



IMPLEMENTATION OF SDGS IN THE TEXTILE SECTOR IN ALBANIA FOR A SUSTAINABLE, GREEN AND COMPETITIVE SECTOR IN THE REGION

Original scientific paper
DOI: 10.5937/CT_ITI24005S

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ABSTRACT: *Textile and apparel sector of Albania has a long tradition as one of the most important industries contributing to Albania's GDP and it has made good results in exports, investments, and employment. 72 per cent of enterprises in the sector are owned by Albanians, while only 8 per cent have joint ownership of Albanian and foreign investors. The jointly owned enterprises are the only ones that increased in number, by 13.7 per cent from 2020 to 2021, despite the declining trend in the total number of enterprises within the past two years. Most manufacturing enterprises in garment and footwear manufacturing sector cannot purchase raw materials from suppliers or design the products. Some of the enterprises make efforts in upgrading their business model but this is still very limited. Some survey findings indicate that this sector has many unexploited opportunities that would add more value to the production chain. As the sector is heavily reliant on orders from the Italian market, contract providers have almost full control of pricing, margins, timing, and sales. The CMT business model leaves little room for sourcing locally produced inputs that might further stimulate the local economy. The changes made to the Corporate Fiber & Materials Benchmark survey this year means Textile Exchange can now more closely monitor and report SDG progress. With 169 targets to be met by 2030, and over 232 indicators for measuring progress at country-level, the Global Goals were designed to stimulate positive outcomes for people, planet, prosperity, peace and partnerships.*

Keywords: *Manufacturing business model, Sustainable Development Goals, Value added, digitalization, green solutions.*

IMPLEMENTACIJA SDGS-a U TEKSTILNOM SEKTORU U ALBANIJI ZA ODRŽIVI, ZELENI I KONKURENTNI SEKTOR U REGIONU

APSTRAKT: *Sektor tekstila i odeće u Albaniji ima dugu tradiciju kao jedna od najvažnijih industrija koja doprinosi albanskom BDP-u i postigao je dobre rezultate u izvozu,*

Union of engineers and textile technicians of Serbia



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investicijama i zapošljavanju. 72 odsto preduzeća u sektoru su u vlasništvu Albanaca, dok samo 8 odsto ima zajedničko vlasništvo albanskih i stranih investitora. Zajednička preduzeća su jedina koja su se povećala u broju, za 13,7 odsto od 2020. do 2021. godine, uprkos trendu smanjenja ukupnog broja preduzeća u poslednje dve godine. Većina proizvodnih preduzeća u sektoru proizvodnje odeće i obuće ne može da kupuje sirovine od dobavljača niti da dizajnira proizvode. Neka od preduzeća ulažu napore da unaprede svoj poslovni model, ali je to još uvek veoma ograničeno. Neki nalazi istraživanja pokazuju da ovaj sektor ima mnogo neiskorišćenih mogućnosti koje bi dodale više vrednosti proizvodnom lancu. Pošto se sektor u velikoj meri oslanja na narudžbine sa italijanskog tržišta, dobavljači ugovora imaju skoro potpunu kontrolu nad cenama, maržama, vremenom i prodajom. CMT poslovni model ostavlja malo prostora za nabavku lokalno proizvedenih inputa koji bi mogli dodatno stimulisati lokalnu ekonomiju. Promene napravljene u anketi o korporativnim vlaknima i materijalima ove godine znače da Tekstile Ekchange sada može pažljivije da prati i izveštava o napretku SDG-a. Sa 169 ciljeva koje treba ispuniti do 2030. godine i preko 232 indikatora za merenje napretka na nivou zemlje, Globalni ciljevi su dizajnirani da stimulišu pozitivne rezultate za ljude, planetu, prosperitet, mir i partnerstva.

Ključne reči: Poslovni model proizvodnje, ciljevi održivog razvoja, dodata vrednost, digitalizacija, zelena rešenja.

