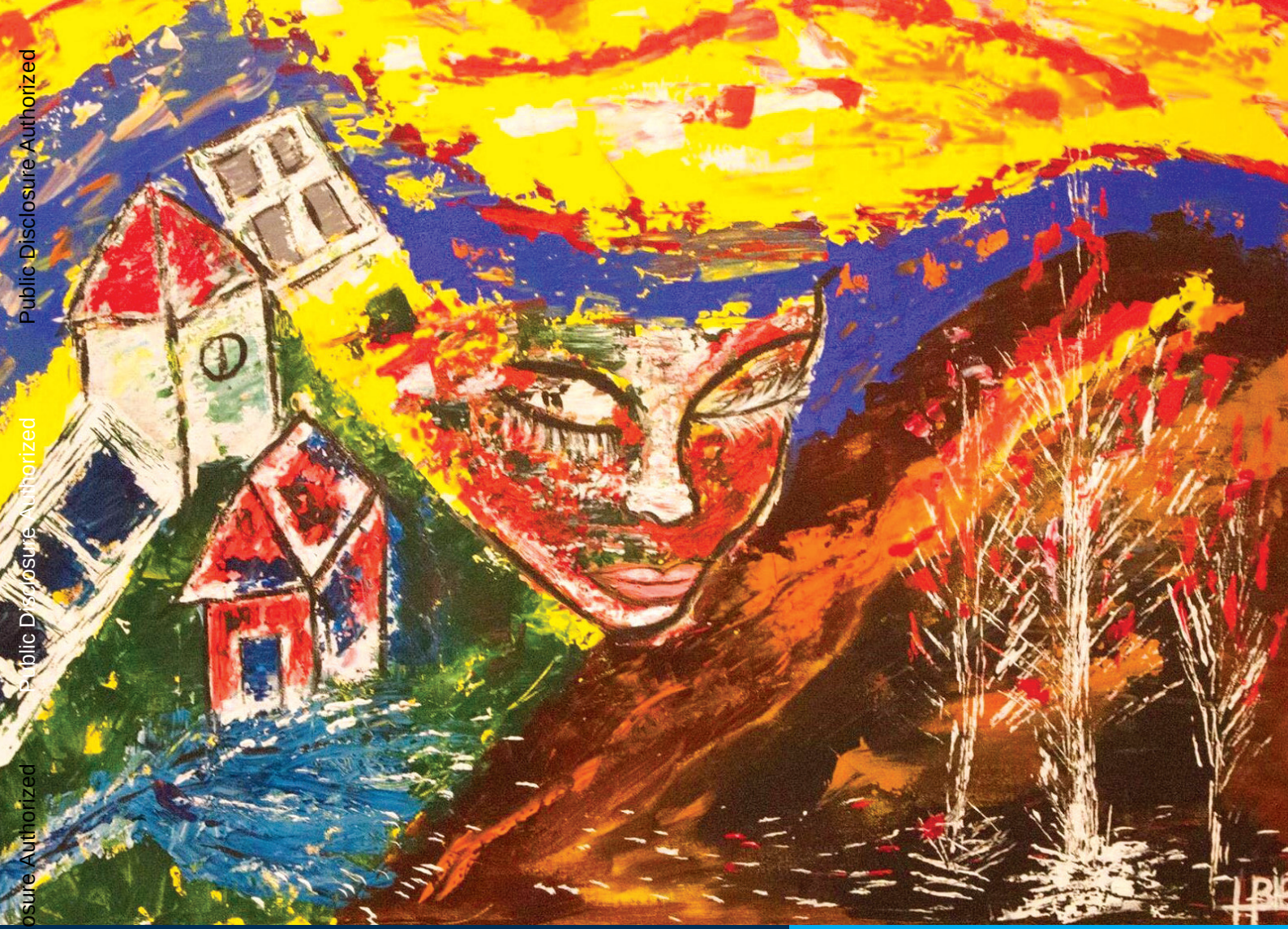

COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN ALBANIA

Taking Advantage of New Trade and Investment Opportunities for a More Robust Private Sector

June 2022

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Cover Photo: “That Girl”, Herta Biba, 2016, Albania

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ABBREVIATIONS

7STEE	Seven small transitional economies of Europe
AATSF	Albanian Agribusiness and Tourism Support Program
AIDA	Albania Investment Development Agency
AmCham	American Chamber of Commerce in Albania
CAGR	compound annual growth rate
CAP	Common Agricultural Policy
CDM-Model	Crépon, Duguet and Mairesse Model
CEFTA	Central European Free Trade Agreement
CIT	Corporate income tax
CPSD	country private sector diagnostic
EC	European Commission
EP RVC	European Periphery Regional Value Chain
ES	Enterprise Surveys
EU	European Union
FAO	Food and Agriculture Organization - UN
FDI	foreign direct investment
FS&C	food safety certification
FTA	free trade agreement
GCI	Global Competitive Index
GCR	Global Competitiveness Reports
GDP	gross domestic product
GDT	General Directorate of Taxes
GFCF	gross fixed capital formation
GII	Global Innovation Index
GIZ	German Agency for International Cooperation
GVC	global value chain
ha	hectare
HACCP	hazard analysis and critical control point

ICT	information and communication technology
IMF	International Monetary Fund
IMOC	Inter-institutional Maritime Operational Center
INCA	Institute for Nature Conservation in Albania
INSTAT	Institute of Statistics of Albania
IPARD	Instrument for Pre-Accession Assistance for Rural Development
IPR	intellectual property rights
IRAOI	Investment ratio agricultural orientation index
ISO	International Standards Organization
ITC	International Trade Centre
kg	kilogram
KGSEZ	Kamienna Gora Special Economic Zone, Poland
KPI	key performance indicators
LSI	Law of Strategic Investment
MAPs	medicinal and aromatic plants
MFI	micro finance institution
MT	metric ton
M&E	monitoring and evaluation
NIS	national innovation system
NPL	nonperforming loan
NQI	national quality infrastructure
NSDI	National Strategy for Development and Integration
OEC	Observatory of Economic Complexity
OECD	Organisation for Economic Co-operation and Development
OEM	original equipment manufacturers
PE	private equity
PIM	public investment management
PPP	public-private partnership
PUT	Polytechnic University of Tirana
R&D	research and development
RCA	revealed comparative advantage

SBS	Structural Business Survey
SDG	sustainable development goal
SME	small and medium enterprises
SPS	sanitary and phytosanitary
STEP	Skills Towards Employment and Productivity Employer Survey
STI	science, technology and innovation
T&T	travel and tourism
TCT	Transport Community Treaty
TEDA	technological and economic development areas
TEN-T	Trans-European Transport Network
TVET	technical and vocational education and training
UN	United Nations
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNWTO	United Nations World Tourism Organization
VAT	value-added tax
VC	venture capital
WB	Western Balkans
WB6	the six countries of the Western Balkans,
WEF	World Economic Forum
WTTC	World Travel & Tourism Council

EXECUTIVE SUMMARY

Despite a challenging transition period and a string of adverse shocks, in recent decades Albania has made major strides in raising per capita income and integrating into the world economy. Since the end of the communist era, the country has achieved remarkable economic success. In the 2000s, strong and sustained gross domestic product (GDP) growth enabled Albania to surpass the World Bank's threshold for upper-middle-income status. Once one of the world's most isolated countries, Albania's economic opening and its increasingly dense ties with Europe have made external demand a major driver of GDP growth.

A dynamic private sector has become the engine of Albania's economic development, and its increasing role continues to offer opportunities for expanding the country's economic base and promoting faster and more diversified export-oriented growth. The agricultural sector, which provides livelihoods for a large share of lower-income households, is gradually adapting to international markets by leveraging the potential of niche products. Albania's tourism services have expanded dramatically in recent years, albeit from a small base, but the sector remains concentrated in a few coastal areas, leaving the country's vast natural and cultural resources still largely untapped. Labor-intensive manufacturing has created much-needed employment for the country's rapidly urbanizing population, and following the decline of the garment industry, a small but growing auto-parts subsector—closely tied to the European automotive value chain—is reinvigorating the manufacturing base.

Albania is endowed with considerable economic assets, including a strategic geographical position, exceptional natural beauty, and abundant renewable and nonrenewable resources. With 300 miles of coastline on the Adriatic and Ionian Seas offering direct access to both European and global markets. Albania possesses vast natural resources: about one-quarter of its total land area is arable and suited to a wide range of crops; its mountains and rivers provide inexpensive, low-carbon hydroelectric power; and its rich variety of coastal ecosystems have supported the development of fishing and tourism. Albania's subsoil assets include commercially viable deposits of petroleum, natural gas, chrome, and copper, and the country hosts a portion of the Trans-Adriatic Gas Pipeline. Albania has ready access to European markets, and it is located within the ambit of the European periphery regional value chain. Low labor costs have kept the manufacturing sector competitive, leaving Albania well positioned to take advantage of the nearshoring trend sparked by the COVID-19 pandemic.

A politically stable environment, improving governance indicators, and a record of dependable macroeconomic policies have supported the process of EU accession, which offers a wide array of opportunities for the development of the Albanian private sector. In the last two decades, power has changed hands regularly and peacefully, without any substantial threats to the integrity of the political system. A generally sound economic policy framework has bolstered the country's resilience to successive external shocks. As part of the EU accession process, Albania has implemented a wide range of institutional and regulatory reforms designed to establish compliance with EU standards and rules. These reforms are expected to attract greater foreign direct investment and enable a dynamic domestic private sector to emerge as the primary driver of economic growth.

Because a small domestic labor pool and consumer market limit the potential for economies of scale, sustaining Albania's economic expansion will require intensifying its integration with the global economy. While economic openness is vital to Albania's continued growth, its heavy reliance on an undiversified set of exports has left the economy highly vulnerable to changing external conditions. To strengthen its macroeconomic resilience, Albania will need to diversify its exports. As the country's small size limits its potential to develop a wide range of industries and sectors, most diversification will need to occur within existing sectors and value chains. In the services sector, diversifying tourism offerings away from existing beach destinations will ease infrastructure pressures while broadening the geographical distribution of returns on tourism and expanding Albania's appeal to international source markets. In the agricultural sector, continued efforts to obtain international quality certifications will enable producers to access a wider array of export destinations, especially for higher-value, consumer-ready products. In manufacturing, diversification along the automotive value chain will allow Albania to maximize the potential of its limited industrial capacity. The creation of backward linkages to domestic producers of raw materials and intermediate goods could increase value addition while mitigating exposure to input price shocks.

Despite decades of progress, Albania continues to face serious structural and policy challenges. The country's economic expansion has not been matched by commensurate improvements in productivity. Low rates of productivity growth within sectors have driven a sharp decline in overall productivity, as the presence of less-productive informal firms inhibits the entry and expansion of more-productive competitors in several sectors. A combination of declining productivity and rising wage rates undermined the competitiveness of the garment industry, which fell into a steep decline. Restarting productivity growth at both the aggregate and firm levels will be vital to ensure that the nascent auto-parts industry does not suffer the same fate.

In this context, the World Bank Group has prepared the following Country Private Sector Diagnostic (CPSD) to assist the authorities in their efforts to leverage Albania's geographic location, natural assets, and improved institutional and policy framework to promote diversification, competitiveness, and robust private-sector-led growth. This report analyzes the key challenges facing Albanian firms, identifies opportunities to strengthen their competitiveness, and presents policy options designed to enhance their contribution to economic growth and diversification. Drawing on evidence from recent surveys, the CPSD highlights the constraints that high tax rates, burdensome tax administration, widespread informality, inadequate workforce skills, and infrastructure gaps impose on private firms and investors. It also reveals opportunities to catalyze growth by implementing the structural and institutional reforms necessary for the private sector to realize the full potential of Albania's human, physical, and natural assets.

The analysis highlights the importance of improving the business environment while stepping up investments in technology and innovation. Alleviating constraints on tax administration, informality, skills shortage, and infrastructure gaps affecting the development of the private sector need to be complemented by improvements in firms' capabilities and productivity. Albania's gross research and development (R&D) spending is extremely low by the standards of comparable countries. The government has fallen far short of its targets for public investment in R&D, and private R&D spending is minimal and inefficient. Business innovation has a direct impact on firm-level productivity, and investment in R&D is vital to Albania's competitiveness. Given the government's limited resources, policy makers should encourage firms to invest in innovation by strengthening the institutional and policy framework for R&D while adopting complementary policies aimed at improving education and building workforce skills, expanding access to finance, developing business-support services, and promoting international collaboration.

The report explores three critical sectors for accelerating and diversifying growth: agribusiness and food processing, tourism, and automotive manufacturing. These sectors were selected based on the country's potential for outward-oriented growth, as foreign investment and integration into global value chains will be vital to overcome the small domestic consumer market and labor pool. Increasing value addition in the country's large but low-productivity agricultural sector and raising the quality of agricultural output to the standards of European markets would contribute to diversification while accelerating income growth among many of the country's poorest households. While the tourism industry presents especially attractive opportunities for both growth and diversification, realizing its potential will require addressing the excessive concentration of tourism facilities, the sector's ecologically unsustainable development, and its focus on low-value market segments. Finally, supporting the development of the emerging auto-parts industry and deepening Albania's integration into the European automotive value chain could catalyze job creation by fostering the development of a dynamic, globally competitive manufacturing sector. In each case, realizing the potential of Albania's economic assets will require sustained structural reforms combined with institutional capacity-building.

ALBANIA'S RECENT ECONOMIC DEVELOPMENT AND NEAR-TERM OUTLOOK

Albania's transition to free-market democracy in the early 1990s was followed by a period of low and volatile economic growth, as successive shocks and unresolved structural challenges slowed the reallocation of labor and capital to more-productive sectors. Following the extreme turbulence of the early transition, Albania's economy expanded rapidly in the 2000s, as economic openness, the deregulation of factory and output markets, and the privatization of state assets enabled the movement of labor and capital from agriculture to the more-productive manufacturing, construction, and services sectors. Favorable global economic conditions boosted the average GDP growth rate to 6.2 percent between 2000 and 2008, but the 2008–09 global financial crisis derailed Albania's expansion, and the 2011–12 eurozone sovereign debt crisis hindered its recovery. Meanwhile, weather-related shocks adversely affected the agriculture and hydropower sectors. Albania's average annual GDP growth rate fell to 2.4 percent between 2009 and 2013, and only a modest increase in agricultural output prevented a recession. Following the adoption of macroeconomic stabilization measures, including improved tax collection and the controlled growth of fiscal spending, the annual GDP growth rate increased gradually to an average of 3 percent in 2014–18, just half its 2000–08 average.

Over the last decade, productivity growth has remained weak: marginal labor productivity and total factor productivity have both declined, and the average contribution of productivity to growth has been negative since 2009. Reversing this trend is the country's core economic policy challenge. During the 2000s, increases in productivity largely reflected factor reallocation between sectors, but as the gains from reallocation have dwindled, factor accumulation has become the basis for productivity gains. Since 2014, capital formation has accounted for more than half of all GDP growth, and the expansion of the labor force has made a substantial contribution to growth despite slow rates of employment creation and high levels of emigration. Less-productive informal firms have failed to exit the market, inhibiting the expansion of more-productive formal firms. Meanwhile, labor productivity has stagnated since 2009 and is well below the averages for both the Western Balkans and peer countries worldwide. Productivity growth in Albania's manufacturing sector has been slow by regional standards, with little contribution from factor reallocation between firms, the upgrading of internal firm capabilities, or the replacement of less-efficient incumbents by more-efficient competitors. Widespread informality likely reduces business dynamism, as low-productivity firms can survive in the informal sector.[1]

Consequently, a consistent focus on productivity growth should guide the reevaluation of private-sector policies, sectoral development strategies, and public investment programs. The COVID-19 crisis has prompted private firms to revise and adapt their business models to fit a radically altered operating environment, and this widespread process of firm-level change creates space for policy makers to embrace innovative solutions to address the longstanding challenges embedded in Albania's growth model. While the potential gains from the reallocation of productive factors between sectors remain significant, accelerating productivity growth within sectors and firms will require improving the investment climate; encouraging technology transfer; and intensifying market dynamism through better regulation of competition and product markets, continued formalization efforts, and support for small and medium enterprises (SMEs).

At the sector level, Albania's recent growth has been driven by the rapid expansion of tourism, supported by a large agricultural sector, while manufacturing output has stagnated. Over the past two decades, Albania's travel and tourism (T&T) sector has expanded at a remarkable pace, with the number of international arrivals growing at an annual rate of 17 percent. In 2018, the sector generated US$1.38 billion in added value, contributing 8.8 percent to GDP, and it is now Albania's main source of export receipts. When indirect and induced effects are accounted for, the contribution of T&T rises to 27 percent of GDP, highlighting its critical importance to other sectors. Meanwhile, agriculture's contribution to GDP and employment has declined over time, but it remains the backbone of the Albanian economy. Agriculture represents 20 percent of GDP, accounts for more than 40 percent of employment, and is the main source of income for Albanian households. The manufacturing sector has long struggled to fulfill its potential: in the 2000s, labor-intensive garment manufacturing became an important source of employment in urban areas, but the industry withered in the face of mounting price competition combined with stagnant productivity growth, and production was ultimately shifted to lower-cost destinations. In its place, a small but vibrant and promising auto-parts industry has very recently taken root, as low labor costs, greater economic stability, and improvements in the investment climate have attracted foreign direct investment (FDI), drawing Albania into the European regional automotive value chain. However, Albanian manufacturers must deliver sustained improvements in efficiency and value addition, or the nascent auto-parts sector risks meeting the same fate as the garment industry.

In 2019, exogenous shocks disrupted Albania's gradual expansion, as the country suffered a severe drought followed by an earthquake. Low levels of rainfall slashed hydropower production, and the completion of two large FDI-financed projects in the energy sector further slowed economic activity. The subsequent earthquake, which measured 6.3 on the Richter scale, caused at least 51 fatalities and inflicted damages and losses estimated at 7.5 percent of Albania's 2018 GDP. The tourism and construction sectors were hit hardest, and the annual GDP growth rate fell from 4.1 percent in 2018 to 2.2 percent in 2019.

In 2020, the COVID-19 outbreak inflicted a staggering toll on the Albanian private sector, and the fallout from the pandemic poses a growing threat to macroeconomic stability. The government adopted measures to contain the spread of COVID-19, including lockdown policies, limits on the movement of people, and the closure of international borders. Though crucial from a public health standpoint, these measures profoundly disrupted economic activity and slowed production in key sectors. This disruption compounded a decline in demand driven by precautionary behaviors and weakened consumer sentiment. The collapse of the global T&T sector has been especially challenging for Albania, which has also experienced a sharp drop in remittance flows. The combination of these shocks caused GDP to contract by 3.5 percent in 2020. The urgent need for fiscal support, first in response to the earthquake and then to the pandemic, has rapidly widened the fiscal deficit: debt levels have risen, and external financing needs have increased. Meanwhile, the sharp drop in tourism exports has eroded the current-account balance.

In the aftermath of the pandemic, fostering a robust and sustainable recovery will require continued diversification and a more productive and resilient private sector. While dependence on external markets is common among small economies, export concentration in few products and services intensifies their vulnerability to shocks. Albania's heavy reliance on an undiversified tourism sector has magnified the economic impact of the pandemic. Expanding the country's export portfolio is critical to strengthening its macroeconomic resilience and facilitating its transition to a more sustainable, productivity-driven growth model. Declining revenues and increased spending pressures are expected to widen the government deficit, and the necessity of fiscal consolidation will require the private sector to take a more active role in infrastructure investment and service provision. The success of the recovery will hinge on the dynamism of the private sector, as tightening budget constraints are expected to limit the government's ability to foster economic activity.

A SNAPSHOT OF THE ALBANIAN PRIVATE SECTOR: COMPOSITION, PRODUCTIVITY, AND INNOVATION

While 99 percent of formal firms in Albania's nonagricultural private sector are microenterprises and small firms, the remaining 1 percent account for over 40 percent of employment and 56 percent of value added. The services sector encompasses 87 percent of nonagricultural formal firms, while the remaining 13 percent are in the manufacturing sector. In recent years, Albania's nonagricultural formal private sector has accounted for a rising share of total employment, sales, and value added, but the sector's contribution remains modest by the standards of peer countries. Between 2014 and 2018, total employment rose by 33 percent, with employment in the nonagricultural formal private sector growing by 39 percent, largely because of a formalization effort that led to the registration of many previously informal private firms, especially in accommodation and retail trade. As a result, the private sector's share in total employment expanded from 37 percent in 2014 to 42 percent in 2018, though it remains well below the European Union's (EU) average of 51 percent. Most firms are concentrated in relatively low-value-added activities, such as hotels and restaurants, retail trade, and basic manufacturing (for example, food, textiles, and garments).

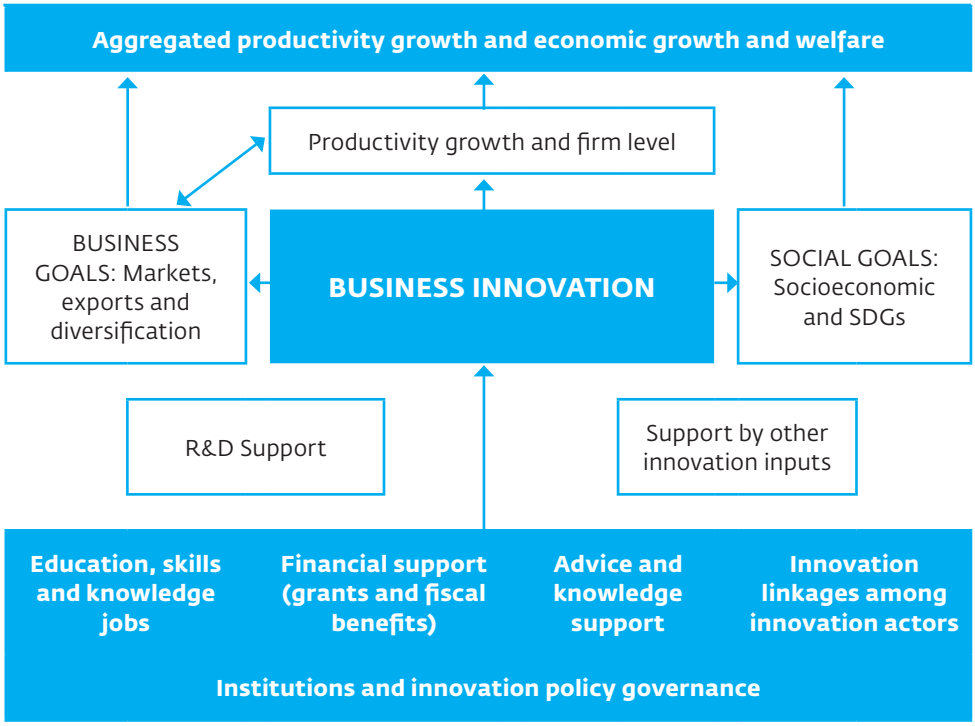
Albanian firms are less productive than their peers in the Western Balkans and in Europe as a whole, and firm-level productivity has been declining over the past decade. The average productivity of Albanian firms is among the lowest in the Europe and Central Asia region and just half the average for the Western Balkans. Value added per worker is especially low in the manufacturing, accommodation, and food services subsectors at less than 10 percent of the EU average. Productivity levels are higher in the trade, transportation, and information-technology subsectors but are still just 15 percent of the EU average. Declining firm productivity in a context of severe exogenous shocks, including the 2019 earthquake and the ongoing COVID-19 crisis, highlights the urgency of establishing a productivity-driven growth strategy underpinned by policies that support private investment, encourage technology transfer, and foster the expansion and formalization of innovative, high-productivity SMEs.

The limited capabilities of Albanian firms and low foreign investment in the non-extractive/non-energy private sector contribute to low levels of productivity. Albanian firms are smaller than their international peers and are characterized by weak managerial skills and experience, modest trade exposure, low levels of financial sophistication, and slow rates of innovation and technological uptake, which weaken their demand for credit. Due to the proliferation of microenterprises and small firms, Albania's average firm size is below the average for the Western Balkans. While Albania's FDI levels are comparable to those of its regional peers, about 70 percent of FDI consists of rent-seeking investments in the energy and mining sectors. Efficiency-seeking FDI in the manufacturing sector is modest and concentrated in labor-intensive subsectors such as apparel and footwear and, more recently, the auto-parts industry.

Closing the productivity gap will require improved firm management and greater investment in process upgrading. Within-firm productivity gains will be vital to maintain competitiveness and accelerate GDP growth. Albania lags regional peers on measures of both innovation inputs, such as investment in R&D, or the adoption of new technological and innovation outputs, such as new patent registrations or the introduction of new products and services to the market. In the 2021 Global Innovation Index (GII), Albania ranked 71st on innovation inputs and 92nd on innovation outputs, out of 132 countries highlighting the need to create a more conducive innovation environment[2] . Better managerial practices will also be critical to upgrade firm-level capabilities and ensure that productivity growth keeps pace with wage rates.

Albania invests very little in R&D, and existing R&D spending has little impact on the development and commercialization of new products, services, and business processes. Albania's number of patent and trademark applications per capita is low by regional standards, and Albanian exporters are not nearly as innovative as their peers. In stark contrast to the experience of many comparable countries, where business-led R&D is a major driver of innovation, Albania's chronically underfunded R&D ecosystem contributes little to the introduction of new goods and services. More effective incentives for private R&D investment must be complemented by increased spending on public research institutions and sustained efforts to foster joint research projects by public universities and private firms and develop a suitable policy framework fostering innovation and productivity (Figure ES.1). Policy makers can also leverage the substantial Albanian diaspora to encourage cross-border collaborations involving both the public and private sectors.

FIGURE ES.1. A POLICY FRAMEWORK: HOW TO PROMOTE BUSINESS INNOVATION IN ALBANIA



Source: Rubalcaba, Luis; Slavova, Stefka, and Mariana Iootty De Paiva Dias (2021), World Bank report.
Note: R&D = Research and development; SDGs = sustainable development goals.

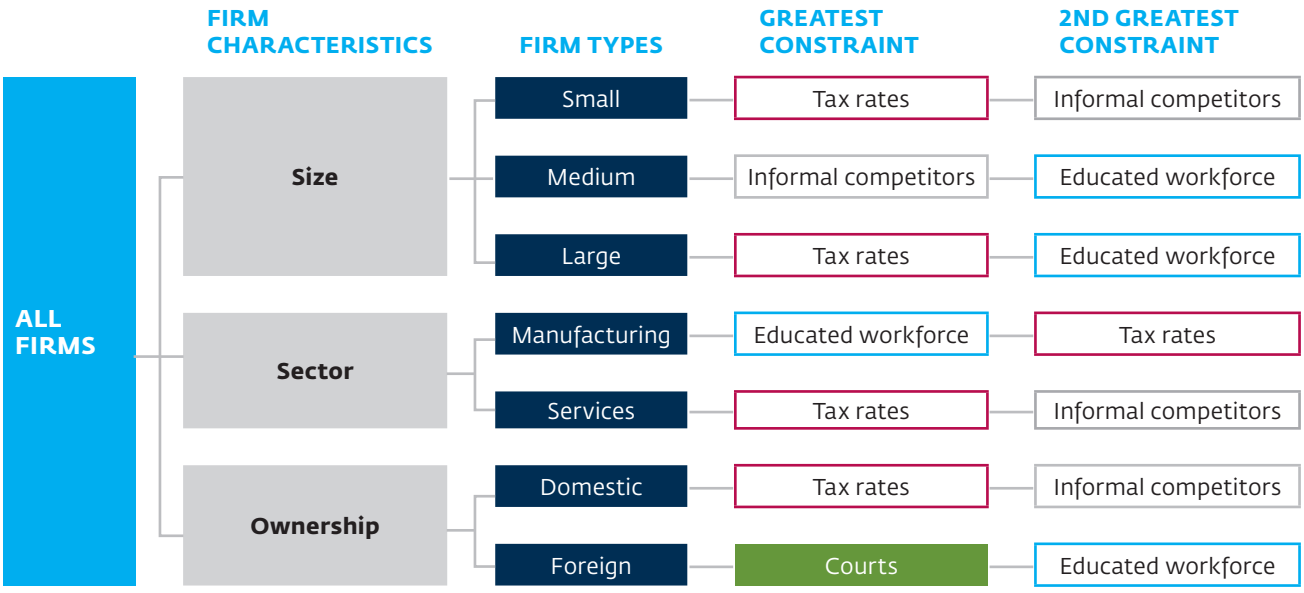
CROSS-CUTTING CONSTRAINTS ON THE DEVELOPMENT OF THE PRIVATE SECTOR

Over the past decade, Albania has substantially improved its business climate, but there remains ample scope for further progress. The government has simplified licensing procedures, introduced incentives to increase private investment, encouraged the formalization of firms, improved access to land, established alternative dispute-resolution mechanisms, and enhanced the quality of infrastructure and public services, particularly in the energy sector. However, significant gaps in policy implementation, regulatory efficiency, and contract enforcement persist. Meanwhile, incomplete judicial reforms, wide discretionary power among government officials, and weak institutional capacity continue to hinder efforts to improve the business climate.

While important improvements have been observed in the last years, burdensome tax administration is still regarded as a major obstacle for the development of the private sector. The increasing adoption of digital tools that reduce face-to-face interactions, enhancements in the skills of tax auditors, and improvements in internal processes by the General Directorate of Taxes (GDT) are improving the relationship between the tax authority and taxpayers. The 2019–20 American Chamber of Commerce in Albania (AmCham) Business Climate Index confirms that firms perceive their relations with tax authorities to be improving, and 54 percent of firms rated their interactions with the tax authorities as good or very good. In the 2019 Enterprise Surveys, the share of firms citing tax administration as their greatest constraint fell from 12 percent in 2013 to 3.7 percent. Nonetheless, several international reports and surveys still point out tax administration and tax rates as one the most serious constraints faced by firms. Albania requires 35 tax payments per year, the highest number in the region and more than twice the regional average of 14. The Global Competitiveness Report of 2019 ranks Albania 113th out of 141 countries on distortive taxation. The same 2019–20 AmCham Business Climate Index also indicates that 57 percent of firms mention that taxes had been very unfavorable for their businesses.

High tax rates are also deemed as constraining firms' expansion. The 2019 Enterprise Surveys also points out that almost half of interviewed firms identified high tax rates as a major challenge, and 21 percent cited tax rates as the greatest constraint for their expansion and Figure ES.2 below shows that this perception was shared by small and large firms, by firms in the service sector and by firms owned by Albanian citizens. Firms in the manufacturing sector perceive that the lack of educated workforce is the main obstacle for their development while foreign owned firms indicated the court system was the main obstacle they had been facing.

FIGURE ES.2. MOST RELEVANT CONSTRAINTS ON DOING BUSINESS BY FIRM CHARACTERISTICS



Source: World Bank Enterprise Surveys, 2019.

Despite the government's efforts to promote formalization, Albanian firms cite informality as the second most important obstacle they face. The share of firms that regard informality as their most important constraint declined substantially from 20 percent in 2013 to 11 percent in 2019, likely due to a successful formalization campaign launched in 2015. Informal employment is declining but remains widespread: the share of informal employment fell from around 50 percent of total employment in 2014 to 37 percent in 2019, but informal employment remains more common in Albania than among its regional peers.

Albanian firms regard the scarcity of skilled workers as their third biggest obstacle. Demand for highly educated workers has increased over the past decade, and a growing share of firms report having difficulty finding workers with specific technical skills and knowledge. In 2013, only 6 percent of firms that participated in the Enterprise Surveys identified a lack of skilled workers as a major constraint, but by 2019 this share had risen to 25 percent. This trend reflects the loss of skilled labor through emigration, which is further compounded by lack of technical and vocational education for workers in skill-intensive sectors such as auto-parts manufacturing.

Albania's infrastructure gap with the Western Balkans region and European Union averages remains large. The International Monetary Fund's 2017 composite public infrastructure index estimated the infrastructure gap between Albania and the European Union at 70 to 80 percent, and Albania ranked 110th out of 160 countries worldwide on indicators of infrastructure adequacy. While important progress has been made in recent years, Albania's gaps in road and railway networks, electricity supply, and broadband internet access are much wider than those of most Western Balkan peers. Improvements in the reliability of energy supply are reflected in the declining share of firms that regard electricity as their biggest constraint, which fell from 14 percent in 2013 to 8 percent in 2019. Between 2013 and 2019, the average number of outages per month fell from 4.2 to 1.5, while the average duration of outages declined from 1.7 hours to 0.36. In addition, 20 percent of firms regard inadequate transportation as a major or severe constraint. Although significant investment in road network expansion and maintenance yielded improvements in the extent and quality of the national network, Albania ranked just 115th out of 140 countries in terms of road connectivity in the 2018 Global Competitiveness Index.

ENABLING THE DEVELOPMENT OF THE AGRIBUSINESS AND FOOD-PROCESSING SECTOR

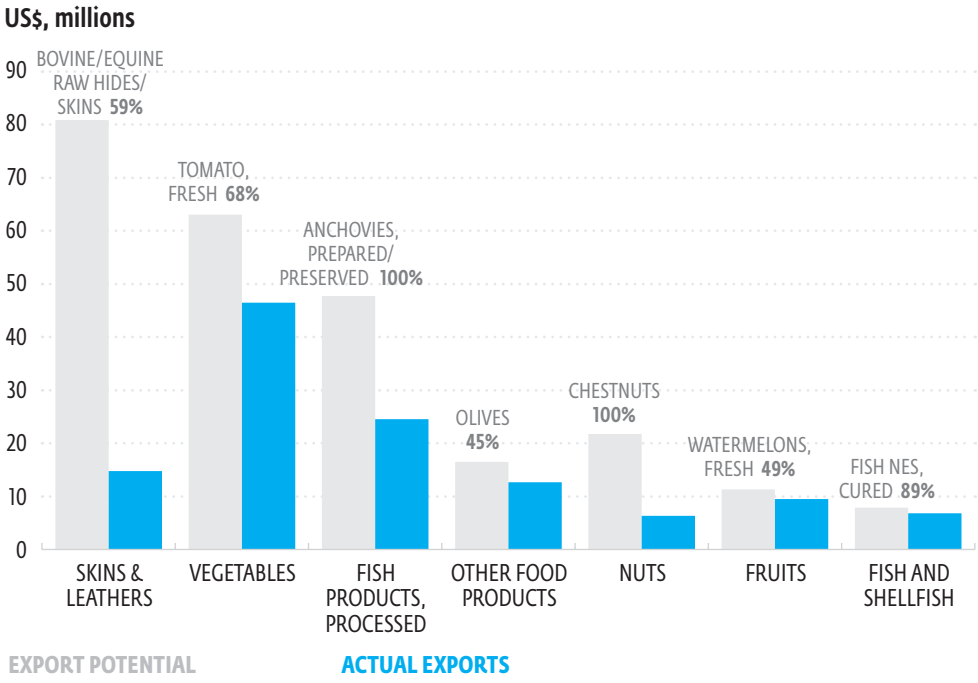
Agriculture is the traditional mainstay of the Albanian economy and remains the primary source of income for a large share of the population. Agriculture accounts for almost 20 percent of GDP and more than 40 percent of employment, and the sector contributes more than 10 percent to Albania's merchandise exports. Horticulture and livestock represent the largest shares of the total value of agricultural output, and the production and exportation of fruits and vegetables have both increased significantly in recent years. About half of Albanian farmers are engaged in livestock production, and while dairy output has increased significantly, there is considerable scope to expand dairy exports.

Albania has untapped export potential in horticulture products, meat, hides and skins, vegetables, nuts and fruits, processed fish, and organic products. Individual items with substantial underutilized potential include bovine and equine hides and skins, fresh tomatoes, preserved anchovies and other cured fish, chestnuts, watermelons, and prepared olives (see Figure ES.3). Organic farming also offers promising opportunities for Albanian farmers, as the country presents a good value proposition in organic products. While organic production currently accounts for less than 0.1 percent of Albania's cultivated area, it is growing at one of the fastest rates in Europe. Dairy output has been rising since the early 2000s, supported by investments in livestock breeds and improved farm management, but a lack of certification hinders access to the EU export markets. Despite increased domestic production, Albania remains a net dairy importer, especially of processed dairy products.

Land fragmentation and access to finance are serious constraints on the development of modern, competitive agriculture and agribusiness sectors in Albania. While most land is registered, land fragmentation and tenure uncertainty prevent farmers and agribusiness firms from investing and expanding production. A large share of Albania's cultivated land is distributed among numerous small, informal farms. There are about 359,000 farms in Albania, with an average size of 1 hectare, and most smallholder farms are not registered with the tax administration. The absence of farming cooperatives or other producer organizations, combined with weaknesses in the land market, constrain private investment and contribute to low productivity. Access to finance is another key constraint, and the lack of working capital in the agricultural sector is reflected in poor seed quality, limited mechanization, and low levels of fertilizer usage per acre, which adversely impact productivity.

Inadequate irrigation and transportation infrastructure also hinder the development of a competitive, export-oriented agribusiness sector. Only 57 percent of the rural population has access to water services, and only 19.6 percent of agricultural land is irrigated. Gaps in transportation infrastructure are a major obstacle as well. The government has recently invested in modernizing the country's roads, ports, and airports, with a focus on expanding the road network in the north and modernizing the port of Durrës, which is responsible for 90 percent of the country's maritime trade. However, Albania's road network is still limited, with few connections to remote regions and to the large agricultural areas in the southern part of the country.

FIGURE ES.3. ESTIMATED EXPORT POTENTIAL



Source: UN COMTRADE data from International Trade Centre Map.
Note: percentages reflect the share of value of product export potential in the subsector, i.e., fresh tomatoes are 68 percent of total vegetables export potential; nes = not elsewhere specified

The slow process of bringing Albanian food standards in line with EU requirements inhibits agricultural export growth. Albania pursues a liberal agricultural trade policy and has signed several trade agreements designed to broaden access to external markets, but inadequate adherence to international quality and safety standards limits its export potential, especially in markets for higher-value processed goods. More than 90 percent of Albania's agriculture and food exports are sent to EU members or candidate states, yet Albania's standards for animal health, plant health, and traceability controls still fall short of EU requirements. Aligning domestic standards with EU requirements will expand Albania's access both to European and global markets, as EU standards are among the most stringent worldwide. Currently, only a few large producers have facilities that comply with relevant safety and quality requirements. The drafting of an export strategy program will provide in-depth assessments of potential export sectors and define concrete measures to support them and will facilitate the integration of the agriculture sector with external markets.

Policy actions in five key areas would enhance Albania's agricultural competitiveness and facilitate access to EU markets. These areas include (a) implementing land reforms; (b) addressing land fragmentation; (c) improving access to irrigation and transportation infrastructure; (d) enhancing food standards and obtaining international certifications; and (e) strengthening cross-sector linkages to increase export competitiveness. Specific short- and medium-term policy actions under each of these five areas are described in detail in Table ES.1: Matrix of Policy Recommendations at the end of the Executive Summary.

FOSTERING A DIVERSIFIED, HIGH-VALUE, AND SUSTAINABLE TOURISM SECTOR

The T&T sector has become the engine of Albania's growth and the country's most important link to the global economy. At 8.8 percent, the direct contribution of T&T to Albania's total economic output is more than double both the global average (3.4 percent) and the EU average (3.8 percent), and slightly larger than the share in Greece (8.5 percent) and Tunisia (8 percent), though smaller than the share in Croatia (10.9 percent) and Montenegro (10.4 percent). When the indirect and induced effects of tourism spending are accounted for, the value added by Albania's T&T sector rises to US$4 billion, or 27 percent of GDP. T&T services represent Albania's largest source of foreign exchange, and the value of T&T exports grew from US$405 million in 2000 to US$2.8 billion in 2018. In 2018, T&T exports represented 38 percent of Albania's total exports of goods and services and more than 70 percent of services exports, far above both the global and comparator-group averages.

Tourism development in Albania has focused on a mass-market, beach-based model, which is associated with low value added per tourist, a high degree of seasonality, and intense geographic concentration. Mass tourism based primarily on sun-and-sand attractions is typically developed around high-volume hotels and resorts, which anchor dense clusters of retail stores, entertainment venues, and guided-tour operators. On average, international tourists visiting Albania spend less than they do in other Mediterranean countries and in the European Union. The average length of stay for visitors to Albania is also shorter than in competing destinations. Low levels of spending per tourist and short stays are associated with an undiversified tourism value chain that involves a limited range of attractions, activities, hotels, restaurants, and shops. Albania's "blue tourism" subsector, which includes activities such as boating, diving, recreational fishing, and aquatic sports, is largely undeveloped. Despite Albania's unique cultural heritage, cultural tourism represents only a small fraction of the industry.

Albania's T&T sector has been hit hard by COVID-19, though it has fared better than many regional comparators. In 2020, international arrivals to Albania fell by 59 percent, compared with 2019. While still a major shock, this drop was less severe than those experienced by Croatia (–68 percent), Greece (–77 percent), and Montenegro (–85 percent). The accommodation subsector shrank by 75 percent, year on year, in the second quarter of 2020 and, with the recovery in the 2020 summer season, ended the year falling by 12 percent. The crisis has been especially difficult for the small and medium operators that dominate Albania's hospitality sector, as they typically have more difficulties in accessing flexible lines of credit and other forms of support.

The impact of COVID-19 underscores the urgent need for Albania to rebalance its approach to tourism development. The COVID-19 pandemic presents an opportunity for Albania to transform its tourism sector in ways that enhance its ability to generate value, safeguard the country's natural and cultural capital, and cope with future shocks. By developing a diversified blue tourism subsector, targeting higher-value source markets, and linking coastal areas to inland tourism centers, Albania could greatly increase the marginal revenue generated by each tourist while supporting sustainable development and accommodating shifting preferences for outdoor and socially distanced tourism activities. A conservative estimate by the World Bank Group indicates that implementing an effective blue tourism strategy could increase international arrivals by about 208,000 while boosting tourism revenue by US$420 million a year or more.

Shifting to a more diverse and sustainable tourism model will require investment in marinas, boating and diving activities, recreational fishing, and nature-based activities. Albania enjoys a strategic position between highly developed marinas in Croatia, Montenegro, Italy, and Greece, and, while some degradation has been observed in recent years, it still has an advantage over marine destinations that are already overcrowded and overpriced or have had their natural environments spoiled by poorly managed development. Boating facilities are in high demand in the region and would offer a way for tourists to explore remote coastal areas and to reach the country easily from nearby sailing hubs. Albania also has significant but largely unexploited potential as a diving destination, and its undeveloped coastal stretches include many untouched beaches and natural sites. Indeed, the government's National Strategy for Sustainable Tourism Development 2019-2023 outlines the objectives and actions for the consolidation and expansion of the coastal tourism offer in the country, through investments in the construction of ports and marinas and support for new infrastructure for maritime tourism.[3] To realize its full potential, blue tourism should be integrated with inland tourism activities, such as mountain, cultural, and village tourism. Mountain tourism in the Albanian Alps and the Korab Mountains can draw tourists away from Albania's beaches while lengthening the tourist season. This potential is acknowledged in the National Strategy for Sustainable Tourism Development 2019-2023, which encompasses the establishment of the natural as well as thematic tourism programs, and supports new tourism products, such as hiking trails, cycling, and activities related to winter tourism. Thus, the strategy aims to diversify the existing tourism product and increase the value added of the tourism services offered by the country.[4]

A successful transition to a more diversified and sustainable tourism model will require government action in seven areas. These areas include (a) infrastructure; (b) the legislative and regulatory framework, (c) workforce skills; (d) firm-level innovation and technology transfer; (e) entrepreneurship support; (f) access to finance; and (g) data management for evidence-based policymaking. Major investments are required in airports, roads, and tourism-specific infrastructure in underdeveloped sites, such as national parks and mountain areas. In already-developed coastal areas, upgraded cruise terminals and improved water and waste management would enhance the quality of tourism services. Firm-level support for skills building, innovation, and entrepreneurship can underpin more environmentally and socially sustainable growth. By adopting innovative technologies, businesses can make efficiency improvements in water, energy, and waste management while protecting biodiversity and enabling the sustainable development of local communities. Detailed short- and medium-term reform actions under each of these areas are outlined in table ES.1: Matrix of Policy Recommendations.

REALIZING THE POTENTIAL OF AUTOMOTIVE MANUFACTURING

In recent years, foreign investors have established a small but growing auto-parts industry in Albania, which offers lower labor costs than other regional countries, as well as relative economic stability, an improving investment climate, and fiscal incentives. Albania's nascent auto-parts industry is part of the European periphery regional value chain (EP RVC), which includes more than 13 countries in Central and Southeastern Europe, the Middle East, and North Africa. Other Western Balkan countries such as Bosnia and Herzegovina, Montenegro, North Macedonia, and Serbia have also established a substantial presence in the auto industry. Suppliers in the EP RCV tend to focus on conventional systems, such as internal-combustion engines or body and chassis components; they play an important role in the processing of traditional materials such as metal, plastic, and rubber; and they often specialize in labor-intensive activities like wiring harnesses. Albania's auto-parts industry currently encompasses six foreign companies that specialize in niche components, such as exhaust systems, rubber parts, and wiring. The automotive sector contributes significantly to the exports of many Western Balkan economies. By contrast, Albania's automotive sector is smaller than those of its regional peers, and auto parts account for less than 1 percent of its total merchandise exports.

Albania's geographical position and close trade ties with EU member states and other countries in the EP RVC underpin the growth potential of its automotive sector. Albania offers significant labor-cost advantages over higher-income peers. The country is strategically located near the key markets of Italy and Greece, and it has low-cost overland access to other EU countries. Albania is a regional transport hub, with the ports at Durrës and Vlora linked to the European road network, offering access to maritime shipping for its landlocked Balkan neighbors. Moreover, Albania has signed and ratified the 2006 Stabilization and Association Agreement, which expands its access to EU markets; it has a free trade agreement (FTA) with Turkey; it is a signatory to the Central European Free Trade Agreement (CEFTA); and it has signed an FTA with the European Free Trade Association. The EU provides about 61 percent of Albania's imports and receives 76 percent of its exports. Interviews with foreign investors in Albania indicate that the average cost of a blue-collar worker is one-seventh the cost of a comparable worker in France. Given economies of scale and the decreased transportation and logistics costs implied by geographic proximity, original equipment manufacturers (OEMs) operating in EU countries are increasingly outsourcing to emerging markets in Eastern Europe. In line with its comparative advantage in labor costs, the current portfolio of auto parts manufactured in Albania largely consists of labor-intensive products requiring semiskilled manual workers, including wire harnesses, exhaust hangers, locks, and cables.

Albania has an opportunity to take advantage of recent changes in vehicle production and the nearshoring of value chains spurred by the COVID-19 pandemic. An important realignment is underway not only for automotive products, but also for production processes and players throughout the automotive value chain, and the emerging production-nearshoring trend in the EP RVC could accelerate the rise of the Western Balkans as a manufacturing hub for automotive components. Global OEMs and Tier 1 auto-parts suppliers are attempting to develop systems and components hubs in Eastern Europe, while North African countries are attracting investments in vehicle assembly. In this regard, the EP RVC automotive supplier base is comparable to those in other emerging regions, with low labor costs representing a major competitive advantage.

Two macrolevel trends—electrification and connected mobility—are transforming the automotive industry, and Albania could enhance its participation in the EP RVC by exploiting emerging niches in the automotive value chain. Electronics and software are increasingly important components of a vehicle's total value. Automotive semiconductor sales have tripled over the last two decades, and the average software content of large passenger cars is projected to expand at a compound annual growth rate of 11 percent. OEMs are rarely well positioned to develop new technologies internally, creating an opportunity for information and communication technology (ICT) companies to compete for electronics- and software-related segments of the value chain. Albania produces substantial amounts of copper ore, and the country could transform itself into a center for copper-wire production for 75-kilowatt-plus electric motors and onboard electronics. Policies that foster the growth of specific production segments, including electronic components, high-voltage distribution units and harnesses for e-mobility, cabling systems, and wire-harnesses, among others, could enable Albanian suppliers to expand their in-house capabilities and move up the value chain.

While labor costs, location advantages, and government incentives have attracted investments in auto-parts manufacturing, there are important barriers to the further development of the sector. Consultations with foreign investors reveal an unmet need for trained, knowledgeable, and experienced local workers. As little technical training is available for workers seeking jobs in the automotive industry, hiring firms are compelled to deliver in-house training at their own expense. Providing on-the-job training to local workers makes up about 10 percent of the total cost base for an auto-parts supplier in Albania.

The international experience highlights a range of effective strategies for leveraging low labor costs and geographical advantages, which should inform the development of a clear and consistent vision for the future of auto-parts manufacturing in Albania. The lack of an overarching government strategy for integrating Albania into the EP RVC remains an important limitation. Establishing an industry association to consolidate information about the automotive sector and its key players would enable more effective sector-level analysis and oversight while facilitating discussions between the government and investors. Of course, this initiative should be led by the private sector which needs to perceive that such an industry association would also be able to advocate for supportive investments and improvements in the business climate more effectively than individual firms and would bring collective gains to its members and the private sector in general. In addition, creating designated industrial sites and prebuilt factories with access to appropriate physical infrastructure, financial, trade, and logistics services, and customized vocational training programs could greatly enhance Albania's competitiveness and catalyze the development of new industries.

The government could facilitate investment in auto-parts manufacturing by operationalizing its existing industrial zones. The government has established technological and economic development areas (TEDAs) that could host auto-part suppliers, but they are not yet functional. The TEDAs should be managed by the government or by private firms through concession contracts, and they should operate as profit centers. Plug-and-play industrial buildings that can be either purchased or rented on a long-term basis, as well as shared services (for example, training facilities, transportation services, and logistics infrastructure) would allow suppliers to shift their operations to Albania by reducing the startup costs associated with relocation. The TEDAs need to offer suppliers easy access to European OEMs while anchoring the development of manufacturing clusters that enable the formation of economies of scale and reduce search costs. Analyzing the vast international experience with industrial parks could yield useful insights into the factors that determine success, which policy makers could leverage to strengthen the existing framework. In parallel, the expedited operationalization of at least one pilot TEDA could enable the authorities to gain practical experience in zone management while revealing unanticipated challenges.

Investment in workforce skills is a key priority for Albania. To train workers in the competencies demanded by the automotive industry, the authorities should establish programs in areas such as the International Automotive Task Force 16949 and related components (failure mode and effects analysis, measurement system analysis, advanced product quality planning and control plan, production part approval process, and so forth), which provide a common technical language for automotive production. Similar trainings should focus on machinery, metallurgy and materials, mechatronics, and electrical and electronics engineering, which would benefit both the automotive industry and other sectors to which such skills can be transferred.

TABLE ES.1. MATRIX OF POLICY RECOMMENDATIONS

REFORM AREAS	SHORT-TERM ACTIONS	MEDIUM-TERM ACTIONS
Cross-cutting challenges		
Firm capabilities and innovation	• Adopt a forward-looking science, technology, and innovation strategy that would update Albania's 2009–15 predecessor, with a focus on increasing the quantity and quality of R&D. • Examine the potential for Albania's research infrastructure to support industry-academia collaboration—for example, by producing a research infrastructure roadmap and associated action plan—and strengthen existing institutions to support university training at three levels (BSc, MSc, and PhD). • Improve data collection and dissemination on R&D and innovation in line with Eurostat standards. • Establish credit guarantee schemes for Small and Medium Enterprises (SMEs) or transform the credit guarantee programs launched by the government in response to the COVID-19 pandemic with transparent governance structures and rigorous risk management and monitoring frameworks.	• Provide incentives to encourage collaboration on R&D and innovation among key stakeholders, including public institutions and private firms • Consider expanding incentives to encourage private investment in R&D not just for firms to be established in technological and economic development areas (TEDAs) or investments covered by the Law of Strategic Investments. • Improve institutional governance in public research institutions to foster a culture of scientific excellence in key research areas. • Increase investment in public and private R&D by directly funding research grants and designing collaborative grant schemes. • Increase entrepreneurship support by improving the availability of incubation services, management training, and financing for innovative startups.
Tax administration	• Strengthen compliance-risk management systems by adopting automated tools and risk differentiation to reduce the administrative burden of verifying tax compliance, especially in terms of inspection visits. • Increase use of online services to reduce face-to-face interactions and reduce taxpayers' time in dealing with taxes. • Ensure the timely payment of value-added tax (VAT) refunds. • Launch a program to strengthen professional integrity and reduce corruption risks at the General Directorate of Taxes (GDT).	

REFORM AREAS	SHORT-TERM ACTIONS	MEDIUM-TERM ACTIONS
Infrastructure management	• Assess the possibility of establishing an energy stabilization fund to attenuate cost fluctuations that affect the government budget. • Ensure competitive procedures for establishing public private partnerships (PPPs) by eliminating bonuses for unsolicited proposals and removing exceptions allowing unsolicited proposals in specific sectors. • Extend the existing result-based road maintenance and rehabilitation contracts and expand their use to the secondary road network.	• Further diversify the energy matrix to enhance reliability of energy provision. Integrate the management of PPPs into the government's public investment management system. • Upgrade result-based road maintenance and rehabilitation contracts to form longer-term PPP contracts.
Agribusiness and food processing		
Land reform	• Improve the quality of data in the land register. • Digitize all agricultural land and cadastral data. • Set up a unique digital cadastre map.	• Open agricultural land and pastureland to foreign ownership. • Offer land-registration services through a PPP arrangement.
Land fragmentation	• Explore the potential use of out-grower schemes and contract farming, and support the establishment of farmer associations. • Conduct an in-depth analysis of postharvest facilities, including the role of consolidators, and explore alternative aggregation models.	• Strengthen agricultural marketing infrastructure (particularly wholesale markets) through PPP arrangements.
Access to infrastructure	• Improve rural road conditions by signing result-based maintenance and rehabilitation contracts with private-sector operators.	• Invest in road infrastructure and improve access to rural areas. • Rehabilitate irrigation infrastructure and invest in extension services to improve water management.

REFORM AREAS	SHORT-TERM ACTIONS	MEDIUM-TERM ACTIONS
Food standards and certification systems and infrastructure	• Harmonize national legislation with European Union (EU) requirements for horticulture products, dairy products, and other food products. • Increase awareness of export requirements among SMEs, including those related to food safety, and support implementation of hazard analysis and critical control point (HACCP) in both the public and private sectors. • Strengthen the capacity of the Food Safety Agency to oversee food hygiene, implement HACCP, and enhance food traceability by building the expertise of regional teams.	• Upgrade quality-assurance and private-service certification services. • Invest or establish partnerships with the private sector to set up accredited export testing labs and standards certification services, accessible by SMEs and recognized by export markets.
Sector linkages and export competitiveness	• Improve customs processes and border-clearance procedures to reduce the average time and cost involved in exporting. • Provide capacity building for farmers and SMEs in accounting and finance skills. • Improve the quality of agriculture statistics.	• Establish digital platforms for connecting producers, off-takers, and end markets • Build staff capacity in agricultural research and extension services. • Explore PPP arrangements for ICT-enabled extension services. • Ensure proper budget allocations for a state credit guarantee and explore the establishment of other risk-sharing facilities to improve access to finance and reduce borrowing costs. • Support the development of tools to incentivize agricultural and weather insurance. • Support the financing of postharvest infrastructure in compliance with international certification plans. • Improve the effectiveness of public spending on agriculture and environment through better targeting of limited resources and a gradual shift in the sector public spending to better align with EU policies and requirements under the EU Green Deal.

REFORM AREAS	SHORT-TERM ACTIONS	MEDIUM-TERM ACTIONS
Tourism		
Transportation connectivity	• Improve road conditions to coastal destinations and inland tourist sites by using results-based maintenance and rehabilitation contracts. • Improve maritime navigation, border management, and immigration procedures in line with EU standards and COVID-19 guidelines to facilitate the arrival of tourists and private vessels by sea. • Upgrade Saranda's cruise-terminal facilities to accommodate tourist services and improve the appearance of the area. • Develop essential national park infrastructure, including access roads, parking, signage, toilets, waste collection areas, and visitor information centers.	• Improve air connectivity by assessing costs and benefits of the construction of a new airport at Vlora. • Reengineer the existing ports at Durrës, Saranda, and Vlora to enable the development of all-weather city center marinas. • Upgrade waste-management systems and facilities covering waste collection, separation, and processing. • Carry out traffic studies and implement plans to ease traffic in Durrës and other major tourist areas.
Legislative and regulatory gaps	• Harmonize the national legislation with the Marine Strategy Framework Directive. • Approve and implement the Law for the Activities of Marine Tourism. • Update the Tourism Law to properly categorize and license all types of accommodation providers, require annual inspections, and apply the tourism tax nationwide.	• Update the Maritime Laws to include nautical tourism and recreational vessels. • Align navigation procedures with EU standards to enable boats to register only once at their first port or marina. • Develop urban plans for Durrës, Saranda, Shengjin, and Vlora that prioritize environmental conservation and prevent illegal construction projects.
Innovation, entrepreneurship, and specialized workforce skills	• Create online training programs for the hospitality sector in collaboration with industry partners, including international hotel chains. • Create online university training programs in product development, marketing, market intelligence, data analysis, and languages. • Train staff working for conservation organizations and related groups to enable them to obtain certifications as wildlife experts or hiking guides. • Create programs to encourage the adoption of innovative technologies, and implement process improvements to promote efficiency in water, energy, and waste management.	• Construct a maritime training center for training boating, diving and watersport instructors. • Facilitate access to finance through a dedicated blue economy partial credit guarantee plan and establish hybrid public- and private-sector funded financing instruments.

REFORM AREAS	SHORT-TERM ACTIONS	MEDIUM-TERM ACTIONS
Institutional capacity-building and information	• Build the capacity of the Albanian Investment Development Agency, the Ministry of Tourism and Environment, and the National Tourism Agency to better understand the needs and opportunities of the tourism sector and define strategies for attracting investment. • Establish destination-management organizations to engage tourism stakeholders and promote blue tourism at the regional level.	• Improve digital marketing and deliver targeted blue-tourism campaigns. • Invest in the digitization of records and create an online portal for tourism businesses to access all relevant regulations, apply for licenses and permits, file tourist data, and pay tourism-related taxes.
Automotive manufacturing		
Strategic positioning and investment promotion	• Adopt a development strategy for the automotive manufacturing sector that reflects Albania's role in the European Periphery Regional Value Chain (EP RVC). • Formally include the automotive manufacturing sector in the Strategic Investment Law.	• Define an investment-promotion plan consistent with the sector's development strategy. • Establish an industry association for the automotive sector to represent members in matters dealing with the automotive industry and to act as an agent of the industry and its members vis-à-vis public bodies and other organizations.
Industrial parks	• Review the existing policy and legal framework for technological and economic development areas (TEDAs) to align to them to best international practices. • Undertake a marketing campaign for international developers and managers of industrial parks before initiating tendering processes for the first TEDAs,	• Reform the policy and legal framework based on the evaluation of the current one • If first pilot TEDAs are successful, expand the campaign to future TEDAs
Workforce skills development	• Establish technical training programs in automotive production, machinery, metallurgy and materials, mechatronics, and electrical and electronics engineering. • Establish training agreements with universities and technical schools.	• Provide high-quality research equipment and infrastructure in measurement and testing to establish scientific and technical capacities.
Infrastructure and services	• Improve transportation logistics in the triangle between Tirana International Airport Nënë Tereza, the Port of Durrës, and the Tirana city center.	• Further upgrade transportation infrastructure, including ports and overland routes

Notes: Short-term refers to actions within 1-2 years, medium term refers to action to be taken in 3 years or more.
EP RVC = European periphery regional value chain EU = European Union; HACCP = hazard analysis and critical control point; ICT = information and communication technology; PPP = public private partnership; SME = small and medium Enterprises; TEDA = technological and economic development areas.

1. INTRODUCTION

Though geographically small, Albania is endowed with considerable economic assets, including a strategic geographical position, exceptional natural beauty, and abundant renewable and nonrenewable resources. Albania's population of 2.9 million is spread over 11,100 square miles, with 300 miles of coastline on the Adriatic and Ionian Seas offering direct access to both European and global markets. Albania possesses vast natural resources: about one-quarter of its total land area is arable and suited to a wide range of crops; its mountains and rivers provide inexpensive, low-carbon hydroelectric power; and its rich variety of coastal ecosystems have supported the development of fishing and tourism. Albania's subsoil assets include commercially viable deposits of petroleum, natural gas, chrome, and copper, and the country hosts a portion of the Trans-Adriatic Gas Pipeline. Albania has implemented numerous institutional and regulatory reforms as part of the EU accession process, which is expected to boost foreign direct investment (FDI) and encourage greater integration with European value chains.

Despite its advantages, Albania has struggled to converge with its European peers. Albania is an upper-middle-income economy with a gross domestic product (GDP) of US$15.4 billion in 2019, but its GDP per capita is among the lowest in Europe. Its small labor force and limited domestic market constrain the formation of economies of scale and agglomeration, and economic output remains concentrated in a narrow range of activities. The agricultural sector continues to play an outsized role in both employment and GDP, while the country's relatively dynamic tourism industry contributes the largest share to total exports. The rest of the services sector is dominated by retail and other domestically oriented activities, which are primarily provided by small firms with low productivity levels. The industrial sector has struggled to shed the distortive legacy of central planning, and recent foreign investments in labor-intensive textile and footwear production have created much-needed employment for the country's rapidly urbanizing population. However, the industrial sector faces intensifying international competition, and Albania has struggled to move into higher-value-added segments of the value chain. Without faster productivity growth, Albania risks losing its investment-driven manufacturing industries to low-wage competitors.

Albania's concentrated production and export structure results in volatile growth and a high degree of exposure to shocks. Since transitioning to a market economy in the early 1990s, Albania has experienced several severe disruptions that have slowed its convergence with European income levels. Some of these shocks were endogenous, such as the social and political unrest triggered by the collapse of several financially unsustainable investment plans in the late 1990s. Others were external, such as the 2008–09 global financial crisis and the 2011 eurozone sovereign debt crisis, though in both cases the shock was amplified by preexisting macroeconomic imbalances. The economic importance of agriculture and Albania's heavy reliance on hydropower in its energy matrix leaves the economy highly exposed to periodic droughts, which have had a strong negative impact on GDP growth, electricity production, and fiscal and trade balances. More recent shocks have included the 2019 earthquake and the ongoing COVID-19 pandemic. Due to the vital role of tourism, the pandemic has had an especially negative impact on Albania's private sector, with negative implications for medium-term growth.

Albania can achieve faster, more sustainable, and more diversified growth by strengthening trade integration with the global economy and with the European Union (EU) while expanding the economic role of the private sector. Tourism has become Albania's main link to global markets, but Albania has additional untapped opportunities granted by EU accession and its comparative advantages in the production of niche agricultural goods, which could broaden its integration into regional and global markets. The small size of the domestic market suggests that economies of scale in manufacturing can only be obtained through integration into global and regional value chains, a process that will hinge on the country's ability to attract FDI. In this context, the World Bank Group has prepared the following Country Private Sector Diagnostic (CPSD) to assist the authorities in their efforts to leverage Albania's geographic location, natural assets, and improved institutional and policy framework to promote diversification, competitiveness, and robust private-sector-led growth. This report highlights the constraints that high tax rates, burdensome tax administration, widespread informality, inadequate workforce skills, and infrastructure gaps impose on private firms and investors, and it reveals opportunities to catalyze growth through a combination of structural and institutional reforms.

This CPSD offers policy options to address to address the most binding constraints on the development of the Albanian private sector. Successful export-oriented small economies have made sustained efforts to reduce obstacles for the development of firms, and Albania could attract significant FDI by creating a more supportive business and investment climate. A high tax burden, onerous tax administration, widespread informality, a shortage of workforce skills, and weak infrastructure constrain the development of the private sector. Alleviating these constraints and accelerating the implementation of pending structural reforms will be crucial to intensify competition, facilitate market entry and exit, and reverse the declining trend of aggregate productivity.

Many of the policy options set forth in this CPSD focus on increasing firm-level productivity. To accelerate productivity growth, improvements in the investment climate must be accompanied by measures that enhance the capabilities of Albanian firms. While the government's reform efforts can improve the business climate, sustained productivity growth will require complementary policies and programs designed to enhance firm-level capabilities. Albania's firm-level productivity indicators are low by international standards and have declined in recent years. Albanian firms tend to have limited managerial skills, product-specific knowledge, access to financing, and strategic capabilities. Many lack the ability to integrate into global value chains, access international distribution networks, or penetrate foreign markets. A well-designed productivity agenda could build managerial and workforce skills while encouraging the adoption of new technologies, products, and processes.

