BOOSTING TIRANAS CITY COMPETIVENESS

A background note to the Urbanization and Territorial Review for Western Balkans and Croatia

Dmitry Sivaev and Debashree Poddar, May 2020
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Executive summary

**Tirana is the engine of the Albanian economy.** Tirana is the only major urban area with substantial density of economic activity in Albania and one of the few areas experiencing population growth. The city accounts for a third of national labor force over 40% of national GDP, and more than a half of all non-agricultural private sector employment in the country. The capital city also has the highest access to foreign markets with regards to road networks and is home to Albania’s main airport. With 80% of all foreign owned companies headquartered in the capital metro region; Tirana also appears to be more integrated into global value chains than other cities in the country. All of these attributes make Tirana the natural epicenter of the national economy.

**Tirana’s economic performance has not been consistent and considering it is the economic center of the country there appears to be notable room for improvement.** While the total GDP growth of Tirana was a little ahead of Albania’s average in 2008-2017, at a per capita level Tirana was one of the slowest growing regions in Albania in the post-financial crisis decade. This of course partially resulted from population growth that was an exception to the population decline experienced by most other regions in the country. Cities like Belgrade, Skopje, Bucharest and Sofia, however, achieved substantially higher rates of per capita growth while also drawing in internal migrants. These cities also have higher per capita GDP, thus suggesting that Tirana needs its economy to be growing faster to catch up to the regional frontier.

**Tirana’s economy is over reliant on non-tradable sectors, which have been growing despite the lack of dynamism in the tradable economy.** Contrary to what can be expected from a large economically dynamic city, Tirana’s economy is dominated by non-tradable sectors that operate in the local market and thus have limited competition. For example, its most productive industry is construction and not a knowledge intensive industry like finance or ICT—a strange situation for a large city and a national capital. The combination of rapid growth in local services and construction sectors and the weak performance of tradable industries, suggests that Tirana’s economy is consumption driven, and most probably reliant on external sources of income, such as remittances. This model of growth is highly dependent on conditional outside city’s (and nation’s) control and thus is highly fragile. Focus on the growth and performance of tradeable sectors would help in ensuring sustainable growth trajectory for the city.

**The obstacles to Tirana’s competitiveness range from infrastructure and services deficiencies, to skills shortages, to complicated regulatory environment.** Businesses in Tirana face a wide range of constraints some of which are specific to selected industry, while others can be seen as general deficiencies of the business environment. Two industry case studies (the tech startup ecosystem of Tirana -Annex 1, and the Textile industry in Tirana - Annex 2) substantiate these challenges. Infrastructure shortcomings such as unreliable electricity supply, and limited efficiency of water and sanitation provisions affects businesses negatively and discourages private investment which is further disintenitvized by the inefficiencies of the land administration system. Skills shortages affect firms in Tirana more than anywhere else in the country. The disconnect between education and training institutes and the private sector as well as the propensity of skilled employees to relocate to the EU countries are some of the likely explanations for the skills gap faced by the city. The firms also hamstrung by the shortage of managerial skills resulting in overall low firm productivity across sectors. Access to finance in Tirana is a challenge like in many middle and upper middle-income cities, particularly for their small and medium size businesses. The problem to a large extent stems from underdevelopment of the financial system. For example the start-ups in Tirana have almost no chance to raise equity investment due to lack of venture capital funds. Finally, the inefficient and
burdensome taxation system and slow and bureaucratic court system creates a rather difficult environment for firms and entrepreneurs.

The fact that the private sector appears to be relatively unorganized in Tirana presents additional obstacles. The business community in Tirana is not organized well enough to have a clear voice in the dialogue or build a meaningful partnership with the city administration. In the textile industry this appears to be largely a result of internal competition and fragmentation, while in the tech start up space – a result of lack of scale and relative immaturity of the industry.

Tirana city administration is restricted in its ability to address the aforementioned issues. Its authority is mostly focused in the areas of infrastructure and services delivery and does not expand into many of other issues that negatively affect local economic growth. For example, the unconditional transfer system which is powered by an equalization formula works against Tirana, as the revenues the city generates (largest in the country by far) get redistributed to other municipalities. This goes against the fact that in Albania local governments’ own revenues mostly fund infrastructure and service provision, demand for which is much higher in densely urbanized Tirana, than in other municipalities of the country. To meaningfully confront all impediments to city competitiveness, the administration must elevate it’s already ongoing efforts at approaching policy making creatively and looking beyond the tools at its direct disposal, like it is already doing through leveraging national policy to build a special economic zone, or partnering with private sector institutions to promote entrepreneurship and innovation.

This report classifies economic development challenges in Tirana according to the level of control of the city and the degree of specificity of the challenges to the city. The framework proposed breaks down policy issues of local economic development into three groups.

(1) High issue specificity - High Influence: Issues under this group are those that are more visible in the city relative to the rest of the country and those that fall under the authority of the city administration, such as infrastructure, amenities and land administration. Challenged identified in this category deserve top priority because the city is capable of mobilizing its own resources and authority to execute policies and programs that will deliver needed changes. Moreover, the fact that these challenges also have higher incidence in the capital, makes reforms under this group all the more impactful in the city context. The Tirana administration has already been successfully engaging with some aspects under this group as indicated by its public spaces and infrastructure enhancement programs.

(2) High issue specificity - Medium Influence: The second group includes issues that are mostly specific to the local context (less prominent in other parts of the country) yet are not entirely under city’s authority. This includes skills and innovation, access to finance and business support and the practices informal sector. To spur significant improvements in these areas the city needs to expand its realm of influence by collaborating with the national authorities, leveraging national programs, or building coalitions with local private sector actors, academics and NGOs. While the city has thus far shown notable initiatives on this front, more can be achieved through coalition building with the private sector. For instance, the city can play the role of intermediary between private sector and academia and ensure that curricula respond to current private sector needs. This approach does not offer a quick road to success but allows the city to enhance its capabilities in the medium to long run and become more prepared for new challenges and opportunities in the future.

(3) Low issue specificity - Low influence: The third group of issues includes challenges that are not unique to the city and are common across the country. These also fall mostly under the purview of the national authorities. However, they still have a debilitating effect on the city's economy, thus providing the city with clear incentives to address them. Issues related to the taxation system and the court system fall under this category. While there is not much the city can do directly in these
areas, occasionally it can experiment with relatively small initiatives targeting specific aspects of the larger problem. A good example from Tirana’s own experience is the initiative to engage the water company in collecting property taxes, adding them to the water bill and thus enhancing local budget revenues substantially, even though it had little control over tax rates or tax base evaluation calculation. While ideas like these are not commonplace, and can’t be made a top priority, the city can identify the largest challenges that are outside its authority and seek creative ways to tackle them.

This note was prepared under the World Bank’s Advisory Services and Analytics (ASA) and is a background note for “Western Balkans and Croatia Urbanization and Territorial Review”. Data collection for the note was conducted in FY 2019, and the note was mostly completed by early 2020. It does not capture the developments during and after the global Covid-19 pandemic and its potential impact on Tirana economy.

However, it is safe to say that the spread of the COVID19 epidemic and the resulting economic effects will have serious negative consequences for growth and employment in Tirana, likely reverting gains, and exacerbating existing constraints. We believe, that a deeper understanding of the pre-existing situation will be fundamental for understanding how the city can adjust for the COVID recovery and rebuilding phase.
Economic Importance vs Economic Performance

Tirana is central to the economic agenda of Albania

**Tirana is the largest urban agglomeration in Albania and has the highest population growth rate in the country.** Between 2010 and 2018 while Albania witnessed depopulation at the average annual rate of -0.2 percent and only the regions of Durres, Tirana and Vlore saw an increase in population. While Durres and Vlore displayed an average annual growth rate of 1.09 and 0.11 percent respectively, Tirana’s average annual growth rate was 2.12 percent (INSTAT, 2019). The capital city’s dominant position is highlighted not only by the fact that it is the fastest growing region, but also because it is the only major urban agglomeration in the country (UNDESA, 2018). In 2018 the city along with its broader metropolitan region represented almost 30 percent of the national population.

**The capital city acts as the economic engine of Albania.** Given the concentration of population and economic activity in the capital city region relative to the rest of the country, the economic predominance of Tirana is quite stark (Figure 1). According to data from INSTAT (2019), in addition to accounting for about a third of the country’s labor force, Tirana is also host to a third of all the active enterprises in the country along with 57 percent of all jobs in the nonagricultural private sector (figure 1). In 2017, the capital city region singlehandedly represented a lofty 42 percent of the national GDP – almost four times the share accounted for by Fier – the region with the second highest national GDP contribution.

**Figure 1:** While Tirana is a dominant population hub, it is even more important as an economic hub

[Graph showing economic indicators for different regions in Albania]

Source: INSTAT, 2019

**Tirana acts as the focal point for engaging with global markets – further strengthening its strategic importance to the Albanian economy.** The relatively recent efforts of integrating the Albanian economy with international markets has likely been championed by Tirana and further assimilation with the global economy would also depend on the capital. Across Albania, Tirana, has the best market access—scoring almost four times the average of other regions in the country in terms
of market access index \(^1\) (figure 2). Additionally, the main international airport is also located in Tirana. Almost 80 percent of all the foreign and jointly owned enterprises in Albania operate out of the capital city region (INSTAT, 2018). These attributes make the city a crucial player in facilitating linkages with global value chains, accessing international investments and absorbing expertise and knowledge — overall providing a rationale for regarding the city as the main engine for economic development in Albania.

**Figure 2: Across Albania, Tirana has the highest market access**

Source: World Bank, Geospatial Operations Support Team, 2018

Note: (1) Market access or market potential is a measure of how accessible any given location in the country—or region in this case—is to all other destinations/ market centers. It is based purely on time. To calculate market access across the Western Balkan and Croatia region, road networks were used as the basis for analysis, while destinations used included cities in the Western Balkans and Croatia, cities in bordering countries as well as cities in the rest of Europe (only those with a population of more than a million). Equally spaced grid points (or origin points) were created across the Western Balkan and Croatia region, and then the travel time from each of those grid points to every destination/ market town was calculated and weighted according to the population of each town. The weighted travel times for each origin point was summed, after which a standard market accessibility/potential formula was applied. (2) Since market access has been calculated on the basis on road networks alone, the port city of Duress ranks lower than Tirana – despite its access to European countries like Italy via waterways.

**Tirana’s growth performance has been volatile**

*Tirana’s growth performance has been volatile.* Tirana’s total GDP grew by an average annual rate of 4.5 percent between 2008-17, a little ahead of the Albania’s national average annual rate of 4.09 percent. However, across this period, growth has not been stable, but rather, has been determined

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\(^1\) Estimations based on analysis carried out by Geospatial Operations Support Team (GOST) of the World Bank using Open Street Maps (OSM) Data, the estimate is based on weighted travel time to large cities in the Western Balkans region and the EU and only includes road networks
by spurts of rapid growth and decline. Compared to trends at the national level as well as when compared to other capital cities, this volatility is evident (Figure 3).

**National policy and major infrastructure projects have likely contributed to the volatility of Tirana’s economy.** Given that Tirana both accounts for a large portion of the non-agriculture private sector activity in the country, and as a national capital, hosts a large number of public sector jobs, its economy is highly susceptible to public policy changes. For example, the growth between 2016-17 coincides with implementation of two large infrastructure projects – The Trans-Adriatic pipeline and the hydropower plant (World Bank, 2016). Similarly, the introduction of policy that increased wages of public sector employees in 2013 possibly lead to the rise in per capita GDP in the capital city region due to its high share of public sector employment (World Bank, 2014b).

**Figure 3: Tirana’s GDP growth has been volatile characterized by spurts of rapid growth and rapid decline**

![Graph showing GDP growth and per capita growth in Tirana](image)

Source: INSTAT, 2018; MAKSTAT, 2018, SORS, 2018, National Institute of Statistics, Romania, 2018; Eurostat, 2018

Note: GDP and GDP per capita estimates have been PPS adjusted.

**Tirana’s GDP per capita growth performance thus far has not been at par with its economic position in the country**

The per capita growth performance of Tirana has not been in tandem with its relative economic, demographic and geographic importance in Albania. Considering Tirana’s urban and economic primacy, the capital city region is expected to lead Albania’s economic growth. However, this has not been the case. While Tirana’s economy has been growing, the per capita GDP growth has been lower relative to that of the country² (Figure 4). Even more so, Tirana appears to be one of the lowest performing regions in Albania in terms of GDP per capita growth.

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² The growth performance of Tirana when analyzed across three time periods 2006 to 2010, 2011 to 2015 and 2006 to 2015 reveals that while it has been growing in GDP per capita, the growth has been lower relative to that of the country both during as well as after the financial crisis (Oxford Economics, 2016; Data from 2005-15).
**Albania demonstrates relatively low levels of territorial disparities, which could be a positive sign of territorial cohesion, but is most probably not the case.** Tirana’s GDP per capita is almost 1.5 times that of the average GDP per capita of all other regions and almost 2.2 times that of the poorest region in Albania. This is to be expected considering the economic position held by the city. However, in countries like Croatia, Serbia and North Macedonia, the GDP per capita in the capital city region is on average, almost 3.3 times that of the poorest region. In these countries, the GDP per capita in the capital is on average 2 times higher than the average GDP per capita across other NUTS 3 regions.  

(Figure 5) While appearing worrisome, regional disparities in economic output are not necessarily a problem and, in fact, growth in territorial disparities can be associated with periods of rapid economic development. Most of the developed countries have gone through a period of increasing territorial disparities, when economic growth concentrated in selected cities before dispersing to other locations in the country and leading to a convergence in development levels. (World Bank, 2009). Most recent EU accession countries, among them Croatia, experienced a significant increase in regional divergence, with the main driver being the rapid growth of leading metropolitan regions. This has been particularly evident in Poland, Hungary, and Bulgaria. If leading cities match this pattern of increasing competitiveness and persistent attraction of private investment, territorial divergence may be happening even as aggregate national outcomes improve. (WBCUTR, 2019). Regional inequality measured by the coefficient of variation of GDP per capita at NUTS3 level was low in Albania in 2014 (0.27) compared to recent accession countries, and it declined further over the last decade. Albania’s declining spatial inequality is most likely to be a concern as it seems to be driven mainly by a weak performance of leading cities, as demonstrated by figure 5, and overall sluggish growth since the crisis, rather than by the geographical spread of economic prosperity. (World Bank, 2020, Lagging regions in Albania note).

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3 Estimates based on data provided by the national statistics offices of Albania, Croatia, North Macedonia, and Serbia in 2015 and 2016
Weakness of the economies of the peripheral regions of Albania, indirectly proves that low level of economic disparities is mostly a product of Tirana’s underperformance. While lagging regions in comparator countries (Serbia, Bulgaria, North Macedonia) are often further behind their national capital in GDP per capita than some of the less developed regions in Albania, they do not, however, appear to be more underdeveloped, or have slower rates of economic growth than the less developed regions in Albania. Furthermore, significant challenges that the economies of lagging regions in Albania are facing, are comparable to challenges experienced by lagging regions across the Western Balkan region and the EU. Regions such as Kukes and Diber in north West of Albania confront structural challenges of poor connectivity and lack of resources to improve the secondary road network, rapid population decline and aging which also intensifies the challenge of service delivery, given ever growing per capita cost. More broadly lagging regions in Albania continue to perform poorly on human development indicators such as poverty rates, share of households receiving social assistance (nearly five times higher than the national average) and education outcomes (World bank, 2020a; World Bank 2020b). Overall there is little reason to suggest that these regions perform substantially better than peripheral regions of other countries, for example regions in eastern Poland (Sivaev, 2017) and Slovakia (World bank, 2018c). The challenges peripheral regions across eastern and Central Europe are facing are similar, and Albanian lagging regions do not stand out in a positive way. This leads us back to the idea is that low levels of territorial disparities in Albania is largely reflective of weakness of its capital city economy.

Figure 5: Rapid growth in metropolitan regions has driven increasing regional disparities in recent EU accession countries (2014 unless otherwise indicated)

Demographic trends and migration work against Tirana when it comes to measuring GDP per capita growth, but it hardly justifies the city’s underperformance. The population of Albania is shrinking, and so is the population of many Albanian cities. Tirana is an exception as it is attracting internal migrants from all over the country. On the one hand this confirms that Tirana’s economy offers better opportunities, on the other it also explains, at least partially, why Tirana’s GDP per capita
growth compares poorly to other parts in the country, where the population is declining. However, population decline is not unique to Albania, this has not prevented other national capitals from leading national economic growth.

**Per capita GDP growth in Tirana also appears to be slower than in other capital cities in the region (figure 6).** Between 2010-17, the average annual per capita growth in Tirana (PPS adjusted) was around 1.3 percent. Even though, despite the volatility, the economy on average experienced growth across these years, the average annual adjusted per capita growth rate in Tirana, was still lower than that in Skopje, Belgrade and Bratislava. Given that Tirana’s per capita GDP is amongst the lowest across capitals in the region, it is evident that to catch-up with other capitals in the region and across Europe, faster sustained growth is required.

**Figure 6: Annual GDP per capita growth of the capital city region in Albania has been slower compared to other capital cities in the region (2010-17)**

![Graph showing annual GDP per capita growth of capital cities in Albania and other regions.](image)

*Source: National Statistics Offices*

**Comparable capital cities have managed to successfully confront similar conditions.** Cities facing similar external and internal context as Tirana managed to outpace other regions in their countries in terms of per capita GDP growth thus fulfilling the role of economic engines. For example, up until 2016 Serbia witnessed an economic crisis. During this time Belgrade’s real GDP per capita growth was minimal. However, since 2016, with IMF supported reforms, Serbia’s economy has improved and Belgrade’s GDP growth (figure 6) has outpaced that of the country (International Monetary Fund, 2018). This highlights the fact that in a capital city such as Belgrade or Tirana, reforms at both the national and local levels are crucial to enable it to better leverage the agglomeration economies and utilize them for the benefit of economic development.

**Tirana hasn’t been able to achieve consistent labor productivity growth.** In 2015, across all Western Balkan capital cities, Tirana had the lowest labor productivity (Oxford Economics, 2016). That being said, the city economy has been catching up as labor productivity growth for Tirana was highest among the six capitals between 2010-15. However, considering Western Balkan countries and cities stand out for their characteristically low levels of productivity and productivity growth (World Bank 2017a), the relatively higher growth rates for Tirana in this regard is not particularly remarkable in the global context. In fact, if the 2013-17 period is considered, GVA per employee in
Tirana experienced a decline. Average annual labor productivity growth during this period was -1.9 percent for Tirana while it was -0.9 percent across Albania.\footnote{Total employment was calculated by adding the employees in the non-agricultural private sector, in the agricultural private sector and employees in public administration for all NUTS3 regions in the country (INSTAT, 2018)}

\textit{Tirana has been making positive strides in employment generation, but jobs made little contribution to economic growth.} Both during and after the financial crisis, Tirana outperformed Albania in terms of total employment growth (Oxford Economics, 2016). Between 2012-16 the national share of jobs in the nonagricultural private sector in Tirana grew from 50 percent to 56 percent (INSTAT, 2018). Employment in the public sector has also been growing at an annual rate of 2.5% between 2013-16, with Tirana accounting for almost 39 percent of all public sector jobs in Albania in 2016. The total growth in the number of jobs between 2013 and 2016 was 13 percent. More recent data (2016-18) shows that for Tirana unemployment rates have been in decline while the labor force participation rates along with employment rates have been on the rise, indicating that a drop in unemployment was not purely a result of demographic changes. However, despite robust job generation in the city, the economy didn’t show notable improvement.

