BalkanMed E-Business Pages

Cluster Development Guide – Albania

Centre for Competitiveness Promotion – Tirana, Albania

Elaboration
of a Cluster Development Guide

Albania

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1. Cluster concept

There has been a very lively discussion about business clusters during the last two decades, especially taking into account globalization processes and their impact on economic development. In many countries the knowledge and technology intensive economy is increasingly becoming an engine for economic growth, promoting discussion amongst economic policy makers and researchers about competitiveness and sustainable development, including the development of business clusters. Currently the promotion of the development of business clusters networks of companies, learning institutions, and other related organizations is internationally recognized as a way of improving competitiveness and innovation, especially for those businesses trying to enter international markets.

The benefits of localization of industries or geographic proximity have been widely discussed among researchers and practitioners. Many researchers tried to show that concentration of economic activity in certain areas as a result of globalization is becoming less important as a result of rapid technological development. Others prove exactly the opposite, instead emphasizing that globalization increases the importance of localization or concentration of economic activities within regions. It is becoming more important than national-level economic development for international trade and added-value creation.

The concept of clustering means local concentrations of horizontally or vertically linked companies which specialize in related lines of business together with supporting organizations. The definition as to what exactly constitutes a cluster tends to vary greatly. Concepts such as *industrial zones*, *local business associations* and *regional clusters of innovation* are used interchangeably and are commonly referred to as 'clusters' for the sake of simplification and sometimes as a marketing tool. Even though these concepts highlight or emphasize slightly different cluster aspects, their main theoretical building blocks tend to overlap.

The term **'cluster'** was first coined by Michael Porter when he used it in his seminal work "*The Competitive Advantage of Nations*" to explain the concept of 'economic competitiveness' and what it stands for.

"A consequence of the system of [diamond] determinants is that a nation's competitive industries are not spread evenly through the economy but are connected in what I term a *cluster* consisting of industries related by links of various kinds" [1]. It was then that various scientists and academics began to put forward their own definitions of clusters and clustering, but it was Porter who identified the commercial phenomena and first coined the term.

Definitions of clusters:
"Geographical concentration of interlinked companies and institutions in related branches of industry that complement each other by joint relations of exchange and activities along one (several) value creation chains."

"The co-location of partners, service providers, educational and research institutions related through linkages of different types". [2]

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[1] The Competitive Advantage of Nations- Michael Porter, 1990 p.131-132

[2] Europe Innova (2007)

In the 20th century the economy was connected by a high level of productionconcentration, sales, and bank deals, and the level of concentration continued togrow. During the last 20 years the principle of economic cooperation has becomea symbol of radical changes in the administration of competitive economicsubjects. Its main idea is to substitute a hierarchy consisting of many levels withclusters or specialized business units, which are coordinated by means of marketmechanisms (rather than administrative ones). Thus, in the new conditions of
economic globalization and increased flows of information, the necessity to havevarious integrated forms of economic cooperation transforms into the searchfor more rational, effective, and profitable ways of business administration.

Clusters are one of such forms that appeared in economic theory as a resultof the formation of the regional economy as a separate direction of economictheory. While analyzing the history of clusters, Porter makes reference to W.Isard, the founder of regional economic theory, who encouraged the formationand institutionalization of regional economy in the 1960s.

With the development of the knowledge economy at thebeginning of the 21st century there has been an increasingly active discussion onachieving long-term economic competitiveness. In this respect the discussion ofspecialized regional clusters as a tool for promoting economic development andimproving competitiveness has increasingly become the focus of the economicpolicy debate and academic research.

The concept of clusters is a polysemantic one and characterizes the form of aphenomenon (group, aggregate) rather than its contents. Thus the general scientificinterpretation of a cluster is as follows: an aggregate of several homogeneouselements, which can be perceived as an independent unit with particular specificfeatures. In this meaning, 'cluster' is similar to the concept 'region', which alsohas a common physical form but different content according to the subject ofeach science (Boronenko, 2009). Professor Michael Porter of Harvard Business School (HBS) actualized theconcept of clusters in business management and practice in his book *TheCompetitive Advantage of Nations* (Porter, 1990)*.* He concluded that when severalhighly competitive economic subjects appear in a regional economy they fosterthe growth of competitiveness in the suppliers and consumers operating in thatregional territory. Porter argued that in the modern global market competitionis implemented not by means of separate economic subjects, but with the help ofgroups of economic subjects (clusters).

Porter's concept of the cluster describes anindustrial cluster as the unification of several industries based on buyer-supplierrelations, similar technologies, distribution channels, or similar employeequalifications. These clusters are the geographical concentration ofinterconnected companies, specialized suppliers, service providers, and associatedinstitutions in a particular field.

Specialized regional clusters have been arising in locations with enough resources and competence to enable companies to fullyexploit their competitive advantages over other places.These events coincidedwith the beginning of the economic globalization process, which was encouragedby fast development of new information technologies, especially the Internet.

Therefore, this stage of cluster development is based on the development of the

information society.

The notion 'cluster'embraces the territorial aspect, which has become topical during the developmentof regional economy. That is why clusters can be considered as a form of economicinteraction, which appears during the development of regional economy.

From the point of view of authors, the main features of a cluster, which are determined on the basis of Porter's classical definition, are as follows:

➢ a cluster is an economic subject rather than a juridical person (participants ofa cluster are juridical persons themselves);

➢ although participants of a cluster have legal independence, they are economicallyinterrelated;

➢ participants of a cluster differ in the type of activity and economic status;

➢ participants of a cluster are geographically proximate and work in the sameregion;

➢ all of the above-mentioned features have to be present simultaneously in thecluster.

Consequently, the answer to the question of whether clusters are economically useful or advantageous in comparison with other forms of economic interaction is as follows: clusters are important because if local production is organized in clusters, regional economic subjects can be competitive in the global market; i.e., can manufacture goods and offer services for export. Export is an aim andempirical index of the work of a cluster whose efficiency can be quantitativelyevaluated.

Figure 1. The conceptual model of the notion 'cluster' in economics
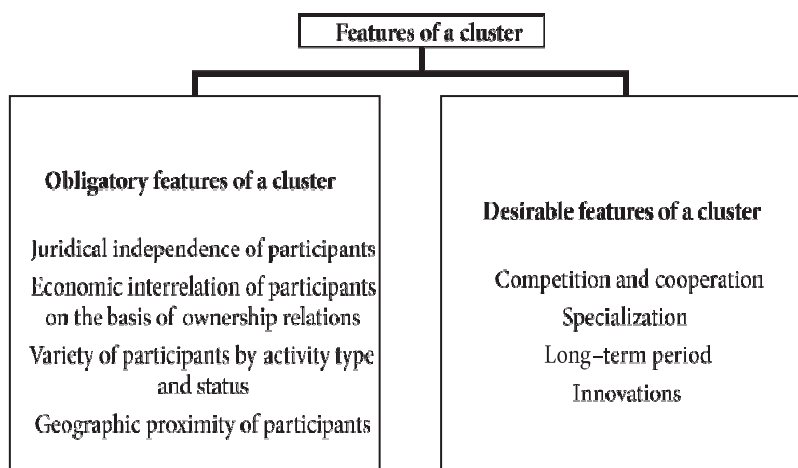
Source: *elaborated by the authors from analysis of the relevant economic works.*

Apart from compulsory basic characteristics there can also be the following

features:

➢ specialization – basic activity, which stipulates formation of a cluster;

➢ competition and cooperation: this combination characterizes the link betweenparticipants of a cluster;

➢ cluster 'life-cycle': clusters and cluster initiatives are not short-term phenomena,but are created with long-term prospects;

➢ innovation: participants forming a cluster are involved in the process oftechnological, commercial, and knowledge exchange.

