice still needs to fully mature and currently offers limited guidance. As important step in this process, Albania has already established an inter-ministerial e-commerce working group to regularly review progress with implementation of e-commerce reforms. This working group now needs to develop and adopt an e-commerce action plan, articulating actions, responsibilities and a reform timeline.

The World Bank looks forward to continuing to support Albania in its effort to build a strong online economy that benefits all. Concerted public and private sector action is needed to leverage Albania's digital trade opportunity. Best practices that are gradually emerging in more mature e-commerce markets, including in its nearby partners in the European Union, offer a useful roadmap for reform in Albania. This diagnostic report has aimed to highlight key policy actions needed.