



Innovation Potential and Dominant Emerging Industries

Region of Tirana, Albania

INNOPLATFORM

Innovations Platform and Tools for increasing the innovation capacity of SMEs in the Balkan Mediterranean Area

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Executive Summary

The report on the regional dominant emerging industries provides an analysis of the regional context of each PP region with a focus on the regional innovation potential and the dominant emerging industries.

This report analysis the challenges of the Albanian economy from 1992 to 2017 and its efforts towards market economy and democracy. The focus of the report is on the emerging economy and emerging industries of Albania, mainly in the region of Tirana.

The transition from a centrally planned to a market-oriented economy, together with abundant international aid and other strategic assistance over the last decades, helped Albania to make progress. Due to strong growth performance, Albania grew from the poorest nation in Europe in the early 1990s to middle-income status in 2008, with poverty declining by half during that period.

The country's economic transformation continues to build on its huge potential and opportunities. However, the global financial crisis exposed the weaknesses of its growth model and highlighted the need to shift from consumption-fueled to investment- and export-led growth. In order to accelerate the pace of equitable growth, Albania needs to implement structural reforms that will raise productivity and competitiveness in the economy, create more jobs, and improve governance and public service delivery.

The Government of Albania has embarked during the last few years on a broad-based reform program focused on macroeconomic and fiscal sustainability, financial sector stabilization, energy concerns, pensions, and territorial administration.

Significant progress propelled by the ongoing reforms has created the conditions for rebounding business confidence and domestic demand, including early signs of increased investment and an export-led recovery. Maintaining the reform momentum and implementation is critical for Albania's continued economic growth and its aspirations for European Union (EU) integration.

Table of Contents

Executive Summary	1
Acknowledgement	Error! Bookmark not defined.
Table of Contents	4
List of Tables	5
List of Figures	5
1. Background.....	6
2. Methodology.....	14
3. Regional Context: Tirana Region	14
3.1 Economy and Growth of the Tirana Region	15
3.2 Socio-demographic environment.....	17
3.3 Structure of the Private sector.....	18
4. Innovation Environment and Performance.....	18
4.1 Description of the Regional Innovation system.....	18
4.2 Human Capital and R&D activities in the region	19
4.3 Regional investments in R&D	20
4.4 Innovation activities.....	20
5. Dominant Emerging Industries.....	21
5.1 Identification of regional dominant emerging industries	21
5.2 Strengths and Weaknesses	22
6. Conclusions and Recommendations	23
References and Bibliography	27

List of Tables

Table nr.1: GDP at current prices, per capita by statistical regions (2013)

Table nr.2: Growth rate of GDP

Table nr.3: Socio-demographic environment of Tirana

Table nr.4: Structure of Private Sector in Tirana

List of Figures

Figure nr. 1: Map of Tirana County

Figure nr.2: GDP per capita by statistical regions (level 3) compared with national average (000/Lek) in 2013

Figure nr.3: Share of GDP by statistical regions (level 2/3, year 2013)

Figure nr.4: Figure no.4: Strengths and weakness of Innovation development in Tirana region

1. Background

Tirana County is one of the 12 counties of the Republic of Albania, with the capital in Tirana. The county spans 1,652 square kilometers (638 sq mi) and had a total population of 811,649 people as of 2016. The county borders on the counties of Durrës, Dibër, Elbasan, Fier, and the Adriatic Sea. It is formed by Tirana district and Kavaja district

Tirana, the country's largest metropolitan area and the centre of the county which, with a population of 800,000, makes for 30% of Albania's population.

Figure. no.1 Map of Tirana County



The area has been populated since Paleolithic times dating back 10,000 to 30,000 years ago. As argued by various archaeologists, Tirana and its suburbs are filled with Illyrian toponyms as its precincts are some of the earliest regions in Albania to be inhabited. Tirana was founded as a city in 1614 although the area has been continuously inhabited since antiquity..

- **Historical Background**
- *1991-92: The beginning of a difficult transition*

The radical political changes of 1990-91 were associated with the establishment of a pluralist parliamentary system that leads to the radical transformation of the Albanian economy: from

a centralized planned economy - to an open market; western style economy. The first two years of transition (1991 - 1992) constitute the most difficult period of the Albanian economy in the last 50 years: GDP fell to 50%, economic growth reached the most negative level of -13% on records, prices of basic foodstuffs rose 5-6 times only within 1991, industrial and agricultural production was almost paralyzed the budget deficit exceeded 50% of GDP; inflation grew rapidly reaching 400% at the end of 1991; foreign debt rose to over US \$ 600 million, unemployment reached over 50% of the working population.

In 1992, the Albanian government signed the first agreement with the IMF within the framework of applying the rigorous liberal policy package to "structural adjustment" providing in the same time a stand-by credit. The first reforms were focused on merging cooperatives sector and free allocation of agricultural land in favor of the rural population; establishing the national agency of privatization, mainly in the area of services; restructuring of some major industrial enterprises for privatization; encouraging the establishment of new private enterprises; price liberalization excluding basic food such as oil, bread, sugar, etc. currency depreciation (AL LEK) and the establishment of a real exchange rate; the liberalization of foreign trade and establishing a unified customs tariff of 10%.

