

CSR Roadmap Albania

A guide through Albania's garment and footwear industry



Kingdom of the Netherlands

Preface

The CSR Roadmap Albania has been established with the cooperation and support from The Royal Dutch Embassy in Tirana, the Dutch Enterprise Agency (RVO) and with the knowledge from the experts that have joined CSR Netherlands on an explorative mission. CSR Netherlands thanks these individuals and institutions who contributed to the CSR Roadmap Albania and with that, created a stepping stone towards sustainable private sector development in Albania.

MVO Nederland

(CSR Netherlands)

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Introduction

CSR Netherlands has explored opportunities for CSR as a business case in the textile and footwear industries in Albania in cooperation with the Royal Dutch Embassy in Tirana and the Dutch Enterprise Agency (RVO). On behalf of Albanian institutions and companies the Albanian Investment and Development Agency (AIDA) asked for support, knowledge and expertise in order to develop and to promote a responsible textile and leather sector.

In order to contribute to private sector development in a sustainable way in Albania recommendations and realistic opportunities for pilot projects and joint ventures have been identified by a team of 7 experts. These projects could contribute to a more sustainable, independent sector with a ready-made or customised industry, and where possible, with less waste of fabrics or leftovers and more chances for inclusive growth.

The overall purpose of this roadmap is to guide Dutch producers, buyers and retailers with an interest in sourcing garments or leather products in a responsible way in Albania and at the same time bridge the GAP between Dutch demand and Albanian supply. This document will offer an insight to Albanian stakeholders on how to become a relevant and interesting trade partner for the Netherlands, while making bilateral trade easier by means of practical advice, due diligence, pictures, statistics and CSR measurements.

At the same time sourcing opportunities for Dutch stakeholders will be discussed. As an emerging country, on the radar of EU and private investment bodies, Albania attracts foreign direct investment on an increasing scale, and Albanian enterprises are ready to explore new markets and cooperation opportunities.



Introduction

In the Netherlands little is heard so far about Albania's garment industry and few Dutch buyers are familiar with the products that the Albanian garment producers offer. Nevertheless, Albania is a very attractive country for garment and shoe manufacturing.

From strict dictatorship to untamed capitalism to a country full of CSR opportunities. Albania has seen it all. This small and upcoming country has been under Communistic rule for forty-five years until 1992, and remained separated from the free market during that period. By now, the Albanian government has signed numerous free trade agreements such as the EFTA, WTO membership and the signature of the Stabilisation and Association Agreement that gives Albania free access to EU markets. In addition, the European Union granted Albania EU candidate status for membership since July 2014.

Albania's strategic geographical location allows an easy and rapid reach to the Netherlands. For garment production mainly the Italian market is served (90%), followed by Germany, Greece and France.

The sector is mostly involved in CM and CMT production (cut-make-trim). This means that raw materials, designs and patterns are imported. Limited value is added in these types of production, which makes the sector vulnerable for competition in the Far East. However, Albania offers interesting opportunities for re-shoring trends and several front running companies upgraded their production processes to Full Cycle production.

The CSR expert team has identified chances and opportunities to add value and create a more independent, durable and sustainable industry. Albania is ready for CSR as a business case. Will you take the opportunity?





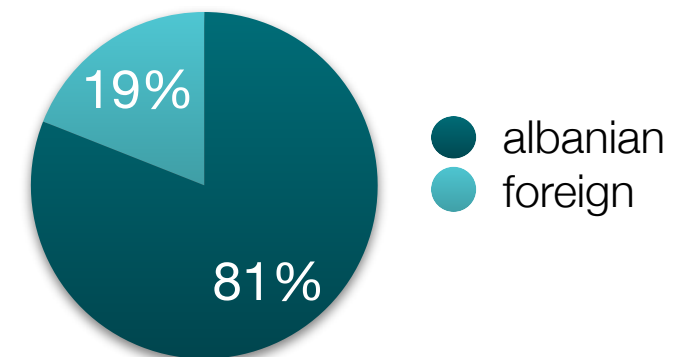
1. Textile & footwear sector: Facts & figures