This CPSD identifies opportunities for private-sector-led growth in agribusiness, tourism, and automotive manufacturing—sectors with substantial potential for export diversification, integration to regional value chains, productivity enhancements, and employment generation. These sectors were selected based on the government's National Strategy for Development and Integration 2014–2020 (NSDI), as well as an analysis of Albania's export profile, recent sectoral growth patterns, and each sector's contribution to GDP and total employment. The NSDI recognizes that agriculture is the traditional backbone of the Albanian economy and the main source of household income, but limited technological modernization and low levels of commercialization have kept agricultural productivity levels and wage rates low compared with those of other sectors. The CPSD identifies weaknesses in land rights as a binding constraint on agricultural productivity and highlights opportunities to strengthen land administration. Despite the rapidly increasing role of tourism in Albania's economic growth, the tourism sector is not yet close to fully leveraging the country's natural beauty and cultural heritage. The CPSD outlines a set of policy reforms and investments that could greatly expand the geographic scope and income-generating potential of the tourism sector. Diversifying trade with the European Union (EU) could increase foreign investment by encouraging the relocation of industries to Albania and by enabling Albanian manufacturers to develop more sophisticated exports for EU markets. In the last three years, Albania's nascent auto-parts sector has received FDI from France, Germany, and the Republic of Korea. While employment in automotive manufacturing is still modest, the sector's development offers opportunities for greater integration with the vibrant European automotive industry, which could have strong spillover effects on aggregate productivity, export diversification, and value addition. The CPSD presents options for overcoming the small size of the domestic labor force by fostering greater integration with the European periphery regional value chain.

The CPSD is organized into seven chapters. Following the introduction, chapter 2 contextualizes the analysis by describing the factors that have shaped Albania's development in recent decades. Chapter 3 evaluates the productive capabilities of Albanian firms against those of firms in comparator countries and outlines a policy agenda for enhancing firm-level productivity. Chapter 4 identifies key constraints facing Albanian firms, highlights market distortions, and proposes options for unleashing the growth of the private sector. Chapters 5 through 7 explore opportunities for enhancing the private sector's contribution to the diversification of production and exports, with a focus on catalyzing the growth of agribusiness and expanding access to European markets (chapter 5); broadening the range of tourism services and targeting more desirable market segments (chapter 6); and facilitating the growth of auto-parts manufacturing while deepening Albania's integration into the European automotive value chain (chapter 7).

2. SETTING THE SCENE: ALBANIA'S RECENT ECONOMIC DEVELOPMENT AND NEAR-TERM OUTLOOK

Following decades of communist rule, Albania's democratization and economic opening in the early 1990s was swift and generally successful. Communist Albania was one of the poorest and most isolated countries in Europe. As the command economy gave way to competition, the retrenchment of the state's economic role; the deregulation of input, output, and factor markets; and the opening of trade and financial channels enabled the reallocation of labor across sectors while accelerating capital accumulation. Agricultural workers migrated to urban centers, facilitating the rapid expansion of the manufacturing, construction, and service sectors, and the resulting productivity gains accelerated economic growth. Between 1992 and 1996, Albania's GDP growth rate averaged 9 percent per year, and income per capita increased by more than 50 percent over the period.

However, the economic expansion that accompanied the transition to a free market proved short-lived, and the country subsequently endured a series of shocks and macroeconomic crises. Despite the rapid liberalization of the economy, state banks continued to dominate the financial system, and Albania's few small private banks were unable to provide adequate credit to a growing private sector. An underdeveloped, structurally unbalanced, and inadequately regulated financial system enabled the rise of insolvent financial plans that offered high returns by continually attracting new investors.[5] In Albania, these schemes were unprecedented in their relative size and scope: at their peak they reached a nominal value equal to almost one-half of the country's GDP, and about one-third of the population invested in them. A weak regulatory environment allowed these plans to grow unchecked, and their abrupt collapse in 1997 precipitated an extreme political and economic crisis. In a single year, GDP contracted by about 10 percent, the inflation rate exceeded 40 percent, the exchange rate depreciated by 40 percent, and the fiscal deficit reached 10 percent of GDP. Riots ensued, the government fell, and an estimated 2,000 people were killed in violent clashes as the crisis pushed the country to the brink of civil war. Amid the crisis, Albania experienced a sharp spike in emigration that drained the private sector of critical workforce skills, contributing to the low labor productivity that persists to the present day.

The return of political stability enabled the resumption of structural reforms, and a rapid economic expansion in the 2000s halved the national poverty rate and narrowed Albania's income gap with the rest of Europe. Macroeconomic stabilization, a renewed privatization process, public administrative reforms, enhanced financial-sector oversight, donor support, and favorable global economic conditions marked by high and sustained FDI inflows pushed Albania's GDP growth rate to an average of 6.2 percent between 2000 and 2008 (Figure 2.1). Albania's per capita GDP rose from less than 7 percent of the European Union average to more than 11 percent (Figure 2.2), while the headcount poverty rate fell from 25.2 percent to 12.5 percent In 2019, Albania was formally recognized as an upper-middle-income country. Fueled by remittances and the acceleration of labor-intensive activities in both the public and private sectors, real wages more than doubled over the period, further increasing domestic consumption and its contribution to GDP growth (Figure 2.3).

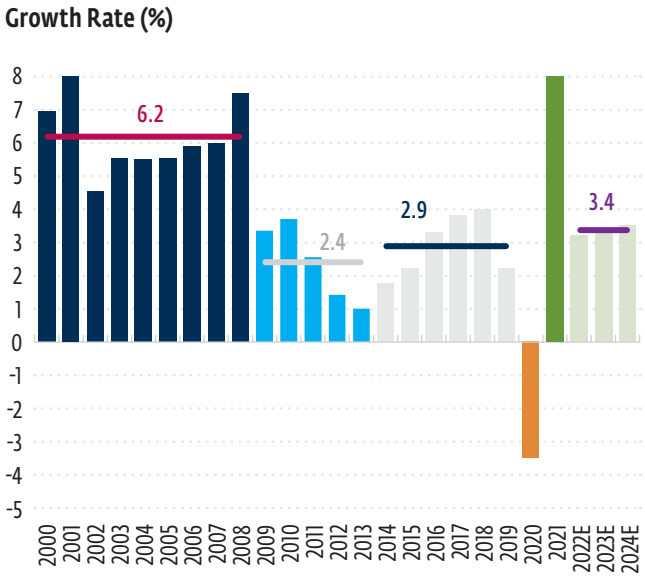
By the end of the 2000s, widening macroeconomic imbalances had begun to slow economic growth, income convergence, and poverty reduction. Before 2009, domestic demand drove growth, primarily through remittance-financed consumption and FDI in coastal real estate. Meanwhile, non-tradable sectors such as construction and services supported growth on the supply side (Figure 2.4), spurring a proliferation of informal, low-productivity firms. (Rising tax revenue facilitated a sustained increase in the size of the public-sector workforce and the provision of public goods and services. While this growth model enabled Albania's rapid expansion during the 2000s, it also gave rise to mounting macroeconomic imbalances that ultimately proved unsustainable. As the increased productivity derived from reallocating labor and capital across sectors diminished, productivity growth failed to keep pace with gains in real wages, and a combination of real exchange-rate appreciation and persistent trade and current-account imbalances contributed to the deterioration of Albania's competitiveness. Faced with a growing wage bill and weakening tax revenues, public-sector deficits widened, and debt levels rose steadily.

The 2008–09 global financial crisis and the 2011–12 eurozone sovereign debt crisis exposed the underlying weaknesses of Albania's growth model and exacerbated its macroeconomic imbalances. As the global financial crisis heightened risk aversion in international capital markets, Albania increasingly struggled to finance its widening current-account deficits. The subsequent eurozone sovereign debt crisis caused sharp economic slowdowns among key trading partners such as Italy and Greece, which reduced inflows of remittances and FDI, precipitating the collapse of the domestic construction sector. Albania's average annual GDP growth rate fell to 2.4 percent between 2009 and 2013 (Figure 2.1), and only a modest increase in agricultural output prevented a recession. Income convergence slowed, and by 2013 Albania's per capita GDP only increased to 12.5 percent of the European Union average (Figure 2.2). On the demand side, the economic slowdown was marked by a shift in the drivers of growth, with external demand playing a more prominent role as exports and the resilient agricultural sector helped stave off a recession (Figures 2.3 and 2.4). The contribution of consumption to growth diminished but remained positive, while the collapse of investment detracted from growth. The economic slowdown adversely affected employment creation, causing household income to contract, and the national headcount poverty rate rose to 14.3 percent in 2013.

While Albania avoided a recession in the aftermath of these crises, the government's protracted fiscal stimulus weakened fiscal balances and accelerated indebtedness. An expansionary fiscal stance helped sustain growth, but the fiscal deficit widened to an average of 5 percentage points of GDP between 2011 and 2014. Meanwhile, debt accumulation accelerated, and the debt stock rose from 60 percent of GDP to 73 percent over the period. Vulnerabilities in the private sector contributed to an increase in the share of nonperforming loans (NPLs), while mounting government arrears to private firms undermined macro-fiscal stability and further hindered economic growth.

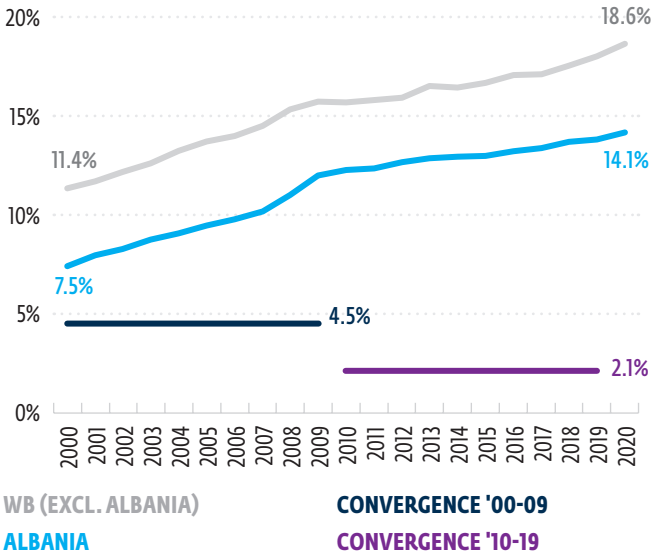
Following the eurozone crisis, Albania's growth performance, poverty levels, and macroeconomic fundamentals gradually improved from 2014 to 2018. Supported by a combination of fiscal adjustment and macroeconomic stabilization, the GDP growth rate gradually recovered from a low of 1 percent in 2013 to 4.1 percent in 2018 (Figure 2.1). The structural reform agenda regained momentum when the country became a candidate for EU accession in 2014, boosting investor sentiment and accelerating growth. On the demand side, consumption and investment resumed their roles as the largest contributors to GDP growth (Figure 2.3). The tourism, manufacturing, financial services, professional services, and information and communication technology (ICT) sectors expanded rapidly, while the real estate and agricultural sectors stagnated (Figure 2.4). As the economy recovered, labor-market conditions improved, and the unemployment rate fell from 16 percent in 2013 to 12 percent in 2018. Rising labor income mitigated the increase in poverty rates in the aftermath of the global financial and eurozone crises.

FIGURE 2.1. ANNUAL GDP GROWTH RATE, ALBANIA, 2000–24* Percent



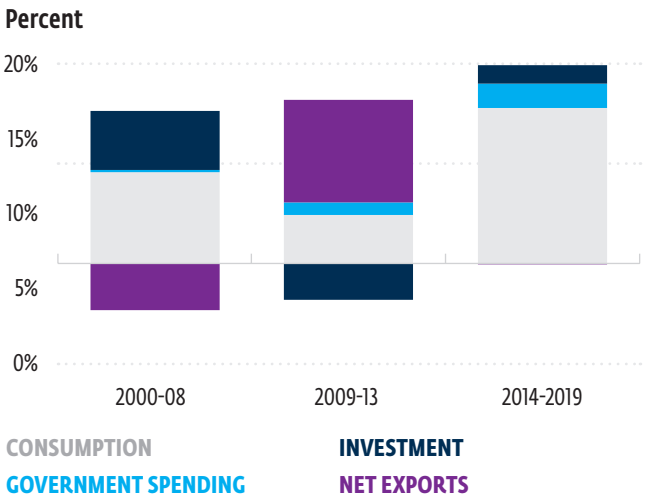
Source: Haver, Institute of Statistics of Albania (INSTAT) and World Bank
Notes: GDP = gross domestic product
Values for 2022 to 2024 are projected rates by World Bank. Global Economic Perspectives (GEP). 2022.

FIGURE 2.2. GDP PER CAPITA, ALBANIA AND COMPARATORS, 2000–20



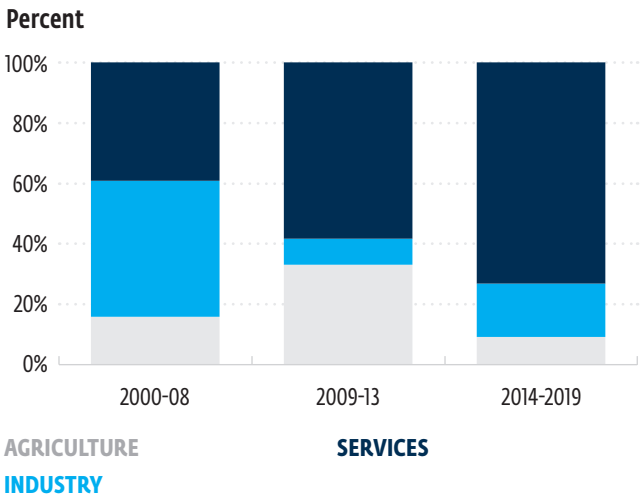
Source: World Bank, World Development Indicators.
Notes: EU = European Union; WB = Western Balkans

FIGURE 2.3. DEMAND-SIDE CONTRIBUTIONS TO GDP GROWTH, ALBANIA, 2000–19



Source: Haver, Institute of Statistics of Albania (INSTAT).
Note: GDP = gross domestic product

FIGURE 2.4. SUPPLY-SIDE CONTRIBUTIONS TO GDP GROWTH, ALBANIA, 2000–19



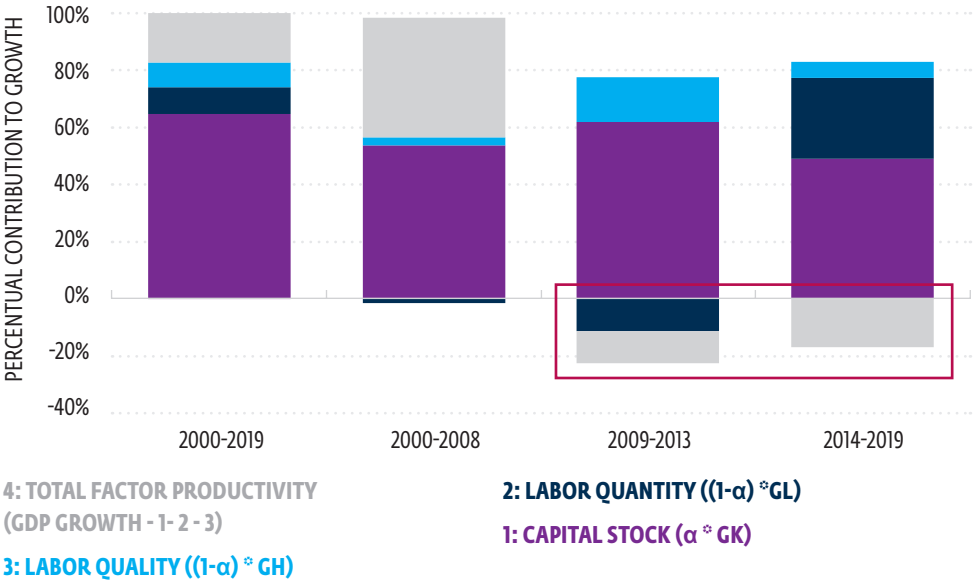
Source: Haver, Institute of Statistics of Albania (INSTAT).
Note: GDP = gross domestic product

Macroeconomic stability, narrowing fiscal deficits, declining public debt levels, and moderate external imbalances contributed to the gradual economic upturn observed in recent years. Improved tax collection and the contained growth of current spending steadily reduced the fiscal deficit from 6 percent of GDP in 2014 to 2 percent in 2018–19. Tighter fiscal discipline also lowered the public debt stock from 73 percent of GDP to 66 percent over the same period. While the current-account deficit remains large at about 7 percent of GDP, it has fallen from the doubled-digit levels observed in 2014, and the accumulation of international reserves has reinforced exchange-rate stability.

Despite Albania's continuing expansion and improved macro-fiscal balances, productivity growth remained weak, and its average contribution to economic growth has been negative since 2009. Productivity gains from the reallocation of factors across sectors have gradually declined, and new gains will need to be generated by changes within sectors, as industries move into higher-value products and market segments. However, Albania's recent growth has been driven by factor accumulation rather than productivity gains, with capital formation alone accounting for 52 percent of GDP growth between 2000 and 2018 (Figure 2.5). An increasing labor supply contributed just 14 percent to GDP growth over the period, as higher participation rates were partially offset by slow employment creation and high levels of emigration. The decline in productivity that followed the global financial crisis stemmed from low rates of productivity growth within sectors, as less-productive informal firms failed to exit the market, inhibiting the expansion of more-productive formal firms. Albania's labor-productivity indicators have stagnated since 2009 and are well below the averages for both the six countries of the Western Balkans (WB6[6]) and the seven small transition economies of Europe (7STEE[7]). The increase in GDP growth rates observed since 2013 reflects accelerated employment creation, and the labor supply has now become the most important component of GDP growth. Capital accumulation has continued to contribute positively to growth, but its importance has been declining. Between 2000 and 2019, total factor productivity contributed a total of 14 percent to GDP growth, but its contribution has been consistently negative since 2009.

FIGURE 2.5. GDP GROWTH DECOMPOSITION, 2000–19

(contribution to growth, %)



Source: Staff calculations based on Conference Board Data (2000-2019).
Notes: GDP = gros domestic product; k = physical capital; h = human capital; g = growth rate

The foundations of Albania's gradual recovery in 2013–18 were fragile and largely unsustainable. While Albania's macroeconomic indicators had improved prior to the pandemic, persistently high debt levels and wide current-account deficits had increased Albania's vulnerability to external shocks while lowering its long-run growth trajectory. Moreover, consumption-driven growth fueled by remittances could not have been maintained indefinitely. Despite the dynamism of the tourism sector, Albania's overreliance on tourism exports rendered it highly susceptible to changes in external demand, and the continued prominence of the agricultural sector combined with overreliance on hydropower left the economy highly exposed to weather-related shocks. Meanwhile, declining productivity eroded the economy's long-run growth potential.

In 2019, a severe drought followed by a devastating earthquake disrupted Albania's gradual economic recovery. A major drought during the first half of 2019 slashed electricity production, and the completion of two large FDI-financed projects in the energy sector further slowed economic activity. In November, an earthquake registering 6.3 on the Richter scale caused at least 51 fatalities and inflicted damage equal to an estimated 7.5 percent of Albania's 2018 GDP or 26.4 percent of its gross fixed capital formation. The tourism and construction sectors were hit hardest, and the combined impact of the drought and earthquake caused the annual GDP growth rate to fall from 4.1 percent in 2018 to 2.2 percent in 2019.

The COVID-19 crisis has hit hard Albania interrupting the modest economic expansion observed since 2014. Like many countries, Albania recorded its first domestic outbreak of the COVID-19 novel coronavirus in March 2020. Containment measures included a lockdown of key economic sectors and limitations on the movement of people. The dramatic decline in international travel during the pandemic has taken an especially heavy toll on economic activity, as tourism accounts for 26 percent of Albania's economic output. Travel and tourism were among the first sectors to be affected by the crisis, as official restrictions and pandemic-related behavioral changes simultaneously affected both supply and demand, causing GDP to contract by 3.5 percent in 2020. Softening labor markets in Western Europe affected remittance flows, undermining domestic consumption, and a combination of depressed tourism exports and lower remittances weakened the external accounts. Meanwhile, falling tax revenues coupled with pandemic-related expenditure pressures reversed the declining trend in fiscal deficits and debt levels observed in previous years.

In 2021, Albania experienced a strong economic growth rebound of 8.5 percent (the highest growth rate registered in the 2000s) but over the medium-term the GDP growth rate is expected to return to its long-run potential level of 3 to 3.5 percent. The GDP growth recovery was driven by supportive fiscal and monetary policies and the rebound of the tourism sector. Private and government consumption, investment and net exports fostered the recovery from the demand side. On the supply side, tourism services, construction and hydroelectric production contributed to the strong GDP expansion. For 2022 onwards, as fiscal and monetary stimulus will be phasing out, GDP growth is expected to slow down to its pre-pandemic levels of around 3.5 percent.

The COVID-19 pandemic has inflicted an unprecedent short-term loss of income on the private sector. COVID-19 has profoundly affected both supply and demand, and firms in sectors that were especially sensitive to the pandemic—tourism, hospitality, transportation, and other services—have been facing reduced cashflow. The results of the Enterprise Surveys performed in June 2020 underscored the severity of the pandemic's immediate impact on the Albanian private sector, as a full two-thirds of respondent firms reported they were closed for an average period of about eight weeks since the outset of the pandemic. However, the share of respondent firms that remained closed fell to 9 percent in June 2020, when lockdown measures were eased. Small firms in service sectors were the most affected, with more than 70 percent reporting temporary closures in the immediate aftermath of the pandemic outbreak.

Widespread liquidity constraints were reflected in the accumulation of arrears among small firms. Declining sales reduced firms' liquidity and disrupted their cashflows: over 70 percent of firms reported liquidity problems in June 2020, and many have begun accumulating arrears as a source of financing, especially small firms. Facing cashflow shortages, firms needed to delay payments to input and service providers, landlords, and tax authorities.

As part of its COVID-19 response effort, the government adopted measures to support employees and firms in sectors directly affected by the pandemic. In addition to increasing budget allocations for public health and social programs, the government offered wage subsidies for employees of firms that closed during the lockdown, income support for self-employed workers who suffered from the economic downturn, tax deferrals for affected businesses, and state guarantees enabling firms to access overdrafts in the banking system to pay wages and obtain working capital. About 89 percent of firms that reported benefiting from government support received wage subsidies. The government's newly established credit guarantee plans, offering firms access to commercial-bank overdrafts, investment loans to tax-compliant firms that were solvent before the pandemic, and moratoriums on loan repayments, provided liquidity relief. These programs have reached about 40 percent of firms. In addition to the moratorium on loan repayments, the central bank adopted forbearance measures that allowed banks to restructure loans during 2020 without additional provisioning or downgrades for borrowers' status to mitigate the pandemic's impact on banking-sector indicators. Moreover, the adoption of more stringent classification and provisioning measures for reclassified loans has been delayed until 2022.[8]

Albanian firms have proven capable of adjusting their production models to cope with the pandemic, but inadequate digitalization limits their ability to address the challenges of the post-pandemic economy. By June 2020, 76.5 percent of Albanian firms reported adjusting their production processes or business models in response to the pandemic, ranging from a high of 82.8 percent among foreign-owned firms to a low of 65 percent among retail firms. However, only 18 percent of firms reported launching or increasing their online business activity, and 15 percent reported shifting to a remote-work model. While the possibilities offered by information technology differ across sectors, these findings underscore the generally low level of digitalization among Albanian firms and its adverse impact on their operational flexibility.

While the economy had a strong GDP growth rebound in 2021, COVID-19 is expected to have a lasting impact on Albanian firms. Many firms operating in sectors sensitive to the pandemic, such as transportation, tourism, and other services, face liquidity constraints that may be exacerbated if new waves of the pandemic force resumption of containment measures and undermine the sustainability of the ongoing economic recovery. The pandemic has also accentuated preexisting corporate solvency problems, particularly among firms that already had high debt burdens. Going forward, these firms may prove unable to service their debts and face reduced access to credit. As forbearance measures expire, NPL ratios are likely to increase. Banks will need to provision resources against a surge in NPLs, limiting their ability to continue providing credit to firms. The effects of debt overhang and firm-level financial distress are likely to persist well beyond the post-pandemic recovery of economic activity. High debt levels lead firms to prioritize debt service over investing in new projects, retaining their workers, innovating, or maintaining their existing capital stock.

Fostering a robust and sustainable post-pandemic economic recovery will require continued diversification and a more productive and resilient private sector. Given its small domestic market, Albania relies heavy on international trade, investment, and remittances. Export concentration intensifies Albania's vulnerability to shocks, and the pandemic has highlighted its undiversified drivers of economic growth. When production and exports are concentrated in a narrow range of sectors, factors of production cannot easily be reallocated between economic activities or regions, which diminishes Albania's capacity to adapt to shocks. Conversely, diversification will enhance Albania's resilience and support sustainable growth. As it diversifies into new, high-productivity manufacturing and service industries, Albania will also need to shift toward higher-value-added segments of existing export value chains to maintain its competitive edge as the economy develops and domestic wage rates rise.

3. OPPORTUNITIES AND CONSTRAINTS IN THE ALBANIAN PRIVATE SECTOR

3.1 THE EVOLVING COMPOSITION OF FIRMS AND INDUSTRIES

An estimated 99 percent of formal firms in Albania's nonagricultural private sector are small enterprises, but the remaining 1 percent account for more than 40 percent of employment and 56 percent of value added. In 2019, 104,090 active firms were registered in Albania, of which 93 percent had fewer than 10 employees; 6 percent had 10 to 49 employees; and just 1 percent of firms had more than 50 employees. Only 179 firms, or 0.2 percent of the total, had over 250 employees.[9]

The services sector accounts for 87 percent of the total number of nonagricultural formal firms, while the remaining 13 percent are in the manufacturing sector. A total of 40 percent of firms are involved in wholesale and retail trade; 17 percent in accommodation and food services; 8 percent in transportation and information and communications technology (ICT) services; and 23 percent provide other services. Only 8 percent of firms are engaged in manufacturing; 4 percent in construction; and 1.5 percent in mining, energy, gas, water supply, and sanitation.[10] Almost two-thirds of the employed nonagricultural workforce is engaged in the services sector, especially in basic services such as trade and restaurants and accommodation, and 21 percent are employed in manufacturing. Trade, transportation, ICT, and manufacturing are the largest contributors to total value added in the formal private sector. The share of knowledge-intensive services, such as ICT and business services, is small but growing.

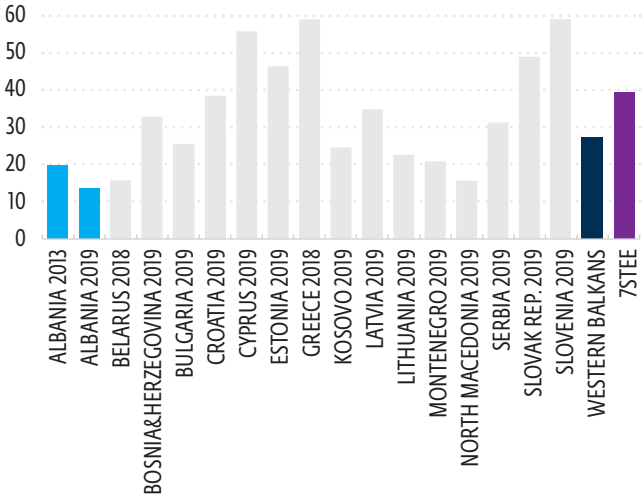
Employment and value added in Albania's nonagricultural private sector have both increased substantially in recent years. Between 2014 and 2019, the nonagricultural formal private sector added 151,000 new jobs, a 43 percent increase. While the nonagricultural formal private sector's share in total employment expanded from 37 percent in 2014 to 42 percent in 2018,[11] it remains well below the EU average of 51 percent. The value added by the nonagricultural formal private sector grew by 35 percent over the same period, far above the national average of 17 percent. Consequently, the nonagricultural formal private sector's share in total value-added rose from 35 percent in 2014 to 40 percent in 2019.

While the expansion of employment and value added in the nonagricultural formal private sector occurred across all firm sizes and sectors, the largest increases were observed among firms operating in accommodation and food services. Between 2014 and 2019, the number of jobs in the formal manufacturing and accommodation and food services subsectors grew by 49 percent and 64 percent, respectively. In addition, medium and small firms expanded their value added by 69 percent and 30 percent, respectively. Accommodation and food services led the growth of value added, rising by 95 percent, followed by wholesale and retail trade services at 62 percent. These positive trends have been driven by the formalization of previously informal firms and by the growth in new firms. However, much of the growth in both the number of firms and jobs created is concentrated in relatively low-tech manufacturing and basic services, which does not lead to more-productive firms and sectors displacing less-productive firms and sector.

3.2 FIRM PRODUCTIVITY

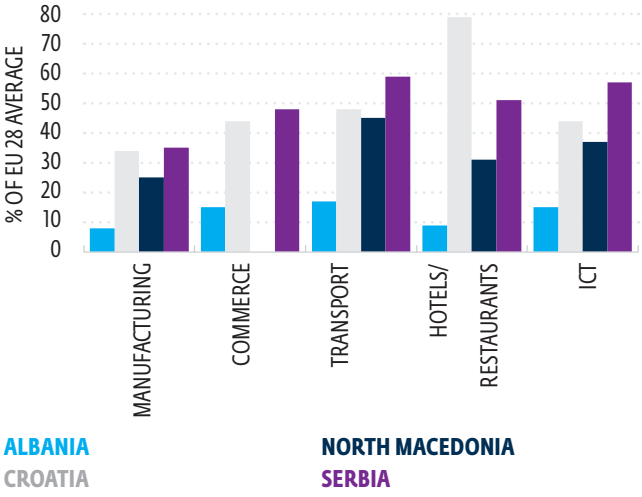
Albanian firms are less productive than their peers in the Western Balkans and in Europe as a whole. According to the 2019 World Bank Enterprise Surveys (ES), the value added per worker of Albanian firms is the lowest in the Europe and Central Asia region and only 50 percent of the average for the six Western Balkan countries (WB6). The World Bank ES found that between 2013 and 2019, the value added per worker and total factor productivity in Albania fell by 31 percent and 16 percent, respectively (Figure 3.1). The value added per worker is especially low in the manufacturing and accommodation and food service subsectors at less than 10 percent of the EU average. Productivity levels are higher in the trade, transportation, and communications subsectors but remain at about 15 percent of the EU average (Figure 3.2).

FIGURE 3.1. VALUE ADDED PER WORKER, CONSTANT 2009 US$



Source: World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Notes: Western Balkans include Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia
7STEE = seven small transition economies of Europe and include: Bulgaria, Croatia, Estonia, Latvia, Lithuania, Slovak Republic and Slovenia.

FIGURE 3.2. VALUE ADDED PER WORKER BY SECTOR AS A SHARE OF THE EU28[12] AVERAGE, 2019

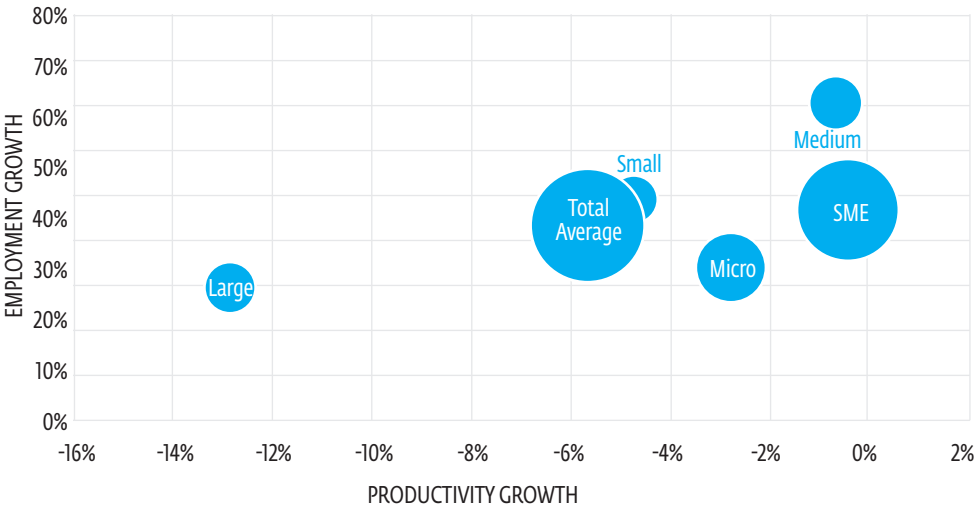


Source: World Bank, 2019[13], based on the Structural Business Survey by Institute of Statistics of Albania (INSTAT) and Eurostat.
Note: EU28 = 100. ICT = information and communication technology, EU28 includes all European Union members states and the United Kingdom.

Data from the Structural Business Survey undertaken by the Institute of Statistics of Albania (INSTAT) confirms that productivity declined between 2014 and 2018. Despite the gradual improvement in economic growth observed over the period, both labor productivity and total factor productivity have fallen since 2014. The average value added per worker fell by 6 percent between 2014 and 2018, with the steepest declines observed among microenterprises (–13 percent) and small firms (–11 percent), while only medium firms registered positive productivity growth (Figure 3.3). At the sector level, mining and manufacturing experienced the deepest drops in productivity at 49 percent and 10 percent, respectively, while productivity growth was positive in most service subsectors (Figure 3.4).

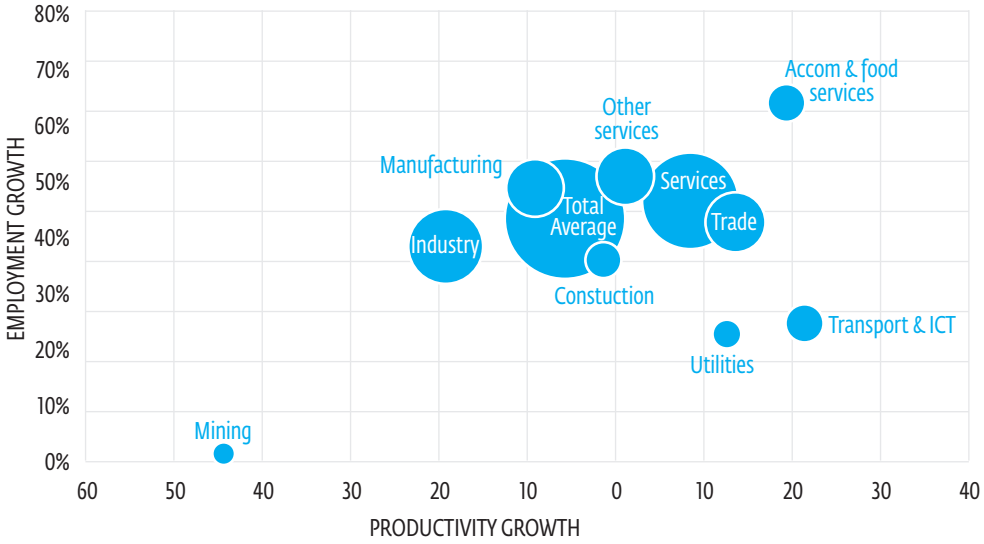
Albania's declining marginal labor productivity reflects rising employment in sectors with low levels of value added per worker and in sectors that experienced negative productivity growth at the firm level. Employment grew fastest in accommodation and food services, business support services, other services, and textile and apparel manufacturing, all of which have low levels of value added per worker. Transportation, ICT services, and public utilities all experienced robust productivity growth, but they account for only a small share of employment. Employment grew among firms of all sizes, but productivity declined among microenterprises and small firms, which are Albania's largest employers. Meanwhile, medium firms experienced substantial productivity growth, but they account for less than one-quarter of total formal employment.

FIGURE 3.3. EMPLOYMENT AND PRODUCTIVITY GROWTH BY FIRMS SIZE, 2014–19



Source: The Structural Business Survey, INSTAT.
Notes: Size of the spheres represents size measured by employment
SME aggregates small and medium enterprises

FIGURE 3.4. EMPLOYMENT AND PRODUCTIVITY GROWTH BY SECTOR, 2014–19



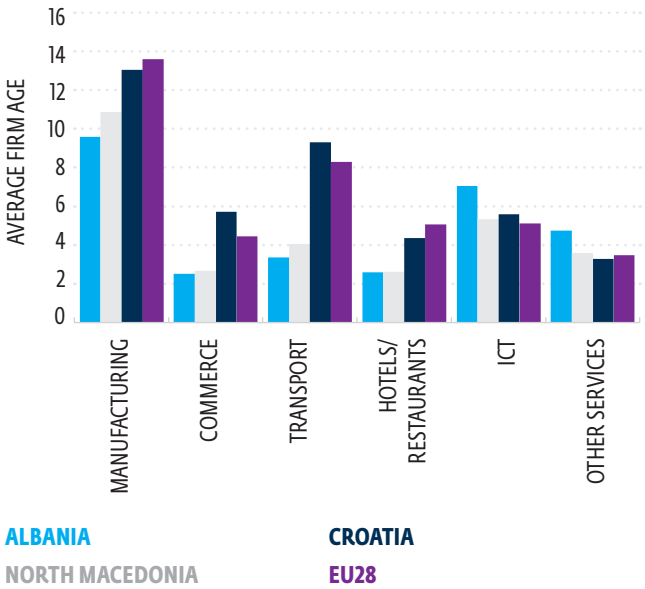
Source: The Structural Business Survey, INSTAT.
Notes: Size of the spheres represents size of the sectors' employment
ICT = information and communication technology services

Poor management practices, inadequate financing, weak international integration, and limited innovation all contribute to the low levels of productivity observed among Albanian firms. The 2019 Enterprise Surveys included a dedicated module on firm-management practices, as well as additional questions aimed at assessing how firms deal with problems, set and monitor production targets, and incentivize performance. As this was the first time these questions were included in the survey, trends in management practices cannot be assessed. Nevertheless, the data allow for cross-country comparisons and shed light on the managerial cultures of different types of firms. Unlike in other countries, the 377 firms surveyed in Albania included almost no high-tech manufacturing or knowledge-intensive services firms, and the sample was dominated by low-tech manufacturers (for example, food and beverages, textiles and garments, and basic metals) and by traditional service firms (for example, wholesale and retail trade, hotels and restaurants, and transportation services). Construction was also included as a sector. High-tech manufacturing (for example, chemicals, pharmaceuticals, electronics, and precision equipment) was entirely absent, as were knowledge-intensive professional services (for example, computer programming, business consulting, and information services). The survey sample reflects the economic landscape of Albania and underscores the extent to which the private sector is concentrated in low-value-added, low-technology manufacturing and services. These labor-intensive firms are unlikely to generate productivity gains and may become less competitive as wages rise and emigration continues to diminish the labor force.

3.3 FIRM CAPABILITIES

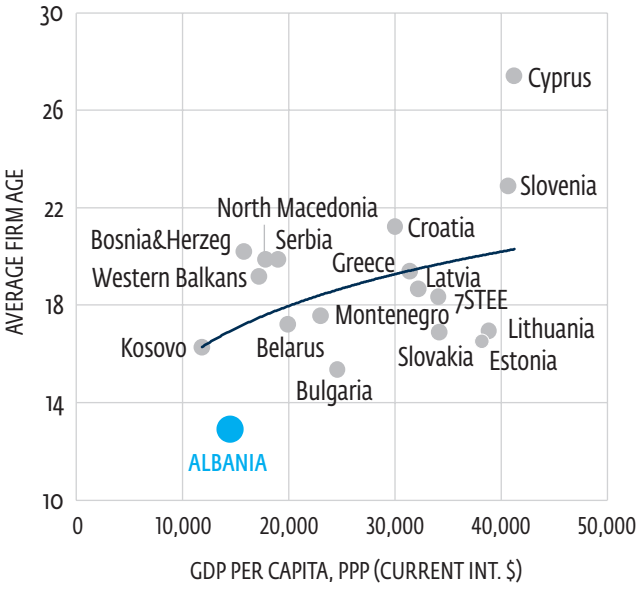
Weak productivity indicators also reflect the limited capabilities of Albanian firms. International comparisons highlight the small average size of Albanian firms, as well as their relatively low levels of managerial experience, limited trade exposure, slow adoption of new technologies, minimal research and development (R&D) spending, and modest demand for credit[14]. Due to its profusion of microenterprises and small firms, Albania's average firm size is below the average for the WB6 (Figure 3.6). Albanian firms in the manufacturing, trade, and accommodation and food services subsectors are especially small by regional standards, and an inability to leverage economies of scale may be negatively affecting their productivity (Figure 3.5). Albanian firms are the youngest, among both the countries included in the Enterprise Surveys (Figure 3.6) and their managers tend to have less experience than their peers in other countries (Figure 3.7). Less managerial experience may also reflect the relatively small share of firms in Albania that do not have their accounts audited externally (Figure 3.8).

FIGURE 3.5. AVERAGE FIRM SIZE BY SECTOR, 2016



Source: Staff calculations based on the Structural Business Survey, INSTAT, Eurostat, and World Bank Enterprise Surveys, http://www.enterprisesurveys.org.

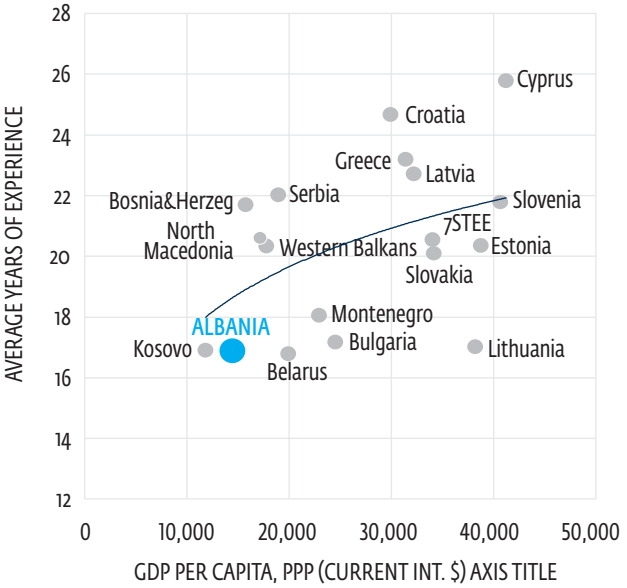
FIGURE 3.6. AVERAGE FIRM AGE AND GDP PER CAPITA, 2019



Source: Staff calculations based on the World Bank Enterprise Surveys, http://www.enterprisesurveys.org.

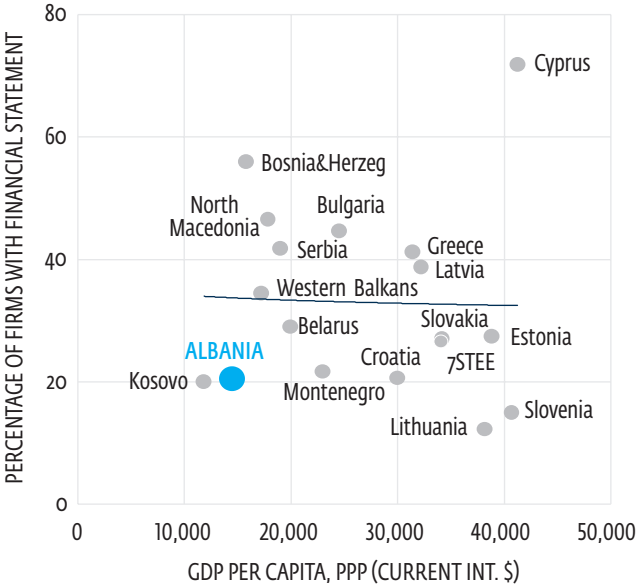
Note: GDP per capita (Current Int.$) = gross domestic product per inhabitant converted to international dollars using purchasing power parity rates.

FIGURE 3.7. TOP MANAGER'S AVERAGE YEARS OF EXPERIENCE BY SECTOR, 2019



Source: Staff calculations based on the World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Note: GDP per capita (Current Int.$) = gross domestic product per inhabitant converted to international dollars using purchasing power parity rates.

FIGURE 3.8. SHARE OF FIRMS WITH ANNUAL FINANCIAL STATEMENTS REVIEWED BY AN EXTERNAL AUDITOR, 2019



Source: Staff calculations based on the World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Note: GDP per capita (Current Int.$) = gross domestic product per inhabitant converted to international dollars using purchasing power parity rates.

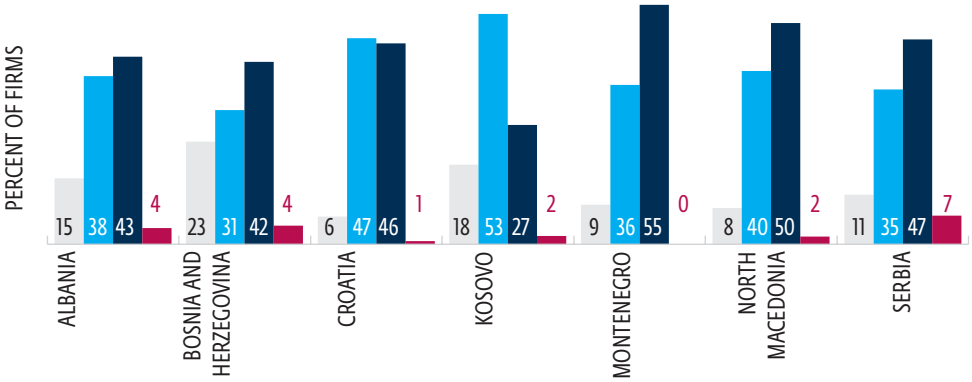
3.4 MANAGERIAL PRACTICES

The management practices used by Albanian firms are broadly comparable to those used in neighboring Western Balkan countries, but worse than the prevailing practices in leading Europe and Central Asia economies. There is a vast recent literature on management practices as a determinant of firm productivity.[15] For example, Bloom et al (2019) find that management practices among 35,000 US manufacturing plants account for more than 20 percent of the variation in productivity, which is similar or greater percentage as that accounted for by R&D, ICT, or human capital.[16] We focus on four specific aspects of management practices in Albanian firms, utilizing data from the Enterprise Survey 2019: (a) how production problems are resolved; (b) how production targets are set and communicated; (c) how results are monitored; and (d) how incentives for workers and managers are used to achieve firm targets. We look at each of these in turn.

How Do Firms Resolve Production Problems?

One way to assess management practices is to analyze whether process improvements are made only when problems arise or if they are implemented continuously. Among medium and large Albanian firms, 43 percent[17] indicated that they dealt with production problems proactively, as part of normal business practices, to prevent problems in advance as part of a continuous improvement process (Figure 3.9). Nineteen percent of firms reported that either no action was taken to address production problems or that actions taken were solely intended to resolve the problem without any further consequences for production practices. These results are similar to those obtained for Bosnia and Herzegovina (42 percent reported proactive problem-solving) and Serbia (47 percent), but worse than in North Macedonia (51 percent) and Montenegro (55 percent). In the region, only Kosovo scored lower, with just 27 percent of firms reporting proactive problem-solving. Interestingly, many transition economies included in the 2019 Enterprise Surveys scored relatively low on this question, indicating that even in new EU member states, such as Croatia, firms may be less well-managed than their income group would suggest. Proactive problem-solving is vital to the long-term performance of firms and their ability to meet production targets.

FIGURE 3.9. PROBLEM-SOLVING PATTERNS IN ALBANIAN FIRMS COMPARED TO OTHER WESTERN BALKAN COUNTRIES



PROBLEM WAS FIXED AND NO FURTHER ACTION WAS TAKEN

PROBLEM WAS FIXED AND FIRM MANAGEMENT TOOK ACTION TO MAKE SURE PROBLEM DOES NOT HAPPEN AGAIN

PROBLEM WAS FIXED, FIRM MANAGEMENT TOOK ACTION TO MAKE SURE PROBLEM DOES NOT HAPPEN AGAIN AND DID SO IN A CONTINUOUS IMPROVEMENT PROCESS TO ANTICIPATE PROBLEMS IN ADVANCE

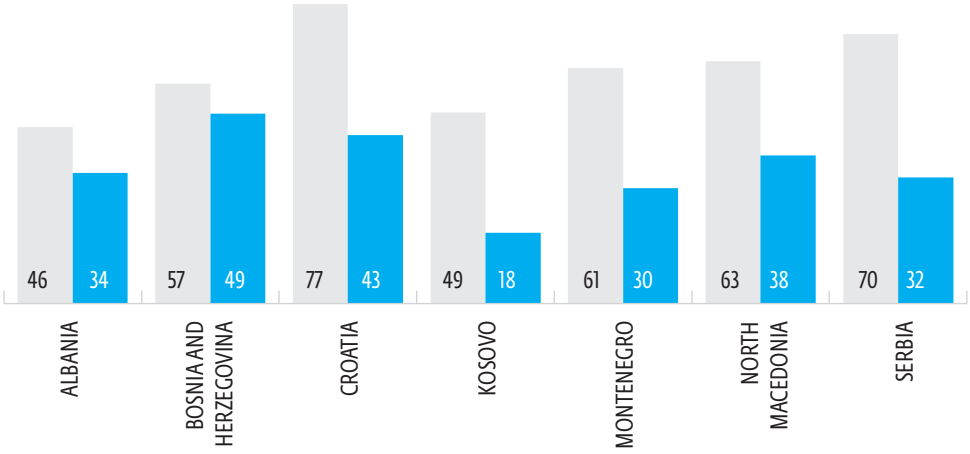
NO ACTION WAS TAKEN

Source: World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Note: Numbers represent percent of interviewed firms

How Are Production Targets Determined and Communicated to Staff?

Well-managed firms set clear production targets that balance short- and long-term financial and nonfinancial objectives, and they effectively communicate these targets to employees. While 82 percent of medium and large Albanian firms have production targets, they tend to be more focused on short-term goals than firms in peer countries, and they are less likely to have a balanced mix of short- and long-term production objectives, which is international good practice. For example, 46 percent of respondent Albanian firms had a combination of short-term and long-term targets, lower than the shares in Kosovo (49 percent), Bosnia and Herzegovina (57 percent), Montenegro (61 percent), North Macedonia (63 percent), Serbia (70 percent), and Croatia (77 percent) (Figure 3.10). Moreover, just 34 percent of interviewed medium and large firms in Albania have production targets that are widely known and understood by most managers and workers. This percentage is similar to the shares for Montenegro and Serbia and lower than those in Bosnia and Herzegovina, Croatia, and North Macedonia. Only Kosovar firms score significantly worse on this measure.

FIGURE 3.10. TARGET SETTING AND COMMUNICATION

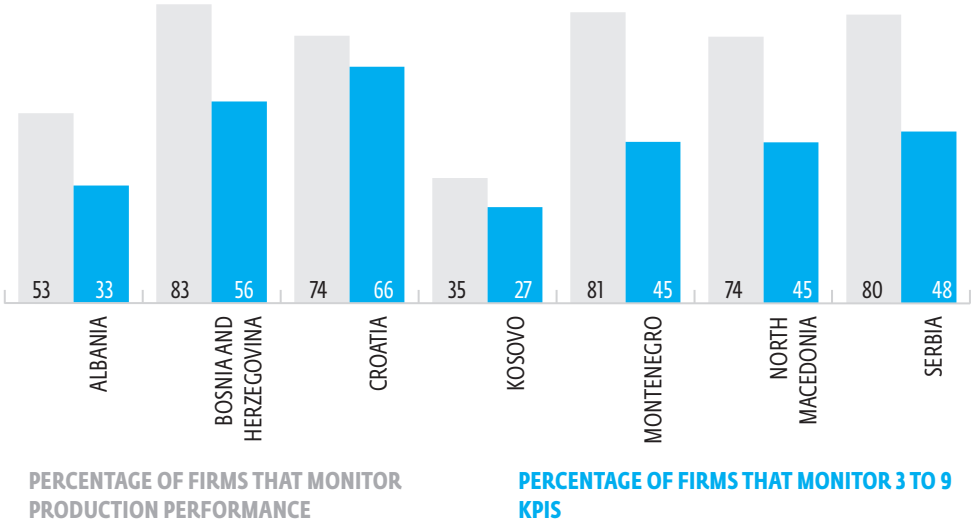


Source: World Bank Enterprise Surveys, http://www.enterprisesurveys.org.

How Do Firms Monitor Performance?

Good management practices include continuous tracking of performance and monitoring of results, as well as effective communication of underperformance from management to staff. Robust performance monitoring requires a clear set of indicators at the firm level, and the management literature suggests that a set of three to nine key performance indicators (KPIs) is both informative and practical. Fewer KPIs might not capture all firm objectives, while more could be unmanageable and unfocused. In Albania, just over half of medium and large firms monitor any KPIs, a much lower share than in all other Western Balkan countries except Kosovo (Figure 3.11). In addition, more than half of the Albanian firms that do monitor KPIs use only one or two indicators, and only a third have KPIs in the optimal three-to-nine range. Again, these figures are worse than in all other Western Balkan countries except Kosovo.

FIGURE 3.11. FIRM-LEVEL PERFORMANCE MONITORING



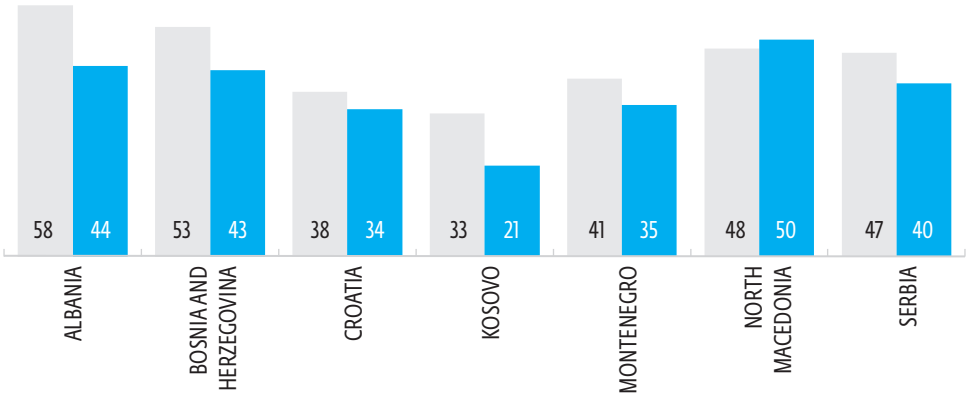
Source: World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Note: KPIs = key performance indicators

How Are Incentives for Workers and Managers Used to Achieve Firm Targets?

Successful companies often incentivize employee performance to encourage competition and boost productivity. Well-run firms also use various methods of talent management to attract and retain high-performing staff and dismiss underperformers. Albanian firms are more likely to reward their managers for good performance than firms in peer countries, but fewer than half condition manager bonuses on the firm's overall performance. Instead, managerial bonuses are primarily determined by the manager's own performance or the team's performance, which blurs the lines between individual and firm performance (Figure 3.12). Most Western Balkan countries perform similarly on this measure, with North Macedonia performing slightly better than the rest.

Non-managerial staff performance is critical to overall firm performance and good practices include both rewarding good performance and removing poor performers promptly. The ES 2019 also attempts to distinguish to what degree firms reward their staff based on performance and irrespective of other considerations, and to what extent are poor performers penalized, either by being removed, retrained or moved into a different role. The results for incentives for non-managers are similar across five of the Western Balkans countries and better for North Macedonia and Serbia in terms of rewarding non-managerial staff for good performance (Figure 3.13). However, when it comes to dealing with under-performing employees, firms in most countries appear ineffective in removing or re-assigning under performers. Only Montenegro fares better. Furthermore, many firms report that there are no promotions for non-managerial staff at all, which means that management needs to offer other incentives to encourage high performance.

FIGURE 3.12. MANAGERIAL PERFORMANCE INCENTIVES

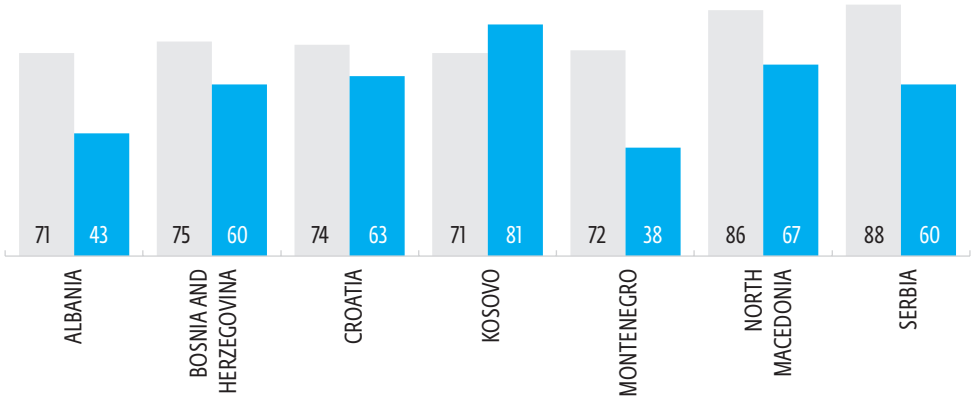


PERCENTAGE OF FIRMS WITH PERFORMANCE BONUSES FOR MANAGERS

PERCENTAGE OF FIRMS WHERE MANAGERIAL BONUSES DEPEND ON OR ESTABLISHMENT PERFORMANCE

Source: World Bank Enterprise Surveys, http://www.enterprisesurveys.org

FIGURE 3.13. NON-MANAGERIAL INCENTIVES



PERCENTAGE OF FIRMS WHERE NON-MANAGERS ARE PROMOTED SOLELY ON THE BASIS OF PERFORMANCE AND ABILITY

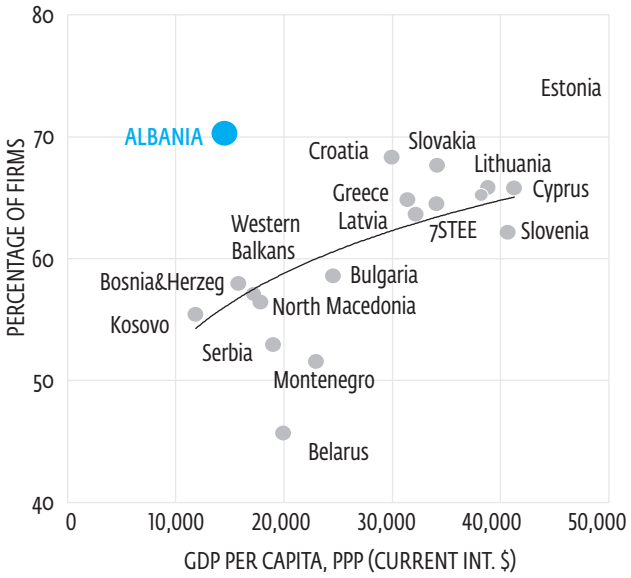
PERCENTAGE OF FIRMS WHERE UNDER-PERFORMING NON MANAGERIAL STAFF ARE NEVER OR SELDOM DISMISSED OR REASIGNED

Source: World Bank Enterprise Surveys, http://www.enterprisesurveys.org

3.5 FINANCING PRACTICES

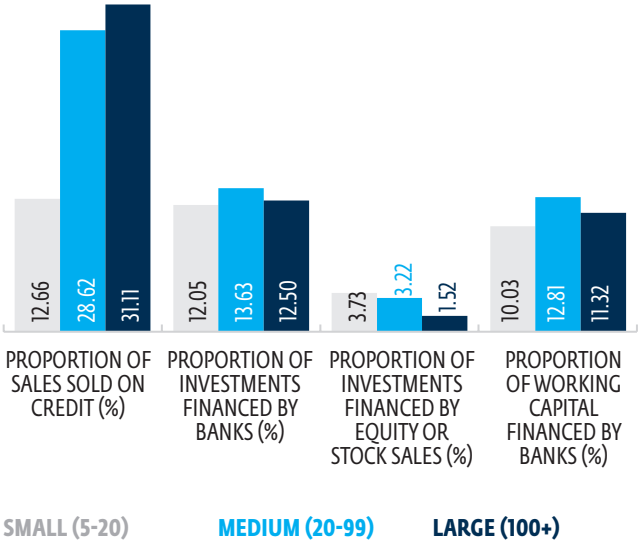
While several studies on the Albanian investment climate have found that weak financial intermediation and difficult access to financing constrain the credit supply, modest demand for credit likely indicates a lack of incentives or capacity to expand. Small firms have an especially low appetite for expansion, coupled with a limited capacity to create bankable and financially viable projects. Reflecting their anemic demand for credit, only 3 percent of firms perceived that lack of access to credit is their biggest constraint, while a full 70 percent reported not needing a loan—the highest share among WB6 and 7STEE countries and well above what Albania's income level would predict (Figure 3.14). Only 12 percent of firms reported facing credit constraints, which indicates that either Albanian firms are investment-constrained rather than credit-constrained or that their rates of return on investment are unattractive. Other indicators confirm the limited financial sophistication of Albanian firms: less than 13 percent use banks to finance investments and working capital; and the use of equity to finance investments is also very modest (Figure 3.15). Demand for credit is strongest among medium firms and weakest among small domestic firms and large foreign-owned firms, as the latter typically have access to intercompany lending and international capital markets. Meanwhile, the modest credit demand observed among small firms may reflect a limited capacity to prepare high-quality projects, inadequate collateral, and a low level of financial transparency.

FIGURE 3.14. SHARE OF FIRMS THAT REPORT NOT NEEDING A LOAN, 2019



Source: Staff calculations based on the World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Note: GDP per capita (Current Int.$) = gross domestic product per inhabitant converted to international dollars using purchasing power parity rates.

FIGURE 3.15. THE USE OF FINANCIAL INSTRUMENTS BY FIRM SIZE, ALBANIA, 2019



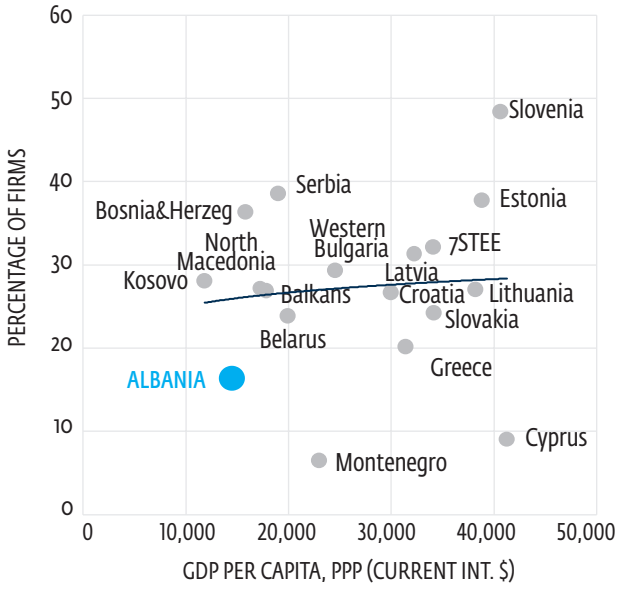
Source: World Bank Enterprise Surveys, http://www.enterprisesurveys.org

3.6 TRADE AND FDI

International openness is especially vital to the growth of small economies such as Albania. Trade provides access to global markets and technologies, which can help small economies overcome the constraints imposed by limited domestic markets and modest national research capabilities. The share of Albanian firms that are direct or indirect exporters rose from 12 percent in 2013 to 16 percent in 2019, but it remains well below the WB6 average of 27 percent and the 7STEE average of 32 percent. When controlling for national income level, Albanian firms are still less likely to export than their international peers (Figure 3.16). The propensity to export varies with firm size: large firms are the most export-oriented, while small firms are the least. Larger firms also tend to use more imported inputs than smaller firms (Figure 3.17).

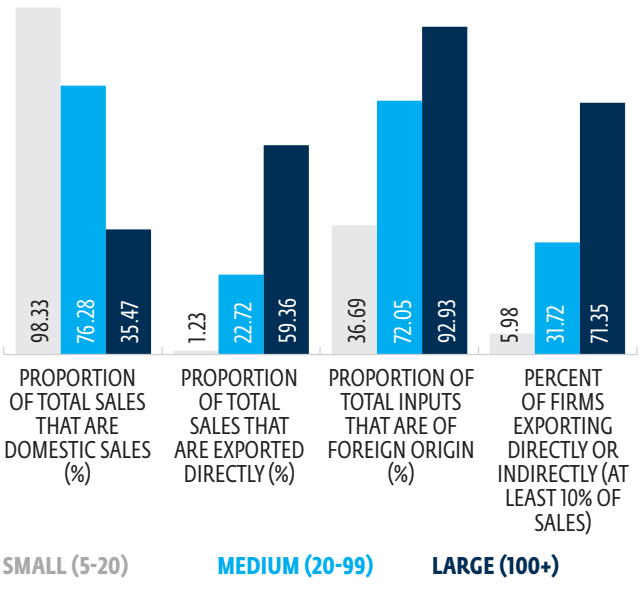
The manufacturing sector has driven the recent increase in the share of exporting firms, yet the manufacturing sector's overall trade exposure has declined. The share of manufacturing firms that export directly or indirectly rose from 23 percent in 2013 to 45 percent in 2019. The share of manufacturing firms using imported inputs, however, has fallen since 2007, which may signal a decline in the sophistication of manufacturing activities or their relative integration into global value chains. Labor-intensive, low-value-added merchandise accounts for more than 50 percent of goods exports. Moreover, the share of manufacturers in total exports has fallen in recent years, and services now account for more than half of total exports. The relative decline of manufacturing exports as a share of both total exports and GDP may reflect a combination of weakening competitiveness in the manufacturing sector and the robust growth of tourism.