- **Initial policies and measures of transition:**

- Approval of "Land Law" on 19 July 1991, which envisaged the destruction of agricultural cooperatives (covering over 75% of the arable land stock/fund in 1989), free land allocation for cooperatives members depending on land availability and members. Exclusion of any possibility for former owners to return their land according to property ownership before 1944 and Agrarian Reform after the Second World War; foreigner's exclusion from possibility of land buying.
- Establishment of a national agency of privatization that should administer the entire privatization process in services, trade and industry sector. It was foreseen that during the 1992, to privatize over 25,000 small and medium-sized craft. The phase of major/main privatizations should begin after 1992, after the transformation of large state-owned companies into joint stock companies.
- Price liberalization should be completed, excluding three basic products such as bread, edible oil and sugar.

- The introduction of a free convertibility system of LEK and the establishment of the LEK exchange rate with other foreign currencies. The Albanian government set ECU as a reference unit currency for foreign currency transaction.
- Foreign trade liberalization excepting a special product list that requires special approval from the Ministry of Economy. Imposing a unified customs tariff of 10%.
- On January 1991, Albania adhered to the IMF and immediately received a stand-by credit that opened the way for other financial sources for country development.
- On April 1991, Albania became a member of the World Bank, which immediately provides expertise for the banking and agro-food sector.
- On October 9, 1991, Albania became member of EBRD (European Bank for Reconstruction and Development) by facilitating important foreign funding.
- Albania establishes diplomatic relations with all EU countries.¹

The first positive results emerged at the beginning of the 1993-95 periods. The departure of Italian soldiers of the "pelican" operation/action in December 1994 was a clear sign of the end of the emergency period and the beginning of a stable period and economic growth. It was reflected in many indicators: economic growth 9.6% in 93 and 13.4% in 95; declining trend in inflammation evident from 236% to 92, to only 6% to 95; slight increase in exports (+ 29% in 95 compared to 92). Generally, in terms of key macroeconomic indicators, the World Bank and IMF were pleased with the fulfilling of their structural adjustment criteria: control of the monetary base and budget deficit, eliminating the hyper inflation, falling unemployment, the LEK exchange rate compared with other stabilized currencies, liberalized prices. Agriculture, known as the "engine of development", with its growth of 18.5% in 92 and 13.2% in 95 witnessed the Albanian economic recovery, even though it was compared to the worst economic period "90-91".

¹ This period was associated with a great support from the international community: through the "pelican" operation Italy donated and distributed over 540,000 tons of food and many medical and pharmaceutical products; The EU planned and delivered over 400,000 tons of food; 230 million US dollars to support payments balance and urgent imports improving; World Bank and IDA delivered \$ 42 and 36\$ million mainly for indispensable imports and poverty reduction in rural areas; 10\$ million provided by the EBRD mainly in support of the reconstruction of the telecommunications network; 83 million US \$ provided by US government in support of food products and technical assistance for the reorganization of the agro-food sector; 42 \$ million provided by the German government mainly to improve the health and water industry; etc.

- **Financial pyramid schemes - collapse of the state;**

Albania nevertheless managed to succeed in its macroeconomic structural reforms in a few years (1992-1996) in full compliance with the IMF's recommendations. In order to accomplish the fundamental objectives of financial system reforming based on an agreement with the IMF such as inflation control, budget deficit reduction, the restructuring of external debt, the establishment of a dual banking system. The Bank of Albania and the Ministry of Finance acted in term of tightening the monetary and budgetary policies that brought a considerable reduction of credit expansion, public expenditures, a reduction of the monetary aggregate in relation to GDP and difficulties in licensing and starting the activity of private commercial banks during the period 1992-95. During 1992-93, subsidies to public enterprises declined from 16% to 2% in relation to GDP, monetary growth was significantly reduced, real incomes declined by 26%, the public sector was reduced by two-thirds of its effectiveness, etc. Even the Tirana scholarship, which could be an important element in the formal capital circulation, was simply a formal thing.

These “restrictions” and the lack of financial intermediary’s expansion led to the establishment of a large non-formal financial sector. The demand and the mass orientation towards this informal market came from three main sources: during 1991-1996 over 400 000 Albanian or 12% of the population migrated towards Greece and Italy, by sending to the country in form of remittances a colossal sum of money reaching up to 15-20% of GDP. It is estimated that during this period Albania has exceeded 1 billion USD in this way; the great financial effect and the considerable amounts of Deutsche Mark or USA dollars that entered in Albania as a result of illegal traffic or Fuel smuggling that many Albanians did with former Yugoslavia countries which during this war period between former Yugoslav Republics were subject to the international oil embargo regime. Their amount is estimated at about \$ 500-600 million; during these years Albania received large amounts of money in the form of foreign aid, ranking as the first country for the amount of financial aid per capita in relation to all central and eastern European countries. Their amount is estimated at about \$ 500-600 million; during these years Albania received large amounts of money in the form of foreign aid, ranking as the first country for the amount of financial aid per capita in relation to all

central and eastern European countries. The whole situation affects the income level and Albanians savings by creating "surpluses" that could be easily used in the informal market.

In terms of formal credit market and legal investment opportunities were almost "dried up", while the informal market was "full of money", business owners and ordinary citizens turn to this market to meet their needs related to investment or profits. As an answer to this request came immediately a few "charitable foundations" or "investment companies" who accepted deposits, provided loans, and offered overwhelming interest rates for deposits ranging from 10 to 50% per month. Financial *pyramidal schemes* did not declare their income sources, as well as did not present any balance sheets on the loans or interest they yielded. They could use the state bank "Savings Bank" and the "National Commercial Bank" for money depositing and withdrawing without any control over their bank accounts. Although some of the financial companies operated as banks, their financial activity was not subject to banking law or banking supervision or official duty requirements, but was considered simply as a "joint agreement between a lender and a borrower" as provided by the Albanian Civil Code.