\textit{Most jobs created in Tirana were in low productivity sectors, which shows that a structural shift is needed to guarantee long-term growth.} A simple accounting exercise to determine how economic growth is linked to employment generation, productivity growth (output per worker) and population structure reveals that in Tirana, the modest per capita growth witnessed can almost entirely be attributed to the increase in labor productivity (which was relatively low as discussed above) with almost no contribution from employment growth (which was rather strong). This makes Tirana rather different from most comparable cities in the region, where new jobs made a substantial positive contribution to growth. (figure 7). Explanation for this phenomenon can be found in the sectoral patterns of job creation that show that while employment was declining in sectors such as finance and ICT which are typically more productive it was growing in sectors that are relatively lower on the productivity scale: consumer services, construction, public services. As a result, when less productive jobs in the economy replace more productive jobs the net growth contribution of growing employment remains near zero. While employment generation can be regarded as a positive, the sectoral distribution of the jobs generated shows that Tirana’s economy is not growing its competitiveness and in its current state can’t sustainably increase the incomes of its residents. This points to the fact that to achieve sustainable and meaningful advancement of the local economy Tirana needs a structural shift, defined by more growth and job creation in productive tradable services and manufacturing.
Figure 7: Decomposition of average annual per capita gross value added indicates inefficient economic growth in Tirana with employment generation not resulting in any economic gains, 2010–15

Source: Oxford Economics, 2016
Note: Unfortunately, more recent data for this analysis was not available to the authors of the time of finalizing the report

Albania growth will be determined by Tirana’s competitiveness

_Tirana has the highest growth potential and is the best bet for Albania._ The spatial concentration of people and economic activity correlates with economic development (World Bank, 2009). The declining population in the country and specifically in almost 80 percent all cities (World Bank 2017), puts Albania at a disadvantage in its efforts to attain faster growth. While a growing concentration of population in Tirana might have negative implications for the country, particularly for the areas that are depopulating, the fact that population of the capital is growing puts it in one of the best positions in the country in terms of achieving economic growth. Given the large share and concentration of population, labor, enterprises and jobs (even though not as high as in many comparable countries), Tirana has the highest economic growth potential in Albania and is well positioned to use the dividends of agglomeration. These endowments along with good access to international markets through a well-developed road network should allow the capital city region to

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5 It should be noted that while compared to other regions in the country, Tirana has a high concentration of people and economic activity, its primacy levels and concentration of economic activity, when compared to similar capitals across the region and the globe, has substantial room to grow. Urban primacy levels and economic concentration of Albania is still below that of similar countries in the region (Western Balkans Urbanization and Territorial Review, chapter 1, 2019).

6 Typically, concentration of economic activity and population is beneficial as productivity enhancing externalities known as “agglomeration economies” emerge when people and firms locate together in cities. On the other hand, the spatial concentration of people and businesses also result in negative externalities termed as “congestion costs”. Thus, cities can only act as drivers of growth and maximize on agglomeration benefits when these congestion costs are contained. To do so, well managed urbanization, including spatial planning, management of urban infrastructure, services and amenities is vital. (Henderson, 2000). By this principle, the growing population of Tirana—the largest city in Albania—indicates that maximizing on the growth potential of agglomeration in Tirana would entail simultaneous efforts at keeping congestion forces at bay.
rapidly leverage agglomeration and urbanization economies for boosting growth and pulling the national economy forward.

**Tirana struggles to retain young talented people.** While the population of Tirana is growing, evidence from the case study on the tech-startup sector in Tirana (Annex 1), revealed that the city has been experiencing *Brain Drain*, i.e. a net outmigration of the skilled labor force. On the one hand, skilled workers are unable to find opportunities for themselves in the city or the country and chose to move abroad, while on the other hand, the loss of skilled workers hinders the growth of the highly productive firms and industries. This chicken and egg problem is conspicuous especially in innovative and creative sectors like the tech startup industry, where lack of talent is a key constraint. This points at a vicious cycle: job creation in highly productive sectors of the economy is hindered by sector specific challenges as well as by economy wide barriers resulting in lack of opportunities for the talent and subsequent brain drain, that further limits growth potential of these sectors. (Figure 8)

**Figure 8: The vicious cycle linking economic underperformance and loss of talent in Tirana.**

![Vicious Cycle Diagram](image)

To capture benefits from probable EU accession, Tirana needs to retain talent which might require identifying and unlocking constraints to competitiveness. The probable EU accession of Albania has been largely regarded as favorable to the economy. But a positive outcome from the accession is not guaranteed. Concentration and density of economic activity will be important for reaping the benefits of the accession through increasing productivity and innovation to compete on the EU markets. However, EU accession is likely to draw people out of Tirana, as migration barriers with the EU become much lower. A general equilibrium model calibrated to understand the spatial impacts of EU integration suggests that in order to maximize welfare gains from joining the EU market it would be critical for capital cities to minimize outmigration. One approach is focusing on improvement of amenities and livability (World Bank 2019a). These may include investments in local roads, water and sanitation infrastructure, schools, housing, cultural and recreational facilities among others. The Tirana city administration has already been pursuing such programs through its city rehabilitation and renovation policies in recent years. The missing element is however a more dynamic economy that can motivate people to stay. Failure to do so, would likely result in the dispersion of population and economic activity.

But the need to increase competitiveness is also important from the perspective of social wellbeing of the population. The demographic trends show that population in Tirana is ageing, indicating future increase in need for health and social services (figure 9) As the share of people in
working age declines further, it will be even more critical that the value added they generate grows enough to pay for expansion of services provision through higher taxes revenues for local and national government.

**Figure 9: Tirana’s population is ageing and the share of the younger segment of the population is declining, 2005-15**

![Population Age Distribution Chart]

*Source: Oxford Economics, 2016*

**Structure of the Economy**

**Tirana’s economy needs to reorient towards tradeable high value-add sectors rather than be over reliant on local services**

*The correlation between city competitiveness and economic dynamism and the share of tradeable sectors in overall economic activity has been well documented.* Strong tradeable sectors are a hallmark of competitive cities and robust growth in these sectors portends economy-wide growth (World Bank 2015a). The productivity differentials between tradeable and non-tradeable sectors, observed in various empirical studies, provide a logical basis for these conclusions (Mano and Castillo, 2015; Frocrain and Giraurd, 2018). In addition, economic growth in tradable sectors have positive spillover on non-tradable sectors and have the ability to uplift the local economy as a whole. This spillover is channeled via the multiplier effect. Increased earnings in the more productive tradable sectors leads to higher demand for local services and the growth of jobs in tradable sectors spark the generation of employment in more localized businesses (Moretti, 2013; Moretti 2010; Frocrain and Giraurd, 2019).

**Large, economically diverse cities tend to rely on tradeable service sector as the pinnacle of their economy, but Tirana doesn’t fit this description.** Large and dense cities have an inherent advantage. Their relative size and density allow the generation of positive externalities, or agglomeration economies. These are realized through three channels (i) better matching of workers and employers, entrepreneurs and financiers, producers, suppliers and consumers (ii) the sharing of capital costs and (iii) increased instances of knowledge spillovers (Duranton and Puga, 2004). When making locational

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7 While literature posits varied definitions of tradeable and non-tradeable goods and services; in general, tradeable sectors can be thought of as those in which both the demand for and the consumption of the good or service produced is not confined to the local market.
choices across cities, firms face a tradeoff between the marginal gains derived from agglomeration externalities and cost of factors of production – more typically labor and land (Gaubert, 2018). Following this rationale it is evident, that more land and labor-intensive firms, would often operate out of smaller cities, with lower costs while firms more reliant on innovation and knowledge exchange, would have a greater propensity to locate in larger and more diversified cities like Tirana (Nocke 2006; Audretsch and Feldman, 1996; Henderson 2016). These firms typically belong to tradeable service sectors, also known as knowledge intensive business services or KIBS. These services have very high productivity, are more willing to innovate and invest in skills building and benefit the most from agglomeration effects and economic diversity that large and dense cities like Tirana have to offer.\(^8\) In cities like Belgrade, Prague and Bratislava these sectors account for at least a fourth of all jobs in the city, but even more importantly lead value generation through high productivity. The weakness of Tirana economy is highlighted by the fact the sectors achieving the highest productivity are construction and local trade. This is in stark contrast to cities like Belgrade where highest productivity is demonstrated by ICT and Finance - the tradeable service sectors. (Figure 10)

**Figure 10: Labor Productivities in Tirana across sectors are atypical and not conducive to ensuring city competitiveness**

Source: Calculations based on estimates from INSTAT 2018 and Statistical Office of Serbia,2018; DEC alternative conversion factor to determine LCU per USD in 2016.  
Note: (1) While the conversion of LCU to USD is simplistic and cannot guarantee comparability between the two countries for, the relative productivity of individual sectors within the same country can be analyzed Employment data

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\(^8\) Combes et al. (2012) also find empirical evidence that suggests that firms in sectors that tend to have higher labor productivity, like finance and business service and ICT, are disproportionately more efficient in larger cities.
across sectors is not available for Tirana. Calculations are based on total employment and percentage employed across broad sectors. Regional data for employment percentages across sectors is no longer available on INSTAT.

**A combination of low growth in tradable sectors with the flourishing local services, suggests reliance on external income streams such as remittances.** Between 2010-15, employment in local consumer services grew by 40 percent whereas tradeable services, like finance and business services and ICT registered a decline in employment and growth of employment in manufacturing, was only modest (figure 11). In the capital it appears that high value-added service sectors are sidelined by the booming local service and construction sectors. This apparently isolated demand for local services that is devoid of backward linkages to growth in tradeable sectors makes Tirana a consumption driven economy rather than a production and innovation driven one. A possible explanation for this scenario could be the injection of remittances into the economy. From the point of view of sustained economic growth and development such a pattern is a cause for concern primarily because this signals a growing dependence of the economy on the external income stream and a failure to nurture industries that will overt ime be able to replace this income stream through competing on external markets. High demand for local services and real estate could in fact be hampering the expansion and growth of the desired tradeable sectors by increasing input and labor costs (Catrinescu, N et. al., 2009; Yaseen, H.S., 2012; Amuedo-Dorantes, C., 2014). This vicious cycle needs to be disrupted by ensuring conditions for the growth of tradeable industries.

**Figure 11: Local services have been driving the economy in Tirana**

The deeper look into tradable industries in Tirana suggests a large number of constraints at least some of which the local authorities can help address. The case study of Tirana’s tech startup ecosystem (Annex 1) highlights the lackluster performance of a potentially highly productive and innovate sector. The ecosystem that found its beginnings around 2012, has been struggling to keep its head above water. On the other hand, the examination of the apparel industry in Tirana (annex2), reveals that though the industry is tradeable and integrated into global value chains, it has not been using its full potential because it has struggled to break out of a low value-added niche.
Growth of tradable industries is constrained by a combination of broader business environment limitations, and sector specific constraints. Economy-wide constraints include shortage of skilled labor, complex and inefficient business regulations. In the case of the startup sector, industry-level constraints include the low density of network connections and a fragmented ecosystem. This is exacerbated by small scale and limited offering of existing support institutions none of which manage to become true anchors of the ecosystem, as well as by the lack of venture capital investors which creates a disincentive to start a risky business due to shortage of clear scale up options. In the case of the apparel industry the lack of a unified industry association inhibits firms to collaborate and coordinate. Such a condition results in an inability to develop a strategic vision for industry upgrading and moving away from growth-limiting business models. Achieving such a move up the value chain would not only require prioritizing coordination over competition, but would also require attending to key industry constraints, such as the prominent skill gaps and training programs catering to other aspects of the manufacturing value chain, for example, apparel design, branding and others. (Annexes 1,2)

Identifying key challenges for economy of Tirana

Tirana is facing many barriers that impede its economic performance. The previous section demonstrated, that the economy of Albania’s capital can achieve more for the country’s prosperity through enabling tradable sector growth. As discussed above better economic performance may require addressing economy-wide structural challenges (like the loss of skilled youth), and sector specific issues, that impede private sector growth.

“A Competitive city successfully facilities its firms and industries to grow jobs, raise productivity and increase the income of its citizens by using the four levers of policy intervention”. To better understand the list of issues facing Tirana on the way to competitiveness, a policy framework developed as a part of the World Bank flagship study can be utilized (World Bank 2015a). According to the framework the conditions for a prosperous city economy can be curated by formulating well-conceived and prudent policies across four broad categories: institutions and regulations, infrastructure and land, skills and innovation, and enterprise support and finance. To diagnose impediments to competitiveness, the report explores issues embedded across the four categories to ensure that all relevant areas of policy action are considered

For Tirana’s economy key issues appear to include: scarcity of skilled workforce, unfavorable regulations, weak institutions inefficient land markets and ageing infrastructure. Based on the evidence across various sources (box 1), it appears that productivity and job growth in the economy has been stymied by the skilled labor shortages in the economy. It is interesting to note that even though the skill requirements across both the industries examined in the case studies are widely differing, skills as a priority issue stood out in both. Enterprise survey, 2019 (figure 12) confirms the importance of this issues and points out that skills were more constraining to large firms and firms operating in international markets than it was to local MSMEs. Both the Doing Business (figure 13), as well as Enterprise survey responses indicated subpar performance of institutions (E.g. courts) and an unfavorable regulatory environment, which were subsequently confirmed and highlighted by the information collected for the case studies as well as during consultations with business associations. Factors such as practices of the informal sector, the tax regulatory environment and corruption are often mentioned as negatively impacting business operations. Finally, analysis revealed inefficient land administration and land markets (figure 13) and lack of investments in city infrastructure have been increasing congestion costs and thus limiting agglomeration benefits.
Figure 12: Main obstacles to daily operations by firms in Tirana, 2019

Figure 13: Tirana’s performance on the 10 Doing Business indicators, 2019, indicates that it lags with regards to Registering Property, Enforcing Contracts, Paying Taxes, Dealing with Construction Permits and Getting Electricity

Source: Doing Business 2019
Box 1. Methodology and data sources used to identify key obstacles for competitiveness.

To gain an accurate and granular understanding of prevailing and predominant gaps in Tirana’s economy several sources of data both qualitative and quantitative were used. Doing Business 2019 data on business environment conditions that is collected in largest cities, the Enterprise Survey data from 2013 as well from 2019 and data from the National Statistical Office in Albania 2018 informed the findings and analysis. Findings from the data were complemented and matched with findings from consultations and surveys and focus groups carried out in Tirana in 2018.

- **Doing Business 2019**: The Doing Business cases assign scores to national economies based on 2 in depth case studies carried out in the capital city. The ranks and scores across 10 variables provide a good indication of the costs and the regulations confronting medium-size firms across capital cities. The analyses in this note includes Tirana as well as 3 comparator cities to act as a benchmark – Tbilisi, Skopje and Georgia. These comparator economies were chosen because of their exceptional performance on the ease of doing business indicators in 2019. Tbilisi rose to 6th place in global rankings, Tallinn ranked 16th while Skopje rose to 10th top performer across SEE economies (Figure 12).

- **Enterprise Survey data**: World Bank Enterprise Surveys, though susceptible to sampling bias, provide insight into the problems and relative severity of challenges faced by both unregistered and registered firms. These surveys typically cater to small and medium sized firms and highlight factors that are not included in the Doing Business indices—specifically those related to institutions and regulations as well as business perceptions. The most recent data available for Albania was from 2019. Only responses for firms located in Tirana were considered. Responses of these firms were compared to responses of firms across the rest of Albania and in other prominent cities of Albania. Such a comparison revealed if the particular challenges were more pronounced in Tirana than in other cities or if the constraint was common across the country. Due consideration was given to the fact that the data may not have been able to reflect ongoing reforms. For the latest 2019 Enterprise Survey in Albania, of the 377 firms surveyed across the country, around 92 firms were located in Tirana and 25 firms were located in the main capital cities in Northern and Southern Albania. The samples might not be representative at a subnational level, but they represent the best data source available.

- **Case Studies and Local Consultations**: Perhaps the most important insights into Tirana’s economy were derived from the 2 deep dive case industry specific case studies conducted as well as from consultations with chambers of commerce, government institutions and industry experts. These sources of information were instrumental in revealing areas most in need of intervention and added more nuance to the understanding of economywide constraints and how they play out in determining city competitiveness.

  - The first case study was a deep dive into Albania’s textile and footwear industry that features significantly in the economy due to its high volume of international trade and because it employs a large proportion of the unskilled workforce. This industry is largely concentrated in the Tirana-Durres region. An in-depth survey was administered to 30 firms in the Footwear and Garment industry in Tirana. The objective of the survey was to gain deeper understanding of the business model and stage of development of the cluster Questions pertained to firm profile, financials, business model, managerial processes and finally constraints to daily operations as well as goals for the future. In addition, one-on-one semi structured interviews were conducted with industry leaders and firm owners.

  - The second case study focused on Tirana’s digital startup environment. The startup eco system contrary to the Textile industry is nascent. Here 2 focus groups were conducted, again seeking clarity on challenges faced by individual entrepreneurs while starting their business and conditions that impacted their efforts to scale up. In addition, 7 industry experts in the ICT sector in Tirana were also interviewed.
Achieving better economic outcomes would require strategic and inclusive approach to policymaking. Even after the challenges and their causes are well understood the work of devising the action plans is far from being complete. First, the landscape of economic growth constraints is always too complex to be fixed rapidly, and resources are always limited – thus there is a need for prioritizing and sequencing. Second, the powers of the city administration are always restricted by the national framework, and local circumstances such as alignment with the national authorities. These factors have to be taken into account when prioritizing policy responses. Third, according to global best practice from cities that managed to outperform their national economies, the parties involved in policy design and implementation, and the inclusive manners in which they were implemented are the common factor between the best performing cities, not the technical depth of analysis, or the specific policies they enacted. For this reason, the next section of this report will propose a framework that will help to prioritize and sequence policy action by taking account of the local context and administrative decentralization, while the later section will specifically focus on the authority and capacity of the city government, options for expanding it through building partnerships with other actors.

Contextualizing and Prioritizing Issues for Policy Response

*Given the finite resources and capacity of sub-national governments it is essential to have a way of prioritizing the wide array of issues to be addressed.* This is a particularly difficult task for subnational governments, because they need to carefully consider the limits to their legal authority and capacity restrictions that are largely defined by the national governance decentralization framework. Figure 14 proposes a framework that estimates the position of the most pressing constraints in Tirana across 2 dimensions.

1. **Influence of the city administration:** The scope of issues that fall under the direct remit of the Tirana municipality is limited and the designation of authorities across governmental tiers is not straightforward. Under these circumstances distinguishing the role and capacity of the city administration is a critical exercise for setting a reform agenda. Such a task involves not only understanding the roles and responsibilities of the city administration but also estimating how much of an influence the administration may have in addressing challenges that curb economic growth – even if partially, i.e. to what extent can the municipality utilize its mandate to influence areas that do not typically fall within the realm of its authority. For example, while the city government may not have any direct role in setting tax rates and determining the number of taxes, it may have a role to play in the collection, administration and enforcement of those taxes or even in changing attitudes towards compliance through public awareness programs. The experience of Tirana administration of increasing collection of property taxes through adding them to water bills offers a good illustration for this example. The horizontal axis in the figure 16 charts the influence held by the Municipality of Tirana over key challenges. Influence increases from Left to Right.