Although the presence of all elements is not compulsory, the presence of some

of them is desirable. For instance, innovation is very important, because it givescertain advantages to the cluster.

As a conclusion of this overview of the development of the cluster concept, the definition of a cluster: *a cluster is a form of economic interaction of judicially independent economic actors with different statuses concentratedin an economic region, which is formed in order to make its participantscompetitive in the global market*. This definition has been elaborated in order

to specify the main differences of a cluster in comparison with other forms of economic interaction.

2. Types of clusters

As mentioned earlier, clustering is not new in the developed world, there are many incidents of successful clustering initiatives from a range of developed economies around the world. In OECD countries cluster building is already an advanced and accepted tool in economic development. There are a number of other forms and levels of collaboration which stimulate competitiveness and which enable businesses to develop critical mass. Clustering however creates an environment that enables other types of collaboration, in particular networking between firms and the development of supply chains, to flourish. These different types of collaborative engagement are a continuum, with different levels of public activity and of commercialfocus.

Figure 2: Types of clusters
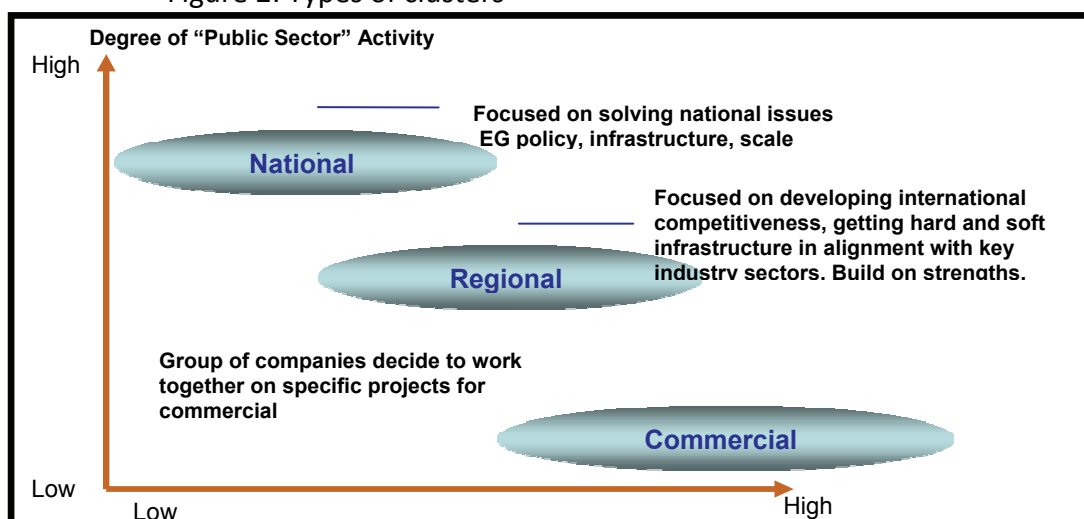
Broadly speaking three different clustering approaches have emerged over recent years. Both are usually initiated and driven by Economic / Regional Development Agencies (EDA / RDAs):

I.   **National Clusters** are groups of companies and organizations who collaboratively address development issues for the cluster. Typically, they address policy, infrastructure and scale relatedissues.

II. **Regional Clusters**are the classic Michael Porter-type clusters, based on the premise that an industry will increasingly prosper in a specialised, networked environment. The focus is on building a supportive environment for the cluster participants, and extending the linkages between participating firms, their suppliers and related and supporting organisations. Stakeholders typically include enterprises, suppliers,

[174]   5

educational organisations, professional support organisations and companies,etc.

III. **Commercial Clusters**are consortiums of companies who have chosen to collaborate in a number of areas. They are membership based, with the feestructure often supporting a dedicated supportperson.
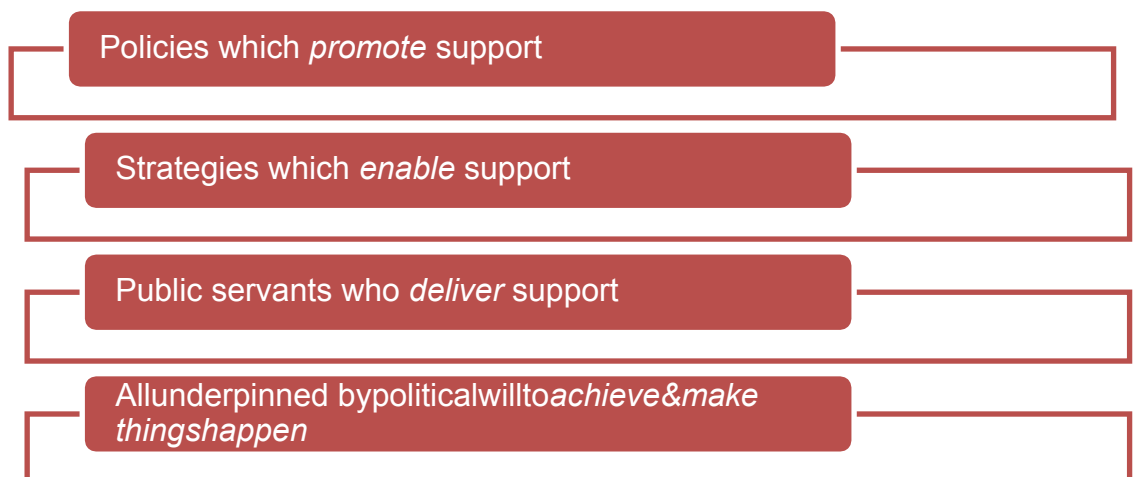
How clusters work

Clusters typically are not 'created' *per se,* they tend to form themselves and evolve over time - often over a period of decades.

The origins of clusters differ. The initial stimulus may have been:

- Availability of a rawmaterial.
- Particular soil / climaticconditions.
- Proximity to a nearbymarket.
- A chance event, such as the return to a location of an entrepreneur with specific skills andambitions.
- The establishment locally of a government funded R&Dfacility.
- Tradition/ history and culture in a location which has generated a reservoir of know-how and experience in a particular area/specialism.

Clusters were already long in existence before the concept was defined by Michael Porter and the label of 'cluster'applied. Since then, however, policy makers have begun to formulate top-down approaches to encourage the further development of existing and potential clusters. Here, the role of government is one of facilitation by provision of an enabling environment – by which the following is meant in the figure as follow:

Figure 3: The role of the government in cluster building

Policies which *promote* support

Strategies which *enable* support

Public servants who *deliver* support

Allunderpinned bypoliticalwillto*achieve&make thingshappen*

Clusters are complex entities and a wide variety of interventions can potentially influence their development. The challenge is to select from and marshal the diversity of available policy instruments in order to achieve optimum effect. The methodology that follows focuses on those actions that can be orientated specifically to clusters but it is assumed that planners, when formulating policy, will consider the complete domain of interventions affecting economic development in general and, consequently, clusters.

Cluster structure – member types

Cluster members can be divided into four broad categories: core businesses, small businesses, soft support infrastructure, hard support infrastructure.

Core Businesses

The businesses that are the lead participants in the cluster, often earning most of their income from customers who are beyond the cluster's boundary.

Support Businesses

The businesses that are directly and indirectly supporting the businesses at the core of the cluster. These may include suppliers of specialized machinery, components, raw materials; and service firms including finance/venture capital, lawyers, design, marketing and PR. Often these firms are highly specialized, and are physically located close to the core businesses.