FIGURE 3.16. SHARE OF FIRMS FOR WHICH DIRECT OR INDIRECT EXPORTS REPRESENT AT LEAST 10% OF SALES, 2019



Source: Staff calculations based on the World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Note: GDP per capita (Current Int.$) = gross domestic product per inhabitant converted to international dollars using purchasing power parity rates.

FIGURE 3.17. SALES, EXPORTS, AND IMPORT CONTENT OF INPUTS BY FIRM SIZE, ALBANIA, 2019

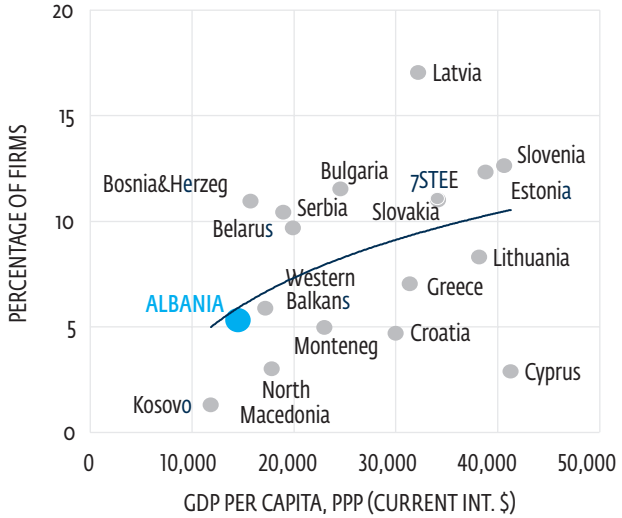


Source: World Bank Enterprise Surveys, http://www.enterprisesurveys.org

Albanian exports are highly concentrated in terms of both markets and products, and the country's integration into global value chains is still low. In 2018, Italy received almost half of all Albanian exports, and the next four major destinations accounted for more than one-fifth. Albania has the least diversified export basket in terms of products among peer countries, and the lowest-value-added sectors account for 60 percent of goods exports. Similarly, traditional services[18] represent almost 80 percent of total services exports. Measured by the foreign value added to Albanian exports (backward linkages) and the Albanian value addition that is embedded in the exports of other countries (forward linkages), Albania's participation in global value chains is the lowest among its WB6 peers. Indicators of the sophistication and survival of Albanian exports are also relatively weak. Export quality is modest, both when measured in terms of the technological classification of good exports or when proxied by the index of export sophistication, and the survival rate for Albanian exports is well below that of its neighbors.[19]

Low levels of FDI and foreign ownership contribute to the inability of Albanian firms to reach new markets and increase their export quality. While Albania's FDI levels are comparable to those of its regional peers, about 70 percent of foreign investments are in the energy and mining sectors (such as rent seeking FDI). FDI in manufacturing (such as efficiency-seeking FDI) is modest and concentrated in labor-intensive products such as apparel and footwear and, more recently, in the auto-parts industry. [20] Only 5 percent of firms in Albania have a foreign ownership stake of 10 percent or more, and the share of foreign-owned firms is well below the levels of most WB6 and 7STEE countries (Figure 3.18). While foreign ownership is only slightly less common than would be expected after controlling for per capita GDP or for trade openness, the share of majority foreign-owned firms declined steadily from 17 percent in 2007 to just over 4 percent in 2019, and there is ample scope to increase the presence of foreign-owned firms in Albania (Figure 3.19).

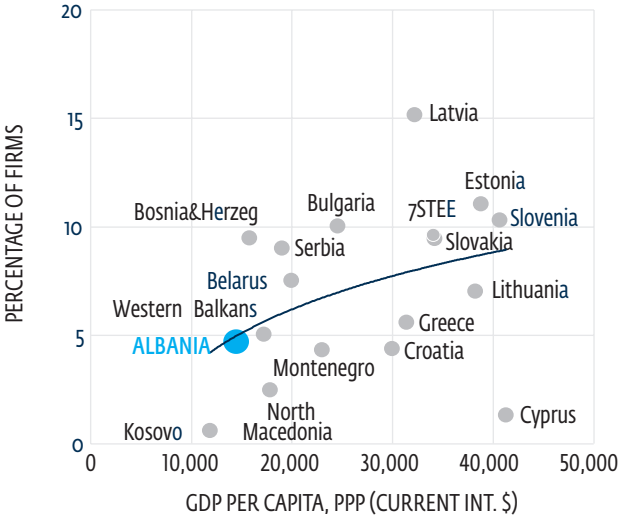
FIGURE 3.18. SHARE OF FIRMS WITH AT A FOREIGN OWNERSHIP SHARE OF AT LEAST 10%, 2019



Source: Staff calculations based on the World Bank Enterprise Surveys, http://www.enterprisesurveys.org.

Note: GDP per capita (Current Int.$) = gross domestic product per inhabitant converted to international dollars using purchasing power parity rates.

FIGURE 3.19. FOREIGN-OWNED FIRMS AS A SHARE OF TOTAL FIRMS, 2019

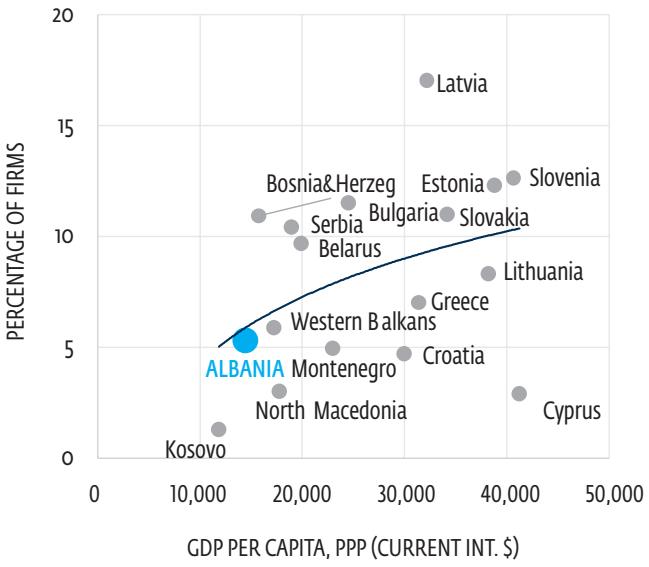


Source: Staff calculations based on the World Bank Enterprise Surveys, http://www.enterprisesurveys.org.

Note: GDP per capita (Current Int.$) = gross domestic product per inhabitant converted to international dollars using purchasing power parity rates.

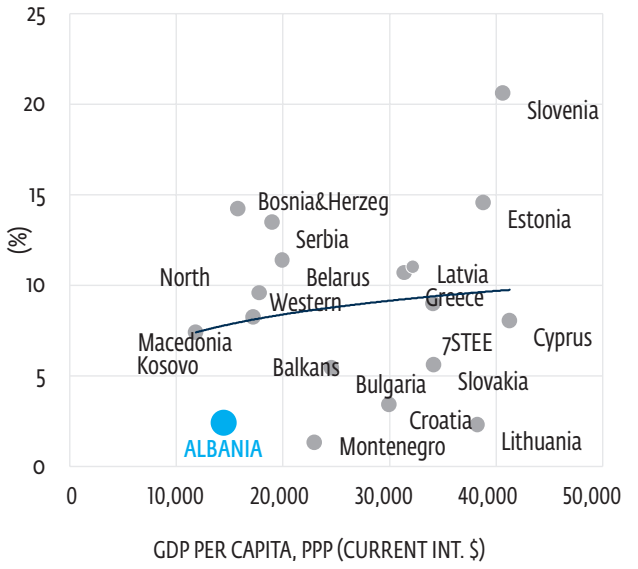
The share of firms in Albania that use international quality-certification systems has declined sharply in recent years, and while indicators of R&D spending and the use of online platforms have improved, they remain below those of peer countries. The share of firms receiving international certification fell from 24 percent in 2013 to 13 percent in 2019, far below the average for countries with similar levels of per capita GDP. While the share of firms that report spending on R&D rose from less than 1 percent in 2013 to 2.4 percent in 2019, it is still much lower than the WB6 average of 8 percent and the 7STEE average of 9 percent (Figure 3.20). When controlling for per capita GDP, Albanian firms perform poorly on R&D spending, with only large firms spending as much as their regional peers (Figure 3.21). Albanian firms also fare worse than their WB6 and 7STEE counterparts on indicators of the use of technology licensed from foreign companies, as well as the use of dedicated websites for sales and operations. However, the share of Albanian firms that report creating new products and services and introducing new procedures into their operations are comparable with regional averages.

FIGURE 3.20. SHARE OF FIRMS WITH INTERNATIONALLY RECOGNIZED QUALITY CERTIFICATION



Source: Staff calculations based on the World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Note: GDP per capita (Current Int.$) = gross domestic product per inhabitant converted to international dollars using purchasing power parity rates.

FIGURE 3.21. SHARE OF FIRMS THAT REPORT SPENDING ON RESEARCH AND DEVELOPMENT

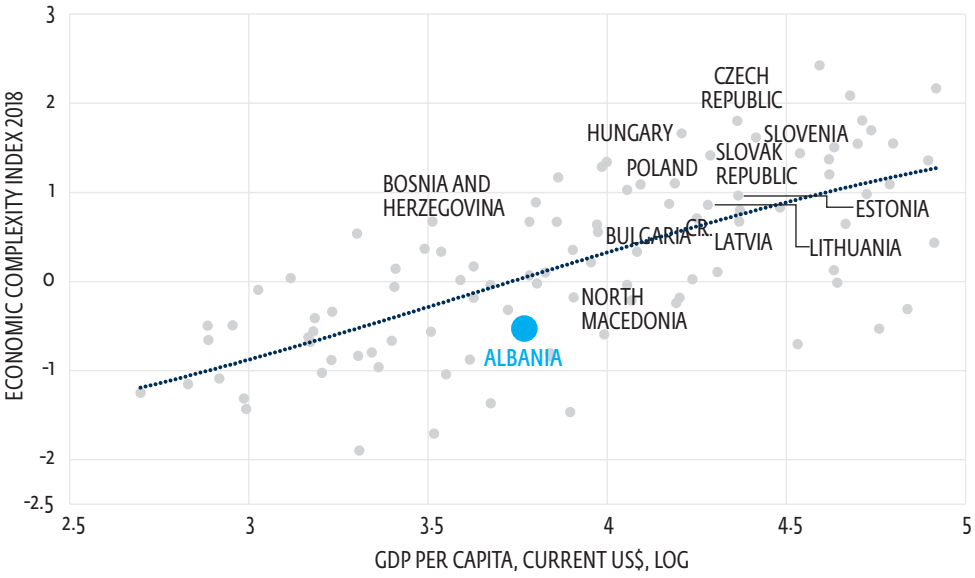


Source: Staff calculations based on the World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Note: GDP per capita (Current Int.$) = gross domestic product per inhabitant converted to international dollars using purchasing power parity rates.

3.7 ECONOMIC COMPLEXITY, R&D AND INNOVATION

The limited firm-level capabilities described above are reflected in Albania's poor performance on indicators of economic complexity. These capabilities include product-specific knowledge, managerial experience, ability to access external markets, and financial sophistication, as measured by the capacity to develop sound business plans and obtain financing.[21] The Economic Complexity Index provides a benchmark for measuring and comparing productive capabilities across countries. Albania's Economic Complexity Index score is lower than would be expected based on its level of income (Figure 3.22), and weak firm-level capabilities are a major contributor to the underperformance of Albanian exports.

FIGURE 3.22. ECONOMIC COMPLEXITY INDEX SCORE AND GDP PER CAPITA, 2018



Source: Harvard Center for International Development, the Atlas of Economic Complexity and World Development Indicators.
Note: GDP per capita, current US, log is the gross domestic product per capita at current US dollars in logarithm.

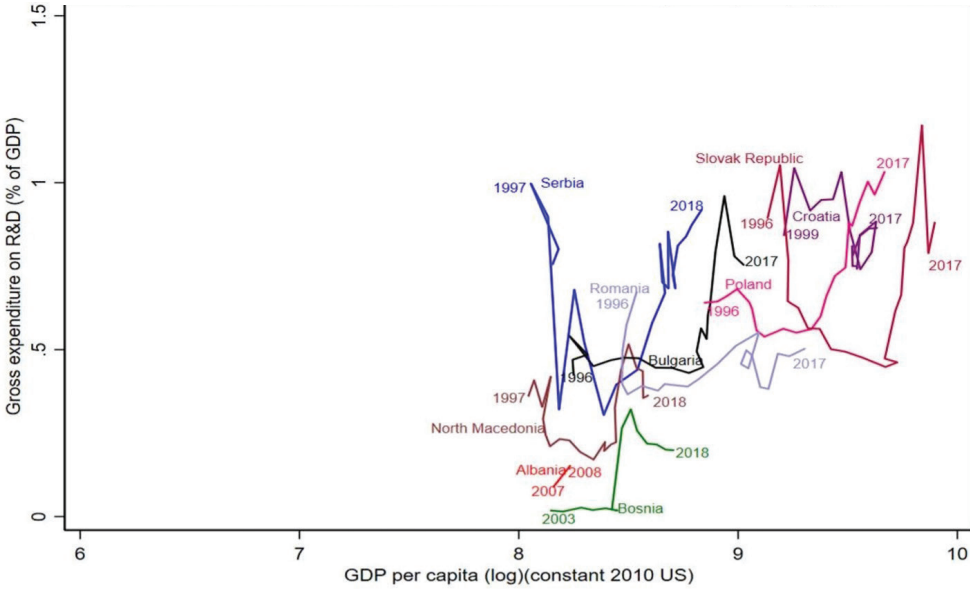
The poor productivity performance of Albanian firms is due in part to low levels of spending on R&D and gaps in the science, technology, and innovation (STI) ecosystem. In recent years, the combination of weak economywide productivity growth, slow rates of employment creation, and high levels of emigration has highlighted the importance of improving firm-level productivity. In this context, a renewed focus on R&D and innovation could enhance competitiveness and boost domestic value addition. While considerable attention has been devoted to strategic STI initiatives, Albania continues to lag its peers on key indicators of R&D and innovation.[22]

R&D Spending

Data on R&D investment are scarce, but the available information suggests that the government has not met its ambitious targets for increasing gross spending on R&D, and indeed R&D spending may have declined in recent years. In its 2009–2015 National Strategy for Science, Technology, and Innovation, the government aimed to boost gross spending on R&D from 0.15 percent of GDP in 2008 to 0.6 percent by 2015, a large increase from a small base. However, even had this target been achieved, gross R&D spending in Albania would still have been well below the current EU average of 2.2 percent,[23] as well as the levels of regional comparator countries such as Bosnia and Herzegovina, Bulgaria, Croatia, Montenegro, North Macedonia, Romania, and Serbia.[24] While recent data are not yet available,[25] some estimates indicate that public R&D spending currently amounts to as little 0.04 percent of Albania's GDP, which would represent an alarming decline in relative terms over the past decade.[26] Albania's ratio of knowledge-intensive services exports to total services exports fell from about 20 percent in 2010 to about 17 percent in 2016, well below the levels of most countries in the region.[27]

Albania's gross spending on R&D as a share of GDP is lower than what its income per capita would suggest and the lowest among comparator countries. Albania continues to face formidable challenges in boosting its R&D investment and capabilities, but recent trends in R&D investment cannot be conclusively determined. Data are only available for 2007 and 2008, and a single year-on-year increase is not sufficient to establish a long-term trajectory (Figure 3.23). For comparison, Bosnia and Herzegovina started off with a lower level of gross R&D spending as a share of GDP in 2003 but managed to increase it significantly by 2018. R&D investment fluctuated in North Macedonia and Serbia, but both ultimately recovered to their 1997 levels as a share of GDP, with a particularly positive trend in Serbia. The new EU member states also experienced positive trends in gross R&D spending, especially Bulgaria, Poland, and the Slovak Republic. By 2017, Bulgaria, Poland, and Serbia had gross R&D spending levels that were higher as a share of GDP than what their income per capita would predict.

FIGURE 3.23. GROSS R&D SPENDING AS A SHARE OF GDP, ALBANIA AND PEER COUNTRIES, 1996–2018

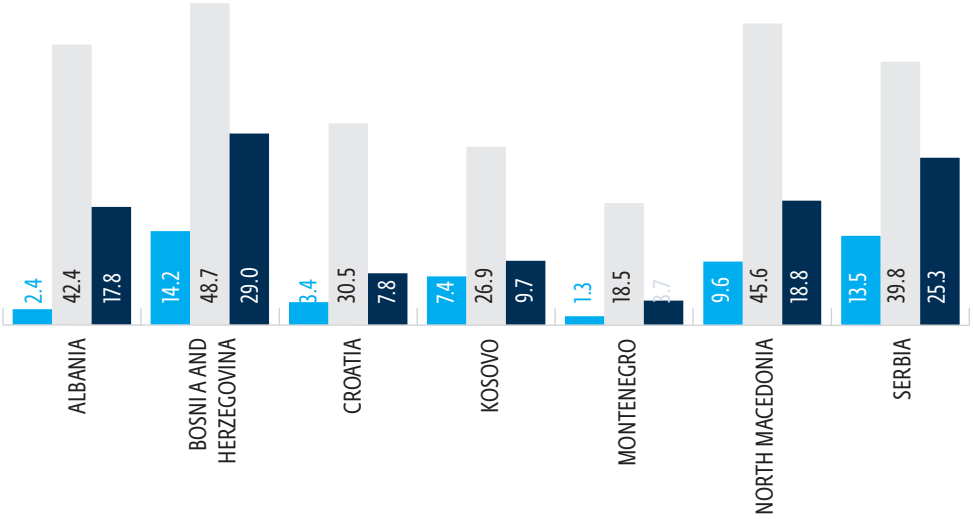


Source: Staff elaboration based on World Development Indicators and UNESCO (United Nations Educational, Scientific and Cultural Organization).
Note: GDP = gross domestic product; R&D = research and development.

Business R&D

In the 2019 Enterprise Surveys, a staggering 95 percent of Albanian firms reported not acquiring any external knowledge in the preceding three years, and 98 percent reported not engaging in any internal R&D during the period (Figure 3.24). Amid low levels of investment in acquiring or creating new capabilities, 58 percent of Albanian firms reported not introducing any new products or services into the market during the preceding three years. Among firms that introduced new products or services, 72 percent reported that such innovations were also new to the market (that is, they were introduced before competing products). While no data are available on the origin of these innovations, most were likely developed outside of Albania, given the country's low levels of investment in R&D. Manufacturing firms were the most likely to have introduced a new product to the market (61 percent), while services firms were the least likely (36 percent). However, even in the manufacturing sector, most new products likely originated outside of Albania, as the share of firms that report investing in acquiring existing knowledge externally (10 percent) exceeds the share that report engaging in in-house R&D (7 percent). Underinvestment in knowledge acquisition and generation is especially evident among small non-exporting firms (Figure 3.25).

FIGURE 3.24. FIRM INVESTMENT IN R&D AND INNOVATION PERFORMANCE



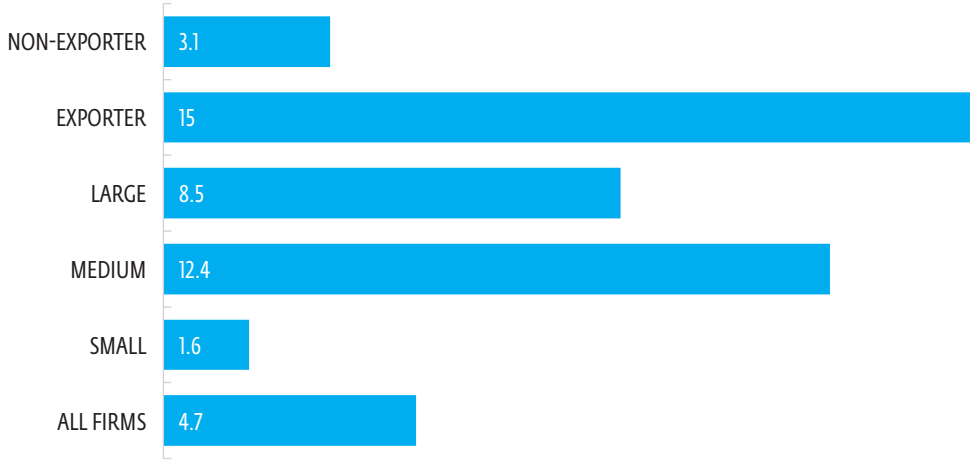
PERCENTAGE OF FIRMS THAT SPEND ON R&D (EXCEPT FOR MARKET RESEARCH SURVEYS)

PERCENTAGE OF FIRMS THAT REPORT PRODUCT INNOVATION

PERCENTAGE OF FIRMS THAT REPORT PROCESS INNOVATION

Source: World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Note: R&D = research and development; External knowledge includes patents, licenses, and other inventions or know-how

FIGURE 3.25. PERCENT OF ALBANIAN FIRMS THAT ACQUIRED EXTERNAL KNOWLEDGE, 2016–19



Source: World Bank Enterprise Surveys, http://www.enterprisesurveys.org
Note: External knowledge includes patents, licenses, and other inventions or know-how

Private R&D spending is rare among Albanian firms, but relatively high rates of business innovation suggest that there is room for growth in private R&D. Only an average of 2.4 percent of Albanian firms reports investing in R&D, far below the 10.2 percent average for the Europe and Central Asia region and the 13.5 percent average for upper-middle-income countries (Table 3.1). Despite low levels of R&D investment, self-reported rates of product and process innovation among Albanian firms exceed the averages for both European and Central Asia region and upper-middle-income countries. There are two potential explanations for this finding: either Albanian firms manage to innovate with little R&D investment, or the sample is biased. The share of firms reporting product or process innovation could be skewed upwards due to overreporting, or the small share of firms that report investing in R&D could be the result of the Enterprise Surveys including a large number of services firms relative to manufacturers, as the former are less likely to spend on R&D than the latter.[28] The share of Albanian firms that report using foreign-licensed technology or having an international quality certification is lower than the Europe and Central Asia region average, as is the share of firms that export either directly or indirectly. Annual sales and employment growth in Albania, however, outperform the averages for Europe and Central Asia region and upper-middle-income countries.

TABLE 3.1. KEY INNOVATION AND FIRM PERFORMANCE MEASURES, ALBANIA AND COMPARATOR-GROUP AVERAGES, 2019

	ALBANIA				EUROPE AND CENTRAL ASIA AVERAGE	UPPER-MIDDLE-INCOME GROUP AVERAGE
	All firms	Small (1–19)	Medium (20–99)	Large (> 100)	All firms	All firms
Firm performance						
Real annual sales growth (%)	3.1	1.9	6.2	1.4	2.8	0.7
Annual employment growth (%)	7.1	4.6	13.7	1.9	3.0	4.5
Innovation and technology						
Share of firms that spend on R&D	2.4	1.6	2.9	9.1	10.2	13.5
Share of firms that introduced a new product or service	42.4	38.8	52.1	40.7	32.3	35.7
Share of firms whose new product or service is also new to the market	71.7	68.3	79.4	63.8	64.3	68.5
Share of firms that introduced a process innovation	17.8	12.8	27.8	32.3	18.5	29.3

	ALBANIA				EUROPE AND CENTRAL ASIA AVERAGE	UPPER-MIDDLE-INCOME GROUP AVERAGE
	All firms	Small (1–19)	Medium (20–99)	Large (> 100)	All firms	All firms
Share of firms that use technology licensed from a foreign company	15.5	15.0	11.6	25.0	17.1	15.3
Share of firms with an internationally recognized quality certification	13.2	8.1	20.6	39.0	20.4	14.3
Trade and exporter status						
Share of firms that directly export at least 10% of annual sales	14.9	4.5	30.6	67.2	16.8	11.8
Share of firms that directly or indirectly export at least 10% of annual sales	16.4	6.0	31.7	71.3	21.6	16.3

Source: World Bank Enterprise Surveys, http://www.enterprisesurveys.org.

3.8 INNOVATION AND FIRM PERFORMANCE

There is a large amount of literature linking firm-level investment in R&D, innovation, and productivity, and this section analyzes the decision to invest in R&D, the effect of R&D investment on firm-level innovation, and the impact of innovation on labor productivity. The analysis follows a three-step methodology. The first step consists of running simple probit regressions on the decision to invest in R&D across different firm characteristics. The second step estimates the effects of R&D investment on firms' self-reported rates of product or process innovation. The third step evaluates the impact of self-reported firm-level innovation on firm productivity, as measured by log sales per worker.[29] This approach is vulnerable to selection bias and endogeneity, as investment decisions, innovation rates, and productivity changes may influence each other in multiple ways and directions. These challenges could be addressed by adopting a three-stage selection model, such as the model commonly called CDM pioneered by Crepon, Duguet, and Mairesse (1998) or alternative models that have been developed in this field. However, the following section presents the three stages of a typical CDM model in isolation, purely for illustrative purposes, to attempt to identify potential differences in R&D investment, innovation, and productivity between Albanian firms and other Europe and Central Asia region firms. Considering the estimation problems described, the results should be treated cautiously and as indicative of the presence of strong correlation among the variables, but not necessarily as proving causality.

The results of the simple probit-model regressions indicate that the probability of investing in R&D is significantly lower for older and small firms, while exporter status is not associated with a greater probability of investing in R&D—in stark contrast to the rest of the Europe and Central Asia region, where exporter status is a highly significant determinant of R&D investment. This result alone demonstrates that Albanian exports are not R&D intensive. Furthermore, in contrast to the rest of the Europe and Central Asia region, the presence of informal competition is positively and significantly associated with a higher probability of investment in R&D, possibly to gain a market advantage (Table 3.2). Finally, the probability of R&D investment is higher among manufacturing firms in Albania, whereas in the rest of Europe and Central Asia there is no significant difference in investment between manufacturing and services firms, counting that Albanian firms in the services sector are less knowledge-intensive than those in other European and Central Asia region economies.

TABLE 3.2. DECISION TO INVEST IN R&D, PROBIT MODEL

	ALBANIA, 2019 ALL FIRMS	REST OF EUROPE AND CENTRAL ASIA, 2019ALL FIRMS
Variables	P(RD) > 0	P(RD) > 0
Age	−0.050*** (0.019)	−0.0002 (0.006)
D (Small)	−0.975** (0.431)	−0.715*** (0.147)
D (Medium)	−0.447 (0.423)	−0.174 (0.176)
D (Exporter)	0.002 (0.004)	0.007*** (0.001)
D (Foreign owned)	—	0.003 (0.002)
D (Informal competition)	0.661** (0.298)	0.181 (0.148)
D (Manufacturing)	1.035*** (0.397)	0.045 (0.113)
Constant	−1.546*** (0.430)	−1.270*** (0.186)
Observations	312	16,437
Wald $Chi^2(9)$	41.81***	74.81***
Pseudo R^2	0.24	0.09

Source: Staff calculations using World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Notes: — = not available; R&D = research and development; robust standard errors are in parentheses. * p < 0.1, ** p < 0.05, *** p < 0.01. stratification weights are applied to correct for economy sectoral structure in all specifications.

Probit regressions also reveal that self-reported investment in R&D is not correlated with product or process innovation in Albania. This outcome is also different from the rest of the Europe and Central Asia region, where R&D spending by firms is highly and significantly associated with the probability of both firm-level product and process innovation (Table 3.3). However, it is consistent with the summary statistics presented above, which suggest that business innovation in Albania is unrelated to firm-level R&D and occurs regardless of low public investment in R&D. The licensed use of foreign technologies also increases the probability of innovation among firms in the rest of the Europe and Central Asia region, but in Albania it only marginally raises the likelihood of product innovation. Having an international quality certification increases the probability of innovation in the Europe and Central Asia region, but in Albania it does so only for process innovation. Unlike in the rest of the Europe and Central Asia region, innovation in Albania is more common among manufacturing firms than among services firms. Whereas in other Europe and Central Asia countries exporter status is associated with a higher likelihood of both product and process innovation, in Albania being an exporter does not affect a firm's likelihood of innovation.

These results suggest not only that Albanian firms are investing less in R&D compared to other European and Central Asia region economies but also that the little R&D invested does not yield the desired innovation outcomes. In other words, both the quantity and the quality of R&D would need to improve to achieve a sustained increase in innovation. This conclusion applies to both public R&D produced by state universities and research institutes and to private R&D produced by firms.

TABLE 3.3. PROBABILITY OF TECHNOLOGICAL INNOVATION, PROBIT MODEL

	ALBANIA, 2019		REST OF EUROPE AND CENTRAL ASIA, 2019	
	Product innovation	Process innovation	Product innovation	Process innovation
Age	−0.010 (0.012)	0.035** (0.016)	−0.003 (0.005)	0.001 (0.005)
D (Small)	0.552 (0.379)	0.167 (0.359)	0.083 (0.150)	−0.187 (0.121)
D (Medium)	0.572* (0.343)	0.571* (0.329)	0.218 (0.161)	0.335** (0.148)
D (Exporter)	0.002 (0.003)	0.001 (0.003)	0.003* (0.002)	0.003* (0.001)
D (Foreign owned)	0.002 (0.004)	0.003 (0.004)	−0.0006 (0.002)	0.0001 (0.001)
RD	0.525 (0.441)	0.614 (0.410)	0.821*** (0.225)	0.573*** (0.196)
D (Informal competition)	−0.185 (0.231)	−0.133 (0.234)	0.305** (0.123)	0.228* (0.127)
D (Quality certification)	−0.094 (0.282)	0.647** (0.271)	0.363** (0.145)	0.428*** (0.158)
D (Foreign technology use)	0.616* (0.321)	0.388 (0.299)	0.681*** (0.172)	0.551*** (0.184)
D (Manufacturing)	0.692** (0.280)	0.642** (0.318)	0.103 (0.098)	0.103 (0.120)
Constant	−0.853* (0.437)	−2.140*** (0.439)	−1.250*** (0.191)	−1.705*** (0.176)
Observations	335	333	15,944	15,888
Wald $Chi^2(11)$	18.13*	38.66***	95.72***	104.82***
Pseudo R^2	0.07	0.19	0.08	0.12

Source: Staff calculations using World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Note: Robust standard errors are in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Stratification weights are applied to correct for economy sectoral structure in all specifications.

Finally, an analysis of the impact of R&D investment and innovation on firm productivity in Albania reveals that only the former is associated with higher levels of labor productivity. Neither product nor process innovation is correlated with increased log sales per worker (Table 3.4). Small and medium firms tend to be more productive than large firms, and the average length of top managers' work experience is positively and significantly associated with firm productivity. Albanian manufacturing firms tend to be significantly less productive than services firms, and an analysis using subsector dummies shows that wholesale and retail traders are the most productive services firms, while wood and furniture manufacturers are the most productive manufacturing firms. Some forms of high-tech manufacturing, such as the automotive, machinery, electronics, and chemicals industries, display relatively high productivity levels but include too few sampled firms to test for significance. Most manufacturing firms (99 out of 146) are in low-tech, low-productivity subsectors such as food, textiles, garments, and leather.

TABLE 3.4. EFFECTS OF INNOVATION ON LABOR PRODUCTIVITY: OLS ESTIMATIONS FOR ALBANIA, ALL FIRMS

	ALBANIA 2019 (ALL FIRMS)		
	Log sales per worker		
Observed product innovation	0.231 (0.198)	—	—
Observed process innovation	—	0.300 (0.212)	—
D (R&D)	—	—	0.950** (0.381)
Age (years)	0.002 (0.017)	−0.001 (0.016)	−0.001 (0.017)
D (Small)	0.669* (0.347)	0.689** (0.343)	0.677** (0.340)
D (Medium)	0.525 (0.322)	0.549* (0.317)	0.594* (0.313)
D (Foreign owned)	0.073 (0.264)	0.100 (0.250)	0.219 (0.247)
D (Exporter)	−0.031 (0.263)	−0.078 (0.240)	−0.224 (0.229)
Years of experience of top manager	0.024* (0.013)	0.024** (0.012)	0.027** (0.013)
D (Manufacturing)	−1.047*** (0.178)	−1.032*** (0.184)	−0.981*** (0.441)
Number of observations	355	353	353
F statistic	6.68***	5.71***	6.00***
R-squared	0.15	0.15	0.15

Source: Staff calculations using World Bank Enterprise Surveys, http://www.enterprisesurveys.org.
Note: Robust standard errors are in parentheses. Significance level: * = 10%, ** = 5%, *** = 1%. Stratification weights are applied to correct for economy sectoral structure in all specifications.

3.9 INDUSTRY COLLABORATION, PATENTS, AND CERTIFICATIONS

According to the Institute of Statistics of Albania (INSTAT), fewer than one-third of innovative firms collaborate with industry partners or R&D organizations. The share is slightly higher (37 percent) among firms with 250 or more employees.[30] The number of public-private co-publications is estimated at about 0.35 per million people, though this figure dates from 2013. Other indicators of industry involvement in innovation, such as patent applications, also show low levels of activity, with just 10 trademark applications filed in 2018, one design application in 2016, and 15 patent applications to the World Intellectual Property Organization in 2018.[31]

The increasing use of international standards certification by Albanian firms is a positive trend. Albanian businesses have significantly increased their number of International Standards Organization (ISO) certifications over the past two decades. Certifications in quality management (ISO 9001) are the most widespread, followed by certifications in environmental management (ISO 14001), ICT and information security (ISO 27001), food safety (ISO 22000), occupational health and safety (ISO 45001), medical devices (ISO 13485), and energy management (ISO 50001). The rising number of certifications demonstrates the commitment of firm managers to strengthening international competitiveness through better standardization and presents an opportunity for development partners to work with firm management teams to improve innovation capabilities.

Albania ranked 83rd out of 131 countries in the 2020 Global Innovation Index (GII) and held the lowest position (39th) among European economies. As described above, Albania produces little innovation output relative to its level of innovation investment, suggesting that the few resources allocated to R&D are also inefficiently spent. When comparing Albania to upper-middle-income countries and Europe, its relative weaknesses are most acute in the "knowledge and technology outputs" and "human capital and research" pillars of the GII, while the indicators for "institutional strength," "infrastructure," and "market sophistication" are all closer to the frontier.[32]

Gaps in the Entrepreneurship Ecosystem

Around the world, data on innovation-oriented startups are scarce due to methodological limitations, and in Albania such data have not been systematically collected. In 2019, the EU commissioned a qualitative study describing some aspects of Albania's nascent entrepreneurship ecosystem, which is composed of the various interdependent organizations and individuals involved in entrepreneurship, including company founders, investors, suppliers, customers, and academic institutions. This analysis identified weak support for startups beyond the ideation stage but highlighted Albania's potential to emerge as a hub for ICT startups due to its young, multilingual population with strong entrepreneurial ambitions. The analysis also indicated significant potential for government stimulation of innovative startup activity through incubation and funding plans. As in other countries in the region, company founders report constraints on access to early-stage financing, although South Central Ventures, a venture-capital fund supported in part by the European Commission (EC), has operated in Balkan countries, including Albania, for the past five years.[33]

Indicators and Data Availability

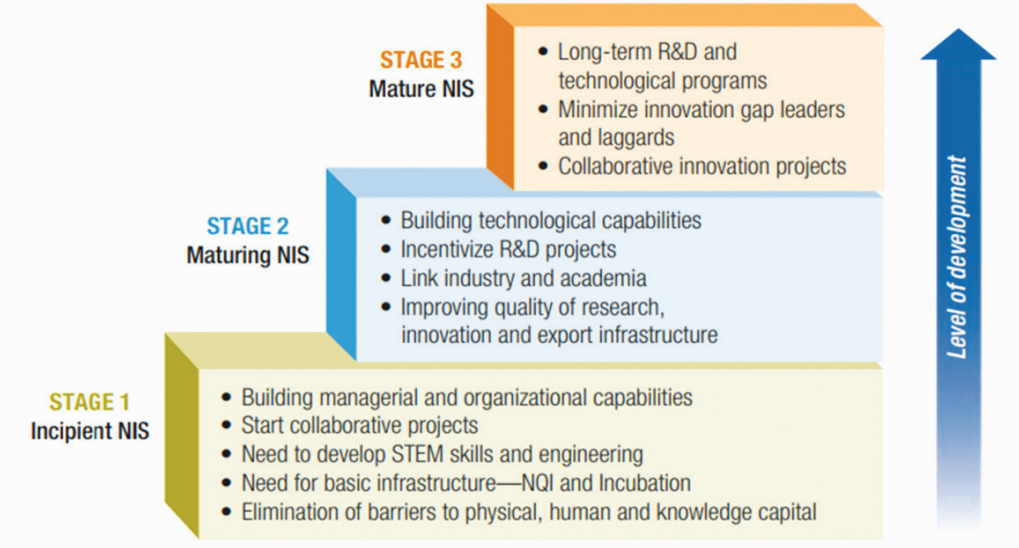
Most standard sources of innovation indicators, including the European Innovation Scoreboard, the GII, the World Intellectual Property Organization, and United Nations Educational, Scientific and Cultural Organization (UNESCO) databases, lack key data for Albania. Although such data appear to have been collected as recently as 2017 and 2019 in the biennial innovation surveys conducted by the INSTAT, they have not yet been made available. Where reliable information is available, it indicates generally low levels of innovation. However, some indicators, such as the number of international certifications, as well as some of the strategic work done by the government and the qualitative study commissioned by the EU, show a willingness across economic sectors to accelerate innovation and begin the transition to a more innovation-driven growth model. Enabling this transition will require completing the development of a holistic R&D investment and innovation strategy, as well as the implementation of firm-based innovation support, measures to encourage the retention of highly skilled talent, and efforts to engage the Albanian diaspora in collaborative scientific research

3.10 CONCLUSIONS AND RECOMMENDATIONS

The analysis presented above underpins policy recommendations in four main areas. The first area is R&D spending. Albania's current level of R&D spending, both public and private, is far below the averages for peer economies, and the weak link between R&D investment and innovation suggests that existing resources are not being spent effectively. The authorities should take steps to increase the amount of gross R&D spending while enhancing expenditure efficiency. The second area is the innovation ecosystem. Albania must strengthen the policy framework supporting research commercialization and collaboration between science and industry—for example, by clarifying the ownership of publicly funded research. The authorities must also improve the performance of public universities and research institutions by implementing results-based management while enhancing governance and promoting new areas of specialization. The third area is innovation incentives. The government should review the tax breaks and other policies designed to encourage firm-level R&D investment and refocus incentives on early-stage financing, including matching grants for startups. The fourth area is information management. Albania's R&D and innovation data are limited and out of date. Improving data collection and increasing the frequency of publication will be crucial to support the design and implementation of effective innovation policies.

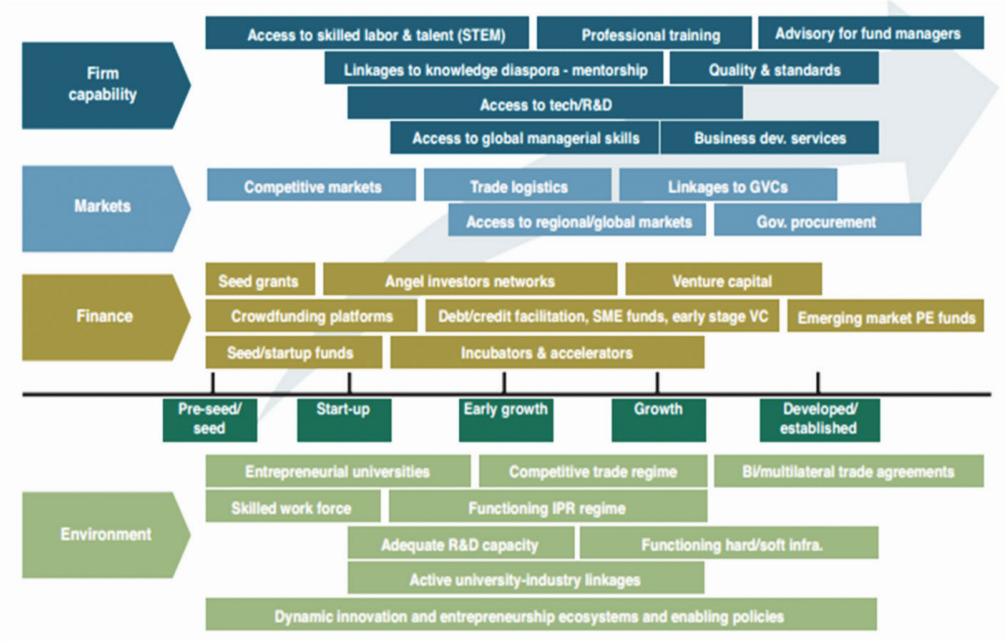
At present, Albania's national innovation system is between the first and second of the three stages described in the Practitioners Guide to Innovation Policy.[34] Albania's placement reflects the low quantity and quality of R&D spending, the low rate of patent applications, and the weak link between R&D spending and the creation of new commercial products and services (Figure 3.26). In addition, Albanian manufacturing remains concentrated in low-value-added subsectors such as food, textiles, and apparel, underscoring the importance of firm-level innovation to enable the growth of more sophisticated subsectors capable of insulating the economy against external shocks and preserving Albania's competitiveness as wage rates rise (Figure 3.27).

FIGURE 3.26. APPROPRIATE POLICIES AT DIFFERENT STAGES OF INNOVATION CAPABILITY



Source: Cirera, Xavier; Maloney, William F. 2017, The Innovation Paradox: Developing-Country Capabilities and the Unrealized Potential of Technological Catch-Up. Washington DC: World Bank. (Figure 7.2 The Capabilities Escalator: Innovation Policy Needs on page 148)
Notes: NIS = National Innovation system; NQI = national quality infrastructure; R7D = research and development; STEM = science, technology, engineering, and mathematics

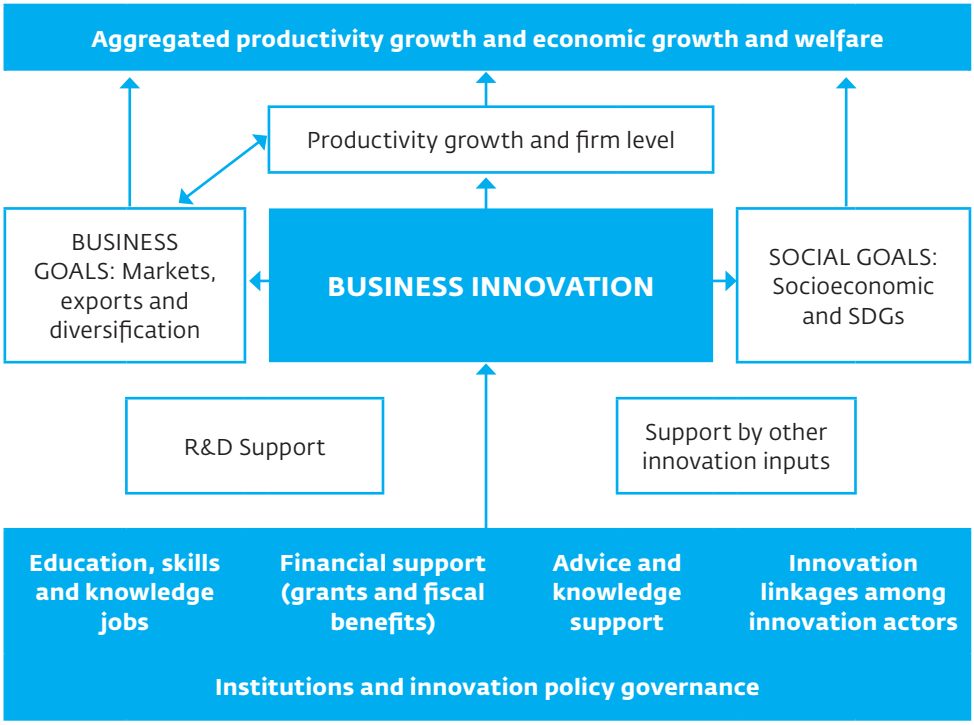
FIGURE 3.27. A FIRM-LIFECYCLE FRAMEWORK TO STRUCTURE THE POLICY MIX



Source: Cirera, Xavier; Frias, Jaime; Hill, Justin; Li, Yanchao. 2020, A Practitioner's Guide to Innovation Policy: Instruments to Build Firm Capabilities and Accelerate Technological Catch-Up in Developing Countries. World Bank, Washington DC. (Figure 3.3, Firm Life-Cycle Framework to Structure the Policy Mix, page 77)
Notes: GVCs = Global value chains; IPR = intellectual property rights; PE = private equity; R7D = research and devlopment; SME = small and medium enterprise; STEM = science, technology, engineering, and mathematics; VC = venture capital.

Given the government's limited resources and the vast gap between private R&D spending by Albania and by regional peers, policy makers must encourage firms to step up their innovation investments. Firm-level innovation should be at the core of the government's innovation strategy and policy, as it has critical implications for national economic and social development objectives (Figure 3.28). The government can promote firm-level innovation by improving the quality and quantity of R&D while adopting complementary policies targeting education and workforce skills, access to finance, business-support services, and international collaboration.

FIGURE 3.28. A POLICY FRAMEWORK FOR PROMOTING FIRM-LEVEL INNOVATION IN ALBANIA



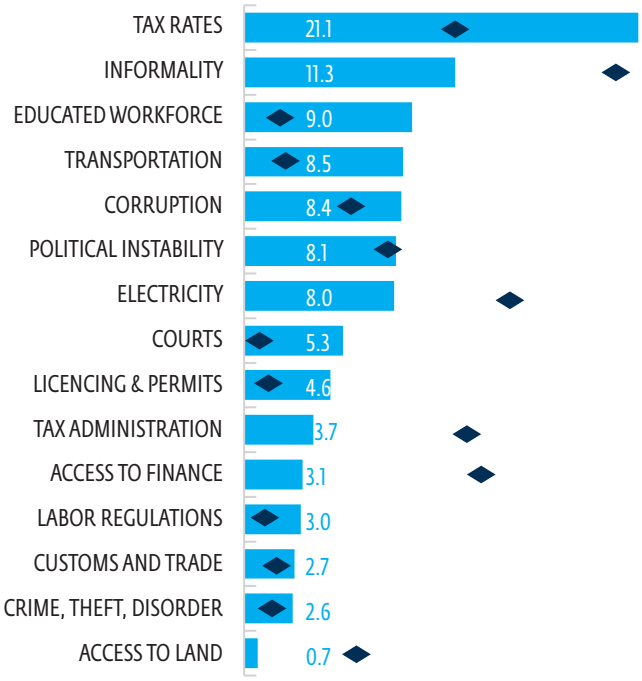
Source: Rubalcaba, Luis; Slavova, Stefka, and Mariana Iootty De Paiva Dias (2021), World Bank report
Notes: R&D = Research and development; SDGs = sustainable development goals.

4. CROSS-CUTTING CONSTRAINTS ON PRIVATE SECTOR DEVELOPMENT

In recent years, the government has taken important steps to improve the business climate, but uneven regulatory enforcement and burdensome compliance processes inhibit the development of the private sector. The government has simplified licensing procedures, encouraged the formalization of firms, improved access to land, established alternative dispute-resolution mechanisms, and enhanced the quality of infrastructure and public services, particularly in the energy sector.

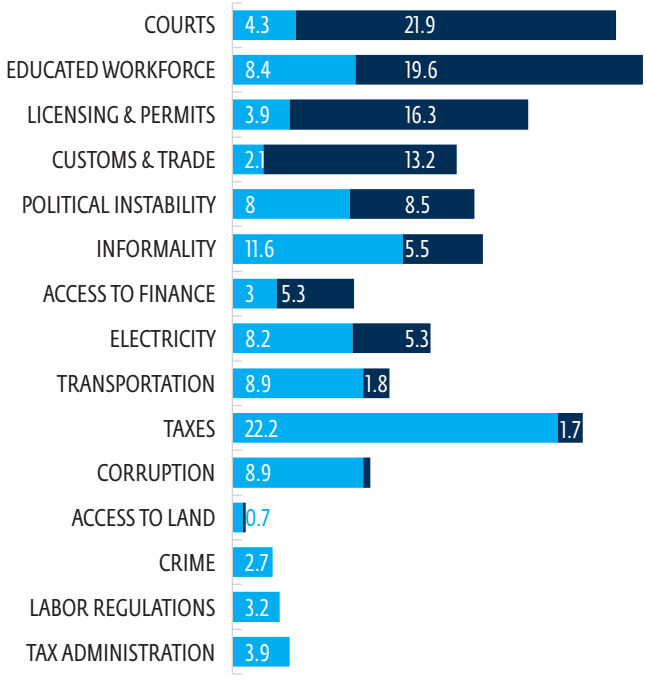
Albanian firms cite a high tax burden, widespread informality, and an inadequate supply of skilled workers as their biggest constraints to the development of businesses. In the 2019 World Bank Enterprise Surveys (ES), 21 percent of respondent firms identified tax rates as the greatest obstacle to expand businesses; another 11 percent rated informality as their most important challenge, though this share has declined in recent years; and 9 percent pointed to a shortage of skilled workers (Figure 4.1). The 2019 ES also revealed apparent improvements in the electricity supply, tax administration, access to finance, and access to urban land, as the share of firms citing these as their greatest constraints was lower than in the ES undertaken in 2013. However, the ES register the perceived importance of different obstacles relative to one another, so a decline in the share of firms citing one constraint instead of another could reflect a worsening of the latter rather than an improvement in the former. Importantly, firm perceptions vary with the type of ownership: foreign firms regard the functioning of courts, the shortage of skilled workers, and burdensome licensing and customs procedures as the biggest constraints they face in Albania, while domestic firms are far more likely to cite a high tax burden, competition from informal firms, transportation infrastructure, and corruption as the main constraints to growth their businesses (Figure 4.2).

FIGURE 4.1. MOST IMPORTANT CONSTRAINTS CITED BY ALL FIRMS IN ALBANIA, 2013–19, % OF RESPONDENTS



Source: World Bank Enterprise Surveys, 2013 and 2019

FIGURE 4.2. MOST IMPORTANT CONSTRAINTS ON CITED BY DOMESTIC AND FOREIGN-OWNED FIRMS, 2019, % OF RESPONDENTS



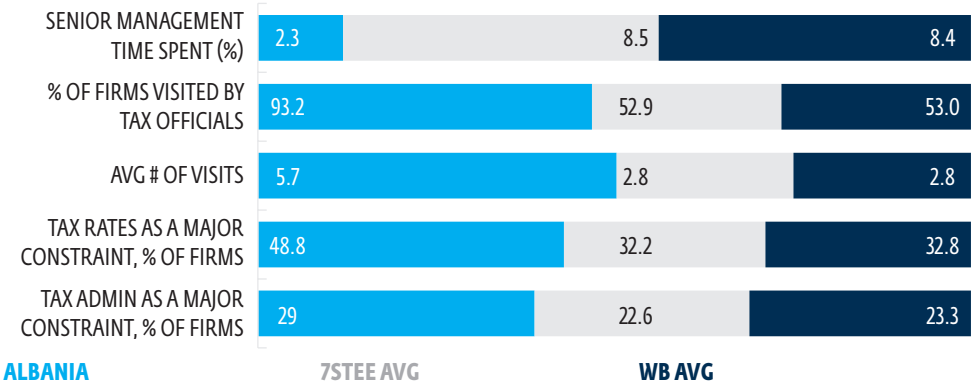
Source: World Bank Enterprise Surveys, 2019

4.1 TAX ADMINISTRATION

Recent reforms in tax administration appear to be yielding positive results. The General Directorate of Taxes (GDT) is gradually shifting its taxpayer oversight approach toward risk-based compliance, including its internal reorganization, the issuance of manuals, and the introduction of digital tools (electronic services and telephone contact and online tax payments) that are expected to reduce the administrative burden for taxpayers and possibilities of corruption. Enhancements in the skills of tax auditors and initiatives to deal systemically with integrity related issues are improving the relationship between the tax authority and taxpayers. The 2019–2020 AmCham Business Climate Index confirms that firms perceive their relations with tax authorities to be improving, with 54 percent of firms rating their interactions with the tax authorities as good or very good. While the share of firms citing tax administration as a major constraint is still high (29 percent), the share citing tax administration as their greatest constraint fell from 12 percent in 2013 to 3.7 percent.

However, onerous tax administration is still perceived to be a serious constraint on firms. Many firms report that excessive visits by tax officials or required meetings with tax authorities still impose a significant burden. The large number of visits by tax officials may be due in part to a business-formalization campaign, which stepped up tax audits and increased penalties for noncompliance. Nevertheless, while it is being adopted gradually, Albania still lacks a framework for managing compliance risks, which necessitates intensive face-to-face interactions between taxpayers and authorities. The 2019 ES found (Figure 4.3) that 93 percent of respondent firms had been visited by tax officials, which strongly suggests that visits are not based on compliance-risk profiling and that the audit process is weak. The administrative burden appears to be especially high for small firms: 96 percent of small firms reported being visited by a tax official, and an average of six visits or meetings was necessary to achieve compliance. In addition to the administrative cost of dealing with the tax authorities, the excessive number of visits and meetings also creates opportunities for corruption, which undermines taxpayer confidence and increases the risk of noncompliance. Meanwhile, the high frequency of audits reflects the complexity of the tax system and the proliferation of tax incentives, exemptions, and special regimes. Albania requires 35 tax payments per year, the highest number in the region and more than twice the regional average of 14.

FIGURE 4.3. FIRMS' EXPERIENCE WITH TAXES AND TAX ADMINISTRATION, ALBANIA, 2019



Source: World Bank, Enterprise Surveys, 2019

Notes: Avg = average; 7STEE = seven small transitional economies of Europe and include Bulgaria, Croatia, Estonia, Latvia, Lithuania, Slovak Republic, and Slovenia; WB = Western Balcans and include Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia.

Firms also perceive that high tax rates also represent a serious constraint to their businesses as one of the most important constraints to their development. Almost half of the firms surveyed in the ES mentioned the high tax burden as a major challenge, and 21 percent cited tax rates as their biggest constraint. These results are in line with other benchmark indicators. The Global Competitiveness Report, which ranked Albania 113th out of 141 countries, found that distortive taxes and subsidies are a major cause of its low competitiveness. The 2019–2020 AmCham Business Climate Index confirmed the negative perception of tax rates, with 57 percent of firms indicating that taxes in 2019 had been very unfavorable for their businesses.

The worsening of firms' perception regarding taxation is also related to the substantial increase of the tax burden paid by firms observed in recent years. As part of the government's fiscal consolidation effort launched in 2013, tax revenues rose from 22 percent of GDP in 2013 to 25.5 percent in 2019, driven by an increase in taxes paid by firms. Corporate Income Tax (CIT) collection rose from 1 percent of GDP to 2.2 percent over the period, while social contributions rose from 4.4 percent to 6 percent.[35] These increases in the collection of CIT and social contributions may be the result of the formalization campaign launched in 2015 that regularized the situation of firms and employees, broadening the collection base of these two taxes.. Recent enhancements in tax administration and taxpayers' oversight have also contributed to the increase in tax collection.

Like other Western Balkans (WB) countries, Albania applies relatively low CIT rates. At 15 percent, the statutory CIT rate is above WB regional average but well below the Organisation for Economic Co-operation and Development (OECD) average of 23 percent. As noted above, foreign firms operating in Albania are far less likely than domestic firms to regard tax rates as an important constraint on firms. Moreover, due to Albania's generous tax incentives, effective rates are even lower: Albania offers reduced CIT rates for small and medium firms (5 percent and 10 percent, respectively) and specific sectors (5 percent for ICT, automotive, and agribusiness firms), as well as tax exemptions and tax holidays for specific activities (for example, a 10-year tax holiday for hotels). At 20 percent, Albania's value-added tax (VAT) rate is higher than those of neighboring countries and just above the OECD average of 19.3 percent. As with the CIT, VAT exemptions, thresholds, and differentiated rates narrow the tax base and distribute the tax burden unevenly among firms and economic activities. Moreover, long delays in processing VAT refunds adversely affect firms' cashflow.

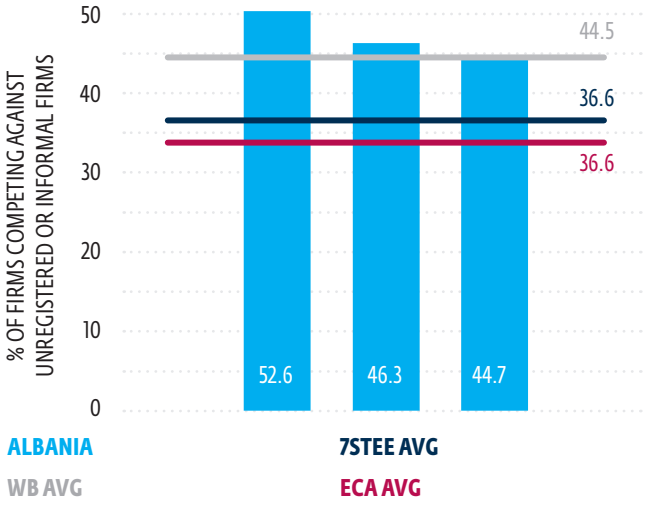
4.2 INFORMALITY

Despite recent efforts to promote formalization, informality remains widespread among Albanian firms. In 2015, the Albanian government launched a nationwide campaign to enforce business registration, reduce tax evasion, and register employees in the social security system. Improvements in labor inspection regulations adopted in 2016 and 2017 and a new information system that allows registering the results of labor inspections in real time are expected to reduce labor informality and salary underreporting. Improvements in detection systems were supported by data sharing efforts among the government agencies dealing with the issue (tax administration, social insurance, and national employment service). The campaign resulted in a substantial increase of registered firms (more than 35 percent between 2014 and 2016), while the share of informal employment dropped from 50 percent in 2014 to 36 percent in 2019, However, informality is still widespread. Estimates by the International Monetary Fund (2017)[36], indicate that Albania's informal economy generates about one-third of its GDP, almost twice the European average.

Informality is associated with poor economic, fiscal, institutional, and developmental outcomes. Productivity in the informal sector tends to be low, as informal firms often rely on labor-intensive production models and outdated technologies. Informality is especially prevalent in the services sector, and informal service firms frequently employ less educated workers at low wages. Informality also distorts competition, as informal firms may choose to remain small to avoid taxation and burdensome government regulations. Noncompliance with taxes and regulations creates cost advantages for informal firms, which may allow them to stay in business even if they are not very productive. However, informal firms often have less access to credit, government support programs, and social benefits, which are particularly important during the COVID-19 crisis.

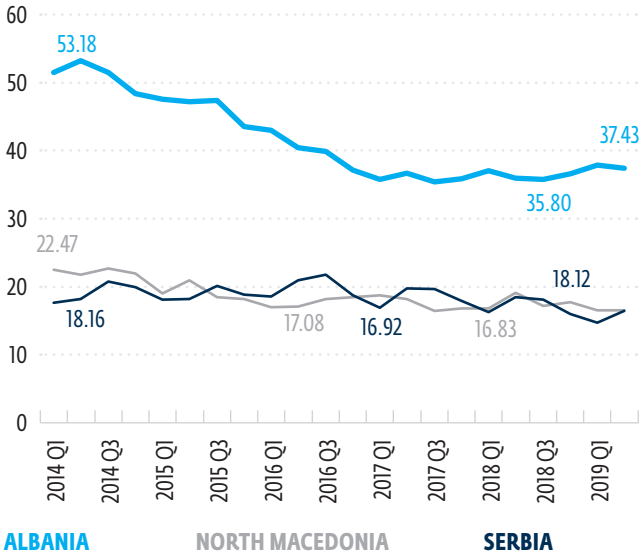
Albanian firms cite informality as the second most important obstacle for their businesses. More than 37 percent of respondent firms identified informality as a major challenge, and 45 percent described facing competition from unregistered or informal firms (Figure 4.4). However, the share of firms that regard informality as their most important constraint declined substantially from 20 percent in 2013 to 11 percent in 2019, and the share of firms that were formally registered when they began their operations increased from 92 percent in 2013 to 98 percent in 2019. These improvements are likely due to the formalization campaign launched in 2015. Informality appears to disproportionately affect small and medium firms, domestic firms, and firms in northern Albania. Just 27 percent of foreign-owned firms reported competing against unregistered or informal firms, versus 46 percent of domestic firms. Almost half of firms in northern Albania report facing informal competition, compared to just over one-third in central Albania and fewer than one-quarter in southern Albania.

FIGURE 4.4. SHARE OF FIRMS THAT REPORT COMPETING AGAINST UNREGISTERED OR INFORMAL FIRMS, ALBANIA AND COMPARATOR GROUPS, 2019



Source: World Bank, Enterprise Surveys, 2013 and 2019.
Notes: 7STEE = seven small transitional economies of Europe and include Bulgaria, Croatia, Estonia, Latvia, Lithuania, Slovak Republic, and Slovenia; WB = Western Balcans and include Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia; ECA (Europe and Central Asia)[37]

FIGURE 4.5. INFORMAL EMPLOYMENT AS A SHARE OF TOTAL EMPLOYMENT, ALBANIA AND COMPARATORS, 2014–19



Source: SEE Jobs Gateway Database, based on data provided by national statistical offices and Eurostat.

Despite improvements in recent years, informal employment remains common in Albania. While labor informality fell substantially in the last years, 36 percent of employees are still unregistered, a proportion well above those observed among regional peers: for example, informal employment represents about 18 percent of total employment in both North Macedonia and Serbia (Figure 4.5). Informal workers have limited access to social protection, inadequate contracts, and lower wages than their formal counterparts, and they are highly vulnerable to poverty during periods of unemployment or in retirement. While the tax wedge is not particularly high from an international perspective, social security and health insurance contributions paid by employers and employees may prevent a stronger formalization of employment, especially for small firms and self-employed workers. Albania also imposes a minimum social contribution that disproportionately penalizes self-employed low-wage workers, which likely contributes to the high incidence of informality among these groups. High levels of informality may also reduce workers' access to training, exacerbating skills shortages. Household surveys show that around 40 percent of employees do not have written contracts and 30 percent do not pay social security contributions while almost 20 percent of employees underreport their remuneration in their contracts and social security contributions.[38]

4.3 SHORTAGE OF SKILLED WORKERS

Albanian firms identify a lack of skilled workers as the third-biggest obstacle they face. Demand for highly educated workers has increased over the past decade, and a growing share of firms reported having difficulty finding workers with specific technical skills and knowledge. In 2013, 6 percent of firms that participated in the Enterprise Surveys identified a lack of skilled workers as a major constraint on business development, and just 2 percent described it as their most important constraint; by 2019, these shares had risen to 25 percent and 9 percent, respectively. Moreover, among firms surveyed for the 2019–2020 AmCham Business Climate Index, 74 percent reported that finding skilled workers was either difficult or very difficult. The AmCham indicator for workforce skills deteriorated steadily between 2013 and 2019, falling from 36.5 out of 100 to 27.1 out of 100. Of the 27 concerns covered in the survey, Albanian AmCham members rated the lack of skilled workers as the third most important.

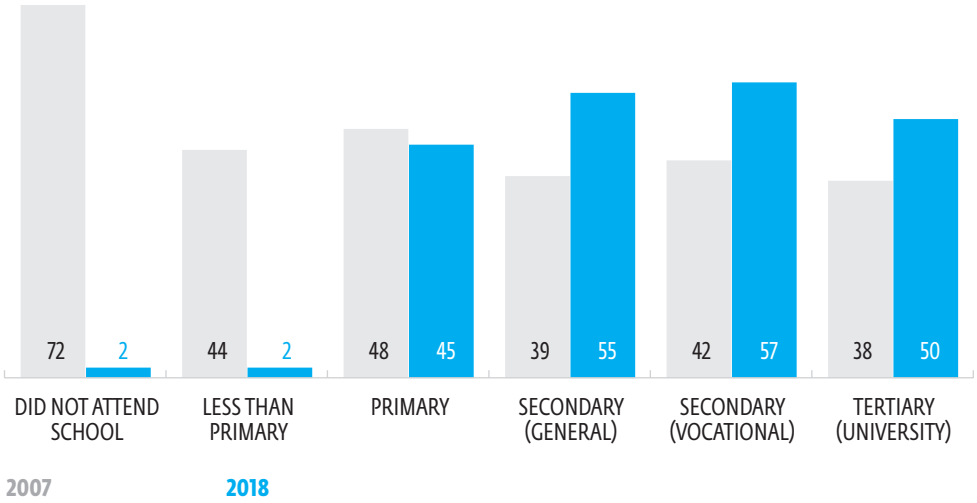
The skills gap is most acute among young people and workers entering the labor market for the first time. The 2017 Skills Towards Employment and Productivity Employer Survey (STEP) detailed the challenges faced by job applicants who lack the skills and work experience demanded by employers. Despite young people having higher levels of education than older generations, they face difficulties in entering in the labor market. At 28 percent, the unemployment rate among young people is twice the average for the working-age population. Moreover, a large share of young Albanians are neither employed nor enrolled in education and training. The low quality of education seems to an obstacle for accessing jobs for the young population. In fact, the weak performance of Albanian students in Program for International Student Assessment tests indicate quality problems even in basic skills such as literacy. Employers find that young graduates from the general education system (typically those who qualify for higher-skilled jobs) lack up-to-date knowledge and practical skills (World Bank, 2018)[39].

