RisiAlbania

Partner for Growth

Gender-Sensitive Research on ICT Sector in Albania

Report by: Center for Business Technology and Leadership

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PARTNERSALBANIA FOR CHANGE AND DEVELOPMENT

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List of Abbreviations

ADM	Application Development and Maintenance
AITA	Albanian ICT Association
BPO	Business Process Outsourcing
B2B	Business to Business
B2C	Business to Consumer
CBTL	Center for Business Technology Leadership
CMMI	Capability Maturity Model Integration
CRM	Customer Relationship Management
ERM	Enterprise Resources Management
F&A	Finance & Accounting
GLSI	Global Services Location Index
HR	Human Resources
HRM	Human Resources Management
ICT	Information Communication Technology
IT	Information Technology
ITO	Information Technology Outsourcing
KPO	Knowledge Process Outsourcing
PA	Partners Albania
PM	Project Management
PMI	Project Management Institute
SD	Software Development
www	World Wide Web

Executive Summary

The main purpose of this research is the analysis of ICT value chains, ICT sector performance and competitive position. It also includes foreign and domestic end-market research, a constraints analysis, and a sector intervention strategy. For this report preparation, have been developed interviews with different groups of interest, either vendors, ICT/BPO companies, Business Service Providers, Academia, Government and Donors. The overall outline of the interview was focused on the business performance, ICT employment, future vision, challenges, perception, potential capability to implement, and recommendations for introducing it to the market.

The research includes assessing market demand and market requirements, ICT market segmentation, market trends and opportunities, international trade of ICT products etc. Secondary research used official and public data, as well as previous research findings and other relevant documents.

The main focus of the study was in IT Software and BPO subsector. Market research for the ICT sector (subsectors) is conducted through secondary research, while all the other components of the study combine both secondary and primary research.

This report consists of five sections where the first section presents a short definition of four subsectors: IT Software, IT Hardware, Business Process Outsourcing and Telecommunication Industry. The second chapter gives an overview of industry and value chain analysis including an analysis for BPO industry, Albanian call center industry and software development industry.

In the third section is reflected the analysis of the IT constraints including cross industry constraints, constraints related to SD domestic market and to export of SD services. In this section are also evaluated the call center specific constraints such as lack of government support, cost constraints, lack of knowledge and access to external markets etc.

In the following section are presented some proposals. Future development of, both, the call center industry and software related industries should be considered in the broad framework of the development of the offshore services industry in Albania. Offshore industry in Albania has proven already to be a big generator of employment, which is the major social problem for the country.

Potential government support for the industry could focus on a wide range of aspects, including infrastructure development; market and fiscal incentives; human resources development; promotion and marketing of the sector.

Another proposal is the increase of public spending in IT, which should be a major priority of Government's policies for the development of the sector, and in general for boosting economic growth.

Investment in skills development is also a key element for the development and strengthening of the offshore services industry and a continuous factor conditioning the long-term sustainability of the industry.

At the end of the report is an overview of the intervention areas and potential partners. In principle, most proposals mentioned in this report or measured, might be considered by RISI Albania as focus

for its future assistance. It is however clear that further elaboration and evaluation of such interventions would be needed for such decision to be made based also in other considerations such as budgets and other resources.

This draft report is prepared by Center for Business Technology and Leadership (CBTL) on behalf of the Swiss Agency for Development and Cooperation implemented by the consortium consisting of HELVETAS Swiss-Inter-cooperation and Partners Albania (PA).

Background

The overall goal of the project is to contribute to an increase in employment opportunities for young women and men (age 15-29) in Albania. The goal will be achieved through

- (i) enhanced growth and job creation by the private sector in three selected subsectors (agro-processing, tourism and ICT) and
- (ii) improved access to job opportunities and interaction between private sector (labor demand) and young women and men (labor supply).

The overall strategic framework which guides Risi Albania in all its partnerships and actions is informed by development initiatives with principles and frameworks which support them in achieving large-scale and sustainable impact in targeted market systems. For Risi Albania to catalyze change processes, it will utilize a facilitative approach, putting local partner in the lead, which emphasizes local ownership of change processes.

Project Aim

Risi Albania intends to support the growth of the ICT sector and will complete systematic research prior to designing and implementing interventions. The objective of the consultancy is to complete a gender sensitive ICT sector analysis, to analyze constraints to growth of key ICT sub-sectors, and to design interventions for Risi project that address those constraints and stimulate the sector growth and employment potential.

The research includes foreign and domestic end-market research, an analysis of ICT value chains, ICT sector performance and competitive position, a constraints analysis, and a sector intervention strategy with specific interventions to be implemented by Risi Albania.

Expected Project Outputs

- Conduct end market research for ICT sub-sectors using secondary data focusing on domestic and foreign markets. The research includes assessing market demand and market requirements, ICT market segmentation, market trends and opportunities, international trade of ICT products etc.
- Complete an analysis of the core and supporting functions and flows of key ICT value chains of including the value chain map, the main trade channels, profiles of main players and the relationships between them, inputs, business services, key formal (policies, standards, regulations) and informal rules (incentives, perceptions).

- Complete an analysis of the competitive position of ICT value chains including costs, productivity, quality, time, value added, the most competitive business models and key factors driving changes.
- Complete a system constraints analysis and the root causes of underperformance of the ICT sector, which hamper its growth and prevent it from accessing higher value export markets and increasing share in the domestic market.

Identify the main intervention areas and develop specific interventions for improving the performance of ICT sector. Interventions will be in line with Risi Albania facilitative approach, putting market players in the lead as partners in order to emphasize local ownership of change processes.

Brief Explanation of the Methodology including gender focus

Methodology

The study was based in a combination of methodologies including CMMI for services, M4P approach, value chain and Porter frameworks. It consisted of three main steps: data collection, data analysis and conclusion.

Data Collection

The purpose of the study is the collection of information through secondary and primary research resources.

Secondary research used official and public data, as well as previous research findings and other relevant documents. Main sources of information were studies conducted by local and international organizations, AITA, GIZ ORF, USAID and so on via printed documents or Internet.