Soft Support Infrastructure

In a highperformance cluster, the businesses at the core and the support business do not work in isolation. Successful clusters have community wide involvement. Local schools, Universities, polytechnics, local trade and professional associations, economic development agencies and others support their activities and are key ingredients in a high performance cluster. The quality of this soft infrastructure, and the extent of teamwork within it, are keys determinants of the development of any cluster.

Hard Support Infrastructure

This is the supporting physical infrastructure: roads, ports, waste treatment, communication links, etc. The quality of this infrastructure needs to at least match competitive destinations, be they local or further afield. These four separate elements in a cluster can be portrayed as circles, built around the core.

Figure 4: Cluster members
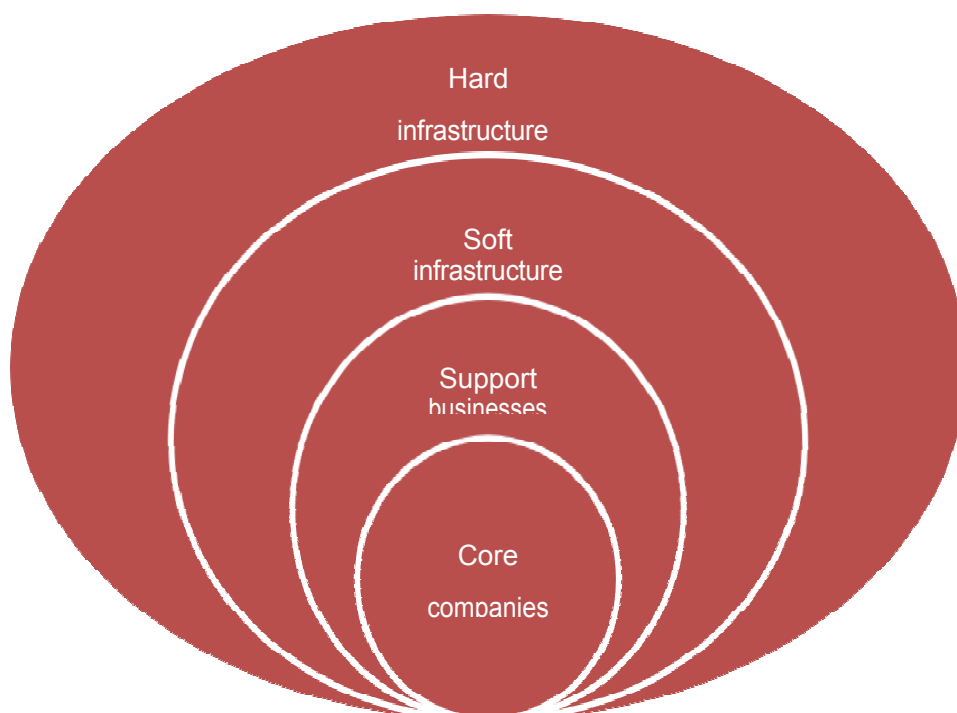
Source: Cluster Navigators Ltd, 2002

The people dimension

The success of a highperformance cluster is in large part, due to people forming quality relationships and networking to achieve results – a 'chemistry'. These linkages are informal, and are supported by more formal organizations / institutions. They work best at a community level where participants in the local industry already have formed a wide variety of relationships, and there is already some degree of dialogue and trust. Clustering builds on the teamwork that is already in place and formalizes it into a framework.

The clustering process requires:
- People-to-peoplecontact
- Consensus on keyissues
- Collaboration at multiplelevels
- Community wide involvement in the process of building new linkages between communities, businesses andgovernment.

Figure 5: Successful clustering is about….

Cooperating towards common goals – firms and others within a concentrated geographical area working and establishing linkages and working alliances to improve their collective competitiveness. Clustering helps a clump of co-located firms and organizations turn into a high-performance system. This works at a system, rather than individual organization, level. An active local cluster includes firms and support organizations working together to achieve results that would not be possible individually.

Business networking – a key component of any high performance cluster is extensive informal and formal networking between firms – even competitors – right across the

cluster, and between firms and their supporting infrastructure. 'Soft' networks (such as local professional and trade associations) and 'hard' networks (strategic alliances between provide an effective means of gaining access to government agencies and making local priorities clear, but the creation of a mechanism for wide improvements in areas of common concern is more important.

Teamwork– this is a key component of a local innovation system; Innovation increasingly relies on close interaction between the science base and the business sector, with the most effective communication of tacit information happening when the separate components of the cluster are near to each other. New products increasingly use different technologies, and technologies are increasingly based on different scientific disciplines. The degree of connectivity amongst knowledge agents, and between them and firms, is a key aspect of a high-performance innovation system. Companies, in particular specialized SMEs, rarely have the resources to innovate alone. However, unless an effective incentive system is in place to encourage linkages, firms are likely to remain isolated from knowledge agents.

Linking and aligning all the elements – an effective clustering approach links the separate elements of an innovation system, aligns the private and public sectors, and facilitates a 'whole-of-government' approach at a local level in support of local clusters. It is about people in the public sector, realizing that their role is to support, encourage and find ways to do things not the opposite, which is policing and patrolling a set of bureaucratic rules and regulations.
This is what is meant by alignment – getting policies / strategies and people in-line and working together towards a shared goal of economic development and improvement forall.

Benefits and challenges of clustering
As defined earlier, clustering is about the interaction of businesses of a similar type, healthy competition, networking and collaboration between them. Cluster theory emphasizes the role of networks and relationships between the various parts of a cluster but not of individual firms, and also fits with models of innovation and competitiveness.

> "Clusters promote both competition and cooperation. Rivals compete intensely to win and retain customers. Without vigorous competition, a cluster will fail. Yet there is also cooperation, much of it vertical, involving companies in related industries and local institutions. Competition can coexist with cooperation because they occur on different dimensions and among different players."
>
> Michael Porter (1998)

Figure 6: Example of an agribusiness cluster
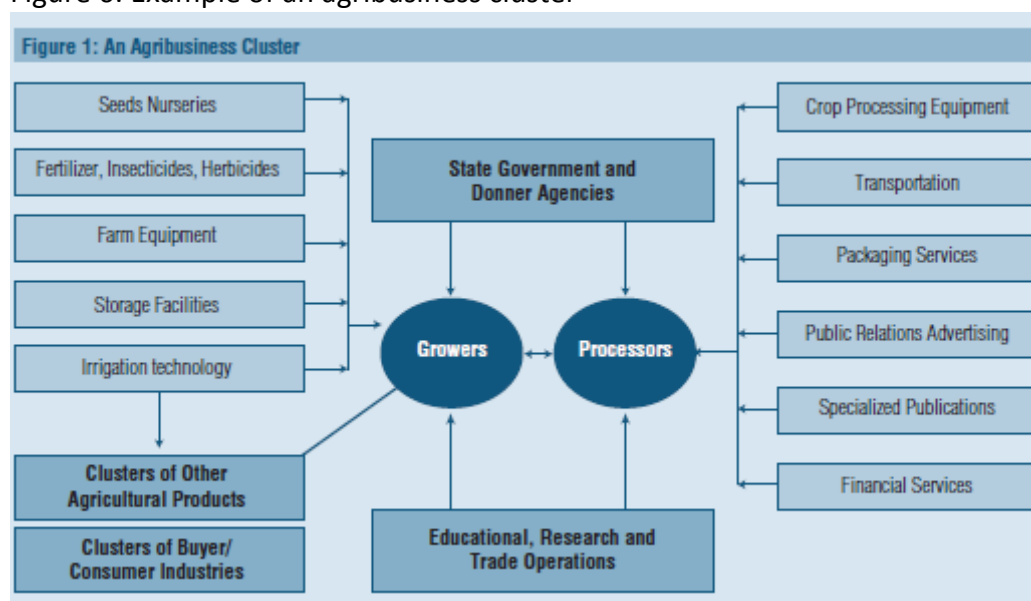
Source: Cluster for Competitiveness- A Practical Guide & Policy Implications for Developing Cluster Initiatives, World Bank, February 2009

Clustering is a 'philosophy' based on the core principles of **integration (of activities) and collaboration (of members) for mutual benefit**. Cluster benefits come at three levels: individual firm level, sector/regional level and the wider economy level.