Firms report having difficulty finding workers for highly skilled occupations. More sophisticated and dynamic firms were more likely to report challenges in recruiting high-skilled workers. According to the STEP survey, more than half of firms that were hiring technicians reported a lack of candidates with the required skills and work experience as their most important recruiting problem. Hiring is reportedly much easier for lower- and medium-skilled occupations in construction, crafts, trades, and similar jobs. These findings suggest that skills constraints may be holding back employment creation in Albania, especially for high-quality, high-productivity jobs.

Shortages of skilled workers are an especially serious constraint for foreign-owned firms. Foreign-owned firms operating in Albania identified finding skilled workers as their second most important challenge. Emigration is likely diminishing the availability and quality of workforce skills, weakening Albania's attractiveness as a destination for FDI in labor-intensive sectors. The decline in FDI inflows in the decade following the global financial crisis, particularly investment in high-productivity sectors, underscores the importance of reassessing the country's investment-promotion strategies. Going forward, Albania must move away from FDI policies focusing on low-cost labor and adopt a new strategy based on leveraging public investment in technical education to attract efficiency-seeking FDI.

The large outflow of Albanian workers to the EU and other countries, combined with low labor-market participation rates, reduces the availability of skilled labor and restricts human capital accumulation and productivity growth. Between 2007 and 2018, the share of the population expressing a desire to emigrate rose from 44.2 percent to 52 percent (Figure 4.8).[40] Emigration results in a loss of many of Albania's most productive and entrepreneurial workers, and the disproportionate emigration of younger workers accelerates the demographic aging of the labor force.

FIGURE 4.6. EDUCATION LEVEL AND EXPRESSED DESIRE TO EMIGRATE, ALBANIA, 2007 AND 2018



Source: Center for Economic and Social Studies, Potential Migration Survey, 2007 and 2018.

In 2007, Albanians with the lowest levels of educational attainment were the most likely to express a desire to emigrate, but by 2018 the desire to emigrate was most common among those with secondary, vocational, and tertiary (university) education. Changes in the range of destination countries accompanied this shift. In 2007, Albanian emigrants were mainly bound for Greece and Italy, where less-educated workers could find low-skilled jobs, often in the informal sector. By 2018, highly educated Albanians intended to migrate mainly to Germany, elsewhere in Western Europe, and North America—sophisticated economies with persistent demands for skilled workers. In addition, the expressed desire to emigrate now peaks among the 27–30 age cohort, suggesting that emigration will continue to alter Albania's demographic structure. Meanwhile, significant remittance inflows are discouraging labor-force participation among the remaining workers by increasing reservation wages.

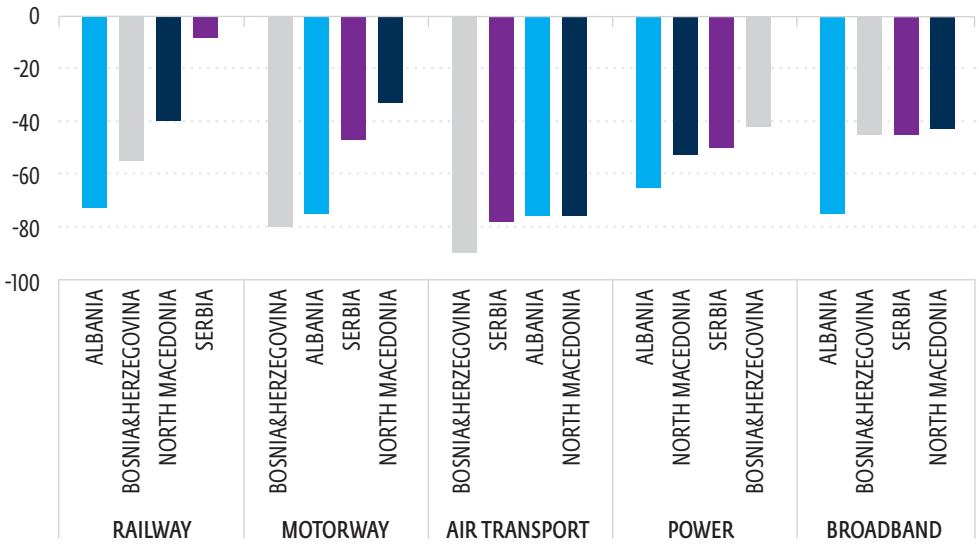
To address the lack of skilled workers, many Albanian firms provide on-the-job training. Almost half the firms surveyed in the 2019 ES reported providing workforce training, well above the WB6 average of 30 percent and the 7STEE average of 36 percent, yet the share of workers that reported being offered formal training was relatively low at 42.2 percent, well below the 7STEE average of 51.2 percent. Just 41 of small firms offer training, compared to 70 percent of large firms, underscoring the importance of policies to support workforce training, which could disproportionately benefit small firms. These results are compatible with the findings of the 2018 STEP survey, which indicated that most firms are generally satisfied with the skills of their current employees and can provide on-the-job training.

Skills gaps reflect the low quality of the general education system, the lack of integration between employers and vocational training providers, and the limited participation of the private sector in the design of educational policies and vocational training programs. Improving the quality of technical and vocational education and training (TVET) for both younger and older workers was among the main objectives of Albania's 2014–2020 National Employment and Skills Strategy, and the approval of the new TVET law in 2017 is expected to strengthen the link between education, training, and labor-market demand. Moreover, the establishment of a tracer system for TVET graduates and certificated trainees will provide insight into their labor-market outcomes. While Albania has taken important steps to align its TVET system with European requirements, it is still far from best practices. TVET programs are small in scale and do not provide core transversal skills, specific technical skills demanded by employers, and practical work experience. The limited demand-responsiveness of the vocational training system is the result of the lack of partnerships between employers' associations and TVET providers, as well as formal educational institutions more broadly.

4.4 INFRASTRUCTURE GAPS

Albania's infrastructure gap with the regional and EU averages remains large. The International Monetary Fund's (IMF) 2017 composite public infrastructure index estimated the infrastructure gap between Albania and the EU average at 70–80 percent, and Albania ranked 110th out of 160 countries worldwide on indicators of infrastructure adequacy. The extent, density and quality of Albania's road and railway networks, electricity supply, and broadband internet access are below the levels of most Western Balkan peers (Figure 4.7).

FIGURE 4.7. INFRASTRUCTURE GAPS IN THE WESTERN BALKANS EXPRESSED AS DISTANCE FROM THE EU AVERAGE, PERCENT



Source: International Monetary Fund (IMF), 2018. Public Infrastructure in the Western Balkans: A Highway to Higher Income.

Despite recent improvements in the energy sector, firms continue to regard the electricity supply as a major challenge. Since 2015, the government implemented an ambitious reform agenda to improve the performance of the sector, increase service quality, strengthen the governance of state-owned enterprises, and reduce exposure to hydrologic risks. Due to these efforts, electricity losses fell from 47 percent in 2012 to 24 percent in 2019, the average number of outages per month dropped from 4.2 in 2012 to 1.5 in 2019, and the average duration of outages declined from 1.7 hours to 0.36. As a result, the share of firms that report using their own generators fell from 53 percent to 49 percent, and losses due to electrical outages dropped from 2.7 percent of annual sales to 1 percent. The share of firms that regard an unreliable electricity supply as their biggest constraint fell from 14 percent in 2013 to 8 percent in 2019.

Nevertheless, the affordability and reliability of electricity supply remain important challenges. Albania's recent economic growth has not been accompanied by commensurate increases in domestic generation capacity, and the electricity sector relies on expensive energy imports to meet demand, which weaken the financial performance the state-owned electricity utilities and undermine their investment capacity. The excessive number of procedures, the high cost of connecting to the distribution grid, and the reliability and transparency of tariff rates remain problematic.

An undiversified energy matrix that relies heavily on hydropower increases the vulnerability of the energy supply to weather-related shocks and intensifies financial risks to the government. Due to its reliance on both hydropower and agriculture, droughts have a strongly negative impact on Albania's GDP growth rate, electricity output, and fiscal and trade balances. Droughts compel the energy sector to pivot to expensive imported power, the additional cost of which is borne by the state-owned electricity utilities and, ultimately, by the government (Box 4.1 illustrates the experience of Uruguay in dealing with weather related shocks affecting the energy sector).

Accelerating progress on the reform agenda will be necessary to further improve the affordability and reliability of the energy supply. Pending reforms include the gradual deregulation of the electricity market; the establishment of an Albanian power exchange; the unbundling of the distribution system and its division between network operators and retail suppliers; and the establishment of transparent, cost-reflective tariffs at each level of activity. To strengthen the reliability of the electricity supply and attenuate hydrological risks, the sector will need to diversify into high-efficiency oil and gas more rapidly, as well as renewables such as solar and wind (see Box 4.1 on the experience of Uruguay which has a similar energy matrix as Albania).

BOX 4.1. MITIGATING THE IMPACT OF WEATHER-RELATED SHOCKS ON HYDROPOWER COSTS WHILE DIVERSIFYING THE ENERGY MATRIX: LESSONS FROM URUGUAY

Like Albania, Uruguay relies on hydropower to meet a large share of its energy needs, leaving it similarly vulnerable to droughts. In the last decade, hydropower represented about 70 percent of the Uruguayan electricity mix, though this share varied substantially depending on weather conditions. Inadequate rainfall regularly compelled Uruguay to turn to expensive thermal generation and power imports, which caused the same shocks to the fiscal and trade balances experienced by Albania. To mitigate the impact of electricity-price volatility on firms and households, the government implemented a tariff-smoothing policy under which electricity tariffs reflected average medium-term generation costs, and deviations from the average were absorbed through government transfers. As in Albania, this policy transferred the volatility of energy prices to the public budget.

To address the fiscal impact of its tariff-smoothing policy, the government created a single-purpose fund to mitigate the budgetary impact of hydropower deficits. The fund operates as both a risk-management and fiscal-stabilization instrument. When favorable weather conditions push electricity-generation costs below the average tariff rate, the fund accumulates resources; when unfavorable conditions cause generating costs to rise, drawdowns from the fund limit the impact on the budget. The fund plays a key role in sustaining the price-smoothing policy while protecting the fiscal accounts from weather-related shocks.

Meanwhile, a combination of public and private investments in the energy sector have steadily increased the contribution of other forms of inexpensive renewable and conventional energy, gradually attenuating Uruguay's dependence on hydropower. The authorities aim to have a more balanced electricity matrix, with a smaller share of hydropower and a larger share of inexpensive, efficient thermal generation and renewables such as wind and biomass. However, diversifying the electricity matrix is a slow process, and in the meantime the single-purpose stabilization fund has played a critical role in mitigating fiscal volatility.

Source: World Bank. 2014. "Uruguay Drought Events' Impact Mitigating Investment Project Financing." P149069 Program Document, World Bank, Washington DC, 2014.

In the 2019 ES, 11 percent of respondent firms cited weaknesses in the transportation system as a major constraint, and 9 percent identified inadequate transportation as their most critical obstacle for the growth of their businesses. Spending on the road network averaged 1.5 percent of GDP over the last five years, but although significant investment in road expansion and maintenance yielded improvements in the extent and quality of the national network, Albania still ranked 115th out of 140 countries in terms of road connectivity in the 2018 Global Competitiveness Index (GCI). The length of the road network is 18,500 kilometers, including 4,000 kilometers of national roads, 4,500 kilometers of regional roads, and 7,500 kilometers of local and rural roads. While most public investments have focused on expanding the national road network, the share of the budget spent on upgrading and maintaining national roads has increased in recent years. As a result, the overall quality of national roads has improved: the number of kilometers in "good" or "very good" condition increased from 35 percent of total network in 2014 to 60 percent in 2018. Road safety has also improved, and travel times for road users have declined. However, continued underinvestment in regional and local and rural roads has contributed to the generally poor condition of the road network.

By the standards of the WB6, Albanian railways perform extremely poorly in terms of efficiency, service quality, and infrastructure. In the 2018 GCI, Albania ranked 136th out of 140 countries in terms of the efficiency of rail services and 105th in terms of the quality of railroad infrastructure. The Albanian railway system is caught in a vicious cycle of underinvestment and falling demand. The railway sector accounts for just 0.5 percent of the general government budget total transportation expenditures or 0.03 percent of GDP. Freight and passenger traffic have both fallen steadily over the last 20 years, and Albania's passenger and freight traffic levels are the lowest in the region. With 440 kilometers of single track, Albania's railway network is one of the smallest in the WB6, and at about 95 million tons per route-kilometer, its freight-traffic density is just 7 percent of the EU average. However, railways could play a critical role in the national logistics system by linking Albania's ports on the Adriatic and Ionian Seas and by connecting Albania with Bulgaria, Montenegro, and North Macedonia, as well as Italy via the port of Durrës.

Air connectivity is also limited. Albania ranked 102nd out of 140 countries in terms of air connectivity in the 2018 GCI. The country has just one international airport, which limits the diversification of demand for tourism services. Albania's passenger traffic is low even when controlling for population and GDP per capita. The southern regions, which are driving distance from the Tirana International Airport, are over two hours (Vlora) and four hours (Saranda) away and can be longer due to the congestion of the main roads connecting the airport to these tourist destinations. The strong growth of Tirana airport's passenger traffic (annual growth of 9.3 percent between 2010 and 2019) suggests that there is a growing demand for airport services. Moreover, passenger flows from countries such as Denmark, France, Germany, and Spain to Tirana are heavily underrepresented, which indicate that poor air connectivity may be reducing the number of visitors from these countries.[41]

Albanian firms also cite inadequate water and sanitation services as a major challenge. More than 10 percent of firms reported that water and sanitation services were not sufficient to meet demand according to the 2018 GCI, far above the averages of 4 percent for the WB6 and 2 percent for the 7STEE. The average duration of water shortages is also longer than in peer countries. Average water supply continuity in Albania is 15.6 hours. While Albania has rich hydrological resources, the poor condition of its water infrastructure undermines the quality of water services. The water sector is a two-tiered decentralized system in which the national government is responsible for creating sectoral strategies and policies while local governments are responsible for service provision. The country's 61 water utilities are part of its local government units. The financial balances of these utilities are weak. Tariffs are the main source of financing for the sector, but they do not cover operational costs, and inadequate network maintenance and illegal connections result in large technical and commercial losses (up to 64.4 percent) that weaken the financial sustainability of service providers. Sanitation services are also insufficient in terms of both coverage and service quality. The National Water Supply and Sewerage Services Sector Strategy for 2019–2030 states that the poor financial viability of service provision and the lack of economies of scale at the local level make it difficult for water supply and sanitation companies to finance and implement large capital investments, which are instead financed by the central government and donors. According to the National Water Supply and Sewerage Master Plan 2011–2040, the sector's investment requirements total roughly US$6 billion. Nevertheless, the investment plan for the period 2020–2030 indicates that US$720 million is needed.

Narrowing Albania's vast infrastructure gap will require a combination of efficiency improvements in the public investment management (PIM) system and enhanced public-private partnerships (PPPs), especially in the transportation sector. High public debt levels and the successive fiscal shocks of the 2019 earthquake and the COVID-19 pandemic have sharply constrained the budgetary space for infrastructure spending. While the government has attempted to mobilize private capital through PPPs, the excessive use of PPPs in a context of limited transparency and weak institutional oversight has resulted in the accumulation of significant contingent liabilities. Most PPPs are engaged in large-scale energy and transportation projects, for which they typically receive price or volume guarantees. Most of the existing PPP contracts were granted via unsolicited proposals, and the absence of competitive procurement processes often barred the participation of foreign investors.

Recent PIM reforms and improvements to the regulatory framework for PPPs are expected to attenuate fiscal risks. During the restructuring of the Ministry of Finance and Economy in 2018, the government established a Fiscal Risk Unit to centrally manage fiscal risks arising from PPPs implemented by line ministries, but this unit still lacks the capacity to carry out its core functions. New PIM guidelines adopted in March 2018 aim to restrict the acceptance of unsolicited PPP offers, and the 2019 budget proposal included a list of approved PPPs. Despite these improvements, transparency concerning the use of PPPs remains limited (Box 4.2 provides details on the PPPs reform agenda). Albania's large infrastructure investment needs and a rising number of imperfectly regulated PPPs will require (a) the allocation of additional capital financing; (b) clear frameworks for administrative tariffs; and (c) improved institutional planning and oversight capacity in the public sector (see Box 4.2 for more details on recent government initiatives).

BOX 4.2. RECENT REFORMS TO THE PUBLIC-PRIVATE PARTNERSHIPS FRAMEWORK

Overall investment in Albania declined sharply following the 2008 global financial crisis. Before the crisis, Albania was among the few countries in the region to regularly invest more than one-quarter of its gross domestic product (GDP), driven by a surge in private investments. In the wake of the crisis, a sharp drop in foreign direct investment (FDI) inflows drove a decline in private investments, which fell by more than 6 percentage points of GDP from its precrisis peak level. Public investment remained stable at an average 5 percentage points of GDP in both the pre- and postcrisis periods.

As the expansionary fiscal policies of the postcrisis period narrowed the available fiscal space, the government increasingly turned to public-private partnerships (PPPs) to meet public service needs. This approach has resulted in large off-budget contingent liabilities. As of 2019, the total number of concession and PPP contracts reached 224, and their total value equaled 31 percent of GDP. Of these, 186 contracts, with a value amounting to 24 percent of GDP, were awarded to energy sector projects. The next-largest sector was transportation, with just 17 contracts representing 4 percent of GDP. While this highly skewed sectoral distribution of PPPs partly reflects the targets set by the international energy community for renewable-energy generation, it also suggests lack of a strategic prioritization to address Albania's infrastructure gaps and advance the government's development objectives.

A lack of strategic prioritization and the weak integration of PPP projects with national and sectoral strategies are also reflected in the fact that 75 percent of PPP contracts signed in 2012–18 were awarded through unsolicited proposals. Previously, the authorities were legally authorized to award bonuses of up to 10 percentage points of the contract value for companies submitting unsolicited proposals, and most PPPs were not subject to competitive tendering procedures. As a result, contracting procedures drifted away from the objective of maximizing value-for-money in public spending. In addition, existing PPPs have not been systematically monitored, and information on their performance has rarely been disclosed.

In 2019, the government enacted important amendments to Law no. 125/2013: On Concessions and Public Private Partnerships. Supported by the World Bank Group, the International Monetary Fund, and the European Union in line with Public-Private Infrastructure Advisory Facility guidelines, these amendments aim to strengthen the PPP selection process by eliminating the 10 percent bonus for unsolicited proposals and creating incentives for establishing PPPs in technology-intensive sectors. This reflects a major shift from a framework in which unsolicited PPP proposals were the norm to a framework in which unsolicited proposals are the exception. Given the increase in fiscal spending necessary to mitigate the impact of the pandemic, public debt levels are projected to increase sharply, making PPPs especially critical to advance public sector service objectives while crowding-in private capital. In this context, strengthening Albania's PPP framework will help ensure that investment projects are selected efficiently and effectively.

In addition to reforming the system for awarding contracts, the authorities have also made progress in improving public investment management (PIM) by strengthening the implementation and monitoring of PPPs. New PIM guidelines were adopted in March 2018 aim to restrict the use of unsolicited proposals. During a 2018 restructuring, the Ministry of Finance and Economy established a Fiscal Risk Unit to centrally manage fiscal risks posed by PPPs executed by line ministries. While this newly established unit still lacks sufficient capacity to monitor PPP risks, the number of contracts under review by the ministry's Concession Directorate has increased significantly since 2018.

The monitoring of concessions and PPP contracts has been expanded to include both financial and nonfinancial performance indicators for each contract. Government contracting authorities are empowered to hire outside experts, strengthening their capacity

to evaluate unsolicited proposals. In addition to monitoring, periodic reporting on the PPPs has been introduced with the publication, for the first time, of a Preliminary Report on Concessions and PPPs as part of the 2019 budget.

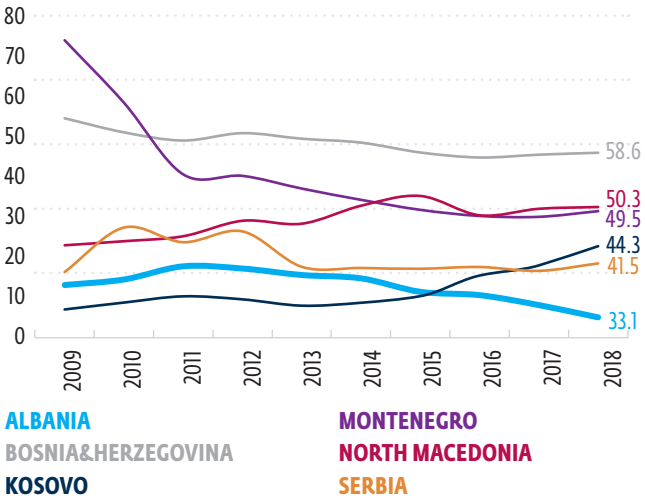
Source: World Bank staff based on a 2018 World Bank technical assistance report and the program document for the 2020 Albania Fiscal Sustainability and Growth Development Policy Financing.

4.5 ACCESS TO CREDIT

Albania has the lowest level of private credit penetration among its WB6 peers, and the country's financial sector is highly concentrated and dominated by foreign banks. In 2020, credit to the domestic private sector amounted to 39 percent of GDP, well below the WB6 average of over 50 percent (Figure 4.8). Financing gaps faced by Albanian Small and Medium Enterprises is also relatively higher than the observed in regional peers (Figure 4.9). Albania's financial sector ranked 104th out of 141 countries in the World Economic Forum's 2019 Global Competitiveness Report (GCR). Banks hold around 95 percent of all financial-system assets, and bank assets totaled 96 percent of GDP in 2019. As of end-2019, four banks making up around 29 percent of the banking system were domestically owned. In 2019, Albania also had 32 nonbank financial institutions and 14 savings and credit institutions, but they hold only a small fraction of financial-system assets (equal to 4.5 percent of GDP in 2019), and their financial activity is modest.[42] The Albanian financial system is also characterized by a high degree of financial euroization: more than 50 percent of bank deposits and loans are denominated in euros, and loans are generally allocated to unhedged borrowers.

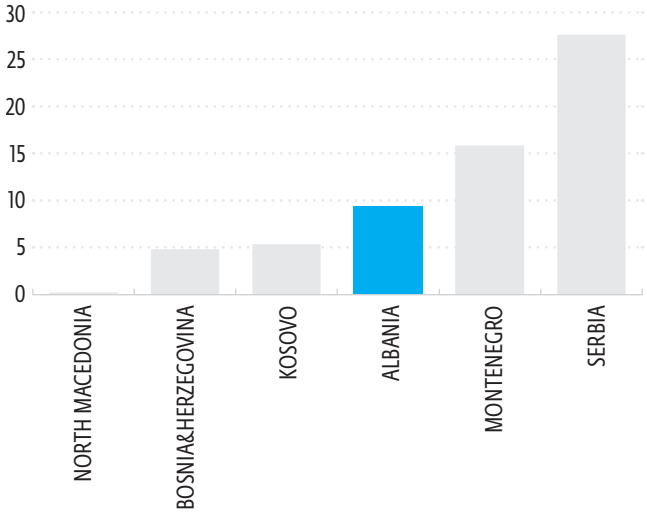
The banking sector's solvency indicators—especially capitalization, asset quality, and liquidity—have improved following a long period of deleveraging, particularly by foreign-owned banks in the wake of the global financial crisis. Since 2013, the ratio of regulatory capital to risk-weighted assets has increased, reaching 18.3 percent in 2019. Similarly, the ratio of liquid assets to short-term liabilities of 49.4 percent in 2019 is 3.2 percentage points higher than in the previous year and more than twice as high as the regulatory minimum of 20 percent. Meanwhile, the ratio of NPLs to total loans fell from a peak of 25 percent in 2014 to 8.1 percent in 2020, though it remains above the regional average. The continuous write-down of bad loans amid modest lending activity has weighed on bank profitability. As part of the COVID-19 response, the central bank adopted regulations allowing commercial banks to restructure loans during 2020 without additional provisioning or downgrades for borrowers' status to limit the impact of the pandemic on banking-sector indicators. The authorities also postponed the implementation of more stringent classification and provisioning measures for reclassified loans until 2022. While these measures kept the NPL ratio broadly stable in 2020, it is expected it will rise —as a result of the future application of more stringent loan-classification criteria.

FIGURE 4.8. DOMESTIC CREDIT TO THE PRIVATE SECTOR, ALBANIA AND WESTERN BALKAN COMPARATORS, % OF GDP



Source: World Bank. World Development Indicators (WDI) Database.

FIGURE 4.9. SMALL AND MEDIUM ENTERPRISE FINANCE GAP, ALBANIA AND WESTERN BALKAN COMPARATORS, 2017, % OF GDP



Source: IFC. Micro, Small and Medium Enterprises Finance Gap Database.

Despite improvements in the banking sector's soundness and liquidity in a context of macroeconomic stabilization and accelerating GDP growth, credit has expanded modestly, and firms still cite inadequate credit access as a major constraint. While both supply and demand conditions in Albania improved in the pre-COVID-19 period, credit activity remained subdued. In 2019, credit to the nonfinancial, nonpublic corporate sector and to households grew by 6 percent—the first positive growth rate since 2016—driven by expanded lending to households. Meanwhile, firms continue to finance investments largely through internal resources. The share of firms with a bank loan or line of credit rose from 29.4 percent in 2013 to 37.8 percent in 2019, while the value of collateral required for a loan fell from 267 percent to 177 percent. The share of firms using banks to finance investments increased significantly from 12.4 percent in 2013 to 21.5 percent in 2019, but it remains well below the levels of Albania's WB6 and 7STEE peers. The share of investments financed internally remains high at about 80 percent, compared to a WB6 average of 66.2 percent and an 7STEE average of 69.4 percent. This reliance on internal resources explains why 22 percent of firms regard inadequate credit access as a major constraint, yet only 3 percent cite it as their biggest constraint, down from 12 percent in 2013.

4.6 OTHER CONSTRAINTS

A fragmented property-registration system and uncertain land tenure constrain the development of private agribusiness and tourism. Incomplete land registries and ineffective land administration pose major challenges to firms and investors. A slow and incomplete transition to reestablish property rights after the fall of communism, followed by 25 years of unclear regulation of private and state property, led to frequent disputes over land ownership. Weak property rights also hinder efforts to aggregate agricultural land plots, which are currently small and dispersed. In addition, ambiguous land policies by successive governments created uncertainty and delays around land sales, as well as difficulty accessing finance through banks, which often require land titles as collateral for loans.[43] Public agencies responsible for land administration lack institutional capacity, and coordination among ministries and other government bodies to facilitate the use of public land is weak. Despite these challenges, access to land does not appear to be a binding constraint for most private investment decisions. In the 2019 Enterprise Surveys (ES), just 0.7 percent of firms cited access to land as their biggest obstacle, though responses differed across sectors. Access to industrial land was not described as a major constraint for investment in manufacturing, but it was more problematic for small firms, especially in the agriculture and tourism sectors.[44]

Although 43 percent of Albanian firms cite corruption as a major obstacle for their businesses—second only to taxes—just 8 percent identify it as their greatest challenge. This discrepancy suggests that corruption is not a binding constraint for industries that already operate in Albania, which have already adapted to it. While corruption appears to affect domestic firms (8.9 percent) more seriously than foreign-owned firms (0.5 percent), new investments, particularly FDI, may be deterred by negative perceptions about corruption. Small and medium firms are disproportionately affected by corruption, with 45 percent citing it as a major constraint, compared to 25.7 percent of large firms. These results are in line with the findings of a survey of about 900 Albanian Americans,[45] who ranked corruption and weak legal protections as their top concerns when planning business activities in Albania.

As part of its EU accession efforts, Albania has developed a comprehensive judicial reform program, but slow and unpredictable judicial processes continue to adversely affect Albania's business environment. Despite recent progress, Albania performed poorly on indicators of the efficiency of legal frameworks for challenging regulations and resolving disputes in the World Economic Forum (WEF) 2019 Global Competitiveness Index, ranking 133rd and 128th out of 141 countries, respectively. According to the 2019 ES, 40 percent of firms consider the court system to be a major constraint, while 5.3 percent regard the courts as their biggest obstacle. Similar results from the Regional Justice Survey prepared by the World Bank in 2020–21 indicate that more than 30 percent of business have a negative perception of the efficiency and quality of the administrative services in courts. On the positive side, businesses have a very positive perception of the efficiency and quality of public notary services. Extended court cases duration, corruption, and nonobjective investigation procedures are pointed out as the causes undermining trust in the court system. In contrast to taxes and informality, the court system is perceived as more problematic by foreign firms than their domestic counterparts. Two-thirds of foreign-owned companies identified courts as a major constraint and 21.9 percent cited courts as their biggest obstacle, compared to just 38.5 percent and 4.3 percent of domestic firms, respectively.

5. ENABLING THE DEVELOPMENT OF THE AGRIBUSINESS AND FOOD PROCESSING SECTOR

5.1 SECTOR OVERVIEW

Structure: Area, Production, and Productivity

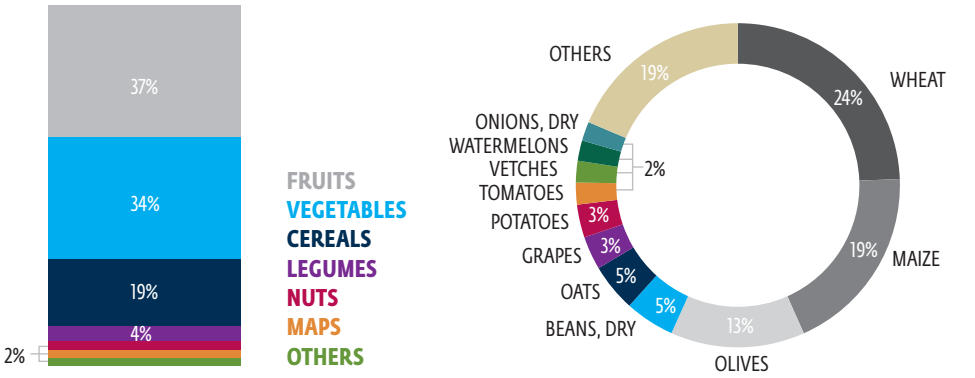
Agriculture has long been the mainstay of the Albanian economy. Agricultural production and related activities are the country's main source of employment and provide a significant share of its foreign-exchange earnings. In 2018, agriculture accounted for 18.4 percent of GDP [46] and more than 40 percent of employment,[47] and processed food exports represented 11.3 percent of total merchandise exports.[48] While agriculture's share in GDP has fallen over the years,[49] the sector's contribution is almost three times larger than the average for Western Balkan countries.[50]

Despite the importance of the agricultural sector, Albania's limited arable land is distributed among many small farms, most of which are informal. Albania has just 620,300 hectares of arable land, constituting 22.6 percent of its total territory,[51] and an estimated 359,000 farms, with an average farm size of one hectare[52]. Most smallholder farms are informal, and the lack of land titles and registration documents makes it difficult for farmers to access financing. Only 45,000 farms, or about 13 percent of all farms, are formally registered and possess a unique Identification Number to Persons of Taxation.

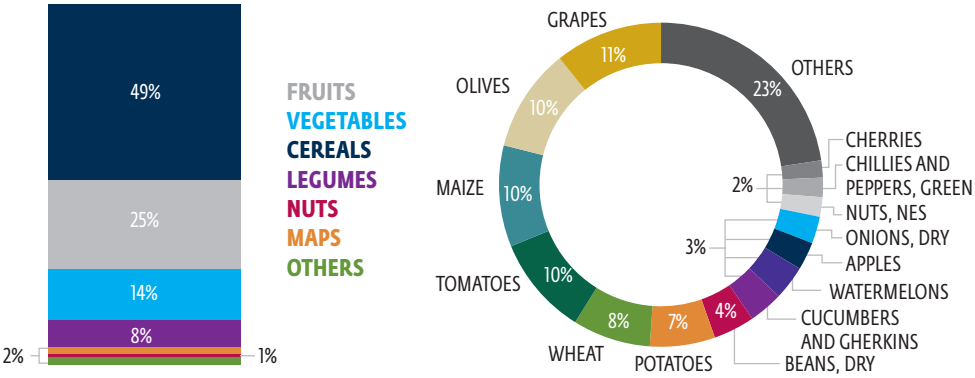
Cereals occupy the most cultivated land, but horticulture and livestock account for the largest share of the value of agricultural production. Cereals occupied almost half of Albania's cultivated land area in 2012–16, but fruits and vegetables generated 70.5 percent of the sector's US$1.3 billion in total gross production value over the period (see Figure 5 1). Grapes, olives, maize, and tomatoes were the top four crops by value per hectare (see appendix B). Livestock generated US$1.7 billion in gross production value, with beef and milk alone accounting for 53.1 percent of the total value of the subsector (Figure 5 2).[53]

FIGURE 5.1. AREA HARVESTED AND GROSS PRODUCTION VALUES, 2012-2016 AVERAGES, (%)

Gross production value %, average 2012-2016 (of total US$1.2 billion)



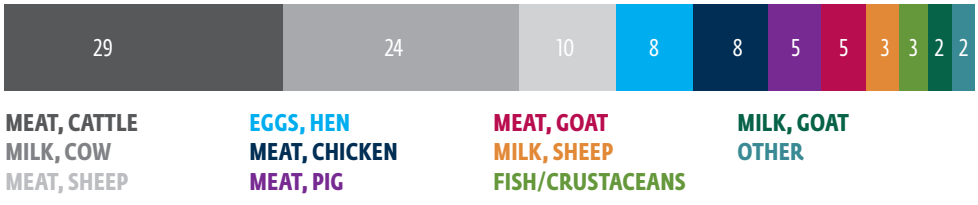
Area harvested %, average 2012-2016 (of total 295,560ha)



Source: FAOSTAT

Note: ha = hectares; MAPs = medicinal and aromatic plants; nes = not elsewhere specified.

FIGURE 5.2. LIVESTOCK GROSS PRODUCTION VALUE, 2012–2016 AVERAGES (%)



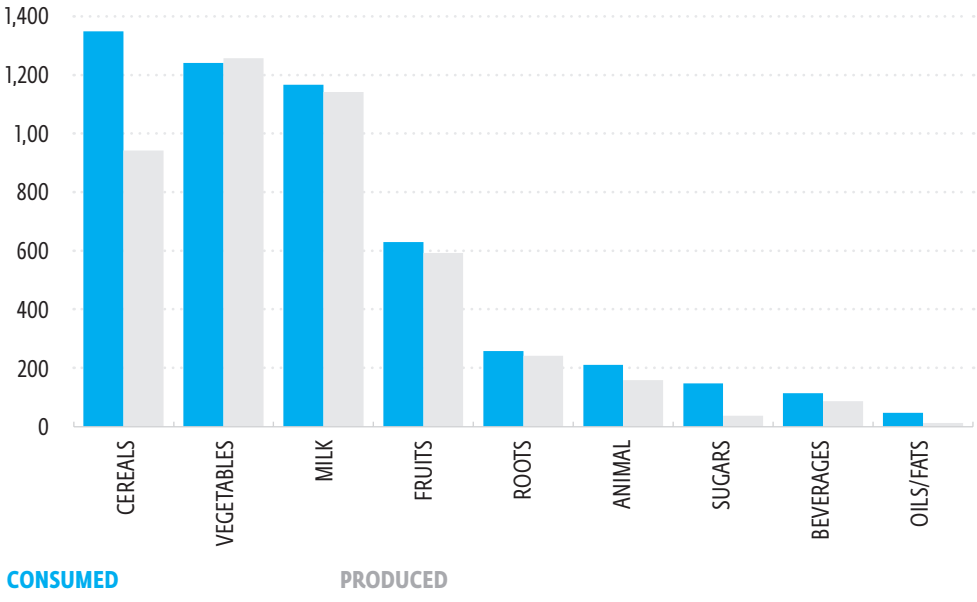
Source: FAOSTAT.

Olives have experienced the largest growth in gross production and value over the last 10 years, driven both by the expansion of cultivated area and by rising marginal yields. The gross value of olive production rose from US$36 million in 2006 to US$134 million in 2016.[54] Olives experienced the largest increase in value over the period, followed by eggs, tomatoes, maize, and grapes. Maize, oats, grapes, tomatoes, onions, and olives experienced the largest increases in cultivated area between 2008 and 2018. Meanwhile, red meat, wool, tobacco, sugar beets, and green beans experienced the steepest declines in total production value.[55]

Despite the recent increase in yields, Albania's agricultural productivity continues to lag that of its competitors in several key crops. Yields for the largest crop and livestock items grew steadily between 1998 and 2018 (see appendix C), and Albania's average yields for these items outperform regional averages. However, Albania underperforms its aspirational comparators in most items except cauliflower and broccoli, grapes, and goat meat, and its yields have even more room for improvement against EU averages (see appendix D).

Albania's per capita food supply has increased since 2000. The production of all food groups, except cereals, increased on a per capita basis between 2000 and 2017. Albania's food production almost aligns with its consumption, but it imports substantial amounts of cereals, meats, sugars, and oils (Figure 5 3). Imports satisfy 30.1 percent of demand for cereals, 24.6 percent of animal goods, 74.0 percent of sugars, and 72.8 percent of oils and fats. Only for vegetables and nuts does domestic production exceed consumption.

FIGURE 5.3. AVERAGE FOOD CONSUMPTION AND PRODUCTION, 2014–17, MT, THOUSANDS

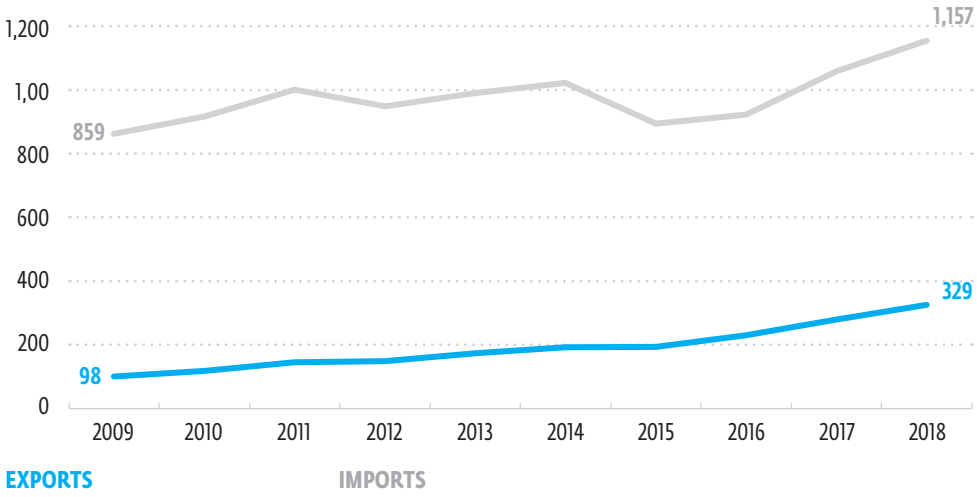


Source: FAOSTAT.
Note: MT = metric tons.

Trade

Despite the rapid growth of agricultural exports, Albania's agricultural trade deficit is expanding. Exports of agricultural products increased by 340 percent between 2009 and 2018, while imports rose by just 130 percent; however, imports expanded from a much larger base, causing the agricultural trade deficit to widen over the period (Figure 5.4).[56] Agricultural and food exports rose from 8.8 percent of total exports in 2009 to 11.3 percent in 2018, while agricultural and food imports increased from 18.9 percent of total imports in 2009 to 19.5 percent in 2018.

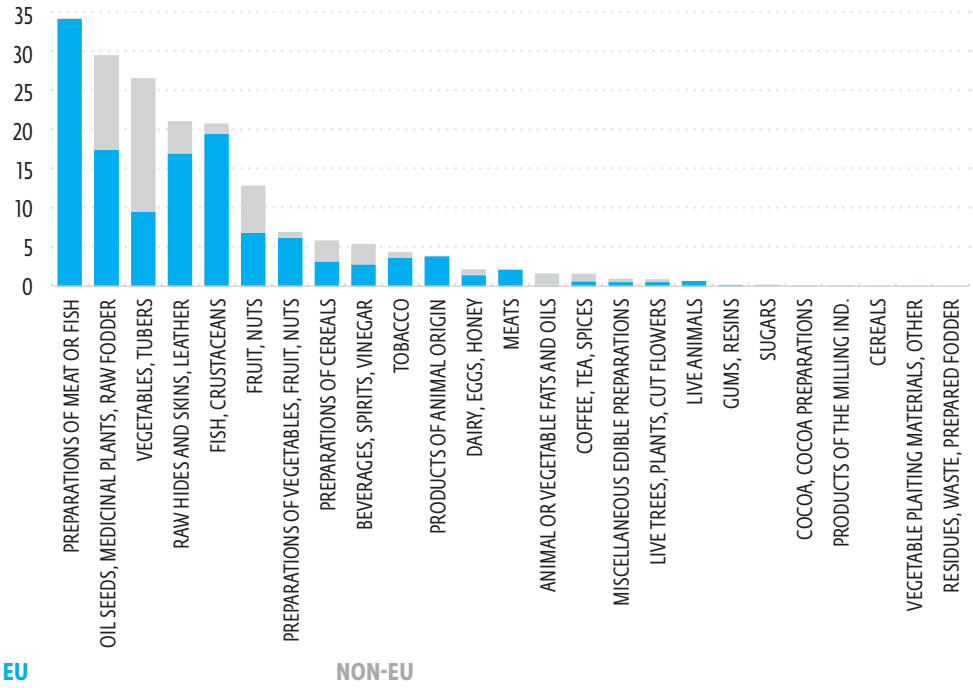
FIGURE 5.4. TRADE IN AGRICULTURAL AND FOOD PRODUCTS, 2009–18, US$, MILLIONS



Source: UN COMTRADE data from International Trade Centre Trade Map.

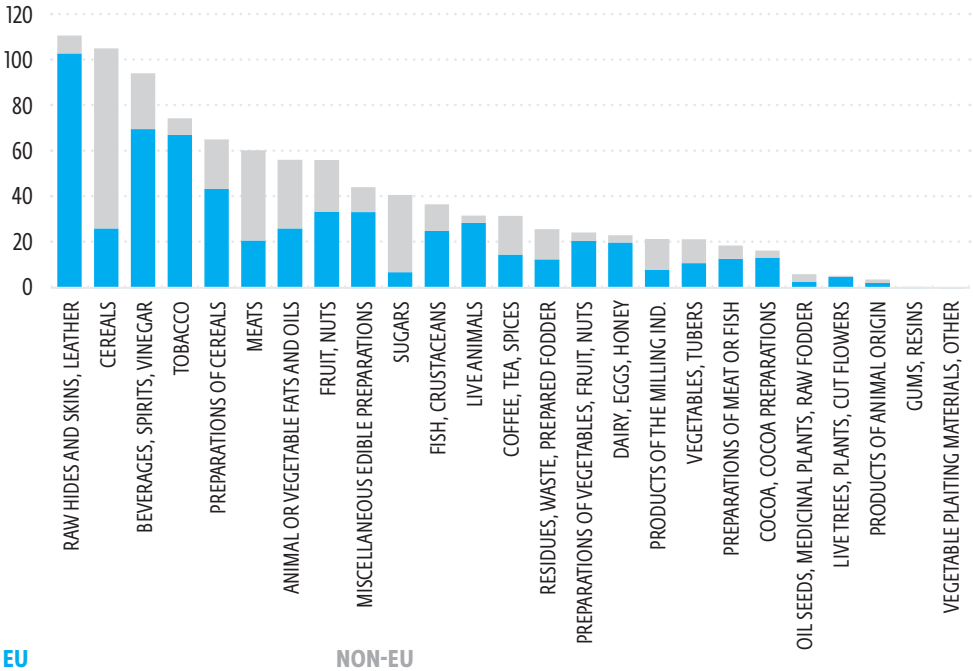
Albania's agricultural and food exports are concentrated in a narrow range of products and are less processed than its imports. Between 2009 and 2018, more than 66 percent of agriculture and food exports (by value) consisted of raw or semiprocessed goods, while processed goods represented the remaining 33 percent. Meanwhile, processed goods accounted for 55 percent of all agricultural and food imports. Approximately 75 percent of Albania's agricultural and food exports were concentrated in five of the 25 statistical categories for agricultural and food products. The top export was prepared fish, highlighting the potential for higher-value-added exports, followed by tomatoes, medicinal and aromatic plants, preserved vegetables, cucumbers, specialty nuts, and raw hides and skins. Albania's top imports included wheat and mixed grains ("maslin"), bread and pastries, coffee, chicken meat, condiments, oils, tobacco, and sugar (Figure 5.5, Figure 5.6, Figure 5.7 ,and Figure 5.8).[57]

FIGURE 5.5. AGRICULTURAL AND FOOD EXPORTS BY CATEGORY, 2009–2018 AVERAGE, US$, MILLIONS



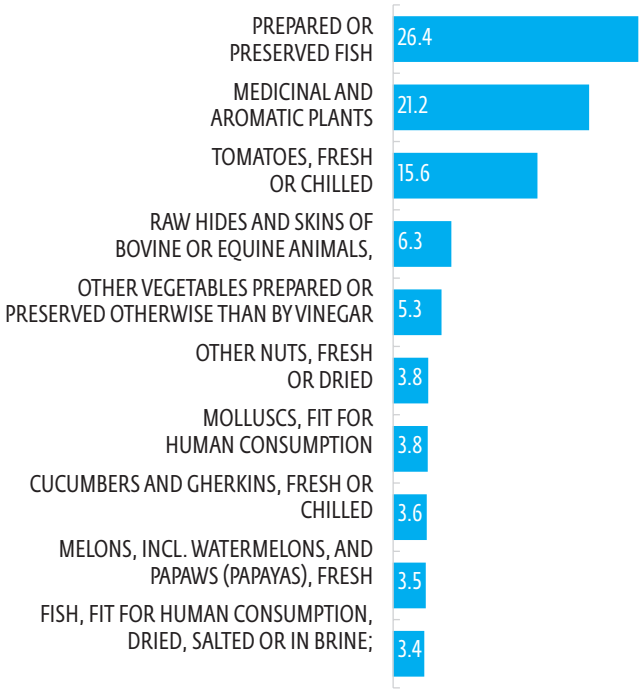
Source: UN COMTRADE data from International Trade Centre Trade Map.

FIGURE 5.6. AGRICULTURAL AND FOOD IMPORTS BY CATEGORY, 2009–18 AVERAGE, US$, MILLIONS



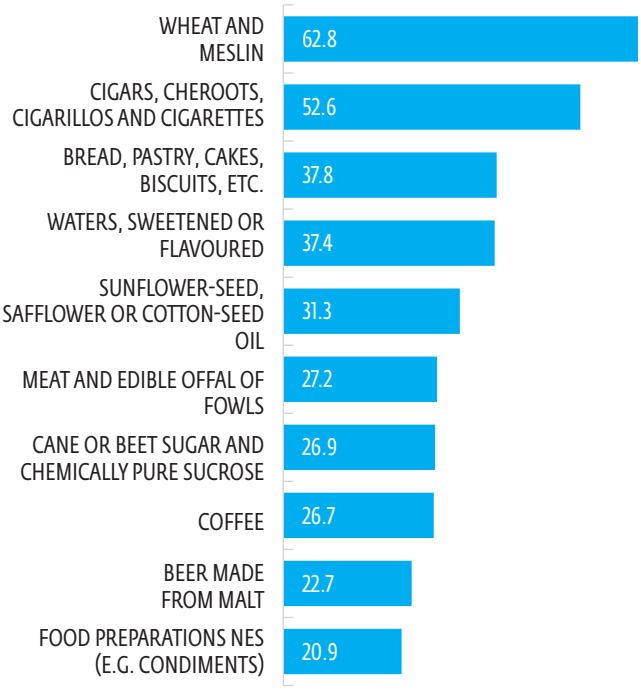
Source: UN COMTRADE data from International Trade Centre Trade Map

FIGURE 5.7. TOP 10 AGRICULTURAL AND FOOD EXPORTS, 2009–18 AVERAGE, US$, MILLIONS



Source: UN COMTRADE data from International Trade Centre Map.
Note: nes = not elsewhere specified

FIGURE 5.8. TOP 10 AGRICULTURAL AND FOOD IMPORTS, 2009–18 AVERAGE, US$, MILLIONS



Source: UN COMTRADE data from International Trade Centre Map.
Note: nes = not elsewhere specified

The European Union is Albania's largest trading partner for agricultural and food products, and Italy is its single largest destination market. Between 2009 and 2018, EU countries accounted for 71.5 percent of Albania's agricultural and food exports and 62.4 percent of its imports. Italy alone represented 37.8 percent of Albania's agricultural and food exports over the period, while Italy, Greece, and Germany together accounted for more than 50 percent. Most of Albania's agricultural and food exports meet EU standards, but it currently faces restrictions in the animal products category. Albania is authorized to export to the EU only fishery products; eggs; frogs' legs; snails; and treated stomachs, bladders, and intestines (casing only). No dairy, poultry, or red meat from Albania can be exported to EU markets due to the gaps in standards and certification as discussed below.[58]

The members of the Central European Free Trade Agreement (CEFTA)[59] are the country's second-largest group of trading partners for agricultural and food products. Agricultural trade with this region represents 19.6 percent of exports and 10.2 percent of imports between 2009–18. Serbia was the largest export partner outside of the EU, representing 12.2 percent of exports. Import data reveal similar trends: Italy is Albania's largest trading partner, representing 24.6 percent of all agriculture and food imports; Italy, Greece, and Germany together represented 41.0 percent; and Serbia is the country's largest non-EU trading partner, representing 6.6 percent (Table 5 1).[60]

Challenges and Opportunities

Although Albania is in the process of EU accession, the share of its agricultural and food exports bound for the European Union has declined, and its inability to meet European quality and safety standards for processed foods limits its prospects for entering higher-value markets with greater margins. Exports to the European Union fell from 85.4 percent of total exports in 2009 to 69.2 percent in 2018, while imports from the European Union declined only modestly, from 66.4 percent of total imports in 2009 to 63.4 percent in 2018.[61] The share of exports to CEFTA countries increased from 5.9 percent to 23.1 percent over the same period, and the biggest increase was in exports to Serbia, which rose by 2,504.2 percent. This shift may have been driven by the ease of trading with partners that have less stringent quality and safety standards, both for existing traded goods and previously nontraded goods. The shift in exports also implies that Albania has not been able to exploit the full potential of the EU market, which offers higher margins than CEFTA countries (Table 5.1). Albania receives the lowest average prices in the region for its top fruit and vegetable exports. Comparing the prices per metric ton that Albania receives for its top fresh product exports highlights its untapped export potential. (Table 5.2)

TABLE 5.1. AVERAGE IMPORT VALUES FOR SELECTED FRUITS AND VEGETABLES, 2013–17, US$ PER MT

	CEFTA*	EU (28)	ITALY	GREECE
Apples	394	883	629	693
Cabbages/brassicas	282	815	756	685
Cucumbers/gherkins	578	1,056	1,034	649
Melons	689	1,025	1,129	1,291
Onions, dry	360	528	426	438
Potatoes	341	294	326	470
Tomatoes	599	1,461	1,145	815
Watermelons	230	534	498	523

Source: FAOSTAT 2013–17.
Notes: CEFTA = Central European Free Trade Agreement and includes Albania, Bosnia and Herzegovina, Kosovo, Moldova, Montenegro, North Macedonia, and Serbia. Data for Kosovo is not available, and data for Albania are not included in the average; EU (28) = European Union including Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and United Kingdom; MT = Metric tons. Values in green represent highest US$/MT; values in red indicate lowest US$/MT.

TABLE 5.2. AVERAGE EXPORT VALUES FOR SELECTED FRUITS AND VEGATABLES, 2013-17, US$ PER MT

	ALBANIA	EU 28	WORLD	BIH	BULGARIA	CROATIA	GREECE	MONTENEGRO	N. MACEDONIA	ROMANIA	SERBIA	SLOVENIA
Apples	215	755	830	528	554	290	524	1,057	266	267	558	476
Cabbages/brassicas	202	750	644	348	357	430	297	242	284	373	340	820
Cucumbers/gherkins	403	1,017	860	790	1,072	766	960	744	463	567	444	721
Melons	390	952	697	527	424	642	258	500	340	1,505	280	910
Onions, dry	251	418	420	572	630	266	313	527	267	301	249	355
Potatoes	376	322	328	327	341	215	410	303	447	209	310	486
Tomatoes	408	1,432	1,094	777	971	991	504	391	557	876	495	1,094
Watermelons	155	499	413	172	315	276	300	153	167	189	234	501

Source: FAOSTAT 2013–17.
Notes: CEFTA = Central European Free Trade Agreement and includes Albania, Bosnia and Herzegovina, Kosovo, Moldova, Montenegro, North Macedonia, and Serbia. Data for Kosovo is not available, and data for Albania are not included in the average; EU (28) = European Union including Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and United Kingdom; BiH = Bosnia and Herzegovina; MT = Metric tons.
Values in green represent highest US$/MT; values in red indicate lowest US$/MT.

Vegetables and fish have experienced the greatest increase in export values. Between 2009 and 2018, 63.5 percent of export value growth came from vegetables (29.8 percent), fresh fish and crustaceans (17.7 percent), and processed fish products (16.0 percent). For vegetables, 64.2 percent of growth came from tomatoes alone, and 17.6 percent from cucumbers and gherkins. For processed fish, all export growth came from prepared or preserved anchovies. For vegetables, 59.4 percent of the growth in value came from exports to CEFTA countries, and 37.7 percent from exports to the EU. For fresh fish 91.6 percent of growth value came from the EU, and for processed fish 100 percent of value came from exports to the EU.[62]

Though large, Albania's agriculture and agribusiness sector is characterized by the predominance of small farms with low productivity and weak market linkages. Firm capabilities are low overall, with deficiencies in organization, knowledge, and connectivity. For example, the use of inefficient inputs and processes, such as saved seeds rather than purchased seeds, may contribute to the low productivity of Albanian farms. In the processing sector, the average size of a farm is small: between 5 and 6 people. Lack of data prevents analysis of acreage growth trends, but anecdotal evidence suggests that most farms remain small throughout their productive lifespans. Table 5.3 shows that constraints to growth may include lack of access to critical inputs and inability to take advantage of economies of scale. Operational decisions based on limited market knowledge and management experience prevent producers from maximizing their output potential, improving their competitiveness, or expanding into higher-value-added products and markets.

TABLE 5.3. PRIVATE-SECTOR PARTICIPATION ALONG THE VALUE CHAIN

INPUTS	PRODUCTION	PROCESSING	SERVICES
Private sector activity			
Sizeable Private sector companies have controlled most activities related to agricultural inputs since the end of the communist regime. The use of commercial seed, other inputs, and agricultural machinery is limited. The use of saved seed is predominant, representing more than 50 percent of used seed for most crops. The rest is mostly imported. [a] Fertilizer is mostly imported by traders. Its use has doubled in the last decade, though consumption per hectare is below EU average. Most agricultural tractors are imported. The number of tractors per arable land unit was about 1/5 of EU average in the 2000s.[b]	**High** There are more than 350,000 farms in Albania, with an average farm size of one hectare, often broken into smaller parcels. Most farmers make decisions based on market conditions, but most of the agricultural production is for self-consumption.[c] Associations are practically nonexistent in Albania. After the fall of communism in the 1990s, state agriculture cooperatives were dismantled, and land was distributed among rural households. There are about 222 traders/aggregators in Albania, who buy from farmers and export production abroad.	**High** There are 3,625 companies in the food production, beverages, and tobacco manufacturing sector, most of them small and medium enterprises,d employing a total of 20,237 people (an average of 5.6 people per company).[e] 90 percent of farms are small. For instance, in the fruits/vegetables processing subsector, only two firms (Sedeja and Sidnej, mentioned below) employ more than 100 people. Flour and bread production, and milk and meat processing companies represent 80 percent of all agribusiness companies, 60 percent of the agribusiness workforce, and 70 percent of total investments in the sector.[f]	**Limited** The private sector dominates leasing or renting of agricultural equipment, but its use is not widespread. Logistics services are private sector driven. There are limited private-sector players licensed to provide international certifications. Export promotion or business support services are mainly led by public or nonprofit institutions.

Key players			
Several companies operate in Albania, but most are based in regional offices outside the country (for example, Monsanto, Syngenta, Yara, Haifa, NewHolland). There is an Albanian Fertilizer and Agri- Business Dealers Association.	Numerous companies operate. There is an Albanian National Farmers' Association and also crop-specific associations of producers (for example, apples, olives).	Numerous companies operate—some of the largest include international firms.	Several companies operate. Support service providers include the Albanian Agribusiness Support Facility and the Business Management Center.

Notes:

a. Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, "Agrobiodiversity in Southeast Europe—Assessment and Policy Recommendations," 2017. https://seerural.org/wp-content/uploads/2018/09/Agrobiodiversity-Study-BiH-RS.pdf. ; Harvard University Center of International Development, "Taking a Closer Look at Albanian Agriculture," blog, July 18, 2014, albania.growthlab.cid.harvard.edu/blog/taking-closer-look-albanian-agriculture; Engjëll Skreli and Drini Imami, "Watermelon and Melon Sector Study" (Albania Agribusiness Support Facility, Tirana, 2019).

b. World Bank Databank, data refers to 2008 (most updated available information. data.worldbank.org.

c. Ministry of Agriculture, Rural Development and Water Administration, Albania, *Rural Development Programme 2014–2019*, 2015; Antal Szabó, ed., SMEs and Small Farms in Agribusiness in the Black Sea Economic Cooperation Region (Chișinău, Moldova, Konrad-Adenauer-Stiftung and Organization of the Black Sea Economic Cooperation, 2015).

d. Micro, small, and medium enterprises make up 99.8 percent of Albania's companies, which employ 79.8 percent of the total formal workforce in the country. Indeed, 99.3 percent of all companies are micro enterprises of nine or less employees. Institute of Statistics of Albania (INSTAT), Statistics on small and medium enterprises, 2018.

e. Institute of Statistics of Albania (INSTAT) database,2017 databaza.instat.gov.al.

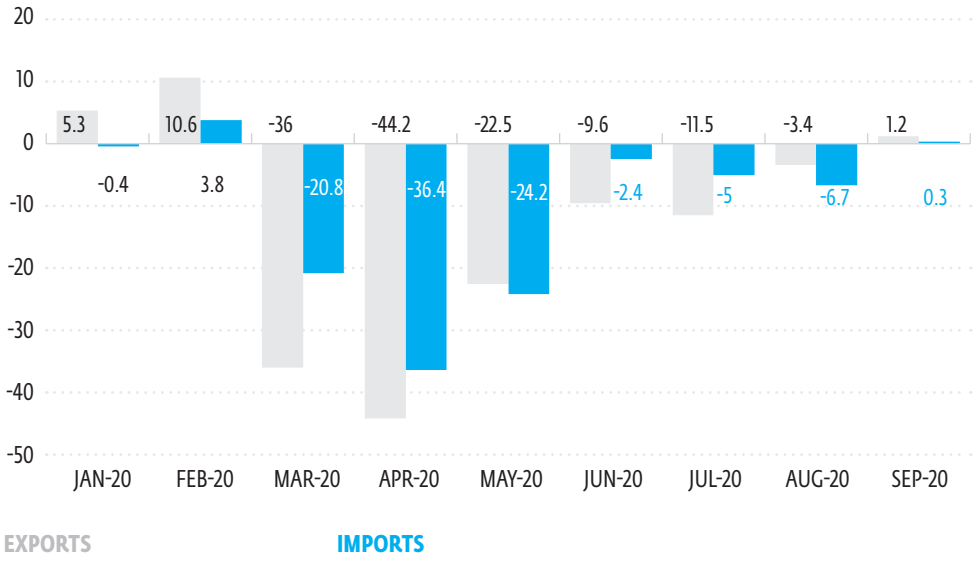
f. Szabó, *SMEs and Small Farms*.

Albania's public spending in agriculture has been persistently lower than in other sectors and is among the lowest in the Western Balkans. Between 2010 and 2017, agriculture spending represented 1.9 percent of total government spending compared to 10.9 percent in education, 9.4 percent in healthcare and 6.7 percent in house-building and public utilities. Government subsidies for agriculture are lower than in neighboring countries: in North Macedonia, the government spends €200 million per year on agricultural subsidies, while the Albanian government spends only €3 million. Furthermore, Albania spends only about 2 percent of the value of agricultural output on the agricultural sector, far below the 20 percent average for the EU, 11 percent in North Macedonia, and 4.4 percent in Bosnia and Herzegovina. While the public spending composition has shifted toward capital expenditure instead of current spending (mostly subsidies and income transfers), the share of private investment in agriculture in comparison to its contribution to value added, as measured by the investment ratio agricultural orientation index (IRAOI),[63] is still low compared to peer countries.

5.2 IMPACTS OF THE COVID-19 PANDEMIC IN THE ALBANIAN AGRIBUSINESS SECTOR

Albanian exports and imports plunged following the start of the COVID-19 pandemic, and the largest declines were observed in bilateral trade with Italy and Greece. In April 2020, the value of merchandise exports from Albania decreased by over 40 percent, year on year, while the value of merchandise imports fell by over 30 percent (Figure 5 9). Trade disruptions have also triggered a change in the composition of trade. There have been monthly changes in trade patterns in export markets, reflecting the disruptions in demand and supply as the pandemic hit countries in waves. For instance, in March, Albanian exports to countries like Germany and Austria increased, while flows to traditional markets like Italy decreased. More recently, in September, exports to Italy climbed back while flows to other countries like Germany decreased.[64]

FIGURE 5.9. ALBANIA'S MONTHLY TRADE FLOWS, % CHANGE Y/Y



Source: Institute of Statistics of Albania (INSTAT), Foreign Trade in Goods, October 2020.
Note: y/y = year on year.

Compared to other sectors, and in line with global trends, trade in food products experienced a small decrease in exports and the only sectoral increase in imports. Food, beverages, and tobacco saw a 0.7 percent decrease in exports in March 2020, and a 0.5 percent decrease in April 2020, in comparison to the same period the previous year. Other industries saw much higher drops in exports, including textile and footwear (–20.1 percent in April), construction materials and metals (–10.5 percent in April), and minerals, and fuels and electricity (–8.4 percent in April). Regarding imports, food, beverages, and tobacco experienced the only growth in trade, growing 0.7 percent in March 2020, and 0.8 percent in April 2020, in comparison to the same period in 2019. All other sectors experienced drops in imports, with the highest seen in machinery and equipment (–10.3 percent in April); textile and footwear (–8.4 percent); construction materials and metals (–6.6 percent in April); and minerals, fuels, and electricity (–6.6 percent in April).[65] These trends experienced by Albania are in line with global trends. While global trade in sectors like equipment, extractives, and capital goods has plummeted, agricultural trade has held up.[66]

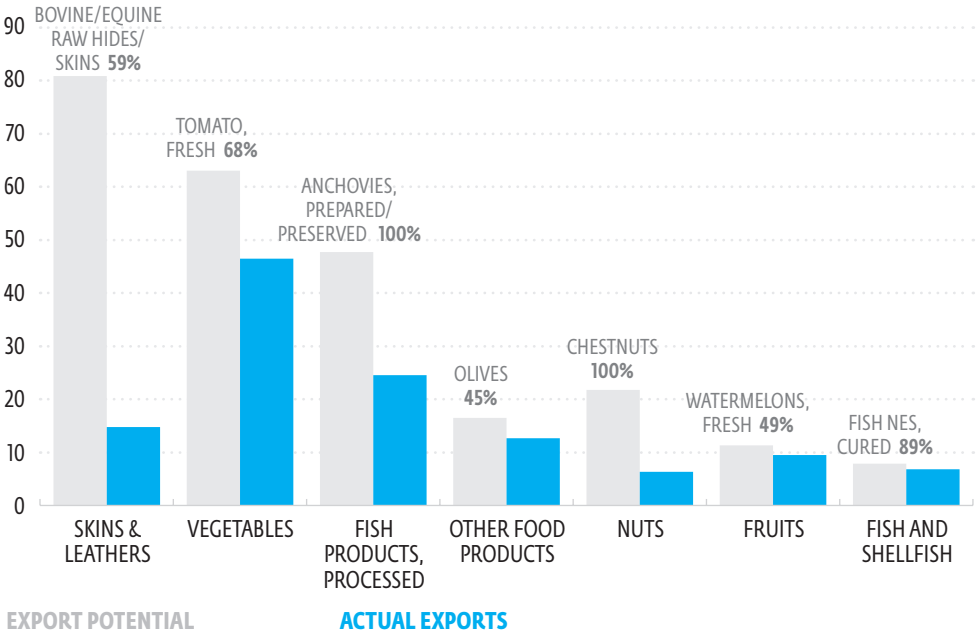
The greatest decrease was observed among exports of unprocessed agricultural goods and exports of goods for which Italy is the main destination. During March and April 2020, minimally processed goods saw the largest year-on-year drops in percentage terms, as inventories for these goods are less able to smooth fluctuations in supply. According to INSTAT data, exports to Italy have dropped the most, given the large share of that market in total exports and the impact of falling demand and border shutdowns. Meanwhile, agricultural imports increased, likely because importers more easily identified alternative suppliers, while exporters were largely unable to replace Italy as an export destination.[67] This trend highlights the challenges that low levels of value-addition and highly concentrated export markets pose to the Albanian agricultural and food sector.

