Economic Resilience Building Plan – Tirana, Albania

Note by the Secretariat

Summary

This document contains the Economic Resilience Plan for the City of Tirana, Albania, the capital city and the largest in the country. The Plan was developed within the context of the United Nations Development Account (UNDA)-funded project “Building Urban Economic Resilience during and after COVID-19” to help the local government strengthen urban economic resilience and build back better post-COVID-19.

The Plan was prepared by the United Nations Economic Commission for Europe (ECE) Housing and Land Management Unit working closely with the City of Tirana and Albanian experts.

The Committee is invited to take note of this document.
I. Introduction

Cities have been at the epicentre of the COVID-19 pandemic, accounting for an estimated 90 percent of all reported COVID-19 cases as the size of their populations, combined with their high level of interconnectivity, rendered them particularly vulnerable to the spread of the virus. Cities, as well as towns and suburbs, rose to the challenge. They upscaled public health preparedness to curb the spread of the virus pursuant to the World Health Organization advisory guidelines and launched support measures to cater to the emergency needs of inhabitants across neighbourhoods, age groups and economic activities, especially those belonging to vulnerable segments.

However, cities and local governments were quickly overwhelmed by the disruptive impact of health protection measures, particularly during the early pandemic period. This period saw countries implementing nationwide lockdowns, the sealing-off of many cities, the closure of educational institutions, non-essential businesses, and all forms of public transport. The negative impact of these measures was compounded by the lockdown and health protection measures in trading partner countries, which caused severe supply chain disruptions. These disruptions resulted in supply shortages that left the health sector and utility service providers struggling to meet the demand for their services. The disruptions also left many enterprises, particularly micro, small and medium enterprises, struggling to survive. Pay cuts and furloughs assumed an increasing trend so that losses in lives were compounded by livelihood crises.

For many cities, the impact of the pandemic was amplified by climate change effects. Several cities suffered from floods, heatwaves and droughts, while others were hard hit by a series of earthquakes (e.g., cities in Albania and Croatia) that caused considerable damage to the cities' housing stock and urban infrastructure. Indeed, Cities across the globe suffered setbacks that are akin to complex humanitarian emergencies associated with disasters. The coping strategies of local governments as well as households, basic utility service providers and enterprises, are being challenged by the unfolding socio-economic crisis so that vulnerabilities are aggravated. It, therefore, stands to reason to not to avoid treating the pandemic as a temporary shock whose effects can be swiftly reversed once normality is attained. Several reports by the United Nations noted that the pandemic exacerbated many pre-existing systemic vulnerabilities, with the consequence of aggravating informality and homelessness, as well as income and gender inequalities.

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5 https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7995187/.
Local and regional governments need to, therefore, build capacities to strengthen resilience to disasters, address the long-term strategic needs of their inhabitants, contribute to overcoming the global challenges of today’s world, particularly climate change, and ensure the successful achievement of the Sustainable Development Goals (SDGs) following the principles set out in the 2030 Agenda for Sustainable Development (2030 Agenda) and its overarching commitment to leaving no-one behind.

II. The work of UNECE in support of strengthening local resilience and building back better post-COVID-19

The above concerns formed the focus of the United Nations Development Account (UNDA)-funded project “Building Urban Economic Resilience during and after COVID-19”, which was implemented in the period 2020-2022 in collaboration with the United Nations Regional Economic Commissions (RECs), the United Nations Human Settlements Programme (UN-Habitat) and United Nations Capital Development Fund (UNCDF). The project targeted 16 cities from across the globe and involved developing a range of knowledge and capacity-building resources, which were piloted during training workshops.8

The project also involved evidence-based assessments of the impact of the pandemic on the local economies of the 16 targeted cities, including the ECE cities of Bishkek (Kyrgyzstan), Kharkiv (Ukraine) and Tirana (Albania), with a view to helping these cities develop economic recovery and resilience plans for building back better post-COVID-19. The ECE cities were also assisted in identifying potential sources of development funding for financing urban economic development and infrastructure projects aimed at supporting urban economic resilience and post-COVID-19-sustained recovery.