The benefits of clustering for the development of individual companies and for improving the competitiveness of a specific sector or region cannot be underestimated. At the level of the firm, clusters help companies to take advantage of market opportunities that they could not achieve alone. Clusters can reduce the 'pain barriers' of cost and risk and adapt international rules and standards to the local context. Companies no longer can rely solely on their internal processes and strengths. To maintain pace with innovation, technological development and evolving consumer expectations, companies have to adjust quickly and develop appropriate responses at a higher speed. This is when combining efforts, making use of synergies, pooling resources increases competitive advantage while at the same time, reducing the risks involved in launching new products or entering new markets. Clusters enable improvement of firms' capacity building by offering inter-company learning, experience sharing and mutual use of know-how. Finally, there are benefits in terms of business management. For instance, the use of joint sales channels augments the sales networks of each individual cluster member; personnel sharing (especially specialized functions such as R&D) reduce costs and time tomarket.

The regional and sector benefits from clustering derive from the ability of a cluster to raise the profile of a specific sector in a specific region locally and internationally. This will lead to an increase in the investment attractiveness of both, as it is an indicator of a 'business friendly' environment in a region with necessary policy support and governance.

Clusters add value to the development of the economy by creating groups of networked businesses in specific sectors and improving business capabilities by offering tailored support. They improve competitiveness, seen in a dynamic and global context, i.e. closely associated with innovation and the adoption of 'best practice'. They enable economic specialization of a particular region, in a range of related activities. Clustering allows for a differentiated approach, targeted at a wide range of economic activities, which takes into account the variation in industrial structures and business needs. Clusters can contribute to

an increase in economy-wide competitiveness by facilitating policy reform, fostering private-public dialogue and becoming a catalyst for wider private sector development initiatives.

3. Legal requirements for the creation of a cluster in Albania

The development of Cluster activity in Albania is part of the **innovation ecosystem,** which isin line with the vision of the Albanian National Strategy for Development and Integration (NSDI) 2015-2020, Business and Investment Development Strategy (BIDS) 2014-2020, the Economic Reform Programme (ERP) 2017-2019 priorities and other sectorial strategic objectives. Albania's legislative and strategic frameworks aim to establish a more favourable environment for cluster development, to strengthen the Albanian Research & Technological Development (RTD) and promote commercial exploitation of scientific results. Several government strategic documents address to innovation and including clusters in Albania.

National Strategy for Development and Integration 2015-2020 (NSDI II)

NSDI II presents the vision for the social and economic development of Albania during the period 2015-2020. It sets out the goal of increasing the country competitiveness and ensuring that growth can and does take place across a range of sectors in the economy. The document defines the role of government to be largely as a facilitator, creating a supportive environment which permits an innovative private sector to identify opportunities, move quickly and invest for growth and development. NSDI II considers innovation as a driving force for increasing the country's competitiveness and express the commitment of the government to increasing the support to the Albanian enterprises that are seeking to modernize their technology and adopt an innovation approach. Innovation is viewed as a key source of growth and value added, even in the traditional and relatively low-technology sectors, such as agriculture, food processing, industry, transport, construction and light industries.

Business and Investment Development Strategy (BIDS) 2014- 2020

The Business and Investment Development Strategy (BIDS) 2014- 2020 Strategy, adopted with a government decree nr.635, date 1.10.2014, is set as horizontal strategy, it does not support selected industries or enterprises; it outlines the road map for businesses to develop and improve their competitive skills and to develop innovative products and services. One of the main pillars of BIDS is competitiveness and innovation, the development of business infrastructure through establishment of technology incubators and cluster development.

-The Strategic Framework on Innovation and Technology for SMEs (February 2011), has envisaged the Cluster Development Programme in supporting the establishment of six clusters of the key sectors in Albanian economy, but is revealed that so far, no specific measure to foster clusters initiative has been undertaken.

Economic Reform Programme (ERP) 2017-2019. In this document there is a reform measure

 "Support for the development of innovation policies" and the action plan "Policy framework for innovation 2017-2021" compliant with OECD recommendations in May 2015, in the framework of "Triple helix".

Apart from these strategic documents, there is no specific law for the creation of a cluster in Albania. Cluster activity in Albania is organized on voluntary bases and it is considered as a nonprofit organization.Non-profit organizations operate under the law nr.Nr.8788, date 7.5.2001 "For nonprofit organizations". Non-profit organizations, subject to this law (article 13), acquire legal personalityafter being established and registered in the court, in accordance with the terms and conditionsprocedures provided by law. The same registration procedures are subject toalso branches of foreign non-profit organizations.The founders of the nonprofit organization approve the act ofits founding and the statute. Also in agriculture sector regarding the cluster activities serves the Law no. 38, dated 05.04.2012, "On agricultural cooperative societies". Agricultural Cooperative Societyis a voluntary organization between natural or legal persons, in order to meet their needs or interests in the field of production, processing and trading of agricultural and livestock products, mainly but not limited to, through agreements or co-operation reciprocally between them and the society for services, goods or products of the agricultural or livestock sector, and through the promotion of their economic activities.Agricultural cooperation companies, which are established and operate in accordance with the provisions of this law, are subject to fiscal facilities and support schemes, according to the legislation in force.

4. Barriers to the creation of clusters in Albania

BusinessinAlbaniastillfacesmanyproblemsandthegovernmentistryingtosolveitsinceit hasadirectimpactinthecompetitivenessofAlbanianeconomy. Aspecialfocusisgiventothe upgradeofthecompetitiveness&innovation ofthedomesticproducts,reducing theneedsforimport,the increaseof exportsandthepenetrationofproducts"Made inAlbania"innewmarkets.Theseissues remain real challenges for the exportingcompanies:

-Albania's low competitiveness ranking.

Albania was ranked 75th out of 137 countries in the Global Competitiveness Index (GCI)[3], with its overall score marginally improved from 4.06 (out of 7) in 2016 to 4.18 in 2017. The country scores particularly *low on availability of latest technologies (89th place), innovation (87th), and business sophistication (74th), with the quality of scientific research institutions ranking 118[th]and availability of scientists and engineers 113th out of 137.*

-Albania also suffers from a *small market size* (105th place) and low *labour market efficiency* (91st). Some of the most problematic factors highlighted in the GCI are corruption, access to financing and inadequately educated workforce. The country's low *capacity to retain talent* (115th) and *to attract talent* (121st) has a negative impact on the ability to create and sustain innovative enterprises. Financing through local equity market is the lowest of all economies compared in GCI (ranking 137th out of 137 countries).

-Weak innovation system (both elements and linkages within the Triple Helix). The country has the ***lowest ranking in the Global Innovation Index*** in Europe (0.4 in 2017) despite recent improvements in science and technology financing, networking, ICT investment and support for public sector research.

-In Albania, *higher education institutions and the government together account for over 90 percent of R&D expenditures*. Moreover, given the low value of business R&D expenditures

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[3] World Economic Forum, 2017-18

relative to income levels in the region, Albania, like other Western Balkan countries, continues to be characterized by **low levels of innovation efficiency**. By contrast, in economies with high rates of R&D expenditure (i.e. Japan), the share of industry-related R&D spending ranges from 70 to 80 percent, while government spending accounts for 20-30 percent. Albania still has considerable **gaps between education outcomes and labour market needs**.