Facts & figures

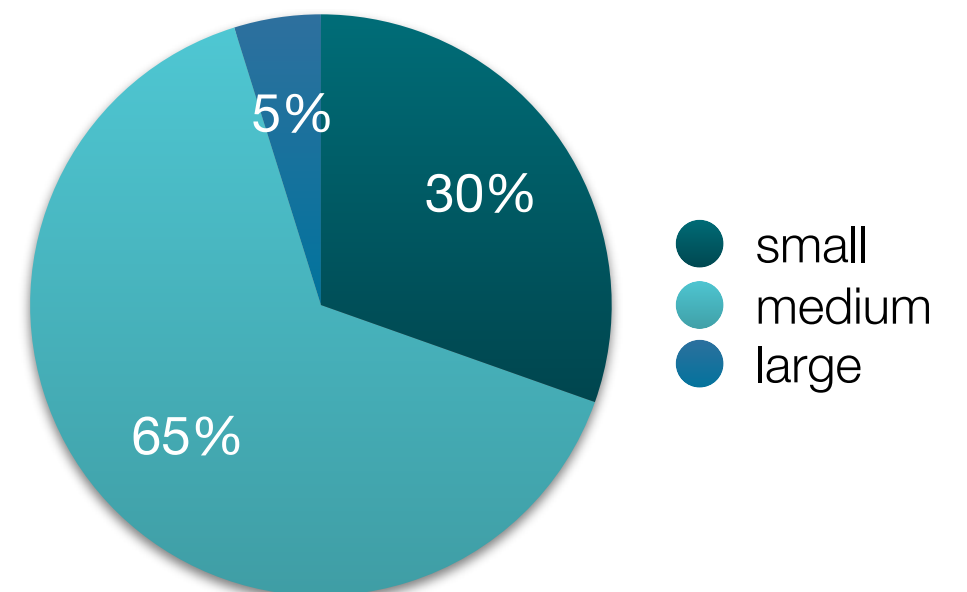
General data

- Total nr. of enterprises (garment and footwear): 498
- Total nr. of employees (garment and footwear): 110.000
- Total nr. of enterprises (garment): 332
- Total nr. of employees (garment): 70.000
- Total annual turnover (garment and footwear): 500 mln. Euro
- Textile & footwear export contributions: 41%
- Main markets: Italy, Greece, Germany

Ownership



Size of garment enterprises



Facts & figures

Main garment specialisations

HS Code	Description	Share to total textile exports
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear)	26%
6205	Men's or boy's shirts	13%
6206	Women's or girls' blouses, shirts and shirt- blouses	10,6%
6109	T-shirts	10,6%
6108	Women's or girls' slips, petticoats, briefs, panties, nightdresses, pyjamas, négligés, bathrobes, dressing gowns and similar articles, knitted or crocheted	8,5%
6106	Women's or girls' blouses and shirts	5,5%
6107	Men's or boys underpants, briefs, night shirts, pyjama's, bath robes	4,6%
6211	Outer wear and swim wear	3%

Facts & figures

Buyer profile - Garment industry

For whom is Albania an interesting sourcing destination?

- Corporate wear
- Workwear
- Outerwear
- Underwear
- High quality men's and women shirts
- Middle- high segment men & women's wear



Photo courtesy: Kler Sh.p.k. (www.kleren.al)

Facts & figures

Buyer profile - Footwear industry

For whom is Albania an interesting sourcing destination?

- All kinds of shoe production (fashion up to safety boots)
- Just In Time delivery
- Finished and semifinished products
- Flexible production
- Sustainable production with overstock
- Designers looking for shoe and accessory design opportunities

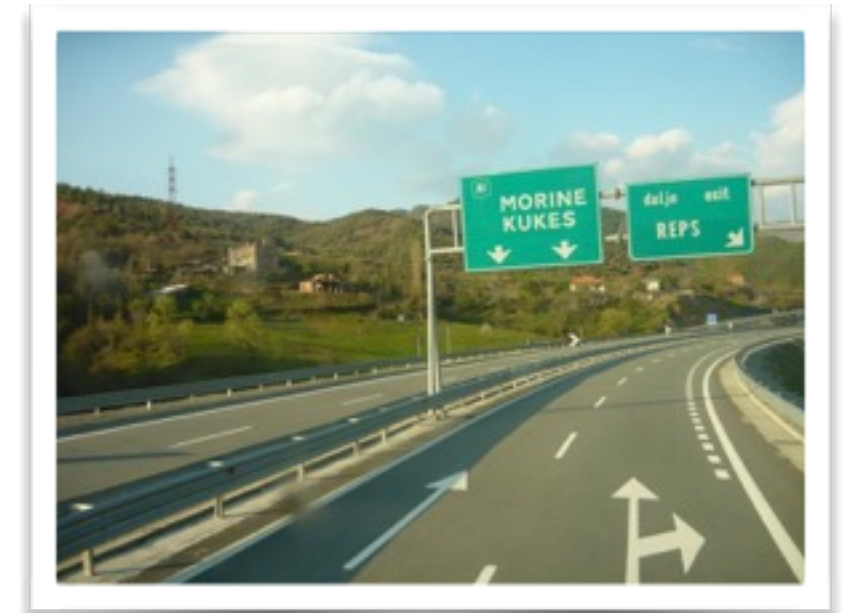


Facts & figures

Reach

- Overnight transport to the EU
- Average lead time of 3-4 weeks
- 1 International airport (Tirana)
- 6 Domestic airports
- Improved infrastructure

After the fall of communism in 1991, Albania began to improve its road infrastructure by building the first highway in Albania, SH2 connecting Tirana with Durrës. At present, major cities are linked with either new single/dual carriageways or well maintained roads.