Primary research constituted in semi-structured interviews with ICT, BPO and other related-companies or organizations. The list of interviewed companies and organizations is presented in Annex A. The interviewees are part of the main players of the industry sub sectors in Albania.

The main focus of the study was focused in IT Software/ITO and BPO subsector.

Market research for the ICT sector (subsectors) is conducted through secondary research, while all the other components of the study combine both secondary and primary research.

Gender Sensitivity

The entire research and analysis will be conducted through gender lens; gender dimensions is investigated and evaluated wherever it is possible. Gender analysis is focused in particular on two main areas:

a) role of gender in the management and development of the ICT sector, including access at all levels of the ICT activities;
b) gender specific benefits of ICT products and services.

Existing information and data, as well as original data and information collected through interviews, is analyzed to understand the roles and tasks in which are involved women and men in the ICT sector (including along the value chain); and to establish if there are any gender patterned behavior that condition the access and opportunities and which lead to gender inequality. At the same time, gender distribution of the benefits from use of ICT products and services is explored to establish if there is distribution pattern, and the consequences of potential distribution inequalities and how that affects the gender roles and empowerment in society.

To facilitate and standardize the analysis a number of gender specific indicators are used – indicators that have been validated by previous research on the issue. This requires, among others, disaggregation, whenever possible, of the available information and data.

Specific Approaches

a) End market research

- End market research is conducted based on secondary data. It is based on Porter's model focusing on five forces:
  - Threat of new entrants
  - Threat of substitute products
  - Bargaining power of buyers
  - Bargaining power of suppliers
  - Competitive rivalry

b) Analysis of functions and flows

- ICT functions and flows and trade channels are analyzed using qualitative information form the in-depth interviews and other reports in the field.

c) Competitive analysis

- Mapping of the costs and value added distribution are realized by using quantitative analysis of recorded prices at every link in the value chain.

The most successful business models is also identified and analyzed.

d) Constraints analysis

This component of the research is primarily based on interviews with the actors. In addition, the legal and regulatory framework, business services, as well as development policies are analyzed.

Interview Data Analyses

There were about 30 interviewers from different groups of interest, either vendors, ICT/BPO companies, Business Service Providers, Academia, Government and Donors.

The interviews were semi-structured. The overall outline of the interview was focused on the business performance or non-performance, ICT employment, future vision, challenges, perception, potential capability to implement, and recommendations for introducing it to the market.

1. Short definition of four subsectors

The definitions of the four subsectors are standard and are based in several sources of information.

1.1 IT Software development

Software development is the process of developing software through successive phases in an orderly way. This process includes not only the actual writing of code but also the preparation of requirements and objectives, the design of what is to be coded, and confirmation that what is developed has met objectives.

Typical phases of software development:

1) Identification of required software
2) Analysis of the software requirements
3) Detailed specification of the software requirements
4) Software design
5) Programming
6) Testing
7) Maintenance

In general, the development of commercial software is usually a result of demand in the marketplace, while enterprise software development generally arises from a need or a problem within the enterprise environment.

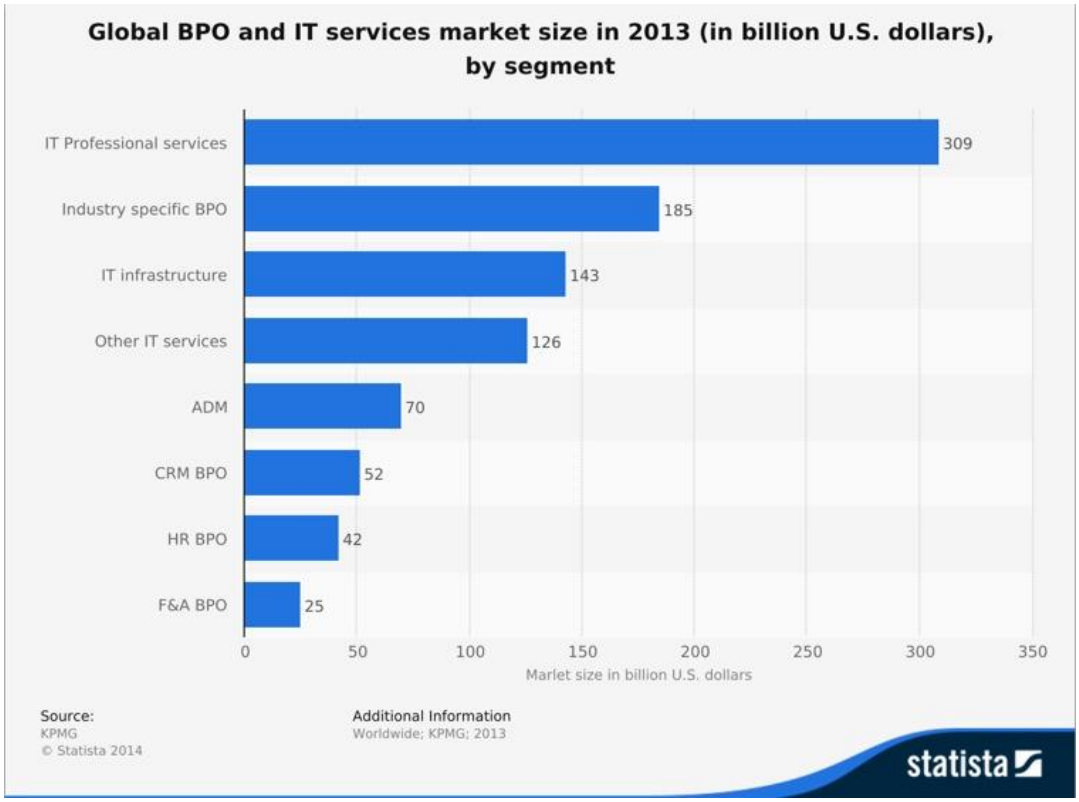
Software can be developed for a variety of purposes, the three most common being to meet specific needs of a specific client/business to meet a perceived need of some set of potential users (the case with commercial and open source software), or for personal use. Embedded software development, that is, the development of embedded software such as used for controlling consumer products, requires the development process to be integrated with the development of the controlled physical product.