Beyond the investment facade, the entire system operated under the "Ponzi scheme". The absorption of deposits covered extraordinary interest payments ranging from 100% to 600% per annum. People deposited not only savings or financial surpluses, but they also sold their homes or different properties with the hope they would quickly duplicate or triple their money to buy a bigger one. The villagers sold the cattle in order to win more money and deposit them in *pyramidal* firms to become wealthier.

At the beginning of 1997, the total value of deposits in pyramidal firms reached \$ 1.3 billion, or about 50% of the country's GDP. But, based on the high informality level of this activity as well as the later claims of people who have lost their savings in these pyramidal firms, it is estimated that the deposited amounts exceeded \$ 1.8 billion. They were mainly located in Tirana and Albanian south areas that had the highest percentage of emigration and as a result of free money transfers, these companies managed to have over 2 million Albanians clients, or about 70% of the country's population. In a poor country like Albania where average salaries ranged between 50-150 USD/ month, unemployment was at 20-30% and over 60% of the population lived in rural areas, pyramidal firms emerged as "capitalism pioneers that were realizing Albanians' dream for a better life." The perfect image lure the whole

population to their counters, even though their “bosses/owner” or “charities” were men without managerial or intellectual value.

The end of the pyramidal firms emerged in the second half of 1996 when they began to experience difficulties in paying of profits. Another reason was the inability to increase clients’ number that brought them to offering huge interests rate, ranging from 30 to 100 % profit/ month. Meanwhile the concern for their activity became public. The IMF and the World Bank warned directly and indirectly about the dangers that pyramidal firms presented to the Albanian government. The Bank of Albania had several times warned the Albanian government about the nature of the ‘pyramid firms’. But the Albanian government did not reacted toward these warnings. This situation prompted the public euphoria towards these firms since the interests rate offered by them have totally passed any kind of normal imagination.

On January 10, 1997, the Bank of Albania decided to limit the daily withdrawals of these companies from the banks where they had their accounts, fixing a daily ceiling of 300,000 USD. On January 18, the manager of “Sudja” pyramidal firm, which was the largest pyramidal firm in the country, was arrested.. A few days later, “Vefa” and “Kamberi” announced that they would stop interest payments and capital for a 3-6 month period, causing a strong suspicion and panic climate for all their depositors. The revolts broke out in Tirana and in other cities of the country. On January 26, the deposits of “Populli” and “Xhaferi” were blocked. There were found only 250 million dollars, much less than their real obligations to the public. The economic revolt of hundreds or thousands of Albanians who had lost not only their money, but also their dream to become richer was quickly turned from an economic to a political revolt. The Albanian economy, which until this year had a high and stable economic growth, in 1997 suffered a “negative economic growth” of - 7%.

- **The essence and main elements of reforms: from state to market;**

In this economic and social context, Albania during the decades of 1990-2010 realized drastic reforms towards the establishment of a market economy. Dealing with two possible alternatives in reforms growth and width: “gradual transition” or “choc therapy”, Albania followed the radical transition path, privileging the concept of “creative destruction” and

broad liberalization in all areas. According to the supporters of this theory by the government that emerged from the 1992 elections, measures related to stabilization and liberalization as well as providing a significant economic growth could be made automatically without the state intervention by strengthening of the economic structure as a result of the fast and massive disappearance of inefficient operators. Market mechanisms had the opportunity that with a "single shock" to ensure an efficient resources allocation and bring the economy to a sustainable growth. But the later Albanian reality testified the opposite results with these findings. Many vital sectors of the economy were destroyed and abandoned without the possibility of recovering, even for a medium-term period.

Supporters of the neoliberal variant or policies that were represented by the Democratic Party were early positioned in favor of "Choc Therapy" and the immediate effects that would bring "creative destruction." According to them, the stabilization-liberalization measures and the country's economic growth could occur automatically without the intervention of the state, but thanks to the expulsion of the inefficient market and the improvement of the economic and institutional structure. The introduction of "a single shock" of market mechanisms would bring a better allocation of financial and productive resources by bringing a sustainable economic growth. According to them, the role of the State should have been limited by focusing only on supporting this "creative destruction" and creating market infrastructures. Everything else would evolve under the influence of market forces.

The other political group, consisting of left supporter, the Socialist Party and PSD, supported a more "gradualist and regulative" solution, preferring a slower pace and "above controlled" reform. According to them, they should build institutions that guarantee social protection and employment and then to continue with radical economic and financial reforms for the economy structure changing. The state should not retreat from economic life, but simply have to modify the modalities of intervention in it. The economy could be developed through the existence of equal levels of private and public sector.

