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State and Donor Financing as Drivers of Startup Ecosystem Development in Albania

Prof. Asoc. Dr. Olta Milova[1] , Blerina Hoxha[2],

[1] [1]Faculty of Economics, University of Tirana, Albania

[2]National Agency for Information Society (NAIS), Albania

*****Corresponding author:** blerinahoxha2009@gmail.com

ABSTRACT: The study examines how donor and public funding mechanisms shape the development of startup ecosystems in Albania, a country transitioning toward an innovation-driven economy. It aims to identify how state- and international-donor-supported financial instruments contribute to entrepreneurial activity, innovation capacity, and ecosystem maturity. Grounded in the theoretical frameworks of the entrepreneurial state and the national innovation systems approach, the paper conceptually analyses the relationship among state intervention, donor support, and the private-sector response. The research synthesises recent literature, national policy documents, and strategic frameworks to assess alignment between public initiatives and donor priorities. Results highlight that, although donor and state interventions have stimulated early-stage entrepreneurship and improved access to resources, structural challenges persist–such as weak institutional coordination, fragmented policy implementation, and limited leverage of private investment. The paper concludes by offering strategic recommendations to strengthen innovation governance, improve funding synergy, and build a resilient, self-sustaining startup ecosystem in Albania and the wider Western Balkans region.

KEYWORDS: Startup Ecosystem; Donor Funding; Entrepreneurial State; Innovation Policy; Albania.

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1. Introduction

Albania is undergoing a gradual yet noticeable transformation toward an innovation-driven economy, driven by broader regional integration processes, digitalisation reforms, and increased attention to knowledge-based development. Startups—defined as early-stage, innovation-oriented firms with high growth potential—are widely recognised as engines of competitiveness, productivity, and economic diversification. They contribute to the creation of high-skilled employment, foster the adoption of technology, and stimulate new market opportunities. For small and emerging economies like Albania, the strategic importance of startups is even greater, as they can accelerate structural transformation and reduce dependence on traditional, low-value-added sectors.

However, the development of startup ecosystems in emerging economies is often constrained by limited access to finance, fragmented institutional support, and underdeveloped innovation policies. Unlike mature ecosystems where market-driven financing mechanisms such as venture capital, angel investment, and equity funding are widespread, Albania's entrepreneurial landscape relies heavily on external interventions and public support. The availability, design, and coordination of funding mechanisms thus become critical determinants of ecosystem growth.

This paper explores how donor and public funding mechanisms influence the evolution of Albania's startup ecosystem and examines the extent to which these interventions have contributed to entrepreneurial activity, innovation capacity, and ecosystem maturity. Over the past decade, both the Albanian government and a diverse range of international donors—including the European Union, GIZ, SIDA, the World Bank, and UNDP—have introduced programs to stimulate entrepreneurship, strengthen digital skills, improve innovation infrastructure, and support SMEs' competitiveness. These initiatives have included grant schemes, incubator and accelerator programs, capacity-building projects, and policy-oriented interventions.

Despite these efforts, the overall maturity of Albania's startup ecosystem remains limited. Key elements—such as coordinated governance structures, long-term financing instruments, stable policy frameworks, and substantial private-sector investment—are still developing. As a result, questions persist regarding the effectiveness, alignment, and long-term impact of donor and state interventions, particularly their ability to generate sustainable, systemic change rather than short-term project-driven activity.

2. Theoretical Framework

The analytical lens of this study is grounded in two complementary theoretical frameworks: the entrepreneurial state (Mazzucato, 2013) and the national innovation systems (NIS) approach. Together, these frameworks provide a robust conceptual basis for examining how public institutions, donor organisations, and private actors interact to shape Albania's emerging startup ecosystem.

The entrepreneurial state theory challenges the traditional view that governments simply correct market failures. Instead, it posits that the state plays a proactive, mission-oriented, and often risk-taking role in driving innovation, particularly in early stages where private investment tends to be limited. Mazzucato demonstrates that many transformative innovations—from biotechnology to ICT—

originated from state-funded research, patient capital, and long-term public investment. In this context, the state not only supports entrepreneurship but also actively shapes innovation trajectories, creates markets, and reduces uncertainty for private actors.

For Albania, this framework is highly relevant. As an emerging economy with a nascent private investment landscape, public funding mechanisms—whether through national grants, digitalisation programs, or innovation infrastructure—serve as foundational pillars of the startup ecosystem. Government agencies, such as the National Agency for Information Society (AKSHI) and AIDA, have increasingly adopted roles aligned with the entrepreneurial state, offering grants, enabling digital transformation, and fostering capacity-building programs. These interventions are particularly significant in the absence of a strong venture capital market or angel investment networks, both of which are characteristic gaps in Western Balkan economies.