1. OVERVIEW OF THE CURRENT SITUATION OF TEXTILE SECTOR IN ALBANIA

Textile and apparel sector of the country has a long tradition and is one of the most important industries contributing to Albania's GDP. It has made good results in exports, investments, and employment; attracting investments. Albania belongs to the most price competitive countries among the European textile industries. Production is mainly based on cut-make-trim (CMT) basis. Materials are imported, and only the labor work is done and finished garments are re-exported. Coupled with its geographic advantages, Albania's low cost and skilled labor force is being put to optimum utilization for processing business. Albania is dedicated to foreign markets especially the EU [1].

In July 2022, the value of total exports was EUR 334,049,839, increasing by 23.0% compared with the same period of the previous year, and decreasing by 14.3% compared with June 2022. Within that annual increase of 23.0%, a positive contribution was made by the group, "Textile and footwear," adding 6.6 percentage points. Total exports during the first seven months of 2022 increased by 40.1% as compared with the same period of the previous year, where the group "textiles and footwear" held the 3rd place with 6.9%. The TCLF sector in Albania is characterized as labor-intensive. These type of enterprises are located all over the country and apply a diverse array of business models. The export of textiles and footwear, which constitute important shares of Albania's foreign trade, respectively, continued to recover during the first five months of 2022, accounting for 27% of the volume of exports [2].



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What is unsustainable in the textile, clothing, and leather and footwear industry in Albania? - In recent years, Albania's economic performance benefited from reform progress and some large investments in infrastructure and renewable energy. However, despite a robust average Gross Domestic Product (GDP) growth of 3.4 % between 2015 and 2018 [2], the economy remains highly vulnerable to foreign demand shocks and natural hazards. Albania suffered two shocks with devastating consequences: The earthquake in November 2019 and the COVID-19 pandemic in spring 2020, which affected the economy. Currently, the Albanian economy is trying to mitigate the high inflationary trends resulting from the War in Ukraine [1].

Strengths of the industry

Textile industry of the country has stabilized with its simplified corporate tax codes, and VAT. Market environment of Albania has become positive over a period of time. The country remains as the last continental European market for high skills and low cost; labor intensive production. Key focus of Albanian textile industry is high quality, low costs, rapid response, and full package services of contract manufacturing.

Textile and apparel sector in Albania is ideally placed for short lead time, small production runs responding quickly to changing fashion trends. Albania is located in close proximity to the most important European fashion centers that enhances its manufacturing options.

Main reasons of doing business in Albania are as follows [3]:

- Optimistic investment climate
- Competitive sector with sustainability
- Medium to high end productivity
- Competitive taxation and incentives policy
- Proximity to EU countries – geographic location
- Free economic zones
- Macroeconomic stability
- A very active and representing industry association
- Qualitative academic and professional education covering the sector.

Sustainable Development Goals in Textile Sector in Albania

The SDGs are a global call to action to end poverty, protect the earth's environment and climate, and ensure that people everywhere can enjoy peace and prosperity. Through a Sustainable Development Cooperation Framework with the Government of Albania, the UN fully supports and works towards the complementary agendas of Albania's Goal of accession to the European Union (EU), national priorities, as well as harmonization and aid effectiveness. This includes Albania's commitment to achieving the SDGs. [4]

Albania's baseline report underscores that the national strategic policy framework is most harmonized with the SDG targets in SDG 3 (good health and well-being); SDG 7 (affordable and Clean Energy); SDG 8 (good jobs and economic growth); and SDG 9 (industry, innovation and infrastructure), while the least harmonization is with SDG 14 (life below water).

Albania as part of the Western Balkans – Investments opportunities

For Albania foreign direct investment (FDI) is a top priority. Albania has special state



agency (AIDA – Albanian Investment and Development Agency) focused on attracting FDI [5].

Looking at the trends for each of the WB economies, one can note that in Albania inward FDI has been stable during the period 2010-2019.

