

Accelerating Growth through Targeted Investment Promotion

Policy Note | November 2020

Tim O'Brien, Daniela Muhaj, Hector Zevallos, Jessie Lu

The investment promotion process in Albania is underperforming versus its potential. Between 2014 and 2018, the Albanian economy saw accelerating growth and transformation, which has been tied to the arrival of foreign companies. However, Albania has the potential to realize much more and more diversified foreign direct investment (FDI), which will be critical to accelerating growth in the period of global recovery from the COVID-19 pandemic. As the Albanian economy weathers the storm of COVID-19, it is critical to look to the future by enhancing the investment promotion process to be more targeted and proactive such that Albania can attract transformative global companies aligned with the country's comparative advantages. This is not only a critical step toward faster and more resilient economic growth in Albania; it also happens to have very high returns in comparison to the limited fiscal spending required to implement the actions required.

The targeted investment promotion approach discussed in this note would capitalize on Albania's many existing comparative advantages for attracting efficiency-seeking FDI. It would not displace Albania's Strategic Investment Law nor the activities of the Albanian Investment Corporation (AIC), which aim to expand the country's comparative advantages. Efficiency-seeking FDI — global companies that expand into Albania to serve global markets because it makes them more productive — do not need extensive tax incentives, regulatory exemptions, or other subsidies. In fact, an overreliance on these approaches can crowd out firms that do not want or need to rely on government support. Adding targeted investment promotion to Albania's growth strategy would lead to more jobs, better quality jobs, more inclusive job growth, faster convergence with the income levels of the rest of Europe, and ultimately less outmigration.

This note summarizes the Growth Lab's observations of the investment promotion process in Albania, over the last year in particular, and lays out recommendations to capture widespread opportunities for economic transformation that have been missed to date. The recommendations provided at the end of this note provide a roadmap for building an enhanced network for targeted investment promotion that is specific to Albania's context. These recommendations recognize the current constraints that the COVID-19 pandemic creates but also look past the pandemic to prepare for opportunities that will emerge during the global recovery.

Importance of Targeted Investment Promotion – Before & After COVID-19

The Growth Lab has witnessed an extraordinary seven years in Albania over the course of its research engagement. The Government of Albania's success in addressing macroeconomic imbalances, reversing electricity system insolvency, and delivering steady improvement in public infrastructure and public services allowed economic growth to gradually accelerate on a sustainable foundation up to the emergence of the COVID-19 pandemic, albeit with a slowdown caused by temporary factors in 2019. Yet, the overall speed of growth and job creation remains below what is possible. Our [new visual story](#) tracks Albania's recent growth history and describes key steps needed to capture opportunities to accelerate growth. Arguably the most important step is also the lowest cost and faces no political obstacles: targeted investment promotion.

What do we mean by targeted investment promotion? We mean something very particular:

- **Targeted**: For a country like Albania that is not well-known to global companies (or worse, suffers from negative and inaccurate stereotypes of the economy and business environment), the country needs to make clear and well-developed cases (or [pitches](#)) to individual companies and/or specific industries that show that they can succeed by investing in business operations in Albania. These companies have to be identified through an objective process in order to prioritize those that would be both likely to thrive in Albania and likely to deliver significant economic benefits.
- **Investment**: There are many different types of investment, but here we are talking about efficiency-seeking FDI. As described earlier, this is business investment that can expand into Albania because the country provides an environment in which they can thrive in producing goods and services that they sell not only in Albania but also to the rest of the world. In doing so, these companies employ Albanian workers, but they also tend to seed industries and innovation in the Albanian economy that drives up wages and builds the economy of the future.
- **Promotion**: Note that this is not about providing tax incentives, free land, relaxing regulations, or other incentives. This is simply about promoting the opportunities that Albania can provide to global companies. Promotion must be proactive and iterative, whereby a coordinated network of Albanian officials contacts companies that there is reason to believe would thrive in Albania. But promotion also does not stop with first contact or the generation of a "lead". Promotion must continue in the form of proactive follow-up (or "facilitation"). This facilitation involves both connecting specific companies to specific locations where they can set up

operations and helping companies to efficiently solve specific delays and roadblocks that may arise through coordination with various public sector entities.

As Professor Ricardo Hausmann described in his 2019 Project Syndicate [op-ed](#), when commenting on targeted investment promotion: “This requires people in and out of government to imagine what is not yet there, figure out what is needed to establish it, and determine whether it would be both feasible and valuable to society.”

It is important to recognize that targeted investment promotion differs from the Albanian concept of “strategic investment” and the channel structured by the Law on Strategic Investments. Both concepts are important, but they serve different purposes. The Law on Strategic Investment aims to overcome instances in which investments that could provide substantial economic benefits do not materialize because the projects are not commercially viable without an attractive incentive package. Targeted investment promotion, on the other hand, aims to address instances in which investments that would be commercially viable and beneficial to the economy do not materialize because foreign investors do not know about the opportunity or face some small roadblock that stands in their way. Targeted investment promotion is really about overcoming information problems. This is why it is relatively cheap. Given the Growth Lab’s research on Albania, it is also clear that targeted investment promotion is critical to accelerating economic growth. Table 1, below, summarizes how different government actions are related to different types of investment.

Table 1: Three Distinct Tools for Investment in Albania

| <i>Tool of Government</i> | <i>Goal / Type of Investment / Requirements</i> |
|--|--|
| Targeted Investment Promotion Network | To overcome the information problem to attract efficiency-seeking FDI that can thrive in Albania without costly incentives. Since this requires specific pitches to specific companies, activities must be targeted. This implies using evidence to identify companies whose investment is both viable in Albania and attractive to Albania, creating communication strategies, and coordinating the investment promotion network to generate leads and facilitate investment. |
| Law on Strategic Investments | To utilize an incentive package for private investment that would deliver very large economic benefits but that would not be commercially viable in Albania without such incentives. These investments will sometimes be related to infrastructure. The criteria to qualify for this package should be strict such that otherwise viable companies hold out for tax breaks and other incentives and such that it does not absorb all state resources for investment promotion. |

| | |
|---|---|
| <p>Albanian Investment Corporation</p> | <p>This entity has been built to develop investment projects that are not commercially viable by the private sector because they need the active participation of the public sector in some form. These investments will usually require innovative project vehicles that have not been used previously in Albania and thus need a specialized institution to develop them.</p> |
|---|---|

It is also important to recognize that targeted investment promotion is not something that can be done by isolated individuals but rather requires a network. Albania already has several parts of a network in place, including AIDA and numerous ambassadors abroad that have been trained in economic diplomacy, as well as the E-Invest platform as a tool for coordinating the network to ensure that investment leads receive appropriate follow-up attention and that progress through the investment process is tracked. This network has allowed for some improvement in Albania’s investment promotion. However, the fruits of investment promotion remain limited because the network’s actions are not targeted. The network therefore generates a lot of “empty” leads and the facilitation process breaks down.

The fact that the investment promotion network is not oriented around targeted investment opportunities limits its impact. Ambassadors are not provided with lists of companies to target or compelling pitches to present to them. As a result, the outreach of ambassadors generates leads with lower likelihoods of advancing to actual investments. For this reason we recently developed a tool — the [Albania Industry Targeting Dashboard](#) — that can be used together with the [Atlas of Economic Complexity](#) and publicly available information to identify businesses whose investment would be both viable in Albania and attractive to Albania. Through dedicated work to generate country-specific lists of businesses to target and detailed intelligence with which to make the pitch to those companies to invest in Albania, the network could generate many more promising leads than it currently does.

At the same time, AIDA staff are playing an essential and time-demanding role in the facilitation and follow-up of investment leads. This work is mission critical, and numerous recent investments, including in the electrical and automotive industry, would not have happened without it. Through iterative workshop sessions on the Targeting Dashboard and Atlas of Economic Complexity conducted remotely over four months this year, we learned that AIDA staff have the individual capabilities to do targeting research and to act as facilitators but that the organization is understaffed to do both roles. As a result, a small number of individuals are simultaneously doing both jobs. Targeted investment promotion would be more effective if staff were able to specialize and if AIDA had a significantly larger staff to dedicate to each task: targeting research and

facilitating investment leads. Greater targeting of investment opportunities would allow for more promising investment leads, while greater facilitation would allow for more of those investment leads to become operational.

