



**Building Urban Economic Resilience
during and after COVID-19**
#urbaneconomicresilience

Economic Resilience Building Plan

Tirana, Albania



Shared Prosperity Dignified Life

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INTRODUCTION

Cities and urban areas have been at the epicentre of the COVID-19 pandemic, which has drastically impacted the urban economy, including public services, employment, and use of infrastructure. This has affected everybody and, primarily, the most vulnerable groups of the population.

To support cities in recovery from the COVID-19 pandemic and to build resilience, in 2020-2022, the United Nations Economic Commission for Europe (UNECE) and other United Nations Regional Economic Commissions, the United Nations Human Settlements Programme (UN-Habitat) and the United Nations Capital Development Fund (UNCDF) implemented a project known as *“Building Urban Economic Resilience during and after COVID-19”*, which has supported the efforts of city governments in sixteen cities globally¹ in order to analyse the impact of the pandemic on cities’ economies and assist cities in developing their economic recovery and resilience plans, including identifying possible funding sources for economic development and infrastructure projects supporting urban economic recovery.²

For each of the pilot cities, an analysis of its capacity to address the negative consequences of the COVID-19 pandemic was conducted using the Urban Economic Recovery and Resilience Diagnostic and Planning Tool, which was developed as part of the project. **The Diagnostic and Planning Tool (DPT)** is aimed at helping cities’ governments to understand the strengths and weaknesses of their institutional and operating arrangements from the perspective of economic recovery and resilience building, and to formulate recommendations for the design and implementation of recovery plans/strategies to address the identified gaps, accelerate better recovery and improve longer-term resilience.

This report contains **the draft Economic Resilience Building Plan for the City of Tirana, Albania**, including a summary of the assessment of the city’s economic resilience based on the application of the DPT methodology, which is explained below, and recommendations for measures to overcome negative economic consequences of the pandemic developed based on the DPT assessment.

¹The project focuses on strengthening the capacities of local governments in the following sixteen countries globally: Albania (Tirana); Cameroon (Yaoundé); Ecuador (Guayaquil); Egypt (Alexandria); Fiji (Suva); Ghana (Accra); India (Pune); Kuwait (Kuwait); Kyrgyzstan (Bishkek); Lebanon (Beirut); Malaysia (Subang Jaya); Perú (Lima); República Dominicana (Santo Domingo); Ukraine (Kharkiv); Viet Nam (Hoi An); and Zimbabwe (Harare).

²The project was supported by the United Nations Development Account residual funds. More information on the project is available at <https://urbaneconomicresilience.org>

ACKNOWLEDGEMENTS

This report was developed as part of the project known as “Building Urban Economic Resilience during and after COVID-19” (<https://urbaneconomicresilience.org>), which was supported from residual funds of the 12th tranche of the United Nations Development Account (UNDA). The report was developed by the Housing and Land Management Unit at UNECE with the support of local and national experts in Albania and is based on the data and information provided by the Tirana city government. The report also contains a section on financing and funding the reconstruction and recovery elaborated by experts at the UNCDF; detailed recommendations for financing and funding are available in a separate project document entitled “Financial Information Brief: city of Tirana, Albania”.