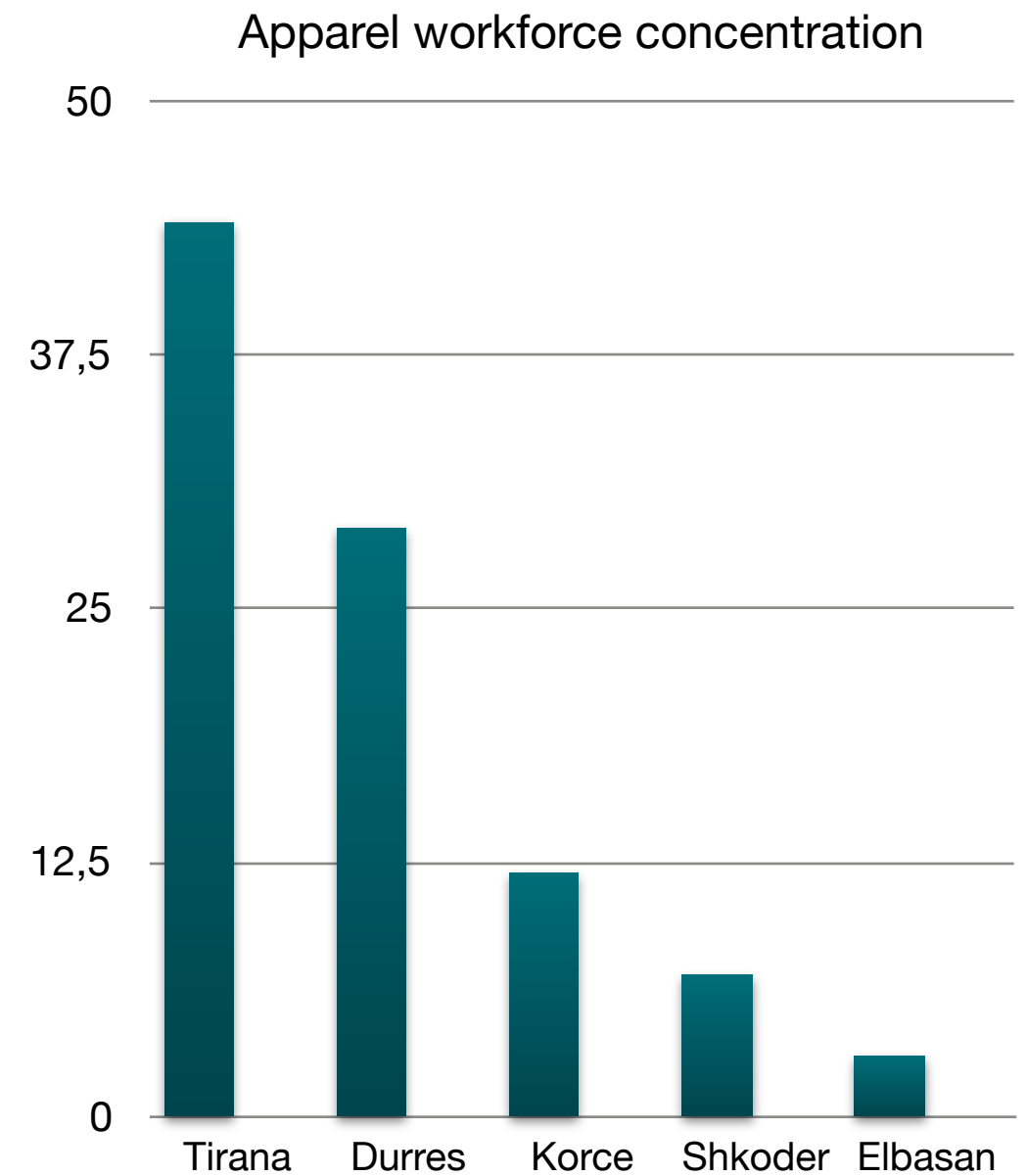


Tirana International Airport

Facts & figures

Worker's profile

- Total inhabitants Albania: 3 million (2014 est.)
- 59% Islam, 17% Christianity, 24% other
- Median age: 33 (2015 est.)
- 91.7% of the workers are female
- A majority comes from urban outskirts
- >80% earns minimum wage (144 euros / month)
- >88% paid according to efficiency (piece-rate basis)