In important ways, we believe that a focus on “strategic investments” has crowded out the ability of the investment promotion network to also conduct targeted investment promotion.¹ This was true before the onset of the COVID-19 pandemic, but the gap has become more important amidst the crisis and will continue to be important through the period of global recovery. Right now, it is important to begin to generate carefully targeted strategies to fully deploy as global demand and investment recover. The impacts of COVID-19 are far reaching in ways that will cause companies across many industries to rethink their global investment strategies, something that has already started to happen.² This will look different for different industries, but companies will generally want to increase the robustness of their supply chains and production networks in preparation for future shocks, and they will generally want to take advantage of digital infrastructure that has developed as a result of the crisis.

Positioning Albania to take advantage of these trends requires dedicated staff for targeting. Without this step, Albania is almost certain to miss a wave of opportunities as the global investment landscape re-organizes itself. This targeting effort is especially needed to ensure that investment promotion responses to COVID-19 do not focus on the same general business areas that all countries are likely to target, but instead focus on specific niches that are a good fit for Albania.

Progress Against Past Recommendations and Best Practices Globally

Although it does take on added importance at this time, the need for targeted investment promotion is not new and it is useful to look back at past recommendations related to this topic. In May 2019, we provided a set of recommendations as part of AIDA’s reorganization plan. In those recommendations, we stressed several important steps for AIDA and several steps that extend across government, because effective investment promotion requires more than an investment agency acting alone. We have tracked the impact of AIDA reorganization over much of the last year through in-person

¹ For instance, detailed tracking information is kept for potential investments that qualify as strategic investments, but other leads receive less facilitation attention. This effectively devotes more resources of the investment promotion system to projects that are less viable in the country versus others that would be more viable. This is a counterproductive outcome.

² It is worth noting that the World Bank Enterprise Survey [COVID-19 update](#), completed in June 2020, indicates that FDI firms in Albania tended to be very exposed to the COVID-19 shock (more temporary closures, more prevalent loss of demand), but they have also been more able to adapt (higher rate of adjusting or converting their production or services and ultimately less loss in monthly sales). Meanwhile, they also have higher shares of female employment, including during the pandemic.

and virtual interactions as well as through a structured survey of AIDA management. Table 2 below reflects our understanding of progress to date compared to our past recommendations.

Table 2: Progress Against the Growth Lab’s May 2019 Recommendations

| Entity | Recommendation | Progress |
|---------------------------------|--|---|
| AIDA Reorganization Plan | Double the number of officers tasked with transforming investment leads into active investments through managed follow-up and handholding. | Unclear – New account managers have been hired, but not clear if enough. Staff members have multiple responsibilities rather than a singular focus on this role. |
| | Create a centralized research unit to develop “pitchbooks” for investment opportunities (and co-develop with line ministries as appropriate) and specific materials for individual leads. | Minimal – In a structured survey AIDA management provides conflicting information, and targeted promotion materials are limited. |
| | Provide clear coordination and support of investment promotion activities both “upstream” (ex: provide promotion resources and targets for ambassadors) and “downstream” (ex: coordinate with municipalities on site visits, businesses registration processes, etc.). | Some Progress – Clear coordination improvements “downstream”. Ambassador network has been active, though with limited coordination across network. |
| Across Government | <i>Creating Goals:</i> Develop KPIs for each step of the investment promotion process, including: research department preparing promotional materials; account managers collecting leads; account managers coordinating follow-up communications; aftercare officers engaging existing investors. | Minimal / None – The Growth Lab team is not aware of any explicit KPIs |
| | <i>Measuring Progress:</i> Independently track KPIs with sustainable monitoring systems (including E-invest) and dedicated budget and staff resources. | Minimal – The E-invest platform has provided important information despite the system’s flaws, but not clearly measured against KPIs. |
| | <i>Coordination and Leadership:</i> Establish inter-ministerial coordination authority that actively establishes goals, reviews progress, resolves bottlenecks and takes ultimate responsibility for success. <i>This is ultimately the most important step.</i> | Minimal / None – No outward indications of progress. |

Overall, we have seen very limited progress on the recommendations put forward last year, which remain relevant. We have seen relatively more progress within AIDA toward building the capabilities necessary for success than across government but not at the necessary scale. Given the importance of targeted investment promotion and facilitation, AIDA remains understaffed for both developing targeted investment promotion materials and strategies to generate good leads, as well as transforming leads into active investments. This understaffing is exemplified by AIDA's reliance on the same officers to play both roles, when each role warrants full-time staff to specialize and deliver on clear key performance indicators.

AIDA also continues to fall short of implementing several important global best practices for investment promotion, which were recently studied by the World Bank and the World Association of Investment Promotion Agencies through a pre-COVID global survey of investment promotion agencies.³ While not all global best practices are applicable to Albania's context, the following are noteworthy and relevant:

- Limit the number of mandates given to investment promotion agencies to ensure that resources are concentrated on promotion tasks. AIDA has four explicit mandates listed on its website, which include: (1) promoting and supporting Foreign Direct Investment (FDI); (2) increasing the competitiveness of the private sector; (3) strengthening the export potential of the country; and (4) promoting national tourism.⁴ However, these responsibilities are not exhaustive as AIDA is also responsible for other facilitation and support services for investment promotion including some that fall under the "Strategic Investment Law". These additional duties and mandates are also demanding of AIDA's already limited institution resources and attention. The survey finds that half of all investment promotion agencies have between six and 10 mandates, which research summarized in the survey report suggests is too many.
- Provide sufficient staff for the core function of investment promotion. AIDA has seven specialists dedicated to both investment promotion and aftercare,⁵ compared to the global average of 38 staff (13 exclusively for FDI) for investment promotion alone, which the WAIPA-WBG report stresses is typically too few.

³ Sanchiz, Alex, and Ahmed Omic. 2020. [State of Investment Promotion Agencies: Evidence from WAIPA-WBG's Joint Global Survey](#). Washington, DC: World Bank. Geneva: WAIPA (World Association of Investment Promotion Agencies). *Note: Our understanding is that AIDA is not a member of the association and was not one of the 91 investment promotion agencies that participated in the survey.*

⁴ AIDA's mandates are based on the *About Us* section on the website: <http://aida.gov.al/rreth-nesh/>

⁵ This estimation is based on AIDA's organizational chart: <http://aida.gov.al/struktura-organizative/>

- Limit the number of “priority” sectors to provide appropriate focus and base these priorities on an objective assessment of the location’s competitiveness . AIDA has five broad priority areas that are determined by the Albanian Strategic Investment Law: (1) energy and mining; (2) tourism; (3) agriculture and fisheries; (4) economic zones; and (5) areas with development priority. Priority areas 1-3 are broad, while priority area 4 appeals to developers of economic zones, which is a specialized and complex process that an institution like AIC would be better suited to manage. The final priority area, meanwhile, is a catch-all category that is particularly broad. The survey finds that many investment promotion agencies target the same group of sectors (including renewable energy, ICT, biotechnology & medical products, and agriculture) and take a top-down approach to identifying these sectors based on national development strategies, as opposed to a bottom-up approach based on evidence of what FDI would be most viable in the country and most beneficial to economic transformation. More effective strategies tend to target competitive niches based on evidence while still linking with national development goals.
- Provide adequate focus on the second stage of the investment life cycle (entry and establishment or “facilitation”) and not only the first stage (attraction). AIDA's focus is largely on the initial stages of the investment process, but fails to provide services in the latter stages. AIDA states on their website, without elaborating on staff capacity or resource allocation, that they offer the following facilitation services to investors: “*Advice* on the environment suitable for the success of projects, operating regions, investment plans, financing methods”; and “*Assistance* to investors with exploratory visits to Albania and at different stages of project implementation.” The global survey finds that nearly all investment promotion agencies participate in events to promote investment, but a significant number of agencies do not provide one or more key services to support the entry and establishment of investors after the initial interest of the investor has been gained.