The National Innovation Systems (NIS) approach further complements this perspective by emphasising that innovation is not an isolated activity but a systemic process shaped by interactions among institutions—government, academia, industry, and civil society. In well-functioning innovation systems, these actors collaborate through formal and informal networks, knowledge flows, and joint learning processes, which ultimately enhance national innovation performance (Lundvall, 1992; Nelson, 1993).

In smaller economies like Albania, however, the innovation system is not solely national but heavily influenced by external actors, particularly international donors. Organisations such as the EU, GIZ, UNDP, and the World Bank often become integral components of systems by shaping policy priorities, funding mechanisms, and capacity-building structures. Their programs introduce new practices, tools, and governance models that significantly influence the functioning of Albania's innovation ecosystem. As a result, donor-driven initiatives often act as catalysts for institutional reforms, digital skills development, and the creation of entrepreneurial support infrastructures such as incubators, accelerators, and innovation labs.

Together, the entrepreneurial state and NIS frameworks provide a comprehensive analytical lens for understanding the interplay between donor support, state intervention, and private-sector response. They highlight that effective startup development in Albania is not merely a function of funding availability but depends on how well these actors are aligned, coordinated, and integrated within a broader systemic context. This combined perspective allows for a nuanced assessment of where the ecosystem benefits from strategic interventions and where structural gaps—such as fragmented governance or limited private investment—continue to constrain long-term innovation capacity.

3. Methodology

This study adopts a conceptual, qualitative research design, widely used in policy-oriented and system-level analyses of innovation and entrepreneurship (Edmondson & McManus, 2007; Patton, 2015). Given that Albania's startup ecosystem is still emerging and lacks comprehensive longitudinal datasets, a qualitative, theory-driven approach is appropriate for exploring the structural, institutional, and policy dynamics shaping ecosystem development.

The research synthesises recent scholarly literature on entrepreneurship, donor interventions, and innovation policy, with a particular focus on frameworks relevant to emerging economies. Sources include peer-reviewed academic articles, institutional reports, ecosystem assessments, and comparative studies from the Western Balkans and EU member states. To strengthen contextual validity, the study draws on key national strategies, including the Digital Agenda, the SME Strategy, and the National Innovation Strategy, which collectively outline Albania's policy direction in digital transformation, innovation governance, and enterprise support.

In addition, the methodology incorporates analysis of donor-funded program evaluations and analytical reports produced by major international organisations, including the European Union, the OECD, the World Bank, GIZ, UNDP, and SIDA. These sources provide evidence on the outcomes, challenges, and systemic implications of donor interventions in Albania and similar economies. Program evaluations were selected because they offer structured assessments of effectiveness, relevance, and sustainability—core themes in this study.

The methodological aim is not to measure quantitative or causal impact, as such analysis would require extensive statistical data and impact metrics that are still limited in Albania's startup environment. Instead, the study adopts a theory-informed, exploratory approach to examine how funding instruments—both public and donor-driven—interact with institutional arrangements, governance structures, and ecosystem actors. This aligns with established approaches in innovation systems research, which emphasise the importance of understanding institutional configurations, coordination mechanisms, and policy coherence over purely numerical indicators (Lundvall, 1992; Nelson, 1993).

By integrating multiple documentary sources, policy frameworks, and academic perspectives, this methodological design enables a nuanced understanding of Albania's startup ecosystem, highlighting the interplay between external funding, public governance, and entrepreneurial development. The approach is particularly relevant for emerging ecosystems where qualitative insights offer rich explanatory power and help uncover underlying structural constraints that quantitative data alone may not capture.

4. Donor and Public Funding Landscape in Albania

Donor organisations have historically played a central, disproportionate role in shaping Albania's economic reforms, institutional modernisation, and innovation-related initiatives. This pattern reflects broader trends in Western Balkan countries, where external actors frequently compensate for limited domestic funding capacity, institutional gaps, and the absence of strong market-based financing mechanisms (OECD, 2023; World Bank, 2022). In Albania, donor-funded programs have been instrumental in introducing global best practices, building human capital, and establishing the early foundations of an entrepreneurial ecosystem.

Prominent international actors have contributed through targeted interventions across several domains:

- European Union (EU) programmes—such as IPA, COSME, Horizon Europe, and EU4Innovation—have supported digital transformation, capacity building, SME competitiveness, and policy alignment with EU innovation frameworks. These programs have introduced methodologies for startup incubation, provided access to technical assistance, and supported alignment with the EU Digital Agenda.
- GIZ has been a key contributor to digital skills development, entrepreneurship education, and the establishment of startup support infrastructure. Through initiatives such as ProSED and various digital innovation projects, GIZ has strengthened local incubators, accelerators, and public–private partnerships, enabling knowledge transfer and institutional learning.
- The World Bank has invested significantly in Albania's innovation infrastructure and human capital development. Projects such as "The Skills for Jobs Project" and broader competitiveness initiatives have supported ICT modernisation, vocational training, and ecosystem-relevant education reforms. These interventions mirror World Bank strategies in other emerging markets, where innovation capacity and digital readiness are core development pillars.
- UN agencies and bilateral donors (such as UNDP, SIDA, Swiss Development Cooperation, and the Italian Agency for Development Cooperation) have supported youth entrepreneurship, social innovation, women-led startups, and community-based digital skills programs. Their interventions often target vulnerable groups, promoting inclusive entrepreneurship aligned with the Sustainable Development Goals (SDGs).