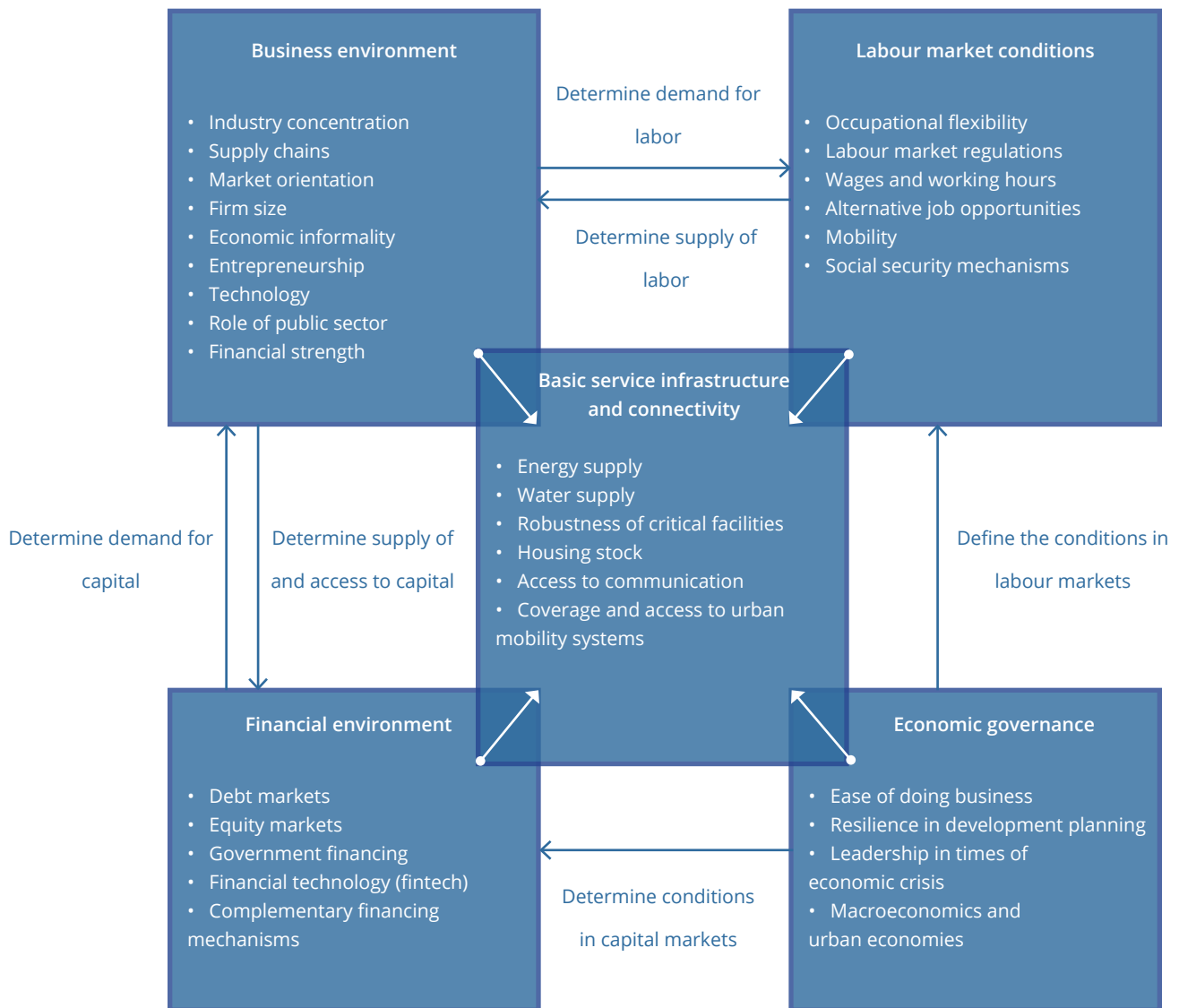
ABOUT THE URBAN ECONOMIC RECOVERY AND RESILIENCE DIAGNOSTIC AND PLANNING TOOL

The DPT includes a set of city-based indicators according to the following themes

(Please see Figure 1 for the visual representation):

- RA1: Resilience of local business environment
- RA2: Resilience of local labour market
- RA3: Resilience of local financial system
- RA4: Resilience of economic governance
- RA5: Resilience of basic service infra-structure and connectivity.

Figure 1. Key components of the Urban Economic Recovery and Resilience Diagnostic and Planning Tool



The diagnostic tool uses a system of qualitative and quantitative indicators (including composite indicators and indices where necessary) in the five resilience areas discussed above, further divided into sixteen resilience performance indicators (RPI) and constituent dimensions in each resilience area.

The objective of using the diagnostic tool is to help cities form a clearer picture of their resilience challenges using a holistic approach. The design of the diagnostic tool is presented in the following list (Figure 2):



The indicators, whether quantitative or qualitative, are then translated **into performance measures graded from A (maximum contribution to resilience) through F (no contribution whatsoever).**

The diagnostic tool is expected to provide city stakeholders with answers about what hinders urban economic resilience and what should and could realistically be done to improve it.