Meanwhile, AIDA’s governance structure is one that is already considered best practice. Globally, there is an ongoing shift toward investment promotion agencies becoming autonomous or semi-autonomous public entities under a ministry, and research supports that it is best for agencies to report to a strong ministry or the head of government. AIDA already fits this mold. Likewise, Albania has an information system in the E-invest platform that many other investment promotion agencies lack, as it contains both investor information and helps to coordinate investor-relationship management across government entities. Albania is also ahead of the curve in how it leverages the

foreign service for investment promotion through ambassadors and embassies abroad. However, despite having these pieces in place, we have seen very little improvement along the second half of our recommendations from May 2019 that concern cross-government needs and we think that we understand why.

We understand that there are some unresolved technical bugs in the E-Invest platform that prevent it from accurately calculating and reporting the status of all investment leads automatically. This is one issue preventing the full use of the system for establishing and monitoring Key Performance Indicators (KPIs) along the whole chain of investment promotion inputs, activities, outputs and outcomes. However, we also know that AIDA does successfully track the status of leads manually, as clear excel-based tracking files have been shared with us. These tracking sheets provide particular detail on the stages of progress for leads that fall under the strategic investment classification but not others. While we recommend that project tracking include a specific industry classification (NACE or other) to better monitor trends, current weaknesses of the E-Invest platform do not stand in the way of developing KPIs.

Our understanding is instead that the investment promotion network requires leadership that owns the objective of targeted investment promotion. Such leadership would be able to expand staff resources for both generating targeting information and facilitation. Importantly, leadership would also monitor the effectiveness of each of those units, as well as the ambassador network, through KPIs. The KPIs for each part of the investment promotion network would need to be developed — something that the Growth Lab team can help with — but leadership would need to demand that performance against KPIs is reported and investigate areas of weak performance so that problems can be addressed.

What would targeted investment promotion look like in Albania?

Targeted investment promotion in Albania would require moving away from broad sectors and largely passive promotion activities to highly-detailed and evidence-based strategies for business attraction at the level of sub-industries and even at the level of companies. The focus of this strategy, as explained in the previous sections, should be on increasing the attraction and absorption of efficiency-seeking FDI based on assessments of fit with Albania's comparative advantages and disadvantages.

The starting points for where to focus targeting attention can come from multiple directions. One could start by identifying a viable value chain that Albania may want to break into (i.e. the automotive industry), a broad sector of economic activity (i.e. business processing), or a set of products within a larger value chain (i.e. plastic and

rubber components, wire harness, or car seat components for the automotive industry). Whatever the starting point may be, dedicated officers need to develop customized pitches through market research and strategies for how to reach appropriate companies. Good pitches must connect compelling evidence of Albania's comparative advantages with investors' expansion and business goals.⁶ A well-tailored pitch must understand and match the company's production structures, market interest and pain points in order to show the company that Albania has what it needs to thrive.

The effectively targeted pitch needs to be specific and tangible in the business activity rather than a wide-ranging sector, and ideally should pitch specific locations (regions) in Albania rather than Albania as a national destination. AIDA already has general promotion resources, however there are opportunities to move to more targeted resources. For instance, AIDA's promotion document [Albania Calls](#) includes a section on sectors (i.e. manufacturing, travel and tourism, agriculture etc.), which could be much more specific. Both within this document and in their own independent resources, sub-sectors could be clearly identified together with compelling reasons why companies would succeed in Albania. KPIs for a unit that focuses on research for targeted investment promotion should be developed to capture the number and quality of pitches developed into promotional resources by the unit, the practical effectiveness of strategies developed by the research unit, and the degree to which the unit incorporates feedback from promotion officers that use the resources.

What should investment promotion be targeting for Albania?

The following are several potential starting points where the research unit could begin to develop targeted pitches and informed strategies for outreach. These starting points are based on Growth Lab observations over the last several months working to develop the *Albania Investment Targeting Dashboard* and providing training sessions to AIDA on both the dashboard and the *Atlas of Economic Complexity*.

Electrical Wiring Devices: Albania has had recent success in attracting producers of wiring harnesses for cars (i.e. Yura, Sumitomo). Exports of insulated electrical wire (HS 8544) have also grown rapidly from under 4 million USD per year to over 18 million USD over 2015-18, driven by exports to Germany and the Czech Republic. Meanwhile, growth in bilateral trade with Italy in electric motors and generators (HS 8503) and parts

⁶ For instance, once AIDA conducts the detailed research on a list of potential companies it might notice that one company's expansion plan is centered around finding a large labor market to help scale its production, while a different company is looking for an entry point in the European market that offers competitive labor market costs and competitive electricity costs. The latter company would be a much better match with Albania's competitive advantages, and AIDA would customize the pitch to that specific company.

for use with electric generators (HS 8503) has been robust since the mid-2000. Several questions to ask in order to develop targeted pitches are as follows:

- *Do companies that produce wiring harnesses tend to produce other wiring products as well?*
- *Are there suppliers to wiring harness companies that may find it advantageous to expand into Albania?*
- *What similar products (based on distance in the Product Space) are growing in demand in European markets and regional value chains where efficiency-seeking FDI is likely to expand in the future?*
- *What pitches can Albania start making in very specific terms to very specific companies based on questions like those above?*

Plastics and Derivative Products: Manufacturing of plastics products appears to be very well-aligned with Albania's comparative advantages and capabilities.⁷ The scale and diversity of plastic exports have been gradually expanding in Albania in recent years. Note that this trend relates to production and not waste recycling or treatment. While some plastic products that have grown in Albania may be inputs into automotive value chains, most are unrelated to the automotive sector, and the diversity of plastic products that are produced globally is likewise enormous. Therefore it would be a mistake to approach plastics merely for their linkages to the automotive sector. Each product has its own global market dynamics and some products will be better suited than others. One example of a narrowly defined product is packing lids, which is connected to several products in which Albania already has a comparative advantage (i.e. the textile cluster). Scaling packing lids would likely help Albania to tap into higher complexity products in the future. While the scale of growth in plastic products overall so far is small, the scale of the opportunity appears to be very large. The following questions can help in-depth research for plastics to identify a range of additional products beyond packing lids:

- *What other plastic-related products are related to Albania's capabilities based on the Product Space?*
- *What types of plastic products are currently being produced in nearby countries or otherwise similar countries to Albania? Are they looking to expand beyond those countries for reasons that Albania could fill (for example, uncompetitive wages in Romania or Bulgaria).*

⁷ See Annex 3 for an example of how Growth Lab-developed tools can be used to support targeting research, using the example of plastics manufacturing and the product of packing lids in particular.

- *How might COVID-19 reorganize global supply and demand for plastic products, especially as related to the healthcare industry? Does this reorganization create strategic opportunities for FDI in Albania?*

Agriculture Exports, Food and Seafood Processing: Albania has seen a recent boom in agriculture and seafood exports. In recent years, Albanian farmers have enjoyed both improvements in productivity — especially through the use of greenhouses — and better access to export markets — especially through the emergence of more collection points. Over the period from 2012 to 2016, for example, the growth rate of Albania’s agriculture, seafood and processed food exports was the 16th fastest in the world according to the Atlas of Economic Complexity. Based on the success of foreign companies so far in Albania and the scale of low-productivity land use and subsistence farming, there is ample room for scaling and expanding foreign direct investment in areas such as: centralized aggregators of fruits and vegetables that do advanced contract farming, seafood in demand across the EU (mussels, crustaceans and fish), and missing pieces of value chains for high-quality meat production. These are clear opportunities but they need to be developed into compelling pitches and research needs to be done to identify companies to target. Some guiding questions to further identify and investigate targeted investment opportunities include the following:

- *What aggregating companies from countries with advanced agriculture ecosystems (Netherlands, Israel, etc.) have interest in being early movers in developing countries?*
- *What seafood items show similarities to those where FDI in Albania has been successful and what companies could be targeted that will be impressed by the success of current FDI in the sector in Albania (particularly in Spain, Portugal, Italy)?*
- *What has the Ministry of Agriculture and Rural Development identified as key gaps in the meat export value chain and what information can the Ministry leverage for targeting investment promotion?*
- *How is COVID-19 impacting imported food supply in the EU and does this imply opportunities for Albania to enter the market as a supplier for products whose supply chains broke down during the pandemic?*

Software Development / Data processing, hosting, and related activities: This is an industry with high viability and very high attractiveness in Albania. It is also likely to be an area of dynamic international investment during and after the COVID-19 pandemic. Given the development and growth of Business Processing Outsourcing (BPO) in

recent years, Albania already has firms intensively involved in business services in comparison to the rest of Europe. While the growth of the sector has been mainly driven by call centers and customer-service related activities, recently higher skilled opportunities such as accounting and auditing services, data processing and web services have emerged. There are examples of successful companies who have been able to invest and scale in Albania (see [mozenda](#) as an example). The opportunities for moving beyond the call center model to more complex business outsourcing opportunities are vast but poorly identified to date. The types of questions that could be asked while conducting additional research to identify specific opportunities include:

- *What are the higher end business services that have already emerged in the past few years and how can they be scaled? Are there opportunities to collaborate with leading companies in Albania that would now like to see the ecosystem grow to develop sophisticated pitches to other companies?*
- *What additional opportunities does the existence of accounting, web services and data processing activities unlock? What are the main regional and global players in these areas? What are their business and expansion goals? Do they match Albania's comparative advantage?*
- *What emerging sub-sectors and applications are scaling as a result of COVID-19? Among these, where might Albania have the greatest viability?*

The list presented above is far from exhaustive. It merely provides some ideas with which to start. The process of identifying opportunities and generating customized pitches should be ongoing and iterative within and across targeted sectors.