2. **Issues specific to the city economy (relative to the rest of the country):** Pinpointing constraints specific to Tirana’s economy is a complex exercise. The economic centrality of Tirana makes it easy to conflate national and local issues. For example, certain factors such as electricity supply, or informality require interventions not just in Tirana but also at national level. Wherever possible, the report attempts to estimate if the identified constraints
similarly surface in other prominent cities and across the rest of the country and to bring to the forefront those issues that play out more glaringly in the capital city. Among the identified areas of constraint, those relating to the regulatory and institutional environment appeared to be affecting the entire country whereas factors like skills, access to finance and infrastructure and land appeared to be more of a constrained within Tirana when compared to elsewhere in the country. This classification should allow a city to define the areas where it can achieve substantial improvements on its own, from areas where substantial changes might require engagement of other government partners or building alliances with the private sector to increase the leverage the city holds.

Figure 14: The Municipality of Tirana by tackling challenges on the basis of where they fall across two dimensions

The mapping of policy areas across the two dimensions of influence and impact suggests that there are 4 groups of challenges, that might require different type of response from the city:

1. **Type 1: High Influence - High issue specificity.** This group includes the issues clustered in the upper right corner of Figure 14. Issues that are specific to the city and that the city
has relatively higher influence over. These include challenges related to urban infrastructure, services and amenities, and land administration (where national regulations play a relatively bigger role).

2. **Type 2: High issues specificity – Medium influence:** The second group includes reforms areas such as skills, finance and practices of the informal sector. These are highly specific to Tirana’s context but are not entirely within the realm of the city’s authority.

3. **Type 3: Low issues specificity- Low influence:** Challenges related mostly to category of “institutions and regulations” appear to be falling under the third group where the city administration has the lowest influence and reforms often cannot progress unless it is led by the national government. However even though the city often can’t resolve this issues singlehandedly, they continue to be major burdens for the local economy, and thus addressing them remains very much in the cities interest and should not be sidelined. Although constraints pertaining to these policy areas cannot be addressed by the city alone, the city administration can experiment and improve performance of parts of the regulatory system that fall under its perview. For example, through engaging the private sector and building local coalitions, the admonisration may attract attention to specific challenges and thus incentivise national authorities to act.

Priority areas of intervention for the City of Tirana

**Type I: High influence- High Issue Specificity**

#1 Expand the coverage and quality of public service delivery and upgrade ageing infrastructure

*Population growth in the city, calls for improvement in public infrastructure and services.* To ensure that the city offers its dwellers decent livability and to enable business to take advantage of agglomeration effects, Tirana must be prepared to provide basic infrastructure needed for firm operations, a comfortable life for its residents and for mitigating effects of congestion. The effective provision of public services to maintain an acceptable standard of living for residents also factors in the city's ability to retain talent and may be seen as an important condition for ensuring sustainable economic growth.

*There is room for improvement in the provision of public services.* Public service delivery in Tirana currently can at best be described as satisfactory but suffers by comparison with the efficiency and coverage provided by comparator cities. For example, water losses (“nonrevenue water”) by the water utility in Tirana is strikingly high (table 1). Almost 70 percent of all other water utilities in the rest of the country demonstrate better management of the water supply. Similarly, sewerage coverage is only 72 percent, lagging that in Skopje and Belgrade while water coverage is also short of 100 percent. Power outages in Tirana seem to be a common occurrence. Almost 35 percent of businesses surveyed in the capital city region experience at least one power outage in a typical month, while around 15 percent have to face 5 or more (Figure 15). Almost two thirds of businesses in the city appear to own a generator (Enterprise Survey, 2019).
Figure 15: More that 50 percent of businesses surveyed in the capital city region were constrained by the access to electricity

Table 1: The public water utility in Tirana is not up to mark

<table>
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<tbody>
<tr>
<td>Water coverage (% of total population served by the utility)</td>
<td>95.48%</td>
<td>28.1%</td>
<td>81.59%</td>
<td>49.1%</td>
<td>100.00%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Sewerage coverage (% of total population served by the utility)</td>
<td>72.87%</td>
<td>17.5%</td>
<td>84.07%</td>
<td>42.6%</td>
<td>80%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Staff efficiency (staff per 1,000 people served)</td>
<td>0.92</td>
<td>5.9%</td>
<td>1.25</td>
<td>9.3%</td>
<td>0.82</td>
<td>30.4%</td>
</tr>
<tr>
<td>Nonrevenue water (% of water supplied in m³/km/day)</td>
<td>66.81%</td>
<td>71.9%</td>
<td>63.72%</td>
<td>71.2%</td>
<td>37.63%</td>
<td>57.1%</td>
</tr>
<tr>
<td>Unit operational cost (US$/ m³ of water and wastewater sold)</td>
<td>0.39</td>
<td>73.7%</td>
<td>0.7</td>
<td>69.2%</td>
<td>0.67</td>
<td>32.5%</td>
</tr>
</tbody>
</table>

Source: DANUBIS data collection and management platform, World Bank
Note: (1) The year chosen for each city depends on the latest year that data is available for all the Water and Wastewater utilities in the country (2) The table describes the performance of the city utility within its area of service coverage in the first row and compares the performance of the city utility with other utilities in the country across various indicators in the second row.
**Large scale investments in public infrastructure and utilities is required to offset current and impending congestion.** Most of infrastructure systems in Tirana are stretched and need improvement and increased capacity. Water losses are most probably a result of leaks and frequent bursts of old pipes. The need to upgrade local roads is rather urgent, given that almost a quarter of population is expressing strong dissatisfaction with the quality of roads (which while worrisome, is not the worst situation in the region and is on par with Belgrade, figure 16). Public infrastructure like sewerage and water pipelines, roads and urban transport networks, in Tirana await investment. Tirana also does not have a wastewater treatment plant, which is a cause for major environmental sustainability concerns. Efforts to increase efficiency and coverage in the provision of services are, to an extent, impaired by the deteriorating state of the infrastructure. Any type of band aid approach employed to overcome these issues is untenable in the long run. To accommodate ongoing population growth and make sure it results in economic expansion, the city will most like need substantial infrastructure investment.

**Figure 16: A quarter of the population is dissatisfied or very dissatisfied with the condition of local roads**

![Pie chart showing satisfaction with local roads in Tirana, Skopje, and Belgrade.]

Note: N=319 households

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**#2 Expedite the implementation of land reforms, resolution of land disputes, legalization of property and improve tools for land administration**

**Well-functioning land and property markets are crucial for city competitiveness.** Land and property are key assets in any urban economy. Because cities are spatially concentrated, their growth and competitiveness depend crucially on land-use planning, regulation, and development. Clear property rights registration, protection, and transparent information of the same about it; comprehensive and quality maintenance of land records; and well-functioning land and property markets are prerequisites for boosting investment, enhancing public service delivery, and advancing productive entrepreneurial activity.
**Land reforms in Tirana have had varying degrees of success and need to be expedited.** Informal settlement, construction, and commercial activity were defining features of the rapid growth and expansion that took place in the capital city region during the 1990s and early 2000s. Combined with slow land reform, these resulted in unregistered property, buildings constructed without a permit, inaccurate or overlapping ownership titles, informal land transfers and transactions, inconsistent cadastral maps and land disputes. They also reduced property tax collections. Recent efforts at improving access to land and land administration have been successful only to a certain extent. Despite the reforms pertaining to the formalization of illegal settlements, adoption of Geographic Systems (GIS) for land registration, the digitization of land registries, and the simplification of land transfer and registration processes, due to the sheer volume of backlog cases in Tirana, according to city officials, challenges related to property rights and land administration continue to curtail economic growth and city planning.

**Tirana’s performance on the quality of land administration index measured within the Registering Property indicator in Doing Business is one of the lowest compared to cities in the region (Figure 17).** More than 90 percent of the cadastral zones have not been updated since 1995, while an estimated 75 percent still have manually archived records. A majority of property owners in Tirana do not possess ownership certificates as of today, and not all privately held land plots have been mapped or formally registered (Doing Business, 2019). Coordination between land mapping agency and the property rights agency can be improved. Digitization needs to be extended to archiving deeds and maps. Documents indicating property ownership, and the tracking systems for land transactions appears to be weak.

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**Box 2: Overcoming roadblocks in improving access to land**

Adjudicating and assigning land and property rights and creating, maintaining, and disseminating spatial records and land deeds is a daunting task. It requires a complex institutional infrastructure. However, effective change management can enable cities to reap the benefits of efficient land administration.

Land reforms in Rwanda demonstrate that policies need to be carefully crafted and yet flexible, with regular evaluations – regular consultations with key agencies and stakeholders, community participation, and multiple rounds of testing new policies improve the chance of success. Vilnius, Lithuania, one of the best performers in land governance, relies heavily on digital platforms and the integration of land data with databases on, e.g., population, business registrations, and mortgages. Ensuring smooth access to all information on land administration expedites transactions and investment. Prague similarly has built its urban planning practices around the integration of databases following a massive undertaking of harmonizing data and maps across several sources. The experience of the Republic of Korea demonstrates how a solid commitment of resources and time can reduce corruption and increase transparency. Its land administration system now provides a sound basis for urban planning, municipal asset management, and enables smooth operation of the market, which is critical for efficicant utilization of urban space.

There are commonalities across the cases described above. First, across all the cities, implementing reforms was a herculean task of but was worth the undertaking even in the face of setbacks. Second, new systems had to be built in a ‘sticky’ local context, with a lot of inertia working against which meant new approaches needed to be piloted while retaining willingness to adjust and incorporate new evidence, regulations and processes. Third, across these cities the successful reforms required simultaneous and integrated consideration of legal, technical, and institutional aspects of land management. Laws and regulations had to be fine-tuned in accordance with other moving parts. Finally, large benefits were

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9 Correspondence and consultations with Tirana city administration  
10 Exchanges with the city administration in 2018
witnessed not only in terms of cost-savings and greater efficiency in delivery of public services but also in growth of economic activity. These commonalities suggest the Tirana administration is not alone in facing a chaotic and dysfunctional land markets and it too can win in what appears to be an uphill battle. More predictable and transparent land market will enable for better utilization of assets, better implementation of city’s planning regulations, help unlock economic growth opportunities (e.g, for external investors) and will generate additional incomes for the city (through land transaction fees, and higher property taxes).

Source: ‘How innovations in Land Administration Reform Improve on doing business: cases from Lithuania, the Republic of Korea, Rwanda and the United Kingdom’, World Bank, 2015b

Figure 17: The Quality of land administration in Tirana requires significant improvements

Of the various issues encumbering land administration, the quality of land parcel data is a priority issue. Despite various efforts at adopting digitization of cadastral parcels and land records, problems of land parcel data quality as well as compatibility with other databases persists. Geographic data that already exists is not considered accurate. Furthermore, the newly surveyed, more spatially accurate data does not dovetail with the old records and the new land records need to be altered to fit with the existing records. This reliability of these records thus becomes questionable and often the information depicted in land records doesn’t reflect real land use patterns. This limits economic development as it hinders identification of vacant and development ready land in the city, and stifles property transactions of any sort. ¹¹

¹¹ As mentioned in the Immovable Property Registration Office, Status report, World Bank, 2018
Type II: Medium Influence- High Specificity

#1 Reduce the skills gap through better co-ordination between universities, private and public sector

Skills shortages appear to be a bigger issue in Tirana than anywhere else in Albania (Figure 18). Of the 92 firms surveyed in Tirana, almost 30 percent considered inadequately educated workforce to be a major to severe constraint in their daily operations. Of the firms surveyed in other major business cities in Albania only around 12 percent felt similarly. When considering the whole of Albania without Tirana, only 22 percent of respondent firms indicated that inadequately educated workforce is a major to severe constraint in daily operations. This doesn’t indicate that work force in Tirana is worse educated than in the rest of the country, but rather suggests that it is less suited for the needs of the businesses that are probably much higher in a city with higher level of competition and access to external markets.

Skills shortage in Tirana as a common complaint across various sectors of the economy and is perhaps one of the most debilitating constraint to competitiveness. Respondents of the textile and footwear industry survey expressed that supply of workers, and the level of education of the workforce was their primary concern while the shortage of adequately skilled labor and employability of graduates was at the forefront of all discussions carried out with tech entrepreneurs and experts across the ICT sector. Many industry leaders even stated given the chance they would not be willing to invest in Tirana’s tech space due to the lack of technical and professional skills. Responses of firm managers and owners during the study of the garment industry revealed that the lack of skilled labor had become a seemingly unsurmountable barrier to transition to higher value-added activities in the value chain. The general scarcity of experienced and skilled labor in the economy, according to interviewees in both industries (ICT and textiles) is magnified by the lack of drive and incentives to advance skills among employees. Indeed, the analysis of the Skills Towards Employment and Productivity Employer Survey$^{12}$ conducted in Albania finds that skills shortage particularly curtail firm growth specifically in high potential sectors: firms do no fall in the category of local trade and repair services, large firms, or foreign-owned firms engaging in external trade (Honorati et al., 2018).

Current shortage of skills in the city can be linked to a number or underlying challenges: outdated curricula in universities and vocational training institutions, weak pipeline of skilled professional as well as limited career opportunities that push some people to leave. Neither higher education nor vocational training institutes have been successful in adequately incorporating skills and application-based learning into their curricula (Bartlett, 2013). Almost all businesses consulted in Tirana expressed concerns about current learning methods in universities and educational institutions. The employability of graduates was seen as questionable at best. Yet despite the inadequacy of curricula, college graduates have the highest probability of getting a job - an indication of the excess demand for skilled labor. Training programs focused on technical industry specific knowledge exist but are relatively rare and insufficient to meet the demands of the technology sector. Among tech startups the grave undersupply of individuals with requisite technical, managerial and entrepreneurial skills coexist with the increasing demand for skilled labor in the large ICT companies. The large, more mature firms generally are able to absorb most of the technically skilled labor due to higher pay packages, thereby distorting the skilled labor market and leaving smaller and younger firms in a tough spot in terms of finding adequately skilled employees.

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12 The STEP captures cognitive, socio emotional and job specific skills (as measured by team work, timeliness etc.) and not skills that are specifically job-relevant (such as ability to operate machinery for example)
In the case of the garment industry, there appears to be a severe lack of engagement with vocational training institutions, and there is no collaborative process for indicating the skill needs and designing appropriate curricula. This illustrates additionally the results of poor coordination within the industry. While some skills, like clothes design, are widely known to be in short supply, the industry is not taking steps to address the shortage.

**Figure 18: Skills shortages serve a major business constraint especially in Tirana**

![Pie charts showing inadequately educated workforce in Tirana, ALB without Tirana, and other main business cities.](image)

Source: Enterprise survey, 2019

**The skills gap is exacerbated by outmigration.** To make matters worse, the high propensity of skilled individuals to move out of the country widens the skills gap. The issue of outmigration and brain drain was a constant feature across all consultations and interviews with individuals from the ICT sector. Young graduates actively seek better pay and opportunities abroad. For those graduates who are not employed by the few large firms, there is a clear incentive to seek opportunities abroad.

**The skills gap in Tirana requires immediate attention and is contingent on the collaboration between universities other educational institutions and the public and private sector.** There is a desperate need for intervention to create a pool of qualified labor that will fuel the growth of knowledge-intensive businesses and tradeable industries. To address the concerns of existing businesses and attract new ones, there is a dire need for higher education institutions to revamp their

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13 Responses from households in the Life in Transition Survey III suggest the same, though the sample size is low. The share of individuals willing to move out of the country among those who have been unemployed in the past year is higher in Western Balkan capital cities than in comparator capital cities. Within the pool of individuals willing to move abroad, the share having secondary education is highest, followed by those with tertiary education (EBRD 2016).
curricula and provide platforms for practical and experiential learning. In addition, efforts at providing rapid skills training workshops that are frequent and accessible to all would be beneficial. Reducing the skills shortage will require close coordination between businesses, universities and the public sector. Greater collaboration between them would yield a skills pipeline catering to the needs of productive industries and businesses. This would entail the matching of university offerings with industry requirements and matching individuals with firms by creating platforms for networking, recruitment, mentorship and training.

**#2 Enhance the entrepreneurial skills and business acumen of business managers and firm owners**

*Slow growth in Tirana can be partially explained by the contained productivity of firms specially of the small and medium firms in the city.* Granted that factors such as access to finance are limited in the economy, but, a large determinant of firm productivity is the business acumen and managerial capability of the business owner or manager. These individuals not only determine the targets, goals, and investments of the enterprise but also lead the daily operations at the firm. Owners of small and medium enterprises in Tirana however, do not appear to adhere to good management. Even if economywide conditions were suitable and ideal for firm operations, the current demonstration of managerial capability across firm owners suggests that there would still be substantial room for productivity gains.14

*Prevailing levels of managerial skills in the economy are constraining to firm performance.* Figure 19 depicts responses on how firms deal with inefficiencies. Businesses were questioned on the timeframe within which they reassigned or dismissed underperforming employees. Almost 40 percent of firm managers in Tirana stated that underperforming employees are rarely or never dismissed or reassigned. Such inaction toward identified underperforming employees suggests inefficiencies in which business owners either do not have the objective of maximizing profits or perhaps are unable to draw the connection between employee and firm performance. Similarly, when asked about performance monitoring, a considerable number of firms Tirana stated that they did not regularly monitor production performance, suggesting a lack of desire or know-how for expanding or enhancing achievement or mitigating inefficiencies in current operations. The examination of textile and foot ware industry in the city, yet again drew the same results regarding the subpar managerial skills of firm owners. Of the firms surveyed during the study, among the large and medium firms, almost 25 percent responded saying goals and targets set were purely financial. By and large, owners and managers of firms in Tirana are unwilling to implement changes that can be as minor as incorporating high performance work arrangements and productivity enhancing practices (these do not require any capital investments or hauling over of processes). In many occasions, managers are simply unaware of these opportunities.

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14 According to both Bloom and Reenen firm productivity is a function of both management practices and of technology and innovation (Bloom and Van Reenan, 2018; Bloom, Van Reenan, Brynjolfsson,2017)
Figure 19: The sub-optimal level of managerial skills in Tirana keeps firms from optimizing performance and reduces their productivity.

Source: (a) Enterprise Survey, 2019; (b) Enterprise Survey, 2013

The low levels of productivity due to lack of good management practices is compounded by the scarce use of technology and business digitization. Both, the capacity and desire of firms to absorb new technology is weak, and the consequent inability to be up to date with changing production techniques depletes their competitiveness. ICT industry experts in Tirana suggest that the low levels of digitization in firms is mostly on account of no clear return on investment, inadequate know-how of technology usage among employees as well as the lack of awareness about the benefits of digitization and automation of processes. In the survey of textile and footwear producers, a fourth of the respondents continued to engage in manual inventory management despite large volumes of products involved in operations. Both case studies highlighted the need to increase digital literacy among managerial staff at firms and businesses.
Due attention directed at increasing entrepreneurial abilities and business digitization is crucial. Entrepreneurs and business owners of firms need to be armed with basic 21st-century management techniques and tools. This can be achieved by creating platforms for knowledge exchange. Enhancing entrepreneurial skills through greater outreach of and access to existing and new training and mentorship programs and can benefit the local economy of Tirana by increasing internal firm productivity. Additionally, incentives can be put in place that encourage the adoption and successful use of new management systems and technology.