THE ECONOMIC RESILIENCE BUILDING PLAN FOR THE CITY OF TIRANA, ALBANIA

CITY OF TIRANA CONTEXT³

Tirana is the capital and largest city in Albania. It is situated in the centre of the country with the Dajti mountain located to the east and it is open towards the Adriatic Sea on the north-west which is on distance of more than 200 km. The city is surrounded by two important protected areas: the Dajti National Park and Mali me Gropa-Bizë-Martanesh Protected Landscape. Tirana has a humid subtropical climate.

The city population is 811 649 which is around one-third of the country's population; an average age of the city's inhabitants is 32³. The economy of Tirana Metropolitan Area benefits considerably from the concentration of universities and schools and research and scientific institutes. Tirana has about 180 educational institutions among which there are: medicine, law, economics, engineering and social sciences.

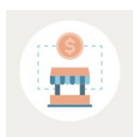
The city is the heart of the economy of Albania, the most industrialized and economically fastest growing area in Albania; it accounts for about 40.4 per cent of the country's GDP. The service sector is the most important for the economy of Tirana, employing more than 68 per cent of the work force, followed by food production and construction which are employing total 26 per cent of the city work force; farming, logging, hunting, fishing, and mining, are employing total 5 per cent. Tirana is also an important cultural centre; it is home to the Opera House, the National Theater, many galleries and museums.

COVID-19 PANDEMIC IMPACT

In Tirana, the first case of COVID-19 was reported on 8 March 2020⁴. Two and a half months later, there were around 300 cases and 10 registered deaths per million inhabitants. In total, Albania had the lowest cumulative number of cases in the Western Balkans with 131 517 cases (45 953 cases per million inhabitants). However, the COVID-19 pandemic and related restrictions have a strong negative impact on the city economy, including businesses and the labour market. Please see Figure 3 for the summary. For the city of Tirana, the response to the COVID-19 crisis was especially complicated as the pandemic followed two other natural disasters, the devastating earthquakes in September and November 2019.

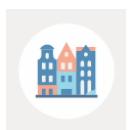
Figure 3. Main economic and financial impacts of the COVID-19 pandemic on the city of Tirana

Main economic and financial impacts



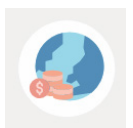
IMPACT ON LABOUR MARKET

According to the Albanian National Institute of Statistics (INSTAT), there was no significant increase in the unemployment rate. At the national level increased from January 2020 to January 2021 by one per cent and it returned to the initial level by January 2022.



IMPACT ON BUSINESS ENVIRONMENT

Businesses were affected with decrease of demand for products that led to a loss of incomes and revenues, bringing also a problem of liquidity. According to data from the National Business Centre, only in April - May 2020 a total number of 221 business activities were closed in the city of Tirana, which constituted 54 per cent of the total businesses closed at the country level during the same period. The service sector, construction and industrial sectors especially suffered from the pandemic.



IMPACT ON FINANCIAL ENVIRONMENT

According to the official local government data, during the first quarter of 2020 the collected own revenues of the municipality of Tirana have decreased by 14% in comparison to the same quarter of year 2019. The major part of this decrease has come from the decrease of local taxes and local fees. Among the most important local tax revenues decrease was the tax on infrastructure impact, with around 21.4 per cent of the total amount.



ECONOMIC GOVERNANCE ARRANGEMENT

The government allocated a total of ALL 45 billion or around \$ 395 thousand USD (1.2% of total GDP) through two support packages for the population and the private sector affected by COVID-19. ALL 19.65 or around \$170,000 million USD was made available for the immediate needs of the most disadvantaged part of the population. \$10 million USD was made available as a reserve fund to the Council of Ministers for any emergencies.

CRISIS RESPONSE AND RECOVERY MEASURES

The COVID-19 pandemic crisis response was led by the national government of Albania. The Prime Minister of Albania declared a state of natural disaster throughout the economy on 25 March 2020. The government established a policy framework for addressing the pandemic consequences which included 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 H1N1⁵.

Since March 2020, coordination between the national and city government of Tirana was established following which the city government of Tirana started the implementation of relevant national government plans. The city government organized the provisions of food and non-food supplies delivery to people's homes, payments, purchase of medicines and COVID-19 prevention measures. It also monitored the application of inhabitants' movement restrictions and managed delivery of the basic public services, with the exception of public transportation, which was closed by a government order during the lockdown period.