In parallel with donor activity, public funding mechanisms in Albania have gradually expanded, though from a low base. National institutions have introduced a variety of programs aimed at supporting startups, SMEs, and innovation activities:

- The Albanian Investment Development Agency (AIDA) has implemented grant schemes, export promotion programs, and competitiveness support for SMEs, including innovation-oriented enterprises.
- Startup Albania Grant Scheme, An important recent development in Albania's entrepreneurial support architecture is the establishment of the Startup Albania grant scheme, introduced as part of national efforts to stimulate early-stage entrepreneurship and strengthen innovation capacity. This initiative marks a strategic shift toward creating state-led financial instruments that mirror European best practices in supporting startups, particularly in economies where private investment remains limited. The Startup Albania scheme provides direct financial support, mentorship, and incubation opportunities for early-stage ventures operating in priority sectors such as ICT, digital services, tourism, green economy, creative industries, and agro-innovation. The program aims to reduce the financial barriers that typically hinder innovative firms in their early development stages, including a lack of seed capital, limited access to professional services, and insufficient exposure to market networks.

- Line ministries have implemented scattered innovation challenges, training schemes, and pilot programs aligned with sectoral strategies such as ICT, tourism, agriculture, and creative industries.

While these interventions collectively represent a positive evolution in Albania's innovation policy landscape, several systemic issues persist. Research on donor influence in emerging innovation systems highlights that external funding often leads to fragmentation, duplication of efforts, and short-term, project-based activities rather than sustained capacity-building (OECD, 2021; UNDP, 2020). Albania exhibits similar patterns.

Funding streams remain fragmented, with limited coordination between donors, ministries, and agencies—resulting in parallel interventions rather than integrated ecosystem support. Many programs are short-term and donor-dependent, limiting their ability to foster systemic change or support startups' long-term scaling needs. Furthermore, the level of public co-financing remains relatively low, thereby restricting Albania's ability to leverage private sector participation or establish sustainable national innovation instruments, such as long-term innovation funds or co-investment schemes.

Overall, despite notable progress, Albania's donor and public funding landscape continues to face constraints in policy coherence, long-term planning, and institutional coordination—all of which are crucial for developing a resilient and self-sustaining startup ecosystem.

5. Findings and Discussion

The synthesis of academic literature, policy frameworks, and donor program evaluations reveals a complex landscape in which state and donor interventions have generated measurable benefits but have not established a fully mature or self-sustaining startup ecosystem in Albania. The findings align with broader research on innovation systems in developing and transitioning economies, wherein interaction between initiatives, donor support, and private-sector responses tends to produce mixed outcomes.

5.1 Positive Impacts

State and donor interventions have yielded several important contributions to Albania's entrepreneurial landscape, particularly in the early stages of ecosystem formation:

- Expansion of early-stage entrepreneurial activity. Numerous donor-funded incubators, accelerators, and grant schemes have stimulated the emergence of new ventures. This aligns with regional studies showing that external funding often acts as a catalytic mechanism for entrepreneurial experimentation in economies with underdeveloped capital markets (World Bank, 2023; OECD, 2022).
- Improved access to training, mentorship, and infrastructure. Programs supported by the EU, GIZ, UNDP, and bilateral donors have significantly strengthened Albania's human capital for entrepreneurship. Research highlights that capability-building initiatives are essential for upgrading managerial skills, fostering innovation practices, and reducing informational barriers to entry (NESTA, 2018).

- Increased visibility of entrepreneurship as a viable career path. Public campaigns, competitions, and startup events have helped shift societal attitudes toward entrepreneurship—an outcome noted as particularly important in post-socialist contexts where entrepreneurial culture remains underdeveloped (Estrin & Mickiewicz, 2011).
- Support for digital transformation and innovation readiness. Large-scale digitalisation reforms, SmartLabs investments, and ICT-focused donor programs have enhanced the ecosystem's technological capabilities. Studies confirm that digital infrastructure and digital literacy are foundational elements of modern innovation systems (European Commission, 2020).

Collectively, these impacts indicate that donor and state interventions have played a foundational role in building the preliminary building blocks of Albania's startup ecosystem—namely, skills, awareness, experimentation, and access to basic resources.