Who must conduct targeted investment promotion in Albania?

As discussed previously, targeted investment promotion is the work of a network rather than the work of isolated individuals or a single organization. The following teams and organizations must all contribute for targeted investment promotion to be highly effective and impactful. Annex 1 provides a visual schematic of how the network should interact through feedback loops, and a table is provided in Annex 2 to help guide the development KPIs for each actor in the network.⁸

⁸ There are various examples and resources that AIDA can leverage as a basis for developing its own KPIs. A few examples include: [Monitoring and evaluation of Foreign Direct Investment in Kazakhstan](#) and [Monitoring and Evaluation: A Brief Guide for Investment Promotion Agencies](#).

Research Unit for Targeting

AIDA's Research Department must house a small group of specialists who do targeting research and resource development on a full-time basis. The responsibilities of this unit should include: identifying products and business segments that are within Albania's comparative advantage (using tools such as the [Albania Industry Targeting Dashboard](#) and the [Atlas of Economic Complexity](#) as well as other resources for market research); outlining strategic approaches for investment promotion officers (including short lists of companies for economic diplomacy); developing targeted resources to share with companies (highly targeted at the industry- or product-level and/or to individual companies); and, very importantly, incorporating feedback received from investment promotion officers from their use of resources in order to improve them and refine them and conducting research on new leads generated by officers and diplomats the field. It is important to note that the targeted investment promotion process does not always start with the research unit. While the unit might spend 75% of its time identifying opportunities and developing pitches for them, it might spend 25% of its time responding to information generated by promotion officers to provide market research and materials to empower the facilitation team.

Key Line Ministries

Several line ministries — including the Ministry of Infrastructure and Energy, the Ministry of Agriculture and Rural Development, the Ministry of Tourism and Environment, as well as the State Minister for Diaspora, among others — should all coordinate with the research unit for targeting. Ministries have very powerful information that can be utilized to strengthen pitches and identify targets. Ministries should have small liaison teams that are responsible for coordinating with AIDA when requested and these liaison teams should report directly to ministers. These same teams should coordinate with the AIDA facilitation and aftercare team as well (see below).

Private Sector in Albania

In some cases, existing companies in Albania (both domestic and foreign) will be the greatest advocates for related FDI that would strengthen their own value chains, talent pools and market access. The AIDA research unit should coordinate with the existing private sector in its research in order to identify information that would appeal to new foreign investors and, where appropriate, to partner with existing companies to generate effective promotion materials. Where willing, the private sector can also meet with potential new investors in the lead generation and facilitation phases.

Investment Promotion Outreach Officers & Economic Diplomacy Representatives

Albania's investment promotion system appears to have sufficient staffing for outreach to companies, including through the recently expanded capabilities of ambassadors to generate leads. However, our assessment is that the efforts of this significant outreach capacity are poorly targeted and that outreach officers, ambassadors and other representatives do not have strong materials to provide to company contacts in order to build a strong pipeline of FDI leads. The ongoing efforts of this portion of the network would be enhanced by the work of the specialized AIDA research unit for targeting. Outreach representatives would continue their ongoing efforts but would have at their disposal both strategic lists of companies to communicate with and packages of information to use to enhance initial discussions. This would be expected to generate a stronger pool of investment leads, which would be entered into the E-invest system as is currently done. Within the strengthened network for targeted investment promotion, these representatives would also be free to pursue leads of their own determination, as is the case today. In both cases — companies identified through the research unit and companies identified independently — outreach representatives would play an important role in providing information, feedback and questions to the research unit in order to iteratively improve the targeting efforts.

Facilitation Team

AIDA's facilitation team needs to be functionally separated from the research unit for targeting, with staff dedicated to the objective of turning leads into active investments. Over the course of an individual's career at AIDA, one might move between the research and facilitation team, but at any given time, an individual should be assigned to only one role such that each team can be most effective. The facilitation team must proactively coordinate with all potential FDI in the pipeline in order to help the leads explore specific investment opportunities and navigate the investment process. The facilitation team is responsible for finding ways to address barriers that arise as individual companies explore their investment opportunity in Albania. Indications are that AIDA is currently playing a critical facilitation role and that coordination with line ministries, municipalities and other government organizations that an investor interacts with over the course of a new investment are improving. We do not know the precise number of staff that the facilitation unit requires, but the goal is to ensure that all leads receive the individual attention that they need. It is important to recognize that if targeting activities are to be increased as is proposed in this note, the need for facilitation staff will increase as well. We recognize that the Government of Albania may face challenges in funding an increased staff, but our analysis suggests that these staff

positions deliver very large economic returns in proportion to the cost of their salaries. As with other parts of the investment promotion network, feedback loops are once again key. Facilitation team members will need to take responsibility for providing feedback to both the targeting unit and outreach representatives to continue to improve the quality of investment leads over time.

Aftercare Team

AIDA's aftercare team remains an important part of the investment promotion system, even though its responsibilities begin only after an investment is operational. Information that is gathered through aftercare activities to track the evolution of businesses and help to resolve issues that arise during operations is just as important to feed back into the targeting, outreach and facilitation processes. In terms of targeting, the actual experience of businesses can be one of the best inputs for what to target in the future. In terms of facilitation, aftercare contacts with businesses can prove useful toward supporting new entrants in understanding opportunities in Albania and navigating processes.

Authority Figure Responsible for Overall System Success

A single authority figure is needed to hold the entire system accountable. This authority figure should be appointed by the Prime Minister and ultimately be responsible for the success of the system. As such, this individual should have the authority to: channel necessary budgetary, staffing and other resources to parts of the investment promotion network; monitor the performance of all parts of the system on a continuous basis; and take actions to fill gaps and resolve issues as they emerge. In many governments, a role like this might be informally termed an investment promotion "czar" to capture the active and authoritative role that the individual must play in overseeing the system.

Conclusion and Recommendations

This note has discussed the importance of establishing targeted investment promotion as a key part of Albania's growth strategy, as the pace and resilience of Albania's economic growth in the years to come will be limited by how fast the economy can absorb global knowhow to diversify economic activities. This is one of several government capabilities that Albania must build in order to keep pace with the expanding demands of a more complex economy. Albania already has several important components of a successful investment promotion network in place, but the ability of this network to thrive has been limited by a few missing pieces and lack of overall cohesion and strategic direction of the network. This note has discussed key

aspects of what targeted investment promotion could look like in Albania and how to get there. The following recommendations summarize action steps to be taken by the Government of Albania. These can be taken now, despite the pandemic and election calendar. We believe that these steps will be instrumental to supporting strong recovery from COVID-19 and better growth of jobs and opportunities for many years ahead.