There are many approaches to software project management, known as software development life cycle models, methodologies, processes, or models. The waterfall model is a traditional version, contrasted with the more recent innovation of agile software development.

1.1.1 **Statistics**

Based on www.statista.com, the current status of the world in terms of BPO and IT software is depicted below:

Figure 1. Global BPO and IT services market size in 2013 by segment



1.2 IT Hardware

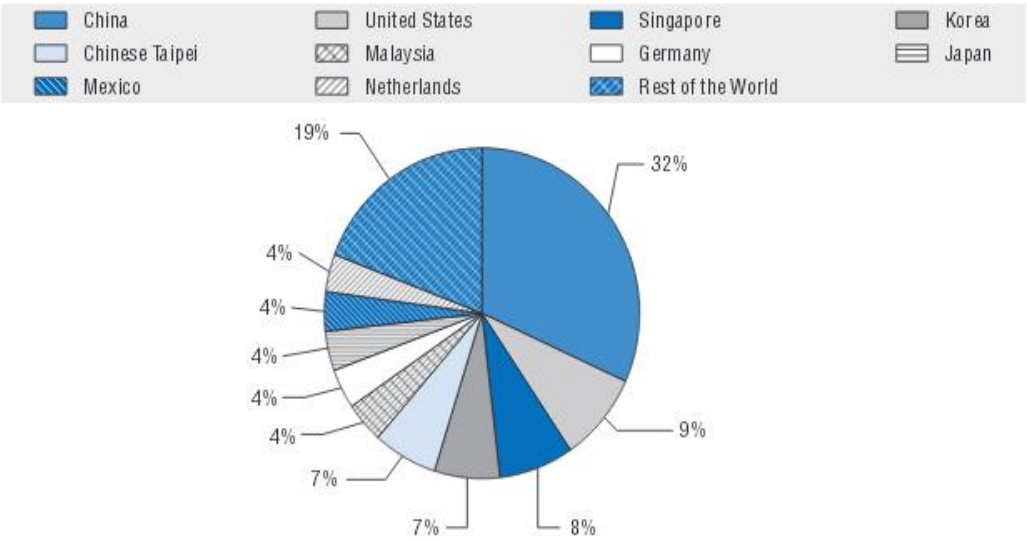
The IT Computer Hardware industry consists of companies engaged in assembling and manufacturing computers, computer hardware and computer peripherals. The industry includes storage devices, keyboards, printers, monitors, mouse and other pointing devices, Webcams and PC cameras, as well as ATM machines.

The competition among computer hardware companies is particularly intense. On the one hand, in the traditional PC market, companies' products have largely become commoditized, with constant downward price pressure (and narrowing profit margins) being the result. On the other hand, there are markets for innovative new products, like tablet PCs and ultra-minimal desktops that are not yet fully commoditized.

Realistically, this segment really doesn't differ all that much from wireless and computer equipment. Data network protocols and interfaces are very standardized and widely accepted, so locking customers in with a proprietary system is not a possibility. This means that all firms selling data networking products are competing on price primarily, and features secondarily. And as always in a commodity business, only the low cost provider truly has a durable competitive advantage.

Between 2001 and 2013, world exports of manufactured ICT goods grew by 6% per year, reaching USD 1.6 trillion. Production and exports of ICT goods are increasingly concentrated in a few economies. The shares of Japan and the United States in world exports of ICT goods halved from 2001 to 2013, due in part to offshoring of production. Korea is the only OECD country to increase its share of the world market for ICT goods over the same period.

Figure 2. Top ten exporters of ICT goods, 2013

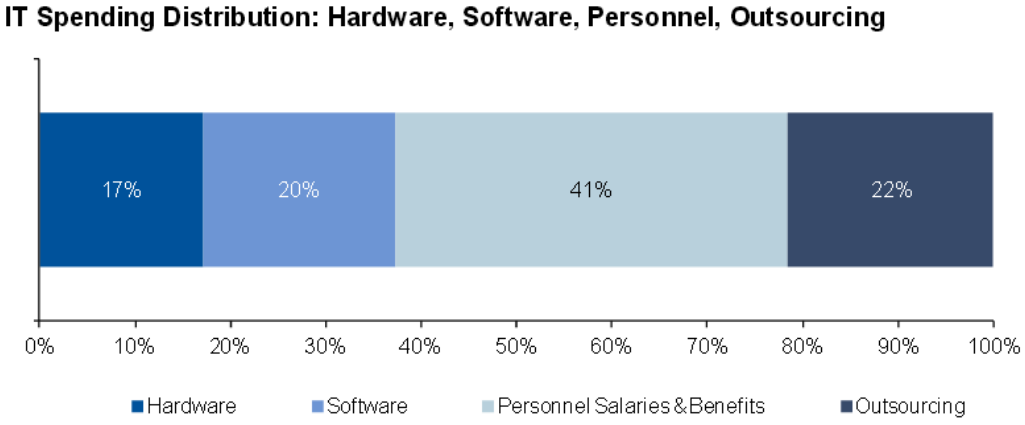


Source: OECD, Bilateral Trade Database by Industry and End-use category

IT transformation often leads to new business process improvements that enable the business to grow or build new revenue streams; therefore, these costs would need to be evaluated and distributed based on IT service and business performance. The run, grow and transform the business framework should always be viewed in business terms with respect to how IT will enable the business to grow or transform revenue, operating income and/or profit margins.

According to "Gartner IT Key Metrics Data 2012 IT Enterprise Summary Report", the distribution of spending between hardware, software, personnel and outsourcing costs can show the dynamics of IT investments.

Figure 3. IT Spending Distribution



Source: Gartner IT Key Metrics Data 2012

1.3 Business process outsourcing

Based on the industry definition, Business Process Outsourcing (BPO) is the delegation of one or more intensive business processes to an external provider that, in turn, owns, administrates and manages the selected processes based on defined and measurable performance metrics. BPO offerings are categorized in two major categories: horizontal offerings (those that can be leveraged across specific industries) and vertical-specific offerings (those that demand specific industry vertical process knowledge).

BPO is typically categorized into back office outsourcing, which includes internal business functions such as human resources or finance and accounting, and front office outsourcing, which includes customer-related services such as contact center services.