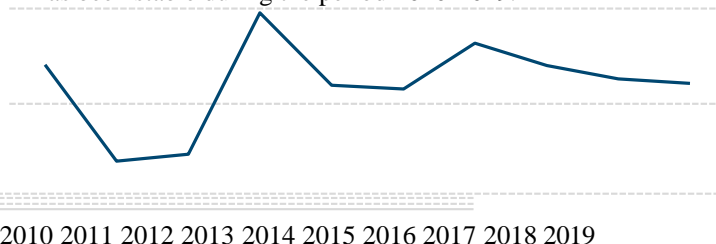


Figure 1: Inward FDI trend, 2010 - 2019

Looking at the four European countries where most FDI in the Western Balkans originates (the Netherlands, Switzerland, Austria and Germany), one can note that the Western Balkan economies take up a minor share of their total outward FDI (Table 1). For the Netherlands, Switzerland and Germany, the share of outward FDI that goes to the WB is less than 1%. Only for Austria is the share of WB FDI more significant at 4.8%. Since the WB economies are relatively smaller than other CESEE countries, their share in FDI originated in other countries is relatively smaller [5].

Table 1: Outward FDI to WB countries from four European countries

	Total outward FDI (EUR million)	FDI in the WB (EUR million)	FDI in the WB (% of total)
Netherlands	572,066	3,991	0.7%
Switzerland	479,529	3,858	0.8%
Austria	72,827	3,483	4.8%
Germany	705,169	2,499	0.4%

2. METHODOLOGY

To obtain a clearer view of the actual situation of the sector, production capacity, technology condition, financing needs of the sector to remain competitive and for a future growth and sustainability a survey of manufacturing enterprises was designed and released to 180 manufacturing enterprises, all members of ProExport Albania. The survey focused in particular on the economic growth, Sector, innovation, and infrastructure, Responsible production and consumption, and the ESG criteria in order to identify gaps with regard to productivity, human resources, equipment, technology, digitalization, and lean manufacturing, with the ultimate objective of working together towards ensuring financing



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opportunities, higher performance of enterprise managerial staff, higher skilled labour force, technology upgrade according to the real needs of the sector for a more decent working conditions, better workplace cooperation, increased productivity, increased employment, and energy efficiency.

A total of 151 enterprises responded.

The size of enterprises and their placement in the supply chain are expected to correlate positively with working conditions, innovation, application of international production standards, together with updating lean manufacturing, resource efficiency and cleaner production, intention towards the circular economy or their will and readiness to start working towards such goals. This purposeful sample size represents about 22% per cent of the textile, clothing, leather and footwear enterprises employing 10 or more workers, and approximately 84% per cent of the ProExport Albania members, the only association of the textile and garment enterprises in Albania. Enterprises that participated in the survey are 70 per cent in production of textile and garment and 30 per cent in production of leather, footwear or other category.

The sampling is random and purposefully, so it can represent in a good scale the situation and needs of the sector.

Survey results and findings

According to collected data on the number and distribution of the companies in country, from a total of 700 enterprises, 65% of the companies are in the textile and garment sector with about 36,400 employees. The companies in the textile sector are partly certified with ISO 9001 - OHSAS 18001 with a percentage of about 35% of the active enterprises in the sector.

35% of the companies are in the footwear sector with about 19,600 employees. The companies in footwear sector are partly certified with ISO 9001 - OHSAS 18001 with a percentage of about 15% of the 245 enterprises active in the sector.

The clothing and footwear manufacturing sector has over 740 active factories and enterprises, large, medium and small in the country and over 75,000 employees. For 2022, this industry provided about 40 percent of the country's exports with a value of over 950 million Euros.

These enterprises operate under one of the following business models or production modality:

- make only: sewing only.
- cut only: cutting process only.
- cut, make and trim: manufacturers cut the fabric, make the clothes according to the design, and trim while the designs and raw materials are provided by the customer.
- full cycle: design is included.
- own collection: own brand and private label.

Enterprise Information - The distribution of enterprises participating in the survey correlates with the geographic distribution of enterprises in the country, as shown by the national official data. The production destinations of the invited Textile, Clothing, Leather and Footwear (TCLF) enterprises to answer the survey are the following:

- Italy 61%
- Germany 21%
- Greece, Austria, Hungary, Belgium, Netherlands etc. 18%.