#3 Increase access to finance by encouraging the growth and uptake of alternate financing instruments and distinguishing MSME’s as a distinct category

Access to finance, while an Albania wide problem, appears to be more pronounced in Tirana. Figure 20 shows that while over a half of surveyed firms in Tirana and the rest of the country do not consider access to finance a major obstacle, a larger proportion of business in Tirana consider it a major constraint. This most probably reflects the more dynamic and more competitive business population of the capital, where more firms have growth ambition, and thus constantly require sources of additional financing.

Access to Finance is fundamental to furthering growth opportunities for business – particularly for micro, small and medium enterprises (MSMEs), and in advancing innovative entrepreneurial ventures. MSME’s are not only the most likely to be credit constrained, but the effect of access to credit on job growth is also much more pronounced in the case of MSMEs when compared to larger firms (Ayyagiri, Pedro et al. 2016). Access to finance for MSMEs faces the classic chicken and egg problem where financial support is necessary to facilitate firm growth, but the performance of the firm is what justifies financial support. (EIB, 2016) MSMEs face higher transaction costs and their lack of credit information impacts their creditworthiness.

Considering specific needs of firms, particularly MSMEs, can relieve constraints to accessing finance. Financing institutions and credit registries in the capital city region can help relieve constraints to finance by addressing MSMEs as a special and distinct category of borrowers. This can be achieved through offering SME specific services, incorporating more sources that report information on SME borrowing and lowering the minimum credit threshold for reporting transactions (Ramalho et al., 2018). One option is including data from utility companies and retailers in addition to data form banks and financial institutions to serve as a proxy for determining creditworthiness of small firms. Such a provision would not only be beneficial to MSME’s but also help the relatively larger firms, such as those operating in global apparel value chain. Surveys conducted during the study of the industry in Tirana revealed that firms in the industry, despite being relatively larger are constrained by access to finance. To a notable extent this is due to the buyer driven business model that is prevalent, which does not allow firms to have high profit margins or substantial assets. However, these firms do regularly pay utility bills and rent. Considering these payment records would help with the extension of credit. In cities like Tbilisi and Belgrade, MSMEs are recognized as a separate category of borrowers. In fact, Tbilisi provides SME specific credit scores that helps smaller firms access finance relatively easily.

15 An examination of comprehensive firm level data across a large set of developing countries, found that access to a loan resulted in employment growth – between 1 to 3 percentage points – larger than firms with no access (Ayyagiri, Pedro et al. 2016). The same study concluded that this effect was more pronounced among MSMEs- an exogenous increase in the supply of credit, proxied by the introduction of a credit bureau, resulted in job growth in MSMEs that was 6 times greater than that exhibited by larger firms.

16 Access to Finance for SMEs Dataset, Doing Business 2018
Non loan based products such as equity financing can be helpful in substituting financing needs and the city administration can play a role in facilitating the availability of such instruments and generating awareness of alternate options. Loans are regarded the most reliable financial instrument, but they are not readily available. In Tirana demand for non-loan products is almost negligible due to limited awareness of their benefits or availability (EIB, 2016). In the case for firms engaging in business and ICT services, while instruments such as equity financing is considered an option, the availability of such alternatives is rare. For example, as the study of the startup ecosystem reveals, there are no private institutional investors like VCs while the presence of angel investors is limited – both of which are crucial to propel the startup innovation and startup ecosystem.
Supporting the growth of non-loan-based products can be helpful in substituting financing needs of the high-growth firms.

**#4 Understand and address drivers of informal practices**

*While informality appears to be rampant across Albania, businesses, in Tirana consider informal activities a major obstacle.* The 2019 Enterprise Survey responses reveal the size of this concern. In Tirana 16 percent of survey respondents stated that practices of the informal sector were the main obstacle to daily operations; 40 percent of them said they had faced competition from the informal sector at some point (Figure 21). Interviews with business associations and firms as well as the discussion with the chamber of commerce in Tirana revealed that informality in the economy breeds a perception of unfairness and inefficiency in regulations and institutions. Formalized firms and firms that attempt to abide by all the rules and regulations, feel that they are being targeted by authorities tasked with enforcing regulations and in general state that the apparently partial enforcement is unfair. Businesses are also afraid of being undercut in prices and labor costs.

*Tirana has been striving to address factors that lead to businesses operating informally, yet informal practices remain rampant features of the economy.* The improvements included aspects of business registration that made it easier for firms to register. In addition, stringent enforcement policies induced unregistered firms to formalize. Yet even today informal practices are still rampant in Tirana. Informality should not be confined to the binary notion of registered versus unregistered firms. Informal practices can be linked to firm registration, irregular adherence to business regulations, tax evasion, hiring employees without contracts, and even underreporting sales. Informal practices are also driven by a variety of reasons ranging from complexity of registration, inefficient institutions, unfavorable business regulations, tax evasion and unpredictable tax administration to avoiding employer obligations, a general culture of noncompliance in the economy, low productivity of firms and lack of managerial skills of business owners and managers. The informal sector’s opacity conceals the reasons businesses choose to stay in the shadow and how the shadow part of the economy relates to the visible part.

*Informality in Tirana can be a symptom of overreliance on local service economy that includes many low productivity firms, in combination with weaknesses of the institutions.* Researchers of the informal sector have been able to make useful generalization regarding the nature of firms in it. Whatever their size, firms engaging in informal practices are generally less efficient than their formal counterparts (La Porta and Schleifer 2014; Loayza 2018) and tend to concentrate in non-tradable sectors such as retail and construction (Banjamin et al., 2014). As previously mentioned, the economy of Tirana is driven by construction and local service sectors and possibly explains the high instances of informality in the economy. La Porta and Schleifer (2014), characterize informal firms as small, unproductive, and stagnant and attribute inefficiencies within firms engaging in informal practices to low levels of entrepreneurial skills of the individuals running them. While informal activities are a permanent feature in any economy, they become less pervasive as countries develop and institutions and regulations become more efficient (La Porta and Schleifer 2014; Loayza 2018; Medina and Schneider 2018).

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17 The Enterprise Survey, though suggestive, gave no precise definitions of practices of informality, allowing respondents to interpret the question differently.
The city administration can strive to gain a better understanding of the characteristics, causes and drivers of informality in the economy – these are the first steps towards combating it. Policies for curbing informal practices and firms should be designed with caution and with a nuanced understanding of the main forms and drivers of informality in the economy to avoid unintended consequences. For example, if low productivity of firms is forcing them to avoid taxes and regulations, an enforcement driven approach may unintentionally cause unemployment. It is necessary that policies to combat informality are well informed about what kind of informal practices dominate, what drives them, how firms engaging in them link to the formal economy, and which sectors are most affected by their presence or absence. Gaining this insight would be a first step to combating the ills of informality.

In general, the approach adopted should lean towards encouraging formalization instead of discouraging informality and would require the involvement at the national level (Loayza, 2018). Policies must pay attention to streamlining regulations, reforming the tax environment, and reducing institutional inefficiencies to protect both workers and firms. Promoting and encouraging a culture of compliance by building public awareness and support for appropriate practices can also be regarded as a complementary approach to reducing informality. But most importantly as suggested by the correlation between development and instances of informality, policies should focus on helping businesses to become more productive.
Type III: Low influence- Low specificity

**#1 Improve the tax environment to advance business dynamism**

The tax environment in a city can be a key determinant of whether firms decide to set up business in a city. For larger firms, costs related to the taxation may govern location choices. High number of taxes, time consuming taxation processes and high tax rates may disincentivize them from locating in cities. Smaller and younger firms, which are disproportionately disadvantaged by compliance costs, may simply decide to operate informally, diverting considerable attention to evasion, or chose to shut down (Dabla-Norris, M.E et al. 2017).

**Figure 22: Number of taxes as well as time required for post-filling process is highest for Tirana**

The total number of taxes that business have to pay in Tirana is staggeringly high and compliance procedures appear to be complex and overwhelming. The indicators on the state of tax regulatory environment were derived from the Doing Business data. While they reflect practices across the country, the data, according to the Doing Business methodology is based on cases of firms operating in the largest city and therefore directly reflect the environment across the capital cities in the Western Balkan and larger ECA region. When compared to other capital cities in the ECA region, Tirana has one of the highest number of taxes. (figure 22). In addition, the city also records the longest time taken to make tax corrections.\(^\text{10}\) While recent reforms like introducing an online system for filing and paying taxes to improve the convenience to taxpayers have been a positive step, the large number of taxes encumbers businesses with diverse compliance procedures, diminishes investor confidence in the economy, and bumps up administrative cost and effort. Startups in Tirana listed a number of ways in which tax administration put a substantial burden on them.

Focus group discussions with tech startups underlined that founders were overwhelmed when confronting the complex tax compliance procedures. The most striking example included the fact that as soon as startups incorporated, they received requests to file tax documents. Albanian regulations to not offer new businesses a grace period (which is more or less a standard practice

\(^{10}\) While this in part reflects the large number of taxes imposed by law, businesses view it as a sign of the inefficiency of tax authorities.
Internationally), which results in an excessive organization and financial burden for young businesses. Participants stated that the tax environment was unintuitive and not favorable to business growth and conversations veered towards debates regarding prevailing regulations and tax laws indicating a general lack of clarity among taxpayers about regulations.

**Tax inspections in Tirana appear to be frequent and sporadic.** Business owners in Tirana perceive tax authorities as hostile. While this is to be expected, experiences of firms in both the apparel industry as well as the tech startup industry corroborated by the enterprise survey data, 2019, suggests that processes for tax inspections and audits in Tirana are an excessive burden for firm. Tax inspections are frequent and sporadic. 90 percent of surveyed firms reported that they were visited by a tax inspector in the previous year. Of inspected firms, around 40 percent were visited more than five times in the same year. Such a system of inspection increases the discretionary powers of individual inspectors and provides multiple opportunities for graft and other forms of corruption (Alon, Anna and Amy M. Hegeman 2013). Frequent inspections and audits apart from hindering daily operations are also a cause for great apprehension among managers and owners of firms. Small and new businesses, receiving little or no allowance for error in compliance details, may be penalized despite reasonable grievances. Anecdotes narrated by startup founders reflected such a scenario. Tax inspections are also known to result in the imposition of a variety of non-tax related fines for infractions such as number of employees declared etc.

**Tax system would benefit from simplification and reduction of the amount of taxes and the focus of tax administration needs to be on enabling rather than enforcing compliance.** The complexity of compliance procedures, together with frequent tax inspections and unsympathetic tax administrative authorities, sets up what is perceived as an adversarial relationship with businesses. Such a tax environment does not promote the growth of businesses. Good practice calls for fewer taxes and easy and convenient filling procedures (Alon, Anna and Amy M. Hegeman 2013). Automation can increase efficiency and convenience only when accompanied by awareness of taxpayers, a reliable operating system, and timely updates to reflect the current business environment (Doing Business, 2019). Accountability and transparency of tax authorities are of paramount importance, especially during inspections, which should also provide businesses with opportunities to air and redress grievances and receive filling support.

**#2 Increase digitization of judicial processes along with specialized regular training of judicial and court staff with respect to commercial issues**

**The judicial and court system is probably the lowest on the spectrum of city influence.** However, the legal environment does act as a significant deterrent to business operations, especially when it comes to enforcing contracts (Doing Business 2019)

**The court system in Albania appears to be inefficient and unable to enforce contracts and appears to be large constraint to competitiveness in Tirana.** The regulatory environment for enforcing contracts and resolving commercial disputes affects economic outcomes (Treiblock and Leng, 2006). Businesses prefer to invest and operate in environments with low uncertainty and high reliability. Objective, clearly defined, and consistently enforced laws assure businesses that conflicts can be resolved in a low-cost and timely fashion. However, in Tirana a large share of businesses in the city hold the belief that courts are biased, corrupt, and incapable of enforcing their decisions (Figure 23). 82 percent of business respondents to Enterprise Surveys in Tirana in 2019 disagreed

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19 Own tax revenues of municipalities include property tax, small business tax and other local taxes. According to the ongoing decentralization reform, small business tax is to be collected, controlled, and transferred to the accounts of the local government budget by the General Directorate of Taxes through its regional department. 60% of local government taxes revenue, however, still comes from income tax for small business (OECD and UCLG, 2016)
with the statement that the court system is quick, impartial and fair. Almost 40 percent of firms stated that courts act as a major to severe obstacle to their daily operations. The results for the rest of Albania were similar, underlying that this is a country wide issue. The city also currently scores the lowest among all the Western Balkan capital cities on the quality of judicial administrations index measured by Doing Business, 2019. This index considers court structure and proceedings, case management, court automation and dispute resolution. Tirana’s performance on all four categories lags that of comparator cities in the region.

**Figure 23: Courts are perceived as a major to severe obstacle to doing business by many businesses**

![Pie chart showing courts as an obstacle to daily operations](image)

Source: Enterprise Survey, 2019

**Albania and Tirana specifically would benefit from streamlining process and increasing automation and digitization across the judicial system.** This which would simplify resolving commercial disputes and contracts. For example, Tbilisi, Georgia, (ranked 8 on the Doing Business enforcing contracts indicator) introduced electronic filing and payment systems in courts and boosted the use of information management systems for cases, reducing the time and cost associated with commercial disputes. Currently in Tirana, it is not possible to file a complaint electronically. Court fees too cannot be paid electronically and there are no electronic case management tools available to lawyers as well as to judges.

**Provisions addressed specifically for addressing commercial matters could improve the business environment.** It is worth noting that among other western Balkan capitals, Tirana is the only one that does not have a court or division dedicated to hearing and dealing with commercial issues (Doing Business, 2019). An operational commercial court or division dedicated to commercial cases and the introduction of regular and specialized training of judicial and court staff in commercial matters, including insolvency and intellectual property would not only increase the quality and efficiency of resolving commercial disputes but also help in increasing the credibility of the court system across businesses.
Role of the Tirana city government and other local administrations

The realm of influence of the Tirana administration is largely contained to infrastructure and services.

The powers of city administrations are always limited, and every city should be very clear about tools that are at its disposal. Cities do not have absolute control over conditions that affect local economic development. In addition to being affected by changes in market conditions or by radical shifts in technology that have a global effect, they exist in the context of the national legal and regulatory system. These exogenous conditions limit their authority and often affect their ability to act on specific challenges. This suggests that city administrations (as most other subnational governments) should take a specific approach to addressing challenges of local economic development, which is different from how national governments operate. Such an approach should start from the clear understanding of what is within the city’s authority.

The ambitious administrative reform didn’t result in substantial expansion of the Tirana municipality’s authority — which, at present, mostly includes infrastructure and service provision. Albania has gone through consecutive waves of municipal administrative reform, that in general moved towards building stronger local governments. The last round of reform was completed in 2015 when the number of municipalities in the country was reduced from 373 to 61 grouped into 12 regions. While the reform included decentralization of some functions to municipalities, they were almost entirely confined to the realm of local service and infrastructure provision – deepening municipal authority, but not expanding it to new areas. Currently, municipal responsibilities include, among others: provision and maintenance of the local infrastructure, including roads, local amenities (such as parks), waste disposal, public lighting and control of building construction; social services, pre-university education infrastructure as well as water supply, irrigation systems, public safety etc. (Ronsholt et al., 2017). While economic development is stated as one of the areas of local government responsibility, the actual administrative responsibilities of the local governments leave out a number of issues of importance to local economic development, taxation, skills and other issues raised above. Additionally, according to the Association of Municipalities of Albania some grey areas of responsibility between central regional and local governments complicate the policy landscape even further. Discrepancies often result from the lack of certain sublegal acts and are particularly visible in areas of education, policing and fire protection where uncertainties related to authority create challenges for hiring and granting permits (Haxhimali, 2017; CERM, 2016).

The system of local government finance doesn’t balance the resources available to local governments with their needs and responsibilities. Overall local government financing in Albania follows the system typical for those of the Western Balkans countries where local authorities hold responsibility for delivery of education and social services (World Bank, 2019a). For these countries it is rather typical that conditional (earmarked) transfers represent the largest share of local government revenue. In Albania on average conditional grants account for a half of the revenue of municipalities outside Tirana. This means that flexibility of municipal spending is extremely limited. At the same time most municipalities in the country struggle to generate funding required to meet

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20 Functions decentralized to municipalities in 2015 included: i) social services; ii) preschool education staff and support staff for the pre-university system; iii) forest and pasture management; iv) management of the secondary and tertiary sewerage system for irrigation and drainage; v) fire rescue centers and vi) rural road management. Haxhimali (2017)
the most essential needs of the population that are not covered by conditional grants. In this context the Association of municipalities has been seeking an increase in the overall amount of unconditional grants (allocated according to a formula and not earmarked) to enable better planning and to increase spending flexibility. The association has also been asking for an increase in the local government proportion of shared taxes to increase self-sufficiency (Haxhimali, 2017). The new law on local government finance, according to which unconditional transfers can't be below 1% of GDP, was first implemented in 2019. This resulted in a 6% increase of local government revenues compared to 2018. The new norms also introduced increased local shares of vehicle registration tax and Personal Income Tax. Administrative challenges with collection of these taxes, and the overall impact of these amendments, however, remains to be seen. Overall fiscal decentralization in Albania remains far behind the EU average—in 2017 local government revenues in Albania accounted for only 4% of national GDP, and 14% of total public revenues, both substantially below the EU averages of 11% and 24% respectively (Haxhimali, 2017).

Tirana’s administration, appears to be particularly constrained by the current municipal finance system. While technically, the municipality could benefit from the increased municipal rate of shared taxes the benefits are not so clear cut. Tirana generates more than a half of own source revenues of all municipalities in Albania, and thus the administration would rip the highest benefit if it is able to retain more of local taxes. However, the system of equalization that underpins the municipal finance system, redirects resources away from the capital to other municipalities in the form of transfers. For Tirana, an argument against equalization through the system of unconditional transfers can be made. Presumably, the capital city has the highest infrastructure needs in the country due to its population size and density. The Tirana city administration, that is responsible for provision and maintenance city infrastructure, requires a disproportionately more resources to fulfill these responsibilities when compared to other municipalities in the country. While his argument against equalization shouldn’t apply to earmarked transfers that fund education and healthcare, it may be applied to other municipal responsibilities. (Box 2 provides a detailed discussion of this matter). The municipality is further constrained by its lack of ability to borrow on the market, which dimes the possibility to invest in and implement large-scale projects with long implementation horizons. Finally, Tirana specifically was disadvantaged in terms of its revenues by the 2015 administrative reform. While its population grew by 33% as the territory of the city expanded, its revenue grew only by 24%, resulting in lower revenue per capita (Ronsholt et al., 2017).

Tirana’s administration has been focusing primarily on infrastructure and service provision aspects of city development. In the recent years Tirana administration has undertaken very visible initiatives to improve city livability through improving public spaces in city center (Bravo D., 2018), redeveloping courtyards and public spaces around the socialist era apartment blocks, upgrading parks and playgrounds for children. It has also initiated and advanced implementation of a large-scale initiative of the extension of the main boulevard and regenerating the water front, aiming to expand the urban core, and transform a much larger part of the city into a livable, mixed-use territory, with good access to services that is also well suited to host a range of economic activities (Architetti, 2012). As the city is working to address the consequences of the earthquake that struck the city in December 2019, the city is looking to develop housing for the victims in some of the more peripheral areas, while also ensuring revitalization of these territories. In the service provision segment Tirana has focused on improving school facilities and improving water and sanitation infrastructure in its collaboration with EBRD (Stevens, 2018; Shukalb, 2019).