Some of the economic-financial reforms undertaken during the transition period in Albania, the first in their evolution, can be expressed as follows:

- Restrictive monetary policy, associated with the establishment of an independent central bank; the promotion and establishment of commercial secondary banks; expanding bank services and eliminating the inherited financial exigent;
- Rigorous budget policy, realized through the suppression of the state subsidy system; building a new fiscal and taxation system and rigorous inflation control.
- Liberalization of the domestic capital market/Domestic capital market liberalization, the measures of establishing the real convertibility of the national currency; establishing an efficient capital market, the necessary legal basis for capital market function such as stock market establishment;
- Liberalization of foreign trade, through the suppression of the state monopoly on foreign trade; giving up the clearing system, supporting private entrepreneurship in this field, etc;
- Increasing domestic supply, mainly focused on price reform and fictitious growth exclusion/elimination due to the lack of domestic supply compared with market quantity requirements;

- **The main elements of the Albanian transition**

Post-socialist recession was expressed in different ways, especially during period 1990-1992; Macroeconomic Stability; with the assistance of the World Bank, the International Monetary Fund and other partner and donator, Albania has adopted a rigorous macroeconomic stabilization program.

As a result of this policy, Albania has guaranteed:

- (i) sustainable economic growth (excepting of 1997 year because of a major crisis called the "pyramid crisis");
- (ii) rigorous inflation control by keeping it at levels of 2 - 4%;
- (iii) progressive deficit reduction in relation to GDP;
- (iv) control of domestic and foreign debt;

Institutional change and reconfiguration: Institutional reforms and good decision-making processes were the main focus of all the developments during the transition period; however it should be accepted that their growth and efficiency has not been at the required level especially in law enforcement and the informal economy areas. Micro-economic reformation,

through which were made extensive and active policies in the privatization area, private domestic business promotion, elimination of business barriers, foreign and domestic investments stimulation, trade and exchange liberalization etc. Regional and European integration through economic, social, political and institutional reforms within the framework of EU integration.

2. Methodology

The core methodology used in developing the Regional studies for identification of the dominant emerging industries comes from the EIS Regional 2017 Framework.

The analysis is based on the use of secondary data coming from officially recognised institutions, predominantly from Eurostat, National statistical offices and other national and international institutions.

Data has been collected from the Bank of Albania reports, Institute of Statistics and EU reports as well as IMF reports and World Bank reports on Albania.

3. Regional Context: Tirana Region

Being a primate city, Tirana is the economic heart of Albania and home to most major national and international companies operating in the country. The economy is dominated by the service sector with around 68.5%, the industrial sector by 26.1% and agriculture sector with 5.4%. The city began to develop at the beginning of the 16th century, when a bazaar was established, and its craftsmen manufactured silk and cotton fabrics, leather, ceramics and iron, silver, and gold artefacts.

Historically, after the Second World War and the communist regime, the city and its surrounding areas expanded rapidly and became the most heavily industrialized region of Albania. Important economic sectors in Tirana include transportation, information and communication technologies, media, advertising and design, environmental services, construction, e-commerce, banking, legal services, retail, hotel business, and medical engineering. According to the World Bank, Tirana has made significant steps of starting a business in 2016, ranking 10th among 22 cities of Southeastern Europe.

3.1 Economy and Growth of the Tirana Region

According to the data of statistical regions in 2015, the highest value in GDP was recorded in county of Tirana with around 569,5 billion ALL or 39.9 % of total GDP. Compared to previous year, GDP at current prices has increased by 5.5 %. Concerning the higher growth rates, Tirana's county is ranked the third where GDP in real terms has increased by 2.2 % compared to the previous year. The highest level of GDP also was recorded in county of Tirana with 679 thousand ALL, showing an increase compared to the previous year. In Tirana's county, GDP per capita was 37.0 % above the national average.

Table no.1 GDP at current prices, per capita by statistical regions (2013)

Statistical Regions level 2/ 3		GDP current price	GDP current price	GDP current price	Share of AL	Contribution to real growth	GDP per capita	GDP per capita	GDP per capita	GDP per capita index (AL = 100)
		mln ALL	mln Euro	mln USD			thousand Leke	Euro	USD	
AL	The Republic of Albania	1,350,555	9,629	12,781	100	1.11	466	3,323	4,411	100
AL01	North	319,839	2,280	3,027	23.7	0.03	372	2,652	3,520	79.8
AL011	Dibër	42,524	303	402	3.1	-0.001	307	2,191	2,908	65.9
AL012	Durrës	129,726	925	1,228	9.6	-0.25	471	3,359	4,459	101.1
AL013	Kukës	30,998	221	293	2.3	0.12	358	2,554	3,391	76.9
AL014	Lezhë	41,885	299	396	3.1	-0.14	303	2,159	2,866	65.0
AL015	Shkodër	74,707	533	707	5.5	-0.19	338	2,406	3,194	72.4
AL02	Center	608,429	4,338	5,758	45.1	0.71	557	3,973	5,274	119.6
AL021	Elbasan	101,238	722	958	7.5	0.35	334	2,382	3,162	71.7
AL022	Tiranë	507,191	3,616	4,800	37.6	0.36	643	4,585	6,085	138.0
AL03	South	422,387	3,011	3,996	31.3	0.37	446	3,183	4,225	95.8
AL031	Berat	49,828	355	472	3.7	0.02	343	2,447	3,248	73.6
AL032	Fier	177,698	1,267	1,682	13.2	0.49	559	3,985	5,289	119.9
AL033	Gjrokastër	35,083	250	332	2.6	-0.07	477	3,399	4,511	102.3
AL034	Korçë	78,886	562	747	5.8	0.02	349	2,487	3,301	74.8
AL035	Vlorë	80,792	576	765	6.0	-0.09	442	3,149	4,180	94.8