Facts & figures

Worker's profile

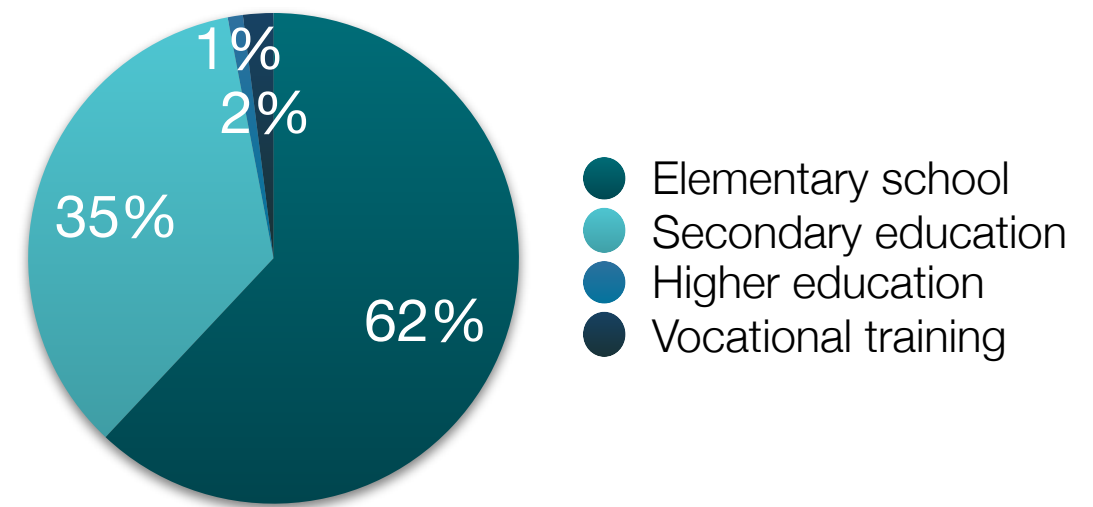
Albania's apparel and footwear labour force is dominated by female employees. According to the National Employment Service reports 91.7% of the overall number of the employed in the apparel and footwear sectors are women.

The workforce plays a key role due to the labour-intensive nature of production. Job training generally consists of intensive short-term courses. As a large majority of employees in this sector are low skilled and come from urban outskirts in difficult economic conditions, a job in the garment industry is an attractive alternative to unemployment.

Wages in the sector remain among the lowest in the Albanian economy, and have consistently been aligned with minimum wage levels. In spite of what the 'minimum' wage indicates, it is not sufficient to guarantee a decent life (ILO, 2014).

Albania's workforce is young and dynamic. The majority of workers is between 18 and 35 years old (SOLIDAR, 2011). Opportunities lay in training programs, since only 2% of the workers are involved in vocational trainings.

Workforce education levels





2. Observations

Observations

Garment industry

The Albanian garment industry produces medium up to high quality clothes in many different product ranges, for a competitive price. Several companies have shown very interesting sourcing possibilities for Western markets, producing high end clothing with advanced machinery and skilled workforce, in flexible orders, with full package or on demand production. Generally, such companies have been producing for Italian luxury labels and are ready to explore other markets.

The majority of garment producing companies, however, is involved in CM(T) production, or assembly of pre-cut components from contract providers. These companies are eager to climb the apparel value ladder and move their production processes towards full cycle production which brings higher wage levels, responsibility, profits, expanded markets and foreign investments.

Leading companies in the Albanian garment sector are striving to create their own in-house brands. Possibly with the support of Dutch designers such companies could become private label manufacturers and gain a range of competitive advantages: independency, fair pricing, and a stronger position in the EU market.

For Dutch buyers CSR standards, transparency and traceability become increasingly important. So does the usage of mobile, digital and social media as a result of changing consumer shopping habits. In addition to being regarded as an obligation, sustainability would be an interesting opportunity for Albanian suppliers seeking to explore new markets, produce innovative products, increase efficiency, establish long-term relationships with buyers and suppliers and, possibly, increase margins (CBI, 2016).