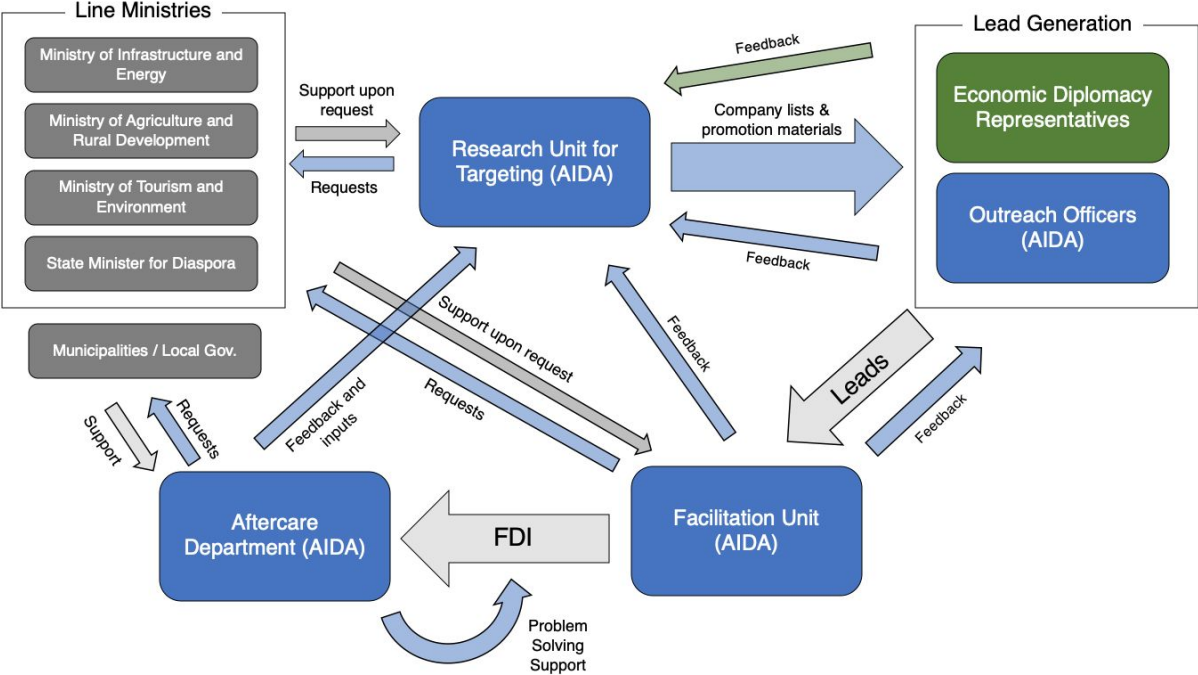
Recommendations

1. Embrace targeted investment promotion as a core goal of the GOA, with a single authority figure responsible for the performance of the investment promotion network. This includes monitoring KPIs, addressing gaps, and ensuring that each part of the system has the resources it needs in order to be successful.
2. Establish a specialized research unit in AIDA and provide sufficient staff resources for it to conduct full-time targeting research and strategy development. This unit would be responsible for:
 - a. Producing a stream of targeted investment promotion materials (while collaborating with line ministries and the private sector as necessary) and strategies based on research, starting with a focus on targeted opportunities for promotion during the ongoing COVID-19 pandemic
 - b. Providing targeted resources and lists of companies to contact to Ambassadors
 - c. Iterating on resources based on feedback received by promotion officers, Ambassadors, facilitation staff, and other actors in the network
 - d. Conducting research on changing FDI space due to global issues, such as COVID-19
 - e. As deemed appropriate, updating/expanding the Albania Targeting Dashboard developed by the Growth Lab
3. Establish small teams within relevant line ministries with the responsibility of coordinating on research and strategy development with AIDA's research unit. These units should report directly to the Minister.
4. Update the economic diplomacy strategy, led by the Ministry of Foreign Affairs, such that the ambassador network effectively prioritizes roles in communicating

with companies identified by the targeting unit, while also introducing new targeting opportunities to AIDA through ambassador's own initiatives.

5. Expand AIDA's facilitation staff and make this a specialized unit distinct from both targeting research and aftercare functions.
 - a. Continue to utilize E-Invest but provide full attention to all leads, not just those with strategic investment status.
 - b. Institutionalize and expand successful mechanisms for coordinating with local governments & line ministries.
6. Develop KPIs (and a process for reviewing and updating them over time) for all parts of the investment promotion network — with a special focus on maximizing feedback loops between all actors in the investment promotion network.
7. If not already a member, join and actively participate in WAIPA. Seek to understand ways in which other investment promotion agencies are overcoming constraints related to COVID-19.

Annex 1: Schematic of the Investment Promotion Network



Note: A single empowered individual is recommended to take responsibility for the functioning of the system, including through monitoring KPIs of each actor in the network.

Annex 2: Possible KPIs for Actors in the Investment Promotion Network

This list merely reflects broad ideas for key performance indicators (KPIs) for various actors in the investment promotion network. Appropriate KPIs would be critical to success such that leadership can monitor progress and address weak points in the system. A process for establishing KPIs should be very inclusive of all actors in the system. A single authority figure would have the responsibility for the regular (perhaps weekly) review of KPIs and taking actions to resolve issues that emerge.

| Actors | Role in the Network | Potential KPIs |
|--|---|---|
| <p>AIDA Research Unit for Targeting</p> | <ul style="list-style-type: none"> ● Identify specific industry or product opportunities through research ● Coordinate with line ministries, private sector and others to maximize information ● Develop promotional strategies at the company level ● Develop promotional materials for outreach officers and Ambassadors ● Absorb feedback from rest of network into promotional strategies and resources ● Explore important global trends (such as how COVID-19 is impacting global/regional FDI) | <p>To be assessed <u>for unit as a whole</u>:</p> <ul style="list-style-type: none"> ● # of specific industries researched in high detail (measured against a goal) ● # of company-level strategies developed (measured against a goal) ● # of promotional materials produced (measured against a goal) ● # of updates in strategic direction to a key set of ambassadors (perhaps a goal of one update per month) ● Quarterly assessment of quality of promotional strategies and materials by outreach officers and ambassadors (by survey) ● # of recommendations utilized from: outreach officer & ambassadors; facilitation unit; aftercare department |
| <p>Key Line Ministries</p> | <ul style="list-style-type: none"> ● Coordinate with research unit to contribute to promotion strategies and materials ● Coordinate with AIDA facilitation unit as needed to provide information and address problems faced by potential investors ● Coordinate with AIDA aftercare team as needed to provide information and address problems faced by existing investors | <p>To be assessed <u>for each ministry</u>:</p> <ul style="list-style-type: none"> ● Responsiveness of ministries to information requests by research unit (# of responses given as a share of requests) ● # of promotional strategies co-developed with research unit ● # of promotional materials co-developed with research unit ● Quarterly assessment of quality of support by facilitation unit and aftercare department (by survey) |