At the same time Tirana needs to make sure that it uses its resources as efficiently as possible. In the light of the vast infrastructure needs and the ambitious vision for city development set by the administration the municipal finance system is proving to be inadequate. The Tirana administration has had to be creative to maximize on resources available to it. One of the more visible innovative
initiatives relates to enlisting the municipal Water and Sewerage company as a collector of property taxes, which allowed the municipality to dramatically increase the revenues from its main source of discretionary revenue. However, the 2016 review of public finance management practices in Tirana revealed a number of shortcomings with regard to revenue forecasting and budget planning, which in the end resulted in planned expenditures having to be cut down. Changes to the Municipal Finance Law in 2018 may possibly have provided some respite to the situation but further analysis will be required to see if the city’s budget management practices have improved. Importantly, in recent years Tirana municipality has been able to increase its revenue more rapidly than the average municipality in the country despite being disadvantaged by the unconditional grant formula. A lot of this was achieved through rapid growth in the amount of infrastructure impact taxes collected from new developments (almost a tenfold increase between 2015 and 2018), and robust growth in property tax and fees and charges collection (Figure 24) Never the less, Tirana will need to remain agile and efficient with the way it manages its finance.

Figure 24: Municipal budget revenue increase overtime (2010 = 1)

Source: http://www.financatvendore.al/data/revenues

To holistically advance city competitiveness, the city administration will need leverage coalitions and partnerships

The international experience suggests that local governments in addition to striving to make the most of powers they are given can expand their leverage through collaborating with other public sector authorities, and through building local coalitions. Experience of places so different and distant as Bucaramanga in Colombia, Gaziantep in Turkey, Changsha in China shows that while all these cities used different policies to successfully grow their competitiveness, all of them didn’t limit themselves to the formally defined responsibilities of local authorities. All of these cities engaged in dialogue with institutions at the national and regional levels to address challenges outside their immediate authority to utilize opportunities presented by the national government programs. Gaziantep made the most of the national provisions for special economic zones to support its textile and carpet industries, while Changsha leveraged national program to bring educated Chinese immigrants back home to address local skills gaps. On the other hand, all of these cities also systematically engaged local non-government actors to define policy priorities. This was done by leveraging private sector capacity and ensuring citizen support for major policy undertakings.
through dialogue. These coalitions often take very different shapes: in Changsha the public-private coalition operated through a formal body and a set of official meetings while in Bucaramanga it was organized as a regional private sector association and relied on leadership of a well-known individuals. No matter the format, these coordination platforms allowed the cities to build consensus around their key policy priorities, enlist support from private sector, academics and NGOs, and in some cases helped attracted attention to issues that could not have otherwise been addressed without national government involvement. These different approaches to expanding the ability of the city administration to address challenges of competitiveness are summarized in the “city wedge” framework (Figure 26)  

**Figure 26 Three elements that make up city’**

![Diagram of city wedge framework](source: World Bank (2015a))

*Tirana has been starting to proactively engage in issues of competitiveness reaching out outside its direct authority and collaborating with multiple partners.* One good example of such an initiative is the announcement of the Tirana Free Trade Zone as part of the national legislation on Free Zones passed in 2015. The city has committed to allocating 60 hectares near the village of Kashar to make the most of tax cuts proposed by the national legislation and capitalize on the simplified construction regulation and property registration regimes (Invest in Albania, 2017). This is a good example of utilizing the national program and reaching out to private sector to build a coalition around the initiative. Another example of the city administration trying to expand its influence into the new realms is the project of turning the iconic Tirana Pyramid into a start-up incubation space (Diaz, 2018). While the city is starting from its more traditional realm and leading with the physical transformation and adjustment of the monument for the new use, it has begun engaging the start-up community and international organizations that operate in the technology space to ensure that project has a meaningful impact on economic dynamism of the city. These examples showcase that the city administration is ready to explore new ways of support economic development in the city.

**However, overall public-private dialogue in the city can be strengthened.** There appears to be a palpable mistrust between the private and the public sector. Participants in the Tech-startup case study as well as survey respondents in the apparel industry study repeatedly alluded to the notion

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21 For details on this city examples see World Bank, 2015
that the government has not been able to allay their concerns. Firms are, moreover, apprehensive of the constantly changing regulations imposed on businesses. While PPP infrastructure projects have been on the rise in Albania, dialogue between the public and private sectors, especially on day-to-day operational issues and regulations has been limited. This scenario is particularly prominent in Tirana where efforts to create platforms for public private collaboration in the city, for example through establishment of an Investment Council\(^{22}\) have been unable to meaningfully cater to the needs of businesses or to enhance collaboration within the private sector. The consistently low participation rates across business associations and the chamber of commerce are symptomatic of the overall pessimistic attitude of businesses towards leveraging dialogue and collaboration to effect changes.

**Both industry case studies highlight the need for enhancing engagement with the private sector.** The case of the mature and traditional garment and textile industry in the city-region showcases that lack of engagement between the public and private actors has led to an absolute loss of trust. This might have been exacerbated by the memories of socialist system under which the industry had a line ministry devoted to its needs, and thus felt heard, while now it feels ignored and hostile to the public sector in general. In the case of the nascent startup ecosystem operating at the innovative frontier, the weakness of platforms for public-private dialogue could to an extent explain sluggish growth of the sector. For instance, without the necessary dialogue, the support provided to startups with multiple accelerator programs and government and donor funded grants appears to have resulted in duplication and failure to provide the requisite scale up opportunities for firms. The sector also has no opportunities to communicate niche requirements and redress industry specific unique issues related to tax compliance, leveraging private investments from foreign entities, legal incorporation etc.

**But this low level of engagement can also be partly attributed to the lack of co-ordination within the specific industries themselves.** In both cases studied, while widely differing sectors, were similar in their level of fragmentation and lack of co-ordination among industry participants. The apparel industry appeared to be divided among several separate associations, with high level of competition and distrust between them, despite facing common challenges and having common goals. Firms in the startup industry on the other hand, appear to be operating in silos without any connection to universities or other private companies simply because they have not as yet reached the required level of maturity and the community as such is not big enough to spearhead any industry-wide partnerships. Effort to conduct institutional mapping of the ecosystem may enable the creation of a denser network of entrepreneurs, innovators, mentors and support institutions – an essential condition for the progress of the industry. Clearly there might be a role for the city to play in helping private sector organize and develop a unified voice, after which it is critical to build engagement and partnership around specific issues where results can be showed. (Sivaev et. al, 2015)

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**Box 2: Municipal finance: Is Tirana getting its due?**

While the functions assigned to local governments vary across the countries of the Western Balkans and Croatia region, urban infrastructure has been entirely within the remit of local jurisdictions. The most important distinction is between countries where local governments primarily provide urban infrastructure and countries where local governments also provide social services, such as education and social assistance. In the former, local governments typically construct and maintain roads, water supply, sewerage, and solid waste collection and treatment facilities and conduct related regulatory functions like

\(^{22}\) The body that has been established with the support of EBRD and SECO to promote closer public-private engagement. ([https://www.investment.com.al/](https://www.investment.com.al/))
land use planning and building control. In the second group of countries, local governments provide similar infrastructure services plus social services, such as primary and secondary education (Kosovo, North Macedonia, Croatia) and social assistance (Albania). Spending on social services is typically financed by earmarked transfers from the central government.

The structure of local revenues varies for the two groups: In countries where local functions are largely confined to infrastructure services, local governments derive a majority of financing from discretionary revenues: shared taxes, unconditional transfers, locally administered taxes, fees, and tariffs, though generally tariff revenues do not appear in municipal accounts because they are imposed and retained by municipal service firms. In countries where local governments also provide social services, conditional (earmarked) grants are a major source of revenues.

Equalization elements in unconditional transfers to some extent offset cross-jurisdictional variations in per capita resources between capital and other municipalities. All unconditional transfer systems in the Western Balkans have an equalization element—a component that favors poorer jurisdictions.

Tirana receives only about 65 percent of the per capita amount that other jurisdictions receive from unconditional grants. This reduces Tirana’s advantage in discretionary revenue per capita to 1.8 times the average for other jurisdictions even though its revenues from land development fees are eight times as high as the average for other jurisdictions, revenues from property taxes are 3.7 times as high and revenues from other taxes and fees are 3.3 times as high.

Based on the functions that discretionary revenues finance, a strong case can be made for retaining more of the revenue in the capital. Discretionary revenues finance mainly urban infrastructure and related land use management functions. They include not only the recurrent costs of infrastructure services but also a significant proportion of capital investment in infrastructure.

At present, even the largest city in the country is struggling global economy, and all population growth in the country is concentrated in Tirana. Analysis of the quality and coverage of public services and infrastructure in and around the capital points at a need for further investments in areas that include: upgrading roads and renewing sewage pipelines. Rural areas are losing population, which suggests that the need for infrastructure spending will be concentrating in large cities even more. It thus sounds reasonable that the system of extrabudgetary relations should allow for more income to be retained in the locations that would need it most, particularly when they also generate most of the revenue in the first place, like Tirana does. **Figure B1.1 Per capita revenue from unconditional transfers used to invest in and maintain urban infrastructure is much lower for capitals than for other municipalities**

![Figure B1.1](http://www.financatvendore.al/data/revenues)

*Source: Financcat Vendore database [http://www.financatvendore.al/data/revenues](http://www.financatvendore.al/data/revenues)*
To achieve the most for its economy under substantial constraints to its authority and capacity, the Tirana city administration needs to apply different approaches to different categories of issues. As mentioned before, given the substantial capacity and authority restrictions, and plentiful constraints to economic development, we suggest using a framework for prioritizing areas of interventions and defining approaches to address them based on city's ability to influence certain policy development, and on their specificity to the city. While the framework in the report doesn't offer a clear path to ranking priorities, it offers guidance for the prioritization process, considering the authority of the city administration, and its relation to the national context and clarifies the need for the administration to venture beyond its realm. Three clear categories of intervention areas emerge each necessitating a different modality for intervention.

1. **Group 1**: This group includes challenges that are both specific to the city and that the city can influence to a substantial extent such as city infrastructure, services, amenities and land administration. While each of these areas has its own complications, these are the areas where the city can intervene and make a difference through its own actions, and thus acting on issues in this area should be the first order of priority. To Tirana's credit it needs to be said, that the city has done a lot to advance in these areas. From painting facades, renovating the central square and the market, to building the boulevard extention and creating new playgrounds. The next step is to address bigger and harder infrastructure challenges: water supply efficiency, waste water coverage, and electricity reliability (which is the infrastructure that the city has the least control over).

2. **Group 2**: The second group includes challenges that are specific to the city, yet not fully under city's control. They include areas such as skills and innovation, access to finance and to an extent the practices of the informal sector. To address these challenges the city administration needs to expand its area of influence through collaboration. This may involve utilizing the opportunities national government policies may present, building alliances with neighboring jurisdictions and developing coalitions with key local private sectors actors, academic institutions and NGOs. The city administration has been involved a few such undertakings, but the scope for further expansion in this realm remains high. The city would benefit from more frequent interactions with key private sector asociations to build mutual trust and assure them that the city is ready to represent the interests of local businesses be it in conversation with utility companies or with national regulators. So far there doesn't appear to be a robust dialogue between the city and private sector leaders. Most importantly the city should not consider these coalitions as a means to resolve a particular policy challenge, rather it should view these activities as an investment into enhancing the capacity of the city at large, building its ability to improve the city today, and addressing challenges that will emerge in the future.

3. **Group 3**: Challenges in the third bucket are those that are often of national significance, and are not unique to the city. The city administration has the lowest influence over them, even though they often present as rather serious barriers for the city economy. Most of these challenges relate to the category of “institutions and regulations”. While large advances in these areas from the city standpoint will require collaboration with national authorities to advance regulatory reforms, or bringing more attention to problems through building
coalitions around them, the city often has opportunities to experiment and improve the current situation through smaller actions available to it.

One idea may target the lack of awareness among the population and business owners with regards to tax regulations and contract enforcement. Perhaps the city could launch a public awareness campaign and disseminate simplified instructions that are targeted towards certain business clusters. The possibilities are endless and while these shouldn’t be the top priority for the city, it would be important to keep tabs on the challenges in this category, and periodically look at opportunities to do something to solve them.

The potential of Tirana’s economy is unquestionable, as is the capability of its administration. However as it focuses more on promoting local economic development it will be facing more constraints of authority and capacity. Thus to achieve desired results it will likely need to be more open to both building coalitions with various actors, and to experimenting.

Figure 27: The policy prioritization framework for Tirana economic development


Croatian Bureau of Statistics. 2018. Database. Available at: https://www.dzs.hr/.


Annex 1

Tech Startup Ecosystem in Tirana

Background

Tirana’s dominance as the population and economic hub, makes it uniquely capable, among other cities in Albania, to leverage benefits of agglomeration and act as the Albanian engine of growth. Tirana is the largest urban agglomeration in Albania, but more importantly more than 55 percent of the nonagricultural private sector jobs in the country are concentrated in the capital city region making it the economic hub of the country (INSTAT, 2018). Its relative size and density of both economic activity and population make the city a prime candidate for accruing the dividends of agglomeration economies, or productivity enhancing economic externalities. These are realized through three channels (i) better matching of workers and employers, entrepreneurs and financiers, producers, suppliers and consumers, (ii) the sharing of capital costs, and (iii) increased instances of knowledge spillovers (Duranton and Puga, 2004). Additionally, the city acts as the focal point for engaging with global markets – further strengthening its strategic importance to the Albanian economy. These attributes make the city a crucial player in facilitating linkages with global value chains, accessing international investments and absorbing expertise and knowledge through spillovers. These endowments should allow the capital city region to rapidly leverage agglomeration and international networks for boosting growth and pulling the national economy forward.

But it appears that Tirana has not been playing to its strengths. Tirana’s economic structure seems to be deviating quite glaringly from that of a city which acts as the economic center and population hub of the country. In the capital, it appears that high value-added service sectors are being sidelined by the booming local service and construction sectors. Typically, firms with a stronger focus on innovation and knowledge exchange, have a greater propensity to locate to larger and more diversified cities like Tirana (Nocke 2006; Audretsch and Feldman, 1996; Henderson 2016). These firms belong to tradeable service sectors, also known as knowledge intensive business services or KIBS. These services have very high productivity, are more willing to innovate and invest in skills building and benefit the most from agglomeration effects and economic diversity that large and dense cities like Tirana have to offer. Combes et al. (2012) also find empirical evidence that suggests that firms in sectors that tend to have higher labor productivity, like finance and business service and ICT, are disproportionately more efficient in larger cities. In cities like Belgrade, Prague and Bratislava these sectors account for at least a fourth of all jobs, are the most productive in the city and have been driving growth in the economy (World Bank, 2019). On the contrary, in Tirana, construction and local trade are the most productive sectors in the economy as opposed to finance or business services or even ICT. Between 2010-15, employment in local consumer services grew by 40 percent whereas that in high value tradeable services, like finance and business services and ICT registered a decline. It appears that these knowledge intensive business service sectors, are unable to tap into agglomeration benefits to increase productivity and expand operations, and, despite the city’s access to international markets, local services continue to retain their position as economic drivers.
The presence and performance of high value-added service sectors and tradeable industries should be enhanced. To heighten the competitiveness of a city, it is essential that its administration directs its efforts to supporting tradable industries and knowledge-intensive businesses services that both, benefit from Tirana’s economic and population concentration and have the ability to advance the economy by engaging in higher productivity activities and through positive spillover effects uplift the local economy.

The tech-startup ecosystem is a quintessential example of a high-value added industry whose tremendous potential remains untapped. The tech startup sector is one that is highly dependent on agglomeration benefits. Network density and community are of critical importance to grow and sustain technology innovation ecosystems (Box 1). These findings are reinforced by start-up ecosystems assessed and studied in different parts of the world in New York, Medellin and others by Endeavor Insight (2015) and by the important body of research carried out by the World Bank (Mulas et al., 2015; Mulas et al., 2016; Qian et al., 2018; World Bank, 2017a; World Bank, 2017b; World Bank, 2018). The sector is typically regarded as a high productivity sector and furthermore, as evidenced in cases around the world like Tel Aviv, NYC and Medellin, if well integrated into the local economy, can have a transformative impact by enhancing the level of skills and improving digital literacy and innovation in the economy. However, in Tirana, the tech-startup ecosystem remains nascent—networks and support systems are weak and the integration of the tech start-ups into the local economy, and their contribution to it remains minimal.

Objective

This note examines Tirana’s tech startup ecosystem. The objective is threefold; First to characterize and understand the evolution and current state of the startup ecosystem in Tirana; Second, to identify and possibly prioritize the constraining gaps in the ecosystem; and third, provide recommendations specific to Tirana’s context, that would ensure that the ecosystem’s performance measures up to its potential, moving forward. The analysis is centered around key components of any startup ecosystem: skills, finance, network and community, supporting infrastructure and the enabling environment.

Methodology

Analyzing and measuring tech startup ecosystems is difficult. A large part of this difficulty can be attributed to a lack of data on start-ups, their founders as well as their operations. The dynamic, multidimensional, and fast paced nature of the ecosystem makes the tracking of activity over time extremely difficult. Start-ups are created, bought and closed, they change names or modify their operations relatively faster and more frequently than conventional firms. This gap in information, as expected was persistent in Tirana’s ecosystem as well.

The focus groups and the survey of startups conducted provided a unique insight into the state and evolution of the ecosystem. This assessment of Tirana’s startup ecosystem was based on 2 focus groups conducted with startup founders. The 16 participants provided unique insights. They

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23 Startup ecosystem and ecosystem have been used interchangeably in this note
24 Granted that the focus groups included only a subset of startups in Tirana and included only startups that have survived, considering the ecosystem is at a nascent stage with startups having a similar level of maturity (some more mature than others) findings can be regarded as applicable to the entire ecosystem and provide a nuanced understanding of gaps and opportunities.
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shed light on the current state of Tirana’s ecosystem and its growth since its inception, highlighted constraints faced by startups while scaling up—both economywide regulatory obstacles as well as industry specific gaps and revealed business perceptions. Each focus group concluded with a discussion on potential solutions that participants deemed as most helpful. The focus group format catalyzed honest and engaging discussions that although were facilitated by some guiding questions were largely participant driven. Prior to the beginning of the discussions, each participant was asked to fill out a survey questionnaire aimed at collecting historical information about the startups, validating findings from the subsequent focus group discussion and ensuring that the responses of each participant was captured.

**Findings were also informed by seven semi-structured interviews conducted with leaders in the ICT, digital entrepreneurship and innovation space.** One-on-one interviews with leaders in the ICT and digital entrepreneurship sectors were particularly helpful in understanding the constraints and opportunities facing the tech startup ecosystem from an institutional standpoint. The interviewees hailed from the public and private sector as well as from academia. Many of the interviewees were directly involved in the up and running of Albania’s ICT and startup sectors. Findings from these interviews, in addition to those derived from the focus groups allowed for a well-rounded assessment of Tirana tech startup ecosystem

**Consultations with experts at the World Bank along with tools and results obtained from a vast body of literature were important features of this case study.** The framework and approach employed while conducting this study was based on the one developed by experts at the World Bank. Consultations with the specific team and resources and studies generated by them helped establish benchmarks and determine recommendations most relevant to the context of Tirana’s ecosystem. Regional reports on startups authored by accelerators and institutions in the ECA region were also taken into consideration to both validate findings as well as to inform hypothesis.