The city council further approved the deployment of the emergency fund and reallocation of the budget to support emergency expenditures, such as food and non-food supplies. In addition, the city government launched initiatives to soften the economic crisis by revising the fiscal package in terms of tax exemptions, tax reduction and tax payment postponement, respecting the policies of the central government (See Figure 4 for information on finance package to alleviate consequences of the pandemic). The government supported salaries and firm liquidity with \$100 million USD through the instrument of a sovereign guarantee that was allocated to companies that had difficulties in paying employees' salaries. The government supported businesses who stopped working due to COVID-19 with a benefit of \$14,000 USD by paying their employees with the minimum wage of ALL 26.000 or \$227 USD.

The Tirana city government also created innovative social assistance programmes for vulnerable groups living in Tirana. For instance, it initiated the "Adopt a Grandparent" initiative as part of which young people volunteered and supported their lonely elderly neighbours by sharing a home-cooked meals or offering to deliver their groceries and medicines.

The city government created a database with information on the families who were not earlier covered by other social assistance programmes; the database included data on 36,000 families. These families received food and non-food supplies, medicines and other support by city's social workers. The municipality of Tirana also offered 24/7 telephone hotlines and online platforms for psychological counselling or to address inquiries, concerns, complaints, and other needs for aid.

The city government also supported "green recovery": earlier the city government of Tirana joined the Green Cities Framework of the European Bank for Reconstruction and Development and developed the Green City Action Plan (GCAP). The city government also set up pop-up bike lanes to support the green urban development.⁶

⁶ Council of Europe Bank. 2021. Interview with Erion Veliaj, Mayor of Tirana. Available at Gulnara Roll, Regional Advisor on Urban, E-mail: Gulnara.Roll@un.org, Tel./WhatsApp +41 76 238 4597

Figure 4. Financial support by the national government of Albania and by the city government of Tirana to businesses and people to alleviate negative consequences of the COVID-19 pandemic

Fiscal packages to support alleviation of negative consequences of the COVID-19 pandemic



The most significant intervention from the city government of Tirana was the adoption of a **supportive fiscal package** to provide financial support to inhabitants during the period of March until August 2020. The fiscal package allowed to relief to some extent the situation

- postponing the application deadline for social housing programmes;
- postponing the payment of selected taxes for businesses from April to August 2020;
- reducing the payment of selected taxes for businesses for a 2 months period;
- exemption of business from the payment of selected tariffs for March and April;
- exemption of public transportation operators from the payment of selected tariffs from March until December

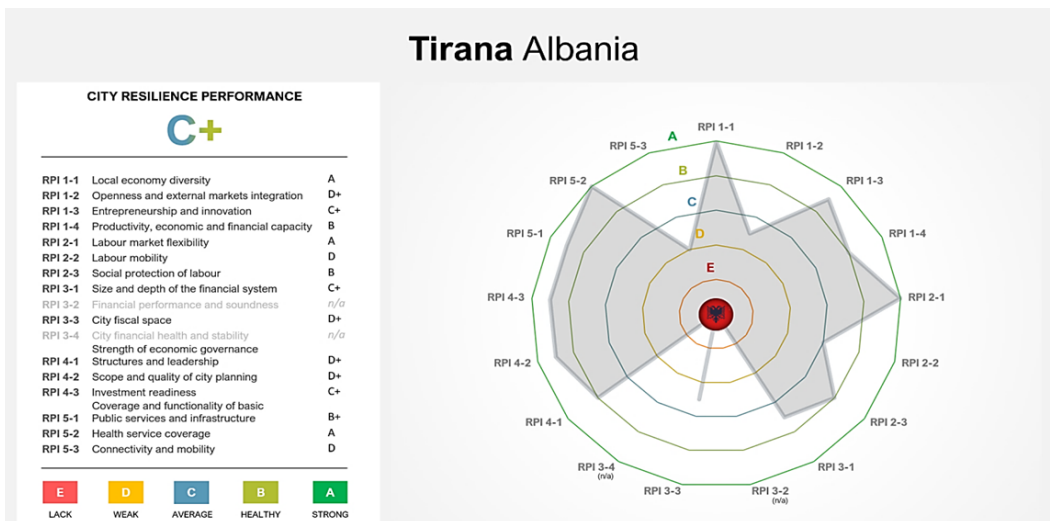
The most significant interventions from the Government of Albania consisted in the **support to small and medium businesses** with the payment of their employees with a national minimum wage salary, the erase of credit payment arrears of active debtors and the exemption from the profit tax of small businesses with a very low annual turnover. Concerning households, the most significant interventions included the financial support of the unemployed people caused from the COVID-19 pandemic with unemployment benefits, and the education courses for the primary and secondary school through television.