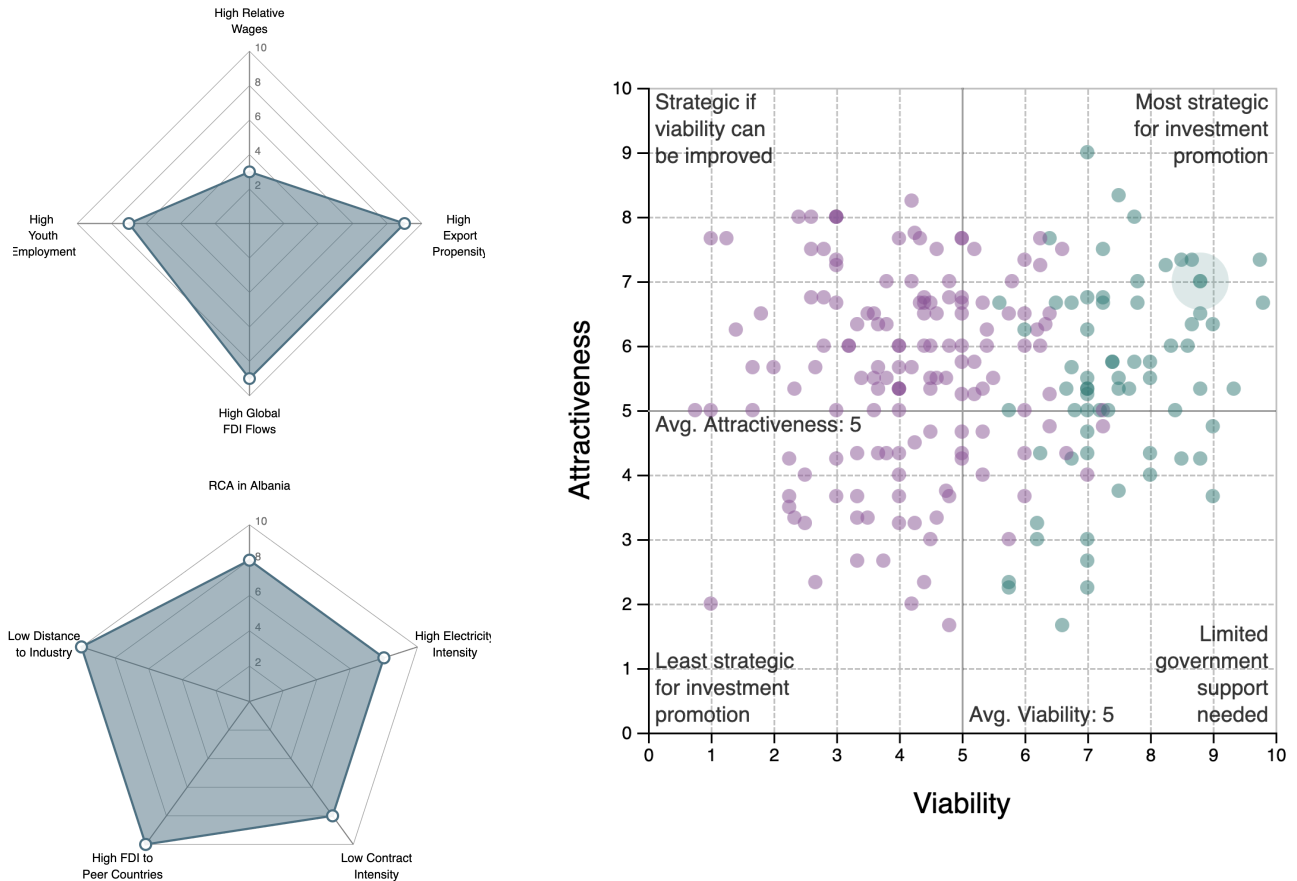
| | | |
|--|--|--|
| <p style="text-align: center;">Outreach Officers & Economic Diplomacy Representatives</p> | <ul style="list-style-type: none"> ● Conduct outreach to companies to invite them to invest in operations in Albania, both companies identified by targeting unit and companies identified independently ● Conduct follow-up conversations with companies contacted ● Identify companies that qualify as “leads” to be transitioned to the facilitation unit. Continue check-in conversations with such companies. ● Provide company information and document activities using E-invest platform ● Provide specific feedback to AIDA research unit to improve promotional strategies and materials based on what is learned through implementing strategies and using materials | <p>To be assessed <u>by individual or embassy</u>:</p> <ul style="list-style-type: none"> ● Share of companies contacted of the list provided by research team ● # of follow-up communications with companies ● # of companies contacted outside of list provided by research team ● Timeliness of actions as expressed by the E-Invest system ● # of <i>quality</i> leads generated (Note: in order not to incentivize quantity at the expense of quality a judgment must be made, perhaps by facilitation unit) ● Annual assessment of quality of feedback provided to promotion unit (by survey of promotion unit) |
| <p style="text-align: center;">AIDA Facilitation Unit</p> | <ul style="list-style-type: none"> ● Convert as many investment leads into actual investments as possible through providing information, supporting investor site visits, and supporting investors to overcome roadblocks ● Utilize the E-invest platform to stay up-to-date on all leads and to document activities ● Coordinate with ministries, agencies, municipalities, private sector and other entities to support potential investors ● Provide specific feedback to AIDA research unit to improve promotional strategies and materials based on experience in supporting potential investors ● Be responsive to questions and requests by outreach officers and provide specific feedback to outreach officers and ambassadors to improve the quality of leads | <p>To be assessed <u>for unit as a whole</u>:</p> <ul style="list-style-type: none"> ● Timeliness of actions as expressed by the E-Invest system ● # of leads advanced by a step in E-Invest system ● Share of leads advanced by a step in E-Invest system ● # of leads converted into active investments ● Share of leads converted into active investments ● Quarterly assessment of quality of feedback provided to promotion unit (by survey of promotion unit) ● Quarterly assessment of responsiveness to requests and quality of feedback provided to outreach officers & ambassadors (by survey) ● Assessment by survey of investors, could be conducted continuously by sending to investors at fixed times (3 months, 6 months, etc.) after they have transitioned to “leads” in the E-invest system |

| | | |
|---|--|---|
| <p>AIDA Aftercare Department</p> | <ul style="list-style-type: none"> ● Conduct systematic outreach to existing companies to understand issues faced and coordinate problem solving where needed. ● Coordinate with ministries, agencies, and municipalities to address issues raised by companies ● Produce internal and/or external government reports on common issues faced by existing companies with recommendations for how to address these. ● Provide specific feedback to AIDA research unit to improve promotional strategies and materials based on experience in supporting existing companies | <p>To be assessed <u>for department as a whole</u>:</p> <ul style="list-style-type: none"> ● Share of companies contacted to offer support ● Share of company requests fulfilled ● Share of companies retained in Albania after 1 year ● # of reports produced on investor issues (measured against a goal) ● # of requests made to ministries, agencies, and municipalities based on company issues in need of resolution ● Annual assessment of helpfulness by current investors (by survey) ● Annual assessment of quality of feedback provided to promotion unit (by survey of promotion unit) |
|---|--|---|

Annex 3: An Example Application of Growth Lab Tools for Targeting

From Plastics Manufacturing to Packing Lids to Specific Companies

Manufacture of plastics, which is a broad industry category, shows high levels of viability as well as attractiveness when compared to other industries.



Source: Albania's Industry Targeting Dashboard: <https://growthlab.app/albania-tool>

Manufacturing of plastics is currently clustered in Tirana and Durrës, and to a lesser extent Korçë, with some jobs scattered throughout other parts of Albania. Therefore, when promoting further investment in plastics manufacturing, it makes sense to focus on these regions, since they will have the necessary factors of production for companies to succeed. For this same reason, targeting products and sub-industries in plastics is likely to benefit these regions in particular.

LOCATION OF WORKERS



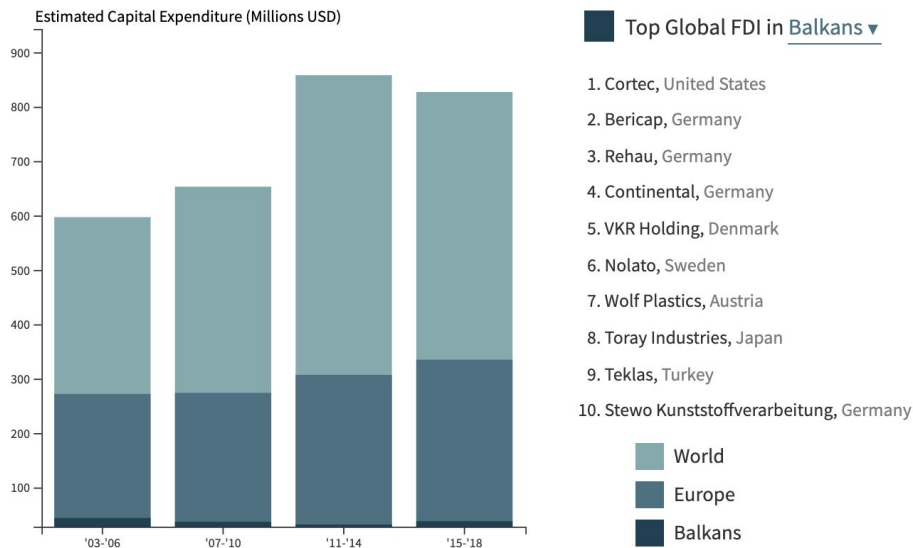
The map to the left shows where jobs in this broad industry are currently concentrated in Albania. Darker colored regions have more jobs at present and will tend to be the most viable for new investment. Hover over the map to see the share of industry employment for each region.



Source: Albania's Industry Targeting Dashboard: <https://growthlab.app/albania-tool>

Global investment in plastics manufacturing has generally increased in the last decade, but investment for the sector in the Balkans has remained more stagnant. The main investors in the Balkan region are from Europe and the US.