Observations

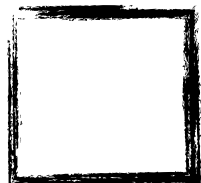
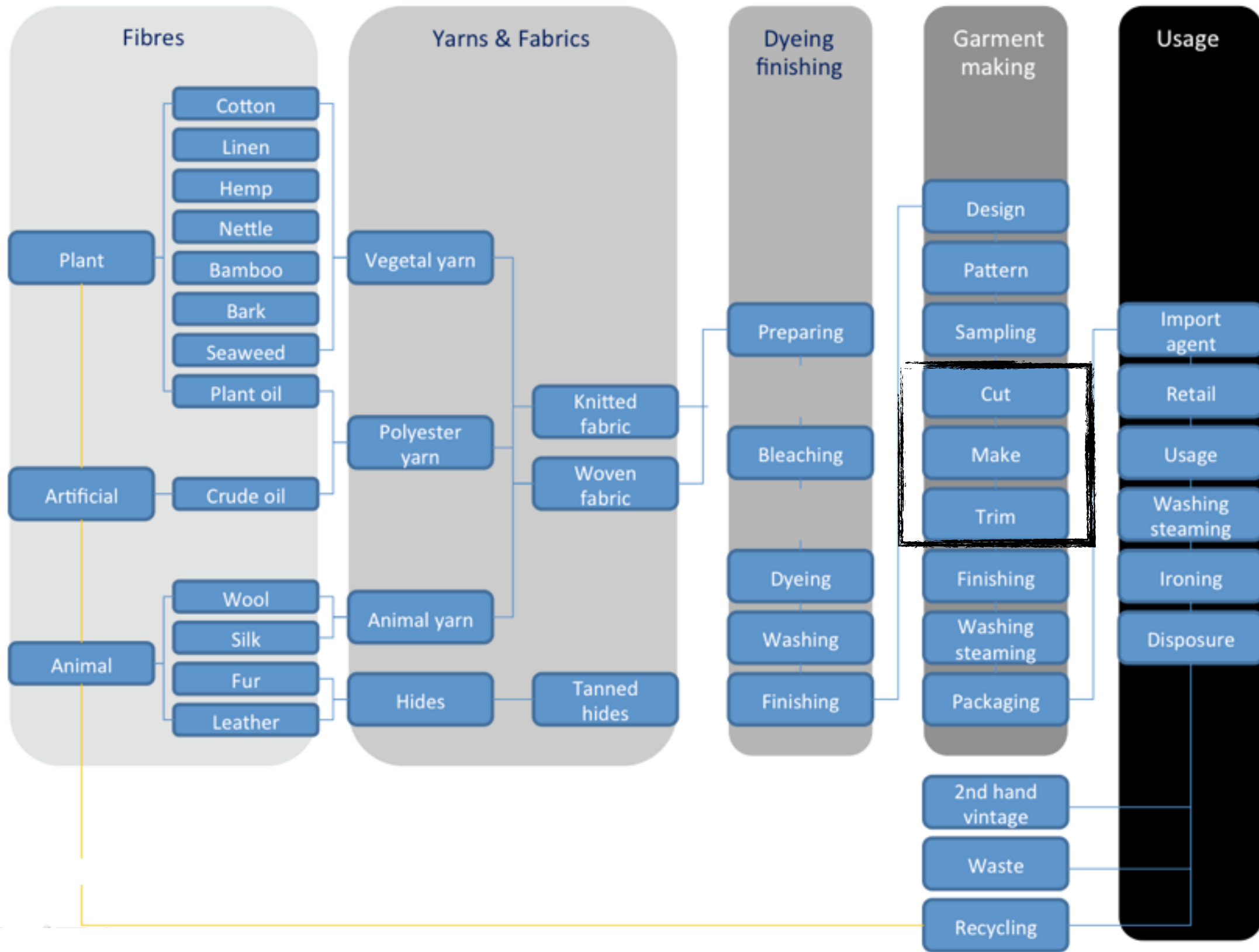
Garment industry

Compared to other countries and industries, the Albanian garment sector copes less with environmental impediment. There is relatively little waste, since most cutting waste is transported back to the contract providers, or to Turkey to be processed for the recycle industry or it is disposed in landfills, regulated by the Albanian authorities.

However, sustainability is not yet a priority for entrepreneurs in the Albanian garment industry. As most of Albanian companies work on a CMT basis for a majority of Italian buyers, their experience with buyer requirements depends on that business relationship. In order to attract Western buyers the frontrunning enterprises on the other hand could stand out with the (relatively easy) acquirement of social compliance to start with. According to the CBI, ILO rules, BSCI, Oekotex 100 or SA8000 are labels that increasingly become the standard in contracts. Frontrunning companies already implement such standards with the support of governmental funding programs.