-There are also **gaps in the availability of comprehensive innovation support services**, such as product design, certification, technology transfer, etc.

-The *capacity for technological absorption and research, development and innovation (RDI) is also low.* This is caused by of *low level of public and private sector expenditure on R&D* (about 0.35 % of GDP in 2016); *weak links between the science and private sectors* and *fragmentation of the national innovation system*. As a result of the weak innovation system, almost all sectors of the economy mainly provide low-technology, labour-intensive and low-cost products and services. Increased funding and a more focused RDI strategy in a number of specific sectors, particularly in energy, agro-food and sustainable tourism, would support the country's capacity to attract investment in RDI.[4]

-**Limited access to productive** inputs – including land and credit - also curtail theentrepreneurial potential of the country, restricting job creation and innovation.[5]

-Albania has currently *shallow demand and supply in terms of innovation-driven businesses*. The pipeline of start-ups and enterprises at a stage of scaling up is considered small due to a series of factors such as lack of a strong entrepreneurial culture, risk-aversion in the financial system and in business, research and universities with limited links to business, and a major drain of educated Albanians migrating abroad. On the supply side, risk capital and venture capital for early phases of business development and for investments in enterprises in a scaling up stage is embryonic at best. A nascent infrastructure of innovation services such as incubators, accelerators, innovation centres, technoparks and co-working spaces, many of which are donor funded, is fluid with many ups and downs and has overall a problem of sustainability.

-**Low labour productivity and added value in the economy.** Albanian economy is dominated by labour-intensive and low-cost production sectors with low level of innovation and technological development. Implementation of knowledge-based economic growth strategies remains a challenge. The few sectors in Albania that have grown economically – natural resources, oil and gas, energy (water power) – have not shown sufficient employment impact. The tourism sector has not yet reached the quality level necessary for the international market and the agricultural sector remains below its productivity potential. Micro enterprises constitute the major part of the Albanian enterprises: according to INSTAT 97% of registered firms (55.110 firms) employ 1-4 employees and only 0,1 % (72 firms) employ more than 50 employees. However, the contribution of micro enterprises to GDP growth is small, they operate mostly at low levels of innovation and their product and service range is hardly diversified.

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[4] EC Report for Albania, 2016
[5] Insights into Key Challenges of the Albanian Labor Market, World Bank, 2015

- Compared to neighboring countries, the Albanian business environment is less attractive and level of foreign direct investments needs to be increased. Indicators where Albania ranks low internationally are: dealing with construction permits, getting electricity, registering property, paying taxes and enforcing contracts. At the same time, other conditions for entrepreneurs and investors (starting a business, resolving insolvency) are relatively favorable.
- Insufficient employment generation in the economic sectors. The increasing unemployment among youth is a consequence of the low dynamics of Albania's economy. Agriculture contributes 21% to GDP, industry 20% and Services (59%). At the same time, 48% of employment is still in agriculture and fisheries.
- The lack of economic prospects is one of the major factors for the increasing migration pressure. According to a study on Albanian youth by the Friedrich-Ebert-Stiftung (2015), 66,7% of youth in the age group 16-27 years would like to leave the country (as compared to Bosnia-Herzegovina with 49 %); major reasons are limited future perspectives and low employment and/or education potential in Albania. This lack of perspectives is particularly prominent for those parts of the population that live under the poverty line (approx..14,3%).

-**The quality of the innovation ecosystem for entrepreneurs is insufficient**.

Although Albania has been associated with some important EU research programmes, little has been done in terms of implementing national policies, applying financial measures to encourage innovation or stimulating private demand for innovative products and services. As a consequence of the gap between policy formulation, institutional commitments and availability of incentives and funds for supporting schemes, collaboration between public, private and academic institutions remains weak, both in conducting research and in commercializing its outputs.

- Due to lack of R&D funding and as a result of the ongoing 'brain drain', research capacity at Albanian knowledge institutions and in enterprises is low, with no incentives for R&D producers to collaborate with the private sector on innovation and technology transfer.
- The lack of linkages between TVET/University and firms/sectors make it difficult for graduates to enter labour market and entrepreneurship
- The innovation support infrastructure is underdeveloped: there are only sporadic short-term initiatives and incubators that are not sustainable, mainly in urban Tirana area.
- Insufficient access to finance, especially for the higher risk pre-seed stage.

The diagram below summarizes the problem analysis on innovation/clustering situation in Albania.

Figure 6: Barriers to innovation in Albania
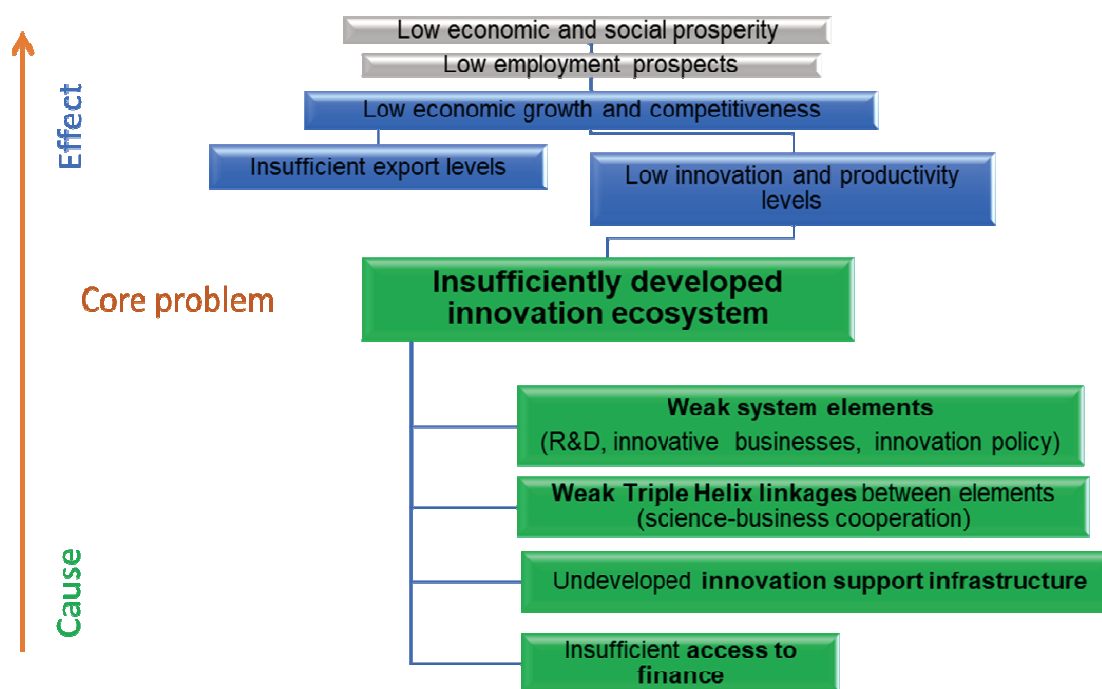
As a lack of such barriers, currently, there are a few initiatives for clusters establishment, which have been supported by different donor programmes. These include clusters in tourism and in ICT supported by GIZ funded project "Economic Development and Employment Promotion Programme". It is envisagedthat the founders of the ICT cluster will be 15 companies, Faculty of Information Technology within the Polytechnic University of Tirana and Natural Science Faculty. In Shkodra, the regional tourism cluster has been established, which will include University of Shkodra. The cluster should involve a chain of different members from transport, hotel and restaurants sub sectors, with an aim to form a coherent supply chain. Additionally, tourism cluster in Tirana seeks to be formed as well. Also, there are a number of already established business associations, e.g. Albanian Dairy & Meat Association, the Chamber of Façon, and Albanian Tourism Association, that can be regarded as first steps towards cluster formation.