The main advantage of BPO is the way in which it helps increase a company's flexibility. However, several sources have different ways in which they perceive organizational flexibility. BPO was all about cost efficiency, which allowed a certain level of flexibility. Due to technological advances and changes in the industry (specifically the move to more service-based rather than product-based contracts), companies who choose to outsource their back-office increasingly look for time flexibility and direct quality control.

Business process outsourcing enhances the flexibility of an organization in different ways:

Most services provided by BPO vendors are offered on a fee-for-service basis, using business models such as Remote In-Sourcing or similar software development and outsourcing models. This can help a company to become more flexible by transforming fixed into variable costs. A variable cost structure helps a company responding to changes in required capacity and does not require a company to invest in assets, thereby making the company more flexible.

Another way in which BPO contributes to a company's flexibility is that a company is able to focus on its core competencies, without being burdened by the demands of bureaucratic restraints. Key employees are herewith released from performing non-core or administrative processes and can invest more time and energy in building the firm's core businesses. The key lies in knowing which of the main value drivers to focus on – customer intimacy, product leadership, or operational excellence. Focusing more on one of these drivers may help a company create a competitive edge.

A third way in which BPO increases organizational flexibility is by increasing the speed of business processes. Supply chain management with the effective use of supply chain partners and business process outsourcing increases the speed of several business processes, such as the throughput in the case of a manufacturing company.

The annual Global Services Location Index (GSLI) (formerly called the Offshore Location Attractiveness Index) is a tool to help companies understand and compare the factors that make countries attractive as potential locations for offshore services. It measures the viability of countries as an offshore destination based on their financial attractiveness, people skills and availability, and business environment.

The 40 countries in the 2014 GSLI were selected based on the corporate input, current remote services activity and government initiatives to promote the sector. They were evaluated against 25

measurements across three major categories: financial attractiveness, people skills and availability and business environment. The ranking list of 40 countries based on the following Assessment Criteria is shown in Annex C

Figure 4. Assessment Criteria for country rankings

Category	Subcategories	Metrics
Financial attractiveness (40%)	Compensation costs	• Average wages • Median compensation costs for relevant positions (call-center representatives, BPO analysts, IT programmers and local operation managers)
	Infrastructure costs	• Rental costs • Commercial electricity rates • International telecom costs • Travel to major customer destinations
	Tax and regulatory costs	• Relative tax burden • Corruption perception • Currency appreciation or depreciation
People skills and availability (30%)	Remote services sector experience and quality ratings	• Size of existing IT and BPO sectors • Contact center and IT center quality certifications • Quality ratings of management schools and IT training
	Labor force availability	• Total workforce • University-educated workforce
	Education and language	• Scores on standardized education and language tests
Business environment (30%)	Country environment	• Investors' and analysts' ratings of overall business and political environment • A.T. Kearney Foreign Direct Investment Confidence Index™ • Security risk • Regulatory burden and employment rigidity
	Infrastructure	• Overall infrastructure quality • Quality of telecom, internet and electricity infrastructure
	Cultural exposure	• Personal interaction score from A.T. Kearney Globalization Index™
	Security of intellectual property (IP)	• Investor ratings of IP protection and ICT laws • Software piracy rates • Information security certifications

Notes: BPO is business process outsourcing. IT is information technology. ICT is information and communication technology.

Source: 2014 A.T. Kearney Global Services Location Index

Statistics and facts on the business process outsourcing industry worldwide

Based on www.statista.com, outsourcing entails the contracting out of business processes to external parties, either domestically or offshore. In 2013, the global market size of outsourced services was just short of 83 billion U.S. dollars, decreasing by more than 16 billion dollars from the previous year. A subcategory of outsourcing, business process outsourcing (BPO) is the contracting out of specific business processes, usually either internal business functions (back office), such as human resources, or customer-related functions (front office) like customer care operations in call centers. Business process outsourcing is also often related to IT functions. The revenue of the global BPO industry was 27.7 billion U.S. dollars in 2013.

The largest share of global outsourcing revenue was generated in Europe, the Middle East and Africa (EMEA) in 2013 at 47.8 billion U.S. dollars. In terms of business process outsourcing, Southern Europe had the most mid-scale companies currently contracting out processes or planning to do so in the future. Outsourcing often involves offshoring in which processes are outsourced to a different country to where the business is located. India was the leading country for offshore business services in 2014 in terms of its financial attractiveness, the skills and availability of its people and the appropriateness of its business environment for business process outsourcing.

Global leaders in outsourcing include ISS World, a Danish company specializing in facility services, and Accenture, whose focus lies with IT, help desk and HR outsourcing, as well as consulting. In a worldwide survey of business leaders, 57 percent cited improving efficiencies as a driver in outsourcing processes. Other top factors included reducing cost and gaining better access to expertise. On the other hand, 44 percent of business leaders admitted a barrier to outsourcing was their unwillingness to lose control of key processes.

1.4 Telecommunication industry

Telecommunication represents the communication at a distance by technological means, particularly through electrical signals or electromagnetic waves. The word is often used in its plural form, telecommunications, because it involves many different technologies.

Modern technologies for long-distance communication usually involve electrical and electromagnetic technologies, such as telegraph, telephone, networks, radio, microwave transmission, fiber optics, and communications satellites.

Based on www.statista.com, one of the most marked developments in the field of telecommunications and technology in the last few decades has been enabling people to get in touch with one another quickly, through numerous means, while on the go. Communications and its ever-strengthening connection to mobility has become the most significant telecommunications development of recent years; allowing people to juggle daily schedules, home life and work. There are several exciting trends in this field.

Wireless telecommunication was first achieved with the invention of the radio at the beginning of the 20th century. This revolutionized and significantly sped up communication over long distances, as a new, quick way of sending and receiving information. Nowadays, however, this lucrative, complex and secretive industry is an ongoing battle for intellectual property, patents, court cases and injunctions. All deemed necessary to retain an edge in the market.