**Findings**

**Tirana’s tech startup ecosystem is stuck at the nascent stage**

*There has been no discernible growth in the scale and number of startups in Tirana since the community started forming around 2012.* The large number of conferences and events hosted in the city provide prima facie evidence of a thriving startup ecosystem—but conversations with founders and leaders suggested otherwise. There has been no discernible growth in scale and number of startups since the community began forming around 2012. Visibility of the ecosystem is more or less confined to the promotion of events and conferences. Stakeholders claim to repeatedly meet the same participants at these events and while ideas are exchanged, they are not considered novel and the general perception is that these ideas never seem to materialize. Although the initial push to develop a stronger ecosystem had some successes, the ecosystem appears to have stagnated since. Several initiatives to grow the ecosystem, such as the formation of InnovationHub and Protik have to an extent had an impact, but they have been unable to sustain their momentum for more

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**25** Innovation Hub was an incubator started by the erstwhile Ministry of Innovation and functions as both an accelerator and an incubator(ABC Accelerator Group, 2017). According to participants of the case study, Innovation Hub was one of the more meaningful support programs that help launch some of Tirana’s most successful startups. Protik was a ICT resource centre jointly funded by a number of entities including the Albanian Government, UNDP and private sector companies like Microsoft and Cisco (Invest in Albania, 2014). The resource center was established with the vision of advancing the “Triple Helix Model”. Despite the immense potential of such a platform, interviewees stated that Protik, in recent years has remained largely inactive, as its managerial staff no longer reside in Tirana
than a year or two. It appears that start-ups in Tirana have been stuck in a continuous early-stage cycle.

**The characteristics of startup founders as well as startups themselves are consistent with those in other ecosystems at the nascent stage (Box A1.1).** The startups interviewed in Tirana had a median of 3.5 employees and the average age of the founders was 24 years. Bootstrapping during the starting year was common to almost all the interviewed startups and financing from family and friends as well as nominal amounts of money through grants and competitions was a common source of funds during the second round of financing. Most of the participants had only 1-2 years of prior work experience while some had none. These findings were corroborated during the one-on-one interviews with industry leaders. Revealed characteristics of both the firm as well as the founder in Tirana are consistent with other ecosystems still in the nascent stages.

**The ecosystem is fragmented with a low density of connections.** An interviewee stated that “there is no co-operation among stakeholders and the ecosystem as such does not exist” while during focus group discussions the sentiment that “we do not know who is doing what” seemed to resonate. All in all, in Tirana, prominent players including start-ups, mentors as well as supporting assets like accelerators and incubator programs seem to be operating in silos. Existing accelerator programs, experts and event organizers appear to be disconnected resulting in an oversupply of similar events and programs. There is no institutional mapping of the ecosystem and startups exist in their limited space, not really knowing what other support opportunities might be available. The density of connections in the ecosystem is low and while there is a big cluster of tech entrepreneurs, that was widely represented during the focus group and interview process, the fragmented nature of the ecosystem has curtailed the growth in the level of complexity within the cluster, prevented it from expanding and has curbed the formation of any other clusters. A participant aptly remarked “we have no competition and keep meeting each other again and again”.

**Universities and the private sector do not engage with the tech startup ecosystem and there is no apparent pipeline of knowledge, business and skills.** While the ICT sector in Tirana has been growing, it is still small, comprising of only 4% of all businesses in the economy (INSTAT, 2018). In advanced ecosystems bigger private tech companies act as a pipeline of talent and as sources of demand for early stage startups. This has not been the case in Tirana. While some private companies, appear to be engaged in fostering digital literacy in the community, they have had no palpable impact. On the flipside, private tech companies appear to compete with startups for talent. There is very little interaction between entrepreneurs and larger businesses in the sector, and in fact a fair amount of distrust seems to exist between them. Similarly, universities do not appear to be engaging constructively with startups either. They offer no relevant skill building courses and their curricula is not aligned with the needs of the tech startup ecosystem, or to the ICT sector as a whole. There is no formal platform for the matching of graduates and students with startups.

**The Government’s efforts at acting as a nexus was successful but short lived.** The Ministry of Innovation started an incubator and community building program in 2016 with a cohort of around 30 startups. The program provided these startups with the requisite infrastructure and support in terms of capacity building and networking with partners and businesses in Albania as well as abroad. Of these startups, 2 were successful in obtaining funding. Among the focus group participants, a significant number belonged to the cohort. These participants claimed that a program like InnovationHub was extremely beneficial to their initial growth and survival and has been by far the most successful initiative to advance the ecosystem in Tirana. However, in 2017, with the dissolution of the Ministry, the program was shutdown.
Box A1.1: Categories of Startup Ecosystems

*Startup ecosystems can be regarded as communities of stakeholders and the success of any ecosystem is linked to how well the stakeholders are connected with each other.* Mulas, Minges and Applebaum, 2015 find that in any startup ecosystem, the number of an ecosystem's stakeholders that a start-up founder is connected to, directly or indirectly determines the level of success of the start-up. These stakeholders include both people within the tech space as well as those outside of it, such as universities, public institutions, private companies and consumers. In fact, Mulas et. al. suggest that the increase in the number of connections and the building of a community are critical to grow and sustain technology innovation ecosystems. These findings are not only reinforced by start-up ecosystems assessed and studied by the World Bank but also by interviews conducted in various successful ecosystems such as New York and Medellin by Endeavor Insight (2015). The study conducted in NYC mapped connections of over 650 entrepreneurs and other key actors to show the association between the growth in number and complexity of connections and the growth of the ecosystem. The rationale behind this link is logical. Higher density of connections and more clusters allow entrepreneurs to connect to more human capital, knowledge, resources and opportunities through other actors. These connections while influenced by various factors such as social, geographic and digital connectivity which large agglomeration economies like Tirana offer, within the realm of the ecosystem are largely determined by networking assets such as mentors, skills building and community building events, meetups and collaboration spaces. These assets not only act as a platform for building connections but also facilitate transfer of knowledge and skills and integration into local and global economies.

*The growth of start-up ecosystems is contingent on elements such as technical and managerial skills, access to investments and finance, enabling business and regulatory environment and supporting infrastructure.* Skills both technical and managerial are important determinants of not only the success of an individual firm but also of the entire ecosystem. The availability of skilled labor in the economy along with the business acumen of founders can influence the pace of the ecosystem's growth. Similarly access to finance and investments impact the ability of firms to scale operations. Supporting infrastructure like accelerators, networks of mentors and incubators help early stage startups navigate the ecosystem and build connections. In addition, the economywide business regulatory environment that is governed by policies and administrative processes have a vital role in facilitating the growth the tech startup space.

*Figure B1.1: Ecosystems mature as the density of networks and number of clusters increase*

*Note: (1) Network graphs were created by taking all the people in the ecosystem and creating edges to all other people they were directly or indirectly connected to in order to exaggerate (2) The nascent stage depicts Beirut’s ecosystem, the advancing stage depicts Cairo’s and the Mature stage depicts Medellin’s*

*Source: World Bank 2017a; World Bank 2017b; World Bank 2018*
Ecosystems can be categorized into 3 broad stages. Based on the various broad elements that govern the tech start-up space and the overall level of density of network and connections, World Bank research categorizes startup ecosystems into 3 broad stages. (Figure B.1.1)

a) Nascent Ecosystem. There are a limited number of startups, most of which are in the very early or early stages. The community of entrepreneurs is forming, and has low density of connections with few clusters, if any. In these ecosystems’ founders lack business experience, mentors are scarce and inexperienced and there are very few generations of entrepreneurs (most entrepreneurs are in their first or second venture). There are few or no international connections. The finance pipeline has multiple gaps and private early stage finance is very rare (if it exists).

b) Advancing Ecosystem. These ecosystems have a sizeable number of start-ups, with most in the early stages and a notable number of startups that have of scaled-up. The community of entrepreneurs has several clusters and a high density, and there are a handful of successful start-up exits. There is still a lack of business acumen among entrepreneurs but there are a growing number of serial entrepreneurs and the ecosystem has more than three generations of start-ups. There are an increasing number of international connections and mentors with local start-up experience. The finance pipeline is starting to form with increasing private sector investment in early stage start-ups.

c) Mature Ecosystem. These ecosystems have a large number of start-ups in all stages (for example, growing, scaling up, exits) and the ecosystem is highly interconnected. The majority of entrepreneurs have business acumen and previous relevant business experience, there are several generations of start-ups with multiple serial entrepreneurs and successful exits. Mentors are abundant, they have solid practical experience, and there is a strong base of angel investors. The ecosystem is an international hub itself and attracts international talent. The finance pipeline has no gaps.

Source: Adapted from World Bank, 2018; Mulas, Minges and Applebaum, 2015; Endeavour Insight, 2015

Tirana has a large number of accelerator and incubator programs that are yet to provide services of requisite type and quality

Accelerator and incubator Programs in Tirana are the main connectors in the ecosystem, but their impact is limited. Accelerators and incubators are essential to the growth of any tech start-up ecosystem. They support start-ups at the early stages and provide the necessary social connectivity among entrepreneurs and other ecosystem stakeholders (Mulas, Minges and Applebaum, 2015). In addition, they arm early stage ventures with fundamental business skills and acumen as well as with access to mentors (Roberts, Lall and Baird, 2016). While one of the key objectives of these programs is to provide support to new ventures, another vital one is to match startups with funding and ensure that they have the resources to advance. Research highlights the large positive marginal effect of acceleration on subsequent funding across the ecosystem (Qian, Mulas and Lerner, 2018). In this regard, programs present in Tirana have been unable to deliver. Almost all the startups participating in the focus group discussion were a part of at least 1 program. Only 25 percent of the participants regarded there programs as somewhat helpful. Even though many of the startups can obtain some amount of nominal funding through grants and competitions embedded within these programs, they do not equip founders with the connections and skills required to independently obtain further funding and generate revenues. In fact, since these programs do not have any objective selection criteria, have a substantial registration costs and last anywhere between 3-6 months, oftentimes they are deemed as a huge waste of money and time and during the discussion were referred to as ‘fake’.

There appears to be an oversupply of accelerator and incubator programs catering to very early stage ventures and a scarcity of programs that support the needs firms looking to scale up. The Tirana ecosystem is replete with accelerator and incubator programs but a constant gripe among startups as well as industry leaders is that they are of low quality and do not work (The Ministry of
Innovation's accelerator InnovationHub was the only one that was regarded as helpful across the board. The number of start-ups actually formed after graduating from the programs is extremely low. All the programs are similarly structured and cater only to very early stage firms. There is a conspicuous dearth of programs that are able to support the needs of firms that have moved beyond the ideation phase and are looking at operating in the regional or international market. The oversupply of such programs offering similar services only creates an illusion of a growing ecosystem.

**A pipeline of experienced mentors is non-existent**

_The effect of mentorship on firm performance is significant. Research shows that top performing start-ups have a much higher support from mentors (Endeavor Insight, 2015)._ A study by Qian, Mulas and Lerner (2018) found a significant correlation between mentorship by an experienced startup founder and chances of obtaining funding. The correlation between funding and mentorship by mentors who were not startup founders themselves however was not significant. A study in the U.K echoed similar results. It showed that the among the most important characteristics of a mentor are proven business success in the same sector and a wide network of contacts (BMG Research and Galli, 2013). These results suggest that not only are mentors essential for the transfer of knowledge but their ability to provide practical guidance and access to relevant networks is more important that just technical knowledge. Experienced and knowledgeable mentors are able to disseminate insights on ecosystem specific challenges and opportunities.

_The availability of quality mentors in Tirana is low._ Startups in Tirana did not appear to have had any mentors as such. Short term mentorship during accelerator programs is a common occurrence but very rarely are these mentors themselves successful startup founders. The lack of champions or heroes in the ecosystem was often discussed. Focus group participants referred to the 2-3 founders of startups that were able to receive funding as successful and claimed that on most occasions founders of successful startups end up leaving the country, thus depleting the ecosystem of potential mentors. Among all the networking assets and support infrastructure, the lack of a network of mentors is perhaps the biggest gap for Tirana today.

**Tirana startup ecosystem offers very few avenues to access finance for scaling operations**

_There are no Venture Capitalists (VCs) or known angel investors in Tirana._ Institutional investors in the tech-startup space in Tirana are missing. Industry leaders are of the opinion that investors do not as yet consider the ecosystem to be ready and start-ups to have the appropriate skills and maturity to sustain operations over a longer time frame. The regulatory environment in Albania along with perceptions and stigma associated with the country's business environment appear to have disincentivized private investments in the ecosystem and entrance of international VCs. During discussions and interviews, it appeared that startups attributed the lack of investors to the burdensome regulations and laws. One interviewee cited a case where an investor who was willing to provide funding backed out in the last minute on encountering the series of tiresome requirements necessary for incorporation.

_The access to finance through loans is cumbersome._ Bank loans advanced to finance business operations are rare and according to startups “impossible” to get. Loans require not only a collateral but also guarantors and come with high interest rates. One participant remarked that they would much rather approach their own network for a loan instead of asking them to act as guarantors as the process is less time consuming and simpler. This sentiment is evidenced in the fact that almost
50 percent of the firms surveyed financed their operations through loans advanced by family and friends. Only 2 founders claimed to have taken a loan from the bank and even these were personal loans and not business loans.

**Accelerator and other support programs appear to be the gatekeepers of funds.** Grants provided via the numerous programs in Tirana appear to be the most common source of sustaining start-up operations. Startups obtain nominal sums of money by participating in these programs, entering competitions, applying to grants etc. The source of these grants are donor organizations, NGOs and the Government (such as programs initiated by the Albanian Investment Development Agency to support SME growth and business innovation). While the funds themselves are large and can potentially help deserving startups scale up, the manner in which they are disbursed are highly inefficient and have no marginal benefit as they are grossly insufficient for startups to make any impactful capital investments that can help scale up. Most of these grants are less than $5000. Typically, in nascent and maturing ecosystems, funds disbursed during the first year is high with more ventures receiving seed funds. In subsequent years, while the total investment falls as lesser number of firms receive funding the median investment increases (World Bank 2018). This means, ideally, in Tirana small seed investments should have been followed by a smaller number of medium size equity investments that allow best firms to start scaling up, and others to aspire to it. This does not appear to be the case in Tirana, i.e with firms subsisting on token grants for years, there appears to be no financing ladder that startups can climb.

**The current system of obtaining funds has created a ‘startup bubble’ that is likely responsible for crowding out more sustainable private investment.** Grants from government ministries and donors channeled via support programs have been driving the activities in the current tech startup ecosystem. However, they have also been the reason for its stagnation. These small grants that are disbursed in abundance periodically, have created a startup bubble where they create, perpetuate and prolong the survival of all startups many of which do not have cutting edge ideas, appropriate technology or a skilled team that gives them real market potential. Such a system has distorted the ability of the ecosystem to self-select capable and deserving startups that could have otherwise been success stories impacting the ecosystem in years to come. Currently these potential champion startups have to live grant to grant and are pooled alongside all other non-descript emerging ventures. This method of accessing finance is also likely having an impact on both investor perceptions and well as startup expectations. Investors may make decisions based on the average startup in Tirana – that now appears to be unfit and unskilled while startups may hold the false belief that they have a steady flow of resources.

**Shortage of skills and lack of a skills pipeline appears to be debilitating**

**There is a large skills gap in Tirana.** The skills gap in Tirana appears to be a major constraint in general for the growth of the tradeable service sectors and especially for the growth of firms in the ICT sector. The grave undersupply of individuals with requisite technical, managerial and entrepreneurial skills is positioned alongside the increasing demand for skilled labor in the growing ICT sector. All startups as well as industry leaders designated the shortage of skills as the key obstacle to the startup ecosystem and the growth of Tirana’s economy on the whole. Outdated curricula in universities, devoid of requisite avenues for gaining practical skills and experience, were blamed across the board. The employability of graduates was also seen as questionable at best. Many

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26 The tech startup ecosystem falls under the larger ICT sector which includes a diverse set of firms, including larger firms such as Microsoft, Cisco, Vodafone etc
industry leaders even stated given the chance they would not be willing to invest in Tirana’s tech space due to the lack of technical and professional skills. Skills workshops that impart technical knowledge exist but are not frequent features in the economy. Outmigration of skilled labor appears to have exacerbated the skills gap. In addition to the shortage, there also appears to be no pipeline of skills available to startup founders. There are hardly any platforms available for the matching of firms and employees in universities and other educational institutions. Career portals in universities appear to be dysfunctional. In cases where such platforms do exist, only larger more mature firms are invited to participate. The practice of transitioning from a larger corporation to a startup is still a rare phenomenon. Startups have resorted to hiring interns and providing technical training by signing up for online courses or outsourcing their backend operations to organizations abroad.

The market for skilled labor is oftentimes distorted by the hiring practices of larger tech firms. Tirana has a few large firms operating in the ICT space. The tech skill requirements of these firms are almost identical to those of startups. Given the undersupply of skilled labor in the economy, startups are constantly competing with these bigger tech firms in the market for skilled labor. With the lack of success stories and thus the weak appeal of the ecosystem as a whole – startups often lose. Anecdotes narrated by interviewees substantiate the distorted nature of the skilled labor market. Larger firms tend to absorb a significant proportion of the technically skilled workforce as they offer much higher pay packages. This skews expectations. Moreover, people are usually unwilling to work for a higher pay-off at a later stage (a typical model in start-ups) because they do not see the examples of success.

The regulatory environment is not regarded as investment or startup-friendly

Startups find the regulatory environment confusing, complex and overwhelming. The two focus groups revealed that on the whole policies and laws regarding taxation, incorporation and investment are unclear to startups. The discrepancies between laws and regulations quoted by startups was evident during both focus groups. The focus groups however, did arrive at a unanimous conclusion — the sheer number of regulations and changing laws were responsible for a complex and confusing business regulatory environment. Discussions during the focus groups revealed that startup founders are often overwhelmed by the institutional and regulatory environment and have little to no support while navigating the system. They have little knowledge about procedural requirements to begin with and as a result expend a lot of time and energy deciphering and completing all compliance documents. To make matters worse, they are very apprehensive of being penalized by authorities for any unintended infractions and the administration is generally perceived to be unsympathetic and unsupportive.

Regulations are unclear and do not explicitly make room for the unique needs of the ecosystem. As a concept tech-startups are not recognized by the law as a separate category of firms, due to which not only does the following through with legal processes becomes difficult, but taxes, and the tax administration process do not appear to account for unique needs of young enterprises. Due to the opacity and lack of clarity in the regulatory environment, investors too shirk away from doing business with tech startups. Since the ecosystem functions at the innovation frontier, on many occasions regulations appear outdated. For instance, the interviews have suggested that according to current regulations, startups are expected to submit reports for typical business taxes starting from the day of incorporation which puts a lot of stress on young owners, who do not know what to do with official mail from the tax authorities. In fact, anecdotes shared by industry leaders and startups suggest that founders prefer to incorporate in other countries while running operations locally as it is cheaper, and the regulatory environment is easier to maneuver.
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**Recommendations for the growth of the ecosystem**

**Intervention at the local level by the Municipality of Tirana can determine the fate of the ecosystem.** Tirana’s tech startup ecosystem while surviving has not really been thriving. It’s been stuck at the nascent stage in a limbo. Clearly market mechanisms have proven to be unsupportive and in some ways counterproductive for the evolution of the ecosystem thus far. While economywide regulatory constraints and skills gaps and industry specific gaps in access to finance and quality support structures need to be addressed on an immediate basis, a notable amount of effort also needs to be exerted at managing existing and self-perpetuating perceptions. These included the general cultural biases against startups, the distrust between the public and private sectors, the misgivings of international stakeholders about investing and engaging with the Albanian economy etc. To develop solutions, address gaps and overhaul perceptions and behaviors, intervention at the city level is vital. The case of NYC is a testament to the importance of the role and actions of the city government in fostering a burgeoning tech entrepreneurship environment. NYC much like Tirana was also a nascent ecosystem till the global financial crisis in 2008. Since then, in about 10 years it became one of most advanced ecosystems globally. A lot of the ecosystem’s success can be attributed to the city government support and endorsement to the sector. The city’s strategic vision explicitly advocated the growth of innovation, technology and digitization and its strategic documents made adequate provisions for the growth and expansion of the tech startup ecosystem. Throughout its term the government served as platform to reach market solutions and increase the density and connectivity among stakeholders.