The city government of Tirana is currently working towards the development of its Crisis and Resilience Management Plan that will also include Pandemic and Earthquake response, where one of the main objectives is green recovery. The municipality is also developing ambitious urban interventions, such as “Orbital Forest”, a belt of two million trees around the city which would allow to contain the urban sprawl, improve the microclimate, air quality and biodiversity, or the Tirana River Side project, a major post COVID-19 regeneration intervention, consisting of a 29-hectare green neighbourhood.

DIAGNOSTIC ASSESSMENT FOR THE CITY OF TIRANA

The diagnostic assessment was conducted in 2021 using the DPT and based on the data and information provided by the city government. It should be noted though that the data collection and the resulting scoring process were significantly challenged by lack of data. For example, 3 out of 4 dimensions were missing for the local economic diversity indicator, 3 out of 4 dimensions were missing for the productivity, economic and financial capacity indicator, etc. Since the justification for specific scores is often missing, the performance scores in the diagnostic report should be treated very carefully for the purposes of decision-making. The diagnostic assessment produced the following results (Please see the visualization in Figure 5):

Figure 5. Tirana City economic resilience performance



1. Tirana's resilience of local labor market is relatively good however it scores low on labour mobility indicating the challenge of reallocating labour resource across sectors and geographically in crisis situations.
2. The city business environment needs in improvements in the openness and external markets integration. The entrepreneurship and innovation systems also require upgrading to make sure that the city's capacity to mitigate the crisis suffices to achieve low to moderate levels of impact and a somewhat longer recovery period.
3. Resilience of basic service infrastructure and connectivity is rated as relatively well performing. Thus, its coverage and functionality of basic public services and infrastructure indicator is scored (B+) whereas its health service coverage is scored (A). At the same time, no data was available for the city performance on connectivity and mobility.
4. The resilience of the local financial system could not be reliably ascertained due to the lack of data for some important indicators (such as financial performance and soundness and city's financial health and stability). City audit performance is low and scored (D). City fiscal space resilience is scored (D) due to low share of income inelastic OSR and inadequate financial flexibility. At the same time, the city fiscal space shows strong resilience and is scored (B).
5. The city's economic governance has a weak performance, largely due to the lows scores on two indicators: strength of economic governance structures and leadership (D+) and scope and quality of city planning (D+). Its investment readiness is also inadequate, with two dimensions (strategic planning and resilience proofing of investment projects, and access to public land) scored (D).

RECOMMENDATIONS FOR ACTIONS BASED ON THE DPT ASSESSMENT

Based on the results of the diagnostic, the performance assessment report makes the following recommendations:

1. Integrate crisis management provisions into the mid-term planning and budget programming. There is a clear existing legal framework on crisis management which determines responsibilities of the local government and it provides an opportunity for effective integration.
2. Develop and publish a comprehensive city government capital investment plan which would integrate investment plans for different sectors.
3. Continue the expansion of nature-based solutions for urban planning and transportation. It is recommended to further develop the public transport system in order to encourage commuters to use it as an alternative to private own cars.
4. Review and improve the collection and analysis of municipal data to ensure evidence-based city-level policy making.

To reiterate, some important recommendations may be missing because of the original lack of data. In particular, the issues of resilience of the local financial system, local fiscal space, and access to finance for development could be part of the recommendations, given the city's weak performance on these indicators. To estimate the feasibility of such recommendations, it is necessary to review the city financing ecosystem, including its legal and statutory competences (and restrictions) in the area of development finance.