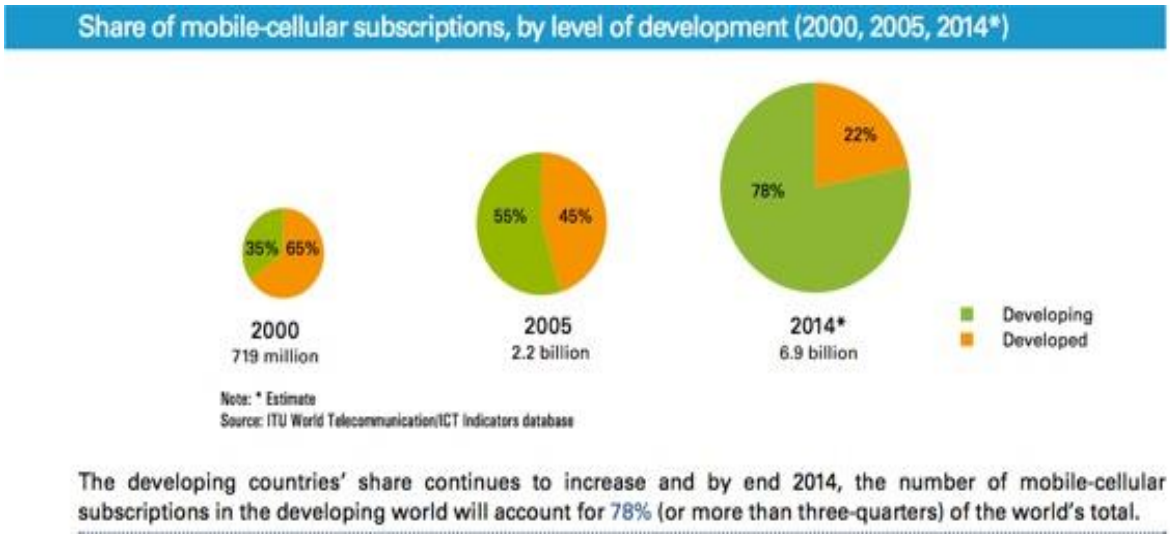
Telecommunication statistics on worldwide revenue from telecommunications services paint an interesting picture of the ever-changing, constantly developing industry and include a forecast of developments to come. In 2011, over one trillion euros of revenue was generated in the telecommunications industry, which is expected to rise year after year. Worldwide revenue from telecommunications equipment also gives an impressive overview of the industry. Back in 2005, revenue stood at 196 billion euros. In 2011, this figure had grown to an astonishing 256 billion euros. In 2014, revenue is expected to further rise to 274 billion euros. The general trend over the years has been in the direction of growth; to date, there doesn't seem to be any sign of a stall in growth.

There are several large telecommunication providers in Europe, among them: Deutsche Telecom, Telefonica, Vodafone, France Telecom, and Telecom Italia. As of 2009, Germany's Deutsche Telecom topped the list with revenue of over 64 billion euros. Spain's Telefonica followed with over 56 billion. In fact, according to statistics, Europe has consistently shown the highest revenue in telecommunication services by region over the last six years. In 2010, 317 billion euros were spent in this area in Europe, compared to 239 billion in North America.

Based on figures on wireless operating revenue of major U.S. telecommunication providers, Verizon led the industry with revenue of over 63 billion euros in 2010. AT&T followed with 58.5 billion euros in revenue. The number of active mobile broadband subscriptions worldwide rose from 73 million to over one billion in the last six years alone. As of September 2011, the number of mobile phone subscriptions was led by China Mobile, which had more than 633 million subscribers, Vodafone in the UK followed with 391 million, while Deutsche Telecom was trailing with 128.5 million.

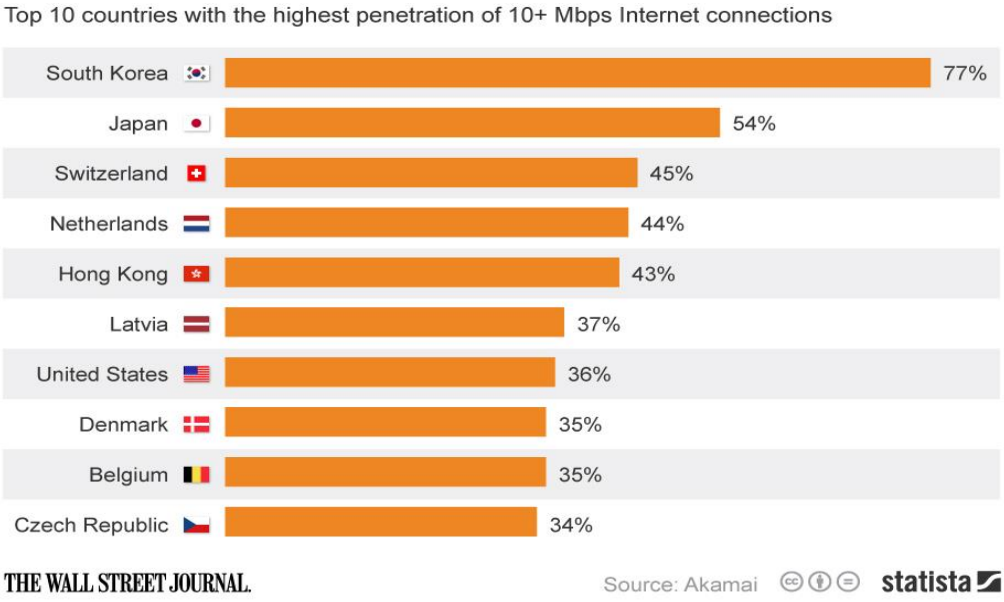
Based on the ITU Statistics, www.itu.int, by the end of 2014, the number of mobile subscribers will be around 6.9 billion out of which 78% will account for more than three-quarters of the world's total.