The majority of enterprises operate in premises hired; 38% in owned premises and only 1% use contracts for exploiting the property.

Around 56% of the enterprises are well established in the market with an activity in the sector of longer than 10 years. Only 6% are new in the market with 1-2 years of activity, the majority are old.

27 enterprises are owned by females and 70 enterprises owned by males; 79% of the enterprises have Albanian ownership; 15% foreign ownership and only 6% are in a joint ownership. 90% of the employed working force in the sector according to the survey are females.

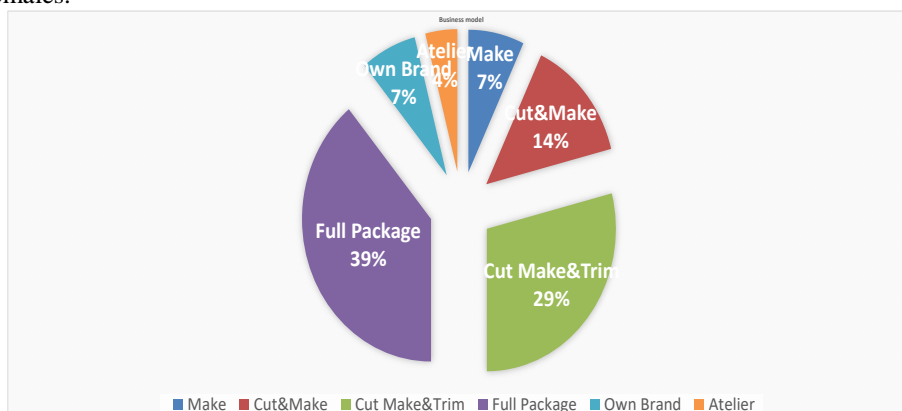


Figure 2: Business model applied by TCLF companies in country

Machinery, equipment - The most purchased or invested machinery and equipment in the sector with 97% is owned by the enterprises and only 3% is owned by the subcontractor; 71% of the equipment and machinery is purchased by the owner with its own capital; 13% purchased by the owner through bank loans and is all paid; 16% of Albanian owners have purchased machinery with loans which have not been paid yet. About the age of machinery 4% have very new or recently purchased machinery; 81% new or normal; 11% old and 4% have not invested in machinery and equipment operating with very old one. The transformation of the production processes by supporting the purchase of innovative industrial machinery by increasing the depreciation index from the current rate of 20% to 40%. In this way the tax burden will be smoother for the enterprises and they will have more liquidity. 52% of enterprises own their own.



The lack of employees is often referred by the enterprises as one of the main actual issues of the sector. Some of the enterprises have started considering hiring of foreign workers. Ten enterprises have responded they have hired foreign workers.

Products and production - About the typology of production 70% of the enterprises operate in garment manufacturing subsector, 22% in the footwear subsector, and 8% respond in other typology of products such as textiles, home textiles, technical textiles etc. 30% of the enterprises, according to the survey, have 2 years active contracts with their clients, 17% of them 3 years contracts, 2% and 36% respectively 6 months and 1 year contracts. 15% of the enterprises do not specify the length of agreements they have with the clients.

About the production destination, 78 enterprise work only for export; 1 for home market only, 8 enterprise work for they own brand; 15 only as subcontractors; 19 export and subcontracting; 3 enterprises work for export and home market. We can see here that many enterprises want to remain in the subcontracting working model to save the security of their contracts which in the sector are middle and long term.

72% of the enterprises produce outwear (fashion); 24% of them produce footwear, 1% protective clothing, bags for packaging; 2% underwear, 1% paper bags and garments (outwear).

The main products or services for the home market are: medical clothes, work wear, sportswear, footwear, finishing and dyeing for jeans products, stamping.