The pandemic's impact on the agricultural sector is likely to be focused on the demand side. A recent UN Food and Agriculture Organization (FAO) analysis highlights Albania's higher exposure to the COVID-19 crisis through the demand channels rather than through supply.[68] According to the Albania Household Budget Survey for 2017/18, an average of 42 percent of household expenses are food-related, and the impact of the crisis on employment and earnings has likely weakened domestic demand for agricultural products.[69] The drop in tourism due to restrictions on movement has also likely diminished food demand from hotels and restaurants. However, agricultural prices appear to have been broadly stable, decreasing in some cases (for example, vegetables) and increasing in others (for example, milk).[70] In general, food inflation has been moderate compared to other countries, at about 3.8 percent, year on year, in September 2020.[71] The long-term effect on the sector will depend on several factors, including macroeconomic stability and exchange-rate dynamics, the severity of the impact on food demand, and any disruptions to supply chains, which thus far appear stable, as no large-scale shortages have been reported.

5.3 SUBSECTOR POTENTIAL

Albania has untapped export potential in horticulture products, processed fish, meat, and raw hides and skins. A detailed look at the country's untapped exports[72] shows that Albania has the potential to increase exports in the following subsectors: hides and skins, vegetables, fish products, nuts, and fruits. Individual items with large untapped export potential include bovine and equine hides and skins, fresh tomatoes, preserved anchovies and other cured fish, chestnuts, watermelons, and prepared olives (Figure 5 10). Studies from several organizations, including the World Bank, the Albanian Agribusiness Support Facility, FAO, Harvard University's Center for International Development, and EU national aid agencies, have identified the above sectors as showing great export potential (appendix D). These studies highlight the potential economic impact of these products for Albania's agriculture and food sector given Albania's competitiveness and growth in international demand of these products[73]. They also show that, so far, exports of these goods have been concentrated in a few export partners, often neighboring countries that offer lower prices. Tomato exports are a point in case. The unit value of exported Albanian tomatoes to Serbia is around US$0.50 per kilogram. Italy exports tomatoes to the United Kingdom at $2.40 per kilogram.[74] Part of the untapped potential is found in markets including Germany, Switzerland, France, Poland, Austria, and the United States (Appendix D). Export potential could extend to newer products if some key constraints regarding food standards and certification could be addressed in other subsectors—for example, for high economic impact products within the dairy and meat industries.

FIGURE 5.10. ESTIMATED EXPORT POTENTIAL, US$, MILLIONS



Source: International Trade Centre Export Potential Map.
Note: Percentages reflect share of value of product export potential in the subsector (for example, fresh tomatoes are 68 percent of total vegetables export potential). Nes = not elsewhere specified.

Organic farming offers further opportunities for Albanian farmers. Small countries can find it difficult to become preferred suppliers for major distribution channels, because they cannot ensure consistently large volumes, but Albania presents a good value proposition in organic products. While organic production accounts for less than 0.1 percent of Albania's cultivated area, organic cultivation is expanding rapidly.[75] Currently, organic production focuses on medicinal and aromatic plants, as well as certain vegetables, olives, wines, and fruit.[76] At present, there are about 80 organic producers in Albania, but the Ministry of Agriculture estimates that up to 200 farms could produce and export organic agricultural products.[77]

The export potential in these sectors could be affected by the COVID-19 pandemic. The crisis could lead to mid- and long-term export demand declines due to economic downturn, distortion on trade routes, or input supply disruptions.[78] This could affect the supply and demand conditions, including the export potential for the above-mentioned items. However, this also provides the impetus for the country to focus on addressing the underlying sectoral challenges to take advantage of opportunities that may emerge after the pandemic and to leverage existing potential identified above.

5.4 CONSTRAINTS ON COMPETITIVENESS AND PRIVATE INVESTMENT IN AGRIBUSINESS

Despite the strong potential of the sector, several challenges constrain the development of an ecosystem that is conducive to competitiveness and private investment in the agribusiness sector. These challenges cut across the entire value chain from production to distribution for both domestic and export markets (Figure 5.11). The cross-cutting challenges described in chapter 4 also impede agricultural growth: transportation infrastructure is weak, and the country suffers from poor digital connectivity.

FIGURE 5.11. KEY CONSTRAINTS ON THE DEVELOPMENT OF ALBANIA'S AGRIBUSINESS SECTOR

RESEARCH AND DEVELOPMENT (R&D)	INPUT SUPPLY	PRODUCTION	PROCESSING	DISTRIBUTION AND MARKETING
Business climate: room for improvement in key areas, specifically in VAT related tax issues for agribusiness				
Public policy: agriculture and trade policy not yet aligned with EU; limited investment promotion and outreach				
R&D knowledge: low research and technical extension capacity; limited business development services				
Skills: lack of skills among farmers, throughout the value chain and firms				
	Water: limited supply due to infrastructure issues			
	Land: insecurity over ownership; sale forbidden to foreigners			
	Fragmented production: small farm units; nonexistent cooperatives; weak aggregator systems			
			Fragmented food processing sector with limited processing infrastructure	
	Finance: low access among farmers & SMEs; lack of collateral; limited agricultural insurance			
	Transport: limited road infrastructure & poor connectivity			
		Food quality and safety: misaligned regulations with EU; weak M&E; Inadequate processing infrastructure; limited certification and quality infrastructure		
		Post harvest logistics: limited warehousing & cold storage infrastructure		
		Market intelligence: limited understanding of destination markets		

Source: WBG staff elaboration. Notes: M&E = monitoring and evaluation EU = European Union.

Several sector- and country-level analyses have identified and assessed these challenges in detail. A review of previous analytical work, complemented by stakeholder consultations with representatives of the Albanian private sector, reveals that addressing seven key challenges will be critical to improve the competitiveness of the agricultural sector. These include (a) access to land; (b) aggregation mechanisms; (c) access to finance; (d) infrastructure and logistics; (e) food-safety standards and certification; (f) other significant constraints; and (g) challenges around EU accession.

Access to Land

The registration of land is still incomplete, and uncertainty related to land ownership prevents farmers and agribusiness firms from investing and expanding. Albania faces problems with incomplete land titling and ineffective land administration.[79] An estimated 10 percent of properties in Albania are not registered. Of the remaining 90 percent, just 10 percent are digitally registered, while 80 percent are registered only in paper format. Registration itself does not provide proof of ownership, as there are inconsistencies between registration and cadastral data, and graphical cadastral information is frequently inaccurate.[80] Uncertainty around land ownership also often arises due to claims made by former owners. Lack of proof of ownership prevents farmers from accessing finance through banks, which often require land titles as collateral for loans. It also creates an impediment when applying for EU grants, loans, and certificates.[81] Due to long transaction processes resulting from conflicting land claims (Box 5.1), agricultural land markets in Albania are underdeveloped.[82]

BOX 5.1. LAND RIGHTS

Unresolved issues regarding land ownership have been a serious challenge since the early 1990s, when the government privatized state-owned land. Because the communist regime had previously nationalized privately owned land, multiple privatization programs were unable to settle claims based on precommunist land titles and property rights that conflicted with postcommunist private claims. Three decades later, many of these disputes remain unresolved, and uncertainty over land rights discourages long-term investment.

Since the early 1990s, several agencies, development partners, and governments (including the United States Agency for International Development, World Bank, European Union, and Germany) have implemented projects to support the Albanian government in developing its legal framework governing land rights and in designing and developing a land administration system. Significant progress has been made. However, weaknesses remain, and assessments and recommendations from more recent projects still point to unresolved gaps. Key areas for reform are summarized below:

- **Data quality and access:** The lack of accurate data on land ownership is a key challenge, and project recommendations have included specific actions for adoption and implementation of standards in data quality; use of unique tools such as a digital cadastre map and modules for surveyors; carrying out an audit of data quality; and in general working on the principle that data should not be fixed to what is in the register. For example, the Land Administration and Data Improvement project has provided some of the above recommendations, but most of these have not been implemented. Project recommendations include use of information and communication technology solutions to make integrated fit-for-purpose information available to all stakeholders, including public sector agencies.
- **Harmonization of laws and regulations:** The Albanian government needs to remove the errors, inconsistencies, gaps, and overlaps that now exist and create a roadmap for harmonizing laws and regulations across the land sector. This area includes the definition of laws and regulations governing the new land

institutions. The Integrated Land Management Program aimed to support the preparation and approval of the law on cadastre, approved in 2018 and effective since 2019, which formalizes the consolidation of key land sector agencies and envisages a new Cadastre Authority operating under the guidance of a governing council. In addition, the program supported the consolidation and harmonization of 14 laws into one. In February 2020, the parliament approved the law on the Finalization of the Transitional Processes to set forth simplified and harmonized legal bases and instruments for resolving the remaining issues related to the transitional process of ownership rights and registration of agricultural land.

- **Institutional reforms:** Significant progress has been made toward rationalizing the institutions overseeing land. For example, the new Cadastre Law resulted in the merging of several agencies into one, streamlining land administration. However, ongoing recommendations suggest further efficiencies for holistic management of land, such as the possible creation of an overarching body like a National Land Agency or Ministry of Land.
- **Creation and adoption of a new national land policy:** At a strategic level, recommendations include drafting a comprehensive policy that would provide both a vision for land as a resource and a governing framework across all other sector policies and institutions to allow for a vibrant land market and the sustainable use of land.
- **Building capacity and skills:** Lack of trained professionals who can work on land issues has been identified as a gap, and recommendations to offer requisite training and skills-building are also consistent across projects.

Source: Land administration data improvement Report. World Bank Group Trust Fund No TF 072160 for the EC - World Bank Partnership Program for Europe and Central Asia. Funded by the European Union (EU).

Foreign nationals are not allowed to purchase agricultural land in Albania.[83] Foreigners' acquisition of agricultural land, forests, meadows, and pastures is prohibited, barring extra-national investments in agriculture. The law also creates a roadblock to EU accession: EU citizens and companies should have been allowed to own agriculture properties in Albania since 2016, as per the Stabilization and Association Agreement with the EU.[84]

Given the history of small land parcels, and incomplete land registration and titling, lack of scale is a significant hindrance to improving productivity and competitiveness in the sector. History and culture inhibit cooperation between farmers. Producer groups and cooperatives are few, despite efforts to encourage them.[85] Lack of aggregation poses a significant challenge for Albanian farming, because economies of scale, product uniformity, and quality and safety standards cannot be met, which doesn't allow profit potentials to be achieved.

Inefficiencies in Aggregation

Aggregators buy produce from farmers to sell in bulk, but this process is inefficient. As mentioned earlier, the agriculture sector is characterized by small units of land for production and weak linkages. Aggregators have stepped in to help overcome lack of scale and intermediate between different stakeholders: they operate as wholesalers, storage providers, processors, and exporters (sometimes in more than one role) in different subsectors depending on the gap that needs to be filled. However, there are several challenges to their efficiency. Most Albanian aggregators do not establish long-term contracts with farmers and lack stable relationships with exporters, and few possess the technical knowledge and skills to operate optimally. Because of their small scale, most companies in the sector lack the know-how and equipment to meet quantity and quality requirements, which would require larger processing companies.[86] In general, Albanian aggregators who also export lack knowledge on how to access international markets and tend to sell on an ad hoc basis, resulting in lower prices (see Box 5.2 below on aggregators in the apple subsector).[87] However, the medicinal and aromatic plant subsector is an important exception, as it includes sophisticated aggregators with extensive knowledge about exporting to advanced markets such as the United States, Germany, and Switzerland.

Large gaps in the available information on market participants constrain meaningful analysis and limit the potential for productive engagement. Different sources provide different data points on the number and types of aggregators in the sector, with the total number varying from 100 to over 200. Moreover, it is unclear which aggregators are engaged only in one activity—for example, exporting, processing, bulk sales—and which participate in multiple activities, and little analysis is available on the nature of their operations or the challenges they face. Stakeholder consultations suggest that field interviews with a sample of these firms would provide more reliable information, and further study will be required to identify key constraints and define appropriate interventions.

BOX 5.3. CHALLENGES FACED BY AGGREGATORS: EVIDENCE FROM THE APPLE SUBSECTOR

In the apple subsector, aggregators are usually medium- or large-scale farmers who have invested in cold storage facilities, often with support from international programs, and possess excess storage capacity. They represent a small share of the total producers, because investment costs in these storage systems are prohibitive for most others. Assets of all other farmers are limited to irrigation systems, machinery, and fertilization systems depending on size. They are different from wholesalers who also play the role of aggregators through purchase from farmers and in providing cold storage facilities. In 2019, there were 60 aggregators in the apple subsector.

While these aggregators play an important role of aggregation and filling gaps for logistics, they face challenges to their competitiveness. First, these consolidators do not have complementary systems and equipment such as weight measurement, transport and logistics, or sorting and grading and packaging lines that would allow them to access export markets. While they provide cold storage facilities, they rarely own state-of-the-art technology such as controlled atmosphere lines needed for operating in export markets. Second, these consolidators lack the knowledge or infrastructure to follow the food standards needed for export markets. They typically serve domestic markets that do not have stringent marketing or

food standards. During the harvest season, there is only visual or quick sorting or grading of products; packaging is usually very poor (for example, boxes are often too large), and no certification is conducted. Finally, while these firms and farmers are larger, they still lack access to finance for investment needs.

Source: E. Skreli and D. Imami, "Apple Sector Study" (Albania Agribusiness Support Facility, Agricultural University of Tirana, 2019).

Access to Finance

Access to finance is a major constraint in the Albanian agricultural sector. The lack of working capital in the agricultural sector is reflected in poor seed quality, limited mechanization, and low levels of fertilizer usage per acre, which adversely affect crop productivity. The WEF's 2019 Global Competitiveness Report ranked Albania's financial system 102nd out of 141 countries, and access to finance is especially limited for small and medium enterprises. Constraints on access to finance are especially acute in the agricultural sector, where the presence of formal financial institutions is limited. Even though the sector contributes almost 20 percent to GDP, less than 3 percent of bank credit goes to agriculture. Less than one-third of the rural population has a bank account, and most small farmers have little or no education in finance or accounting. Small farmers derive most of their financing from retained earnings, informal lenders, or production contracts with larger agribusinesses.[88]

Banks perceive agricultural lending to be risky. The banking sector, which owns more than 90 percent of financial-sector assets, lends based on good financial records, credit history, and collateral. The central bank requires that banks finance only entities with audited public financial statements. Banks accept collateral in the form of land or real estate. Banks set limits their lending to small farmers and agribusinesses because they lack financial records and collateral. Only one in five small and medium enterprises (SMEs) has a bank loan or line of credit, with over 85 percent of loans requiring collateral, and collateral value representing almost four times the value of the loan. Most financing is aimed at large commercial farmers, and medium or large agribusinesses.[89]

Micro finance institutions (MFIs) have limited capacity to finance the agriculture sector. MFIs represent 3.1 percent of total banking assets in Albania. It is estimated that they reach 2.4 percent of the population, and unlike most commercial banks, which have limited presence in rural areas, MFIs are extended across the territory. However, difficulties accessing long- term and low-cost funding restrict their funding capacity to farmers. Farmers' and SMEs' lack of collateral is also an issue for MFIs.[90]

Collateral markets and agricultural insurance are limited. Markets for the sale of immovable collateral, especially agricultural land, are limited because of land ownership issues, and there is no use of moveable collateral for financing. Albania has no agriculture warehouse receipt financing, and risk-mitigation tools like agriculture insurance are missing.[91]

Infrastructure and Logistics

Insufficient access to irrigation diminishes production. Albania is rich in water resources, but a large share of the country's water infrastructure deteriorated due to a lack of investment after the 1990s. Only 57 percent of the rural population has access to water services, and only 19.6 percent of agricultural land is irrigated.[92] According to the FAO, the need for supplementary irrigation will increase due to rising temperatures. This need for irrigation poses a serious threat to the production of soybean, maize, spring wheat, barley, beans, tomatoes, cabbage, millet, onions, sorghum, pepper, sunflowers, and watermelon.[93] Development partners, including the World Bank, have supported several irrigation projects, but further efforts will be necessary to create an adequate level of irrigation infrastructure.

Postharvest facilities are insufficient. As described above, aggregators and wholesalers provide cold storage facilities to farmers, and facilities have grown rapidly with support from Instrument for Pre-Accession Assistance for Rural Development (IPARD) grants as part of the EU accession framework. However, there continues to be a gap in comparison to demand. Studies indicate that there is a potential to increase storage capacity by an additional 15,000 metric tons in the apple subsector alone.[94] This scarcity in warehouses and cold storage facilities causes food losses and forces farmers to sell on the spot regardless of market prices. Drying facilities for medicinal and aromatic plants, as well as packaging and labelling equipment, are limited too. The lack of investments in logistics and distribution centers also affects export capacity and the ability to access higher-margin markets.[95] As with aggregators, available data is insufficient to identify the presence of these facilities or constraints.

Food Safety Standards Certification and Challenges Associated with EU Ascension

Albania has a relatively open tariff regime and applies few nontariff measures.[96] It is a member of several trade agreements of which the one with the EU is by far the most relevant. The country has been a member of the World Trade Organization since 2000 and grants at least most-favored-nation treatment to all its trading partners. Albania joined the Central European Free Trade Agreement in 2006, and the Stabilization and Association Agreement with the EU in 2009, thus enjoying free trade in most goods with countries parties to both organizations.[97] In 2014, Albania achieved EU candidacy status, and the European Council decided to open accession negotiations in July 2020. More than 90 percent of Albania's agriculture and food exports are destined to EU member or candidate states. EU membership will give Albanian farmers full access to a market of more than 500 million consumers and to the Common Agricultural Policy (CAP). The CAP budget provides support to farmers on basic income, and risk- mitigation. To gain EU accession, Albania must adjust its policies and institutions to comply with those of the EU, and Albanian farmers must achieve cross-compliance in areas such as food safety and traceability, animal welfare, and environmental standards. Meeting EU requirements would allow Albania to access this important market while also increasing its global competitiveness, as EU standards are some of the most stringent worldwide.

Albania's EU accession is supported through IPARD, which is jointly funded by the European Union and the Albanian government. The €94 million IPARD II (2014–20) aims to make the agriculture sector more competitive and sustainable and align it with the EU's common agriculture policy. The program provides support to farmers and agriculture enterprises in the production and processing of dairy, meat, vegetables, herbs, and wine. Funds can be applied for to invest in physical assets, processing and marketing of agricultural products, and farm diversification and business development. A midyear review of the program in 2018 by an independent agency identified some key challenges concerning lack of implementation capacity and skills in public agencies, and interinstitutional coordination. Furthermore, the review identified the need for greater collaboration with other stakeholders, such as the private sector and civil society organizations, to ensure that funds are spent efficiently.[98]

Alignment of Albanian food standards with the EU is slow-paced, and substantial work is needed to conform with EU norms as most food production and processing infrastructure does not meet safety and quality requirements. Albania's standards on animal and plant health and traceability controls are still not fully aligned with EU requirements. Albania's food production and processing infrastructure in general is inadequate, and only large producers have facilities in compliance with food safety and product quality requirements.[99] For example, most slaughterhouses in Albania do not meet national or EU standards. Only 20 slaughterhouses comply partially or fully with national standards, and 5 regions in the country have no complying facilities. By 2014, only 10 of the 63 meat processing companies in the country had modern premises and equipment that met national standards and Hazard Analysis and Critical Control Point (HACCP) requirements. Most milk in Albania is produced by hand, and as of 2014 only 25 of the 420 milk-processing companies had modern infrastructure that conformed to national and EU standards. In that same time frame, only 30 percent of cheese processing plants had adequate equipment, and only 4 of the 73 fruit and vegetable processing companies had premises prepared to meet national standards and HACCP certifications. In the last years, the government made some progress in implementing relevant measures in the food safety and veterinary sectors. Since 2018, the National Food Authority carried out official controls, and relevant measures have been applied, including warnings, fines, seizure and disposal of non-consumable food, and activity suspension. Nonetheless, the restructuring of the veterinary sector is still to be implemented.[100]

Traceability is also a challenge for Albania. Based on EU requirements, food traceability mechanisms and a well-established livestock identification system are necessary for food producers and feed-business operators. As part of the harmonization of Albanian sanitary and phytosanitary legislation with EU regulations, livestock identification and registration are now mandatory in Albania,[101] but national and firm-level traceability systems are inadequate and ineffective.

Notifications and rejections of Albanian products by EU authorities occur frequently and damage the prospects for Albania's exports. Food-safety problems can negatively affect public health and tarnish a country's image as a trade partner. From January 2018 to June 2020 there were 38 notifications in the Rapid Alert System for Food and Feed portal for food products originating in Albania or distributed via Albania and exported to the EU. Most notifications on food originating in Albania mention either poor food hygiene or overuse of chemicals or use of chemicals prohibited in the EU. Albania's rejection rate is higher than that of neighboring countries.[102] Some products are preemptively rejected, including dairy, red meat, and poultry. In the case of these products, it is important to note that their export and marketing in the EU is not authorized due to lack of required conformity with EU standards of Albania's official system of food safety control.[103]

Incomplete and fragmented legislation slows the process of raising food standards and obtaining both official and private certifications. Limited progress has been made in improving food safety and veterinary regulations. The HACCP regulations have been introduced in Albania, but due to lack of secondary food-safety legislation, their implementation is incomplete. Legislation has been passed that would regulate the sampling and analysis of certain contaminants in food and establish standards for monitoring raw milk. However, no regulatory changes have been completed with regard to animal feed, genetically modified organisms, or organic production.[104] Similarly, while the requirement to establish food traceability is a part of the framework food safety law, secondary legislation and guidelines that would enable businesses to implement food traceability on farm and firm levels are needed. Also, secondary legislation with clear instructions on food withdrawal and recall procedures, as well as on establishment of communication channels, need to be enacted in the country and explained to all involved.

Monitoring and control practices are inadequate. While moderate regulatory progress has been achieved, official control procedures do not fully or systematically apply all recommended mechanisms (warnings, fines, seizures, disposal, suspension of activity) across all subsectors. Controls are not systematic for monitoring pesticide residues, or residues and contaminants in live animals and animal products, even though controls on raw milk have improved. Animal identification and registration systems have improved, but they are particularly inaccurate for small ruminants. This is in part because control staff are not adequately trained. Monitoring and reporting systems are also not adequate: reporting on slaughtered animals is inaccurate.[105]

There is lack of infrastructure capacity to implement food standards. National laboratory capacity for agricultural exports is weak: lack of technical equipment, or knowledge, as well as absence of accredited testing methods required by trading partners, are a barrier to the country's ability to guarantee safety and quality of agricultural exports. Poor laboratory capacity increases product costs for exporters and, more important, impedes the opening of EU markets to Albania's food of animal origin. At present, Albania is authorized to export to the EU only fishery products; eggs; frogs' legs; snails; and treated stomachs, bladders, and intestines (casing only). No dairy, poultry, or red meat from Albania can be placed on EU markets.[106]

Certification infrastructure for Albania's primary sector is also limited for fresh produce, processed food and organic farm products. Getting access to more advanced markets requires product quality to be certified. One reason that Albania has been exporting more fruit and vegetables, or proportionally growing its exports to CEFTA, is that fruits and vegetables do not require as much certification as red meat or dairy and have lower Food Safety Certification (FS&C) requirements than the EU. The most commonly required private certification (not imposed by the EU or more widely, but required by most retailers) is Global G.A.P. In Albania, there are 138 G.A.P. certificate holders, indicating significant demand, but there is no Global G.A.P. certifying body, requiring certification by consultants and export specialists from abroad, which increases certification costs.[107]

The lack of certification infrastructure for processed foods inhibits value addition. Food companies trading with well-known international or domestic retailers are required to have a certified food-safety management system. FSCC 22000 is one of the most popular private food-safety standards that is widely accepted in the EU. However, in Albania there are only two FSCC 22000 certified companies, compared with 300 companies in Greece, 197 in Romania, 182 in Serbia, and 17 in North Macedonia. This paucity of certified companies might be due to lack of domestic expertise and consequently high certification costs, as there is only one FSCC 22000 Licensed Certification Body in Albania, while there are 16 in Romania, 13 in Greece, 12 in Serbia, and 4 in Macedonia.[108] Albenspekt is the only accredited inspection and certification body for organic agricultural products listed by the EU. As of June 2020, 48 operators have had their production certified as organic by Albenspekt.[109]

The lack of awareness of these important requirements and poor access to information is also a key constraint. Lack of information about changes in legal requirements and standards in agriculture to harmonize national legislation with the EU is a constraint for farmers and SMEs. In the case of organic agriculture, lack of information is compounded by the lack of understanding among producers on the definition of "organic," both for domestic and export markets. Moreover, there is lack of clarity about which state agency to approach for this information or which ones oversee different aspects of the FS&C system. For example, a requirement to train staff is a part of the EU food safety package, where Regulation EC No 852/2004 outlines detailed action items on training and capacity. However, meeting this requirement is possible only when there is capacity in the country, including databases available for food businesses, training programs developed and delivering, and public consultations for food businesses in place, which demands a flexible approach to the implementation of these principles. For example, under the HACCP framework, the EU allows the possibility for implementation of fewer than the required seven principles under certain conditions.[110] This exemption could help alleviate the burden of implementation while meeting required international standards.

Fragmentation of land continues to pose a serious challenge, and consolidation efforts have stalled. According to a European Commission report from early 2020, Albania has made no significant progress in consolidating agricultural land due to a variety of legal, institutional, and administrative constraints[111]. Activities that could support land consolidation, such as clarification of property rights and developing a comprehensive land register, territorial planning, or environmental protection, are incomplete.

Public spending on agriculture and the environment is insufficient. To meet EU accession requirements, Albania must realign its spending composition and meet more stringent environmental standards. However, Albania's current expenditure composition is further from the EU average than any other country in the region. While the EU budget for agricultural amounted to 20 percent of agricultural output in 2017, Albania's budget for agricultural support averaged less than 1 percent of agricultural output between 2010 and 2017. Regarding the environment, the EU dedicates about half of its rural development spending on environmental and climate change issues; Albania is far from these spending targets[112]. In addition, tax expenditures like the flat compensation rate of agricultural producers on inputs VAT inputs proved to be inefficient and has not been fully transferred from purchasers to farmers that were the intended beneficiaries of this tax expenditure. A direct subsidy to farmers seems to be a more efficient and transparent mechanism supporting farmers.[113]

Other Constraints

In addition to the above-mentioned constraints, the agricultural sector faces other challenges from production to distribution. Low-quality seeds and the insufficient use of machinery and fertilizers per acre reduce productivity. Workforce skills are also a key barrier, and a recent study by Harvard University suggests that inadequate knowledge may be a more binding constraint on competitiveness than scale.[114] Lack of market intelligence and business development services is also widespread among stakeholders. As discussed above, farmers, aggregators, and firms are unaware of the basic food standards and certification requirements for sale domestically, let alone the stringent requirements of export markets like the EU. Another example can be found in packaging boxes or materials, which in many instances don't meet exporting partner requirements.[115] Research extension and development services are limited.[116] Most input-related knowledge in the country is provided by private input suppliers, which limits the scope of farmer knowledge and adds to the cost of inputs.[117] While the Albanian Investment Development Agency (AIDA) is tasked with investment promotion, the services and data available to producers are limited and not easily accessible.

Another key barrier outlined by stakeholders is the tax regime, specifically the differential VAT treatment, which impedes efficiency and results in informality. Taxes in general are in line with regional peers in the Western Balkans, though overall corporate income tax is higher than the regional average (15 percent versus the regional average of 12.5 percent). However, with a change in the VAT law since 2019, there is a differential system of VAT that is applied across the value chain. The VAT rate stands at 20 percent for processors while it is 6 percent for input providers. The differential is too large to justify the value addition and results in excessive costs being borne by processors as input prices remain the same. This not only adversely impacts processors' competitiveness but has also resulted in informality, where many firms trade and process inputs like meat and fruits and vegetables in the informal market to avoid taxes. The tax differential also adversely impacts the quality of produce as required standards are circumvented. Furthermore, the differential in VAT rates with some countries in the region creates a competitive disadvantage and incentivizes activity in the grey market. Firms in the sector also complain about frequent changes in the tax system, which is a cross-cutting constraint.[118]

Finally, the lack of reliable data for the sector is a key constraint. In addition to a lack of data available to farmers and firms to inform production and investment decisions, the analytical data on drivers of competitiveness, such as the organization of the value chain and the identities of key stakeholders, are insufficient and sometimes contradictory. Lack of data and information on aggregators and wholesalers and postharvest facilities has been particularly challenging given the important role they play in the sector. In other cases, data available from the country's statistical agency website (INSTAT) is outdated or contradicts other databases.[119] This lack of information restricts analysis and ability to identify actions to address challenges that may exist. This lack of data also hinders Albania's efforts to obtain EU accession.

5.5 POLICY OPTIONS

The recommendations presented below are designed to strengthen the competitiveness of Albania's agricultural sector while facilitating the country's accession to the European Union. Implementing these measures is especially urgent in the context of the COVID-19 pandemic, which has presented new challenges but also offers opportunities for Albania to advance up the global value chain. Each recommendation includes near-term actions to be completed over the next one-to-two years, as well as longer-term follow-up actions to be implemented over a horizon of two years or more.

To enable investment in fixed capital in the agricultural sector, the government must complete its long-delayed reform of the land registration system. The authorities may begin by assessing the viability of a PPP for land registration. Improvements in the quality of existing land data will need to be implemented, and detailed recommendations have been provided through ongoing projects with development partners. All agricultural land and cadastral data must be registered digitally, and a unique digital cadastre map should be created for use by all surveyors, government agencies, and municipal authorities. Revising the national legislation to allow foreign ownership of agricultural land and pastures is necessary to meet EU accession requirements and promote agricultural development. Over the longer term, the authorities should invest in training a new generation of land professionals in the public and private sectors, with a focus on modern registration methods and sustainable land management.

To enable agricultural producers to leverage economies of scale, the government must address land fragmentation. The authorities should evaluate the potential of out-grower schemes, contract farming arrangements, and farmer associations to overcome the market failures associated with land fragmentation. Analyzing postharvest facilities and the role of aggregators will help identify priority actions to improve their capacity and efficiency. Over the longer term, expanding agricultural marketing infrastructure—particularly wholesale markets—through PPPs or public investments alleviates the challenges facing small farmers. Infrastructure access is a cross-cutting constraint in Albania, but it has particularly serious implications for the agricultural sector. Investing in road infrastructure and improving access to rural areas could boost production and promote diversification, while rehabilitating irrigation infrastructure would strengthen resilience to climate change and weather-related shocks.

The establishment of credit guarantee schemes (CGSs) may support the increased access to finance and reduction of borrowing costs, especially for small farmers. Increasingly used for SMEs finance, these mechanisms provide credit risk mitigation to lenders in the agriculture sector where creditworthy farmers customers, which would have been denied credit in the absence of sufficient collateral as is the case of small farmers in Albania. Differently from direct lending programs, fiscal costs of credit guarantee schemes are lower and can be accommodated in the limited fiscal space that the government faces. Indeed, the have much lower initial cash flow needs Indeed, in order to increase access to finance for agriculture, the state budget provides for a state guarantee in the amount of 4 billion ALL for the period 2022-2025.

Strengthening food standards and certification systems and infrastructure is crucial to EU accession and could greatly enhance the competitiveness of agricultural producers. To improve the regulatory environment in the agricultural sector and accelerate the harmonization of national legislation with EU requirements, the authorities should (a) conduct a thorough assessment of export-related requirements for horticulture and other food products and (b) adopt flexible approaches to the implementation of food hygiene and HACCP procedures for certain types of agribusiness. To improve the knowledge and build the capacity of farmers and other market participants, the government should (a) clearly publish all export requirements on the websites of relevant ministries and other agencies; (b) conduct a public outreach campaign to communicate information on food-safety requirements and HACCP mechanisms to businesses and public officials; and (c) build the capacity of the Food Safety Agency to monitor and enforce food-safety requirements, HACCP mechanisms, and traceability standards. To upgrade private quality-assurance and certification services, policy makers should establish partnerships with the private sector to set up accredited export-testing labs and certification mechanisms recognized by Albania's key export partners. Over the longer term, the authorities should create a more favorable environment for private laboratories and certification services and invest in information platforms to communicate sanitary and phytosanitary requirements to farmers and other stakeholders.

Reducing administrative costs and strengthening agricultural value chains is vital to improving export competitiveness. Streamlining customs processes and other border procedures could reduce the cost of exporting. Establishing digital platforms to connect producers, off-takers, and end markets could further reduce costs while encouraging the establishment of long-term business relationships. The government should address the lack of skills and knowledge among farmers by (a) building agronomic capacity and improving market intelligence; (b) offering training in finance and accounting skills to farmers and agribusiness SMEs; (c) exploring possibilities for using PPPs to expand the supply of extension services; and (d) improving the quality of agriculture statistical data. Over the longer term, the authorities should improve access to finance in the agricultural sector by (a) offering training on agricultural lending practices to staff at private banks; (b) incentivizing the establishment of crop and weather insurance; and (c) supporting the financing of postharvest infrastructure that complies with international certification requirements. Ultimately, Albania's EU accession will require increasing public spending on agriculture and the environment to levels consistent with EU standards. In this direction, in 2021 the Government approved the Business Development and Investment Strategy for the period 2021-2027, which envisages the preparation of an Export Strategy Program. This program will be based on in-depth assessments of potential export sectors and provide concrete measures to support them in the next years.

6. FOSTERING A HIGHER-VALUE, MORE DIVERSIFIED, AND SUSTAINABLE TOURISM SECTOR

6.1 THE DEVELOPMENT OF THE ALBANIAN TOURISM SECTOR

Over the past two decades, Albania's travel and tourism (T&T) sector has expanded at a remarkable pace. In the 1990s, international tourism to Albania was largely confined to members of the large Albanian diaspora returning to visit friends and relations, and annual arrivals averaged about 100,000 during the decade. However, the number of international arrivals increased rapidly from 317,000 in 2000 to 6.4 million in 2019,[120] reflecting an annual growth rate of 17 percent, more than four times higher than the global average during the period (Figure 6.1).[121] During the last 10 years, the annual growth rate of international arrivals to Albania slowed to 13 percent but remained far above the European average of 5 percent. Currently, over 95 percent of Albania's international arrivals hail from Europe, with 80 percent coming from Southern Europe.

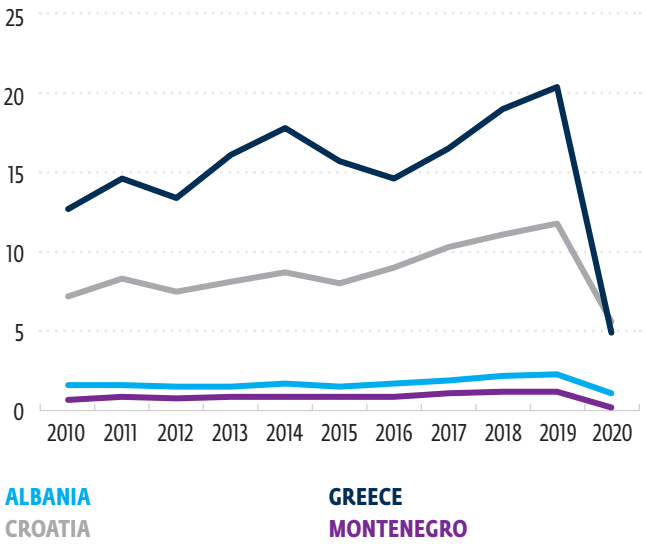
Large-scale investment in accommodation and tourism-related infrastructure accommodated the surge in international arrivals. The number of hotels and similar establishments grew from around 100 in 2000 to more than 1,100 in 2019; the number of available rooms rose from 2,300 to almost 34,000; and the number of beds increased from 6,000 to close to 78,000.[122] Meanwhile, the supply of other T&T-related services has also substantially expanded. The development of tourism facilities and complementary public infrastructure enabled the expansion in tourist arrivals while accelerating the growth of the construction sector.

Albania's tourism sector has yet to realize its full potential, and it continues to lag those of comparator countries. On a per-arrival basis, international tourism receipts in Albania are much lower than in Croatia, Greece, and Montenegro and far below the EU average (Figure 6.2). Tourists in Albania spend an average of €52 per night, compared with the European average of €75.

The T&T sector has become the engine of Albania's economic growth. In 2018, the sector generated US$1.38 billion in added value, contributing 8.8 percent to GDP.[123] The direct contribution of T&T to Albania's total economic output is more than double both the global average (3.4 percent) and the EU average (3.8 percent). Among Mediterranean countries, the share of T&T in Albania's economy is slightly larger than in Greece (8.5 percent) and Tunisia (8 percent), but smaller than in Croatia (10.9 percent) and Montenegro (10.4 percent) (Figure 6.3). When the indirect and induced effects of tourism spending are accounted for, the value added by Albania's T&T sector may amount to as much as US$3.26 billion, or 21.2 percent of GDP.[124]

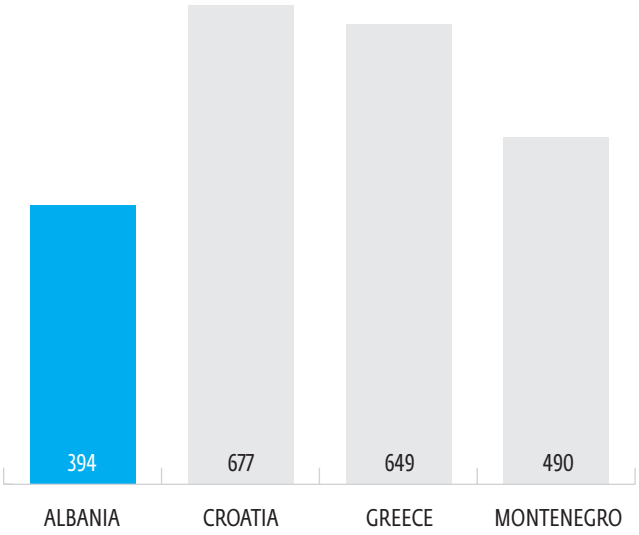
Tourism has been the main channel through which Albania has integrated into the global economy. T&T services represent Albania's largest source of foreign exchange, and the value of T&T exports grew from US$405 million in 2000 to US$2.8 billion in 2018. Tourism exports represented 38 percent of Albania's total exports of goods and services in 2018 and more than 70 percent of services exports, far above both the global average (7 percent) and the European average (6 percent). Although the tourism sector is Albania's primary link to the global economy, FDI plays only a limited role in its development. The current stock of FDI in travel and accommodation services amounts to just US$106 billion, or about 1.3 percent of Albania's total FDI stock. The relatively modest presence of international T&T companies slows the transfer of technology and international management practices, with negative implications for long-term productivity and competitiveness.

FIGURE 6.1. INTERNATIONAL TOURISM RECEIPTS, ALBANIA AND COMPARATORS, 2010–19, US$, BILLIONS



Source: Tourism Dashboard. United Nations World Tourism Organization (UNWTO).

FIGURE 6.2. INTERNATIONAL TOURISM RECEIPTS PER ARRIVAL, ALBANIA AND COMPARATORS, 2018, US$



Source: Tourism Dashboard. United Nations World Tourism Organization (UNWTO).

Tourism accounts for a substantial share of employment in Albania, and the T&T sector is dominated by microenterprises and small firms. In 2018, Albania's T&T sector contributed nearly 8 percent to total employment, a smaller share than in Greece (12.7 percent) and Croatia (10 percent), but higher than in most other Mediterranean countries (Figure 6.4). According to the World Travel and Tourism Council (WTTC), the total contribution of T&T to employment in Albania—including the indirect effects generated by investment, the supply chain, and induced income—may be as high as 24 percent. Microenterprises and small firms contribute an estimated 90 percent to total employment in the T&T sector. Microenterprises and small firms produce 83 percent of the value added in the accommodation and food-service subsectors, while medium firms generate 16 percent, and large firms account for just 1 percent.

FIGURE 6.3. THE DIRECT CONTRIBUTION OF THE T&T SECTOR TO GDP, ALBANIA AND COMPARATORS, 2018, %

Source: Elaboration based on World Economic Forum (WEF) figures and Datawrapper. 2018

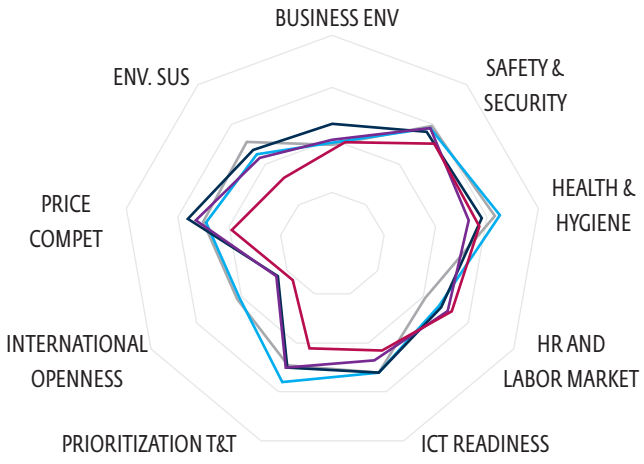
FIGURE 6.4. THE CONTRIBUTION OF THE T&T SECTOR TO EMPLOYMENT, ALBANIA AND COMPARATORS, 2018, %

Source: Elaboration based on World Economic Forum (WEF) figures and Datawrapper. 2018

Albania's tourism sector is less competitive than those of its nearest comparators. Albania's position in the World Economic Forum's Travel and Tourism Competitiveness Index rose from 106th in 2015 to 98th in 2017 and reached 86th in 2019, with significant progress observed across several indicators. Nevertheless, Albania continues to rank far behind competing regional destinations such as Greece (25th), Croatia (27th), and Montenegro (67th). Albania's competitors have more favorable enabling environments for tourism, including more supportive government policies, fewer regulatory obstacles to travel and trade, better international connectivity, stronger environmental safeguards, superior telecommunications services, more developed transportation infrastructure, and more extensive business services (Figure 6.5).

Albania also lags its competitors on indicators of the natural and cultural resources available for tourists, which is surprising given the country's abundant natural beauty and cultural richness. Recent improvements in Albania's ranking in the WEF's Travel and Tourism Competitiveness Index have been driven by increases in the range of natural attractions available to visitors (Figure 6.6). The creation of four new national parks and the extension of other protected areas has strengthened Albania's competitiveness, and further gains could be achieved by emphasizing the sustainable development of the country's natural assets and supporting the growth of nature-based tourism.

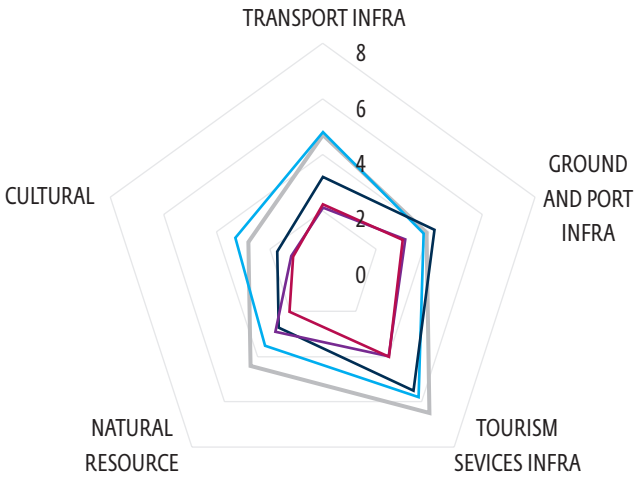
FIGURE 6.5. T&T COMPETITIVENESS INDEX: ENABLING ENVIRONMENT, SECTORAL POLICIES, AND CONDITIONS



CROATIA 2019 ALBANIA 2019
GREECE 2019 ALBANIA 2015
MONTENEGRO 2019

Sources: World Economic Forum. (WEF), The Travel and Tourism Competitiveness Report 2019 (Geneva, WEF, 2019); World Economic Forum. (WEF), The Travel and Tourism Competitiveness Report 2015 (Geneva, WEF, 2015).
Note: ICT = Information Communication Technologies; HR = Human Resources; T&T = Travel and Tourism.

FIGURE 6.6. T&T COMPETITIVENESS INDEX: INFRASTRUCTURE, NATURAL RESOURCES, AND CULTURAL RESOURCES



CROATIA 2019 ALBANIA 2019
GREECE 2019 ALBANIA 2015
MONTENEGRO 2019

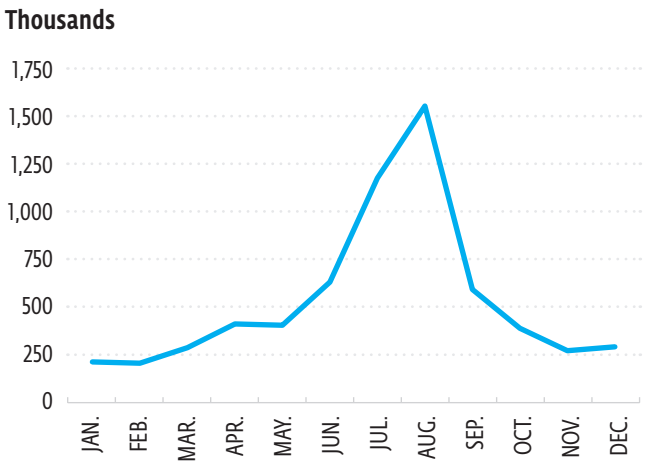
Sources: World Economic Forum. (WEF), The Travel and Tourism Competitiveness Report 2019 (Geneva, WEF, 2019); World Economic Forum. (WEF), The Travel and Tourism Competitiveness Report 2015 (Geneva, WEF, 2015).

Albania possesses several important advantages, including its relative newness as a destination, its largely pristine natural environment, and its unexplored cultural resources. Many tourists prefer emerging destinations due to their novelty, the range of authentic experiences they offer, and the absence of overcrowding.[125] This makes the Albanian Riviera, Vlora Bay, and the area north of Durrës more attractive relative to Croatia, which has suffered from the excessive development of cruise tourism and package tours, and which is now an established destination. Albania's natural assets offer a particular advantage, as its coastal landscape and traditional villages have largely been preserved. Unlike Croatia and Montenegro, Albania has plenty of sandy beaches on the Adriatic Sea, and four UNESCO World Heritage Sites are within short driving distance of the coast.

The development of tourism in Albania has been highly focused on a mass-market, beach-based model, which is associated with low value added per tourist, strong seasonality, and intense geographic concentration. Mass tourism based primarily on sun-and-sand attractions is typically developed around high-volume hotels and resorts, which anchor dense clusters of retail stores, entertainment venues, and guided-tour operators. On average, international tourists visiting Albania spend less than they do in other Mediterranean countries and in the EU in general. The average length of stay for visitors to Albania is also shorter than in competitor countries. Low spending per tourist and short stays are associated with an undiversified tourism value chain that involves a limited range of attractions, activities, hotels, restaurants, and shops. Albania's "blue tourism" subsector, which includes activities such as boating, diving, recreational fishing, and aquatic sports, is largely undeveloped. Despite Albania's unique cultural heritage, cultural tourism represents only a small fraction of the industry.

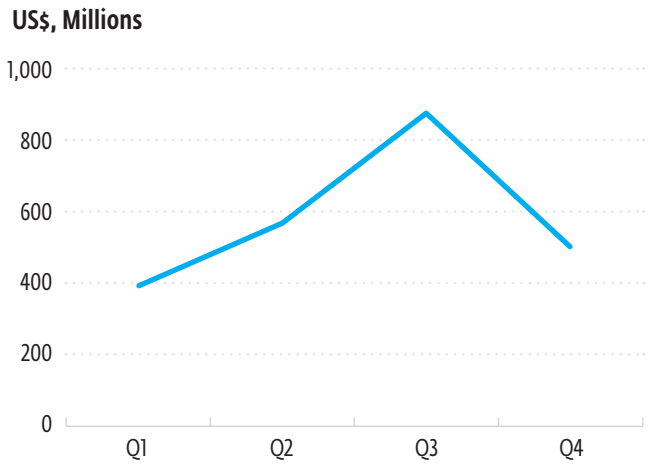
Tourism arrivals in Albania are highly seasonal. The total number of guests during the high season (July and August) is nearly three times the average for the rest of the year (see Figures 6-7 and 6-8). The sun-and-sand orientation of the Albanian tourism industry prevents a more balanced distribution of visitors throughout the year. The seasonality of mass tourism is problematic, as the supply of accommodation may fail to meet demand in the high season but far exceed demand during the rest of the year, weakening the financial performance of the sector. Meanwhile, many tourism staff are hired temporarily for the summer season and laid off in the winter, making tourism an unattractive career choice. In addition, popular sites, facilities, and services may be overwhelmed by crowds and vehicular traffic in July and August, with negative implications for the environment, the quality of life for residents, and the tourism experience.

FIGURE 6.7. INTERNATIONAL TOURISM ARRIVALS, 2019



Source: Tourism Dashboard. United Nations World Tourism Organization (UNWTO).2019.

FIGURE 6.8. INTERNATIONAL TOURISM RECEIPTS, 2019



Source: Tourism Dashboard. United Nations World Tourism Organization (UNWTO). 2019.
Note: Q refers to quarters as per calendar year.

Tourism in Albania is heavily focused on the municipalities of Durrës, Saranda, Shengjin, and Vlora. Recent investment in hotels has been concentrated in Saranda and Durrës, where low-quality projects that lack appropriate environmental safeguards and that fail to meet international operational standards have weakened the sustainability of the local tourism sector. Smaller investments have been made in other areas along the Adriatic Coast and the Albanian Riviera, but Albania's tourism sector will likely remain heavily concentrated for the foreseeable future.

Albania's emphasis on heavily concentrated, highly seasonal mass tourism has negatively affected environmental quality, threatening the sustainability of Albania's natural assets. Coastal tourism depends on environmental features that are vulnerable to both local-level environmental damage, such as air and water pollution, and global phenomena, such as climate change. Over-tourism can overwhelm and damage a country's tourism assets and infrastructure,[126] as has already happened in Durrës and Saranda (see Figure 6.9), while driving up the cost of living and eroding the purchasing power of local residents. Countries and cities across Europe are fighting to reverse the trajectory of over-tourism, recognizing that increasing the per capita expenditure of each tourist yields a better financial return and is more environmentally, socially, and culturally sustainable than pursuing a larger volume of tourists.[127]

FIGURE 6.9. SARANDA IN 1991 (BEFORE MASS TOURISM) AND NOWADAYS

Source: Photos by K. Gerxhani.

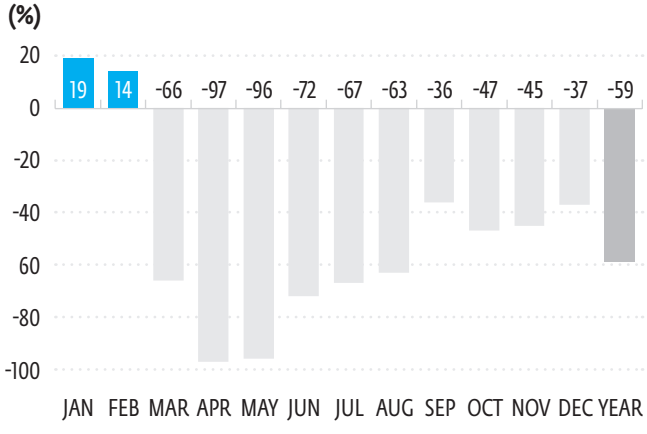
In addition, Albania's model of undiversified, concentrated, and highly seasonal mass tourism increases the sector's vulnerability to shocks. Catering to large numbers of lower-spending tourists makes Albania's tourism sector especially sensitive to recessions that reduce the disposable income of lower- and middle-income households in source markets. During the 2008–09 global financial crisis and the subsequent eurozone sovereign debt crisis, the number of visitors to Albania plunged as demand for low-cost tourism services collapsed across much of southern Europe. The vulnerability created by Albania's dependence on a small number of source markets is exacerbated by the undiversified nature of its tourism offerings, as shocks that impact demand for sun-and-sand tourism cannot be compensated for by other activities. A high degree of seasonality further intensifies Albania's exposure to shocks, as temporary disruptions during the high season can have devastating effects on the liquidity and financial sustainability of the sector. The ongoing COVID-19 pandemic has underscored this important vulnerability. Finally, the country's dependence on a small number of intensively developed tourism centers poses concerns regarding the economic and ecological sustainability of Albania's tourism model.

6.2 THE IMPACT OF COVID-19 ON THE TOURISM SECTOR IN ALBANIA

The COVID-19 pandemic has had a devastating effect on the international tourism industry, and Europe has been among the most affected regions. Worldwide, tourism has experienced the worst outcomes of any major economic sector, as containment measures, travel restrictions, and quarantines have dramatically reduced both the supply of, and demand for, T&T services. According to the United Nations World Tourism Organization (UNWTO), the number of international tourists fell by 65 percent, year on year, during the first half of 2020, which represents a loss of 440 million international arrivals and about US$460 billion in export revenue. Europe is the world's second-hardest hit region, and the southern Mediterranean countries experienced a 72 percent decline in international arrivals, year on year, during the first half of 2020.

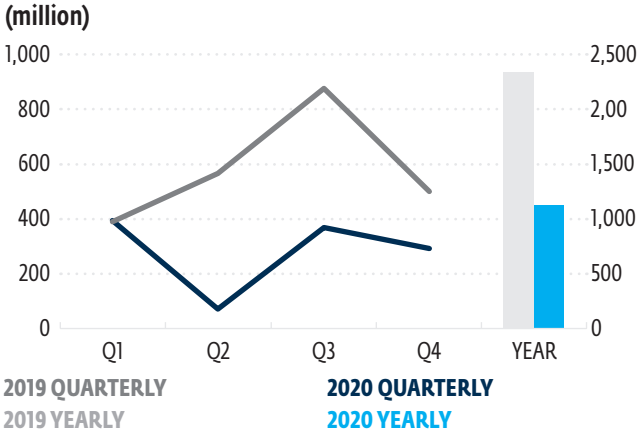
Albania's tourism sector has been hit hard by COVID-19, though it has fared better than regional comparators. In 2020, Albania recorded 2.5 million international arrivals, a decrease of 59 percent, compared with 2019 (Figure 6.10). While still a major shock, the drop in tourism arrivals in Albania has been less severe than that experienced by Croatia (–68 percent), Greece (–77 percent), and Montenegro (–85 percent). The decline in tourism activity in 2020 has compounded the larger economic shock of the pandemic, with tourism receipts falling from US$2.3 billion in 2021 to US$1.2 billion in 2020, a drop of 52 percent (Figure 6.11). As a result, the pandemic's impact on tourism has weakened Albania's balance of payments. Given the relevance of T&T to Albania's external accounts, the decline in tourism-related export receipts worsened the country's current-account balance. The fall in T&T exports reduced total exports of goods and services by around 30 percent, widening the current-account deficit from 7.9 percent of GDP in 2019 to 8.8 percent in 2020. Falling exports will also worsen external liquidity and debt indicators, which will likely increase external borrowing costs. FDI flows to the tourism sector are estimated to have declined further from the already-low levels observed in recent years.

FIGURE 6.10. CHANGE IN INTERNATIONAL ARRIVALS (COMPARED WITH SAME MONTH IN 2019),



Source: Tourism Dashboard. United Nations World Tourism Organization (UNWTO).2019-2020.

FIGURE 6.11. INTERNATIONAL TOURISM RECEIPTS IN 2019 AND 2020



Source: Tourism Dashboard. United Nations World Tourism Organization (UNWTO).2020
Note: Q refers to quarters as per calendar year.

T&T and ancillary activities, including trade, transportation, accommodation, and food service, contracted more sharply than any other sector. The accommodation subsector shrank by 75 percent, year on year, in the second quarter of 2020. The hospitality industry had been facing widespread financial strain, with mounting arrears and extensive firm closures. Small and medium operators, which dominate Albania's hospitality sector, have been hit especially hard, as they typically lack access to flexible lines of credit and other forms of support. The drop in tourist inflows has adversely affected restaurants and food-service providers, but this segment is expected to recover faster than other parts of the tourism value chain. In the aftermath of the COVID-19 outbreak, the domestic market was the most important source of revenues for the food and hospitality subsectors. As travel restrictions were eased, and the COVID-19 vaccination rollout out has substantially progressed, a strong recovery of international arrivals has been observed in 2021. International arrivals reached 5.3 million, 112 percent higher than in 2020, but still 10 percent lower than the number of international arrivals registered in 2019.

Evidence from the 2020 Albanian Tour Operators Association survey of 43 business (approximately 20 percent of all tour operators and travel agencies) paints a dire and deteriorating situation for Albania's tourism sector. Ten percent of businesses suspended their activities entirely, and 60 percent earned just 0 to 10 percent of their 2019 revenues. More than half of all employees were laid off, and most businesses (86 percent) do not expect any revenue-generating activity for the remainder of 2020. Only one in five of the businesses surveyed were optimistic that work will resume in spring 2021. Regarding governmental support, the Albanian Tour Operators Association survey found that salaries and insurance for existing employees, grants, and support for rent payments were the top priorities for tourism businesses. Without such interventions, 40.5 percent of respondents said they would have to declare bankruptcy by the end of 2020, and a further 33 percent would be able to struggle on only until summer 2021.

Tour operators and travel agents have lost revenues, and many have been compelled to refund cancelled trips with no future bookings to replace them. Most tour operators reduced or halted operations in 2020. Online travel agents are better capitalized, and previous investments in technology and data analytics have made them much more resilient to the crisis. Some large international tourism brands have suffered reputational damage, either by failing to evacuate tourists promptly or by refusing or delaying refunds for cancelled trips.

The Albanian government has adopted a set of fiscal and monetary policies designed to support firms affected by COVID-19. As described in chapter 4, fiscal support measures are primarily tax deferrals. The deadline for paying the profit tax has been postponed until 2021 for firms in the garment industry, call centers, tourism operators, and small businesses (Box 6.1 provides details on the type of governments' support policies to the sector during COVID-19)). The collection of local taxes was also postponed until June 2020. Monetary policies focus on providing liquidity support by establishing a three-month moratorium of debt obligations (from March to May 2020) and creating two guarantee funds to reduce borrowing costs for firms. In addition, between April and June the government provided two financial assistance packages for employees of small and medium firms and self-employed workers. These two packages benefitted about 10,000 employees working at over 3,600 firms in the tourism sector.[128] Finally, the Ministry of Tourism and Environment, in collaboration with the Ministry of Health and Social Protection, adopted a set of COVID-19 adaptation measures for the 2020 tourism season.

BOX 6.1. POLICY RESPONSES TO COVID-19

Worldwide, governments' immediate policy response to the pandemic consisted of cross-cutting fiscal and monetary stimulus packages supporting economic activity, firms' cashflows, jobs, and most affected groups. Fiscal support measures consisted of deferral of tax and social contributions to attenuate the impact of the fall in revenues and sales on the cashflows of firms. Wage subsidies to preserve jobs have been at the center of the governments support packages. As travel and tourism (T&T) services are labor intensive, the wage subsidies have been critical in preventing massive workers layoffs. The monetary stimulus included reduction of interest rates; liquidity injections through credit lines, particularly to small and medium enterprises; establishment of guarantee funds to reduce the cost of borrowing by firms; and temporary moratorium of debt service obligations. Generally, the COVID-19 response implemented by the government of Albania has included these policy instruments (see Figure B6-1-1).

Given the importance of the tourism sector on economic activity and employment, several countries have adopted more specific measures supporting the tourism value chain. On the fiscal side, reduction of value-added tax for hotels, airline tickets, and travel operators and waivers for accommodation taxes and fees on tourism related activities have been adopted. Vouchers for cancellations of airline ticket and tour packages have benefitted airlines and tourism operators. Complementing wage subsidies for protecting jobs, and training and skills development for T&T employees have been put in place.

A third set of measures supporting the reopening of the sector includes the issuance of health and safety protocols for the operation of hotels and tourism activities; certification of providers to restore confidence of clients; reduction or temporary elimination of airport and visa fees; and establishment of a public-private dialogue mechanism to assess sector impacts and propose actions to address the most acute challenges faced by the sector. The government of Albania issued the protocol for anti-COVID measures during the tourism season of 2020, and it is in close contact with sector stakeholders to identify emergent issues affecting the sector.

Recognizing that the recovery of the sector will be phased and that in the short-term domestic tourism will be the segment that will start first, many governments put in place measures to foster the demand for domestic tourism. Vouchers for restaurants, hotels, and tour packages are expected to stimulate the demand for T&T services. More structural measures are also being adopted, such as including tourism related infrastructure in public investment programs, fostering digitalization, promoting connectivity, and rebalancing tourism sector management approaches to avoid unsustainable tourism development.

FIGURE B6.1-1. GOVERNMENT POLICY RESPONSE TO COVID-19

<table>
<tr><th colspan="4">CROSS-CUTTING STIMULUS POLICIES</th></tr>
<tr><th></th><th colspan="3">SECTOR SPECIFIC</th></tr>
<tr><td rowspan="2">Fiscal
Tax deferrals
Postponement of 2019–20 deadlines for tax declarations
Deferral of social contributions
Wage subsidies</td><td rowspan="2">Fiscal
Reduction of VAT rates for hotels, air tickets
Vouchers for reimbursement of travel cancellations
Reduction of tourism related fees
Accomodation taxes waived
Bail-outs to airlines</td><td colspan="2">RESTARTING TOURISM</td></tr>
<tr><td rowspan="2">Reopen tourism
Travel and tourism protocols
Health and safety guidelines and cerifications
Reduction of airport fees
Suspension of visa fees
Crisis management coordination mechanisms</td><td rowspan="2">Foster domestic tourism
Vouchers for domestic tourists, hotels, restaurants, and tour operators
Support to destinations through infrastructure investments</td></tr>
<tr><td>Monetary
Reduction of interest rates
Liquidity support through credit lines
Guarantee funds
Debt service moratoriums</td><td>Jobs and training
Training programs on digital skills
TVET programs fees waived</td></tr>
</table>

Sources: World Bank staff elaboration based on United Nations World Tourism Organization (2020). Tourism Recovery Technical Assistance Package. https://webunwto.s3.eu-west-1.amazonaws.com/s3fs-public/2020-05/COVID-19-Tourism-Recovery-TA-Package_8%20May-2020.pdf; Organisation for Economic Co-operation and Development OECD (2020). Tourism Trends and Policies 2020. https://www.oecd.org/cfe/tourism/oecd-tourism-trends-and-policies-20767773.htm; and International Monetary Fund (IMF). COVID-19 Policy Tracker. (2020-2021). https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19.

Notes: TVET = Technical and vocational education training; VAT = value added tax

The COVID-19 pandemic has highlighted the challenge that Albania's limited international connectivity poses to its tourism sector. Albania was underserved by airlines before COVID-19, and the sharp reduction in air connectivity caused by the pandemic is a serious obstacle to the recovery of the tourism sector.[129] In early May 2020, international flights were at just 6 percent of their May 2019 level, and the International Air Transport Association expects the effects of the crisis to last well into 2021. Airlines working in Albania and other emerging destinations, where budget carriers operate on narrow margins and are highly dependent on leisure travel, may permanently reduce their number of flights or exit those routes altogether. Meanwhile, Albania's limited seaport, road, and railway infrastructure inhibits its ability to compensate for the reduction in flights by switching to alternative transportation modes. Finally, insufficient ICT capacity restricts the use of digital tools and platforms that could help tourism firms adapt to the conditions of the pandemic.