Figure 5. Share of mobile-cellular subscriptions by level of development (2000, 2005, 2014)*



Regarding the high speed broadband Internet the differences among the countries are still persistent

Figure 6. High-speed Access to the Internet



The following statistics about Albania are taken by World Economic Forum (WEF) report for "Global Information Technology, 2014"

Figure 7. Statistics about Albania

Index	Rank (out of 148)	Value
Mobile phone subscriptions/100 population	70	110.7
Individuals using Internet, %	58	57.7
Households with a personal computer, %	95	20.0
Households with Internet access, %	87	20.5
Fixed broadband Internet subscriptions /100 population	78	5.1
Mobile broadband subscriptions/100 population	71	18.8
Business-to-business Internet use	135	3.8
Business-to-consumer Internet use	131	3.4

2. Industry and value chain analysis

2.1 Business Processes Outsourcing (BPO) industry

2.1.1 Background

The rapid development of Information and Communication technologies, beginning in the 1980s, and the global liberalization of trade and exchanges have had a significant effect in the development of the companies and their business approaches. One major development has been the separation of production and consumption of services – it became possible to produce services in one place and

consume in a different one, which before was possible only for goods. As a result of such developments, companies started to move certain functions or activities of their production in other countries, including also services that they had already outsourced to third party providers in the home countries. The main drivers for the offshoring were the advantages of cheaper labor combined with the availability of skills, particularly developing countries.

There were a number US firms - including American Express, GE, and Motorola – which decided in the 1980s to relocate part of their non-core services by establishing service centers in India in an effort, reduce the costs of production. These pioneering efforts proved very successful, and as a result they started a global trend as more and more firms in the US and other developed countries started to offshore more and more services to third countries. India and Philippines were the early destinations and became leaders in the offshore industry. They were later followed by Eastern European countries and Latin American Countries, while more recently a number of African countries, in particular Egypt and South Africa, are emerging as important destination for the offshore industry.

Services offshoring started with IT and customer services and then involved a broad array of other business processes and functions. As new countries entered the offshore services industry, earlier countries upgraded to higher value services, establishing thus a global chain. Today this trend has evolved into a global industry that is known as the Offshore Services Industry, broadly defined as the trading of services conducted in one country and consumed in another.

Business Process Outsourcing (BPO) in general and the call center sector in particular, are part of this larger offshore services industry, and therefore they should be analyzed within this broader context. Such approach is also necessitated by the confirmed international trends of the development of BPO services through upgrading to other higher value offshore services.

2.1.2 **Offshore services global value chain**

The standard approach for analyzing offshore services is use of the Global Value Chain (GVC) framework for the offshore services developed by Gary Gereffi and Karina Fernandez-Stark of the Duke University.

A typical GVC depicts different stages of production of a good or service and the value added at each component as a difference between the value of the output and costs. Different from other industries which produce tangible goods, in the offshore services industry it is difficult to estimate the value added at each production stage, because, due to the specifics of the production process, firms have difficulty to calculate the detailed costs of each stage. As a substitute, the value chain analysis of the offshore services industry relies on qualitative indications of the value added based on the level of the skills employed at each production stage or link as a function of the employee's education and experience.

The following diagram depicts the offshore services value chain and helps in identifying activities, value added, level of skills required at each link, as well as upgrading paths along the chain.

As shown in the diagram, offshore services may be horizontal services - mainly non-core business processes services that applicable across industries - and vertical services - industry specific services that require industry expertise, generally not applicable to other industries.

Horizontal services comprise a wide range of services, from non-core business functions such as managerial functions or customer care services to production development related services. Based on their relation to business functions, and the expertise required for their provision, horizontal services are divided into three large segments –

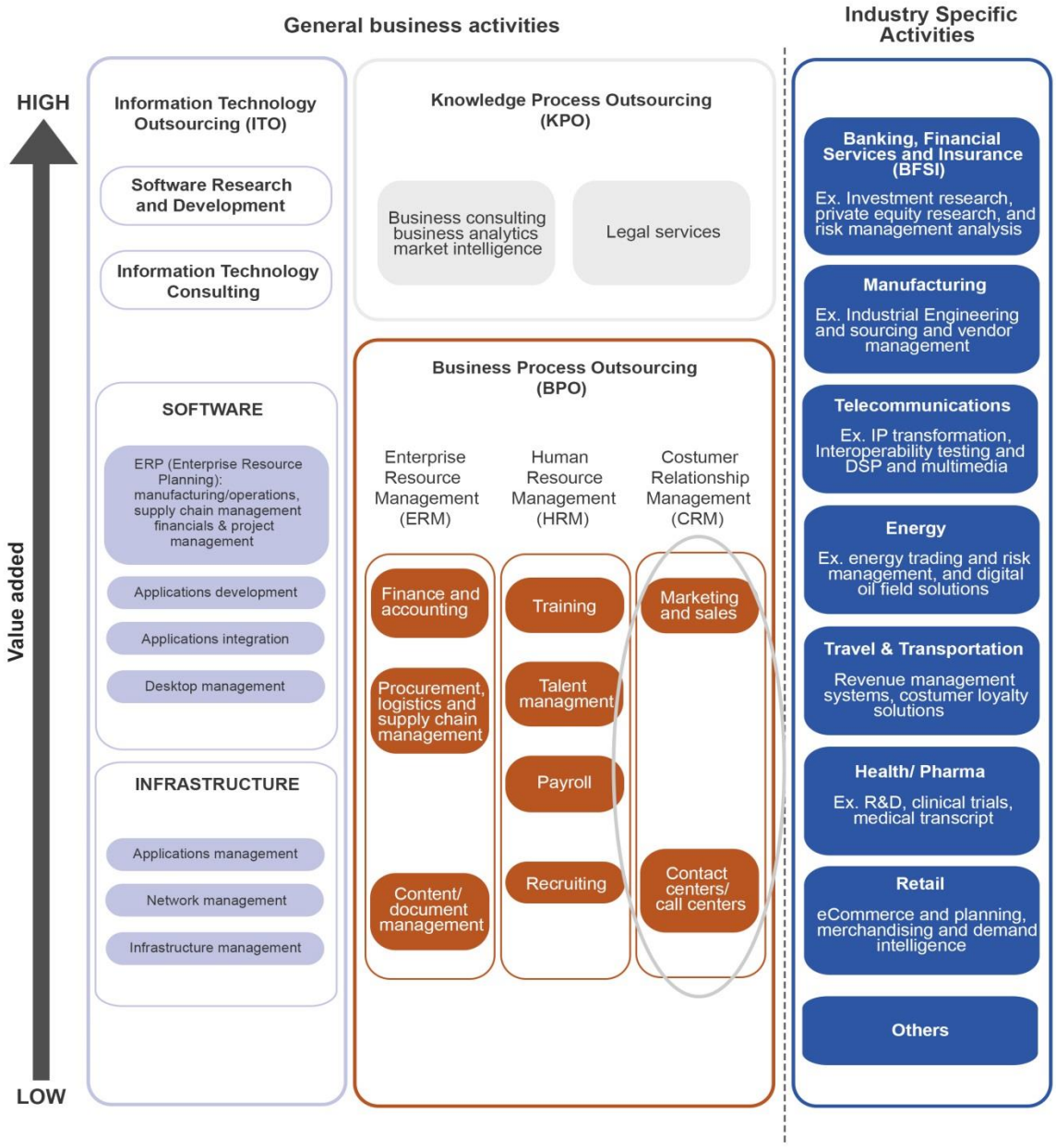
Knowledge Process Outsourcing (KPO) services,