The impact assessments were conducted using the “Urban Economic Recovery and Resilience Diagnostic and Planning Tool”,9 aimed at helping local authorities ascertain the strengths and weaknesses of their institutional and operational arrangements from the perspective of economic recovery and resilience. As shown in figure 1, the tool features city-focused resilience performance indicators (RPIs) that are grouped under five categories:

1. Resilience of local business environment.
2. Resilience of local labour market.
3. Resilience of local financial system.
4. Resilience of economic governance.
5. Resilience of basic service infrastructure and connectivity.

8 The resource materials along with detailed information on training workshops are published on the project website at https://urbaneconomicresilience.org.
Figure 1. The Urban Economic Recovery and Resilience Diagnostic and Planning Tool: Main elements

- Business environment
  - Industry concentration
  - Supply chain
  - Market orientation
  - Firm size
  - Economic informality
  - Entrepreneurship
  - Technology
  - Role of public sector
  - Financial strength

- Labour market conditions
  - Occupational flexibility
  - Labour market regulations
  - Wages and working hours
  - Alternative job opportunities
  - Mobility
  - Social security mechanisms

- Basic service infrastructure and connectivity
  - Energy supply
  - Water supply
  - Robustness of critical facilities
  - Housing stock
  - Access to communication
  - Coverage and access to urban mobility systems

- Financial environment
  - Debt markets
  - Equity markets
  - Government financing
  - Financial technology (fintech)
  - Complementary financing mechanisms

- Economic governance
  - Ease of doing business
  - Resilience in development planning
  - Leadership in times of economic crisis
  - Macroeconomics and urban economies

Source: UNCDF, 2020

The RPIs, 17 in total, include qualitative and quantitative composite indicators as well as indices, for measuring progress toward consolidating a conducive environment under each category. Cities are assessed against each of the indicators on a scale of A to F, with A being the highest score (maximum contribution to resilience) and F being the lowest score (no contribution to resilience). The ranking helps local decision makers gain a better understanding of major factors undermining the resilience of their cities and establishing action-oriented plans for improving city resilience within the context of a holistic approach (see figure 2).

III. Economic impact of COVID-19 on the city of Tirana

The city of Tirana has a population of an estimated 900,000 in 2021\textsuperscript{12} which is equivalent to a third of the country’s population.\textsuperscript{13} Tirana is driving the country’s economic growth, benefiting from the universities, schools, research and scientific institutes in the city and its metropolitan area (around 180 educational institutions specialized in various scientific and social different fields\textsuperscript{14}). The city also boasts rich cultural life and is home to numerous galleries and museums along with the national opera house and theater.\textsuperscript{15}

\textsuperscript{14} https://tirana.al/en/page/investo-ne-tirane#.
\textsuperscript{15} Ibid.
An estimated 23 per cent of total registered enterprises operating in the country (57,268 out of 181,549 enterprises) in 2021 is located in Tirana. The majority enterprises are engaged in the services sector, mainly in wholesale and retail trade and repair of motor vehicles and household goods, and together with tourism accounted for the largest share of the GDP of the region of Tirana (see table 1). The services enterprises are also a major source of job creation, employing 71.7 per cent of the labour force of the city in 2019, followed by the industrial sector (24.4 per cent) and agriculture (3.9 per cent).

Table 1. Breakdown of the regional GDP of Tirana by sector, 2019

<table>
<thead>
<tr>
<th>Sector (NACE Rev. 2)</th>
<th>Share in regional GDP (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Agriculture, hunting and forestry, Fishing</td>
<td>3.8</td>
</tr>
<tr>
<td>B+C+D+E Industry</td>
<td>11.6</td>
</tr>
<tr>
<td>F. Construction</td>
<td>12.4</td>
</tr>
<tr>
<td>G+H+I Wholesale and retail trade, repair of motor vehicles and household goods, hotels and restaurants</td>
<td>23.3</td>
</tr>
<tr>
<td>J. Communications</td>
<td>5.8</td>
</tr>
<tr>
<td>K. Financial and insurance activities</td>
<td>2.4</td>
</tr>
<tr>
<td>L. Real estate activities</td>
<td>7.1</td>
</tr>
<tr>
<td>M+N Professional activities, science, technical, administrative and other services</td>
<td>13.5</td>
</tr>
<tr>
<td>O+P+Q Public administration activities, protection, education, health and social security</td>
<td>15.7</td>
</tr>
<tr>
<td>R+S+T+U Other services</td>
<td>4.3</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Institute of Statistics of Albania

Nonetheless, at the eve of the pandemic, Tirana region was struggling with high unemployment that affected 14 per cent of the region’s workforce in 2019. This figure was the second highest in the country, with the region of Lezhë recording the highest unemployment rate (17.7 per cent).