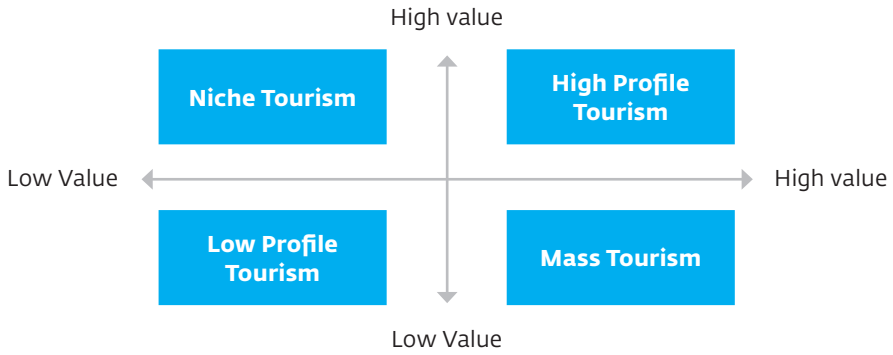
The impact of COVID-19 underscores the urgent need for Albania to rebalance its approach to tourism development. Despite the easing of travel restrictions and the gradual resumption of activities in major tourism centers, the future of beach-focused mass tourism markets is uncertain worldwide. According to Tourism Economics, international tourism will take at least two years to recover to its pre-pandemic levels, and the recovery will be phased[130]. Domestic tourism is expected to recover first with remote, rural, and natural areas being the most attractive destinations in the short-term. Nonseasonal tourism to major cities with a diverse supply of attractions is also expected to recover swiftly. By contrast, destinations that were highly seasonal and overcrowded prior to the pandemic are not expected to recover until 2024. Under this scenario, the recovery of highly seasonal mass tourism in Albania's coastal areas will be slow and challenging. However, the crisis presents an opportunity for policy makers, firms, and local stakeholders to rebalance tourism development in Albania toward a more sustainable and resilient model that emphasizes diversity and value-addition rather than focusing exclusively on the number of tourist arrivals.

6.3 TOWARD A HIGHER-VALUE-ADDED, MORE DIVERSIFIED, AND SUSTAINABLE TOURISM SECTOR

The COVID-19 pandemic presents an opportunity for Albania to transform its tourism sector in ways that enhance its ability to generate value, safeguard the country's natural and cultural capital, and cope with future shocks. The pandemic is expected to accelerate an ongoing transition in tourist preferences away from mass tourism toward niche tourism[131] and high-profile tourism (Figure 6.12).[132] Activities that take place outdoors and easily accommodate social distancing have especially strong growth potential. A greater emphasis on niche and high-profile tourism could increase the economic gains generated by Albania's tourism sector while strengthening its environmental sustainability. This transition would also be in line with the aims of the European Green Deal, in particular its policy areas of biodiversity, sustainable industry, building and renovating, and eliminating pollution.

Niche and high-profile tourism typically includes small-scale, low-impact activities that engage local communities and leverage natural resources. Community engagement is supported by the diffusion of economic activities across many small operators and by the local sourcing of tourism inputs. Sustainably leveraging natural resources requires the effective regulation and monitoring of tourism activities in land and marine areas and the efficient management of tourist flows and the waste they generate. More fundamentally, these tourism models hinge on valuing biodiversity and cultural heritage, developing low-impact infrastructure and services, and protecting sensitive ecosystems.

FIGURE 6.12. FOUR TYPES OF TOURISM



Source: Ecorys, (2013). Study in support of policy measures for maritime and coastal tourism at EU level. https://ec.europa.eu/maritimeaffairs/sites/maritimeaffairs/files/docs/body/study-maritime-and-coastal-tourism_en.pdf

Consistent with its objectives for the tourism sector, Albania has committed to a blue tourism strategy designed to sustainably increase the economic contribution of coastal and marine resources. The creation of new, more diverse itineraries is an essential part of Albania's blue tourism strategy. Encouraging the movement of tourists within Albania will extend the average length of stay and reduce seasonality. Greater domestic circulation and a more diverse set of activities will help spread the economic benefits of tourism across the country and throughout the year while easing pressure on overcrowded tourism hotspots. Indeed, the government's National Strategy for Sustainable Tourism Development 2019-2023, clearly outlines the objectives and actions needed for the consolidation and expansion of the coastal tourism offer in the country, through investments in the construction of ports and marinas and supporting infrastructure of maritime tourism[133].

By developing a diversified blue tourism subsector, targeting higher-value source markets, and linking coastal areas to inland tourism centers, Albania could greatly increase the marginal revenue generated by each tourist. A conservative estimate by the World Bank Group indicates that implementing the blue tourism strategy could increase international arrivals by about 208,000 per year while boosting tourism revenue by €380 million a year or more. This modest increase in arrivals combined with a major rise in revenue is made possible by the strategy's focus on increasing spending per tourist rather than merely boosting tourist volumes[134].

Albania enjoys a strategic position between highly developed marinas in Croatia, Montenegro, Italy, and Greece. This location gives Albania an advantage over destinations that are less conveniently located or that are already overcrowded, overpriced, or have had their natural environments spoiled by poorly managed development. The growth of the yachting industry in Europe, especially charter boats, offers a valuable opportunity to capitalize on Albania's central position in the Adriatic Sea and generate a sustainable, high-value tourism revenue stream.

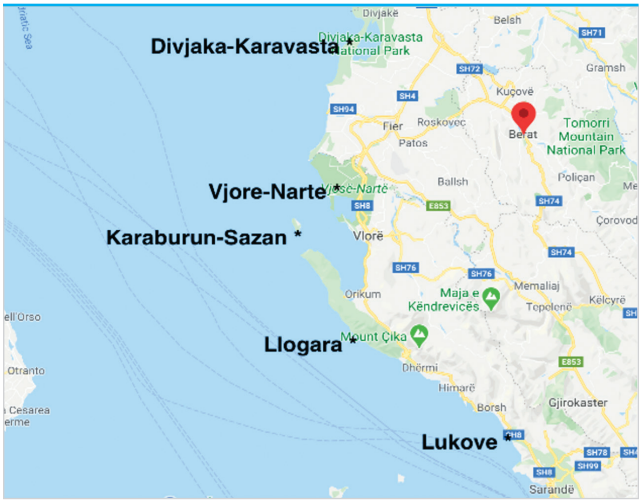
Boating should be a key component of Albania's blue tourism subsector. The 2015 Institute for Nature Conservation in Albania (INCA) study found high demand for boating activities among Albania's existing tourists: 36.5 percent of tour operators interviewed by INCA in Vlora Bay already offered boat trips, and boating was the most popular activity for both domestic and foreign tourists visiting the area. Boating offers a way for tourists to reach the country easily from nearby sailing hubs, and it enables visitors to explore coastal areas.

Albania has significant but largely unexploited potential as a diving destination. The 2014 INCA survey identified three operators offering diving as an activity. The 2015 Karaburun-Sazan management plan also identifies five operators offering diving, all of which are in Vlora, Orikum, and Radhime. Tourists book diving sessions with these operators through local travel agencies and hotels. An estimated 300 to 500 divers visit Albania each summer, but no confirmed statistics are available. Albania lacks the medical infrastructure to provide efficient response to diving emergencies: no public hospitals in Albania have hyperbaric chambers to treat decompression sickness, and there is no option for medical evacuation by helicopter.

Albania's coastal waters have considerable untapped potential for recreational fishing. The variety and volume of fish in Albanian waters offer a significant advantage relative to competing destinations, many of which have been overfished. Permission for carefully controlled fishing within the marine protected area could generate a good source of local income. Moreover, the ease with which sea, lagoon, and shore fishing can be combined adds to the country's appeal as a fishing destination (Figure 6.13). The Albanian fishing fleet is currently located in four ports: Durrës, Vlora, Shengjin, and Saranda, and existing commercial vessels could be used to launch recreational expeditions from any point along the coast.

Nature-based activities could add substantial value to Albania's tourism sector. Albania's undeveloped coastal stretches include many untouched beaches and natural sites located between Croatia, Montenegro, Italy, and Greece, all of which have highly developed tourism industries. The prime location for coastal nature-based tourism in Albania is the 200-kilometer coastal zone between Lukove (north of Saranda) and the northern border of the Divjake-Karavasta National Park (see Figure 6.14). This area includes the Divjake-Karavasta, Llogara, and Karaburun-Sazan National Parks; the Vjore-Narte Protected Area; and the least-developed stretch of the Albanian Riviera. Further north, there are also pockets of nature-based tourism potential, including Kune Vain Lagoon and Patoku Lagoon. The pristine condition of these areas is their chief advantage, and tourism development must be undertaken only in a context of highly rigorous environmental safeguards and in line with the European Biodiversity Strategy. The government Sustainable Tourism Development 2019-2023 included among its objectives the development of nature tourism (lakes, lagoons, thermal springs, natural parks, etc.) and the creation of new products, such as the development of hiking trails, cycling, activities related to winter tourism as a way to diversify the offer and increase the value added of the country's tourism services.

FIGURE 6.13. PRIORITY AREAS FOR NATURE-BASED TOURISM



Sources: Staff elaboration based on Google Maps and libguides.bodleian.ox.ac.uk, 2020.

FIGURE 6.14. PRIORITY AREAS FOR RECREATIONAL FISHING

Sources: Staff elaboration based on Google Maps libguides.bodleian.ox.ac.uk, 2020

To realize its full potential, blue tourism should be integrated with inland tourism activities. Mountain tourism in the Albanian Alps and the Korab Mountains can draw tourists away from Albania's beaches while lengthening the tourist season. These mountain ranges encompass the Thethi and Valbona National Parks and the Kelmendi region, which need help to adapt and become more resilient to climate issues. With peaks reaching 2,764 meters and an abundance of glacial lakes, caves, and river valleys supporting a biodiverse ecosystem, these mountain ranges offer substantial potential for trekking, mountaineering, mountain biking, kayaking, and recreational fishing in the late spring, summer, and early autumn, as well as backcountry skiing and snowshoeing in the winter months. Mountain tourists often prefer to stay in small hotels, guesthouses, and homestays, and the development of the mountain tourism subsector would offer opportunities for local employment and entrepreneurship in remote and underserved regions of the country.

Albania has nearly 250 natural lakes and more than 800 artificial lakes, which offer a range of tourism possibilities. As areas of outstanding natural beauty, the lakes and their surrounding streams, springs, and waterfalls appeal to hikers, campers, and day-trippers from beach areas. Sailing, swimming, canoeing, water skiing, and other small-vessel watersports can be offered in these locations as well as on the lagoons and at sea. There are many thermal springs that can be developed for health and wellness tourism,[135] further broadening Albania's appeal beyond sun-and-sand beach tourism.

There are 15 national parks in Albania, all of which have untapped tourism potential. These parks are spread across the country, and many have both recreational and archaeological value. However, Albania's national parks lack infrastructure, including transportation access, waste management, and tourism services. All parks require a tailored development plan that includes an inventory of natural and manmade assets; a public-works program to construct trails and other essential infrastructure; waste collection and management systems; staff training in park management, conservation, and guiding; and regulations on construction activities and business operations within park boundaries. The safeguarding of the environment is paramount.

Albania has roughly 2,000 cultural monuments, the second-largest number of cultural monuments per capita in the Mediterranean basin. Several of these are UNESCO World Heritage Sites, yet visitor numbers at cultural attractions are very low. In 2018, just 263,399 domestic and 516,943 foreign tourists visited Albania's national museums, archeological parks, and cultural monuments. However, this represented an increase of more than 50 percent from the previous year. Due to poor marketing, Albania's cultural monuments are little known outside the country. In addition, a lack of public transportation to nonurban cultural sites deters day-trippers, and many sites require significant investment in infrastructure (for example, parking facilities, toilets, visitor information) to realize their potential as attractions.

Gastronomy and wine-tasting are two of the fastest growing international tourism trends, and Albania has the potential to capitalize on both. Albania has one of the oldest wine traditions in Europe, dating back to the Bronze Age, and it was a major wine producer and exporter in Roman and Byzantine times. The country has four main wine regions, several indigenous grape varieties, and well-established wineries in scenic locations. Wine tastings are available in some areas, but wine tours are underdeveloped. Developing food- and wine-themed itineraries; creating new activities centered around food and wine; raising the profile of local, seasonal, and organic produce; and offering tourists the chance to stay in boutique accommodations on working vineyards could greatly enhance the appeal of inland tourism.

6.4 CONSTRAINTS AND POLICY OPTIONS[136]

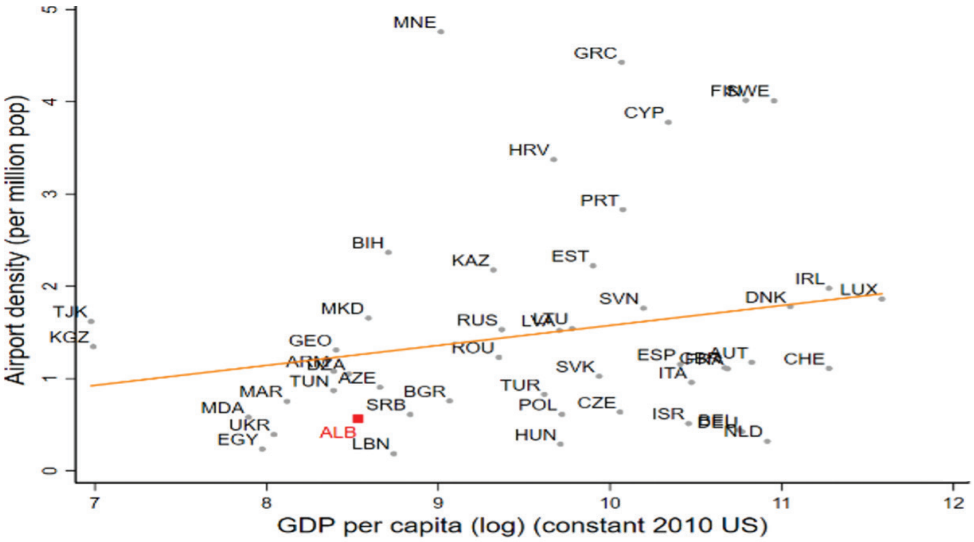
Limited Investment in Infrastructure and Facilities

Transportation

While investment in transportation infrastructure has increased, connectivity between coastal and inland tourism destinations remains limited. Road access to coastal destinations must be improved to reduce congestion during the high season, but without having a detrimental environmental impact. A new highway from Kashar to Rrogozhinë will be necessary to ease the traffic in the main tourist area of Durrës. The low quality of regional and municipal road networks, and the nationwide dearth of public transportation systems, designated parking, road signage, and roadside service centers, inhibits the integration of coastal and inland tourism and contributes to the concentration of tourism activities in a few major centers. The government has undertaken steps on enanicng the connectivity between coastal and inland tourism centers through the construction of connecting roads in the south and north of the country which are close to their completion and the preparation of feasibility studies for the concession of the Thumanë-Rrogozhinë highway construction.

Limited air connectivity poses a major challenge to Albania's attractiveness as a tourism destination. Historically, Tirana Airport has been disproportionately expensive compared to other airports in the Western Balkans, as the concession gave an international consortium the monopoly rights to all commercial air traffic in Albania, resulting in relatively high landing fees. This arrangement made Albania unattractive to low-cost carriers. Additionally, the lengthy driving time from Tirana to many coastal destinations is a disincentive to tourists: it takes about four hours to travel from Tirana Airport to Saranda, Himara, or Porto Palermo. Albania's airport density per capita remains among the lowest in Europe and is low by the standards of regional comparators such as Bosnia and Herzegovina and Montenegro (Figure 6.15). The government has been actively addressing the limited air connectivity challenge faced by the toruims sector. Since July 2021, the second international airport has been operating and is expected to serve an small to medium-sized aircraft flights[137]. In addition, feasibility studies, pre-investment procedures have been recently completed and initial works have been launched for the construction of a third commercial airport situated on the coast at Vlora, which is expected to bring more competition and reduction of air transportation prices.

FIGURE 6.15. AIRPORT DENSITY PER MILLION PEOPLE



Source: Elaboration based on United Nations World Tourism Organization and World Development Indicators

Accommodation

Albania does not lack accommodation in coastal areas, but its investment priorities should shift from constructing new large, resort-style hotels to upgrading the existing accommodations supply. The pace of hotel construction has accelerated in recent years, resulting in the unregulated and unsustainable expansion of coastal developments. Although land and construction costs are cheaper in Albania than elsewhere in Europe, most accommodation projects are built to low specifications and standards. Albania has 12 chain hotels, representing 2 percent of the domestic hotel market, and there are no chain hotels (the presence of which is usually an indicator of the destination's development and ability to attract higher spending tourists) in either Saranda or Vlora.[138] Market penetration by chain hotels is significantly lower in Albania than the EU average, indicating a lack of interest in the Albanian market among international brands. The average room rate in Albania is €50–60 per night for midrange accommodations and €80–90 for upscale accommodations. These prices are lower than in competing destinations such as Montenegro (€70 for midrange, €105 for upscale) and Croatia (€83 for midrange, €140 for upscale), consistent with Albania's profile as a low-cost destination.[139]

Specialized accommodation is undeveloped in Albania, limiting the country's ability to attract high-profile and niche tourists. These tourists have limited desire for resort-style hotels and tend to prefer smaller properties with local character, strong ecological sustainability credentials, and high levels of customer service and cleanliness. Specialized accommodation includes camping sites with high-end facilities, ecotourism hotels and lodges, and properties developed for a particular purpose, such as dark-sky tourism.[140] Improving the quantity and quality of boutique hotels, guesthouses, and homestays would help attract tourists from this market segment. While there is need to still encourage large investments by international brands due to their benefits in terms of employment and output, the focus of incentives may shift to the development of smaller, more sustainable, high-end specialized accommodation infrastructure of local nature like eco-hotels, eco residences and boutique hotels.

Supporting Infrastructure for Tourism Offerings

The cruise terminal at Saranda is too small to accommodate large cruise ships and lacks onshore facilities. As a port of call, it has received negative reviews from cruise tourists. It is not desirable or sustainable for Saranda to attract more or larger cruise ships, especially as cruise tourism is in decline, but the quality of customer service, the appearance of the terminal and its surroundings, and the lack of facilities must be addressed to improve the visitor experience and increase per capita cruise-tourist spending. The government has taken substantially steps to improve the supporting infrastructure needed for the expansion of the tourism offer. Some recent initiatives have been undertaken transforming some of the commercial ports in Vlora and Durrës into areas dedicated to yacht and cruise tourism, that are expected to place Albania as a relevant destination for cruise ships in the region.

As Albania has limited boating infrastructure and services, very few foreign boats are able to visit the country. In addition, complex and outdated immigration and navigation rules make it difficult, time-consuming, and expensive for tourists to reach Albania by sea. Demand for berths exceeds supply, as Saranda's commercial harbor can accommodate only 16 boats per day, with an additional 10 berths at the marina near the town center. If cruise ships or ferries require space at the pier, smaller boats must move, which prevents boaters from leaving their boats for more than a few hours at a time. There is no centralized booking system to reserve berths in advance or pay for them online. Given the length of Albania's coastline, the number of all-weather berths should be two or three times higher than it is. Both Vlora and Saranda require all-weather city-center marinas, which could be accommodated inside reengineered ports[141] and which could add a total of 1,000 berths, expanding Albania's capacity threefold. Two private all-weather residential marinas are currently in the pipeline: Porto Albania is under construction at Kalaja e Turres and will have 690 berths when it opens in 2021; Cap Rodoni Hamallaj, near Durrës, is still in the planning stage and is expected to have 500 berths.

Other blue tourism activities are underdeveloped. Albania's recreational diving infrastructure is weak, and the country has no designated facilities for recreational fishing. The country has few dive operators, and its medical facilities are inadequate to ensure the safety of divers. Recreational fishing areas are poorly defined and lack adequate environmental protection. Fishing permits are required, but this requirement is often ignored due to inadequate information on how to obtain a permit combined with lax enforcement.

Weaknesses in Albania's national parks' infrastructure reduce the time and money tourists spend in the country's interior. The parks lack comprehensive and sustainable development and management plans that outline how they will generate and spend revenue, engage visitors and local stakeholders, ensure accessibility, provide essential services, and determine visitor capacity.[142] Albania's coastal trail network is also underdeveloped: there are some short trails in the Butrint National Park, Karaburun-Sazan, and other areas, but these are often unmarked and poorly maintained. A well-designed hiking trail, accompanied by conveniently located campsites, guest houses, and homestays, would be an attractive new tourism product and a valuable marketing tool. An integrated trail network would also enable tourists to travel between national parks in an environmentally friendly way.

Access to Finance

Lack of access to affordable finance is slowing the development of all areas of Albania's tourism sector. The government has limited resources and struggles to attract foreign investors for major projects; banks, while liquid, are risk averse and prefer not to lend money to tourism businesses; and most SMEs lack the expertise required to make themselves attractive investment targets. Some grants are available, but there is a lack of transparency and targeting. Establishing a professionally managed blue investment fund would help crowd-in private investments, coordinate and promote investment priorities. A blue investment fund could finance both major tourism infrastructure projects on a PPP basis and provide debt and equity investments for tourism businesses. To reduce financing cost, risk sharing facilities like guarantee schemes similar to the ones set in the recently created Albanian Agribusiness and Tourism Support Program (AATSF) may be explored and expanded as a way to increase the access to finance for small operators.

Legislation Gaps

Albania's Tourism Law has some inadequacies. The law does not properly categorize the available forms of tourist accommodation. It does not require all accommodation providers to register and obtain a license, and it does not mandate annual inspections. Tourism taxes are mainly collected from hotels in the Tirana municipality, but they should be collected nationwide, with the revenue ring-fenced for investment in sustainable tourism infrastructure and conservation projects. In addition, while the tourism legislation addresses some of the issues of ensuring the activity of tour operators in accordance with European legislation on consumer protection, other relevant aspects of tour operators activities are not fully covered, for example it does not require them to be insured for their activities. The law contemplates the establishment of a Tourism Fund that could be triggered in cases of crisis such as COVID-19 and to support tourism activities, including projects, products, and marketing, but the rules and funding for its operation are not defined.

Albania's outdated Marine Law does not provide an adequate foundation for the development of blue tourism. The national legislation has not yet been harmonized with the Marine Strategy Framework Directive (2008/56/EC). The Navigation Code is overly bureaucratic and creates disincentives for international boaters. Albania's Skipper's License may not be fully compatible with the directives of the UN Economic Commission for Europe's International Chamber of Commerce, and there are inadequate environmental and safety laws governing the use of motorized watercraft including personal watercraft such as Jet Skis.

The Diving Law is incomplete, and further elaboration will be necessary to regulate recreational diving operators. As of January 2020, the law was being developed with Italian support, but it is unclear when it will be finalized. The complete draft must incorporate provisions on minimum equipment standards, mandatory licensing of all diving operators, proper staff training and qualification requirements, and regulations about insurance coverage that reflect EU best practices. Divers should be legally required to have diving insurance, and all companies offering diving as an activity should be required to have public liability insurance. There is currently no legal protection for dive sites outside the Karaburun-Sazan National Park, leaving them vulnerable to unsustainable practices.

Inadequate regulatory frameworks and capacity constraints weaken the effectiveness of law enforcement at sea. Albania's lack of internal navigation support and the insufficient maintenance and inspection of boats based in or visiting the country reflects the capacity limitations of the Coast Guard and its unclear division of responsibilities with the Border Police. The latter do not possess naval assets with which to patrol Albania's maritime boundaries, and all offshore patrol vessels are maintained by the Coast Guard, which is a military organization rather than a law-enforcement agency. There is no functioning coastal radar system, and data on marine traffic are sent to the Inter-institutional Maritime Operational Center (IMOC) in Durrës.

The regulatory frameworks governing recreational fishing, watersports, and cruise ships are insufficient and must be expanded, clarified, and enforced. Law 8905/2002 On the Protection of the Marine Environment from Damage and Pollution must be amended to ban the discarding of fishing gear into the sea. National legislation is not fully aligned with the EU's Common Fisheries Policy, and the prohibition on night fishing limits opportunities for some forms of recreational fishing. There is currently no regulatory framework establishing minimum standards for watersports equipment and related safety protocols. National regulations are not yet fully aligned with EU Directive 2019/883 for cruise ships. Finally, Albania's concession legislation applies only to parcels of land and does not cover the leasing of berths and seasonal moorings for boating, watersports, and recreational fishing sites. The EU has already promulgated the standards and regulations that Albania lacks, and the government can complete its legislative framework by embracing these requirements. The government has been progressing in closing the legislation gaps affecting activities in the sector. Indeed, in 2020, for the first time a comprehensive legal framework has been adopted regarding diving and recreational fishing. The law for maritime tourism activities (43/2020) is already in force and its implementing regulations sets out detailed rules for the development of maritime tourism activities including sailing for fun, underwater fishing, relaxing diving, kitesurfing; windsurfing, wakeboard, water motor navigation, and rafting, kayaking and canoeing.

Albania's legislation on protected areas is almost fully aligned with the EU acquis, but gaps remain in the adoption and implementation of the Habitats Directive[143] and other laws relating to nature and biodiversity.[144] Full alignment with the EU acquis will enable the government to nominate sites for inclusion in the Natura 2000 network, but compliance with regulations must be monitored and enforced. An outdoor lighting ordinance will be necessary to protect dark-sky areas,[145] and appropriate outdoor lighting not only reduces light pollution, but also increases energy efficiency. Enforcement of this ordinance will be especially vital within the Llogara National Park and along the length of the Albanian Riviera to the border with Saranda municipality. Compliance with the ordinance should be a prerequisite for the development of new tourist sites and the issuing of any construction permit.

Shortage of Skilled Labor

A shortage of skilled labor inhibits the development of blue tourism in Albania. The sector's poor employment prospects contribute to weak demand for training and high levels of workforce turnover. Boating and water sports require specialized operational, maintenance, instruction, and safety staff, all of which are in short supply in Albania. The construction of a maritime training center could alleviate the skills shortage by offering training courses that award recognized international qualifications. Training must be accessible, affordable, and directly relevant to the blue tourism sector; however, workers will be unlikely to seek such training unless rising wages and year-round job security make employment in the tourism sector a more appealing prospect.

More dive instructors need to be recruited and trained, as there is space for more dive operators to enter and develop the market, enabling greater competition and higher standards. Divers will not come to Albania unless qualified instructors and rental equipment are available, but businesses cannot afford this expenditure until demand for their services has increased. Initial diver training can be carried out in Albania, but the final training of instructors would need to take place abroad. The cost of international certification courses, including accommodation and flights, is estimated at €4,000–5,000 depending on location and the diver's existing certification level. Financial incentives could be offered to cover part of the cost.

Albania has a shortage of qualified nature guides, which impedes the development of hiking, birding, and other forms of nature-based tourism. Although some international tour operators bring their own guides, the cost of doing so makes Albania less competitive than other destinations, and wages that could be captured by local guides are transferred abroad. Local tour operators should be made aware of the opportunities offered by nature-based tourism, as well as the requirements of nature tourists. Albania already has a well-developed network of nongovernmental organizations working in conservation, indicating a latent capacity for nature guiding that could be leveraged for tourism purposes if training and certification were provided.

Finally, government agencies are unable to effectively support the development of the tourism sector due to a lack of knowledge and experience. Skills related to the hospitality sector are limited in both the public and private workforce. There is a need to build staff capacity in the Albanian Investment Development Agency (AIDA), the Ministry of Tourism and Environment, and the National Tourism Agency to better understand the needs and opportunities of the tourism sector and devise more effective plans for attracting investment.

Waste Management and Pollution

Waste management in Albania is a nationwide problem, but it is particularly severe in coastal areas due to the pollution of water resources.[146] As of 2016, only 67 percent of Albanian households received municipal waste-collection services. Cruise ships and other large vessels empty untreated wastewater into the sea, and sometimes leak fuel or oil. Potential dive sites are adversely affected by solid waste, and improper waste disposal contaminates towns, roadsides, beaches, and the sea. The government has embraced a National Action Plan titled Plastic-Free Albania: The First Plastic-Free Country in Europe, and Albania's draft National Waste Management Strategy and Plan (2018–2033) is pending governmental approval. There is still a need to align with EU environmental directives, and implementing the strategy and plans will require upgrading waste-management infrastructure, engaging in public outreach, and tightening enforcement of regulations.

Pollution of diving and bathing sites is a major obstacle to the development of blue tourism. At present, 94 percent of Albania's bathing sites meet minimum standards for cleanliness, while the remaining sites are unsafe for swimming due to pollution.[147] This puts Albania at the bottom of the list of European countries with regard to the quality of its bathing waters. Sites in Saranda, Vlora, and Durrës are of particular concern, as they are used by large numbers of tourists. The government must invest in improving waste management and cleaning up polluted sites to reach the minimum standards of cleanliness so that these destinations can be made safe for swimming and watersports. Areas to be used for swimming and for other watersports should be divided and clearly marked, and the government should apply for Blue Flag status for coastal sites.[148] Blue Flag status is a voluntary labelling system used to indicate cleanliness and environmental sustainability; it will give tourists confidence that quality standards have been met while also serving as a valuable marketing tool.

Despite the government's antiplastic strategy, accommodation providers and food and beverage businesses still use excessive quantities of single-use plastics, which are not recycled. Plastic pollution contributes to the country's waste problem and exacerbates the contamination of beaches and watercourses. Removing single-use plastics from the tourism sector would not necessarily require legislative changes, as it could be accomplished through a voluntary certification program accompanied by marketing initiatives highlighting the green credentials of certified businesses.

Limited Product Diversification

Tour operators need to diversify and differentiate their products to access higher-value consumer segments. Currently, only a small minority of operators offer boating, watersports, and nature-based activities, but specializing in these areas can become unique selling propositions that enable them to exploit more desirable markets. Most private companies currently lack the market and product knowledge to be able to diversify and differentiate their products, and they may be put off by the risk associated with investing in unfamiliar business areas. Limited access to capital discourages firms from investing in developing and marketing new products and itineraries, and, in some cases, it may prevent firms from purchasing equipment and paying for training, licenses, permits, and qualifications. Albania's tour operators are also poorly connected with international partners, including specialized firms and associations that could help them develop, market, and sell a wider range of products.

High-quality, locally produced goods are underpromoted in the tourism sector. Tourists are prepared to pay a premium for locally produced foods, drinks, and souvenirs, but they require opportunities to purchase them. Making locally produced goods available at hotels and restaurants can add value to their services and help them build a unique brand identity. Developing and marketing locally produced goods also creates opportunities to offer new tourism products such as crafts tours, wine tastings, and culinary workshops.

Albania has some of the darkest skies in Europe and has huge potential for dark-sky tourism, but this is yet to be developed as a tourism product. Designating and protecting a dark-sky park or reserve, with suitable lighting ordinances and facilities, would generate substantial revenues from dark-sky tourists, and be a valuable marketing tool. Albania would need to implement a pilot project to provide homestay hosts with telescopes and accompanying equipment and train them as dark-sky guides, and then once there is proven local capacity, could apply to the International Dark-Sky Association for official status.

Lack of Data and Information

Data collection and analysis in the Albanian tourism sector is limited and falls short of EU standards. A lack of accurate information inhibits strategic planning, contributes to poor decision making, and deters potential investors. Key priorities include creating a system for digitizing records and establishing a single online portal for tourism businesses to access all relevant regulations, apply for licenses and permits, file tourist data, and pay tourism-related taxes. Compiling tourism data will be particularly important in the post-COVID-19 environment, as tourist behaviors are likely to change, and accurate data will be necessary to keep policy makers informed about evolving trends in the sector.

Government agencies, tourism firms, and industry associations lack the international connections necessary to properly understand the global tourism market. Stakeholders in the public and private sectors do not fully understand the needs of potential international partnering and cannot effectively incentivize their entry into the Albanian market. Weak international networks also hinder the ability of firms and policy makers to identify and respond to global market trends or capitalize on innovations developed abroad.

Prospective tourists have limited access to information about Albania and its tourism products. Albania lacks a network of regional destination-marketing organizations to coordinate public and private promotional activities and provide information directly to businesses and tourists.[149] The government and the private sector must develop informational materials for both online and offline distribution and engage in a concerted effort to raise Albania's profile as a tourism destination.

7. REALIZING THE POTENTIAL OF AUTOMOTIVE MANUFACTURING

Participation in global value chains (GVCs) may enable Albania to overcome the smallness of its domestic market and the lack of diversification of its exports and enhance productivity. By opening new export markets and improving access to imported inputs, Albania can expand the demand for manufacturing products and take advantage of economies of scale that are currently limited by the small size of its domestic market. Moreover, as foreign investments in manufacturing GVCs directed to small countries are predominantly motivated by seeking cost efficiency gains, GVCs can lead to access to innovative technologies, improved managerial practices in domestic businesses, and higher-quality jobs, boosting productivity and economic growth.

This chapter assesses challenges and opportunities brought by the recent establishment of foreign investments in auto-part plants in Albania that are initiating the country's integration into the European periphery automotive regional value chain (EP RVC). In line with the trend observed at the global and regional level, automakers and auto-part suppliers have moved their operations to countries with lower labor costs. Attracted by the low labor cost and geographical location, new foreign investors have come to Albania, providing an impetus to a fledgling automotive-parts industry. Indeed, in 2018 and 2019, Albania received foreign investment to produce cabling, electromechanical systems, and rubber-to-metal sealing and antivibration parts for the automotive industry in Italy, Germany, France, Japan, and the Republic of Korea. Beyond the labor cost and locational advantages, foreign investment in the automotive industry is sensitive to the countries' investment climate, investment promotion policies, logistics, infrastructure, trade regimes and agreements, and the fiscal-taxation structure it will face. This section assesses these dimensions and provides options to enhance the attractiveness of the country for hosting foreign investments from the automotive-components value chain.

The section is structured in five parts. Section 7.1 provides a snapshot of the integration of the nascent Albania's auto-part industry to the EP RVC. Section 7.2 describes the trends of the Global auto industry and highlights the impact of COVID-19 on the industry and its implications for Albania. Section 7.3 highlights Albania's comparative advantages for the industry and how the country can leverage them. Section 7.4 reviews the challenges faced by the industry related to the country's investment climate. Finally, section 7.5 offers policy options to enhance the attractiveness of the country for investments in the industry.

7.1 ALBANIA'S AUTOMOTIVE INDUSTRY

The Supply Side: Value Chains and Specializations

Albania's nascent auto-parts industry is part of the EP RVC, which includes more than 13 countries in Central and Southeastern Europe, the Middle East, and North Africa. Other Western Balkan countries, including Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia, have also established a substantial presence in the auto industry, and their automotive sectors are significantly larger than Albania's (Figure 7.1). Suppliers in the EP RCV tend to focus on conventional systems such as the internal combustion engine, body, and chassis; they play an important role in the processing of traditional materials such as metal, plastic, and rubber; and they often specialize in labor-intensive activities such as wiring harnesses (Figure 7.2). Currently the EP RVC's supplier base (by component and process) is comparable in global shares to other automotive regional value chains (i.e Brazil and India).

FIGURE 7.1. MAP OF THE EP RVC

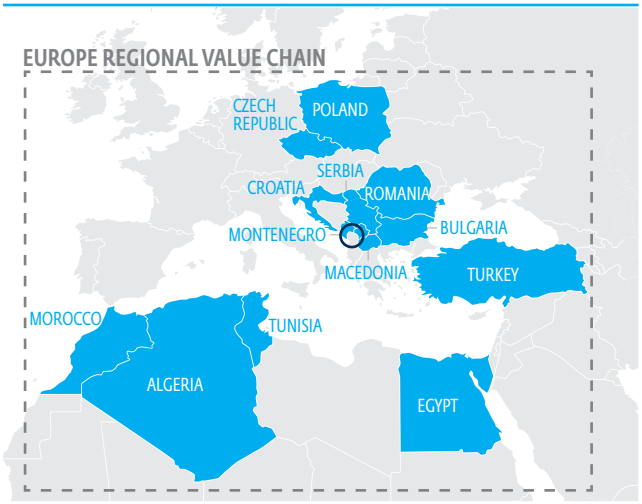
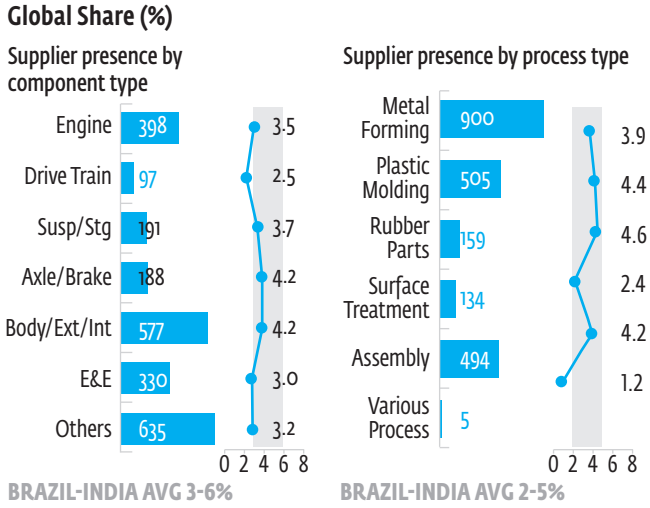


FIGURE 7.2. EP RVC PRODUCTION BY COMPONENT AND PROCESS



Source: World Bank Group, Trade and Competitiveness Automotive Global Value Chain Analysis, April 2015.
Note: E&E Electric Equipment.

The production of passenger cars dominates both the EP RVC and the broader regional automotive value chain. More than 60 percent of the final production of passenger cars takes place in EU15 countries[150]. Germany produced nearly 4.7 million passenger cars in 2019, more than any other European country. Serbia, the largest supplier in the Western Balkans, produced 35,000 passenger cars and light commercial vehicles in 2019, but its output has contracted significantly in the last years.

Since 2015, taking advantage of relatively cost-competitive labor costs, improvements in economic stabilization and the investment climate, and fiscal incentives, foreign direct investors have established auto-parts factories in the country. Albania's auto-parts industry currently encompasses six foreign companies that specialize in niche components such as exhaust systems, rubber parts, and wiring. Specializing in cable assembly, leading elements, electronic and electromechanical components for or heating systems, the first OEM supplier established in 2012 was PSZ Albania GmbH. The company is part of German Group PSZ Electronic GmbH. Moreover, Forschner Albania—part of Forschner GmbH, a company that specializes in cabling systems, SCR systems, precision turned parts, electromechanical systems, and sustainable own developments—opened its first plant in 2014 and announced the installation of two other plants in the country. The French automotive supplier Delmon Group inaugurated its production plant, in Elbasan in March 2019. The unit manufactures rubber parts for the automotive business, including exhaust hangers, stabilizer bar bushings, seals, and dumpers. Giobert, an Italian supplier of industry keys, lock cylinders and interior components has been operating in Albania since 2019. Established in 2019, SEWS CABIND Albania is a new company of Sumitomo Electric Group that specializes in wire harness manufacturing and currently has two plants in operation. Republic of Korea's Yura opened its first factory in Fier in June 2020.

The Demand Side: Export Markets and Trade Agreements

The EP RVC primarily supplies vehicles to Western Europe. Key trends in the European market include a steady increase in demand for onboard electronics and networked mobility, as well as stringent environmental regulations, fuel-efficiency standards, and safety requirements. Disaggregated sales data for Europe reveal that advanced economies such as France, Germany, and the United Kingdom lead automotive sales in the region, with about 10 million units sold in 2019 and a positive compound annual growth rate (CAGR) for sales over the last decade. Overall sales in Western Balkan countries are modest, reaching about 49,000 units in 2019. Due to Albania's small domestic market, sales within the country totaled just 3,500 in 2019, 90 percent of which were passenger cars.

The automotive sector contributes significantly to the exports of many Western Balkan economies. While Bosnia and Herzegovina, North Macedonia and Serbia have significantly increased their automotive exports in recent years, exports from the Western Balkans still account for a small share of the total European auto market. Albania's automotive sector is smaller than those of its regional peers, and auto parts account for less than 1 percent of its total merchandise exports (Table 7.1).

TABLE 7.1. MERCHANDISE EXPORTS IN THE WESTERN BALKANS, 2019, EUROS, MILLIONS

WB COUNTRY	EXPORTS	CARS	AUTO PARTS	% OF TOTAL MERCHANDISE EXPORTS
Albania (2018)	21.2	6.4	14.6	0.8
Albania (2019)	22.8	11.8	10.9	1.0
Bosnia and Herzegovina	181.6	173	8.6	2.3
Croatia	601	277	324	3.4
North Macedonia	789	432*	357	10.4
Serbia	1,116	219	897	5.7

Source: Observatory of Economic Complexity (OEC) and UN COMTRADE data from International Trade Centre Trade Map.
Notes: WB = Western Balkans.
*Includes buses

Albania's close trade ties with EU member states and other countries in the EP RVC underpin the growth potential of its automotive sector. Albania has signed and ratified the 2006 Stabilization and Association Agreement, which expands its access to EU markets. The country also has a free-trade agreement (FTA) with Turkey and is a signatory to the Central European Free Trade Agreement (CEFTA), which includes Bosnia and Herzegovina, Kosovo, Moldova, Montenegro, North Macedonia, and Serbia. In June 2009, Albania also signed an FTA with the European Free Trade Association, which includes Iceland, Liechtenstein, Norway, and Switzerland. The EU provides about 61 percent of Albania's imports and receives 76 percent of its exports.[151] Trade with CEFTA countries has increased in recent years, and exports to these countries represent 8 percent of total merchandise exports, while China, Germany , Greece, Italy, and Turkey are Albania's key bilateral trade partners. Albanian merchandise exports are primarily labor and resource intensive goods.

7.2 GLOBAL AUTO INDUSTRY TRENDS AND THEIR IMPLICATIONS FOR ALBANIA

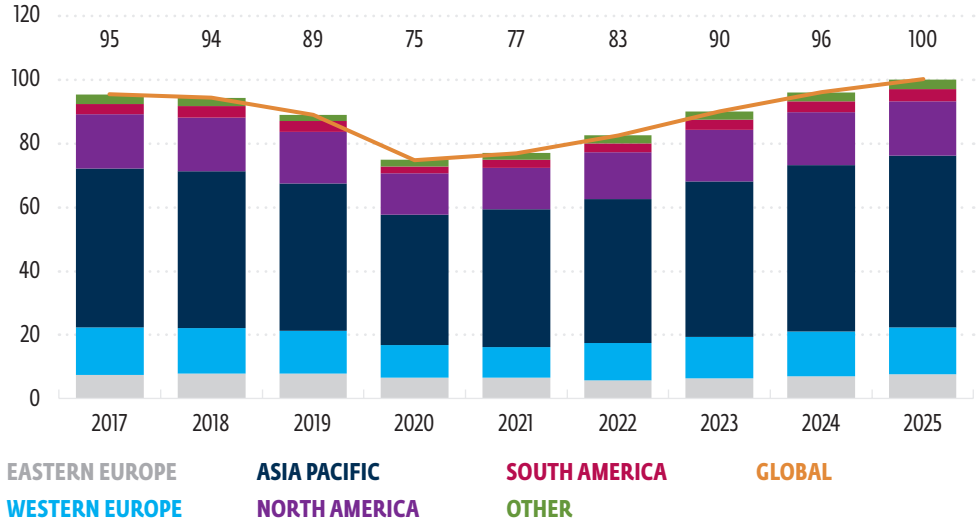
The COVID-19 Pandemic

In 2020, the disruption of economic activity triggered by the COVID-19 pandemic led the global automotive production and sales to contract by 14 percent and 16 percent, respectively.[152] Europe's automotive supply chains were virtually closed through March and April 2020, but activity gradually resumed in May-June 2020. Health restrictions, including physical distancing and the disinfecting of equipment, affected most auto manufacturers as they needed to reorganize the layouts of their facilities. In the second half of 2020, increased trade and transportation costs due to pandemic-related border controls and closures, as well as a lack of personnel in the logistics sector and national customs services, slowed the resumption of automotive production. By the end of 2020 most of the supply disruptions were addressed and value chains have been generally reestablished, as some industrial activities and transportation links began to normalize. COVID-19 has hit hard the European automotive industry, with a contraction of 22 percent in production levels and 20 percent in sales, while the automotive industry in the Asia-Pacific region was able to resume operations faster experiencing a decline of only 11 percent in production levels (Figures 7.3 and 7.4).

In 2021, global automotive production and sales partially recovered, and projections suggest that the levels registered in the pre-COVID-19 period will be achieved only by 2024.[153] Global automotive production and sales grew by 3 percent and 4.7 percent in 2021, respectively (Figure 7.5). Automotive production in Europe did not recovery in 2021 and on the contrary dropped by an additional 4 percent, while sales exhibited a slightly increase of 1 percent (Figure 7.3). The adoption of precautionary behaviors and the loss of labor income are expected to depress demand, while a deterioration in consumers' credit profiles could make financing more expensive or more difficult to obtain. Corporate fleet and rental demand have been negatively impacted by the slow resumption of business-related commuting and leisure travel, and a sustained increase in the popularity of remote-work arrangements could permanently lower demand for passenger cars.

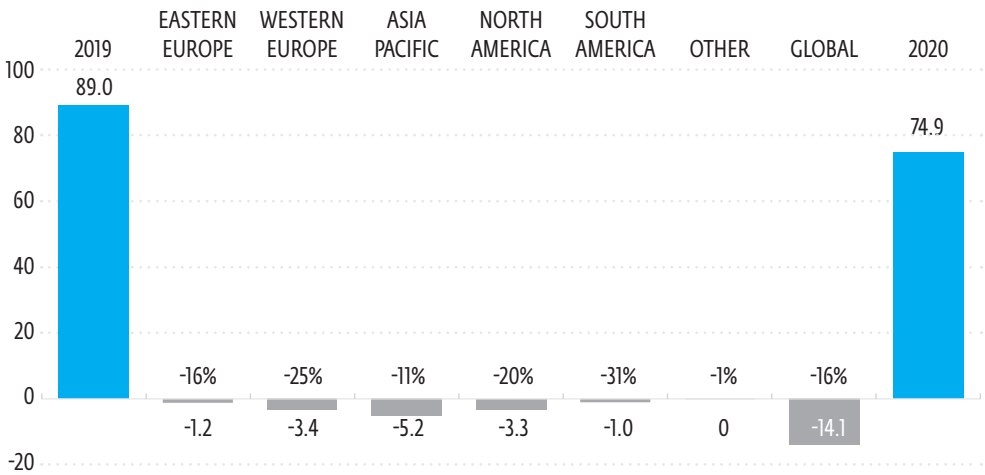
The pandemic's impact on the aftersales market has been less severe. As the replacement of vehicles was delayed, longer vehicle life increased the need for spare parts. This benefited manufacturers—especially makers of tires, batteries, fuel filters, and air filters—as most of their turnover and margins depend on the aftersales market. Direct and indirect players in the auto industry, including suppliers of raw materials such as metals, polymers, fabrics, and glass, were affected, with a disproportionate impact on margins because the raw materials required in the auto industry tend to be of premium quality and more affected by supply disruptions.

FIGURE 7.3. LIGHT VEHICLE PRODUCTION BY REGION, 2017-2025 (UNITS, MILLIONS)



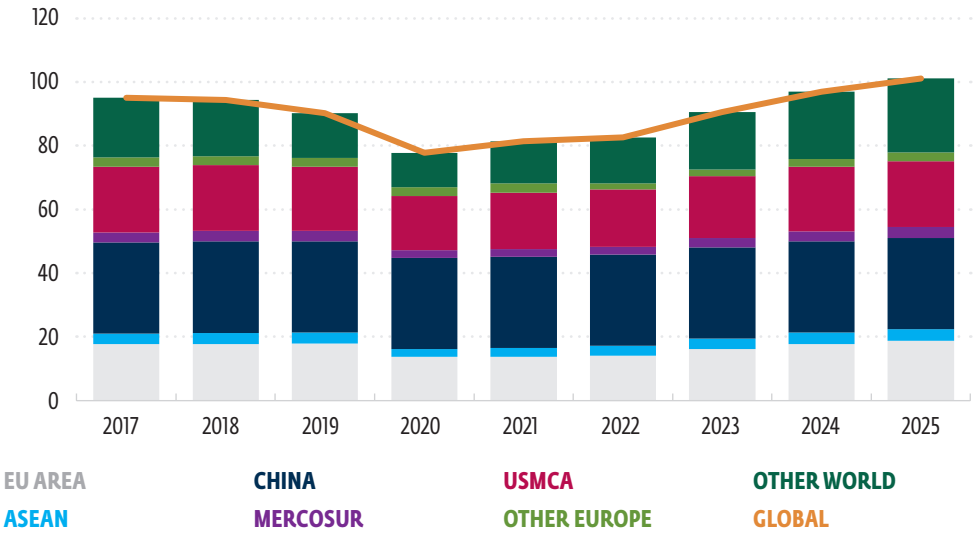
Source: LMC-Automotive Data Base. April 2022
Note: Values for 2022-2025 are projections by LMC-Automotive.

FIGURE 7.4. IMPACT OF COVID-19 RELATED DISRUPTIONS ON LIGHT VEHICLES PRODUCTION BY REGION (MILLION)



Source: LMC-Automotive Data Base. April 2022.

FIGURE 7.5. LIGHT VEHICLE SALES BY REGION, 2017-2025 (UNITS, MILLIONS)



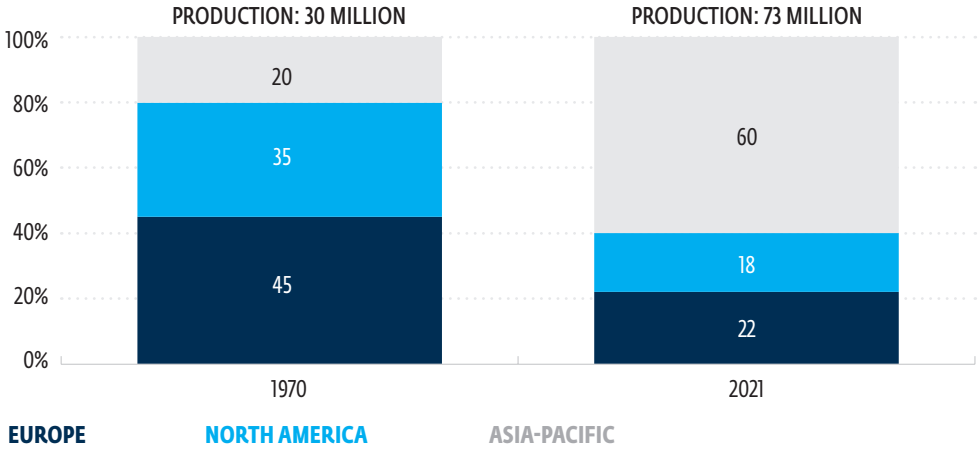
Sources: LMC-Automotive Data Base. April 2022.
Note: Values for 2022-2025 are projections by LMC-Automotive; EU = European Union. USMCA = U.S – Mexico-Canada Trade Agreement; ASEAN = Association of Southeast Asian Nations.

The Evolving Dynamics of Global Automotive Production

The total value of the flow of automotive products worldwide, including motor vehicles and vehicle components, has increased 13 times since 1990. Since 1970, an increasing share of the automotive value chain has shifted from Western Europe toward the Middle East and Asia. The rise of the Chinese automotive market is driving this trend, as vehicle sales in China rose from 87,000 units in 1970 to 24.6 million in 2021, as a result, the share of the Asia Pacific region grew from 20 percent in 1970 to 60 percent in 2021, while the shares of Europe and North America automotive industries have halved in the same period (Figure 7.6).

Albania may take advantage of the changes in the vehicle production, processes and reshoring of value chain related to COVID-19. An important realignment is underway not only for automotive products, but also for production processes and players throughout the value chain. While the European automotive industry is famous for its fully integrated global supply-chain model, this model is questioned by some industry specialists. The European automotive industry faces the challenge of creating new growth momentum within Europe to maintain the region's share in the value chain. In this context, the increasing electrification of conventional and hybrid vehicles, and the growth of the electric vehicle subsector, may create important opportunities for Albania to increase its participation in the European value chain. Albania produces substantial amounts of copper ore, and the country could transform itself into a center for copper-wire production for 75-kilowatt-plus electric motors and onboard electronics. In the aftermath of the pandemic, heightened concerns about the vulnerability of global supply chains may prompt manufacturers to move a larger share of auto production back into the European region, which could also benefit Albania.

FIGURE 7.6. SHARE OF AUTOMOTIVE PRODUCTION BY REGION, RELATIVE SHARE IN PERCENT



Source: World Bank Group, Trade and Competitiveness Automotive Global Value Chain Analysis, Data from LMC-Automotive. April 2022.

The Rise of New Players in the Automotive Value Chain

Two macrolevel trends—electrification and connected mobility—are transforming the automotive industry. Electronic components and software comprise an increasingly important component of the total cost of a vehicle. Automotive semiconductor sales have tripled over the last two decades, and the average software content of large passenger cars is projected to expand at a CAGR of 11 percent. The value of software is expected to reach 30 percent of total vehicle value in 2030, while electronics and electrical content will comprise another 25 percent. Original equipment manufacturers (OEMs) are rarely well positioned to develop new technologies internally, creating an opportunity for ICT companies to try to enter into auto equipment electronics- and software-related segments of the value chain, either against, or as complements (joint ventures or partnerships) of incumbent Tier 1 suppliers. Since 2010, more than US$120 billion has been invested in mobility initiatives, 94 percent of which has originated from players outside the automotive industry. Between 2014 and 2017, the volume of mergers and acquisitions in the automotive-technology related subsector reached US$47 billion in the United States and more than US$30 billion in the Asia and the Pacific region. This process has been slower in Europe, as venture capital and private equity activity has focused on North America and Asia.

In addition to leveraging its low labor costs to produce traditional auto parts, Albania could strive to attract firms that specialize in electrification and connected mobility. The creation of a dedicated industrial zone could help encourage the formation of a cluster of firms focused on high-value-added, niche activities related to electrification and connected mobility. This industrial zone would need to be supported by adequate physical and ICT infrastructure, and an aggressive outreach campaign would be necessary to attract firms and investors. Establishing a foothold in this segment of the value chain could position Albania to benefit from the ongoing trends that are reshaping auto production.

7.3 ALBANIA'S EVOLVING ROLE IN THE AUTOMOTIVE VALUE CHAIN

Strategic Segmentation

The emerging production-reshoring trend in the EP RVC could accelerate the rise of the Western Balkans as a manufacturing hub for automotive components. Global OEMs and Tier 1 auto-parts suppliers are attempting to develop systems and components hubs in Eastern Europe, while North African countries are attracting investments in vehicle assembly. In this regard, the EP RVC automotive supplier base is comparable to those in other emerging regions, with low labor costs representing a major competitive advantage. To remain competitive as wages and labor costs rise, Western Balkan countries must upgrade their capabilities by increasing labor productivity and products' value added (for example by integrating some local R&D into them) and developing a critical mass of competitive local producers of specific components.

Albania is beginning to exploit specific niches of the automotive value chain, and further attention from policy makers could accelerate growth in strategic segments. In recent years, Albania has received rising inflows of FDI in factories producing electronic components, high-voltage distribution units and harnesses for e-mobility, cabling systems and wire-harnesses, rubber-based exhaust hangers, and interior sound isolation upholstery. Policies that foster the growth of these segments could enable Albanian suppliers to expand their in-house capabilities and move up the value chain.

Comparative Advantages

Labor costs

Albania offers significant labor-cost advantages over its advanced European peers. Interviews with foreign investors in Albania indicate that the average cost of a blue-collar worker is one-seventh the cost of a comparable worker in France (Table 7.2). Given economies of scale and the decreased transportation and logistics costs implied by geographic proximity, OEMs operating in EU countries are increasingly outsourcing to emerging markets in Eastern Europe. In line with its comparative advantage in labor costs, the current portfolio of auto parts manufactured in Albania largely consists of labor-intensive products requiring semiskilled manual workers, including wire harnesses, exhaust hangers, locks, and cables.

Albania's nascent automotive sector currently employs fewer than 2,000 people. However, foreign investors from Germany, France, Italy, and Korea report planning to expand their activities in the county, and interview data indicate that these investments could generate more than 6,000 jobs in the next few years. Albania is well-positioned to meet the demand of OEM suppliers for workers with additional language skills, particularly English and Italian, further enhancing the comparative advantages of the local labor force.

TABLE 7.2. BENCHMARK LABOR COSTS, ALBANIA, AND COMPARATORS, EUROS PER MONTH

Country	Albania	North Macedonia	Poland	Serbia	Turkey
Engineer	1,300–1,500	1,100–1,500	3,100–3,300	2,000–2,300	1,500–2,000
Blue collar worker	200–400	414–500	505–1,140	350–800	300–700

Source: Country Private Sector Diagnostic mission consultations, SalaryExplorerSerbia, Salaries by positions: MojaplataMacedonia; Automotive Average Salaries in Poland 2022: SalaryExplorerPoland; Automotive Average Salaries in Turkey 2022: SalaryExplorerTurkey.

Proximity to European markets

In interviews, foreign investors frequently cite convenient access to end markets as a major reason for investing in Albania's auto-parts industry. Albania is strategically located near key markets such as Italy, and it has low-cost overland access to other EU countries.[154] Albania is a regional transport hub, with the ports at Durrës and Vlora linked to the European road network, offering access to maritime shipping for its landlocked Balkan neighbors. Daily cargo ferries link Durrës to the Italian industrial center at Bari, and the average oversea travel time between Albania and Italy is just eight hours. Parts for Italian OEMs and Tier 1 companies can be shipped from the port of Durrës to Brindisi, while parts for French and German OEMs could be shipped from Durrës to Trieste. Inputs and intermediate goods could be shipped to and from Turkey via the ports of Durrës and Kocaeli. The road network offers convenient overland connections with France, Germany, and other regional automotive hubs: a 24-ton truck can reach France in 2.5 days, while a cargo van used for expedited shipping can make the journey in just 1.5 days. The neighboring countries of North Macedonia and Montenegro are also easily reached by road, with overland travel times from Albania averaging just two and three hours, respectively.

Albania is developing a strategic framework to enhance regional connectivity. The government intends to harmonize its legal and institutional framework with the Trans-European Transport Network (TEN-T) regulations and the Transport Community Treaty (TCT), which it signed in June 2017 and ratified in February 2018. Albania participates in activities designed to improve connectivity within the Western Balkans and with the EU under the TCT and the Western Balkans 6 (WB6) process. The national transportation strategy and action plan for 2016–20 envisages an extension of the TEN-T Comprehensive and Core Networks to Albania and the alignment of national laws and policies with TEN-T guidelines and EU standards and regulations. The process of drafting the Third Albanian National Transport Plan was completed in January 2019.

The government is preparing new road and rail infrastructure projects, especially along the Adriatic-Ionian corridor and Pan-European Corridor VIII. Future infrastructure investments must be implemented in compliance with EU standards for public procurement, state aid, and environmental impact assessments. Sustained efforts will be necessary to bring road safety up to EU standards. Albania is partially aligned with the single European railway area, which ensures railway system interoperability and competitive rail freight corridors. Current priorities include (a) aligning national laws and policies with the EU directive on intelligent transport systems; (b) developing a national strategy for intelligent transport systems; and (c) preparing to implement that strategy. Railway lines connecting the old Durrës port area to Tirana airport must be refurbished, and the average speed of rail transportation must be increased to bring down the cost of transporting high tonnage loads to the port.

Investment promotion and incentives

The Law of Strategic Investment (LSI) defines a package of incentives to support FDI and domestic investments in selected sectors. Adopted in 2015, the law aims at attracting strategic investments by introducing favorable tax treatment easing or expediting administrative procedures and providing services to the investors. The law outlines the criteria, rules, and procedures that state authorities employ when approving a strategic investment.[155] Based on their amount, investors in strategic sectors may obtain assisted and special (fast-tracking) procedures. A strategic investment is defined as an investment of public interest based on several criteria, including the size of the investment, implementation time, productivity and value added, creation of jobs, sectoral economic priorities, and regional and local economic development. The sectors that are defined as strategic under the law are mining and energy, transport, electronic communication infrastructure, urban waste industry, tourism, agriculture (large farms) and fishing, economic zones, and development priority areas. The LSI stipulates that the Albanian Investment Development Agency (AIDA), the country's investment promotion agency will serve as a one-stop-shop for foreign investors, from filing of the application form to granting the status of strategic investment.

TABLE 7.3. INVESTMENT INCENTIVES IN THE ALBANIAN MANUFACTURING SECTOR

Land	€1 contract for leasing government property for manufacturing activities that generate (a) more than 300 million lek / € 2.4 million in investment and (b) at least 50 jobs
Tax Reimbursements	Instant reimbursement of VAT for zero-risk taxpayers and reimbursement within 30 days for exporters
Exemptions	VAT exemptions for imports of machinery and equipment
Subsidies	Various financing incentives for on-the-job professional training
Trade Facilitation	Expedited customs procedures
Social Security	Simplified employment and social security procedures
Import-Export	Zero-rated VAT for processing non-Albanian goods intended for re-export

Source: Albania Investment Development Agency, http://aida.gov.al/en/sectors-overview/.
Note: VAT = value-added tax.

While investments in the automotive-parts industry are not formally covered by the LSI, auto-parts plants installed in Albania have received similar treatment. In principle, as auto-parts investments are not included in the LSI, the incentives mentioned in table 7.3 are not necessarily applied. However, the auto-part producers already installed in Albania have benefited from the facilitation of procedures and assistance from AIDA. Differently, auto-part investments do not benefit from the €1 leasing contract for land and job training incentives unless investments are installed in designated development priority zones.[156]

In addition, investments in the auto-parts industry are favored by a reduction of the profit tax (Albanian's corporate income tax) rate from the standard 15 percent to 5 percent. The 2020 fiscal package included amendments to the corporate income tax legislation setting the corporate income tax rate of 5 percent instead of 15 percent to be collected from firms in the auto-parts industry.[157] A second regulation was adopted by the government limiting the scope of beneficiaries of this tax reduction (subsegments of the sector were excluded—maintenance and repair) and conditioning the concession of the benefit to the number of jobs to be created (a minimum of 250 employees).

Albania's investment promotion also includes economic zones that are called technological and economic development areas (TEDAs). Legislation for industrial parks or economic zones was defined in 2006, and nine zones were designed but their implementation failed due to due to several issues including land ownership, infrastructure weaknesses, ineffective promotional campaign, weak enforcement of contracts, and lack of attractive incentive packages.[158] In 2015, industrial parks or free zones were reformulated as TEDAs. The legal framework for the newly established TEDAs defines the ownership, regulation, management, and incentives package to be granted to investors in the zones. The TEDAs are expected to operate through either PPP agreements or fully private management. The Ministry of Economy is responsible for overseeing the development and economic performance of TEDAs and for ensuring that operations and investments in TEDAs are compliant with Albanian law and EU state aid rules. TEDA candidate developers should provide the infrastructure conditions necessary for economic activity on that area. TEDA developers are selected by the Ministry of Economy through a tender process.

TEDAs are not operational yet. Initially three TEDAs were planned: (a) TEDA Spitallë; with 213 hectares located in the northern region of Durrës county, only 30 kilometers from the International Airport, and 37 kilometers from Tirana; (b) TEDA Koplik; 61 hectares of green land adjacent to the Shkoder-Hani Hotit road, at a distance of 20 kilometers from Shkodra and 15 kilometers from Hani i Hotit Customs (border with Montenegro); and (c) TEDA Vlora; 231 hectares located in the Southern region of Albania at a distance of 6 kilometers from Vlorë and 5.7 kilometers from the Port of Vlorë, and close to the major roads. TEDAs' legal and regulatory framework represents an advance compared with the previous model set in 2006. In particular, issues regarding land ownership, management, and incentive packages (table 7 5) are better addressed in the legislation adopted in 2015. Up to 2020, tendering for the development of zones in Spitalla and Koplik have been initiated but neither TEDA is operational; therefore, there is no evidence that the weaknesses in terms of provision of adequate infrastructure services and contract enforcement identified on the economic zones model defined in 2006 will be addressed by the new TEDAs.

TABLE 7.4. INCENTIVES UNDER TEDAs

FISCAL INCENTIVES WITHIN TEDAS	SPENDING ALLOWANCES WITHIN TEDAS
Firms installed in TEDAs get a 50 percent reduction of profit tax for the first 5 years of operation.	Expenses for salaries and social contributions of the employer are recognized at 150 percent of their value during the first fiscal year of operation. Additional expenses for salaries in the following years are recognized as expenses at 150 percent of their value.
Construction costs by TEDA developers are exempt from infrastructure taxes.	Training costs are considered deductible expenses at 200 percent of their value for 10 years.
Buildings are exempt from real estate tax for the first 5 years of operations.	Research and development costs are considered deductible expenses at 200 percent of their value for 10 years.
Acquisitions of Facilities are exempted from the real estate transfer tax.	There is a 20 percent deduction on annual capital spending for the first 3 years of operations.
Firms in TEDAs are exempted from customs duties and VAT of imports of goods according to the provisions of the Customs Code.	
Albanian goods traded in TEDAs are considered as an export supply at zero VAT rate.	

Source: Albania Investment Development Agency (AIDA)
Notes: TEDA = Technological and economic development areas; VAT = Value added tax.

7.4 CONSTRAINTS ON PRIVATE SECTOR DEVELOPMENT IN ALBANIA'S AUTO INDUSTRY

While labor costs, locational advantages, and government incentives have attracted investments in the Albanian auto-parts industry, there are important barriers to the continued development of the industry and its further integration with the EP RVC. Key challenges include inadequate workforce skills and the absence of a clear sectoral strategy, underpinned by appropriate institutional and policy frameworks.