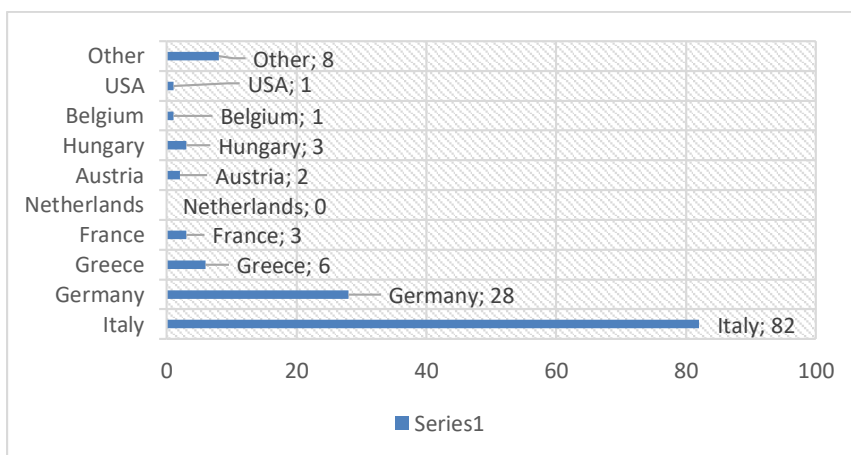


Figure 3: Export destination



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Raw materials import - For the purchase/import of the raw materials, About 70% of the market is Italy and Germany. 50% purchase it in Italy; 9% in Germany, 3% in Greece, 3% in China, 2% in Hungary, 1% in Pakistan, 3% in Albania and 3% do not specify the import country for the raw material.

Export and destination diversification - About 50% of the companies are planning to expand their export markets. These markets are preferably in the Western Europe. Meanwhile 42% enterprises are planning to diversify their products portfolio.

Skills needed from enterprises - The most preferred time for the required training is after the official working hours for 53% of them; 33% answer during the lunch break; 11% before the official work start and only 3% do not specify. Lack of the labor force is the major and most common problem that enterprises face.

95% of the companies answer that the lack of labor force is a big problem for them; the high raw material prices is the main issue for 30% enterprises; high price of the electricity is the main problem for 60% of the enterprises, 30% of the enterprises see impossible the access to the financing tools; lack of government support is the main problem for 65% of the enterprises, excessive customs procedure is the problem for 10 of the enterprises participating in the survey.

Businesses operating in the TCLF sector through ProExport association have request from the Albanian government a fast line for the incoming foreign employees (from Nepali, India). Currently the work permit last 90 days as Labor Office procedure, in many cases even longer forcing enterprises reapplying with increased cost and loss of time.

The needed skills and training plans mostly needed are: technical skills for 6%% of the enterprises; 44% of enterprises need more technical, practical and technological skills; 45% of them need skills and training plans for some specific operations and processes; 25% of the enterprises need more practical skills for graphical and design, CAD/CAM.

The owner or administrators of the enterprises need trainings in some specific issues such as: 63% enterprises on how to be more competitive in the international markets; 54% of the enterprises on how to find and increase the financial support of the sector; 35% on how to increase the visibility of the sector; 39% of enterprises administrators need more trainings on how to increase and consolidate the role of the business association; 36% on how to diversify the production; 50% enterprise administrators on how to increase the efficiency of production; 34% enterprise need more training on the importance of the financial data management and access.



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Table 1: Survey findings for TCLF manufacturing enterprises and recommendations [6]

Categories of survey questions	Main findings of survey in telegram style:	Recommendations
General information	Majority of enterprises in the TCLF sector in the country are 10 - 30 years old	
	64% of enterprises work for 1-5 foreign suppliers; 12% for more than 10 foreign suppliers	Production diversification
	46% of enterprises have full package operations and own their brand business model	Add value to the production chain
SDG8 – Sustainable economic growth; decent work for all	93% of enterprises have made significant investments in technology; and 86% still have plans for further investment	High value-added services
	46% of enterprises have an interest in finding new suppliers and new sources of raw materials	Production and export diversification
	The enterprises report labor shortages within the following occupations: sewing operators, textile engineers, pattern making specialists, machine maintenance technicians, production managers, quality control specialists, and graphic designers.	Better human resource management Better working conditions and higher wages Updated training curricula (VET Centers)
SDG9 – Resilient infrastructure; sustainable industrialization; foster innovation	70% of enterprises completely rely on suppliers for pattern design, technical specifications, production cards	Increase competition with more technological investment; offer higher value-added services; increase competitiveness through innovation
	32% of enterprises source raw materials; 42% have acclimatization standards for the	Foster a more resilient infrastructure through value added