Informational Technology Outsourcing (ITO) services, and

Business Processes Outsourcing (BPO) services.

Furthermore, services are *ranked from low to high value*, both between segments and within the segments. Higher-value services have a higher level of complexity and require higher skills and specialized expertise. As a generalization, low value services are labor intensive while the higher value services are skills intensive.

Figure 8. Offshore Services Global Value Chain



KPO

KPO involves outsourcing of knowledge and information related work. KPO services consist of, among others, business consulting, market intelligence services, business and technical analytics, technology research, engineering design, and legal services. KPO services are the highest value services in the global value chain. Delivery of such services requires advanced technical skills beyond processes expertise, such as domain knowledge, analytical skills and business expertise.

ITO

ITO involves outsourcing of services related to IT functions. They consist of, among others, infrastructure management services, software related services, software research and development, and IT consulting services. Such services range in value from low to high. The level of skills required in employment in the sector varies, accordingly, from low to very highly skilled IT expertise.

BPO

BPO involves the outsourcing of specific non-core business processes. The outsourced services could vary from low to middle value services. As a result, skills required for the provision of such services vary from low high school to university level education.

BPO services are broken down into three functional categories:

- Enterprise Resource Management (ERM) services that include, among others, finance and accounting, procurement, logistics and supply chain management, and content and document management;
- Human Resource Management (HRM) services that include, among others, recruitment, training and payroll management;
- Customer Relationship Management (CRM), includes sales, marketing, customer care and related services.

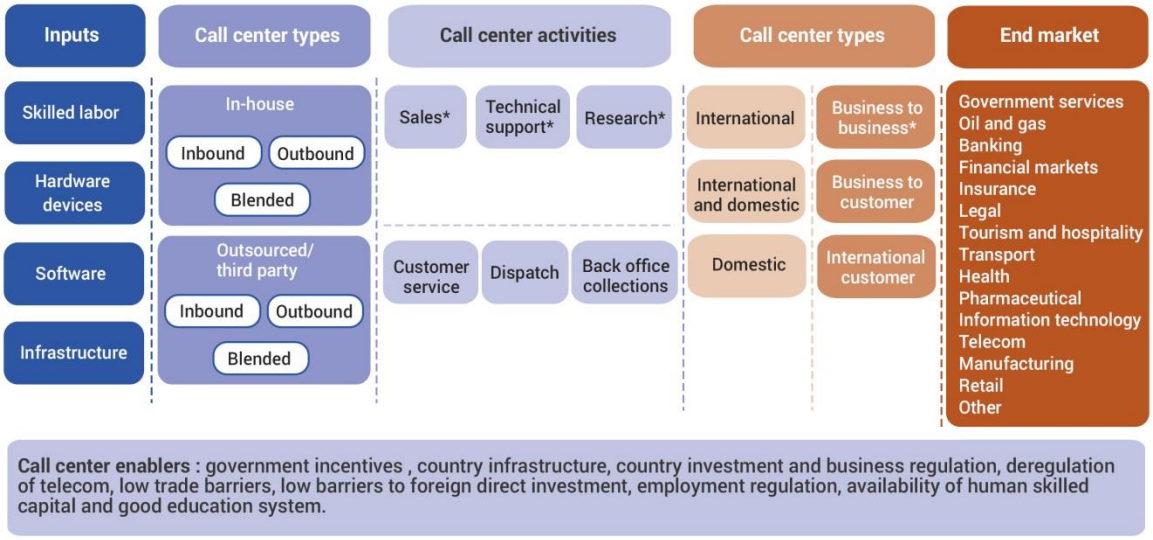
Another type categorization used occasionally divides the BPO services into two groups of services:

- Back office services, which include all internal business functions that do not require interaction with customers, such as finance and accounting, human resources management, procurement, etc.;
- Front office services, which include customer-related services usually delivered through call centers, which are discussed in more details in the following chapter.

2.1.3 **Call centers value chain**

Call centers are the main subsector of the BPO services. The call centers segment continues to grow, driven by the rising interest in outsourcing. This rising interest in outsourcing is particularly driven by the current economic crisis as outsourcing is seen as a way to reduce costs. Services offered include round-the-clock support services through e-mail, chat and voice. Most outsourced services within the contact service segment are IT helpdesk and employee contact services. The best tool for analyzing the call centers is the Call Center Global Value Chain also developed by Gary Gereffi and Karina Fernandez-Stark of the Duke University, which is depicted below. This approach maps call centers based on the type, services offered and markets they serve.

Figure 9. Call Center Value Chain



The main input that goes into the provision of call center services are skilled labor, whose expertise varies according to the respective value added of each service, and varying from high school education to university and advanced level education. Other inputs include hardware, including IT and communication hardware; software, including the software solutions for handling and running calls; as well as other physical infrastructure such as floor space, etc.

At the other end of the chain are the end markets, which cover a broad range of industries, including telecommunications, banking and financial services, energy and utilities, manufacturing, travel and tourism industry, etc.