*Estimations for year 2013 are based on semi-finales estimations

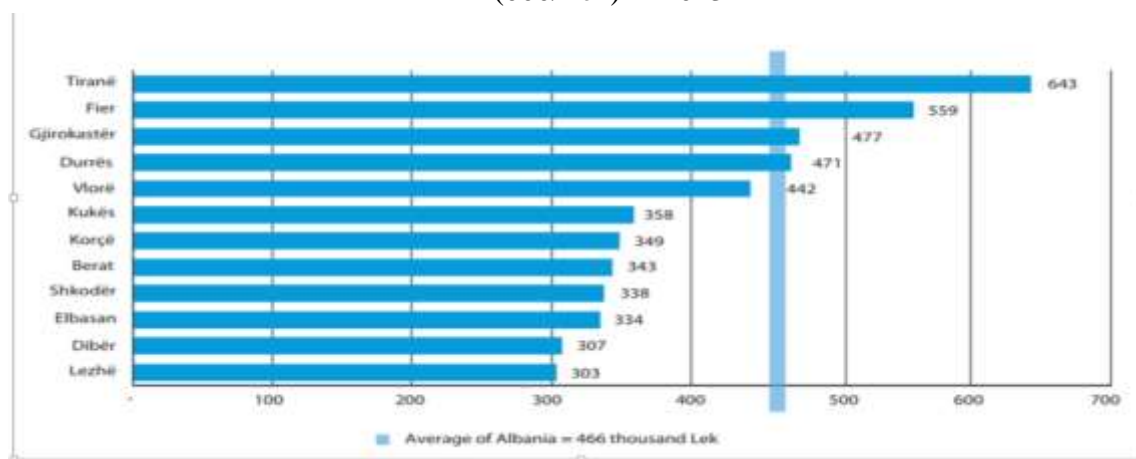
Data Source: Institute of Statistics (INSTAT)

Table no.2: Growth rate of GDP

Prefectures	Growth rate of GDP				
	2009	2010	2011	2012	2013
Republic of Albania	3.4	3.7	2.5	1.4	1.1
Prefectures = 100					
Dibër	4.0	7.4	-1.6	12.9	-0.02
Durrës	2.9	11.3	-5.7	0.9	2.6
Kukës	4.3	3.8	5.9	-3.1	5.6
Lezhë	3.0	-1.8	1.7	6.6	-4.4
Shkodër	4.3	6.8	0.0	-2.4	-3.3
Elbasan	2.4	12.9	-1.1	-2.5	4.8
Tiranë	3.9	0.5	0.9	1.9	1.0
Berat	3.1	6.8	7.4	-7.6	0.5
Fier	1.6	6.7	13.9	7.6	3.8
Gjirokastrër	3.3	4.6	19.0	7.5	-2.8
Korçë	3.4	1.5	3.2	1.5	0.4
Vlorë	3.2	-4.5	7.2	-6.3	-1.4

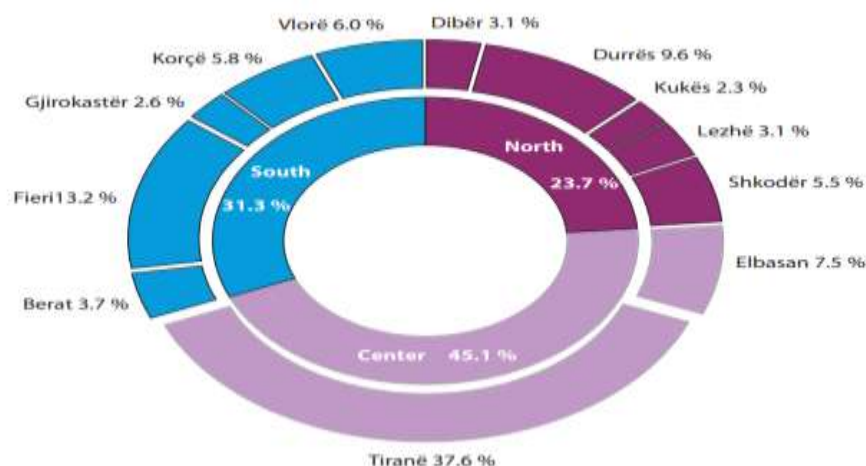
Data Source: INSTAT (2014)

Figure no.2: GDP per capita by statistical regions (level 3) compared with national average (000/Lek) in 2013



Data Source: INSTAT (2014)

Figure no.3: Share of GDP by statistical regions (level 2/3, year 2013)



Data Source: INSTAT (2014)

3.2 Socio-demographic environment

According to available data, GDP per capita in Tirana's county has decreased from 2010 - 2013, after which it started to increase.

During the last six years, Tirana's county has experienced an increase in her population number, which has been characterized by positive rate of population growth. The population increase is related due to internal movements of the population. Although the internal movements are multidimensional it is obvious that the majority of internal flows are focused on Tirana and Durrës. In 2016, the county of Tirana has the highest population density in the country, above 515,1 inhabitants for kilometre square. The data shows an increase in the population of age group 15-64 for the last three years. According to available data, the number of both male and female is increased over the years.