The set-up process of a Pilot women economic cluster should consider firstly conducting of pre-analysis for background information to identify and assess the main potential clustering development for women in rural areas with regard to agribusiness sector/s and its value chain (production, packaging, marketing and selling), analysis of companies and their needs. There are some efforts on identification of 3-4 different potential clusters, the meetings with local authorities and Ministry of Agriculture and Rural development will be conducted to decide about the geographic zone and the field of agribusiness, where the one pilot economic cluster will be formed.

5. Existing instruments and mechanisms for establishment of cluster organizations in Albania

Action Plan 2017-2021 (AP) [6] ,"Support the development of innovative policies based on Triple Helix approach" based on recommendation of Organization for Economic Cooperation and Development (OECD) Programme for South East Europe.

The Action Plan (AP) for Innovation 2017-2021 aims to support the innovation and research, gradually leading to the establishment of an effective national innovation system in Albania. The key focus of AP is the support of an integrated approach as a cross-cutting theme. This starts at the governance and policy level addressing issues such as integrated coordination structures and comprehensive road maps. The same integrated approach is applied to innovation supporting structures and services, bringing together different types of offers (e.g. facilities, financing, technical and advisory services) and improving collaboration between the service providers. In particular, the following innovation support measures outlined in the Action Plan are the most relevant to this IPA II Action:

Developing a Virtual Innovation Support Network/Mapping of Innovation Support Developing an online portal - based on a thorough mapping - that helps entrepreneurs, SMEs, research institutions, NGOs, public bodies to identify and access relevant opportunities for support.

Providing Upgrading Support for Incubator and Accelerator Programmes. Providing competition-based funding for selected incubator and accelerator programmes to expand business support resources and services, focusing on lean organisational models based on partnerships with external partners and coaches

-**Assessment of the Cluster Potential and Concept for Introducing a Cluster-Oriented Approach.** Assessment of the preconditions development of an implementation concept outlining main phases and key policy areas and instruments to support the process. Albanian Investment Development Agency/AIDA is an executive public body supporting SMEs and clustersdevelopment. AIDA has responsibility to assist and establish new clusters, also contributing in training assessment for cluster managers through life cycle of a cluster, for: market needs and new cluster initiative,networking and cluster management, going international and participating in EU and regional cluster projects.

Currently, this year 2019, GIZ is considering providing support to strengthen the capacities of Ministry of Finance & Economy and ministry of Energy &Infrastructure in relation to establish a wood processing cluster development and assessment of clustering potential in Albania.The objective of the Project ("More effective Industry Policy Measures according to Chapter 20") is to support the SEE countries to have more effective IP measures for improvement of competitiveness in accordance with the Chapter 20 of the EU Acquis, for cluster development in Albania. In overall, the Project should contribute also to the improvement of competitiveness and policy coherence in the SEE region and should contribute to further harmonization of the cluster activity in the SEE with EU. As a part of tailored national support, in Albania has been identified the needs to promote and implement a model of industrial activity from smaller units to bigger ones, such as the CLUSTER Model, in one of the non-food industry areas, and in concrete terms in the wood processing industry as a model which ensures increased competitiveness in the domestic, regional and broader markets.

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[6] Order of the Prime minister nr.1, date 10.01.2017

6. Identification and analysis of opportunities for development of clusters with participation of enterprises from Albania and the partner countries of the project

Studies have shown that cluster firms tend to be more innovative than other firms. In addition, there is evidence that clusters foster growth, while increasing firm productivity,entrepreneurship, local employment and wages. However, sub-optimal clustering or interaction with clusters which are a consequence of market failures, justify and incentivize policy interventions. Three are the main categories which cluster development policies are usually divided into: the engagement of actors in events and networking; the collective services like counselling, training or joint marketing; and the largescale collaborative research and development (OECD, 2009). According to the OECD (2007), policymakers should be particularly careful when choosing the appropriate policy tools to meet targeted goals, which should not just foster competitiveness and innovation in broad terms. The targeted cluster programmes are usually part of regional, science and technology, or industrial policies. Examples of clusters, such as the Upper Austrian Food Cluster [7]offer valuable insights into the development of such innovation support infrastructures in Albania.

In Albania, there is a lack of industrial clusters to improve co-operation and specialization, which could potentially promote regional development and improve the competitiveness of products. The Clusters Programme (2012-2016) has not yet been implemented. The program was intended to be launched in 2012 to stimulate the processes of collaborative value creation through innovation and internationalization. It will be based on close cooperation between companies and supporting institutions to achieve success at national and international levels, through: higher level of efficiency, higher levels of innovation and knowledge spill overs, higher level of business formation. The programme provides financial (grant) and non-financial support to cluster formation and development of existing clusters.

Learning from best practices:A focus on strategic sectors and Triple Helix co-operation tools could revitalize cluster programmes.Previous cluster programmes that have been launched in Albania have suffered from lack of funding. OECD best practice experience suggest that it is beneficial to focus on strategic sectors (e.g. manufacturing, ICT) and that the clusters should draw on the shortcomings of the previous cluster programme and initiatives and excellence sectors. Recent studies have also confirmed that cluster development demands a strategic approach closely aligned with the market. A hybrid model of a two-sided and simultaneouslytop-down and bottom-up approach to cluster development has been applied Croatia[8].

After the 90s, in Albania, cluster activities have seen somewhat chaotic developments, and has not focused on the development close to the source of the raw material, and failing to consider the value chain, but rather focusing on development close to national roads, currently, approximately 70 % of wood processing industry is based in the Tirana-Durres-Kruja region.

The share/contribution of this branch of economy in the country's overall economy remains modest.

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[7] OECD -Best Practices on Business-Academia-Government Co-operation for Innovation in Albania,2015
[8]Maxwell Stamp PLC, 2013

In terms of % of coverage of imports/exports, the rates are 30 up to 35 % out of 44 – 45 % which is the country's value for all goods and products. As an overall, the contribution to the GDP of the wood and paper industry does not exceed 0, 4 - 0, 5 % (with 70 % accounted for by the wood/timber industry), out of approximately 4, 5 – 4, 7 % of all non-food industry.

The employment rates for approximately 370 entities which are identified in the wood/timber processing industry, with the most important share accounted for by furniture manufacturing speak for 5800 persons or an average of 15 persons for each of these entities. While in the chain of this industry there are many entities that are involved in selling of furniture, both from the local and foreign markets, as well as many smaller workshops in the context of family businesses. According to INSTAT data, the wood and paper industry accounts for approximately 1578 entities, with 914 in the furniture business. Under these circumstances, the Ministry of Energy and Infrastructure and Ministry of Economy and Finance have as priority to promote with the business community the idea of moving from small and micro units of business to larger scale models, such as the CLUSTER model, with other actors such as: academic circles, banks etc. This process and modus operandi aims at enhancing technical and economic performance, improving production/manufacturing quality, increasing work output etc. The same needs apply to biofuel production sector, recalling that Albania has an obligation to use 10% of bio fuel in the entire economy of the country. Therefore, consultancy for a cluster model for this sector should as well be addressed.

The work is continuing to prepare and deliver the entire scenario for establishing a CLUSTER Model for wood processing industry and provide consultancy for the creation of Cluster model for bio fuel production sector as well.