5.2 Persistent Challenges

Despite these positive contributions, several structural challenges continue to limit the long-term effectiveness and sustainability of Albania's startup ecosystem:

- **Weak institutional coordination leading to fragmented interventions.** Overlapping mandates among ministries, agencies, and donors often result in duplication, inefficient resource allocation, and limited policy coherence. Similar coordination failures have been documented across the Western Balkans, where ecosystem governance structures remain underdeveloped (OECD, 2021).
- **Absence of long-term funding strategies.** Albania lacks sustained public investment mechanisms such as innovation funds, co-investment schemes, or venture capital incentives. Research on innovation policy emphasises that long-term financing instruments are necessary to move ecosystems beyond early experimentation and toward growth and scale (Edler & Fagerberg, 2017).
- **Fragmented policy implementation across institutions.** Although multiple strategies mention innovation, implementation often remains inconsistent, underfunded, or disconnected from the private sector's needs. This mirrors broader regional findings that highlight gaps between strategic aspiration and operational execution (European Training Foundation, 2022).
- **Low levels of private investment.** Albania's startup ecosystem remains heavily dependent on donor and public funding, with limited angel investment or venture capital activity. Comparative studies of emerging economies demonstrate that without private-sector engagement, ecosystems struggle to achieve sustainability and scale (Startup Genome, 2022).
- **Short-term programmatic focus.** Many donor-funded interventions prioritise short-term deliverables—such as training outputs or pilot projects—over long-term capacity-building, ecosystem governance, or private-sector mobilisation. This reflects a common criticism in development literature regarding "projectized" innovation support (UNDP, 2020).

These challenges reveal structural constraints that cannot be resolved by isolated programs, regardless of their quality or scale. Instead, they point to the need for systemic alignment, sustained investment, and stronger governance mechanisms—core features of successful national innovation systems.

Broader Implications

These findings are consistent with the experience of other Western Balkan economies, in which donor dependency, limited domestic financing, and institutional fragmentation impede the development of robust innovation systems. For Albania, achieving greater alignment between donor priorities and national strategies is essential to prevent parallel interventions and to promote coherent ecosystem development.

Ultimately, while donor and state efforts have laid important groundwork, the transition from an emerging to a mature, resilient startup ecosystem will require deeper structural reforms, enhanced coordination, and mechanisms that crowd in private capital and foster long-term capacity for innovation.

6. Conclusion

Donor and state funding have been instrumental in catalysing early-stage entrepreneurial activity in Albania, particularly during a period when domestic financial markets and innovation institutions remain underdeveloped. These interventions have contributed to building essential ecosystem foundations—ranging from digital skills and startup support infrastructure to policy experimentation and increased public awareness of entrepreneurship. In line with research on innovation systems in emerging economies, early-stage public and donor engagement is often necessary to compensate for structural market gaps and the private sector's risk aversion (Mazzucato, 2013; OECD, 2021).

However, the findings of this study indicate that funding alone is insufficient to establish a resilient and self-sustaining startup ecosystem. Sustained ecosystem development requires strong governance structures capable of ensuring policy coherence, institutional coordination, and continuity across electoral cycles and donor programming phases. International evidence shows that successful innovation-driven economies rely not only on financial support but also on stable and well-integrated national innovation systems that facilitate collaboration among government, academia, industry, and civil society (Lundvall, 1992; Nelson, 1993).

For Albania, this underscores the urgency of moving beyond fragmented, project-based approaches toward the creation of long-term strategic frameworks and funding mechanisms—such as innovation funds, co-investment instruments, and regulatory incentives—that can stimulate meaningful private-sector engagement. Encouraging domestic and foreign private investment is particularly critical, as ecosystems that remain dependent on donor financing often struggle to scale innovation, commercialise research, or develop high-growth ventures.

As Albania and the wider Western Balkan region advance toward deeper integration with the European Union, the ability to build a mature, competitive, and innovation-oriented economy will become increasingly important. EU accession processes place strong emphasis on digital transformation, research and innovation governance, and SME competitiveness, all of which require a more sophisticated and coordinated approach to ecosystem development. Aligning national innovation policies with EU frameworks—including Horizon Europe, the Digital Europe Programme, and Smart Specialisation Strategies—will be essential for enhancing both funding synergies and institutional capacity.

In conclusion, while donor and state interventions have laid the groundwork for entrepreneurial activity in Albania, the next phase of ecosystem evolution will depend on strengthening governance, aligning policies, mobilising private capital, and fostering long-term institutional learning. These measures are crucial for transforming Albania's startup landscape from an emerging ecosystem into a dynamic and sustainable innovation system capable of supporting economic transformation and regional competitiveness in the decades ahead.

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