APPROACHES TO IMPLEMENTATION OF THE RECOMMENDATIONS

To support implementation of this Action Plan recommendations, the project developed a “Financial Information Brief for the City of Tirana” which is available in a separate document. The financial brief provides a detailed explanation of the following three main recommendations for funding and financing in the context of the existing national and local legislative framework which is described in the Financial Information Brief:

TRACK 1: PRIVATE EQUITY FOR INFRASTRUCTURE

Considering the relatively strong financial performance of Tirana city but also the finite nature of its current biggest source of own revenue, the tax on infrastructure impact, it is recommended that the city government explores the ways of leveraging private capital for capital investment. The city government is advised to engage with international equity-based funds that invest in urban development, such as the International Municipal Investment Fund (IMIF) supported by UNCDF (first closing €350 million). IMIF primarily targets capital investments in local governments of developing countries including LDCs and emerging economies, and Albania qualifies for Fund investments. Thematically, the Fund invests in six areas: transport and public service infrastructure, water infrastructure, food security infrastructure, energy and utilities, waste management, and land development and housing.

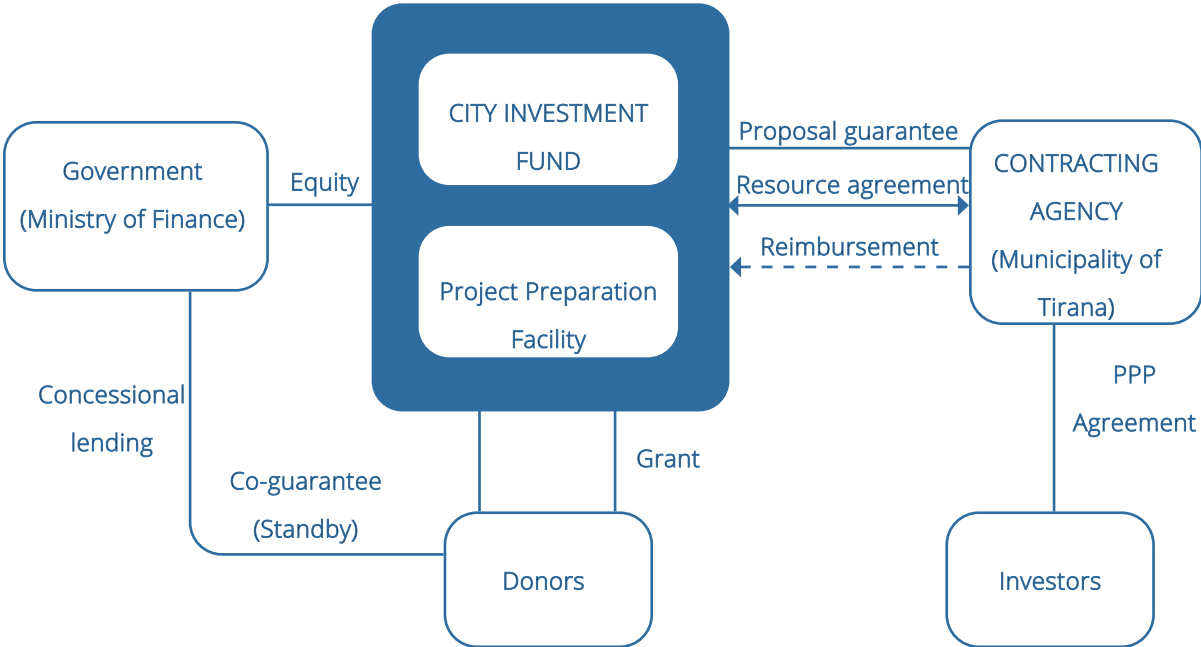
Similarly, the City of Tirana could explore more the potential of equity investments via domestic Public Private Partnerships. Given the existing legal framework, the city should design key replicable models for the major types of revenue-generating infrastructure to engage domestic private investors.

TRACK 2: CONCESSIONAL DEBT FOR INFRASTRUCTURE

The financial position of Tirana City is fairly strong and, if direct access to concessional finance can be obtained, the city can contract debt without any negative impact on its fiscal space. Debt concessionality ensures easier compliance with one of the prudential limitations on subnational borrowing, which sets the maximum annual limit of debt service to the local government's average fiscal revenues of the last three years to not more than 20%.