Table no.3: Socio-demographic environment of Tirana

	Socio-demographic environment	2010	2011	2012	2013	2014	2015	2016
1	GDP per capita,	4,741	4,518	4,566	4,453	4,601	4,860	
2	Population size TOTAL (numbers)	755,366	772,290	789,585	807,244	825,188	838,567	852,672
	Age 0-14 (numbers)					146,791	145,502	150,531
	Age 15-64 (numbers)					551,046	561,303	592,091
	Age 65+ (numbers)					96,821	99,414	110,049
3	Gender (numbers)							
	Men	373,420	381,963	391,136	400,333	409,705	416,866	423,634
	Woman	381,946	390,327	398,449	406,911	415,483	421,701	429,038
4	Education							

3	Population density (persons per km ²)					481.0	488.0	516.1

Data Source: Institute of Statistics (INSTAT)

3.3 Structure of the Private sector

According to available data, the county of Tirana recorded 53,405 active enterprises in 2016, out of which 45,715 or 85.6%, were micro enterprises. SMEs and large enterprises have a share of 12.7% and 1.7% respectively. The trade enterprises are more focusing in county of Tirana, with an average weight of 39% in the last six years.

Table no.4: Structure of Private Sector in Tirana

	Structure of the Private sector	2010	2011	2012	2013	2014	2015	2016
1	Composition (numbers)							
	Micro enterprises (0-9 empl.)	34,802	36,789	38,124	41,734	43,479	46,042	45,715
	SMEs (10 - 249 empl.)	4,267	4,671	4,574	5,055	5,190	7,296	6,781
	Large enterprises (250+ empl.)	587	657	654	753	798	899	909
2	Share of foreign controlled enterprises (%)							

Data Source: Institute of Statistics (INSTAT)

4. Innovation Environment and Performance

The ICT sector is growing rapidly, making it one of the country's most dynamic industries. In recent years government measures have been introduced through the Crosscutting Strategy of Information Society that aims to bring Albania up to speed in the digital age. Government legislation has liberalized the telecoms industry, bringing it into line with the EU regulatory framework for communications, which encourages competition.

In 2007, the National Agency for Information Society (NAIS) was set up, aiming at accelerating the development of information society and e- government services. Almost 80% of the basic services at the central government level are currently accessible as e-services at first or second level of sophistication, while more than 50% of G2B services are provided in interactive levels of sophistication.

4.1 Description of the Regional Innovation system

The Albanian government has placed a special focus on the development of the telecommunications sector and related infrastructure. In this regard, considerable progress has been made in recent years regarding e-government, the creation of online services that are conducive to business activities and the introduction of reforms to improve the regulatory regime. Areas for further development encompass new technologies such as 3G mobile, DSL, cable TV and WiMax. At the end of 2010, Vodafone Albania was the first company to offer 3G mobile service to its clients after being granted an exclusive license by the EPCA, followed by AMC in September 2011.

4.2 Human Capital and R&D activities in the region

Being the biggest region in Albania, main Human Capital and R&D activities are concentrated in Tirana Region. Most of high school and universities are in Tirana (public and private one). There are also a couple of training institutes in the region. R&D activities are mostly related with business sector (SMEs).

4.3 Regional investments in R&D

The largest and most important provider of fixed-line telephony in Albania is Albtelecom, the former state-owned national operator. In recent years, however, a growing number of alternative providers has been established and licensed by the Electronic and Postal Communications Authority (EPCA). As per data provided by EPCA, the alternative providers serve around 20% of subscribers as at end of first half of 2011. On the other hand, the mobile telephony market is shared among three established market players, namely Vodafone Albania, Albanian Mobile Communication (AMC) and Eagle Mobile, as well as Plus Communication, a new entrant back in 2009.

The two biggest operators Vodafone and AMC represent significantly more than half of the market with respective shares of 35 percent and 29 percent of revenues in 2010. Mobile telephony is becoming a competitive market with operators continually offering tariff reductions to pre-paid and post-paid customers and providing Internet services through mobile handsets and modem cards for PC to all customer segments. The Information and Communication Technology infrastructure in the country continues to be inadequate and underdeveloped. The demand increase has outpaced the modest progress in the telecommunications infrastructure leading to an increased necessity for further upgrades and improvements.

According to statistics from EPCA, even though the number of Internet users with access to broadband lines increased to 140,000 thousand as at end of first half of 2011 (110,000 at the end of 2010), the Internet penetration rate in Albania stands at only 4.3 percent at the end of first half of 2011 (3.7 percent in 2010) far below the developed countries' average of 71.6 percent, as per statistics of International Telecommunications Union. The main operator is Albtelecom, which has been very active in the provision of Internet access recently. As per statistics of EPCA, at the end of first half of 2011, Albtelecom continues to be the major player in this market by representing 53 percent of the market in terms of number of subscribers compared to 59 percent in 2010.

4.4 Innovation activities

Innovation activities are mostly concentrated to daily activities of startup ecosystem. This ecosystem, in most cases operates independently. Nevertheless, there are a lot of national and international initiatives to support the ecosystem's activities. Innovation Hub Tirana and ProTIK Innovation & ICT Research Center are two examples of the ecosystem that provide

innovative activities such as promoting innovation and creativity, facilitating the creation of links between the ICT sector and other sectors of the economy; increasing the know – how of non ICT people on ICT related subjects, promoting the best practices and international standards, providing access in training and technology to underprivileged groups, etc.