**Policies need to address the ecosystem as a community instead of as a restricted geographic area.** In designing policies and programs that best serve the tech-startup ecosystem the local government in Tirana needs to focus on the ecosystem as a community rather than as a confined geographic space such as a specific innovation district. By understanding that the ecosystem is comprised of many stakeholders and that the magnitude and strength of connections and interactions between them determine the growth of the ecosystem and its subsequent impact of the economy, policymakers will be able to better target interventions and anticipate bottlenecks. Often gaps in the ecosystem are not independent of each other and having a systemic perspective would allow for better prioritization and deployment of reforms and policies. Having said that, geographically targeted interventions like building of tech parks and neighborhoods should not be sidelined but treated as complementary to the larger objective of growing the ecosystem. Tirana is currently in the process of building an IT knowledge and innovation hub in the old iconic socialist era pyramid in the center of the city. While this is a step in the right direction, caution must be exercised to not confine activities and interventions in this space alone, but rather, to connect stakeholders across the city using the hub as a tool. The building of network density and the fundamental skills should be seen more important than the space itself.

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<tr>
<th>Box 2:</th>
<th>NYC’s tech startup ecosystem</th>
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<td>Rise to the top and the role of the city administration</td>
<td>New York City (NYC) today is a leading startup hub worldwide. It is pooled into the same league as Silicon Valley, the birthplace of startup culture and tech innovation. However, this status ascribed to NYC would have been dismissed as incorrect back in 2008, when the city was grappling with the financial crisis and its economy was spiraling downward. NYC’s economy, that was driven by the financial sector (representing more than a third of the private sector payroll in the city) was facing recession that had spilled over to all other sectors in the economy. Nearly 90,000 jobs had been lost, two thirds of which were outside the financial sector. During the same time, the startup ecosystem in NYC looked much like the one in Tirana today- fragmented and non-consequential. The sector was facing challenges common to</td>
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any nascent startup ecosystem - lack of skills, finance, networking assets and a small community. To top it all, the economic situation did not make matters easier for entrepreneurs to survive.

But things took a turn for the better starting 2008. There was a silver lining to the financial crisis for NYC. Surprisingly, it presented favorable circumstances for the transformation of the New York startup scene and the city administration and stakeholders in the tech startup environment adequately leveraged all opportunities presented. By 2015, New York accounted for nearly a $6 billion venture capital investment in startups and had over 14,500 startups (Wall Street Journal, 2016 and Digital NYC, 2016).

One of the key enablers of the growth of the ecosystem was the city administration. The New York City Economic Development Corporation (NYCEDC) along with the Mayor’s office helped create a supporting environment for the ecosystem through a two-pronged approach that included an overall strategy from the Mayor’s office and an operational program of policies, developed and implemented by NYCEDC. The program identified challenges, developed the required infrastructure and networking assets, implemented new solutions through constant research and testing, developed tech campuses and skills training to address the skills pipeline and exerted efforts at attracting outside resources – capital, mentors, expertise and talent. There were various notable features that ultimately resulted in the success of the program

- The policies were tailored to NYC’s context and were codeveloped with stakeholders. Policies were developed keeping in mind the city's industrial base and the identification of challenges and subsequent redressal and reforms were codeveloped and supported by a coalition of partners involving the entire ecosystem, not just the administration.

- The Mayor’s office explicitly supported and promoted the tech community. This played a crucial role in attracting outside investors and talent as well as helped the NYCEDC to implement its various policies without too many regulatory bottlenecks

- The target of the policies was the ecosystem and not an innovation district. This allowed the benefits of the sector to reach far and wide beyond and physical boundaries.

The benefits of these policies were exponential and continue to positively impact the city economy. The ecosystem became a new source of employment generating jobs both directly and indirectly. Employment growth included both high and low skilled jobs. Since the tech startup ecosystem had evolved around traditional local industry- finance, advertising, media etc., it was able to retain specialized talent from these industries during the crisis and also eventually increase the competitiveness of these industries. A virtuous cycle began – as more and more startups catering to various industries emerged, it forced firms to innovate and employ technology and digital management systems due to competitive pressures. The ecosystem also had significant implications with regards to urban transformation and neighborhood regeneration in Manhattan, Brooklyn and Queens

Source: Mulas, Victor; Gastelu-Iturri, Mikel. 2016. New York City: Transforming a City into a Tech Innovation Leader. World Bank, Washington, DC.

**Increase the density of connections among all stakeholders**

**Actively map the ecosystem to diagnose gaps and opportunities for strengthening connections.**

The institutional mapping of the ecosystem is crucial. Such an exercise would not only provide an accurate estimate firm demographics, but it would also inform both the government as well as startups of the various networking assets present, help diagnose any gaps in the ecosystem and highlight possible opportunities and areas of intervention. The stock taking exercise, by virtue of making information available to stakeholders could potentially increase instances of matching, networking and subsequent knowledge spillovers. The active effort to track the activity and lifecycle
of startups was done by NYC city Government through the Digital NYC platform\(^{27}\) and by City of London that introduced the Tech Map.\(^{28}\)

**Enhance co-ordination mechanisms across the ecosystem.** Ecosystem co-ordination directly increases the effectiveness of networking assets and connectivity among stakeholders and clusters. Successful ecosystems such as NYC and Buenos Aires created different types of co-ordination mechanisms that were led by public agencies. These included stakeholder roundtables, consultation processes and support programs to cultivate partnerships (World Bank 2017a).

**Improve connectivity with local traditional, nontechnological businesses.** The growth of the startup ecosystem in Tirana can potentially have a transformative impact on the economy. Connecting and engaging with local traditional businesses would not only help expand the ecosystem but could result in the creation of specialized startups. The integration of startups with local businesses also presents an opportunity to improve the competitiveness and productivity of local firms and improve digital literacy and innovation even in sectors that conventionally have low levels of business digitization. In Tirana, for example the introduction of initiatives to fuse products and services offered by startups to the large and traditional textile industry that concentrates in the Tirana metro region could be highly beneficial to the city economy. Such engagement can be fostered by the creation of sector specific accelerators such as fashion, media, print and retail and the introduction of co-development processes. Data City Paris was an initiative that supported corporate-start-up service development process where large organizations actively engaged startups to streamline their processes.\(^{29}\)

**Increase engagement with diaspora to connect with international talent and stakeholders.** Initiatives to attract and engage the Albanian diaspora network could be beneficial to the ecosystem. Till date, there have been no formal interventions in this regard. Leveraging diaspora networks to connect the ecosystem with international stakeholders as well as ecosystems would advance the level of know-how in the local ecosystem and open up several avenues and opportunities for business development and finance.

**Address the skills gap and provide a pipeline for talent**

**Become a convener and a mediator between the universities and the business community, identify and address gaps in higher education offering.** While the city has no direct power of defining university curricula, it can help bridge the gaps between the needs of the tech industry and the training that universities provide. If certain skills and expertise is lacking in local universities, the city can attract need experts and institutions to the city, like New York did by attracting Cornell tech to open a campus on Roosevelt island in New York and provide the technical skills and expertise which were lacking in the local market (Hu, 2018). Both strategies could go a long way in sustainably reducing the skills gap in the economy.

**Provide and promote rapid skills training and public education programs.** Public provision of skills training such as coding bootcamps, entrepreneurship programs have proven to be successful in meeting immediate market gaps. Moreover, there trainings are financially accessible, require less time investments from the participant’s end and can be flexible and customized to the needs of the audience. These programs also act as community spaces and platforms for networking. Such

\(^{27}\) [https://www.digital.nyc/](https://www.digital.nyc/)

\(^{28}\) [https://tech.london/](https://tech.london/)

\(^{29}\) [https://www.datacitylab.com/](https://www.datacitylab.com/)
programs in Tirana would be immensely helpful to both current startups in ramping up their own skills and know-how as well as to students and citizens. The NYC Government in 2014 launched its “Tech talent pipeline program” that is geared toward advancing digital literacy across businesses, citizens and students through partnerships with large businesses and academic institutions (City of New York, 2015). The program includes features like fast-track three-month residency programs to provide on the job experience to undergraduates and connect local employers to local talent. The program also partners with larger companies to provide free on the job training to employees, access to proprietary resources and courses that include niche skills driven curricula. The city Government in San Francisco too has moved beyond hackathons and competitions to creating its own residency program. Here, individuals and startups are selected to work alongside the city government. Entrepreneurs are embedded within several Government departments for a duration of 4 months, where they are exposed to the day to day operations of the public sector (Linda Poon, 2018). The objective of this type of on the job training is twofold; first is to attune startup founders to the regulatory environment (which they often deem as inaccessible) and understand the local context; and second to provide platforms for entrepreneurs to create solutions and brainstorm ideas that would benefit the public sector.

**Increase quality of support programs and grants and ensure a pipeline of experienced mentors**

*Phase out low-quality support programs and invite reputable, international accelerators to engage with the ecosystem.* The Tirana startup ecosystem has many low-quality support programs (accelerators and incubators). These programs have provided a wide availability of nominal seed funding to a large number of early stage ventures through grants and competitions. This setup endangers the ecosystem in two ways. First it allows perpetuation of unsustainable ventures in the economy, while giving little chance for successful ventures to grow – startups remain at the early stage, even the more competitive ones. Second, these programs crowd out private investment. This can be corrected by gradually phasing out these support programs and instead substituting them with reputable high-quality accelerator programs that have the ability to hone competitive ventures, provide quality international expertise, provide opportunities to partner with international talent, and most notably can facilitate access to funding options for startups ready to advance to the next phase. Having one or two such programs would increase the chances of ensuring only quality startups in the economy survive, grow and down the line reinvest the ecosystem. In Chile, the launch of the global accelerator program “Startup Chile”30 was pivotal to exponentially advancing the innovation ecosystem. The government driven accelerator program based out of Santiago currently caters to around 2000 startups, a majority of which are based out of the capital city, and is often said to have been responsible for revitalizing the city economy into a booming InnovationHub across Latin America (Moe, 2018; Egusa & O’Shee, 2016). As Tirana is renovating the Pyramid and makes arrangement for its operation, the approach with securing a large and more established accelerator program to run it – appears to be the most promising.

*Provide incentives for successful founders to act as mentors for emerging start-ups.* Endeavor Insight, 2015 found that the survival of the startup ecosystem is dependent on its ability to produce enough success stories, so that founders of these firms reinvest and contribute to the next generation of ventures in the ecosystem. This can be channeled via mentorships or angel investments. Even though, Tirana’s ecosystem is at a nascent stage, there are still a few startups that have been more successful than others. It is important the founders of these startups re-engage with the ecosystem.

30 [https://www.startupchile.org/about-us/](https://www.startupchile.org/about-us/)
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(Box 3) Moving forward, it is important that such a pipeline of experienced domestic mentors is created to ensure the sustainability and advancement of the startup space in Tirana.

<table>
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<th>Box 3: Tech-startup ecosystem in Medellin</th>
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<td>Influential entrepreneurs can drive the sectors economic growth</td>
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A study of Medellin’s tech-startup ecosystem conducted by Endeavor Insight in 2015 revealed the importance of successful entrepreneurs in advancing the ecosystem. These companies were shown to have catalyzed connections among newer generations of entrepreneurs, mentors and investors. A handful of companies like SocialAtom Ventures, ensured that the nearly 200 ventures in the ecosystems are directly connected to other founders and companies via employee spinouts, serial entrepreneurship, mentorship and angel investments. The case of Medellin shows that having even a small number of success stories and then being able to ensure that their founders reinvest in the sector can create a cycle of growth. Other cities like NYC and London that have been able to successfully nurture their technology hub and ecosystem to advancing stages demonstrate similar stories


**Attract international mentors and capacity builders with experience and practical acumen to support the current ecosystem.** Since there have not been many Tirana-based cases of successful ventures that have made a mark in international circles, it can be said that the general availability of expertise in the ecosystem is low. Mentorship in the system is currently provided by academics, businessmen and other leaders in the ICT sector. While this is a start, it is far from the ideal. The capability of the pool of mentors can be increased by attracting international talent and experts who have had direct practical experience and acumen in the field and are aware of contemporary challenges that startups face, one possible pool of such mentors are Albanian immigrants, that saw some success abroad setting up tech companies, or working for successful tech companies. These experts can support the high potential early stage ventures and help them through their early development moving into next stages of startup growth.

**Engage with institutional investors and provide meaningful access to finance**

**Disburse government funded grants more efficiently.** The manner in which grants are disbursed in the ecosystem is largely to blame for the inability of high potential startups to expand and scale operations. The grants that are disbursed in small amounts provide a continuous influx of seed funds which is not enough for firms to make any capital investments and only ensures that they continue operations at the current scale. On the flipside, this constant stream of nominal funding also falsely encourages the low-quality ventures to remain in the ecosystem. Some of this grants program are supported by private, or international non-government organizations, but some of them are public sector funded as well. Overall these grants need to be disbursed more efficiently and transparently. This can be done providing a significantly larger sum to fewer more competitive ventures. Some of the funding used for grants can also be diverted to other purposes such as attracting high quality international programs and mentors. Ideally, funding in the ecosystem should be re-oriented toward private sector led initiatives rather than government and donor grants.

**Attract and engage actively with private investors like VCs and angels to encourage private sector led investment.** New York city administration while aiming to develop the startup ecosystem engaged private institutional investors and angels to cater to the New York City start up community.
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(Box 2). These included, among others, setting up a NYC branch of private university’s like Cornell where the branch only focused on technology and innovation, bringing in Google to set up their operations in the city etc. Similarly, the Government in Lisbon Spain has attempted to systematically attract private investments by providing incentives such as residence permits to individuals as well as larger companies (Delcker, 2018). Pro-active interventions from the government’s end would be crucial for the success of Tirana.

**Adopt regulatory policies that enable the growth of the ecosystem and cater to the unique needs of start-ups**

Create a one-stop-shop that deals with compliance procedures for startups, provides updated information on laws and regulations and advices startups that are navigating legal protocols. As evident during discussion, founders find the regulatory environment overwhelming. In Tirana, laws and regulations are constantly evolving and firms find it difficult to keep up. Having a one-stop-shop system where startups can deal with processes and procedures relating to incorporation, taxation and investments can help founders navigate the system faster and more efficiently. This should be a service made available at the new tech hub, that will be opened in Tirana Pyramid.

**Institute a governmental innovation and technology agency that is directly responsible for addressing gaps and creating opportunities for the advancement of the ecosystem.** The success of the InnovationHub started by the Ministry of Innovation highlights the importance of having a systematic government body that is engaged with the ecosystem on a constant basis. Such an agency is important for the public sector to stay on top of rapidly changing industry specific constraints and the unique needs of startups with respect to laws, regulation, market conditions, resources available. Like in the case of NYC, where the NYCEDC spearheaded the programs as outlined by the strategy document (Box 2), a similar agency in Tirana would help streamline efforts at advancing the ecosystem and make implementation of reforms easier. This would be particularly important for the success of the new technology hub in Tirana.
References


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Annex 2

Textile and Footwear Industry in Tirana: Moving up the value chain

Objective and Methodology

This case study offers a deep dive into Albania’s textile and footwear industry that features significantly in the economy due to its high volume of international trade and because it employs a large proportion of the unskilled workforce. This industry is largely concentrated in the Tirana-Durres region. While the industry has been prominent since the 1990s, it does not seem to have evolved significantly in the last two decades. Not much appears to have changed with regards to production processes or its position in the global supply chain. The objective of the case study is to better understand constraints faced by firm owners and uncover impediments to the advancement of the industry as whole. Considering the large presence of the industry in the Albanian economy as well as its effect on employment and in and around the Tirana metro region, the textile and footwear manufacturing industry has tremendous potential to advance the competitiveness of the city, drive innovation and skill building and make a positive dent on the local and national economy.

In collaboration with the Municipality of Tirana, an in-depth survey was administered to 30 firms in the Footwear and Garment industry in Tirana. The survey questions were geared toward gauging the business model and stage of development of the cluster. Questions also included those pertaining to firm profile, financials, managerial processes and finally constraints to daily operations as well as goals for the future. In addition, one-on-one semi structured interviews were conducted with industry leaders, heads of business associations and firm owners.

Findings

The textile and footwear industry are well established and visible in Albania

For more than 15 years, the footwear and clothing industry, which is concentrated in the Tirana-Durrës region, has held a dominant position in Albania’s exports, and it continues to grow. According to estimates from INSTAT (2018) the industry accounts for about 43 percent of all Albanian goods exports and 60 percent of the country’s exports to the European Union. More than 80% of the products are exported to Italy, with Italian buyers dominating the foreign investment in this sector. 7% and 8% of the products from this industry is exported to Germany and Greece respectively. More recently, Poland and the Netherlands too have invested in this sector. Between 2013 and 2017, its exports grew by 69 percent. According to the General Directorate of Customs, the import value of goods related to the garment and footwear industry was 96.4 billion Albanian leke; the import value of all other goods was just 19.9 billion leke. In fact, in 2016 and 2017 it was the only industry that registered a positive trade balance.

The industry provides employment to a significant proportion of the unskilled labor in the Albanian economy. 45 percent of the workforce in manufacturing is in garment and footwear industry. Of these 90 percent are women (Arqimandriti & Llubani, 2016). The workforce while
relatively young is also mostly unskilled. 75% of survey respondents stated that the highest level of education for most employees was ‘primary’.

Despite its dominance, the industry’s contribution to the economy continues to be low.

The industry has evolved little in the past two decades and remains stuck at the lower end of the value chain. The garment and footwear industry that has been largely operating out of the capital city region in the last two decades has been unable to leverage benefits derived from agglomerations and break away to higher stages in the supply chain. Firms in the industry that had started out almost two decades ago as labor intensive factories and production units where garments and footwear were assembled and sewn have not undergone any significant change. These firms termed as ‘fasons’ have been stuck at the low value-added production stages. While few firms have managed to break away from the pure cut-make-trim (CMT) contracts into the original-equipment-manufacturing model (Box A2.1), according to industry leaders, the transition does not appear to be a trend across the sector. Among the surveyed firms only 10% seem to have been managing the procurement of inputs.

Box A2.1: The apparel and footwear global value chain and stages of upgradation

Not only is the textile and garment industry one of the oldest and largest export industries in the world, but it is also one of the most global industries. Textile industries in many countries undertake manufacturing activities for international brands and markets, for example Vietnam have been catering to American brands, Bangladesh primarily to East Asian markets and Albania to retail brands in Italy. Apparel production can very easily be regarded as a springboard for development as it is a tradeable sector with low fixed costs and has the ability to generate many employment opportunities, and even more importantly can allow to gradually move up the value chain to increase local value capture and generate a source of substantial income and wealth growth.