While Albania had the lowest number of cases in the Western Balkans (with 131,517 reported cases or 45,953 cases per million inhabitants), Tirana hard hit as it was among the cities with the highest number of cases. Further, just like other cities in the country and across the globe, inhabitants and businesses saw their everyday activities disrupted by the lockdown and health safety measures that were imposed by the national Government to curb the spread of the virus.

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The impact of these measures was particularly severe, since the pandemic came on the heels of two devastating earthquakes that hit the country in September and November 2019 (See box 1).

**Box 1. The economic impact of the pandemic**

**Impact on business environment**
Businesses saw domestic and external demand dwindle, forcing around 54 per cent of the enterprises operating in the city (221 enterprises) to suspend operations over the period April-May 2020. The majority were engaged in the tourism sector, wholesale and retail, construction and manufacturing.

**Impact on financial environment**
According to official data by the city government, revenues from municipal taxes decreased by 14 per cent during the first quarter of 2020 in relation to the same period in 2019, while revenues from the Infrastructure Impact Tax (IIT) decreased by 21.4 per cent.

**Impact on labour market**
The region of Tirana registered a slight increase in unemployment rate, which reached to around 15 per cent in 2021. While this figure was higher than the national unemployment rate of 11.7 per cent, the region of Tirana fared better than other regions, with the region of Lezhë registering the highest unemployment rate of 22.2 per cent.

**Economic governance arrangement**
The emergency response effort was led by the national government. The Prime Minister declared a state of natural disaster on 25 March 2020, and the government established a policy framework for addressing the pandemic. The framework contained several national plans, including the National Civil Emergency Plan of Albania, the Emergency Operational Plan by the Ministry of Health and Social Protection, the National Pandemic Influenza Preparedness and Response Plan, and the Infectious Diseases Hospital Crisis Prevention Plan focused on Pandemic Flu H1N1.

Coordination between the national and city government of Tirana was established late March 2020 after which the city government of Tirana started the implementation of national emergency response plans, which involved direct cash assistance to individuals who lost their jobs as a result of layoffs and tax relief measures. The city also monitored the compliance of the inhabitants with health and safety measures, and ensured continued provision of the basic utility services (with the exception of public transportation that was

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22 Data provided by the National Business Centre of Albania.
23 The IIT is a national tax, implemented by Albanian municipalities for regulating infrastructure development and mobilizing financing resources for city development.
IV. Crisis response and emergency support measures

In addition to rolling out the national emergencies support programmes across the different local communities, the city government implemented the following measures:

- Reallocated part of its revenues to cover emergency expenditures.
- Established 24/7 hotlines and online platforms for psychological counselling and for addressing public inquiries.
- Organized the delivery of food and non-food supplies to the most vulnerable households and individuals as well as the purchase of medicine. In this respect, it created innovative social assistance programmes for vulnerable groups. For instance, it initiated the “Adopt a Grandparent” initiative, where the youth volunteered to help the elderly neighbours by, among other things, sharing home-cooked meals, delivering groceries and medicine.
- Created a database of families not covered by social assistance programmes (around 36,000 families). These families received food and non-food supplies, medicine and other social services.
- Launched televised education courses for primary and secondary school students.

The city government of Tirana is currently working towards the development of its Crisis and Resilience Management Plan, which will feature a special emphasis on bolstering emergency response to pandemics and earthquakes. The municipality is also developing ambitious urban initiatives, such as the “Orbital Forest”, a belt of two million trees around the city to contain the urban sprawl, improve the microclimate, air quality and biodiversity. Another initiative is the Tirana River Side project, a major post-COVID-19 regeneration effort to create green neighbourhoods covering 29-hectares.

V. Diagnostic assessment for the city of Tirana

The diagnostic assessment, which was conducted in 2021, was significantly challenged by a lack of data, so that it was not possible to score the city against all indicators. The analysis suggests that there is room for improvement in the following areas:

1. The resilience of the local labour market is relatively good. However, the city scores low on labour mobility across sectors and geographical regions.