The financial institutions that may be more open to discussing municipal investments are the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). Both institutions have a strong presence in Albania and, in the case of EBRD, already finance projects in Tirana (albeit through the national government rather than the municipality). Another potential source of debt and equity finance is domestic institutional investors, such as the Pension Fund and Social Insurance Fund. Pension Fund assets have been on the rise over the past decade, doubling in size from 0.01% of GDP in 2011 to 0.17% of GDP in 2019. In principle, municipal investments may help the insurance funds to match their assets to their long-term liabilities. However, for both the equity and debt finance, the city will need to develop a far stronger capacity than it currently has to develop and structure bankable projects. Whereas some funds, such as IMIF, EIB and EBRD may offer technical assistance facilities, most investors are not in a position to offer such assistance. In principle, the Unit of Public and Private Partnerships/Concessions located at the Ministry of Economy should assist the Contracting Authorities with preparation of feasibility studies and other pre-investment activities. In reality, the Unit doesn't have an adequate capacity, particularly if Tirana City engaged in constructing a pipeline of projects. Hence, the City of Tirana will be well advised to set up its own Project Preparation Facility (PPF) as a facility that cover its costs from the proceeds of the projects it has developed (and possibly grant finance from the government and/or development partners). The PPF may operate as a standalone facility or, preferably, as part of a City Investment Fund (Figure 6).

Figure 6. Proposed model of a City Investment Fund



The Fund is an independent private sector entity (100% owned by the Government) that receives two streams of revenues: equity in the form of IGFT (or in the form of regular equity that requires return or some mix of the two) and direct grants and guarantees from donors (development partners, such as UNDP, UNCDF, EIB and EBRD). The Fund receives proposals from the Contracting Agency (which is the Municipality of Tirana) and transfers resources to it based a draft public private partnership (PPP) agreement with an investor. The Contracting Agency reimburses the Fund according to the resource agreement, and the Fund reimburses the Government (as previously agreed). This arrangement does not require any significant legal or regulatory changes because the Fund is a wholly owned Government entity. However, if the City of Kuwait were a real local government, they could set up such a fund themselves without the engagement of the Central Government. In this model, the Project Preparation Facility is an important element designed to provide technical expertise for development and structuring of public and public-private projects. The Facility, which should be funded with grants, will have the following functions:

- Prepare technical feasibility studies for the projects proposed by the Contracting Agency.
- Develop financial models and identify the optimal financing structure for the projects including participation of private capital.
- Identify credit enhancement measures required for the project.

TRACK 3: INTERNATIONAL GRANT FINANCE FOR INFRASTRUCTURE AND SERVICES

At the moment, there seem to be no projects in Tirana City financed through grants by international organizations. Meanwhile, the potential of tapping directly into vertical climate finance funds, such as the Green Climate Fund (GCF) and Global Environment Facility (GEF) may be significant.

Currently, GCF is implementing 3 projects for a total of \$14.8 million, none of them in Tirana although the burden of climate change on Tirana and the need to improve environmental protection and climate change adaptation are obvious.

GCF operates via the national designated authority (NDA), which in the case of Albania is the Ministry of Tourism and Environment. The same ministry is the focal point for GEF. However, a number of countries established systems for financing subnational governments (SNGs) climate change mitigation and adaptation directly, with the NDA serving as the transfer mechanism between the Fund/Facility and SNGs (Bhutan, Cambodia and some others). One such mechanism is known as the Local Climate Adaptive Living Facility (LoCAL), which serves to integrate climate change adaptation into local governments' planning and budgeting systems, increase awareness of and response to climate change at the local level, and increase the amount of finance available to local governments for climate change adaptation. ⁷LoCAL combines performance-based climate resilience grants (PBCRGs) – which ensure programming and verification of climate change expenditures at the local level while offering strong incentives for performance improvements in enhanced resilience – with technical and capacity-building support. Direct access to vertical climate finance funds and facilities may be a very important step for the city to unlock more climate finance and impact finance in the future through more advanced financial instruments, such as municipal bonds.

The three proposed tracks may be addressed simultaneously, although they are likely to have different trajectories and different timelines. However, the critical condition is development of a bankable pipeline of investment projects, which emphasizes the need for a technically robust and credible Project Preparation Facility combining technical and financial expertise.

⁷UNCDF (2021). Welcome to the LoCAL Facility. <https://www.uncdf.org/local/homepage>