5. Dominant Emerging Industries

The experience of this long transition, in particular the detailed analysis of the GDP structure and contribution of specific sectors to GDP, has proved that agriculture and agro-industry, tourism, trade and services, energy and construction are the most efficient sectors that contribute to the country's development, by giving over 80% of country GDP. However, the new developments of the last decade prove that Albania urgently needs to reorient its economy and its development towards modern and efficient sectors and activities. Numerous studies prove that the country's economic and social development perspective needs to be "turned" towards the industry and manufacturing sectors development, education and knowledge economy, small and medium business development, export-oriented, innovation and start-up sectors.

Tirana region, as one of the largest regions, is the most important and the in the country's economy. The new territorial-administrative division transformed Tirana into the most active economic zone.

Emerging industries or sectors that are developing in the Tirana region are: Construction sector; banking, financial and insurance sector; Healthcare and farm; Energy & utilities; Travel, Tourism and Logistics; Telecom, Media and Entertainment; Retail & E-commerce, etc. These new sectors and activities are changing the economic and financial structure of the Tirana region by shifting traditional sectors such as processing and raw materials industry, mechanical and electrical factories, agro-industry, agricultural and livestock production etc.

5.1 Identification of regional dominant emerging industries

One of the most profitable fields to invest in Albania is Agriculture. The market is dominated by imports and the land is not getting in use by locals, for many reasons. One of them is the lack of investments and funds in this field. The favorable climate and low-cost rural workforce make Albania a good investment destination in the agricultural sector. Compared to other countries in the European Union, where the agriculture sector represents around 2 percent of GDP and 6 percent of the employment according to the statistics of Eurostat, the

agriculture sector in Albania is a significant sector in the country contributing the highest part to the GDP with an average annual contribution of 20 percent and employing more than half of the workforce, according to the Institute of Statistics (INSTAT).

Although it is expected that the sector will develop quickly, it remains inefficient and labor intensive, dominated by small agricultural producers. As of 2009, there were 353,000 registered farms in Albania and total production was valued at EUR 632 million. The number of enterprises operating in agribusiness has not changed significantly during the past years, maintaining on average about 2,000 enterprises.

The general level of interest in investing in this sector has generally been low, mostly due to certain issues faced by the sector such as: migration from rural areas, poor marketing of products, underdeveloped irrigation and drainage systems, poor technological and infrastructure level, weak organization of the farmers, low level of development of the processing industry, etc. However, with the energy and road infrastructure rapidly improving or scheduled to improve in the mid-term, the sector looks more attractive.

One of the sector's selling points is that most of its agricultural products are generally free from artificial additives or pesticides, placing the country in a promising position to become an important producer and exporter of quality organic foods. Some agriculture sub-sectors with a high potential for export and with great investment opportunities include: medicinal plants and herbs, vegetables, canned products such as olives/olive oil, fresh and processed fish, etc.

5.2 Strengths and Weaknesses

Figure no.4: Strengths and weaknesses of Innovation development in Tirana region

Strengths	Weaknesses
<ul style="list-style-type: none"> - Strong growth potential; - Competitive human capital; - Young population (50% of population are under age 35); - Average wage is one of the most competitive in the region; - Literacy rate (97.6%); - Liberal and reformist investment climate; 	<ul style="list-style-type: none"> - High level of corruption; - Low investment in innovation activities; - Uncertain political and economic environment; - Lack of experience in innovation and innovation management - Weak or Poor cross - sectoral collaboration

6. Conclusions and Recommendations

After 25 years dealing with "shock therapy" and "market economy" establishment, we seem to go towards the "closure" of an important transition cycle. We have rigorously implemented the IMF and World Bank prescriptions for the economy privatization and its opening; we appeared to be "orthodox" in macroeconomic balances issues, focusing on economic growth as the only indicator of the economic and governance policy progress. We built an economic model of transition, a profile of the Albanian economy that, with its benefits and defects, became a "locomotive" that pulled us to the end of the second decade of this radical transition, probably the most radical in the whole group of Central and Eastern European countries. But it seems that the model cycle and content is coming to an end, in the sense that many of its elements and energies have reached their maximum and are considered to be depleted for another 10-20 year period in the future.

The current global economic-financial crisis more than its direct impact on the Albanian economy or finances has highlighted some fundamental structural problems: the sustainability of Albanian economic growth. Do we have the appropriate economic model to guarantee the same growth in the coming years? Do we have a structured economy that leads us towards a sustainable long-term development?

Guaranteeing sustainable growth means:

- being able to find and identify "new sources that feed economic growth" or "substitutes" our current sources that in short or medium term are expected to contribute less than now.
- How will we narrow the high trade and payment deficit?
- How will we restructure the rural Albanian area that it is still dominated by mini-agriculture farm and low tendency towards an active agricultural market or the cooperatives rises?
- • How will we develop, restructure and modernize Albanian business dominated by very small family businesses reflecting archaic and informal elements?
- What are the best structural policies that encounter with the European economy where we intend to integrate?
- Which will be the "engine" of the Albanian economy in the coming years? Tourism, Agriculture and Agro-Industry, Energy, Industry, Infrastructure, Education, Knowledge Economy, Services, Development of Small and Medium Business, etc.

It is time to be clear on the basic developing objectives and growth model for the next 10-20 years. This gap is deepened because the main political parties are in constant antagonism between them, to the concept of a "national development strategy" drafted by the political and scientific consensus from both parties.