Fig B.1.1: Apparel value chain evolution: production stage has the lowest value added, and should be seen as only the starting point to industry development.

Source: Fernandez-Stark K. et. al., 2011

The apparel industry is a quintessential example of a “buyer-driven” global value chain. Unlike in producer-driven chains where profits are derived from technological advances, scale and volume, in buyer-driven chains profits are not derived from the actual manufacturing of the product but rather are...
found in intangible services accruing before and after the production stage. These include research, design, branding, marketing, distribution, financial services etc. The company that develops and sells brand-name products (the lead company) generally outsources the production or manufacturing process to suppliers around the globe. The lead company has considerable control over how value-added activities are distributed along the value chain. There are 6 broad activities along the value chain. They are a) R&D b) design c) production d) logistics e) marketing and branding f) services (Fig B1.1). These activities are in turn organized around five segments 1. Raw material supply 2. Provision of components 3. Production networks including factories 4. Export networks and 5. Marketing networks.

Despite its low value-add, apparel manufacturing is a highly competitive. Developing countries governments that vie for foreign investments, strive to attract global apparel brands to outsource manufacturing activities in their countries, leaving suppliers with little or no leverage. With increasing competition and fewer nascent markets to tap into, barriers to upgrading to other activities in the supply chain have been increasing.

Opportunities for upgrading are determined by the structure of the apparel industry in the given economy. Usually, upgrading is regarded as moving to higher-value functions within the supply chain. However, it is important to keep in mind that it may also mean product upgrading—producing higher value products; process upgrading that involves the incorporation of technology and adoption of efficient management processes; and intersectoral upgrading, i.e., the leveraging expertise gained in one sector to enter a completely new sector.

In general, global experience in the cases of Turkey, Bangladesh, Vietnam, India show that in majority of the cases, local industries are predisposed to functional and process upgrading. The four main stages of functional upgrading in the apparel value chain are the following:

- Assembly and Cut-Make-Trim or CMT: Production firms and factories are provided with imported inputs. The manufacturer is simply concerned with assembling, cutting and sewing the materials and fabric supplied to them.

- Original Equipment Manufacturing or OEM/ Package Contractor: During this stage, the supplier in addition to producing the specified product, is also responsible for the sourcing and financing of inputs. Typically, the manufacturing and procurement of raw materials is in accordance with specifications provided by the client.

- Original Design Manufacturing (ODM): In this stage, the garment supplier carries out all steps involved in the production of a finished garment—including design, fabric purchasing, cutting, sewing, trimming, packaging, and distribution. The supplier is responsible for the creation and supply of the product and is responsible for organizing and coordinating all activities from sourcing raw material and designing products to producing and delivering them.

- Original Brand Manufacturing (OBM): This stage focusses more on branding and sales rather than design and production.


The cut-make-trim (CMT) model does not allow for any meaningful backward or forward linkages to the economy. The business model that the industry currently follows is completely buyer driven. Fasons in Tirana have no role to play within the supply chain apart from manufacturing products. They are not involved in the procuring of fabric and raw materials or in the distribution and supply of the finished products. Production inputs are provided by the buyers and logistical services are also coordinated and organized by them. As a result, linkages with the local economy are
negligible. Even though the industry itself has a large presence in and around the city region, there has been no development of complementary services and industry and no business clusters have emerged.

**Figure A2.1: The textile and garment industry, that is largely concentrated in the Tirana-Duress region, accounts for a significant share of Albania’s exports, 2017**

![Pie chart showing the distribution of Albania’s exports by sector, with Textile and footwear at 43%, Food, beverages, tobacco at 16%, Chemical and plastic products at 16%, Minerals, fuels, electricity at 5%, and others at 3%.

Source: INSTAT, 2018

**Without advancing to the next phase of sector development incomes and skills of the workforce cannot increase.** Majority of the costs for production is accounted for by labor. The remaining variable costs incurred by firms are associated with rent, utilities and maintenance of facilities. Firms engaged in CMT operations essentially compete with each other as well as with competitor markets on the basis of labor costs. As a result, there is no significant increase in income levels of the workforce and no incentive to expend resources on skills development. While all the firms surveyed stated that they trained their workforce, these trainings are probably more or less confined to tasks related to daily operations.

**The buyer driven business model has rendered fasons uncompetitive and acts a barrier to upgrading.**

**The current business model makes the industry vulnerable to external shocks.** Profitability of fasons as well as their chances of obtaining contracts are governed to a large extent by macroeconomic conditions. The strength of the Euro relative to the Albanian Leke as well as other currencies in competitor markets in developing countries dictates where the European apparel brands (In the case of Albania these are largely Italian and German) chose to outsource their production. In addition, because there is a significant lag between the determination of contracts and disbursement of finances, fluctuations in exchange rates severely impact the profitability of firms. Interviewees remarked that they are not protected against these external shocks and are completely
at the mercy of factors that they cannot control. As a result, firms, even though they would like to upgrade to new products or processes, are unable to plan in advance or execute strategies.

The CMT model does not provide any room for knowledge spillovers and subsequent product or process innovation and upgradation. Because competition is more cost focused than production focused, incentives to innovate under this model are close to nonexistent. Firm owners do not participate or co-create with clients but instead are perpetually in the waiting mode—for production inputs, orders and contracts. Despite a high level of engagement with global markets, interaction with clients and buyers rarely results in knowledge exchange and adoption.

Economywide constraints inhibit firms from moving up the value chain

Firm owners and managers harbor ambitions of transitioning into higher-value added activities and stages of production but at the same time are pessimistic. Fasons want to move to different stages in the production process and participate in other activities within the supply chain; almost 50 percent of those surveyed expressed a desire to create their own brand, expand to new markets, or scale up production within Albania. Having said that, there is also a palpable level of cynicism across the industry. Interviewees did not foresee the materialization of these goals anytime soon while many of surveyed firms in fact predicted a drop in their revenues and volume of production in the future. The lack of skills and availability of labor along with low access to finance were two key variables repeatedly stated as reasons for scaling down operations.

The current level of skills and scarcity of avenues for obtaining industry relevant skills prohibit firms from transitioning to higher value-added activities. The required formal skill level while operating under the CMT model is low. This is evident in surveyed firms where majority of the workforce has only had primary level of education and by the fact that the industry itself absorbs a significant portion of the unskilled labor. However, the skill requirements rise quite rapidly as firms start to engage with the value chain at higher levels. Workers as well as managers and firm owners with more advanced skills as well as experience are needed to support new functions. Managerial and financial skills specific to the industry become necessary while technical know-how and skills related to logistics, branding, retail, designing, textile and fabric production start to define the competitiveness of the industry. According to interviewees, fasons when entering into different product markets or transitioning into higher value activities find workforce skills to be an insurmountable barrier. On the one hand there is a general scarcity of experienced and skilled labor in the economy. This is driven to a large extent by the dearth of industry specific practical courses and trainings in universities and vocational training institutes. On the other hand, according to surveyed firms as well as interviewees, on the rare occasions when firms themselves are able to invest in workforce development, they find that employees in general, lack the aptitude to learn and do not appear to harbor any desire to advance their industry knowledge. Interviewees highlight gaps in foundational education system as the main reason. As figure A2.2 suggests, access to labor and the level of education of the workforce has been a severe obstacle to the advancement of the industry.
Figure A2.2 Shortage of skilled labor and access to finance are the most severe obstacles to growth of the textile and garment industry


**Business acumen and managerial skills among firm owners and managers are low.** As one of the interviewees stated “fason owners and managers just happen to be leading firms”. Considering the industry has a legacy status, it is not uncommon for fasons to be a family business, where managers and owners simply took over from the previous generation. Top management across the industry do not have professional training or experience and merit-driven competition to reach these positions in the economy is non-existent. As a result, the business acumen and managerial skills of owners and managers, on average are on the lower end. These findings even play out in survey responses. In 100 percent of the firms surveyed, retention of managerial staff was high (more than a year) indicating the low inter-industry movement of workforce engaged in managerial activities. Management practices within the firms were also a reflection of the wanting levels of business acumen and managerial skills. A fourth of the firms engaged in manual inventory management. Of the large and medium firms, almost 25 percent responded saying goals and targets set were purely financial. Best practices dictate having a mix of both financial and non-financial goals. Granted that the business model serves as a barrier to enhance firm productivity, yet even minor increases in internal firm productivity can help fasons become at least marginally more competitive (Bloom et al., 2017). This can be done by incorporating high-performance work arrangements and introducing small productivity enhancing practices in daily operations. These practices are governed by the acumen and decisions made by owners and managers who appear to be unwilling to implement changes or are unaware of these opportunities.

**Fasons have low access to finance.** 50 percent of the firms surveyed regarded access to finance as a severe to major obstacle in their daily operations. Considering the low profit margins that are susceptible to external conditions, firms find it hard to get credit. Generally, fasons require financing while expanding volume of production or undertaking new lines of production. This requires investments in capital that in the case of Tirana’s garment industry appears to be limited to primary equipment – mostly sewing machines and a bigger production facility.
The industry is highly fragmented with no single business or industry association lobbying for common interests and solutions

Even though firms face similar obstacles and have the same goals, the industry is highly fragmented. Firms have individualized agendas and any form of partnership or co-operation among them is sullied by competition among firms engaged in similar products and markets and by fragmentation along the lines of specific types of products, region of operation, and model of management and production. Firms engaged in footwear do not engage with those producing garments; leather industry is regarded as different from the cotton textile production industry; garment producers do not consider themselves to be similar to producers of underwear; and so on and so forth. Firms appear to emphasize their differences rather than on commonalities. This is to be expected since the CMT model does not encourage any differentiation in product or brand, and thus firms need to find ways to stand out and highlight any competitive edge.

There is no unified front representing the interest of the apparel and footwear industry as a whole. Because firms regard each other as competitors, efforts to coordinate and lobby for industry needs by forming a unified association have not succeeded. Currently, the industry has at least 10 “chambers of commerce,” each with its own agenda—but only 46 percent of the firms surveyed belong to one (World Bank, 2019). Although some respondents consider these associations to be beneficial for networking and information-gathering, most firm owners see no benefits to membership. Many stated that the associations were “useless” and did not raise critical issues.

Unified industry associations can hasten industry upgradation. International experience in the apparel industry, shows how a unified industry association can hasten industry upgradation to higher value stages by not only lobbying for interests but also co-operating to solve industry specific challenges. In Bangladesh, two main private industry associations the Bangladesh Garment Manufacturers and Exporters Association (BGMEA), and the Bangladesh Knitwear Manufacturers and Exports Association (BKM) spearheaded the advancement and expansion of the industry and heavily lobbied for workforce development(Gereffi, G. and Frederick, S., 2010) In Vietnam, the Vietnam Textile and Apparel Association (VITAS) has around 700 members and accounts for 70% of the industry (Tran A.N, 2017). The association promotes business and investment cooperation, represents the industry during public consultations, acts as a bridge between the domestic industry and international companies and catalyzes foreign investments in the country by coordinating firm matching activities. In Sri Lanka, the consolidation of the industry lead to the formation of the Joint Apparel Associations forum (JAAF) a public-private coalition that developed a comprehensive 5-year plan to drive growth in sector along with aa training manual designed to help education providers align their curricula with the needs of the apparel industry. In the Igualada Ministry of Spain, the industry association collectively identified solution to the grave challenge facing the industry and engaged with the government to implement these solutions as ensure long-term success of the industry (World Bank, 2011).

Engagement with the public sector is minimal but essential

Although the textile, garment, and footwear industry is one of the largest employers, dialog with either local or national government units is minimal at best. Firm owners are of the opinion that there should be a dedicated public sector agency or unit that overseas their issues, hears their concerns, and acts to address them.31 Despite its dominance in Albanian exports, there currently

31 Some of the consulted firm owners long for the times when there was a dedicated ministry for the industry under the socialist government.
appears to be no such provision. There are also no formal platforms where firms’ owners can express their concerns. The government is perceived as more of an impediment to rather than a facilitator of industry growth. Firm owners’ express grievances regarding taxes and regulations and at the moment cannot imagine governmental agencies to be an ally in any regard. On the flipside, institutions like AIDA promote the industry to investors as having a competitive edge in terms of labor costs, delivery times and flexibility. While this is true, it also indicates that there is a large disconnect between industry ambitions and public sector perceptions of the potential of the industry.

**Constructive public-private dialogue is an important starting point for industry upgrading.** Experiences of the garment and apparel industry in Bangladesh, Sri Lanka, Spain, Vietnam and Cambodia show industry upgradation to higher value stages as well as its expansion is contingent on public sector involvement and engagement. This engagement, or lack thereof, is more pronounced in the case of Tirana’s industry which has been unable to evolve and require among other things interventions that would reduce workforce skills gaps, catalyze industry consolidation and cooperation and reduce its dependence on macroeconomic conditions. Additionally, with the absence of national level bodies that can lead this engagement, it appears to be a natural position for the city government to take, given the concentration of substantial part of the sector in the Tirana municipality (particularly after its boundaries have been expanded in 2015).

**Box 2: Impact of Public-Private Dialogues (PPD) on the leather tanning industry in Igualada**

During the early 90s Catalonia’s leather industry, concentrated in the municipality of Igualada, Spain, looked much like the textile and footwear industry in Tirana today. Nearly 60% of the raw hide used was imported, more than 85% of which came from the EU, while nearly all the production machinery was imported from Italy. The industry did on place a high premium on design and quality and were more focused on costs. As a result, there was no intrinsic stimulus to modernize the industry. The industry was highly labor intensive and was producing at the lower end of the supply chain. Firms operating within the industry had individualistic policies and the level of co-operation between them was minimal. While a local business association did exist, it did not co-ordinate the strategies of firms in any meaningful way and its only role in the industry has whittled down to conducting labor negotiations on behalf of the producers.

Stringent environmental regulations imposed by the EU on Spain around 1993, came as a major setback to Spain’s leather industry. Industrialists and firm owners argued that complying with standards would raise production costs well above those of competitor markets in developing countries and demanded subsidies as well as the enactment of protection policies. Many local firms had left the industry as they were unable to cope with the stringent standards. The industry faced extinction.

The Ministry of Industry in Catalonia did not give in to the demands of providing subsidies, as keeping costs artificially low would prove to be unsustainable. On the other hand, endangering the industry not only meant a loss to the economy, but a significant number of people would lose their jobs. The government agency instead decided to opt for strategies to upgrade the industry and increase competitiveness at the sector-specific level. This was channeled via a PPD. The objective of the PPD was to help local businesses in the leather and tanning industries address and capitalize on the upcoming challenges and macroeconomic changes.

The facilitators of the PPD hailed from a local consulting firm that specialized in cluster competitiveness. The process led to the identification of strategic market segments in which local firms had an advantage; creation and strengthening linkages between industry and research institutes; and brainstorming solutions with regards to the environmental challenges.

The industry association believed that the establishment of a new wastewater treatment plant would help deal with regulation compliance by reducing costs. Several years of subsequent dialogue between the
industry and government led to the launch of the plan to implement the plant. The plant became operational in 2005 and was successful example of private and public sector cooperation to solve issues that directly impacted economic and industry competitiveness. While the plant was fully funded by private companies, the government reclassified lands for construction. In addition, the Catalan Government signed a contract with the association that prevented the sanctioning of businesses till the plant was up and running.

Since 2005, the tanners from Igualada have made a graduated from traditional producers of shoe soles to producers for new markets of high-quality leather for high-end. A PPD process that was initiated to address a specific problem, ultimately resulted in the overall upgrading and long-term success of the industry. Between 1991-2009, while the industry witnessed a decline in firms, the decline in employment was not as significant. The industry started operating at the higher value-added levels and its turnover dramatically increased (Fig B.2.1)

Fig B.2.1: Since 2005, the leather industry in Igualada experienced increases in productivity, employment and turnover

Policy Recommendations

Global experience shows that upgrading into higher segments of the value chain requires 4 elements. These are a) The presence of a domestic or regional textile industry b) the presence of large textile and apparel manufacturers in the country c) Strong public and private sector co-ordination and engagement and d) Workforce and skills development. In Tirana, the most conspicuous gaps seem to be the latter 2 variables. Interventions on the part of the local government which can be as simple as having regular dialogues, if done in the right way can help the industry realize its potential. Considering its dominance in the local economy and trade volume, moving the industry up the value chain could lead to faster economic growth.

1. Increase public sector engagement with the industry

Facilitate public-private dialogue by involving third party agencies. Currently, dialogue between fasons and local and sub regional governments are minimal. Interviewees narrate anecdotes that seem to suggest on the rare occasions that such dialogues do occur, they are not constructive and border on narrow compliance issues rather than on higher level strategy discussions. In this scenario, hiring third party organization to facilitate dialogues and discussion would be helpful. Dialogue
should steer clear of short-term individual agendas and rather focus on strategy and collective problem solving geared towards enhancing competitiveness and transitions to higher value-added stages in the supply chain. Such frequent dialogues would be beneficial to both the apparel industry in Tirana as well as to the economic agenda of the local government.

**Form public-private coalitions with the objective of upgrading the industry and overcoming barriers.** Creating organizations and agencies based on public-private coalitions as was done in Sri Lanka, can propel the industry and help increase its contribution to the economy. Such an agency would be responsible for the dissemination of industry specific knowledge, workforce development and training, industry advocacy, research and development, aligning firms with global corporations and creating backward and forward linkages to the economy. In Sri Lanka, the creation of JAAF resulted in a shift in the production model and firms between 2000-08 not only started upgrading their production processes and engaging in higher-value stages but there was an upsurge of 30% in the volume of higher-end and specialty products (Gereffi, G. and Frederick, S., 2010).

**Assist in the formation of a business cluster in the Tirana-Duress region.** It is imperative to consolidate the industry based on a common agenda. The local government can help this process by cultivating a singly industry association in the Tirana-Duress region and weeding out low quality associations. Ideally the public sector should endorse associations that appear to be active, driven, with higher representation and those that promote an industry wide agenda rather than segment specific goals. In doing so, the local government can gradually help catalyze an economic cluster that involves all stakeholders in the industry -starting from producers of inputs like cloth and leather, manufacturers, retail enterprises and transport providers to research and design institutes and branding experts.

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2. **Enhance skills and workforce development**

**Incentivize relevant and practical courses in vocational institutions as well as universities and provide rapid and accessible skills training bootcamps.** Incentivize the introduction of industry relevant courses that offer practical training in retail, designing, textile production and manufacturing, logistics, branding and marketing. Fostering collaborations and partnerships between universities and fasons would help create a pipeline of skills and also allow the workforce to engage in experiential learning. Similarly, the provision and promotion of shorter and more intensive skills bootcamps in industry-specific technical fields as well as those relevant to business management such an accounting, inventory and human resource management for firm owners and managers would not only increase their business acumen but would also provide a platform for making connections.

**Facilitate technology and information transfer and application.** Since knowledge spillovers under the current CMT model are negligible, local governments can reduce this gap by ensuring the regular dissemination of best practices and cultivating knowledge sharing practices and platforms between firms in Tirana and those abroad. In addition, local governments can incentivize the adoption and uptake of these innovative practices and technology through competitions and grants. The industry would also benefit from the presence of a dedicated agency or firm that is abreast with global trends in the constantly changing global apparel value chain and that can advise firms of strategic markets, niche products, industry forecasts etc.
References