In terms of labelling, the current CMT business keeps Albanian garment manufacturers from being recognised with a 'Made in Albania' label. Most garments are finished in Italy and will be sold as 'Made in Italy' due to the non-preferential rules of origin. These rules state that the country in which the last substantial transformation of a product took place, is relevant for providing the country of origin.





Current focus Albanian garment industry

Mission: Moving up the value chain to gain higher profits and avoid market risks

Observations

Footwear industry

The livestock in Albania consists of cows, sheep and goats. The animals are tanned from fresh skin to wet blue. This means that the last stage in order to tan from crust to finished leather, ready for production, is done elsewhere; mainly in Italy or Turkey. Sheep wool is sold to Turkey and India. A maximum of 20.000 sheepskins are available per month in Albania. Lime rests (flesh) are not treated to gelatine for further production or sales, but are discarded.

The skins that are imported are weighed at the customs. The same weight of imported skins must be exported. This is considered a miscalculation since hair and cuts are lost during the tanning process.

There are few rules on hygiene or working methods concerning slaughter of the animals. Operations usually take place outside the slaughter houses, which badly affects the quality of leather and impedes the industry's upgrading and sophistication.

In the tanneries the absence of wastewater treatment was noticed. Some tanneries use around 700 cubic meters of water per day which after use is discarded in the river untreated.



Most tanneries are involved in contract work for Italian clients. Through this system the Albanian tannery pays back the machinery to the Italian tannery in 2-5 years. However, the machinery is oftentimes not up to date or adequate for the produced volumes. Margins are very low and disable tanneries from growth or technological investments.

Tanneries suffer as well from the small margins on the tanning they perform on their own account: fresh skins are bought for 2€ and sold for €3,75 in wet blue finish.

Observations

Footwear industry

There are more than 100 shoe producing companies in Albania performing mostly contract work. Since the majority of tanneries and footwear companies depend on foreign suppliers and customers, crust and finished leather is imported from Italy, America, Russia, Egypt, Brazil, Bangladesh or Turkey.

The footwear industry in Albania offers medium up to good quality shoes very suitable for the Western European market. Orders can be delivered quickly and working conditions are up to western standards. In addition, most factories have the possibility to organise flexible production for small quantities.

The hides have to be imported in large amounts with long waiting times (5 weeks). This causes overstock and production becomes less flexible. Due to such delays the Albanian footwear producers loose European customers. If leather would be finished in Albania the waiting time could be shortened to 1 week.

Due to the obligatory large imports from abroad, a lot of overstock of finished leather was found. One company claimed that per year, 10% of their imported leather ends up as overstock.

Leather & footwear specializations
Imported finished hides for footwear production
Domestic raw hides – mainly bovine hides exported as processed wet-blue or unprocessed, also sheep and goat skins
Shoes upper
Semi-finished footwear
Finished footwear

CSR RISK CHECK

CSR Risk Analysis for International Business Activities

The CSR Risk Check tool is aimed at companies that are exporting to, importing from or have production facilities in foreign countries.

After conducting this short test, you will know which international CSR risks are related to your business activities, and what are your options for managing these risks.



**CSR RISK CHECK
FOR COMPANIES**

START THE TEST

3. CSR Risks



CSR Risks

Working conditions

Albania scores a 3 on a scale of 1-5 of the ITUC Global Rights Index for the freedom of trade union rights, which means that worker's rights of association are often violated. Governments and/or enterprises interfere in worker's rights, or do not succeed in guaranteeing them.

'Freedom of Association' is a fundamental human right with consequences for the working and living environment of workers. Make sure that the workers of your supplier have the opportunity to unify themselves in order to discuss work related issues with the management. The ILO created two treaties on trade union freedom with topics such as the 'right of collective negotiations' (ILO, Freedom of Association, 2012).

The garment industry, and especially CMT production is strongly cost-price driven, and little labour skills or education are required for workers. Consequently, more than 80% of the workers in Albania's garment industry earn a minimum wage, regardless experience or age. The minimum wage in Albania is one of the lowest on the European continent (127 ALL/0.92 EUR per working hour) and below a living wage compared to Albania's purchasing power.

There are several ways to indicate a living wage. The SA8000 management system uses the Basic Needs Formula (see box). The ILO, Estimating a living wage (2011) and the SA8000 Abridged Guidance (2011) could support in calculating fair remuneration for workers.