FDI COMPANIES

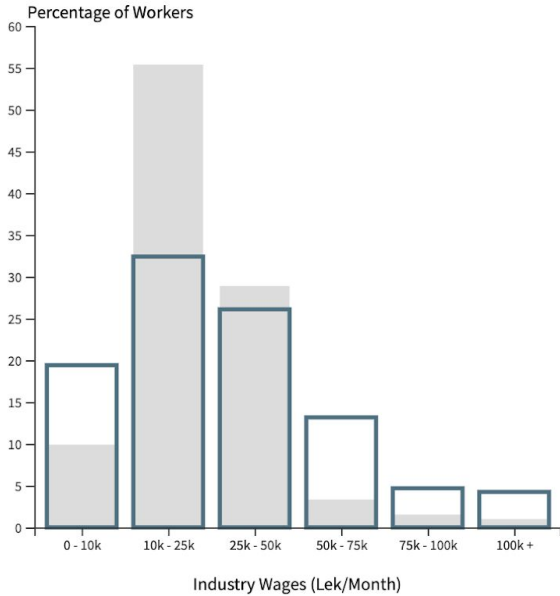


Source: fDi Markets Library, a service from The Financial Times Limited (2019). All Rights Reserved.

Source: Albania's Industry Targeting Dashboard: <https://growthlab.app/albania-tool>

Further investment in the plastics sector would be expected to pay medium-level wages (10,000-50,000 Lek per month).

INDUSTRY WAGES



This specific industry currently pays the wage distribution shown to the left in Albania. The distribution of wages across the entire Albanian economy is shown for comparison. Both of these distributions use national payroll data from the year 2017. Industries that pay wages that tend to be higher than the overall wage distribution are clearly more attractive, but this graph provides additional detail that may be useful for investment promotion efforts.

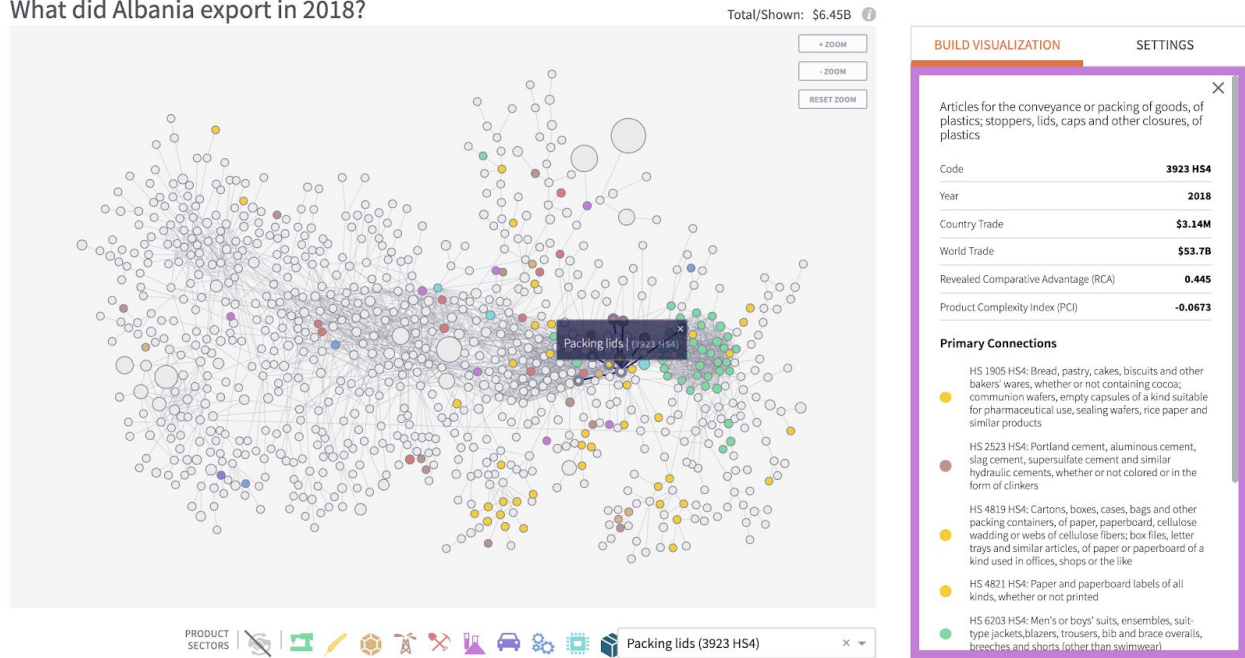
■ Industry
□ Country

Source: Albania’s Industry Targeting Dashboard: <https://growthlab.app/albania-tool>

For effective investment promotion, Albania would have to get more specific than plastics. The plastics sector can be disaggregated into many specific products. One that stands out for Albania is packing lids, which are classified by the Harmonized System as “articles for the conveyance of goods, of plastics; stoppers, lids, caps and other closures, of plastics” (HS 3923). In 2018, Albania exported US\$3.14 million worth of packing lids with a relatively low RCA of 0.445.

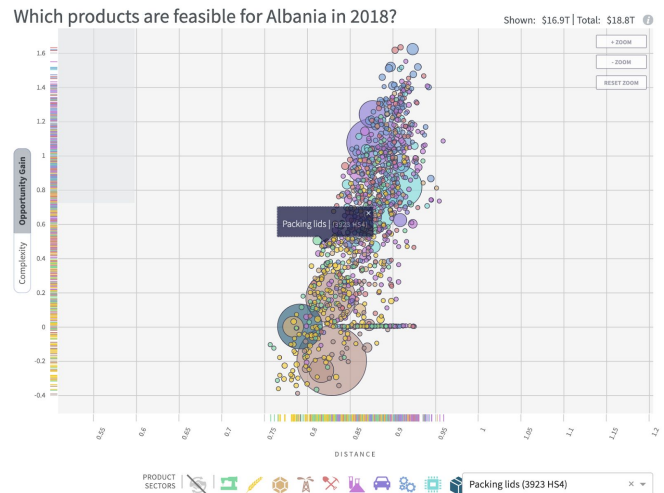
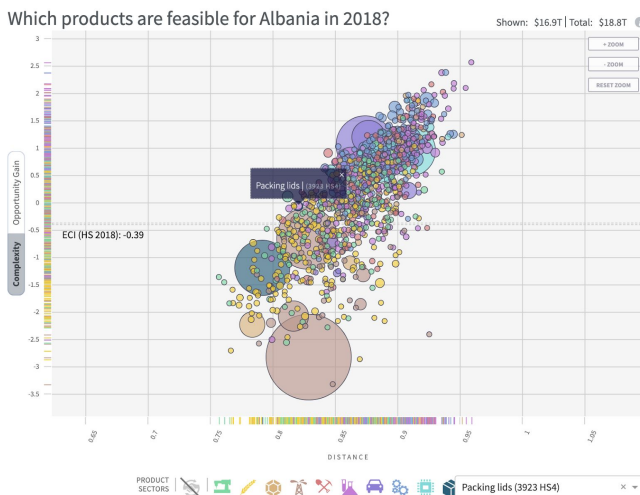
Packing lids present a higher complexity index than Albania’s average (-0.067 vs -0.39). Additionally, packing lids are connected to several products in which Albania already has a high RCA (i.e. the textile cluster) while also being strategically positioned closer to the core of the Product Space than many of the products that Albania currently exports intensively. This suggests packing lids would be a feasible and relatively attractive product from which Albania could then “jump” to other products of even higher complexity. Many other plastic products could also be a good fit for Albania, but this is just one example.

What did Albania export in 2018?