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	storage of raw materials; only 30% of them need or perform testing of raw materials; 59.3% have the capacity to make technical specifications and production cards themselves	processes towards material sourcing
	The main destination of the products of the enterprises is Italy with (40%); followed by the EU single market (unspecified 28%), Germany (16%), Greece (4%), the UK (4%), China (4%), and domestic distribution (4%)	Decrease reliance on the suppliers alone and diversify client base
	25% of enterprises have no training plans for employees and 7% prefer to hire trained employees	Enhance advanced training programs relevant to the TCLF sector
	11% of responding enterprises complete quality control only at the end-of-line; 37% both end-of-line and middle-of-the-line – Around 50% do not complete any form of quality control	Provide ad hoc advanced training to the enterprises on “Quality Improvement”; “Lean Manufacturing”; and “Resource Efficiency” Introduce and improve KPIs
	46% of enterprises have no information on the lifespan of their products	Provide ad hoc advanced training to the enterprises on Resource Efficiency
SDG12 – Sustainable production and consumption patterns	35.7% of enterprises separately collect or recycle waste: Of those, 69% apply textile collection for recycling; 42% paper; 35% plastic; 15% leather; 23% electronics and batteries; and 8% oil	Waste management plans; separation and recycling
	Only 2 enterprises use organic materials; 18% use recycled materials; 53% unsure (it depends on the supplier); only 50% carry out material consumption analysis	
	71% of enterprises do not monitor their water, material, or carbon footprints	Increase cooperation between enterprises and foreign clients



3. CONCLUSIONS

Albanian manufacturers need to switch their competitive advantage from low-value added services that generate only low income for employees in the sector towards full cycle, guaranteeing quality jobs, better working conditions, including occupational safety and health workplaces. Albania's competitive advantage could be quality and design. Albania could stand out on quality performance, elaborating with design, offering customized or on-demand ready-to-wear goods for customers in the middle and high-segment of the value chain [7].

The common challenges for scaling-up an efficient use of resources that have the highest potential to act against the desired developments are a lack of awareness and a lack of finance.

Unsustainable production and consumption is the common thread between the triple-faceted planetary crisis of climate change, nature loss, and pollution. Therefore, all efforts must be made to transform the textile value chain towards sustainability and circularity, where it should act as a crucial lever for an overall transformation to a circular economy.

Tools for the Implementation and Monitoring of the action plan for the SDGs in the sector are:

- **Zero Draft Roadmap for the TCLF Sector** with the cooperation of all stakeholders in country. Best practices in the developed countries going from linear to circular production, where materials are not discarded after use, but instead recycled or used in other ways so that the waste is kept to a minimum. New business models are currently being explored, often based on a radical redefinition of what the term 'fashion' constitutes.
- **Key EU actions** for circular and sustainable product design to reduce products' environmental impact [8].
- By making sustainability the core of a business strategy, **the concept of eco-innovation** can support small and medium-sized enterprises to become more resilient. Thinking from a life cycle perspective means considering all phases of the product life cycle, from extraction of raw materials through material processing, manufacturing, distribution, use, repair and maintenance to disposal or re-use [9].
- **Actions for reaching sustainable products**



Figure 4: Added value from eco-innovation - an overview of the business drivers

- **Sustaining Competitive and Responsible Enterprises (SCORE)** - The ILO is assisting government agencies, training providers, business associations and trade unions in about 20 countries to offer SCORE Training to SMEs.
- **Resource Efficiency and Cleaner Production (RECP)** - The methodology assumes the following core interventions:
 - Training and coaching of experts and enterprises staff on efficient use of resources.

The skills obtained by national experts allow them to conduct RECP assessments in clothing and footwear enterprises, with a deep understanding of the RECP principles, practices, and method, to improve resource efficiency, reduce environmental impacts, and save costs to the enterprises.

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