2. The city business environment needs to be improved to further support the integration of the local economy into regional and global markets. In this respect, strengthening the entrepreneurship and innovation support gains much importance to enable enterprises to adapt to and overcome external shocks and disasters and compete in domestic and global markets.

3. Resilience of basic service infrastructure and connectivity is rated as relatively high. The coverage and functionality of basic public services and infrastructure indicator is
scored B+, whereas health service coverage is scored A. No data was available for the city’s performance on connectivity and urban mobility.

4. The resilience of the local financial system could not be reliably ascertained due to the lack of data for many indicators (such as financial performance and soundness and the city’s financial health and stability). Available data suggest limited fiscal space due to the low share of own-source revenues (OSRs) in total revenues which renders the city dependent on intergovernmental fiscal transfers.

5. The economic governance system could be improved by strengthening strategic planning focused on resilience.

VI. Recommendations

1. Integrate crisis management provisions into budget planning. In this respect, Albania has an established legal framework for crisis management, which determines the responsibilities of local governments and provides a solid basis for integrating crisis management principles and processes.

2. Develop a comprehensive capital investment plan for the city, which details an overall approach for financing urban development and features sector-specific investment initiatives and projects. The plan should be based on a review of the financing ecosystem of the city, including its legal and statutory competencies in the area of development finance.

3. Continue the expansion of nature-based solutions for urban planning and transportation. It is recommended to further develop the public transport system, with a view to encouraging inhabitants to reduce reliance on private cars.

4. Review and improve the collection and analysis of municipal data to support evidence-based policymaking.

VII. Approaches for financing the implementation of the recommendations

Track 1: Private equity finance for infrastructure
Given the city’s limited resources, it is recommended that the city government explores ways for leveraging private capital for financing urban development initiatives. The city government is advised to engage with relevant international equity-based funds, such as the International Municipal Investment Fund (IMIF), which supports capital investments by local governments in developing and least developed countries as well as emerging economies. Albania qualifies for IMIF investments, which are focused on six areas: transport and public service infrastructure; water infrastructure; food security infrastructure; energy and utilities; waste management; and land development and housing. Furthermore, the city of Tirana could explore the potential of equity investments via domestic Public-Private Partnerships. In this regard, the city could consider designing reference models for guiding the establishment of such partnerships.
Track 2: Concessional finance for infrastructure development initiatives
Access to concessional finance would enable the city to leverage funds without assuming a large debt burden. Concessional finance is obtained from multilateral institutions at below market rate and involves less stringent loan payment conditionalities. Such loans can be obtained from the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). Both have a strong presence in Albania and EBRD is already financing projects in Tirana through the national government.

Track 3: International grants for infrastructure development and utility services
The potential for Tirana to tap into vertical climate finance funds, such as the Green Climate Fund (GCF) and Global Environment Facility (GEF), appears to be significant. In 2021, GCF was implementing three projects in Albania for a total of USD 14.8 million. However, none of these were implemented in Tirana, although the city is suffering from negative climate change impacts.

The three proposed tracks could be implemented simultaneously, with each having own timeline. The starting point would be to develop strengthen the city’s capacity to develop bankable investment projects. Whereas some international lending institutions, such as IMIF, EIB and EBRD, may offer technical assistance, most investors are not in a position to do so. In principle, the Unit of Public and Private Partnerships/Concessions, located at the Ministry of Economy, should assist the contracting authorities with the preparation of feasibility studies and other pre-investment activities. In reality, the Unit does not have adequate capacity, especially if Tirana engages in designing a pipeline of projects.

Hence, Tirana will be well advised to set up its own Project Preparation Facility (PPF) and equip it with the required technical and financial expertise capacities. The PPF may operate as a standalone independent facility or, preferably, as part of a City Investment Fund (see figure 3). The creation of such a facility could be financed from grants received by the national government or within the context of technical assistance projects.

Figure 3. Proposed model of a City Investment Fund

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Source: UNCDF (2022) Local Government Finance is Development Finance.27

International best practices show that such a fund could operate as an independent legal entity, with 100 per cent ownership of the city government and assume the following functions:

- Preparing technical feasibility studies for the projects proposed by the contracting agency.
- Developing financial models and identify the optimal financing structure for the projects including the participation of private capital.
- Identifying credit enhancement measures required for the project.