Inadequate Workforce Skills

Consultations with foreign investors reveal an unmet need for trained, knowledgeable, and experienced local workers. As little technical training is available for workers seeking jobs in the automotive industry, hiring firms are compelled to deliver in-house training at their own expense. Providing on-the-job training to local workers makes up about 10 percent of the total cost base for an auto-parts supplier in Albania. To fill mid-level engineering positions, some firms report sending Albanian workers to France for additional training. Moreover, auto-parts manufacturers must have managerial staff who understand domestic and international value chains and who can access foreign markets and distribution networks, develop financially sound business plans, and obtain financing, among other capabilities. A dearth of local managerial talent has compelled foreign investors to relocate managers from Italy and Germany.

Large outflows of skilled workers to the EU and other neighboring countries diminish the supply of skills in the domestic labor market. An estimated 1.1 million Albanians, or 39 percent of the total population, currently live outside of the country. Emigration removes some of the country's most productive and entrepreneurial workers from the labor force, while large remittance inflows increase reservation wages for the remaining workers.

The scarcity of requisite skills also constrains the expansion of the supplier base. A diverse set of knowledge and skills is required among firms, particularly domestic SMEs, in order to supply an auto component. This includes managerial knowhow, understanding value chains of production, the ability to access distribution networks and foreign markets, the capability to develop financially sound business plans, and the ability to obtain finance. The dearth of local managerial talent has compelled foreign investors to relocate managers from Italy and Germany.

Greater investment in R&D and innovation are necessary to access more advanced segments of the value chain and adapt to the changing dynamics of the automotive industry. Growing demand for electric vehicles, connected mobility, and high-tech interiors, particularly in Western European markets, is increasing the importance of R&D. In the absence of government provision of industry specific technical training, individual investors need to finance (and will need to spend more in the future) training of technicians and engineers, which may reduce Albania's attractiveness for investments in the sector. While the government is implementing important strategic initiatives in scientific research, technology, and innovation,[159] including the establishment of a national research database to be managed by the National Scientific Research and Innovation Agency, its progress to date has been slow and uneven. The government aims to increase public spending on science, technology, and innovation to more than 1 percent of GDP by 2022, but in 2020 public spending on scientific research amounted to just 0.04 percent of GDP. Albania is participating in Horizon 2020, the EU's largest-ever research and innovation program, but thus far it has been the least successful of all participating countries, with a total success rate of 7.8 percent, roughly half the regional average of 15.3 percent.[160] Private-sector participation in R&D initiatives is minimal.

Lack of a Clear Industrial Policy, Investment Promotion Strategy, and Systematic Incentive Framework

While investments in the automotive parts supply are being supported by the government investment promotion efforts, Albania needs a well-defined strategy for the development of the sector and a consistent framework of incentives to attract investments. In the absence of a sector promotion strategy, piecemeal fiscal and financial incentives will not be enough to convince automotive-parts manufacturers to invest in Albania. The first element of the strategy is defining a strategic positioning for the Albanian auto-parts industry within the European periphery regional value chain, in line with the country's factor endowments and the competitive dynamics at play within each of the relevant automotive strategic segments. Once the strategic positioning of the country is defined, a second element is the identification of the actions needed to achieve the targeted position. The definition of a medium-term strategy for the development of the sector and a clear roadmap will be critical to both strengthen investors' confidence and to guide government officials in their decision-making process. The successful case of Morocco provides an example of clear strategic framework followed up with a detailed road map for the government. The third element is the design of a consistent framework of incentives and support policies for the attraction of investments needed for the strategic position that the country aims at occupying.

Similar incentives or even more generous ones are also offered in countries such as North Macedonia and Serbia, which are incumbents in this industry and, therefore, more competitive in attracting investors. Indeed, the set of investment incentives to attract automotive industry investment in Albania is rather restricted when compared with other Western Balkan and Central and Eastern European countries. In addition, the investment-promotion system currently does not provide instruments to stimulate higher levels of capital investments, provision of training, local sourcing, innovation, or exporting.[161]

The absence of a single oversight authority or industrial association for the automotive sector may also weaken investor sentiment. Information on Albania's fledgling auto-parts industry is difficult to obtain, but critical to the investment decisions of both foreign firms and domestic entrepreneurs. Without the institutional capacity necessary to meet the needs of investors, the growth of Albania's automotive sector will likely be slow, and the country is at risk of being relegated to the least-desirable segments of the value chain. As the COVID-19 pandemic increases interest in the nearshoring of manufacturing value chains, the government has an opportunity to present a concrete value proposition to international automotive firms that could rapidly accelerate the development of its small but potentially dynamic auto-parts sector.

7.5. OPTIONS FOR FOSTERING THE GROWTH OF THE AUTO-PARTS INDUSTRY

While labor costs and geographical location are key determinants of investment within the EP RVC, several additional factors influence the relative competitiveness of different countries. The international experience on integration into global value chains highlights the importance of (a) a clear sectoral strategy and sound institutional arrangements; (b) prepared industrial sites and prebuilt factories with completed physical infrastructure; (c) supportive financial and fiscal incentives from the government; (d) customized vocational training programs; and (e) adequate supportive infrastructure and trade logistics.

Positioning Strategy, Industry Association, and Regional Linkages

The government must develop a clear and consistent vision for the industry. The lack of an overarching government strategy and a stable investment-promotion regime are slowing the growth of the automotive subsector. The government's inclusion of automotive suppliers as a priority industry for investment promotion will increase investment appetite among key players. The government's strategy for developing the automotive sector should include establishing an industry association capable of consolidating information about the automotive sector. This association should be established as a necessity of the private sector rather than a government initiative. This consolidation would enable more effective industry analysis and oversight while facilitating discussions between the government and both current and prospective investors. An industry association will also be able to advocate for supportive investments and improvements in the business climate more effectively than any individual firm.

Establishing closer ties with Italy should be a priority for policy makers. Italy is well connected to Albania by sea, and the two countries have longstanding partnerships in the textile and apparel industry. These existing links would provide a sound framework for enhanced bilateral collaboration. In addition, Turkey's automotive OEMs are among most important players in Europe and could be an off-taker of spare parts manufactured in Albania, with which Turkey shares close historical and cultural ties. The Turkish city of Bursa, home to the largest Albanian diaspora community, is also the capital of Turkey's automotive industry, with Fiat and Renault factories located in the city and Ford and Hyundai factories nearby.

Italy and Turkey are potential strategic partners for Albania in both automotive production and technological development. For example, Albania's TEDAs are similar to the Gebze Organized Industrial Zones in Turkey, and studying the latter's architectural layout, infrastructure, technical training programs, and commercial management could yield important insights. In addition, a cooperation agreement between Italy's Torino Polytechnic University and the Polytechnic University of Tirana (PUT) could facilitate knowledge sharing and technological spillovers. The EU-funded technology center in Ispra, Italy, is highly competent in advanced automotive research, and creating an exchange program for academics and researchers at PUT would enable them to better integrate industry trends and cutting-edge technical information into their curricula. Serbia's experience with industrial zones and North Macedonia's university-industry collaborations can also provide valuable lessons for Albania. (See appendix G for more information on the development of the auto-industry sector in Western Balkans countries).

The government should simultaneously pursue short-term and long-term objectives.

- **Short-term**: Albania's current workforce skills are best suited to products that require traditional manufacturing methods and that will continue to be used in electric and autonomous vehicles in the future. Targeting investors who produce steering and suspension parts would be a sound strategic choice.
- **Medium- and long-term**: Macrolevel industry trends like connected, electrified, autonomous vehicles are creating new opportunities in software and hardware development. Creating incentives to engage with next-generation technologies, such as mechatronic components, could help attract investments in the design and production of high-value-added parts, modules, or systems that are compatible with electric-vehicle technology.

Strengthening and Making Operational TEDAs

The government could overcome the most binding constraints on investment in auto-parts manufacturing by operationalizing the existing TEDAs. The TEDAs areas are expected to be developed and managed by private developers through PPPs or concession contracts, and they will operate as profit centers. Developers may offer plug-and-play industrial buildings that can be either purchased or rented on a long-term basis, as well as shared services (for example, training facilities, conference rooms, transportation services, logistics infrastructure, offices for the customs administration and other government agencies, temporary workshops that can be rented and operated while a final factory is built, and so forth) that would allow suppliers to shift their operations to Albania by reducing the startup costs associated with relocation. TEDAs would need to offer suppliers easy access to European OEMs while anchoring the development of manufacturing clusters that enable economies of scale and reduce search costs. To make TEDAs more attractive for developers, investments in the necessary infrastructure and the launch of an effective promotional campaign are critical and strengthening the enforcement of contracts needs to complement the incentive packages that are already offered.

For the TEDAs to succeed, the role of the central authority responsible for managing them is critical. This authority should regulate the zones, define the industries eligible to operate in them, and establish the institutional arrangements for the startup process. Box 7.1 below presents lessons from international experiences in economic zones. The experience with free zones in Turkey highlights the importance of the policies and incentive package offered by the government, the location of the zone, and its management model. Zones that are operated as profit centers, with targets and performance indicators, and that are managed privately under a concession agreement, tend to be the most successful. The location of Albania's designated TEDAs is favorable, with access to seaports, airports, and overland borders. However, critical implementation gaps remain in the selection of the developers to administer the TEDAs, which should be able to provide the services and infrastructure necessary to support compatible and complementary manufacturing units in different productive subsectors. Ideally, each TEDA should host a research center and a technical school that trains intermediate staff and provides incentives for investments in innovation.

BOX 7.1. ECONOMIC ZONES—INTERNATIONAL EXPERIENCE

Regional peers have used economic free zones to accelerate the development of their manufacturing industries and attract foreign investors. This approach offers multiple benefits for developing countries, as they have been shown to attract foreign capital, boost industrial production, increase employment and productivity, facilitate the introduction of new technologies, encourage domestic technology transfer, and promote business exchanges between zone occupants. Western Balkan countries have been establishing economic zones, especially after the global financial crisis of 2008. The number of zones has quadrupled over the past eight years as some economies expanded their existing zone networks and others created them for the first time. Economic zones in the Western Balkans region have attracted almost 400 foreign companies and a cumulative investment of over €2.5 billion. Companies active in the special economic zones (SEZs) have generated more than 22,000 jobs in Serbia, 6,800 in North Macedonia and about 1,700 in Bosnia and Herzegovina. Serbia and North Macedonia have the most consolidated models in the region. Serbia was an early adopter of the free-zone model. It has the largest number of free zones in the region, and its zones are the most developed and have accounted for more than 50 percent of foreign direct investment (FDI) received by the two countries. Most of these FDI flows have been directed to the labor-intensive automotive manufacturing industry.

Other transition countries such as Poland have established economic zones with good success. Kamienna Gora SEZ (KGSEZ) for medium businesses is one of the earliest SEZs in Poland and has achieved great success. It was established in 1997, along with several other zones in the country. In terms of the total area under SEZ jurisdiction, KGSEZ is the smallest in size, covering a noncontiguous area of about 540 hectares. In comparison, for example, the Katowice SEZ which is located south of KGSEZ, covers a total area of 2,614 hectares. However, measured by the output per hectare, KGSEZ stands out as one of the high performers. By 2018, it had attracted 45 investors with a total US$700 million investment and created 6,647 jobs. That translates to US$1.3 million investment and 12 jobs per hectare. The key reasons are that the zone provides a conducive business environment for the investors and a level-playing field for both small and medium enterprises and large firms.

In Panama, the Panama Pacifico SEZ is one of the most successful SEZs in the Latin America and the Caribbean region using a public-private partnership approach. The zone was designated in 2005, and within two years a private master developer was selected, and a master development agreement signed. The effective planning process, demand driven approach, strong private sector participation, conducive business environment, and positive linkages with the local economy, make it stand out as one of the good-practice examples. By 2019, it had attracted over 280 firms (including Caterpillar, 3M, and Dell), and created over 10,000 jobs. In 2018, it was recognized as the Best Free Zone in the Americas, and gained the Global Free Zones of the Year 2018 award.

Sources: Organisation for Economic Co-operation and Development (OECD). 2017. "Tracking Special Economic Zones in the Western Balkans: Objectives, Features and Key Challenges." Paris: OECD; Velamuri, M., and D. Z. Zeng. 2021. "Kamienna Gora SEZ—An Industrial Hub for SMEs in Poland." Working Paper, Finance, Competitiveness & Innovation Global Practice, World Bank, Washington, DC; Zeng, D. Z. 2021. "The Panama Pacifico Special Economic Zone—A Success Story of Strong Public-Private Partnership." Working Paper, Finance, Competitiveness & Innovation Global Practice, World Bank, Washington, DC.

Investment Incentives

The focus should be the enhancement of the efficiency of the investment incentives system. While the range of investment incentives in Albania is restricted and perhaps noncompetitive in comparison with those in the Western Balkans and Central and Eastern Europe, the fiscal constraints faced by the government suggest that expanding the set of existing incentives or making them more generous is not an option. In this direction, rather than entering into a fiscal incentives race to the bottom to attract investments with neighboring countries, the Albanian automotive sector can benefit from a better coordination on fiscal incentive policies for favored parts and services manufacturers with other Western Balkan countries that have been attracting investments through the concession of generous incentives. In addition, the investment promotion system may give precedence to the use of behavioral incentives such as deductions to capital investments; spending in training and research; and development and payroll rather than tax rate reductions, exemptions, and special tax regimes. International experience shows that allowances and deductions perform better if the goal is to promote capital investment, improve labor force qualification, or foster innovation. Finally, Albania may prioritize nonfiscal investment incentives, such as the facilitation of procedures and investors services provided by AIDA and the effective operation of TEDAs.

Skills Development

Investment in workforce skills is a key priority for Albania. To train workers in the competencies demanded by the automotive industry, the authorities should establish programs in areas such as the International Automotive Task Force 16949 and related components (failure mode and effects analysis, measurement system analysis, advanced product quality planning and control plan, production part approval process, and so forth), which provide a common technical language for automotive production. Similar trainings should focus on machinery, metallurgy and materials, mechatronics, and electrical and electronics engineering, which would benefit both the automotive industry and other sectors to which such skills can be transferred. The role of universities in preparing students for the auto industry through specific investments for tests and labs is critical for the sustainable development of the sector.

Comparable countries that have successfully developed automotive sectors have cultivated industry-relevant skills through partnerships with educational institutions. For example, Serbia has 14 technical university departments, 18 technical colleges, and 132 secondary technical schools. These institutions work closely with the automotive industry and investors to ensure their curriculums reflect the evolving demands of firms. Hands-on instruction in factories is obligatory for all students, and some institutions are beginning to pioneer a system in which students gain practical experience throughout the year. The Serbian government is prioritizing the development of technical education and promoting collaborations between educational institutions and firms. Albania has launched a similar effort, with the PUT reaching out to auto-industry investors to establish an internship program. However, the Albanian government must do more to accelerate the development of workforce skills.

Providing high-quality research equipment and infrastructure is vital for supporting R&D and enabling innovation. Investments in measurement and testing are essential to establish the scientific and technical capacities necessary to move up the value chain into more complex components and systems. Since these systems require highly specialized human resources, incubating them in a single center such as the campus of a technical university can encourage their development. While a single center with laboratories for measurement and testing can be financed with public resources initially, its management should be delegated to private-sector stakeholders. The center should be able to certify the compliance of manufactured auto parts with industry regulations and write expert reports for domestic and international oversight agencies. Ultimately, the measurement and testing center should join the network of centers of technical excellence in the EU and become accredited by OEMs and other industry stakeholders.

Technical training should leverage the existing capacities of the workforce while cultivating the advanced skills demanded by a rapidly evolving automotive industry. Albania's current industrial capabilities are best suited to products that use traditional manufacturing methods, such as steering and suspension parts. These products will continue to be used in advanced vehicles. However, as the industry continues to move toward connected, electrified, autonomous vehicles and other advanced technologies, new opportunities will emerge in software and hardware development. Investments in the skills necessary to develop and produce high-quality, high-value-added components and systems that are compatible with new automotive technologies, including mechatronics, should be encouraged

Supporting Infrastructure Services

While Albania has made important progress on reforming the energy sector, access to electricity remains unreliable and expensive. The power grid remains a key constraint on auto-parts suppliers, as production disruptions due to power outages dramatically increase operating costs. Albania's costly and unreliable electricity supply reflects years of underinvestment in transmission and distribution systems, as well as the frequent need for expensive electricity imports to cover shortfalls in domestic hydropower production during droughts. Large nontechnical losses compound the energy sector's financial difficulties and deprive sectoral institutions of the resources necessary to upgrade key infrastructure.

The development of the automotive industry will require reforms in the electricity sector. Key priorities include improving the management of hydropower resources through integrated water-basin approaches, investing in new generation capacity and diversifying the existing generation mix, decreasing distribution losses, adjusting tariffs to reflect costs, and opening the electricity market to regional competition.[162] Albania should bring its electricity sector into compliance with EU directives. Large consumers should start buying electricity on the market, and the distributor should be responsible for providing a consistent supply of energy to customers who are current on their bills. In addition to facilitating the development of automotive manufacturing and other industries, these measures would help to restore the financial viability of the electricity sector and reduce the associated fiscal risks.

Investment in transportation and logistics infrastructure is the final component necessary to develop Albania's automotive sector. An integrated and well-functioning logistics network will allow the country to leverage its strategic location and tighten its linkages with the EP RVC. The triangle between Nënë Tereza International Airport, the port of Durrës, and the city of Tirana should be declared a priority development area. The loading and unloading capabilities of the port of Durrës should be expanded, and automated customs systems should be implemented. Highways between the airport and the port should adhere to EU norms for safety, and road quality should be prioritized to avoid logistical disruptions. Airport fees should be reduced to the level of neighboring countries. The Spitallë and Vlora TEDAs are also located in this priority triangle, and these critical locational aspect should be included in the infrastructure investment program that will be necessary to accelerate the development of the automotive sector.

APPENDIX

APPENDIX A. THE NONAGRICULTURAL FORMAL PRIVATE SECTOR IN ALBANIA

THE DISTRIBUTION OF FIRMS IN THE NONAGRICULTURAL FORMAL PRIVATE SECTOR, 2019

	NUMBER OF FIRMS		EMPLOYMENT		VALUE ADDED	
	#	(%)	#	(%)	#	(%)
Total	**104,090**	**100.0**	**530,853**	**100.0**	**582,083**	**100.0**
SMEs (1–249 employed)	103,911	99.8	433,184	81.6	421,466	72.4
Micro (1–9 employed)	96,924	93.1	196,403	37.0	130,770	22.5
Small (10–49 employed)	5,736	5.5	114,451	21.6	143,274	24.6
Medium (50–249 employed)	1,251	1.2	122,330	23.0	147,422	25.3
Large (250+ employed)	179	0.2	97,669	18.4	160,617	27.6
Industry	**13,220**	**12.7**	**190,636**	**35.9**	**242,627**	**41.7**
Mining & quarrying	688	0.7	11,318	2.1	36,570	6.3
Manufacturing	7,961	7.6	109,140	20.6	88,554	15.2
Electricity, gas, water supply, & waste management	641	0.6	22,953	4.3	44,271	7.6
Construction	3,930	3.8	47,224	8.9	73,231	12.6
Services	**90,870**	**87.3**	**340,218**	**64.1**	**339,457**	**58.3**
Trade	41,660	40.0	131,030	24.7	129,682	22.3
Accommodation & food services	17,394	16.7	59,104	11.1	27,797	4.8
Transport & information & communication	7,902	7.6	38,116	7.2	64,844	11.1
Other services	23,914	23.0	111,967	21.1	117,133	20.1
Total	**104,090**	**100.0%**	**530,853**	**100.0%**	**582,083**	**100.0%**

Source: Structural Business Survey (SBS). Institute of Statistics of Albania (INSTAT).
Note: SMEs = small and medium enterprises.

APPENDIX B. ADDRESSING CONSTRAINTS ON THE DEVELOPMENT OF THE ALBANIAN AGRIBUSINESS SECTOR: DETAILED RECOMMENDATIONS

RECOMMENDATION	SHORT-TERM (1–2 YEARS)	MEDIUM- TO LONG-TERM (> 2 YEARS)
Complete land reforms.	• Assess viability of a PPP for land registration. • Improve data quality of land register to reflect reality on the ground following recommendations from ongoing projects. • Digitize all agricultural land and cadastral data. • Set up a unique digital cadastre map, as a national standard, for all surveyors, government, and municipal users. • Reform legislation to allow foreign ownership of agricultural land and pastures, to meet EU accession requirements and promote agri-investments.	Invest in longer-term capacity development initiatives to create a new generation of land professionals in the public sector and beyond who have a wider understanding of sustainable land management.
Address land fragmentation.	• Explore out-grower schemes and contract farming and support establishment of associations. • Conduct a deep dive on postharvest facilities including the role of consolidators to identify priority actions to improve their competitiveness (for example issues of food standards and certification) and to determine potential paths forward to either strengthen their role or replace with an alternative model for aggregation.	Explore PPP and public investment with private management options for agrimarketing infrastructure (particularly agri–wholesale markets) closer to farms.
Improve access to infrastructure.	• Invest in road infrastructure and improve access to rural areas. • Rehabilitate irrigation infrastructure and invest in extension services for improved water management.	

RECOMMENDATION	SHORT-TERM (1–2 YEARS)	MEDIUM- TO LONG-TERM (> 2 YEARS)
Strengthen food standards and certification systems and infrastructure.	• Improve the regulatory environment in the sector by speeding up harmonization and implementation of national legislation with EU requirements: a. Conduct a thorough Gap assessment of export-related requirements regarding horticulture and other food products; b. Adopt flexible approaches to implementation of food hygiene and HACCP procedures for certain types of food businesses. • Improve knowledge and awareness and build capacity: a. Introduce better access to export requirements for SMEs on existing data platforms under line ministries or competent authority; b. Strengthen knowledge capacity on new food safety requirements and HACCP implementation both among businesses and experts from competent authorities; c. Strengthen the capacity of the Food Safety Agency on food hygiene, HACCP, and food traceability by improving expertise of regional team. • Upgrade quality assurance and private service certification services: a. Adopt a strategy on the upgrade of quality assurance and private service certification services; b. Invest or establish partnerships with the private sector to set up accredited export testing labs and standards certification services, accessible by SMEs and recognized by export markets.	• Create a more favorable environment for private laboratories and certification services. • Invest in informative platforms on SPS requirements to meet farmers' needs.

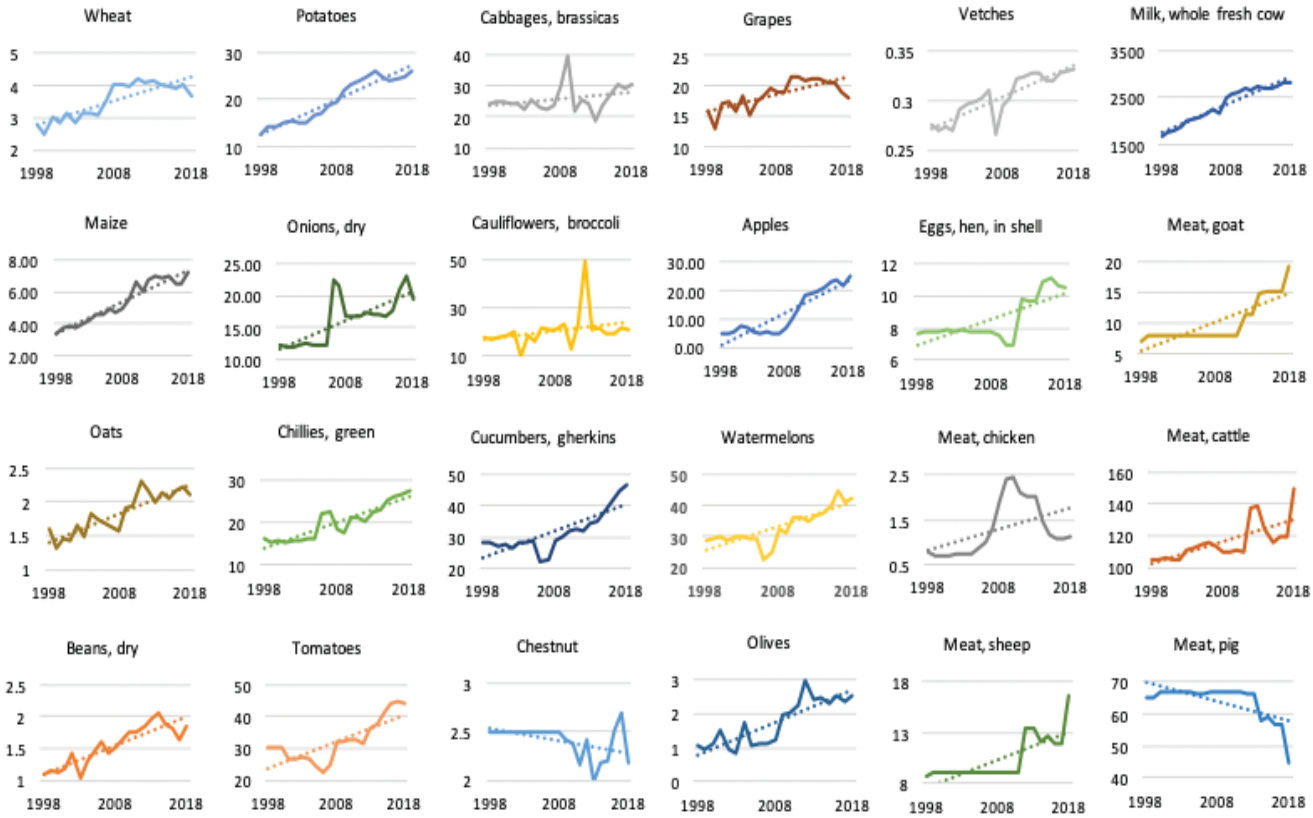
RECOMMENDATION	SHORT-TERM (1–2 YEARS)	MEDIUM- TO LONG-TERM (> 2 YEARS)
Strengthen sector linkages and export competitiveness.	• Improve customs and export border procedures to reduce time and cost to export. • Mobilize industry and sectoral associations. • Explore the potential of digital marketplace platforms for connecting producers, off-takers, and end markets. • Address lack of skills and research and extension systems: a. Provide improved agronomic capacity and market intelligence to farmers; b. Provide capacity building for farmers and SMEs to gain book-keeping and financial skills; c. Explore private partnerships for ICT-enabled extension services. • Improve the quality of agriculture statistical data.	• Improve access to finance. • Provide capacity-building support for private sector banks to expand agro-lending portfolio. • Support development of tools to incentivize agriculture and weather insurance. • Support financing of postharvest infrastructure in compliance with international certification schemes. • Strengthen public spending on agriculture and the environment to be in line with the EU, and to be able to access CAP benefits. For example, establish systems required for CAP implementation, such as Integrated Administration and Control System in line with EU requirements.

Notes: CAP = Common agriculture policy; EU = European Union; HACCP = Hazard analysis and critical control point; PPP = Public private partnership; SPS = Sanitary and phytosanitary.

APPENDIX C. ANALYSIS OF AGRICULTURE SUB-CROPS WITH TRADE COMPETITIVENESS AND ECONOMIC IMPACT

The analysis of different agricultural subsectors suggests that horticulture and fish products show the greatest potential for competitiveness and economic impact. An analysis combining an assessment of on-farm competitiveness (comparison of yields in Albania versus world average) with an assessment of Albania's export competitiveness (using revealed comparative advantages), together with measures of economic impact, shows that, of the top 10 products, 8 are horticulture products: chestnuts, specialty nuts (nuts not elsewhere specified [nes] like pine nuts), medicinal and aromatic plants (MAPs), olives, tomatoes, figs, plums, and cucumbers and gherkins. Other subsector showing greatest promise is fish. Observations from the analysis also highlight the synergies in the value chains of certain commodities such that addressing challenges in the growth of one could favorably impact the broader agribusiness sector. Improvements in cold chain infrastructure, and services from farm to exports would for instance benefit many horticulture sub-sectors.

FIGURE C.1. ALBANIA FARM YIELDS, 1998–2018, MT/HA OR KG/ANIMAL



Source: FAOSTAT.
Notes: MT = Metric tons; ha = hectare; kg = kilogram

TABLE C.1. ALBANIA AND COMPARATORS, CROP AND LIVESTOCK YIELDS, 2014–18, MT/HA OR KG/ANIMAL AVERAGE

		ALBANIA	SEE REGION*	EU (28)	WORLD	BIH	BULGARIA	CROATIA	GREECE	MONTENEGRO	N. MACEDONIA	ROMANIA	SERBIA	SLOVENIA
MT/HA	Apples	23.11	16.37	23.61	16.70	3.30	12.18	14.60	27.31	12.11	8.73	8.86	16.12	36.35
	Beans, dry	1.84	1.97	2.49	1.32	13.67	1.06	0.94	2.38	6.76	1.27	1.15	1.14	1.88
	Cabbages/brassicas	28.09	25.81	30.79	0.87	28.92	23.91	24.46	25.03	33.20	30.69	22.34	25.52	31.19
	Cauliflowers/ broccoli	20.68	15.53	17.54	18.74	No data	14.15	13.91	19.14	No data	10.62	14.64	No data	15.59
	Chestnut	2.35	3.89	1.22	3.75	1.21	4.04	No data	3.63	No data	1.44	10.68	No data	3.87
	Chillies/ peppers, green	25.75	19.38	39.41	17.78	12.21	17.67	14.97	28.99	24.57	20.59	12.32	11.37	25.36
	Cucumbers/ gherkins	41.41	38.89	54.80	37.27	11.05	91.44	40.45	67.75	No data	49.26	15.08	13.38	
	Grapes	19.90	8.61	7.89	10.71	5.03	5.77	5.80	10.77	8.44	11.46	5.17	7.17	6.63
	Malze	6.83	6.67	7.64	5.74	5.04	6.56	7.71	11.27	4.41	4.46	5.21	6.39	8.84
	Oats	2.14	2.43	3.05	2.43	2.61	2.07	2.91	1.97	2.59	1.94	2.24	2.68	3.15
	Olives	2.44	2.12	2.49	1.92	1.47	No data	1.35	2.97	2.84	2.17	No data	No data	1.62
	Onions, dry	19.58	17.00	33.76	19.03	7.70	10.77	25.29	31.55	16.55	16.40	11.68	8.92	21.56
	Potatoes	25.03	18.27	33.23	20.67	10.29	15.90	17.57	25.00	16.66	14.25	16.24	15.43	26.29
	Tomatoes	42.09	33.60	66.14	36.73	12.33	38.06	55.44	53.74	32.90	29.05	16.50	15.47	40.40
	Vetches	0.33	2.06	1.10	1.71	3.87	1.93	No data	1.58	No data	1.43	No data	3.25	No data
	Watermelons	41.07	30.55	38.20	31.90	20.85	18.58	28.55	45.72	39.65	24.20	23.76	32.38	No data
	Wheat	3.92	4.04	5.71	3.40	3.78	4.73	5.28	2.83	3.07	3.30	4.21	4.32	4.99
KG/AN	Eggs, hen, in shell	10.53	10.13	14.05	10.04	5.76	13.63	10.86	11.67	9.06	7.66	7.82	9.70	14.58
	Milk, whole fresh cow	2,760	3,655	6,941	2,449	2,875	3,579	4,092	4,857	2,719	2,974	3,334	3,562	5,802
	Meat, cattle	125	194	291	219	205	130	233	226	187	153	164	221	299
	Meat, chicken	1.18	1.46	1.62	1.64	1.54	1.71	1.14	1.75	1.26	0.79	1.65	1.92	1.66
	Meat, goat	15.86	12.68	10.24	12.32	No data	10.44	12.80	10.54	12.70	No data	10.46	14.56	14.10
	Meat, pig	55.06	75.14	90.96	80.50	71.54	67.36	69.62	57.92	99.90	98.94	83.40	53.70	94.00
	Meat, sheep	13.08	16.13	15.76	16.86	15.20	10.40	11.96	10.94	39.68	15.98	10.64	19.42	13.98

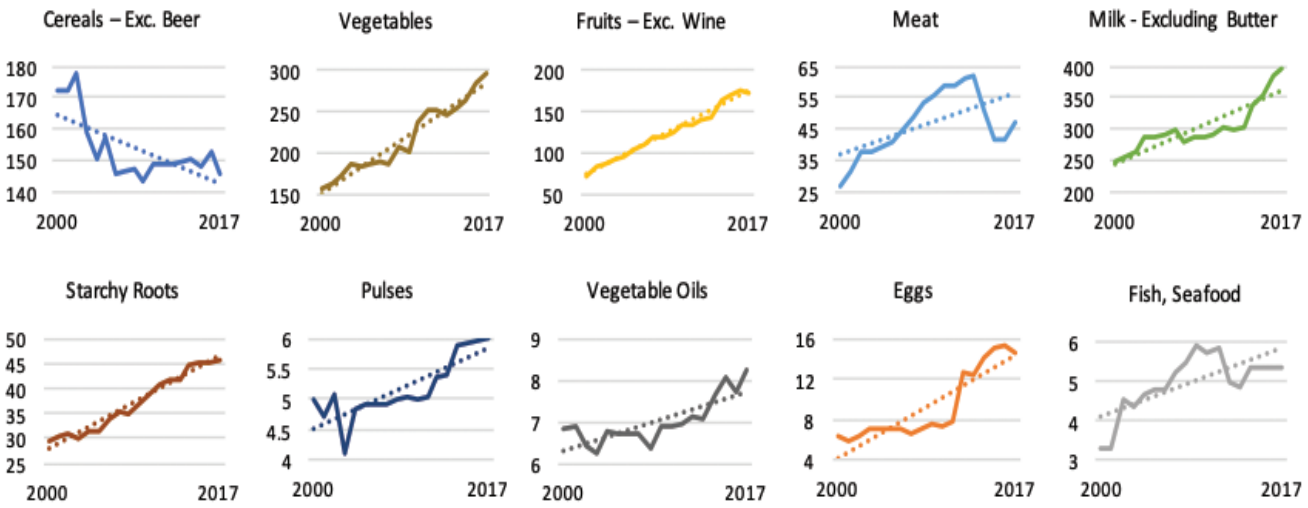
Source: FAOSTAT.

Notes: MT = Metric tons; ha = hectare; kg = kilogram; SEE = South Eastern Europe; EU = European Union; BiH = Bosbia and Herzegovina.

Values in green represent the highest-yield country.

*South East Europe Region values present the average values for Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Greece, Montenegro, North Macedonia, Romania, Serbia, and Slovenia.

FIGURE C.2. FOOD PRODUCTION BY TYPE, 2000–17, KILOGRAMS/CAPITA/YEAR



SOURCE: FAOSTAT
NOTE: EXC. = EXCLUDING

TABLE C.2. ALBANIAN AGRICULTURE SUB-CROPS WITH COMPETITIVENESS* AND ECONOMIC IMPACT

		COMPOSITE PRIORITIZATION INCORPORATING COMPETITIVENESS AND ECONOMIC IMPACT**
1	Chestnut	0.34
2	Nuts, nes	0.32
3	Fish	0.24
4	MAPS	0.21
5	olives	0.21
6	Tomatoes	0.18
7	Figs	0.15
8	Milk	0.14
9	Dates	0.13
10	Plums and sloes	0.13
11	Cucumbers/ gherkins	0.12
12	Cattle	0.11
13	Watermelons	0.11
14	Wheat	0.11
15	Grapes	0.09
16	oranges	0.09
17	Maize	0.09
18	Cabbages and other brassicas	0.09
19	Chillies and peppers, green	0.08
20	Beans, dry	0.08
21	Pumpkins, squash and gourds	0.08
22	Cherries	0.08
23	Apricots	0.07
24	Chicken	0.07
25	Sheep	0.07
26	Apples	0.07
27	Goat	0.07
28	Soybeans	0.06
29	Potatoes	0.05
30	Cauliflowers and broccoli	0.05

OILSEEDS **FOOD GRAINS** **HORTICULTURE** **LIVESTOCK**

Source: FAOSTAT, UN COMTRADE, various research reports.
Notes:
* Ranking based on 60% based on competitiveness score (yields and revealed comparative advantage) and 40% based on economic impact.
**Farm yield gaps for MAPs, fish, meat nes, mushrooms and truffles, and wool were given a value of 1 if no data was found. No production value was found for hides and skins, meat nes and strawberries, therefore they are not included in the list. However, they have RCAs above 1 and high values for certain economic indicators, showing potential for these subsectors.

Competitiveness Analysis

Comparison of yields in Albania versus world average indicates Albania's on-farm competitiveness. Albania outperforms world averages in several commodities, including specialty nuts, figs, plums, and several citrus fruits.

Revealed comparative advantage (RCA) is an indication of export competitiveness, which also shows promise for Albania in products including chestnuts, medicinal and aromatic plants, olives, and tomatoes.

For both indicators, certain distortions may be affecting the results, such as subsidized inputs boosting on-farm productivity.

A low RCA with a high yield ratio could be indicative of more robust domestic demand for the commodity (relative to competing exporters of this commodity), inability to expand production beyond current production and compelling challenges between "farm to port" that reduce global trade competitiveness despite high farm competitiveness. Many commodities with > 1 yield ratio but < 1 RCA fall in this category (for example potatoes, apricots, and dry beans).

On the other hand, a low yield ratio but high RCA could be indicative of policy level factors (for example subsidies, state-owned-enterprise dominance) that contribute to global trade competitiveness even while farm productivity is low. For Albania, none fall under this category.

TABLE C.3. COMPETITIVENESS ASSESSMENT

	ALBANIA YIELD/WORLD AVERAGE YIELD SCORE (A)			REVEALED COMPARATIVE ADVANTAGE SCORE (B)			COMPOSITE COMPETITIVENESS PRIORITIZATION SCORE (50% A +50%*B)	
1	Nuts, nes	9.39	1	Chestnut	106.20	1	Chestnut	0.53
2	Dates	3.71	2	MAPS	54.76	2	Nuts, nes	0.51
3	Figs	3.67	3	Olives	28.37	3	MAPS	0.31
4	Plums and sloes	3.48	4	Tomatoes	22.80	4	Figs	0.21
5	Tangerines, mandarins	2.71	5	Cucumbers/gherkins	20.33	5	Olives	0.20
6	Oranges	2.15	6	Watermelons	18.16	6	Dates	0.20
7	Beans, dry	2.12	7	Leeks, other alliaceous	11.73	7	Plums and sloes	0.20
8	Fruit, citrus nes	2.10	8	Cabbages/brassicas	8.94	8	Tomatoes	0.17
9	Strawberries	2.05	9	Hides, cattle, fresh	7.62	9	Tangerines, mandarins	0.16
10	Apricots	2.03	10	Fish	6.59	10	Cucumbers/gherkins	0.15
11	Grapes	1.86	11	Chillies/peppers, green	5.95	11	Watermelons	0.15
12	Pumpkins/squash/ gourds	1.86	12	Hops	5.44	12	Leeks, other alliaceous	0.13
13	Cherries	1.69	13	Pumpkins/squash/ gourds	3.59	13	Fruit, citrus nes	0.12
14	Skins, goat, fresh	1.55	14	Meat nes	2.91	14	Strawberries	0.12
15	Sunflower seed	1.47	15	Tangerines, mandarins	2.81	15	Pumpkins/squash/gourds	0.12
16	Chillies/peppers, green	1.45	16	Strawberries	2.53	16	Oranges	0.11
17	Peas, green	1.43	17	Fruit, citrus nes	2.52	17	Beans, dry	0.11
18	Apples	1.38	18	Figs	2.46	18	Apricots	0.11
19	Leeks, other alliaceous	1.35	19	Plums and sloes	2.28	19	Chillies/peppers, green	0.11
20	Watermelons	1.29	20	Melons	2.21	20	Grapes	0.10
21	Goat	1.29	21	Nuts, nes	2.17	21	Cabbages/brassicas	0.09
22	Olives	1.27	22	Apples	1.42	22	Cherries	0.09
23	Potatoes	1.21	23	Skins, sheep, fresh	1.39	23	Hides, cattle, fresh	0.09
24	Skins, sheep, fresh	1.19	24	Eggs	1.35	24	Fish	0.08
25	Maize	1.19	25	Beans, dry	1.00	25	Skins, goat, fresh	0.08
26	Wheat	1.15	26	Peaches/nectarines	0.94	26	Apples	0.08
27	Tomatoes	1.15	27	Quinces	0.82	27	Sunflower seed	0.08
28	Milk	1.13	28	Vetches	0.78	28	Peas, green	0.08
29	Cucumbers/gherkins	1.11	29	Spices, nes	0.76	29	Skins, sheep, fresh	0.07
30	Cauliflowers/broccoli	1.10	30	Onions, shallots, green	0.66	30	Goat	0.07

Economic Impact Analysis

The economic impact score is based on the economic impact parameters below, which include current value of production, current value of unprocessed exports, current value of processed exports, growth in value of exports, growth in production, value of global trade, growth in value of global trade, value of imports, and growth in value of imports with a weightage of 25 percent, 10 percent, 25 percent, 5 percent, 5 percent, 10 percent, 5 percent, 10 percent, and 5 percent respectively

The high value of production of livestock and, the high value in global trade for fish, or in the case of commodities like tomatoes and olives, the high value and growth of exports contribute to the scale of impact that these products deliver, moving them higher in priority than in the case when only competitiveness is considered.

No production value was found for hides and skins, meat nes, and strawberries, therefore they are not included in the final list. However, they have high values for certain economic indicators, showing potential for these subsectors.

TABLE C.4. ECONOMIC IMPACT

	VALUE OF PRODUCTION (US$ M.)		VOLUME OF PRODUCTION (1000 MT)		VALUE UNPROCESSED EXPORTS (US$ M.)		VALUE PROCESSED EXPORTS (US$ M.)	
1	Milk	459.1	Milk	1,142	Tomatoes	26.75	Fish	28.14
2	Cattle	454.8	Maize	382	MAPS	23.29	Olives	7.09
3	Eggs	155.3	Tomatoes	270	Fish	11.07	Wheat	3.94
4	Olives	149.3	Wheat	269	Cucumbers/ gherkins	6.52	Hides, cattle, fresh	2.43
5	Sheep	145.1	Potatoes	246	Nuts, nes	5.20	Skins, sheep, fresh	0.63
6	Grapes	134.4	Watermelons	237	Hides, cattle, fresh	4.97	Sunflower seed	0.33
7	Tomatoes	124.1	Grapes	200	Chestnut	4.95	Barley	0.31
8	Chicken	120.1	Olives	104	Watermelons	4.00	Maize	0.20
9	Maize	118.8	Onions, dry	102	Chillies/peppers, green	3.88	Skins, goat, fresh	0.16
10	Wheat	88.5	Cucumbers/ gherkins	98	Tangerines/ mandarins	1.97	Tobacco, un-manufactured	0.14
11	Pig	84.1	Apples	96	Cabbages/ brassicas	1.67	Tomatoes	0.076
12	Goat	72.0	Chillies/peppers, green	76	Apples	1.39	Milk	0.045
13	Potatoes	71.8	Eggs	51	Tobacco, un-manufactured	0.86	Potatoes	0.045
14	Beans, dry	50.6	Cabbages/ brassicas	47	Strawberries	0.79	Cucumbers/ gherkins	0.017

	VALUE OF PRODUCTION (US$ M.)	
15	Fish	47.0
16	Cucumbers/ gherkins	46.6
17	Watermelons	44.6
18	Honey	39.3
19	Apples	37.8
20	Onions, dry	33.6
21	Nuts, nes	28.5
22	MAPS	26.6
23	Chillies/peppers, green	22.1
24	Cherries	20.6
25	Melons	17.3
26	Hops	16.8
27	Eggplants	16.6
28	Onions/shallots, green	16.5
29	Garlic	15.4
30	Figs	14.3

	VOLUME OF PRODUCTION (1000 MT)	
15	Cattle	45
16	Melons	43
17	Plums and sloes	39
18	Onions/shallots, green	35
19	Sugar beet	33
20	Leeks, other alliaceous	32
21	Oats	32
22	Eggplants	30
23	Beans, dry	26
24	Tangerines/ mandarins	23
25	Sheep	23
26	Figs	21
27	Spinach	19
28	28 Cherries	19
29	Cherries, sour	18
30	Peaches and nectarines	17

	VALUE UNPROCESSED EXPORTS (US$ M.)	
15	Eggs	0.73
16	Pumpkins/ squash/gourds	0.57
17	Melons	0.47
18	Leeks, other alliaceous	0.44
19	Hops	0.36
20	Meat nes	0.33
21	Potatoes	0.30
22	Onions, shallots, green	0.29
23	Peaches/ nectarines	0.27
24	Plums and sloes	0.24
25	Vetches	0.23
26	Figs	0.17
27	Skins, sheep, fresh	0.15
28	Spices, nes	0.11
29	Cauliflowers/ broccoli	0.07
30	Grapes	0.05

	VALUE PROCESSED EXPORTS (US$ M.)	
15	Pig	0.015
16	Grapes	0.007
17	Cherries	0.0004

TABLE C.4. ECONOMIC IMPACT (CONT)

	GROWTH VOLUME PRODUCTION	
1	Oranges	27.2%
2	Tangerines/ mandarins	22.1%
3	Soybeans	20.7%
4	Carrots/tumips	15.8%
5	Garlic	13.5%
6	Lettuce/chicory	13.3%

	GROWTH EXPORT VALUE	
1	Strawberries	340.6%
2	Chillies/peppers, green	63.3%
3	Pumpkins/ squash/gourds	49.7%
4	Cucumbers/ gherkins	43.8%
5	Tomatoes	35.2%
6	Cabbages/ brassicas	32.8%

	VALUE GLOBAL TRADE (US$ B.)	
1	Fish	111.2
2	Soybeans	56.0
3	Cattle	45.6
4	Wheat	40.6
5	Maize	31.0
6	Pig	28.6

	GROWTH VALUE GLOBAL TRADE	
1	Hops	15.6%
2	Cherries	12.7%
3	Dates	9.4%
4	Lemons and limes	8.8%
5	Spinach	7.8%
6	Fruit, citrus nes	7.0%

GROWTH VOLUME PRODUCTION			GROWTH EXPORT VALUE			VALUE GLOBAL TRADE (US$ B.)			GROWTH VALUE GLOBAL TRADE		
7	Pumpkins/ squash/gourds	12.5%	7	Apples	17.6%	7	Tobacco, unmanuf.	26.2	7	Watermelons	6.6%
8	Cabbages/ brassicas	11.2%	8	Leeks, other alliaceous	17.5%	8	Chicken	26.0	8	Figs	5.9%
9	Cucumbers/ gherkins	10.8%	9	Olives	11.4%	9	Nuts, nes	18.5	9	Cabbages/ brassicas	5.4%
10	Onions, shallots, green	9.7%	10	Cauliflowers/ broccoli	7.0%	10	Grapes	9.8	10	Sheep	4.6%
11	Goat	8.3%	11	Watermelons	4.6%	11	Tomatoes	9.0	11	Fish	4.0%
12	Skins, goat, fresh	8.3%	12	Onions, shallots, green	3.0%	12	Milk	8.8	12	Mushrooms/ truffles	3.5%
13	Peaches and nectarines	7.8%	13	Grapes	2.9%	13	Apples	7.5	13	Tobacco, unmanuf.	3.3%
14	Cauliflowers/ broccoli	7.7%	14	Peaches/ nectarines	2.9%	14	Barley	7.3	14	Quinces	3.2%
15	Barley	7.2%	15	Melons	0.8%	15	Sheep	6.6	15	Pumpkins/ squash/gourds	2.8%
16	Apples	7.2%	16	Barley	0%	16	Tangerines/ mandarins	5.4	16	Cattle	2.8%
17	Pears	6.9%	17	Beans, dry	0%	17	Chillies/peppers, green	5.0	17	Chillies/peppers, green	2.7%
18	Lemons and limes	6.5%	18	Cattle	0%	18	Hides, cattle, fresh	5.0	18	Cauliflowers/ broccoli	2.7%
19	Honey	6.2%	19	Chicken	0%	19	Oranges	4.8	19	Nuts, nes	2.6%
20	Figs	6.0%	20	Goat	0%	20	Eggs	4.2	20	Cucumbers/ gherkins	2.6%
21	Plums and sloes	5.6%	21	Maize	0%	21	Potatoes	4.1	21	Wool, greasy	2.5%
22	Apricots	5.6%	22	Oats	0%	22	Sunflower seed	3.6	22	Spices, nes	2.4%
23	Tomatoes	5.4%	23	Onions, dry	0%	23	Onions/shallots, green	3.3	23	Carrots/turnips	2.4%
24	Chicken	5.1%	24	Pig	0%	24	Lemons/limes	3.3	24	Lettuce/chicory	2.2%
25	Sheep	4.8%	25	Seed cotton	0%	25	Beans, dry	3.3	25	Strawberries	2.2%
26	Skins, sheep, fresh	4.8%	26	Sheep	0%	26	MAPS	3.3	26	Olives	2.2%
27	Olives	4.7%	27	Soybeans	0%	27	Wool, greasy	3.2	27	Goat	1.8%
28	Chillies/peppers, green	4.2%	28	Sugar beet	0%	28	Garlic	2.7	28	Honey	1.7%
29	Peas, green	4.2%	29	Sunflower seed	0%	29	Pears	2.6	29	Oranges	1.7%
30	Fish	4.1%	30	Wool, greasy	0%	30	Lettuce/chicory	2.6	30	Beans, dry	1.7%

TABLE C.4. ECONOMIC IMPACT (CONT)

	VALUE OF IMPORTS (US$ M.)	
1	Wheat	45.2
2	Fish	22.8
3	Chicken	21.9
4	Tobacco, unmanufactured	19.1
5	Maize	17.0
6	Pig	9.5
7	Milk	9.3
8	Oranges	8.1
9	Apples	6.2
10	Potatoes	4.5
11	Olives	4.2
12	Grapes	3.5
13	Peaches and nectarines	2.6
14	Onions, shallots, green	2.4
15	Nuts, nes	2.3
16	Lemons and limes	2.1
17	Tangerines, mandarins	2.0
18	Tomatoes	1.8
19	Pears	1.7
20	Cattle	1.3
21	Barley	1.1
22	Chillies/peppers, green	0.8
23	MAPS	0.7
24	Beans, dry	0.7
25	Garlic	0.5
26	Skins, sheep, fresh	0.3
27	Quinces	0.3
28	Cucumbers/gherkins	0.3
29	Eggplants (aubergines)	0.3
30	Honey	0.2

	GROWTH VALUE OF IMPORTS	
1	Chestnut	41.4%
2	Olives	40.0%
3	Plums and sloes	24.0%
4	Figs	21.1%
5	Barley	19.5%
6	Cabbages/brassicas	17.3%
7	Apricots	16.4%
8	Sunflower seed	16.3%
9	Cauliflowers/broccoli	14.6%
10	Dates	9.0%
11	Lemons and limes	7.7%
12	Honey	6.7%
13	Cherries	5.5%
14	Carrots/turnips	1.1%
15	Beans, dry	0.7%
16	Tomatoes	0.4%
17	Pears	0.4%
18	Quinces	0.3%
19	Sheep	0.0%
20	Goat	0.0%
21	Soybeans	0.0%
22	Peas, green	0.0%
23	Wool, greasy	0.0%
24	Sugar beet	0.0%
25	Mushrooms/truffles	-0.4%
26	Milk	-1.2%
27	Oranges	-1.8%
28	Peaches and nectarines	-2.7%
29	Grapes	-3.2%
30	Onions, shallots, green	-3.6%

	ECONOMIC IMPACT SCORE	
1	Fish	0.47
2	Milk	0.26
3	Cattle	0.23
4	Olives	0.21
5	Tomatoes	0.20
6	Wheat	0.17
7	Maize	0.13
8	Chicken	0.12
9	Sheep	0.11
10	Soybeans	0.09
11	Grapes	0.09
12	Cucumbers/gherkins	0.08
13	Cabbages rassicas	0.08
14	MAPS	0.07
15	Oranges	0.06
16	Chestnut	0.06
17	Goat	0.06
18	Figs	0.06
19	Pig	0.06
20	Cherries	0.06
21	Apples	0.05
22	Watermelons	0.05
23	Nuts, nes	0.05
24	Cauliflowers/broccoli	0.05
25	Lemons and limes	0.04
26	Barley	0.04
27	Chillies/peppers, green	0.04
28	Plums and sloes	0.04
29	Potatoes	0.04
30	Carrots/turnips	0.04

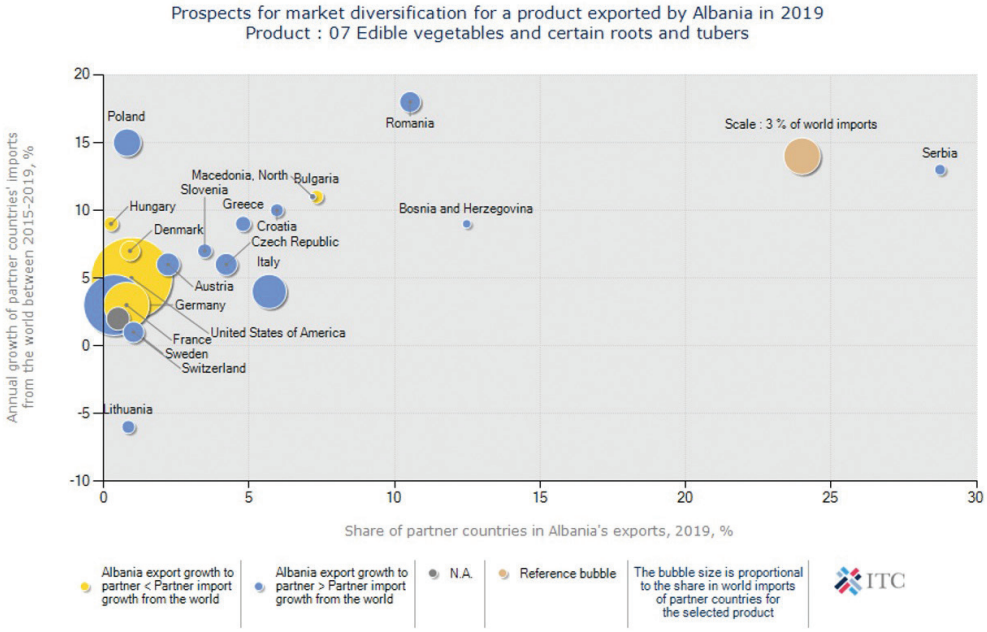
Source: FAOSTAT, INSTA

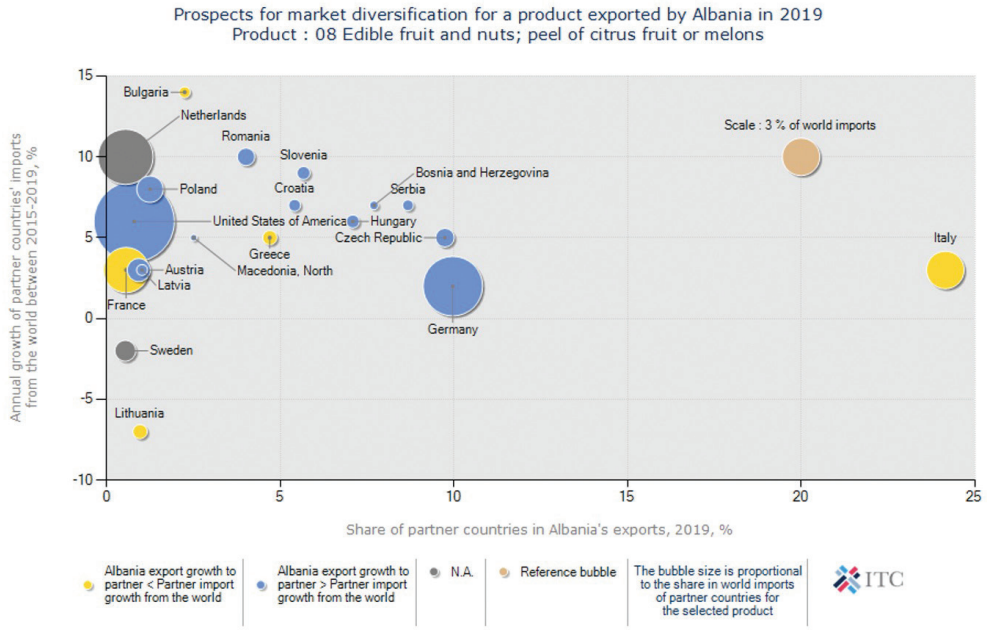
Note: Values represent 2014–18 averages, or CAGR for these periods. CAGR = compound annual growth rate; nes. = not elsewhere specified

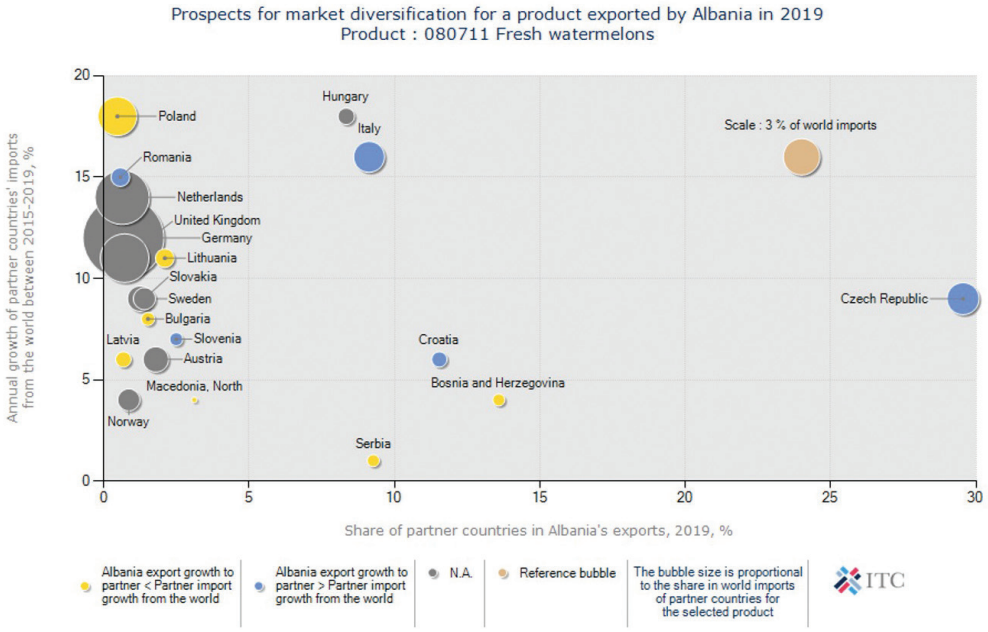
APPENDIX D. PROSPECTS FOR MARKET DIVERSIFICATION FOR ALBANIAN KEY EXPORTS

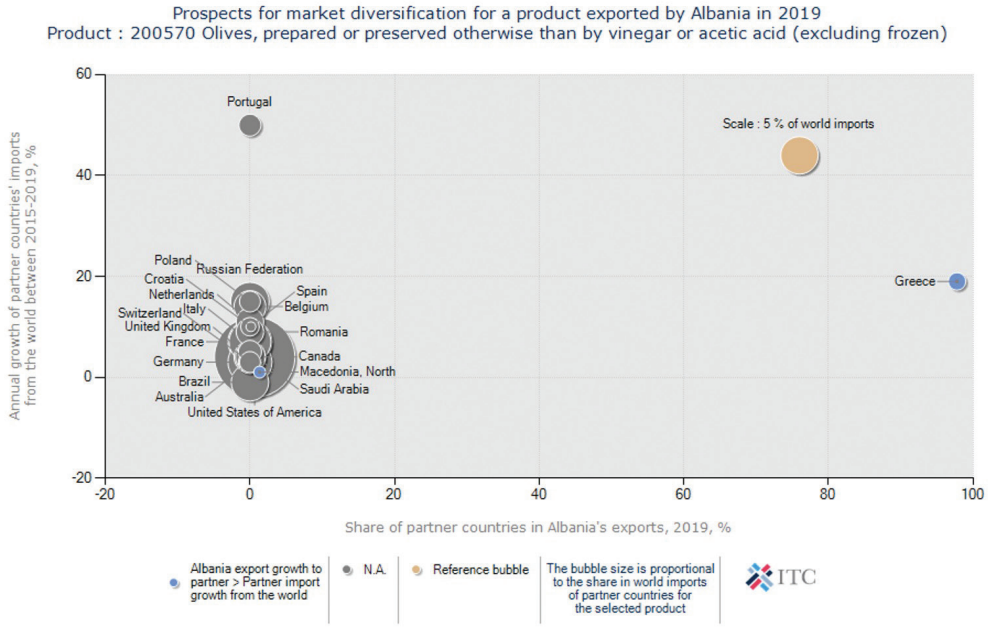
The relevant studies scanning prospects for diversification and market potential for Albanian agricultural products that were assessed in this CPSD include:

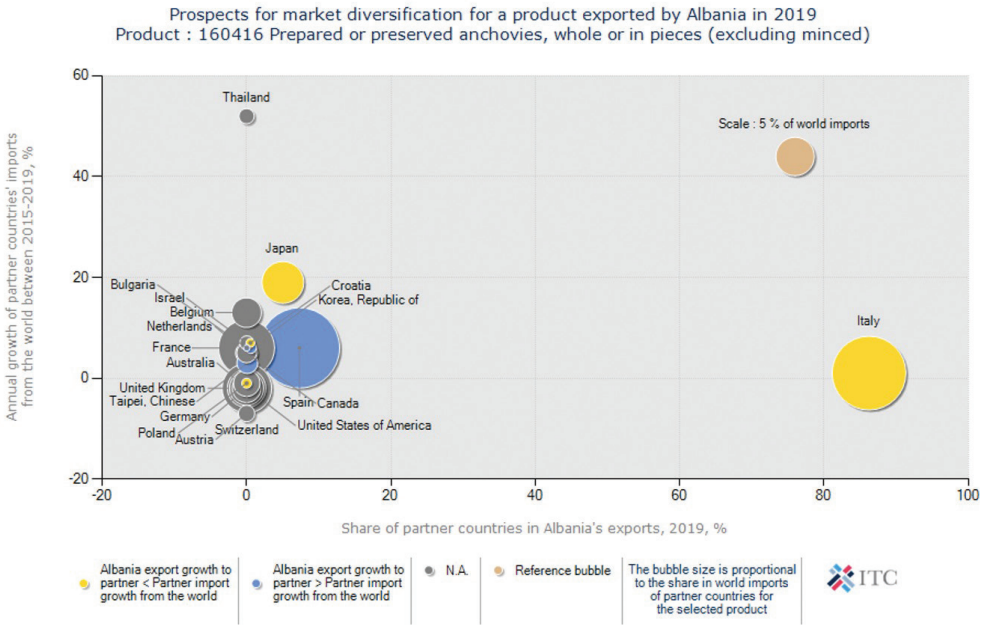
- Albanian Agribusiness Support Facility (2019), Apple Sector Study
- Albanian Agribusiness Support Facility (2019), Chestnut Sector Study
- Albanian Agribusiness Support Facility (2019), Citrus Sector Study
- Albanian Agribusiness Support Facility (2019), Greenhouse Sector Study
- Albanian Agribusiness Support Facility (2019), Meat Sector Study
- Albanian Agribusiness Support Facility (2019), Medicinal and Aromatic Plants Sector Study
- Albanian Agribusiness Support Facility (2019), Milk Sector Study
- Albanian Agribusiness Support Facility (2019), Olive Oil Sector Study
- Albanian Agribusiness Support Facility (2019), Watermelon Sector Study
- Albanian Agribusiness Support Facility (2019), Wine Sector Study
- FAO (2018), Market and Value Chain Analyses of Selected Sectors for Diversification of the Rural Economy and Women's Economic Empowerment (Study provides an in-depth look at: Medicinal and aromatic plants sector, Gourmet and traditional food, and Beekeeping value chain; it briefly examines: Trout cultivation, Pomegranate cultivation, and Agro-tourism).
- Harvard University Center for International Development (2014), Assessing the Medicinal and Aromatic Plants in Albania
- Harvard University Center for International Development (2014), Fresh Tomatoes: Ideas to Build a Productive Eco-System
- Harvard University Center for International Development (2015), Conditions for Re-Opening Exports of Albanian Mussels to the EU
- Harvard University Center for International Development (2015), Increasing Exports of Albanian Cultivated Fish to the EU
- Swiss Agency for Development and Cooperation SDC (2011), Organic Agriculture in Albania Sector Study
- USAID (2009), The Medicinal and Aromatic Plants Value Chain in Albania.
- World Bank (2018), Competitiveness Assessment of Competitive Products in Fruits and Vegetables Value Chain in Albania (Study provides in-depth look at: Olive oil, Watermelon, and Nuts –walnuts, hazelnuts and chestnuts).