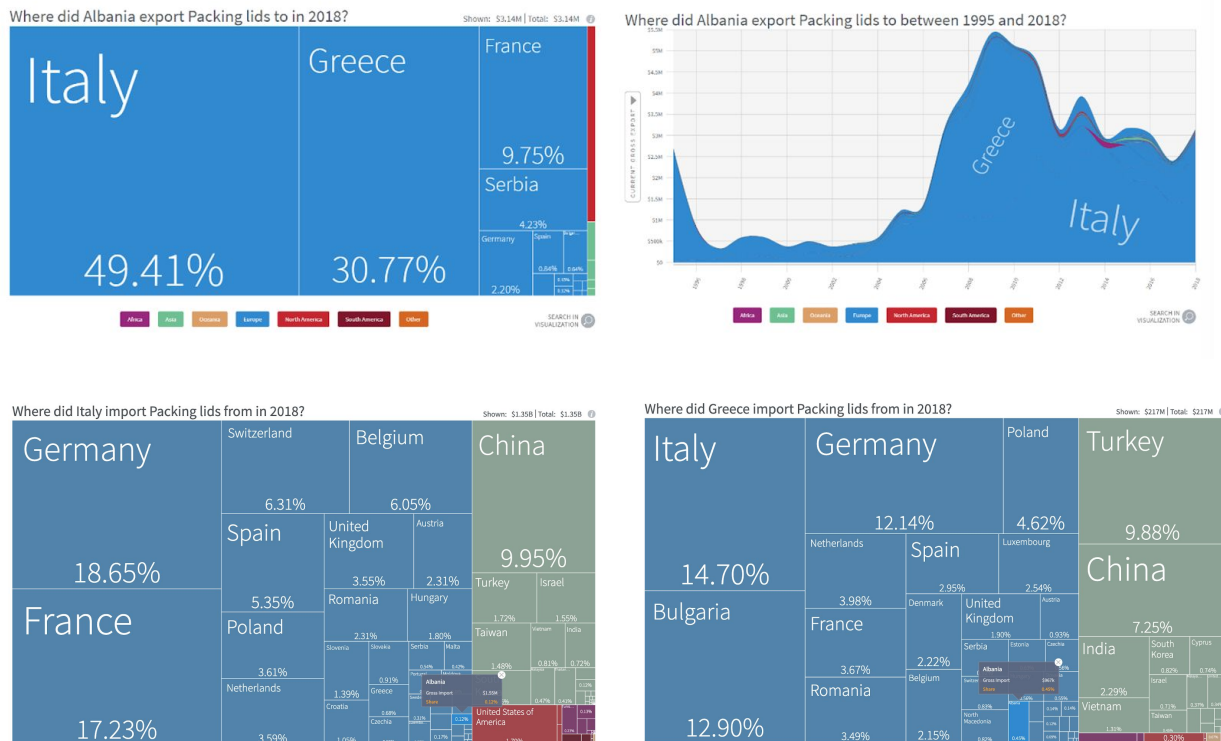
Source: Atlas of Economic Complexity: <https://atlas.cid.harvard.edu/>

This can also be seen in the following graphs, in which, for a given distance, packing lids are close to the frontier in the complexity and opportunity gain map for Albania. This suggests that plastic lids are strategically positioned to directly increase Albania's economic complexity in the short-run while also positioning Albania's economy to growth in the longer-run through its linkages with other high complexity products.



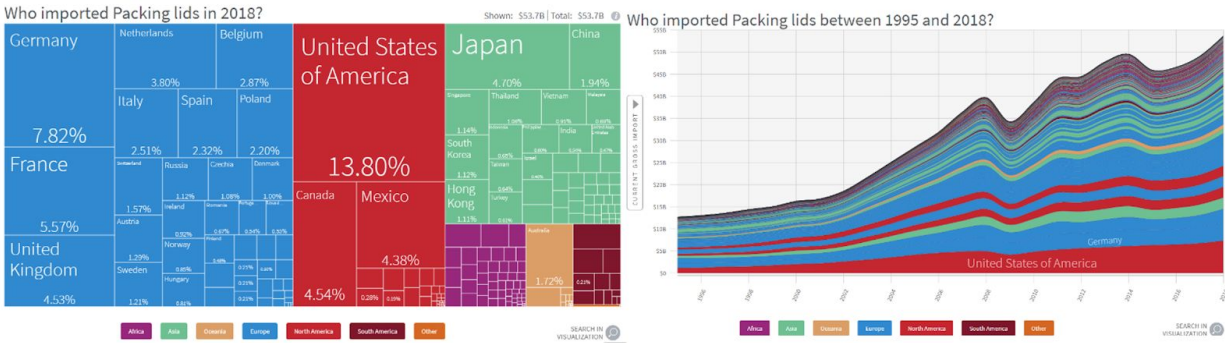
Source: Atlas of Economic Complexity: <https://atlas.cid.harvard.edu/>

Albania's packing lids exports increased substantially in the second half of the 2000s, but then stagnated and declined after the Global Financial Crisis. This was largely due to losing market share to Greece (which continued to import packing lids in the 2010s, but not much from Albania). Interestingly, Italy and Greece represent around 80% of the export demand for Albanian packing lids, but these markets are far larger. Albania serves well under 1% of the demand for packing lids of each country.

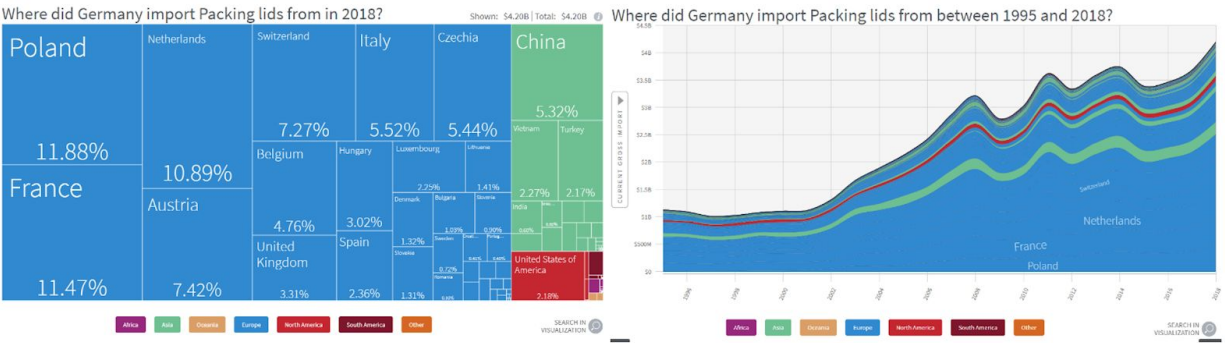


Source: Atlas of Economic Complexity: <https://atlas.cid.harvard.edu/>

At the same time, the global market for packing lids is much bigger. Italy and Greece represent only 2.5% and 0.2% of global demand, respectively, while countries such as Germany and France are bigger markets. If one then looks at the suppliers of German imports of packing lids, it becomes clear that other European trade partners provide the supply, such as Poland and to a lesser degree Czech Republic, both of which share some economic similarities with Albania. This suggests that Albania could explore the possibility of attracting companies that currently serve German demand. These companies may be German based, but researchers may also find opportunities to attract companies operating in places like Poland or the Czech Republic that might be looking to expand (including for greater supply chain resilience) or move out of these countries as income levels grow.



Source: Atlas of Economic Complexity: <https://atlas.cid.harvard.edu/>



Source: Atlas of Economic Complexity: <https://atlas.cid.harvard.edu/>

As mentioned earlier, German companies are among the largest investors in the plastics sector globally. Of these German companies, however, only a few specialize directly in the production of plastic lids. Online research of company websites shows that [Bericap](#) is one company that produces food-safe closures, most of which are plastic caps for bottles. The company has existing production sites in Bulgaria, Croatia, Serbia, and Greece, suggesting that the company has an interest in the Balkans region, which may position Albania as an attractive location for further expansion.

Beyond Germany, other companies may also be strategic targets for Albania to do targeted investment promotion. The Swedish company [Nolato](#) produces a variety of plastic products, including pharmaceutical packaging, which requires the production of plastic lids. Nolato prioritizes proximity to customers, and therefore has an extensive global footprint spanning Europe, North America, and Asia. However, the company currently does not have any presence in the Balkans. Thus, Albania could leverage its strategic position in Europe to become an attractive location for the company to reach new markets. [Wolf Plastics](#) in Austria specializes in storage containers, canisters, bottles, and buckets, and the production of plastic lids plays a key role in ensuring that

these storage containers are functional. The company's mission is to distribute packaging across South-Eastern Europe, but Wolf Plastics currently has locations only in Austria, Hungary, and Romania. The fact that Albania falls into the company's South-Eastern Europe market makes the country an especially attractive target should Wolf Plastics wish to expand.

These are just three companies that result from a quick investigation, and which could be targeted for outreach by ambassadors in Germany, Sweden and Austria, but there would be many more companies that could comprise a promotion strategy for packing lids and still many more for other targeted plastic products that would result from a focus on targeting research.