Economic growth in Albania can be promoted in three ways:

1. through debts and loans from abroad;
2. through exports of raw materials and some finished products;
3. through economic restructuring, products diversification and massive adoption of new technologies;

The first two ways are considered to have a higher and not sustainable risk compared to the third. To support economic growth mostly to foreign investments or credits that we often like to mention as "the peak of every government's success" means feeding the illusion of a lifestyle and development beyond your concrete means; being dependent on the fluctuations, "deviations" and the frequent "whims" of the international financial markets, producing non-real economic growth based on powerful and over-estimated currencies that synthesize an economic structure and consumption far away from our reality.

Even economic growth based on raw materials and their exports or "labor exports" is considered to be unsustainable in medium-term, especially due to the large fluctuations in their prices in international markets. The current crisis that heavily affected the mining industry sector, exports of Fason, is a further proof of this conclusion. Meanwhile, the third way, which according to many positive examples in many countries of the world has produced a constant long-term growth, is the "promotion of processed products and the modern services supplying". Based on the expansion of international markets and processed products demand as well as the positive effects on domestic employment increase, by many specialized centers and institutions, countries such as Albania should make specific economic growth policies with this focus.

Since we want to stimulate long-term economic growth, we should not stick to the "fundamental policies" of structural adjustment programs such as, macroeconomic stability, deepening privatizations, opening up economic liberalization, but focusing on productive policies, especially energy, industrial and agrarian policies, to be careful with financial stability, to introduction new technologies in all economy and business sectors, to focus on expanding human capital and enlarge population involvement on the "contribution and

benefits of economic growth". The economic growth that exists in an economic and financial field dominated by the balance of payments deficit, the considerable trade deficit, the significant dependence of the food market on imports, the subjective stimulation of domestic demand, the widespread exclusion of various social groups and territorial integrity in the contribution and growth benefits is not considered as a sustainable and efficient economic growth.

The vertebral column of this change should be private business, its restructuring and modernization. However, this goal seems irrelevant if we take into consideration the current situation. Albania has made and continues to make favorable policies for "improving the business climate", "tax cuts and simplification of the tax and fiscal system", "easing fiscal pressure on it", but only that is not enough. It is disturbing the business "quality", the fragility and in many cases its "amateurism", its high informality. In economic policy language this is translated as "acute necessity for policies that develop, expand and consolidate business" rather than simply "improving the business climate".

In the political and economic debates, it is discussed about the "end of transition period in Albania" and the beginning of a specific post-transition period where the European integration process and the necessity of sustainable economic growth play a crucial role. Albania is going through a structural adjustment policies phase, began in 1992 under IMF and the World Bank "surveillance" and co-operation, that aim the macroeconomic stability expressed in budget deficit reduction; inflation control; reducing domestic and foreign debt, sustainable economic growth, the deepening of privatizations, the opening up of the economy and particularly the establishment of a free market at a new stage. In recent years we went in a new economic policies phase aiming important structural reforms and transformations, sustainable development and integration into the European and international economy. All this in an intensive adaptation context with communities' standards that define the final goals of the economic, social strategies and policies in medium-long term period.

Being part of Europe, first of all, means having a clear concept and building or consolidates a full social-economic capitalist system. Have we tried to conduct a qualitative analysis to answer with specific policies or questions about the following questions: what is the most appropriate capitalism model for Albania? Are we building a coherent and structured pattern or are we building a mosaic with elements of capitalism, whose "Albanian portrait" do not know and have not "projected" yet into a long-term vision? Here begins the real confrontation

with the problem. Capitalism has some basic principles and rules that make up its core, but on the other hand, each country defines capitalism according to the specifics of its choice. France has chosen the model of "state capitalism,"; Germany, Austria, the Scandinavian countries of "social democracy" capitalism; the United States, England "the liberal Anglo-Saxon capitalism,"; Japan "corporatism capitalism,"; China's "two-speed capitalism"; Italy, Spain, Portugal "entrepreneurial capitalism with SME domination".

In this sense, any debate, analysis or proposition should not be restricted to specific elements of the system, such as the market, economic freedom, comparative advantages, social policies, the state's presence in the economy, the tax system, insurance social and pension, etc., but deal with the capitalist model we should build. To a large extent, Albania has built the main structures of the "market economy" but has just begun to build capitalism institutions and profiles its "model".

This model does start and end in the market and individual freedom, but it needs to be considered and crystallized, taking into account the establishment and consolidation of specific institutions, democracy power, the necessary political compromises and psychological factors and historical memory of each country. These elements are taken into consideration by one of the most important economists in his analysis of capitalism models; when he points out that "the analysis of the transition path of the former communist countries of central and eastern Europe, already EU member states, testifies the emergence of an original form of capitalism, a model that is highly adapted to their economic, social, political and psychological history and reality."

Before referring to a model as "liberal," "ultra-liberal," "regulative," "institutional," "historical," "neo-Keynesian," etc, we should take into consideration comparative historical and geographical analysis, the experience and problems of other Central and Eastern European countries that are already integrated into the EU. According to experts of capitalism models, it is simply an illusion the practice of importing a ready model and establishing a mosaic with the best parts of the different models. Only by understanding them in their entirety and respecting the complexity of any capitalism model that already exists in the world, with its positive and negative parts, we can get the best experiences from other EU countries.

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Regional Report on Innovation Potential and Dominant Emerging Industries



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