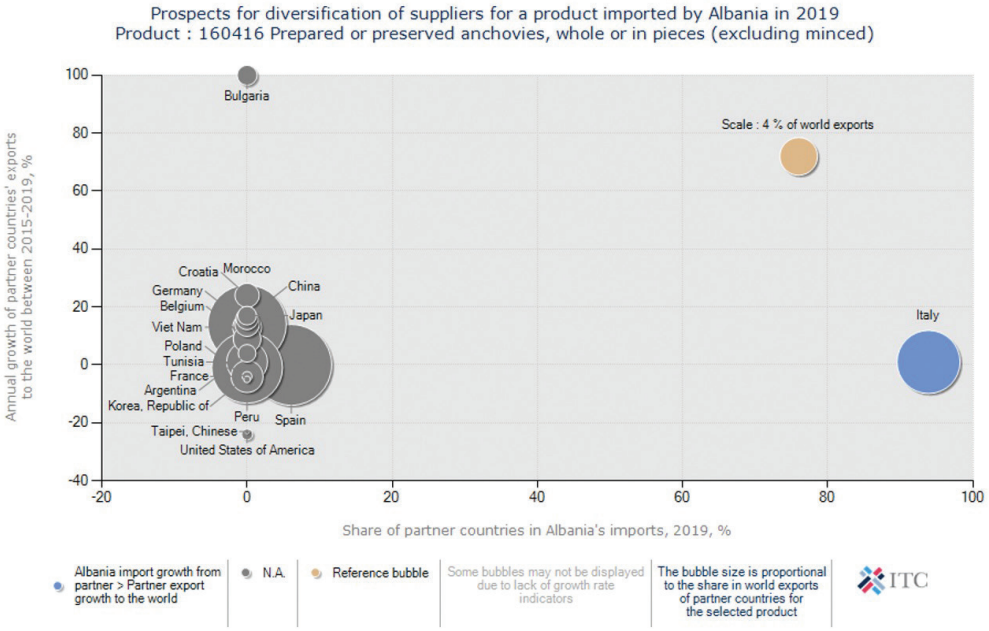

Prospects for market diversification for a product exported by Albania in 2019
Product : 07 Edible vegetables and certain roots and tubers
Annual growth of partner countries' imports from the world between 2015-2019, %
Share of partner countries in Albania's exports, 2019, %
Scale : 3 % of world imports
Poland
Romania
Serbia
Macedonia, North
Slovenia
Bulgaria
Hungary
Greece
Bosnia and Herzegovina
Denmark
Croatia
Czech Republic
Italy
Austria
Germany
United States of America
France
Sweden
Switzerland
Lithuania
Albania export growth to partner < Partner import growth from the world
Albania export growth to partner > Partner import growth from the world
N.A.
Reference bubble
The bubble size is proportional to the share in world imports of partner countries for the selected product
ITC

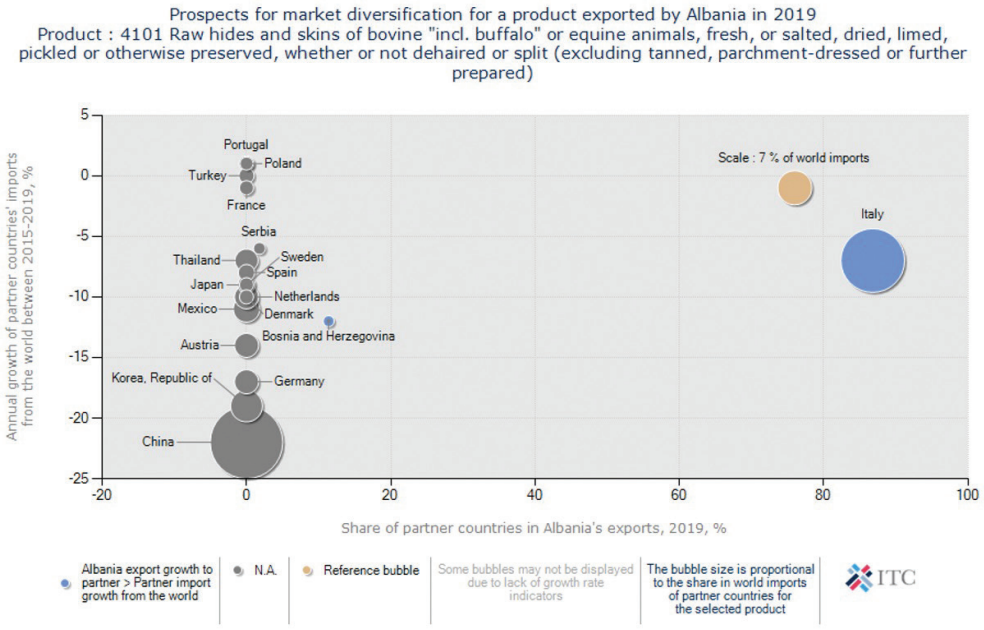

Prospects for market diversification for a product exported by Albania in 2019
Product : 08 Edible fruit and nuts; peel of citrus fruit or melons
Annual growth of partner countries' imports from the world between 2015-2019, %
Share of partner countries in Albania's exports, 2019, %
Scale : 3 % of world imports
Bulgaria
Netherlands
Romania
Slovenia
Bosnia and Herzegovina
Poland
Croatia
Serbia
United States of America
Hungary
Czech Republic
Italy
Greece
Macedonia, North
Austria
Latvia
France
Germany
Sweden
Lithuania
Albania export growth to partner < Partner import growth from the world
Albania export growth to partner > Partner import growth from the world
N.A.
Reference bubble
The bubble size is proportional to the share in world imports of partner countries for the selected product
ITC

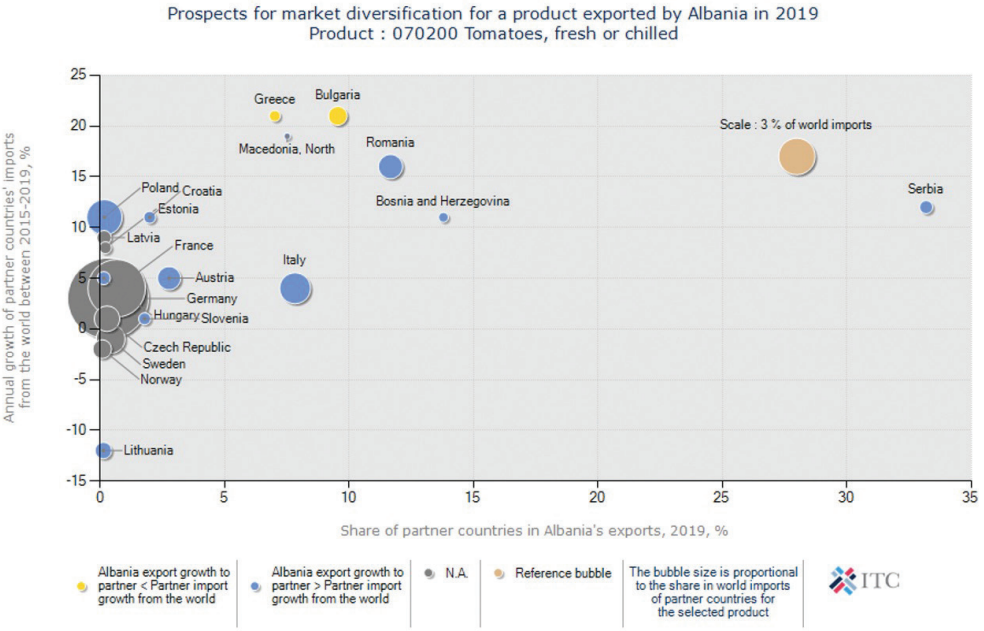

Prospects for market diversification for a product exported by Albania in 2019
Product : 080711 Fresh watermelons
Annual growth of partner countries' imports from the world between 2015-2019, %
Share of partner countries in Albania's exports, 2019, %
Poland
Hungary
Italy
Romania
Netherlands
United Kingdom
Germany
Lithuania
Slovakia
Sweden
Bulgaria
Latvia
Slovenia
Austria
Macedonia, North
Norway
Serbia
Croatia
Bosnia and Herzegovina
Czech Republic
Scale : 3 % of world imports
Albania export growth to partner < Partner import growth from the world
Albania export growth to partner > Partner import growth from the world
N.A.
Reference bubble
The bubble size is proportional to the share in world imports of partner countries for the selected product
ITC

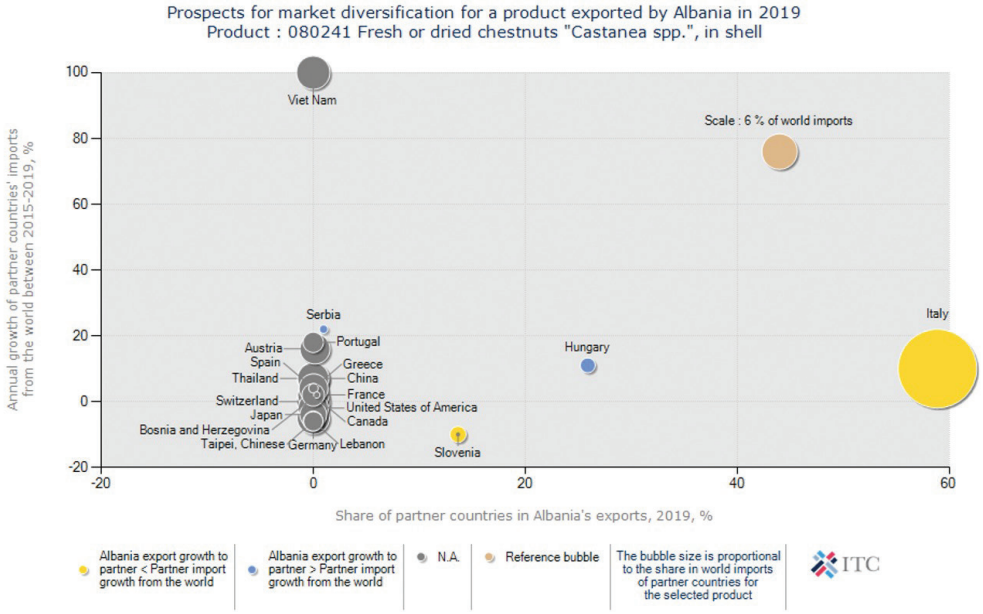

Prospects for market diversification for a product exported by Albania in 2019
Product : 200570 Olives, prepared or preserved otherwise than by vinegar or acetic acid (excluding frozen)
Annual growth of partner countries' imports from the world between 2015-2019, %
Share of partner countries in Albania's exports, 2019, %
Portugal
Poland
Russian Federation
Croatia
Netherlands
Spain
Belgium
Switzerland
Italy
United Kingdom
Romania
France
Canada
Germany
Macedonia, North
Brazil
Saudi Arabia
Australia
United States of America
Greece
Scale : 5 % of world imports
Albania export growth to partner > Partner import growth from the world
N.A.
Reference bubble
The bubble size is proportional to the share in world imports of partner countries for the selected product
ITC


Prospects for market diversification for a product exported by Albania in 2019
Product : 160416 Prepared or preserved anchovies, whole or in pieces (excluding minced)
Annual growth of partner countries' imports from the world between 2015-2019, %
Share of partner countries in Albania's exports, 2019, %
Thailand
Scale : 5 % of world imports
Japan
Croatia
Korea, Republic of
Bulgaria
Israel
Belgium
Netherlands
France
Australia
United Kingdom
Taipei, Chinese
Germany
Poland
Austria
Switzerland
Spain
Canada
United States of America
Italy
Albania export growth to partner < Partner import growth from the world
Albania export growth to partner > Partner import growth from the world
N.A.
Reference bubble
The bubble size is proportional to the share in world imports of partner countries for the selected product
ITC


Prospects for diversification of suppliers for a product imported by Albania in 2019
Product : 160416 Prepared or preserved anchovies, whole or in pieces (excluding minced)
Annual growth of partner countries' exports to the world between 2015-2019, %
Share of partner countries in Albania's imports, 2019, %
Bulgaria
Scale : 4 % of world exports
Croatia
Morocco
China
Germany
Belgium
Japan
Viet Nam
Poland
Tunisia
France
Argentina
Korea, Republic of
Peru
Spain
Taipei, Chinese
United States of America
Italy
Albania import growth from partner > Partner export growth to the world
N.A.
Reference bubble
Some bubbles may not be displayed due to lack of growth rate indicators
The bubble size is proportional to the share in world exports of partner countries for the selected product
ITC


Prospects for market diversification for a product exported by Albania in 2019
Product : 4101 Raw hides and skins of bovine "incl. buffalo" or equine animals, fresh, or salted, dried, limed, pickled or otherwise preserved, whether or not dehaired or split (excluding tanned, parchment-dressed or further prepared)
Annual growth of partner countries' imports from the world between 2015-2019, %
Share of partner countries in Albania's exports, 2019, %
Scale : 7 % of world imports
Portugal
Poland
Turkey
France
Serbia
Thailand
Sweden
Spain
Japan
Netherlands
Mexico
Denmark
Bosnia and Herzegovina
Austria
Korea, Republic of
Germany
China
Italy
Albania export growth to partner > Partner import growth from the world
N.A.
Reference bubble
Some bubbles may not be displayed due to lack of growth rate indicators
The bubble size is proportional to the share in world imports of partner countries for the selected product
ITC


Prospects for market diversification for a product exported by Albania in 2019
Product : 070200 Tomatoes, fresh or chilled
Annual growth of partner countries' imports from the world between 2015-2019, %
Share of partner countries in Albania's exports, 2019, %
Scale : 3 % of world imports
Greece
Bulgaria
Macedonia, North
Romania
Bosnia and Herzegovina
Serbia
Poland
Croatia
Estonia
Latvia
France
Italy
Austria
Germany
Hungary
Slovenia
Czech Republic
Sweden
Norway
Lithuania
Albania export growth to partner < Partner import growth from the world
Albania export growth to partner > Partner import growth from the world
N.A.
Reference bubble
The bubble size is proportional to the share in world imports of partner countries for the selected product
ITC


Prospects for market diversification for a product exported by Albania in 2019
Product : 080241 Fresh or dried chestnuts "Castanea spp.", in shell
Annual growth of partner countries' imports from the world between 2015-2019, %
Share of partner countries in Albania's exports, 2019, %
Viet Nam
Scale : 6 % of world imports
Serbia
Italy
Hungary
Portugal
Austria
Spain
Greece
Thailand
China
France
Switzerland
United States of America
Japan
Canada
Bosnia and Herzegovina
Taipei, Chinese
Germany
Lebanon
Slovenia
Albania export growth to partner < Partner import growth from the world
Albania export growth to partner > Partner import growth from the world
N.A.
Reference bubble
The bubble size is proportional to the share in world imports of partner countries for the selected product
ITC

APPENDIX E. BLUE TOURISM SEGMENTS, LOCATIONS, AND TARGET SOURCE MARKETS

SEGMENT	PRIORITY LOCATION	TARGET SOURCE MARKETS
Boating	• Adriatic and Ionian coastline between Shengjin and Saranda, which includes (a) three ports capable of handling immigration formalities; (b) two of the most-visited tourism destinations, Durrës and Vlora; and (c) convenient road access from Montenegro and Greece, and ferry access from Saranda to the airport in Corfu	• Beach tourists, both domestic and international • Private boat owners • Charter boat tourists
Cruise tourism	• Existing cruise terminal facilities at Saranda, which require upgrading • Vlora, which has the potential to serve as a port of call for smaller luxury cruise ships	• Luxury cruise lines with small-capacity ships
Diving	• Karaburun-Sazan Marine Park • Coastal areas around Himara and Porto Palermo	• Tourists from key European source markets, including Italy, Germany, France, and the United Kingdom
Recreational fishing	• Karaburun-Sazan National Marine Park • Himara • Lake Butrint	• Experts and amateurs from European source markets
Other marine activities	• Vlora Bay and the Karaburun-Sazan Marine Park • Existing beach resorts and locations where marinas are planned, including Saranda, Vlora, and Durrës • the Ksamil Islands and multiple coastal lagoons (subject to environmental impact studies and enforcement of environmental protections)	• Existing beach tourists and • international adventure tourists from high-value markets in Europe
Nature-based ourism	• Coastal zone between Lukove village and the northern border of Divjake-Karavasta National Park • Divjake-Karavasta National Park (birdwatching) • Divjake-Karavasta, Llogara, Karaburun-Sazan National Parks (wildlife tourism) • Llogara National Park and Albanian Riviera (dark-sky tourism)	• International adventure tourists from Northern and Central Europe • Northern European birdwatchers

Source: Staff elaboration based on World Bank, 2020. Realizing the blue economy potential in Albania. https://documents1.worldbank.org/curated/en/266731606798792190/pdf/Realizing-the-Blue-Economy-Potential-in-Albania.pdf.

APPENDIX F. ADDRESSING CONSTRAINTS ON THE DEVELOPMENT OF THE ALBANIAN TOURISM SECTOR: DETAILED RECOMMENDATIONS

AREA/OBJECTIVE	RECOMMENDED ACTIONS
Strengthen transportation connectivity through investments in infrastructure and technology.	**Public:** • Improve road conditions to coastal destinations and inland tourist sites while protecting the landscape and environment. • Carry out traffic management studies and develop plans to ease traffic in Durrës and other major tourist areas. This should include the construction of a new road between Kashar and Rogozhine. • Improve maritime navigation, border management, and immigration procedures in line with EU standards and COVID-19 guidelines to facilitate the arrival of tourists and private vessels by sea. **PPP:** • Improve air connectivity by constructing a new airport at Vlora and attracting new carriers and routes. • Upgrade Saranda's cruise terminal facilities to accommodate tourist services and improve the appearance of the area.
Invest in hard infrastructure.	**Public:** • Reengineer the existing ports at Durrës, Saranda, and Vlora to enable the development of all-weather city center marinas. • Construct and market hiking trails for nature-based tourism. • Purchase border patrol vessels for the Border Police, and connect them via a secure link to the IMOC center in Durrës. • Create a berth booking system for marinas and seasonal moorings. • Develop essential national park infrastructure, including access roads, parking, signage, toilets, waste collection areas, and visitor information centers. • Purchase a hyperbaric chamber for Vlora Public Hospital to provide emergency treatment for divers. **Private:** • Upgrade existing accommodation facilities, including small hotels and guesthouses, to international standards, incorporating new COVID-19 safety and hygiene guidelines. • Develop campsites and specialist accommodation options, including a dark-sky hotel, to cater for niche and profile tourists. **PPP:** • Upgrade waste-management systems and facilities, including the collection, separation, and processing of waste, and the closure of noncompliant landfills and dumpsites. • Construct a maritime training center with engineering workshops, a fully equipped boatyard, a pool (to teach lifesaving), and a simulator with firefighting equipment. • Construct dedicated watersport centers with supporting infrastructure, including accommodation, to offer multiple nonmotorized watersport activities in a single location. • Create a Blue Investment Fund to crowd-in private sector investment for tourism infrastructure projects and SMEs.

AREA/OBJECTIVE	RECOMMENDED ACTIONS
Improve the legal framework for blue tourism.	**Public:** • Harmonize the national legislation with the Marine Strategy Framework Directive (2008/56/EC). • Approve and implement the Law for the Activities of Marine Tourism (43/2020). • Update the Tourism Law to properly categorize and license all types of accommodation providers, require annual inspections, and apply the tourism tax nationwide. • Implement new COVID-19 health and safety standards for licensing accommodations establishments. • Amend the Fisheries Laws (8905/2002) and related bylaws to ensure compatibility with the EU's Common Fisheries Policy. • Update the Maritime Laws to include nautical tourism and recreational vessels. • Align navigation procedures with EU standards to enable boats to register only once at their first port or marina. • Improve urban planning regulations and strengthen their enforcement. • Require the registration of all boating, diving, and watersport operators, and establish minimum standards for training and equipment in line with EU standards. • Expand the Small Ships Regulations to cover all vessels required for nautical tourism. • Ensure that Albania's Skipper's License is compatible with the standards of the UN Economic Commission for Europe's International Chamber of Commerce.
Build workforce skills.	**Public:** • Create digital training programs in essential skills such as product development, marketing, market intelligence, data analysis, languages, and cybersecurity. • Train and certify harbormasters and lifeguards, and upskill the coastguard to have an emergency response capacity. • Pilot project to train dark-sky guides. • Begin training and certification for staff working for conservation NGOs and related areas to gain recognized qualifications as wildlife or hiking guides. **Private**: • Invest in specialist training courses for dive and watersport instructors, using matching grants if required. **PPP**: • Create online training programs for the hospitality sector, in partnership with industry partners including international hotel chains. • Cofinance apprenticeships, and provide job guarantees for graduates. • Create training programs for hospitality staff; partner with the private sector to offer apprenticeships; and provide job guarantees for graduates.

AREA/OBJECTIVE	RECOMMENDED ACTIONS
Enhance urban planning, waste management, and the framework for ensuring environmental sustainability.	**Public:** • Develop urban plans for Durrës, Saranda, Shengjin, and Vlora that prioritize environmental conservation and prevent illegal construction projects. • Create local plans for Cap Rodonit Hamallaj, Dhermi, Himara, Jal, Orikum, Porto Albania, and Porto Palermo. • Formulate plans for protected areas in Butrint, Divjaka-Karavasta, Karaburun-Sazan, Llogara, and Vjose-Narte, including lighting ordinances for dark-sky areas. • Draft sustainable development and management plans for each national park and protected area. • Ensure that local development plans are aligned with the public investment strategy and tourism promotion efforts. **Private:** • Adopt voluntary measures to decrease usage of single-use plastics, reduce waste, and improve energy efficiency, thus improving environmental credentials.
Enable the private sector to develop new offerings, and comply with international post-COVID-19 health and safety standards.	**Public:** • Facilitate access to finance, training, and digital technologies so that businesses and attractions are aware of new regulations and guidelines and are able to implement them comprehensively. **Private:** • Upgrade facilities, and adopt practices that comply with new health and safety regulations and COVID-19 guidelines.

AREA/OBJECTIVE	RECOMMENDED ACTIONS
Facilitate public-private collaboration to strengthen the linkages between coastal and inland tourism.	**Public:** • Identify potential day-trip destinations within two hours journey time of each tourism hub, publicize them, and improve accessibility by road and public transport. • Improve the visitor experience by investing in basic facilities such as public toilets, signage, parking, waste collection points, and tourist information centers. • Provide strictly regulated concessions for businesses to offer products and services within national parks and at other major tourist attractions. • Support the development of themed itineraries including gastronomic and cultural routes that incorporate multiple stops. **Private:** • Package day-trip options for beach tourists, cruise tourists, and other coastal tourists to encourage them to visit inland destinations. • Utilize new concession opportunities to offer products and services including food and beverages, camping, bike rental, and guiding.
Improve the quality of tourism information and build the capacity of the public sector.	**Public**: • Build the capacity of the Albanian Investment Development Agency, the Ministry of Tourism and Environment, and the National Tourism Agency to better understand the needs and opportunities of the tourism sector and to define strategies for attracting investment. • Improve digital marketing and deliver targeted blue tourism campaigns. • Invest in the digitization of records and create an online portal for tourism businesses to access all relevant regulations, apply for licenses and permits, file tourist data, and pay tourism-related taxes. **Private:** • Improve digital marketing and sales through the creation and upgrade of websites, use of social media, and integration of e-commerce tools. **PPP:** • Establish destination management organizations to engage tourism stakeholders and develop, manage, and promote blue tourism at a regional level.

Notes: EU = European Union; IMOC = inter-institutional maritime operational center; NGO = non-governmental organization; PPP = public private partnership; SME = small and medium enterprise; Un = United Nations

APPENDIX G. AUTOMOTIVE MANUFACTURING LESSONS FROM NEIGHBORING COUNTRIES

Bosnia and Herzegovina

In 1970, Famos Holding began producing diesel engines in Bosnia and Herzegovina (BiH) under license from Mercedes Benz, as well as gears under license from German ZF. Before the 1992–95 war, Volkswagen produced passenger and commercial vehicles at a plant near Sarajevo, while the Kosmos plant in Banja Luka and the Soko plant in Mostar produced buses. Vehicle assembly and automotive components production became part of a powerful and diversified supply chain, with supporting infrastructure, educational programs, and research and development institutions. The war disrupted BiH's automotive industry, but the country retained a skilled labor force with experience in metalworking, automotive production, and electrical engineering, and the continued production of primary metals, as well as metal processing, tool making, plastic processing, mechanical and electrical engineering, and automotive textile manufacturing fostered the recovery of the automotive industry. Over the past ten years, the industry has experienced dynamic growth and become strongly export-oriented. BiH now exports 90 percent of its automotive production to 30 destination countries, though Germany remains its most active partner in the automotive sector.

According to a USAID Survey, the automotive components sector in BiH consists of 36 companies and employs about 4,545 workers. BiH automotive firms produce a wide range of components, including engines and gears; high-quality precision metal parts; drive shafts; braking systems; clutches; steering systems; pumps; filters; electronic signals, relays, and switches; textiles and leather products; plastic injection parts; aluminum wheels; car batteries; and various small parts such as springs, screws, and hoses. Over 70 percent of firms focus on metal processing, while 15 percent specialize in plastics. Some firms focus on electronics or on specialty components such as filters, batteries, spark plugs, fuses, and rubber parts.

Several BiH firms engage in export-oriented thermoplastic processing. Bekto Precisa Gorazde exports over 90 percent of its plastic injection parts, mostly to the European Union. Buplast Bugojno serves other automotive suppliers in BiH, including Tesla Brcko and Unico Filter Tesanj. The electrical systems and electronics segment includes numerous highly active companies such as Cajavec FSU, Laktasi, Zrak - AEO, and Kiseljak. The production of textile and leather seat covers and accessories for international automotive value chains is a very important and successful segment of BiH's automotive sector. However, engineering and design, as an independent business activity, has yet to reach its potential.

BiH's geographic position and educated workforce has made it an attractive investment destination, especially for German firms. A large share of the country's automotive industry supplies components to leading brand names such as Volkswagen, Mercedes, and MAN. Volkswagen Sarajevo assembles various types of passenger cars for Volkswagen, Skoda, and Audi using the SKD system. A BiH subsidiary of a Slovenian group supplies seat covers for Volkswagen and for the French manufacturers Renault and Peugeot. Jajce Alloy Wheels and Bekto Precisa Gorazde work as subcontractors for Toyota and Mazda.

BiH offers considerable advantages to international investors. The country has numerous educational and scientific institutions that are highly responsive to industry needs, and institutions specializing in mechanical engineering closely cooperate with local automotive suppliers on research projects. The labor force has a strong mix of skills imparted both by education and experience in automotive production and complementary sectors such as metal processing, yet wage rates remain highly competitive. The country's proximity to automotive manufacturing supply chains and consumer markets in Europe keeps distribution costs low. BiH has a stable and convertible currency linked to the euro and a well-developed banking sector. ISO and industry certificates are awarded to verify quality. Imported equipment is of high quality and comes primarily from Germany. Finally, the country's physical and energy infrastructure is sufficient to support the continued growth of the automotive industry.

Croatia

Croatia's automotive industry is exclusively focused on components manufacturing, which is supported by a cluster of related sectors such as metal processing, welding, plastics, construction, and agricultural machinery. Croatian automotive components companies have a strong tradition in high-precision and zero-defect-tolerance manufacturing, and their main advantage is the excellent quality of their products. The Zagreb Bus Factory and other firms in Nova Gradiska, Slavonski Brod, and Split have long experience in the industry, and domestic companies have recently integrated into the international value chains of major automotive producers such as PSA, GM, Fiat, BMW, Audi, Ford, Renault, Toyota, Volvo and Daimler Chrysler. High quality standards have enabled Croatian producers to supply high-end brands such as Bentley, Ferrari, Mercedes, Alfa Romeo, McLaren, Lamborghini, and Aston Martin. Croatian firms have also successfully exploited niche markets for electric vehicles, with DOK-ING and Rimac Automobili producing electric vehicles and components for international electric vehicle value chains.

Croatian firms are more likely to use AutoCAD or other software for designing and developing components than their counterparts in other Western Balkan economies. The OECD has found that many Croatian parts suppliers already collaborate with their clients in product development, product design and production planning as part of stable medium- and long-term business relationships. This level of client engagement remains virtually unmatched elsewhere in the region.

In 2007, 74 automotive component producers were operating in Croatia, and 68 were small firms specializing in metal and plastic processing, electronic components, and similar areas. While a lack of scale may impair competitiveness, small enterprises can also offer increased flexibility, better client responsiveness, and a greater ability to enter market niches and embrace new products. The most important players in Croatia's automotive components industry are the 50 companies that make up the Croatian Automotive Cluster, which employ a total of 6,000 employees. Leading automotive components producers in Croatia include CIMOS, Yazaki, Boxmark Leather, and AD Plastik. Croatian automotive component manufacturers deliver complex, high-value-added products that require advanced technical skills and a capacity for innovation, rather than competing in mass-production segments like car assembly.

At least 90 percent of Croatia's annual automotive production is exported to Germany, Austria, Italy, France, and other European countries. Croatia primarily exports electronic components, safety systems, braking systems, seats, and steering wheels. Croatia's proximity to the dense concentration of motor vehicle manufacturers in the region is a major advantage. The country also benefits from low shipping costs to European consumer markets.

North Macedonia

The automotive industry is among the fastest-growing economic subsectors in North Macedonia. Over 50 auto firms currently operate in the country, including original equipment manufacturers and part makers. North Macedonia produces seat belts and seat belt parts, busses and coaches, various automotive and machine parts, and railway vehicles and components. The government has established technological and industrial development zones, prepared industrial sites, pre-built factories with complete physical infrastructure, offered support services, and provided favorable tax policies, customs regimes, and other incentives.

North Macedonia offers a cost-competitive environment for automotive component manufacturing. The country is particularly suited to the manufacture of labor-intensive products and those with high value-to-weight ratios, including seat belts and airbags, electronic controllers and sensors, precision engineered and plastic products, aluminum and zinc die-cast parts, and grey-iron casting components. As part of the recent privatization process, numerous companies that produce a range of components for cars, buses, trucks and locomotives have been bought by overseas investors.

North Macedonia's component manufacturers supply the European Union, the Russian Federation, Turkey, and various African markets, among others. North Macedonia enjoys a favorable location close to the rapidly growing automotive manufacturing value chains of Central and Eastern Europe and Turkey, which reduces distribution costs and enables "just-in-time" product delivery. Due to its free-trade agreements, North Macedonia can freely export to a combined market of over 650 million people.

North Macedonia's strong technical schools supply a skilled workforce for the automotive components sector, and the educational system is willing to collaborate with incoming investors to meet their skills needs. For example, one of the country's major universities trained 165 students in Java and C++ in anticipation of the needs of Johnson Controls, which constructed a US$40 million facility outside Skopje to manufacture electronic automotive components, as well as those of other software-intense automotive businesses. The government has also supported the development of customized vocational training programs tailored to the needs of firms. The Faculty of Mechanical Engineering in Macedonia is a center of scientific development and applied research for the automotive industry and has repeatedly collaborated with private firms to conduct joint research projects, offer scholarships, and organize lifelong-learning courses.

Serbia

Serbia's automotive industry was established in 1939, when the first trucks came off the assembly lines in the city of Kragujevac. After the Second World War, Serbia began producing motor vehicles under the license and quality standards of the Italian automotive firm Fiat. Today, the automotive industry employs over 40,000 workers, contributes over 10 percent to Serbian exports, and accounts for 14 percent of all foreign investment. About 60 companies from Europe, the United States, and Asia have already invested a total of roughly €2 billion in Serbia's automotive industry. Fiat remains among the largest investors in the Serbian automotive industry. However, Fiat's Serbian auto production fell from a peak of 100,000 units in 2013 to just 36,000 units in 2019.

The most popular areas for foreign investment are engine-component manufacturing and brake discs and drums. Among international investors, Slovenian companies are the most active, followed by German and French firms. In addition to foreign firms, a growing number of domestic companies are active in the sector, and at present about two-thirds of automotive firms are Serbian-owned. Among all firms active in the automotive sector, 48 percent are large; 38 percent are medium-sized, and only 14 percent are small.

Most Serbian automotive exports go to the European Union and the other former Yugoslav republics. The Russian Federation is Serbia's fourth-largest export destination and receives 31 percent of its automotive products. Serbia has established a free-trade agreement with the European Union and is a party to the Central European Free Trade Agreement.

Germany is Serbia's largest trading partner, and German firms plan to build two new manufacturing facilities in the country. The German company ZF, an international leader in driveline, chassis, safety and advanced driver assistance systems, is planning to open a factory in the industrial region of Pančevo that will employ 1,000 workers. Vorwerk Autotec plans to construct a plant in the city of Čačak . The German cable and harnessing manufacturer Leoni, which has already invested €75 million in Serbia, is set to open a fourth plant in the country, as well as a production unit in Niš with a workforce of 1,250 employees. These investments will make Leoni Serbia's largest employer.

The construction of a new factory in Ruma by engine-components maker Albon with mark the United Kingdom's third major investment in the Serbian auto sector. French auto-parts constructor Le Belier has invested €7.5 million in a new aluminum-casting unit in Kikinda. This new facility will join Le Belier's existing Kikinda plant, which has operated since 2003. Meanwhile, Italian firm Plastikcam East has invested €3 million in a thermoplastic processing factory in Subotica. Firms such as Adient, Magneti Marelli, Gruppo Proma and Sigit have also built factories in a specially designated supplier park in Kragujevac, joining Fiat's longstanding production facilities in the area.

In 2019, the slow growth of Serbian manufacturing was offset by a 21.6 percent increase in electricity production, which boosted the overall output of the industrial sector and accelerated the recovery of the automotive industry. Serbia's skilled workforce, robust infrastructure, logistical capabilities, low tax rates, favorable trade access have encouraged foreign investment, along with substantial government support for the automotive sector. Reinvestment by foreign firms already operating in Serbia, including Michelin, IGB, Grammer, Draexlmaier, Leoni, Yura, Continental, and Johnson Electric, highlights the country's favorable investment climate. Foreign investment has also stimulated the growth of local suppliers, and domestic automotive firms produce a diverse array of components, including tires, turbochargers, electric drives, wiring harness, electric motors, bearings, seat covers and heaters, fuel and coolant hoses, and various plastic, rubber, and metal parts.

The importance of Serbia's automotive industry has helped shape its educational system. The country has 14 technical faculties, 18 technical colleges, and 132 secondary technical schools, many of which work closely with the industry and investors to ensure their curriculums reflect employer demand. Some amount of practical work in factories is obligatory for all technical students, and some institutions are pioneering the dual educational system that will enable students to engage in practical work throughout the year. The Serbian government continues to prioritize the development of its educational system and support active collaboration between educational institutions and industry leaders.

NOTES

1 World Bank, 2019. Growth and Jobs Policy Implementation Support. Unlocking Jobs and Growth Through Productivity: A Firm-Level Diagnostic of Albania.

2 World Intellectual Property Organization, WIPO. Global Innovation Index 2021.

3 The National Strategy for Sustainable Tourism Development 2019-2023 clearly defines the need for a more diversified tourism offer under objective 3.1 "Development of the Coastal and Maritime Tourism Program and creation of new products".

4 Objectives 3.2 and 3.3 of the National Strategy for Sustainable Tourism Development 2019-2023.

5 These arrangements are typically described as either pyramid schemes or Ponzi schemes depending on their characteristics.

6 The six Western Balkans countries are Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia.

7 7STEE include Bulgaria, Croatia, Estonia, Latvia, Lithuania, Slovak Republic, and Slovenia.

8 Further details on the government's COVID-19 response package are presented in chapter 6 on tourism.

9 Appendix A presents more details on the size and sectoral structure of the Albanian private sector.

10 These data are from the Structural Business Survey (SBS) conducted by INSTAT. The survey excludes agriculture, financial and insurance services, and public institutions. Informal smallholder farming and related activities account for a large share of employment in the agricultural sector.

11 The growth of formal firms and employment observed during this period was supported by a formalization program launched by the Albanian government in 2015. The SBS data do not differentiate between the formalization of existing firms and the creation of new firms.

12 EU28 countries include Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom before February 1, 2020.

13 World Bank, 2019. Albania - Growth and Jobs. Policy Implementation Support. Unlocking Jobs and Growth Through Productivity: A Firm-Level Diagnostic of Albania

14 Results showed in this section consider differences in GDP per capita levels. Trend lines in these graphs represent predicted values when GDP per capita levels are considered.

15 Bloom, Nicholas and John Van Reenen, Why Do Management Practices Differ across Firms and Countries, Journal of Economic Perspectives, Vol. 24, No. 1, Winter 2010.

16 Bloom, Nicholas, Erik Brynjolfsson, Lucia Foster, Ron Jarmin, Megha Patnaik, Itay Saporta-Eksten, and John Van Reenen (2019), What Drives Differences in Management Practices, *American Economic Review, 2019, 109(5)*.

17 Only medium firms (20–99 full-time employees) and large firms (100 or more full-time employees) were asked the questions on management practices.

18 Traditional services, which require face-to-face interactions, include tourism, transportation, and construction. Modern services, which can be provided remotely, include banking, professional services, and ICT.

19 For example, the probability of an Albanian export relationship surviving past the first year is about 35 percent, while survival rates vary between 45 percent and 55 percent in Bosnia and Herzegovina, North Macedonia, and Serbia. Detailed information on exports can be found in World Bank Group, "Growth and Jobs Policy Implementation Support" (Policy Note on Strengthening Albania's Trade Performance, World Bank, Washington, DC, 2019).

20 Two major energy projects, the Trans-Atlantic Pipeline and the Devolli hydropower plant, have been responsible for a large share of recent FDI inflows. These projects are close to completion, and FDI levels will fall unless investment can be redirected toward new sectors.

21 What is the binding constraint to growth in Albania?. O'Brien, T, L. Nedelkoska and E. Frasheri. Harvard Center for International Development, Cambridge, MA (2017).

22 Despite recent efforts by Albania's national statistical office, data on R&D and STI investment remain limited.

23 Eurostat, Gross Domestic Expenditure on R&D, 2020 data, https://ec.europa.eu/eurostat/databrowser/view/t2020_20/default/table?lang=en.

24 OECD (Organisation for Economic Co-operation and Development), Competitiveness in South East Europe: A Policy Outlook 2018 (Paris: OECD, 2018), https://dx.doi.org/10.1787/9789264298576-en.

25 There has been no data update on Gross Domestic Expenditure on R&D since 2008 by UNESCO or any other source using similar indicators. Most publications note the lack of data.

26 European Commission (EC) "Economic Reform Programme of Albania (2020-2022) Commission Assessment" (Commission Staff Working Document, EC, Brussels, 2020), https://data.consilium.europa.eu/doc/document/ST-7468-2020-INIT/en/pdf.

27 Organisation for Economic Co-operation and Development (OECD, *Competitiveness in South East Europe: A*

Policy Outlook 2018 (Paris: OECD Publishing, 20108), https://dx.doi.org/10.1787/9789264298576-en.

28 Of the 377 firms included in the Enterprise Surveys (ES) for Albania, 146 were in manufacturing and 231 were in services. Of the 18,117 firms surveyed by the ES in the Europe and Central Asia region (excluding Albania), 10,213 were in manufacturing and 7,904 were in services. The Albanian sample therefore contains a much larger share of services firms than the regional average.

29 For the Europe and Central Asia region sample in 2019 the World Bank Enterprise Analysis Unit has estimated measures of revenue-based total factor productivity but for Albania the total factor productivity sample is too small (only 65 observations) to allow any meaningful analysis.

30 Institute of Statistics of Albania (INSTAT), "Innovation Activity of the Enterprises" (INSTAT, Tirana, 2020), http://www.instat.gov.al/en/themes/science-technology-and-inovation/innovation-statistics/publication/2020/innovation-activity-of-the-enterprises-2017-2019/.

31 European Innovation Scoreboard, 2018. Other indicators suffer from a lack of updated data. For example, the latest number of Patent Cooperation Treaty applications, four, was recorded in 2007.

32 World Intellectual Property Organization (WIPO), "Global Innovation Index, 2020, Albania," https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2020/al.pdf.

33 Kate Hach and Eileen Trenkmann, "Entrepreneurial Ecosystem in Albania with Focus on Tirana" (EU for Innovation, April 2019), euforinnovation.al/wp-content/uploads/2019/12/Gap-Analysis_E-Publication.pdf.

34 Cirera, X., J. Frias, J. Hill, and Y. Li, Yanchao. A Practitioner's Guide to Innovation Policy: Instruments to Build Firm Capabilities and Accelerate Technological Catch-Up in Developing Countries. World Bank, Washington DC. 2020.

35 The increase in the tax burden has been also the result of the government formalization program that expanded the tax base rather than increases in tax rates. Indeed, it is likely that the firm-level perceptions deteriorated because the inclusion of previously informal firms that had not paid tax obligations.

36 Medina, L and F. Schenieder. Shadow Economies Around the World: What Did We Learn Over the Last 20 Years? International Monetary Fund (IMF). Washington, DC. 2017.

37 Europe and Central Asia refers to the World Bank Regional classification for developing Europe and Central Asia countries and includes Albania, Armenia, Austria, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kosovo, Kyrgyz Republic Latvia, Lithuania, Moldova, Montenegro, North Macedonia, Poland, Romania, Russian Federation, Serbia, Slovak Republic, Slovenia, Tajikistan, Turkey, Turkmenistan, Ukraine, and Uzbekistan.

38 Southeast Europe Leadership for Development and Integrity (SELDI). Hidden Economy and Good Governance in Southeast Europe Regional Assessment Report. Sofia. Bulgaria. 2016.

39 World Bank. Albania Policy Notes: Towards More, Better and Sustainable Jobs for Albania. Washington, DC. 2018.

40 Potential Migration Survey, 2018 and 2007, conducted by the Center for Economic and Social Studies.

41 Matha, S.G., P. Goldstein and J. Lu. Air Transportation and Regional Economic Development: A Case Study for the New Airport in South Albania. Harvard Center for International Development, Cambridge, MA, 2020.)

42 European Banking Federation. Banking in Europe: Facts and Figures, data from 2020.

43 O'Brien, T., L. Nedelkoska, and E. Frasheri. What Is the Binding Constraint to Growth in Albania? Harvard Center for International Development, Cambridge, MA, 2017.

44 See chapter 5 for more detailed information on access to land.

45 Nedelkoska, L. and M. Kosmo, M. Albanian-American Diaspora Survey Report. Center of International Development at Harvard. Cambridge, MA. 2015.

46 World Bank DataBank, 2018, data.worldbank.org.

47 2017 data from Institute of Statistics of Albania, instat.gov.al.

48 Values calculated using UN COMTRADE data from ITC Trade Map, 2018, trademap.org. Agriculture and food products include all products from categories HS1-24 and HS41-43.

49 For example, agriculture represented 28.8 percent of GDP in 1998. See: World Bank DataBank, data.worldbank.org.

50 The regional average was 6.7 percent of GDP in 2018. Values calculated using data for Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia from World Bank DataBank, data.worldbank.org. 2018.

51 World Bank DataBank, data.worldbank.org. 2018 The data on land differs from the INSTAT data. Not all arable land is cultivated.

52 World Bank.2019. Albania Agriculture Potential and Public Support. A Public Expenditure and Technical Efficiency Review. World Bank Report No AUS0000951.

53 All values represent 2012–16 averages. Data from Food and Agriculture Organization of the United Nations, FAOSTAT database, fao.org/faostat/en/#data.

54 Significant increases in olive production are related to past subsidies in the sector to expand production area, as described in Antal Szabó, ed., *SMEs and Small Farms in Agribusiness in the Black Sea Economic Cooperation Region* (Chișinău, Moldova, Konrad-Adenauer-Stiftung and Organization of the Black Sea Economic Cooperation, 2015).

55 Values calculated using data from Food and Agriculture Organization of the United Nations, FAOSTAT database, fao.org/faostat/en/#data. Latest data available for gross production value is 2016, while for cultivated hectares is 2018. Trends in production in some sectors merit further analysis, as they may reveal a trend toward informality in the sector. For example, the observed decline in both tobacco production and imports in a context of unchanged demand could be due to an increase in informality.

56 Values calculated using UN COMTRADE data from ITC Trade Map for the period 2009-2018, trademap.org.

57 Values calculated using UN COMTRADE data from ITC Trade Map for the period 2009-2018, trademap.org. Agriculture and food products include all products from categories HS1-24 and HS41-43.

58 European Commission Third Country Establishments, https://ec.europa.eu/food/safety/biological-safety/food-hygiene/non-eu-countries-authorised-.

59 CEFTA countries are Albania, Bosnia and Herzegovina, Moldova, Montenegro, North Macedonia, Serbia, and the United Nations Mission in Kosovo (UNMIK; on behalf of Kosovo). Former parties are Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia, and Slovenia

60 Values calculated using UN COMTRADE data from ITC Trade Map for the period 2013-2017. trademap.org

61 Values calculated using UN COMTRADE data from ITC Trade Map for the period 2013-2017. trademap.org

62 Values calculated using UN COMTRADE data from ITC Trade Map for the period 2013-2017. trademap.org

63 IRAOI is the investment Ratio Agricultural Orientation Index which is defined as share of gross fixed (private) capital formation (GFCF) in agriculture per unit of value added in agriculture over the share of GFCF in other sectors per unit of value added in those sectors. Albania's IRAOI is the second lowest in the region after Bosnia and Herzegovina. World Bank.2019., Albania Agriculture Potential and Public Support. A Public Expenditure and Technical Efficiency Review. World Bank Report No AUS0000951

64 INSTAT (Institute of Statistics of Albania), "Foreign Trade in Goods, March 2020"; INSTAT (Institute of Statistics of Albania), "Foreign Trade in Goods, October 2020."

65 INSTAT (Institute of Statistics of Albania), "Foreign Trade in Goods, March 2020"; INSTAT (Institute of Statistics of Albania), "Foreign Trade in Goods, April 2020."

66 World Bank, "Covid-19 Trade Watch #2" (World Bank, Washington, DC, May 29, 2020).

67 INSTAT (Institute of Statistics of Albania), instat.gov.al; ITC Trade Map, trademap.org. March to December 2020

68 J. Schmidhuber, J. Pound, and B. Qiao, "COVID-19: Channels of Transmission to Food and Agriculture" (FAO, Rome, 2020), https://doi.org/10.4060/ca8430en.

69 World Vision, "Impact Assessment of the COVID-19 Outbreak on Wellbeing of Children and Families in Albania" (World Vision in Albania, 2020).

70 UN Sustainable Development Group, "UN Albania COVID-19 Socio-Economic Recovery & Response Plan" (July 2020).

71 "COVID-19 and Food Security" (World Bank Update, October 2020, Internal Use Only).

72 Values calculated using ITC Export Potential Map, exportpotential.intracen.org/ The ITC Export Potential Map approach is based on a structural model that identifies potential export values from supply capacities in the exporting country, demand conditions in the target market, and bilateral linkages between the two. This corresponds to an empirical specification with exporter × product, importer × product, and exporter × importer fixed effects, but avoids computational constraints when working at a detailed product level. Any gap between what countries could export and what they do export is assumed to result from factors that trade advisors may address together with local companies, such as lacking information about the rules and regulations of the target market or difficulties in complying with them or in meeting the (quality) preferences of its consumers.

73 Appendix D provides the list of the most relevant studies on the competitiveness of Albanian crops, export markets and economic potential

74 Alberto Portugal, Natasha Rovo, Hilda Shijaku, and Christoph Ungerer, "Exporting Better," *Future Development* (blog), Brookings Institute, May 15, 2019, https://www.brookings.edu/blog/future-development/2019/05/15/exporting-better/.

75 Helga Willer, Bernard Schlatter, Jan Trávníček, Laura Kemper, and Julia Lernoud, eds., *The World of Organic Agriculture, Statistics and Emerging Trends 2020* (Frick, Switzerland: Research Institute of Organic Agriculture [FiBL] and Bonn, Germany: IFOAM—Organics International, 2020).

76 Ministry of Agriculture, "Rural Development Programme 2014–2019" (Republic of Albania, Tirana, 2015); World Bank Group (2017), Competitiveness Assessment of Competitive Products in Fruits and Vegetables Value Chain in Albania. https://documents1.worldbank.org/curated/en/656071548427007583/pdf/134056-BRI-PUBLIC-24-1-2019-16-9-0-AlbaniafruitsandvegGVCbrief.pdf.

77 Willer et al., *The World of Organic Agriculture.*

78 McKinsey &Company, "COVID-19's Impact on Global Food Security," April 20, 2020.

79 T. O'Brien, L. Nedelkoska, and E. Frasheri, "What Is the Binding Constraint to Growth in Albania?" (Diagnostic Report, Growth Lab at Harvard Center for International Development, Cambridge, MA, 2017).

80 World Bank, "Albania: Status Review of the Immovable Property Registration Office Services and Data Quality" (World Bank, Washington, DC, 2019).

81 World Bank Group, "Albania Growth and Jobs Policy Implementation Support" (World Bank Group, Washington, DC, 2019).

82 Ministry of Agriculture, "Rural Development Programme 2014–2019"; World Bank, (2018) Albania MSMS Finance for Growth Assessment. https://openknowledge.worldbank.org/handle/10986/30123

83 However, foreign nationals can buy industrial or commercial land.

84 European Commission, Albania 2019 Report (Commission Staff Work Document. European Commission, Brussels, 2019).

85 Ministry of Agriculture, Rural Development and Water Administration (2015), Rural Development Programme 2014–2020

86 Szabó, *SMEs and Small Farms*.

87 N. Ajzenman, "Fresh Tomatoes: Ideas to Build a Productive Ecosystem" (Growth Lab at Harvard Center for International Development, Cambridge, MA, 2015).

88 Klaus Schwab, *Global Competitiveness Report* (Geneva: World Economic Forum, 2019); World Bank Group.2018. Albania MSMS Finance for Growth Assessment. https://openknowledge.worldbank.org/handle/10986/30123; Güngör Turan, Salvaçi Redian, and Çetin Yurt, "Microfinance in Transition: The Case of Albania" (Paper, International Conference on Applied Business & Economics, New York, October 2013). https://openknowledge.worldbank.org/handle/10986/30123

89 World Bank Group. 2018. Albania MSME Finance for Growth Assessment. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/30123; World Bank Group. 2018. Exploring the Potential of Agriculture in the Western Balkans: A Regional Report. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/32198; Turan, Salvaçi, and Yurt, "Microfinance in Transition."

90 World Bank Group. 2018. Albania MSME Finance for Growth Assessment. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/30123

91 World Bank Group. 2018. Albania MSME Finance for Growth Assessment. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/30123; Ministry of Agriculture, "Rural Development Programme 2014-2019."

92 Ministry of Agriculture, "Rural Development Programme 2014–2019"; World Bank Group, Exploring the Potential of Agriculture in the Western Balkans: A Regional Report. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/32198; World Bank DataBank, data.worldbank.org. 2018

93 Food and Agriculture Organization of the United Nations (FAO), "Drought Risk Management Guidelines Western Balkan Region" (FAO, Budapest, 2018).

94 E. Skreli and D. Imami, "Apple Sector Study" (Albania Agribusiness Support Facility, Agricultural University of Tirana, 2019).

95 Food and Agriculture Organization of the United Nations (FAO), *Market and Value Chain Analysis of Selected Sectors for Diversification of the Rural Economy and Women's Economic Empowerment: Albania* (Case Study, FAO, Budapest, 2018); Ajzenman, "Fresh Tomatoes"; World Bank Group, "Albania Growth and Jobs Policy"; Ministry of Agriculture, "Rural Development Programme 2014–2019"; World Bank (2017), Competitiveness Assessment of Competitive Products in Fruits and Vegetables Value Chain in Albania. https://documents1.worldbank.org/curated/en/656071548427007583/pdf/134056-BRI-PUBLIC-24-1-2019-16-9-0-AlbaniafruitsandvegGVCbrief.pdf.

96 World Bank Group, "Albania Growth and Jobs Policy."

97 Certain tariffs exist for sugar, wine, and fisheries. More details at ec.europa.eu/trade/policy/countries-and-regions/regions/western-balkans/. In addition, there are certain restrictions due to sanitary measures: webgate.ec.europa.eu/sanco/traces/output/non_eu_listsPerCountry_en.htm#.

98 Momčilo Radulović, Mila Brnović, Marko Lubarda, Ivan Knežević, Elvira Mujkić, Srđan Blagovčanin, Artan Murati, Aleksandar Kolekeski, and Armela Maxhelaku, *Instrument for Pre-Accession Assistance and the Countries of the Western Balkans* (European Movement in Montenegro, Podgorica, June 2018).

99 World Bank.2019., Albania Agriculture Potential and Public Support. A Public Expenditure and Technical Efficiency Review. World Bank Report No AUS0000951.

100 Ministry of Agriculture, "Rural Development Programme 2014–2019." Given the implementation of the IPARD programs, it is likely that the situation has improved, though data is not available. European Commission, Albania 2020 Report (Commission Staff Work Document. European Commission, Brussels, 2020).

101 The Action Plan for the alignment toward Agenda 2030 of Sustainable Development Goals is presented in the reflection paper Towards a sustainable Europe by 2030. https://ec.europa.eu/info/files/reflection-paper-towards-sustainable-europe_en.]

102 Albania: of 38 cases, 16 originated in country. Croatia: of 234 cases, 24 originated in country. Montenegro: of 14 cases, none originated in country. Romania: of 297 cases, 43 originated in country. Serbia: of 53 cases, 21 originated in country. See: World Bank. 2019. Albania Agriculture Potential and Public Support. A Public Expenditure and Technical Efficiency Review. World Bank Report No AUS0000951.

103 Some meats, including rabbit, and some dairy products, like hard cheese, are regulated differently, and as shown by UN COMTRADE data, they are exported from Albania to the EU; European Commission Rapid Alert System for Food and Feed, https://webgate.ec.europa.eu/rasff-window/portal/; European Commission Third Country Establishments, https://webgate.ec.europa.eu/sanco/traces/output/non_eu_listsPerCountry_en.htm#.

104 European Commission, *Albania 2019 Report*; Ministry of Agriculture, "Rural Development Programme 2014–2019".

105 European Commission, *Albania 2019 Report*; Ministry of Agriculture, "Rural Development Programme 2014–2019"

106 European Commission Third Country Establishments, https://ec.europa.eu/food/safety/biological-safety/food-hygiene/non-eu-countries-authorised-.

107 https://www.globalgap.org/uk_en/what-we-do/the-gg-system/certification/Approved-CBs/

108 Food Safety System Certification 22000, https://www.fssc22000.com/;; Ajzenman, "Fresh Tomatoes"; World Bank.2017. Competitiveness Assessment of Competitive Products in Fruits and Vegetables Value Chain in Albania; World Bank Group, "Albania Growth and Jobs Policy"; Ministry of Agriculture, Rural Development, and Water Administration, "Rural Development Programme 2014–2019."

109 List of organic operators certified by Albenspekt, http://albinspekt.com/kliente-te-certifikuar/?lang=en.

110 European Commission. Commission Staff Work Document, Albania Report 2019. The EU principles note: "Regarding HACCP, HACCP-based procedures should provide sufficient flexibility to be applicable in all circumstances. It is important when applying the HACCP-based procedures to be flexible where appropriate, given the context of the application taking into account the nature and the size of the operation." Commission note on the implementation of food safety management systems covering prerequisite programs (PRPs) and procedures based on the HACCP principles, including the facilitation/flexibility of the implementation in certain food businesses. https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52016XC0730(01)&rid=1

111 European Commission. Commission Staff Work Document, Albania Report 2019.

112 World Bank, World Bank Group. 2018. Exploring the Potential of Agriculture in the Western Balkans: A Regional Report. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/32198; World Bank. 2019. Albania Agriculture Potential and Public Support. A Public Expenditure and Technical Efficiency Review. World Bank Report No AUS0000951; Tina Volk et al., "Agricultural Policy Developments and EU Approximation Process in the Western Balkan Countries" (JRC Technical Report, European Commission Joint Research Center, Luxembourg, 2019).

113 The 2022 fiscal package reduces the flat compensation rate from 6 percent to 0 percent. For more detailed information on the compensation scheme see references IMF 2022. Albania: Technical Assistance Report-Tax Policy Reform Options for the Medium-Term Revenue Strategy.

114 Frasheri, Nedelkoska and O'Brien, "What is a Binding Constraint to Growth in Albania?"

115 World Bank Group, "Exploring the Potential"; Ministry of Agriculture, "Rural Development Programme 2014–2019"; World Bank (2017) Competitiveness Assessment of Competitive Products in Fruits and Vegetables Value Chain in Albania. https://documents1.worldbank.org/curated/en/656071548427007583/pdf/134056-BRI-PUBLIC-24-1-2019-16-9-0-AlbaniafruitsandvegGVCbrief.pdf; World Bank Group, "Albania Growth and Jobs Policy."

116 European Commission, *Albania 2019 Report*.

117 World Bank, "Exploring the Potential"; Ministry of Agriculture, Rural Development, and Water Administration, "Rural Development Programme 2014–2019; World Bank (2017), Competitiveness Assessment of Competitive Products in Fruits and Vegetables Value Chain in Albania. https://documents1.worldbank.org/curated/en/656071548427007583/pdf/134056-BRI-PUBLIC-24-1-2019-16-9-0-AlbaniafruitsandvegGVCbrief.pdf; World Bank Group, "Albania Growth and Jobs Policy."

118 Altax Albania, altax.al/en; PWC Albania, taxsummaries.pwc.com/albania/; World Bank Group, "Albania Growth and Jobs Policy.

119 For example, data on agricultural and cultivable land on INSTAT is from 2012 and differs from FAOSTAT databases.

120 This figure does not include either the estimated 550,000–600,000 visitors entering Albania on day trips or the unknown number of domestic tourists.

121 The United Nations World Tourism Organization (UNWTO), World Tourism Barometer, 2019.

122 INSTAT, Tourism Survey, 2019. http://www.instat.gov.al/media/5551/tourism-in-figures-eng.pdf.

123 World Economic Forum (WEF), Travel & Tourism Competitiveness Index, 2019.

124 World Travel & Tourism Council (WTTC), Albania: 2020 Annual Research: Key Highlights.

125 Egresi, I. (2018). "Tourists go home!" - Tourism overcrowding and "tourismophobia" in European cities, TAW2018 International Scientific Conference at POLIS University.

126 The United Nations World Tourism Organization (UNWTO) defines over-tourism as "the impact of tourism on a destination, or parts thereof, that excessively influences perceived quality of life of citizens and/or quality of visitors experiences in a negative way." https://www.e-unwto.org/doi/pdf/10.18111/9789284420070.

127 Henley, H. (2020). Overtourism in Europe's historic cities sparks backlash. The Guardian. January 5th, 2020. https://www.theguardian.com/world/2020/jan/25/overtourism-in-europe-historic-cities-sparks-backlash.

128 These firms include 2,694 accommodations establishments, 148 tour operators, 536 travel agencies, 245 tourist guides, and 18 agrotourism establishments.

129 The WEF ranks Albania as #105 for air transport infrastructure, significantly behind Greece (#18), Croatia (#44), Montenegro (#60), and North Macedonia (#89). https://reports.weforum.org/travel-and-tourism-competitiveness-report-2019/rankings.

130 COVID-19 Outlook and Pandemic Impacts. https://www.tourismeconomics.com/about/economist-perspectives-2/archive/covid-19-outlook-and-pandemic-impacts-march-15-2020/

131 Niche tourism is premised on differentiation and specialization. Profitability does not come from economies of scale, but rather from being able to charge a premium for a specialist product. Examples of niche tourism include products focused on sports, adventure tourism, wildlife, ecotourism, gastronomy, and luxury tourism. Related tourism destinations and services are not necessarily grouped by geographic proximity but are spread across multiple regions. Niche tourism delivers high revenues per tourist, and the economic value created can be captured by local players.

132 High-profile tourism emphasizes the high quality of the tourism product, and thus attracts tourists with relatively high spending power. It encourages tourists to visit multiple locations and try multiple activities, rather than staying in one place. High-profile tourism works best in destinations with a rich combination of cultural, environmental, and social product offerings, and is thus well suited to Albania.

133 Specifically, the National Strategy for Sustainable Tourism Development 2019-2023 clearly defines the need for a more diversified tourism offer under objective 3.1 "Development of the Coastal and Maritime Tourism Program and creation of new products".

134 Annex E provides more details on the blue tourism segments, locations and potential markets to be achieved.

135 Guide to Thermal Baths in Albania: https://invest-in-albania.org/guide-to-thermal-baths-in-albania/.

136 Appendix F contains detailed recommendations to foster the development of a more sustainable tourism structured in 8 policy areas.

137 A new agreement has been signed with the concessionaire of the Tirana International Airport which has paved the way for the operation of this new airport which will serve flights with WizzAir (previously served by the Tirana International Airport) and several Middle East airlines.

138 These figures are reported by Horwath HTL, which defines a chain hotel as belonging to a brand with two or more properties. https://corporate.cms-horwathhtl.com/wp-content/uploads/sites/2/2019/03/HTL_2019_EU_CHAINS-2.pdf

139 Ana Vugrin, "Market Analysis of the Hotel Investments in the Eastern Adriatic Region: The focus on Slovenia, Croatia and Montenegro" (master's thesis, Modul University, Vienna, 2017), https://www.modul.ac.at/index.php?eID=dumpFile&t=f&f=9386&token=3a0ef71562aa2dad3dba25f9842505666603c7f16.

140 Dark-sky tourism is a form of nature-based tourism focused on astronomy and astrophotography.

141 Sciortino, J. (2020). Rapid assessment of Albania's marina development and related nautical tourism potential. Malta: Sciortino Ports Consultants. Mimeo.

142 Butrint National Park already has some of this infrastructure, but it is inadequate to cater to the volume of tourists visiting the park.

143 European Commission, The Habitats Directive, https://ec.europa.eu/environment/nature/legislation/habitatsdirective/index_en.htm.

144 European Commission, Nature and biodiversity law, https://ec.europa.eu/environment/nature/legislation/index_en.htm.

145 Guidance on Outdoor Lighting Ordinances (including a Model Lighting Ordinance) is available from the International Dark-Sky Association.

146 For more details, see World Bank (2021). Albania National Water Supply and Sanitation Sector Modernization Program. Project Appraisal Document.

147 European Environment Agency, European bathing water quality in 2019, https://www.eea.europa.eu/themes/water/europes-seas-and-coasts/assessments/state-of-bathing-water/european-bathing-water-quality-in-2019 .

148 Blue Flag, https://www.blueflag.global. The Albanian Coast Lifeguards and Water Rescue Federation are already Blue Flag members, but no beaches in Albania have Blue Flag status. The government of Albania is therefore unable to leverage the label for tourism marketing purposes.

149 GIZ, the German Agency for International Cooperation, is currently tendering for a pilot project to establish three destination-marketing organizations in Albania, using different models.

150 EU15 countries include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.

151 US Department of Commerce, International Trade Administration, Export Solutions: export.gov.

152 IFC industry assessment.

153 Sources: LMC-Automotive 25 June 2020; IHS-Markit. Standard and Poor (S&P) Global, 21 Apr 2020. LCM-Automotive. Global Light Vehicle Forecast, March 2022.

154 Doing Business and Investing in Albania, PwC 2017 edition. https://www.pwc.com/al/en/publications/Doing-Business-in-Albania-Guide_2017.pdf.

155 The deadline to apply to qualify as a strategic investment is December 2020.

156 For example, after a long negotiation process, Yura was granted with the €1 leasing contract for its plant in Fier, which was designated as a priority zone for the automobile manufacturing industry in 2018. Other auto-part suppliers have not applied to receive this benefit as they considered the concession process long and cumbersome.

157 This fiscal incentive had already applied to the ICT sector.

158 Sherifi, C and G. Turan, 2018. Albanian Model of Free Zones: Implementation and Implications. International Journal of Economics and Finance. Vol10(8).

159 S. Vishkurti, A. Spahiu, and A. Paci, "Issues of Science Teaching in Higher Education," *Problems of Education in the 21st Century 28* (2011): 12–30.

160 Western Balkan countries Horizon 2020 performance, https://wbc-rti.info/object/news/16211/attach/WBC_Horizon_2020_all_final.pdf. The 2020 official figure for rate of success is 9.82 percent, and the average across countries is 13.83 percent. See Albania Horizon 2020 country profile, Horizon 2020 country profile https://webgate.ec.europa.eu/dashboard/extensions/CountryProfile/CountryProfile.html?Country=Albania.

161 Incentives from training and innovation are planned for investments located in the proposed TEDAs, but they are not operational yet.

162 World Bank Group, "Next Generation Albania, A Systematic Country Diagnostic"(Washington, DC: World Bank Group, April 2015); European Commission, Albania 2019 Report (Commission Staff Work Document. European Commission, Brussels, 2019);

European Commission, "Communication on EU Enlargement Policy" (Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Brussels, 2019).

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