Basic Needs Formula *Living wage = costs of nutrition X 1/percentage of income that a household spends on nutrition X half of average size of a household X 1,1 unforeseen expenditures.*

Unauthorised subcontracting became a common practice in the garment and footwear industries. In case of subcontracting the working conditions are hard to assess and remain often unknown. Several Albanian companies subcontract work not requiring machines to home workers. Home work implies the risk of children taking part in the work (ITUC, 2007).

Minimise the risk of unauthorised subcontracting to ensure that production is taking place under decent working conditions by conducting regular check ups and making strict agreements with your suppliers.

CSR Risks

Integrity

According to the Corruption Perceptions Index (2014), Albania scores 33 on a scale of 0 (highly corrupt) to 100 (very clean). This indicates that the risk for corruption in Albania is high. Foreign companies and investors should keep in mind that bribery is widely diffused in public and private institutes with effects on independency, efficiency and responsibility.

It is prohibited by Dutch law to be involved in corruption practices, even if it would occur abroad. The OECD guidelines recommend the following (chapter VII):

- Do not offer or accept improper monetary (or other) benefits from government officials or business relations
- Ensure periodically recurring check ups on agents or intermediaries and ensure a fitting reward for legitimate services
- Disciplinary measures such as suspension or even dismissal could enforce good behaviour that suits your policies
- Internal monitoring and periodic independent auditing could prevent bribery and corruption
- Include the ICC (Anti Corruption Clause) in contracts and agreements
- Consult the Business Anti Corruption Portal (2014) for guidelines, country profiles and tools



4. CSR Opportunities

CSR Opportunities

Albania's USP's for the Dutch market

- Re-shoring production facilities
- Alternative to the Far East with less risks on social and environmental compliance
- Lead times with an average of 3-4 weeks
- Quick delivery to EU markets starting at small orders which enables rapid backorders (reduced overstock)
- Competitive production costs
- Long experience with quality production
- Albania offers relatively much capacity and with that becomes an interesting alternative to other countries with less production possibilities or political stability
- Mid-range products suitable for the Western market
- Eagerness and ambition to innovate and invest in clean technology, training and machinery



CSR Opportunities

Integration of design and branding

Garment

A number of companies that were visited during the CSR exploration missions were eager to implement design and branding in order to move beyond CMT production and gain more independency. However, at the same time the lack of skilled, qualified Albanian designers was noticed. Albanian companies are looking for brand developers and experienced designers who could support them in creating a corporate identity and to position the label 'Made in Albania'. An opportunity could be to match Dutch designers with ambitious Albanian enterprises. Moreover, a close collaboration with an Albanian university or academy could contribute to the integration of fashion design (eg. design for recycling) in the curriculum.

Footwear

For footwear producing companies a similar demand for design and branding was identified. Also footwear companies look for skilled, educated designers in order to develop their own branded and preferably sustainable shoe lines and add for instance accessories to their product portfolios. The extension of accessories, called 'concept creation' results in a stronger brand identity. An example is the brand Timberland, with its successful integration of bags, belts, and clothing. Timberland sells in that sense a 'concept'. Several footwear companies have successfully implemented their own designs through previous branding programmes which allowed them to exhibit on international trade fairs.

CSR Opportunities

CSR as a business model

Recycling & social return

Footwear companies could produce redesigned shoes from leftovers and overstock from the Albanian industry. Local company Mali Sh.p.k. implements this business model and employs roughly 200 people, including people with a distance to the labour market, such as handicapped people and Roma. Most of the shoes are sold domestically. The owner is currently constructing a new factory site for 500 extra workers.



Mali Sh.p.k.

Dutch design for sustainable production

Several footwear producers expressed great interest in cooperating with a (Dutch) designer for an in house shoe or accessory line. FG Shoes & Alan-Gore, for instance, suggested that a new shoe or accessory line could be produced sustainably considering their annual overstock of processed leather which accounts for at least 10%. FG Shoes & Alan-Gore produces a wide range of products including slippers, sandals, walking shoes, boots and safety shoes with combinations of leather, synthetics and fabrics. The company subcontracts for Prada and other medium/high end brands such as Deichman, PrimaDonna, Bata and Polo. Their daily production capacity goes up to 3500 pairs of finished shoes and 3500 pairs of uppers. Sample reproduction from sketches or paper patterns, manually or electronically, are possible.

CSR Opportunities

Integration of the leather supply chain

Proudly Made in Albania

Albanian companies strive to move beyond CMT production in order to position the label 'Made in Albania'. The biggest shoe producing company in Albania, DoniAnna, has its own brand that is running alone a total turnover of €40.000.000 in 2014. This pioneering company is one of the few producers creating 'Made in Albania' shoes, with own designs. The shoes are exported to Italy, Germany, France, the Netherlands and Scandinavia. DoniAnna has 5 factories employing 2400 people and is present at trade fairs. In addition, DoniAnna is ISO 9001 complied and aspires to become more sustainable. The owner, Mrs Donika Mici, aims to present a completely chrome free edition of shoes for a young target group.