There is a lack of Assessment and review existing situation on legal and institutional framework, in order to introduce full operational scheme of cluster model and promoting it among the business community. It is necessary to draft the full legal infrastructure, together with the infrastructure for the organization and operation of the CLUSTER;and the lack of providing trainings, workshops for all relevant stakeholders.

"ClusterPoliSEE" Project – Smarter Cluster Policies for SEE, has been implemented in is an European project (May 2012 – October 2014) that aims to develop and increase the capacity of clusters of enterprises in South East Europe (SEE). AIDA is the Albanian partner in this ambitious two-year project bringing together 25 partners from 11 countries.This project aimed also   toidentify reflective policy making mechanism pattern; develop intelligent benchmarking methodology for specific cluster policy, training package as common knowledge base, and foresight exercise reports.The Project was financed by European Commission through SEE Programme, extended between **Project website:** www.clusterpolisee.eu

ClusterPoliSEE main objective is to enhance the capacity of regional policy makers and business organizations to confront, prevent and anticipate change, developing smart specialization strategies for cluster improvement, thus accelerating differentiation and structural change of the economic network of enterprises towards a knowledge-based economy, new technology adoption or cooperation between companies towards a closed production cycle, etc.

Cluster development is part of the Business Innovation and Technology Strategy (BITS) of the Albanian government. AIDA is the implementing body for this strategy with the aim to develop sustainable clusters in priority sectors.

25 members partnership covers 11 different SEE programme countries (8 EU MSs and 3 IPA. Lead Partner:MarchesRegion–Italy).Partnership involved: Regional and National Public Institution responsible for cluster policy development and implementation, Regional Development Agencies responsible for the management of Cluster Programmes and Regional Innovation strategies, National Research Institutes and Universities, Innovation promotion bodies and Cluster Networks.The work plan runed through a matrix approach where six cross cluster development areas:Innovation, R&D driven ClusterDevelopment;Sustainability through Cluster Development;International Cluster Cooperation and networking;Financial Framework Improvement (Cluster Financing);Cluster and Regional Specialization;New skills and Jobs creation;

There is another project : **START-W** (Support to activate rural tourism potential of women) in 2013-2014)

The objective of this project was to help the development of women-owned small and medium enterprises operating and promoting the tourism sector. It also contributed to gender equality by helping the economic empowerment of women in this area. Contribution to enhanced cross-border cooperation between Albania (Shkodra region) and Montenegro (Podgorica/ Bar) Cross-border area through joint women's participation in improving rural tourism offer: The cross border area of Albania, Montenegro and Croatia, share common qualities and needs including the potential for being a joint tourist destination with well developed tourist offer.

This START-W Project aimed to:establish links between women on either side of the border around sound, sustainable business practices and initiatives in the tourism branch; developing training modules tailored to the specific needs identified by improving capacities of business and craftswomen and also encouraging /supporting women with traditional and agricultural skills and products to become economically active in the tourism branch and going toward regional clusters.

Apart from participation in such regional projects in cluster activities, it is really hard to identify and to see the real impact of such projects, in terms of sustainability of cluster development in Albania.

7. **Recommendations for a successful cluster structure with the participation of Albanian enterprises**
   - It is a need to establish a high-level co-ordinating body to pave the way for effective cluster policy development and implementation. Such a high-level council could help ensure political support to support cluster development and could improve inter-ministerial co-ordination with participation of business organizations and individual companies. Such a council could have a clear co-ordination mandate with numerous institutions involved in clustering activities. The council could develop and acluster development strategy and monitor its implementation including the budget contribution in the first phase of the development of clusters.
   - Strong, commercially relevant public research&executive institutions are key in the innovation ecosystem/cluster activities. There are few research institutions in Albania and their innovation capacity is weak and not adequately focused on needs-

based innovation. Within AIDA it is a BRIC(Business Relay Innovation Center) unit, almost inexistent in supporting such activities. A framework could be developed to support and such institutions and undertaking consultancy in private companies and to encourage cluster activities, by private companies and other stakeholders including Universities and Research Centres of Excellence focused on defined sectors or industries could enable better and more effective collaboration between the industry and private sector.

- Business sector co-operation with academia facilitates innovation. Government support can facilitate the private sector's development and commercialization of innovative ideas. Currently, very few innovation support institutions contribute to the cluster development in the country. Even private sector in itself expects to involve in cluster activities only with the support of foreign donors. Infrastructure development not only for technology-based innovations, but also for management and service-based cluster activity is crucial.

- A range of financial instruments support different phases of business development. Innovation voucher schemes would enable the private sector to get valuable professional advice and services to develop clusters, but first is needed to establish legal framework. The next step is to ensure that financing is available for joint business-academia projects with clear market prospects. Finally, direct financial support in the form of seed funds would support new innovative businesses and developing prototypes. Additional instruments such as guarantee support schemes, along with venture capital and private equity, would provide cluster companies with easier access to funds needed for scaling and internationalization. So far dedicated financial government support are missing.

- National cluster awareness raising activities is needed and to engage more people. An annual Triple Helix competition would help promote business-academia-government co-operation in the long-term and would help spur the generation of ideas through the co-operation of these actors. Though a number of events like business-plan competitions have to take place, it is important to involve private sector at large into cluster creation of awareness TV shows, sharing successful cases with general public, and incentivizing part taking.

8. Operational methodology for cluster management

In the strategic document,Business Innovation and Technology Action Plan, 2011-2016[9], AIDA/BRIC is the responsible institution to implement the Albanian Cluster programme/ACP.
ACP aime to:to increase the national production of value through support provided to clusters
with the largest developmental potential. The Programme will stimulate the processes of innovation and internationalisation. It has to be based on a close cooperation between companies and supporting institutions to achieve success at a national and international level.

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[9]Republic of Albania EuropeAid/127727/C/SER/AL" Supporting SMEs to become more competitive in the EU Market"

ACP will be directed at creating, mobilizing, or strengthening a particular business environment to increase the likelihood of clusters to emerge or identifying existing clusters in need of critical support, as well as support development of established clusters targeting all three dimensions, namely:Higher level of efficiency, drawing on more specialized assets and suppliers with shorter reaction times; higher levels of innovation and higher level of business formation.

Figure 7: Expected results of the ACP's synergic effects on the economy
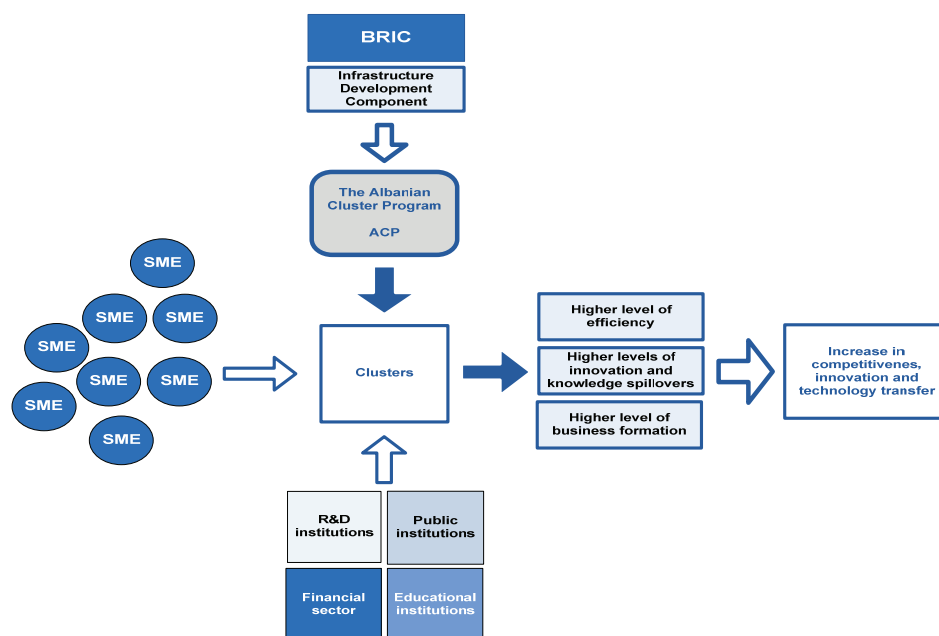
The Programme should engage itself in a **limited number of cluster projects**. The pilot phase will support a maximum of four clusters. The full implementation phase will continue support to the awarded pilot clusters and expand to a maximum of two new clusters.