"Ms. Mici makes shoes only in Albania and proudly insists that a Made in Albania label is no longer an impediment to success"

NY times.com

Sustainable tanning

In order to minimise the current long waiting time for finished leather, the last stages of the leather tanning process should be integrated in Albania (from Wet Blue to Crust, and from Crust to Finish). With the support of Dutch expertise, a sustainable tannery could be established which will reduce overstock tremendously. Mrs. Donika Mici (DoniAnna) aspires to set up a (sustainable) tannery to become a quick and reliable deliverer to the European market. Moreover, Albania could hereby create its own integrated leather supply chain from which the whole sector could benefit.

The finishing plant that Mrs Mici wishes to start could sell to Albania and abroad. Mrs Mici is looking for a strategic sparring partner either from the sector (an existing company with know how) or a financial institution (bank/ private investor).

'Albanian' leather could be identified and promoted because of full domestic production. Standardisation becomes easier and so will the implementation of sustainable industry labels (BSCI) required by the Western market.

CSR Opportunities

Online & (printing) On demand

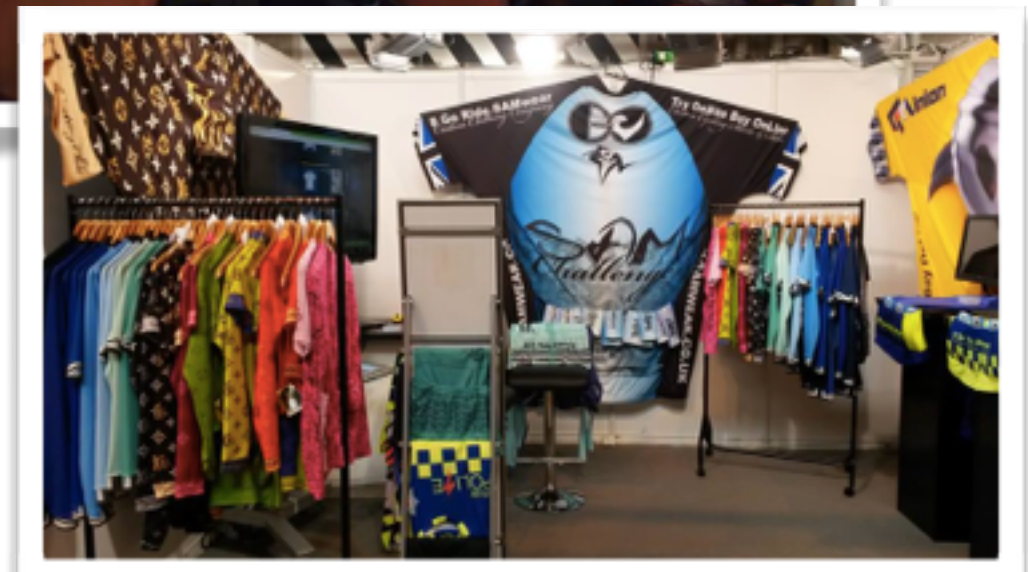
The textile industry creates a lot of waste by producing garments that are not sold. Another large amount ends up in the sale. How can we minimise waste and create closer consumer relationships to ensure that garments will be purchased?

One key concept is going online for direct contact with customers (B2C) instead of the traditional chain of producer - agent - wholesale - retail - end consumer. This concept is a direct answer to current market trends in the digital era. With a webshop as front desk, and direct communication with consumers, different margin steps would be calculated enabling fair pricing.

SAM Wear already implements this business model, offering prints on demand starting at 1 piece. More companies were visited with similar opportunities; they have the product, the vision and the ambition to innovate.

In that sense, customised production would lead to less waste production and enables small series and fair pricing. A concept which is very suitable for corporate wear and workwear, but also personal designs and cooperation with Dutch designers.

For more info: info@samwear.eu



Let's start

The Green Apparel Agency

The Green Apparel Agency is a trust agent thriving towards a more sustainable garment and footwear industry in Albania. By creating a production pool and bundling supply chain management The Green Apparel Agency aims to assure and enable CSR ways of production. Moreover, other CSR projects and initiatives could be managed or monitored through this bridging agency.

The Green Apparel Agency is an initiative of ETHICS Group BV, supported by CSR Netherlands.

Companies interested in sourcing possibilities and CSR opportunities in Albania, could contact :

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