Target groups: Therefore, the clusters should consist of:**Companies**: group of minimum nine companies; **Supporting bodies,** which will involve minimum four members, namely:**R&D institutions**: institutes, research centers; **Educational institutions:** institutions in charge of both high-school and higher education; **Public and/or development institutions**: municipalities, the chamber of commerce, regional development agencies and **Financial actors**.

ACP is focused on two types of measures: 1.Support to cluster formation; and 2.Development of existing clusters. Under this programme are used two types of instruments:

Instrument 1. Financial support. Awarded grants should help to initiate, establish and develop the clusters. A maximum amount of € 30,000 annually for the cluster formation will be granted. The maximum amount for cluster development (as of second year of cluster establishment) will not exceed € 100,000 annually per cluster.

Instrument 2. Non-financial support. Specialist professional support will enable improvement of the developmental processes by offering knowledge, tools and professional contacts. These will consist of BRIC staff and experts.

Conditions: In all cases, applicants will present an application that will be evaluated by the Cluster Evaluation Panel. They will then agree a contract with BRIC. This will list those who participate in the cluster partnership and what is their contribution/role. A partnership agreement will specify obligations.

All beneficiaries will have to fulfil reporting requirements and achieve targets agreed in contracts. There will be no automatic contract renewals, since all proposals will be evaluated.

The Programme will be open to cluster-based projects in the sectors defined during the ACP preparation phase (cluster mapping). The Programme will choose clusters that belong to different sectors. A maximum of one cluster per defined sector can be supported.

Approved clusters must demonstrate that they fulfil practices to promote the sustainability of natural resources and equal opportunities.

Management: AIDA/BRIC will be responsible for:Programme management on daily basis; Organizing and performing meetings on regular basis.On a daily basis provide necessary information to potential cluster initiatives as well as the clusters that are supported by ACP.Provide advice and additional support to cluster directors.Promotion of the ACP and cluster concept in the country.

Preparation of reports - the Programme management unit will prepare an annual rapport every year. It will engage one full time Cluster Manger and Project Officer on a part time basis. As soon as the grant scheme is launched, BRIC will engage Business Advisor to support the development of the cluster activities and to work with cluster director. BRIC will engage short term experts for specific tasks when necessary. The Programme will also benefit from an internship programme. The Programme will be implemented in cooperation with other relevant programmes and actions initiated by other stakeholders, for example other donor funded projects.

Cluster Assessment Panel: A Cluster Assessment Panel will assess proposals according to the criteria and based on the findings, make recommendations for grants to the Steering Committee. The Assessment Panel is appointed by the *responsible Ministry* M*oF&*E and comprises of Chairperson (ACP Programme Manager), project officer and three voting members. The voting members must possess the technical and administrative capacities necessary to give an informed opinion on the proposals. Chairperson is responsible for coordinating the assessment process in accordance with the procedure ensuring its impartiality and transparency. The Project Officer is responsible for carrying out all administrative task connected with the procedure.
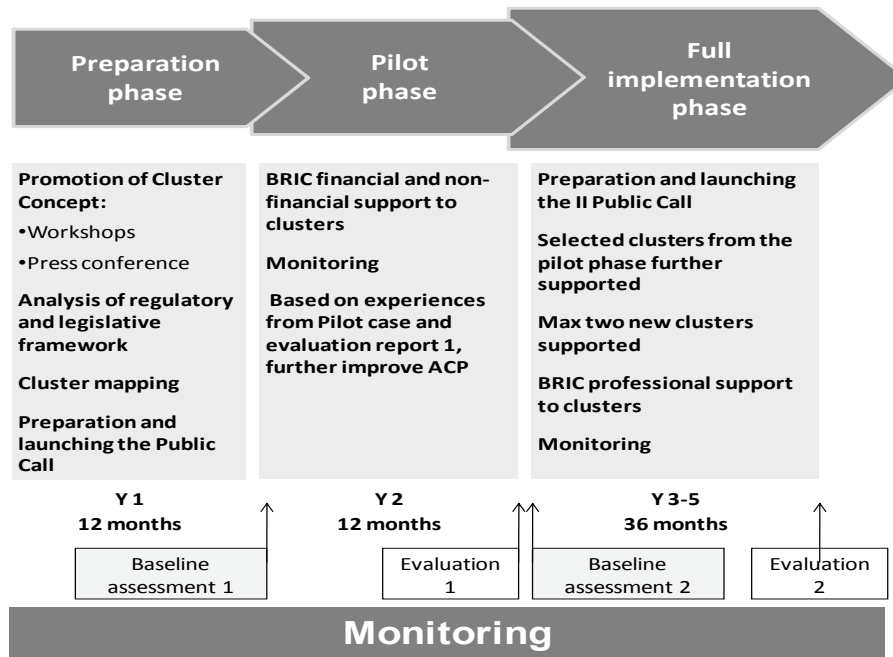
Promotion of Cluster Concept involves:Organisation of the Workshops for the prospective clusters: Workshops will provide potential participants with information on the benefits from clustering and on the requirements for participation in the Public Call for Proposals. Workshops will be organized in cooperation with the Regional Development Agencies and held in at least 3 selected regions. Organizing press conference to promote the Programme mission, objectives and results.

Analysis of regulatory and legislative framework. Legal assessment will provide analysis on different legal possibilities for clusters to operate in Albania. It will also provide recommendations for the most optimal solution.

Cluster mapping assessment. ACP will undertake a cluster mapping study to appraise potential for further cluster development and to identify six priority clusters for Programme support. The study will include mapping and analysis of key parameters such as: the types and number of companies in the cluster; employment concentration and dynamics; interdependencies and trade links; innovation activity etc. Such national maps will allow understanding of the nature of clusters and supply chains, locations, dynamics and level of competitiveness and determine the nature and type of support.

The BRIC team shall develop the methodology, which will be in line with the European Cluster Observatory, the official European cluster mapping tool across sectors and regions, including employment and performance statistics.

Staffing
The ACP Programme will in a first two years engage full time BRIC staff member, Cluster Manger and additional administrative support. As soon as grants are allocated to the clusters, BRIC will in addition engage Business Advisor. Promotional costs will be higher in first two Programme years aiming in increase of the awareness and promotion of the Programme and cluster concept. Evaluation will be performed on a yearly basis I[st] phase grants will be awarded to four pilot clusters, of a maximum amount € 30,000 for each cluster to establish its operation. As of second year, the ACP will grant maximum € 100,000 annually to each cluster for the period of three years. In a second year, formation of

additional two clusters will be supported (each € 30,000). This means that in a Year 4 and Year 5, six clusters will be supported with the grant not exceeding € 100,000.

Sustainability: The clusters need to demonstrate benefits to their members. In the five year period, these should be clearly understood by the members, so that they will sustain the cluster infrastructure itself on a commercial basis.

Note: *so far in Albania this cluster programme is not implemented by AIDA/BRIC, because of the lack of financial funds either by the state budget or donor support.*

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