Besides telephone, call centers increasingly manage and make use of other communication channels as well, such as e-mail, website inquiries, chat, and social media

According to CBI (Centre for the Promotion of Imports from developing countries) reports, with 6,900 locations, Germany has the highest number or contact centers in Europe, representing 21% of the European contact center market.

77% of German contact centers are in-house contact centers. This is slightly less than the European average (80%). The other 23% are external contact centers to which contact services have been outsourced. The German contact center market grows with a slow but steady pace at an estimated 1.3% per year according to a study of the European Contact Center Benchmark. This growth is predicted to continue.

Call centers may be classified as

- *In-house centers*, which are owned and managed by the firm they provide services for, as a separate department or business unit within the firm; and
- *Outsourced centers*, which are third party providers of call center services. When call centers are located in third countries, both, as part of the buyer company or as outsourced centers, we divide them in the so-called *offshore captive centers* and *offshore outsourcing centers*.
    - ***Captive centers*** are owned and exclusively provide services for the foreign parent company, as part of the customer care, marketing or sales services.

- ***Offshore outsourcing centers*** are independent third party providers, which serve to international companies handling, on a contractual basis, a variety of business operation services on their behalf.

2.1.4 BPO functional segmentation

Based on their function, call centers exist as inbound, outbound, and blended service providers.

- *Inbound call centers* receive calls from customers and respond to their inquiries. They generally provide customer care services, such as provision of information, helpdesk services, account maintenance, complaint services, etc.
- *Outbound centers* initiate calls to customers, prospective customers or the general public. Outbound services include telemarketing, sales, surveys, etc.
- *Blended centers* offer both inbound and outbound calls. Blended centers handle, both, outbound and inbound calls and respective related services.

In addition, the industry is segmented by the firm type based on nationality as international, domestic and mixed call centers. Another categorization based on the type of customers served is business to business (B2B), business to customers (B2C) call centers, as well as domestic and international customers.

As in the broader offshore services, call center services are ranked based on their value added, which corresponds to the level of skills required for their provision.

At the lowest value level there are customer services, dispatch services and back-office services.

At the higher level are sales and marketing services; market research services; and part of customer care related to technical support.

2.1.5 EU market requirements for BPO companies from developing countries

Based on CBI reports for, opportunities for Business Process Outsourcing (BPO) providers from developing countries are highest in the UK, the Netherlands, Belgium and Scandinavian countries as they are most open to international outsourcing. Also France and Spain offer potential as they have large BPO markets, but language skills play a dominant role.

An increasing number of EU (European Union) + EFTA (European Free Trade Association) companies are looking for specialized BPO providers with a deep understanding of their industry. As BPO services are spread over a wide range of industries, opportunities can be found in almost all verticals. Banking, Financial services and Insurance represent the largest vertical in the BPO market.

Language plays an important role in BPO, especially in the call centers, data related services and human resource segments. A language match can therefore also offer opportunities for developing countries BPO providers.

According to the TPI Index which measures commercial outsourcing contracts with an annual contract value of €3.78 million or more, the value of BPO contracts signed in Europe in 2012 was 35% higher than in 2011. This is because companies are increasingly looking to BPO value propositions which can deliver a more profound business change. Technologies such as cloud computing, data analytics software, social media platform and process automation software are

being used within BPO to enable companies to lower costs and be more effective.

Industry experts identify subcontracting by EU +EFTA BPO providers as the most realistic market entry channel for BPO providers from developing countries (DCs). Especially when you are new to the EU +EFTA market subcontracting is a good starting point.

More Small and Medium Enterprises (SMEs) are becoming interested in outsourcing. Smaller companies often prefer to work with a local intermediary to find a suitable outsourcing provider to reduce the risk of failure of the outsourcing project. Also, companies are more careful in selecting an outsourcing provider and, therefore, they prefer to work with an intermediary. As a result the number of intermediaries is increasing.

Online channel are becoming more important for trade. Examples of online channels are social media networks such as Linked-In and Facebook and electronic marketplaces such as Freelancer and Odesk. However, according to CBI reports, investment in online trade channels is relatively low.

Existing BPO providers are expanding their range of services and new BPO providers are emerging. As a result, buyers can choose from a wide range of providers. Opportunities are there for BPO providers from developing countries as they can offer competitive prices.

Despite the economic crisis that has hit Europe, there are still important trends that offer opportunities to BPO providers from developing countries:

- increased demand for online BPO services,
- the emergence of data related services,
- a growing number of outsourcing SMEs,
- differentiation and specialization.

EU buyers require a professional counterpart and trust is an important matter. This includes confidentiality, security and quality.

Privacy is a highly protected good in the EU. Providers of technical services regarding electronic communications to EU companies therefore have to take into account the EU legislation on personal data protection which, among other things, states that:

- Unsolicited commercial electronic messages (“spamming”) is not allowed
- EU citizens have to give prior consent before their telephone numbers etc. may be published.

For EU buyers, the most important is that you deliver exactly the output that they expect you to do. Therefore it is important to make sure all expectations are clear and output is well managed.

Data security is one of the main challenges when dealing with sensitive information. This concern data protection (including virus protection) as well as decent recovery systems in case something goes wrong. Many EU buyers, especially in industries in which quality and security are essential will ask you to implement an quality management and information security and management system, such as the ISO 9001:2008, ISO 27000-series and other recognized international certifications.

2.2 Albanian call center industry

2.2.1 Background

Albania is a late entrant in the offshore industry, even among the East European countries, initially emerging as an offshore destination for Italian companies. Around mid 2000s, a number of Italian third party BPO providers established their subsidiaries or call centers in Albania in order to benefit from the relatively cheap labor, the relatively large pool of Italian speakers in the country, and the general cultural affinity with Italy. The success of these first call centers opened the way for other foreign and Albanian entrepreneurs to enter the market. As a result, the call center sector has grown rapidly, in particular in the past five years – the number and activity of call centers has increased significantly, and they have become the main generator of employment in the country and a fast growing exports sector.

Albania has already become a preferred destination for the offshoring of the Italian BPO industry and it is in the way of becoming a top destination for offshoring of services by Italian businesses. Despite of some existing potential, the industry has failed so far to consolidate its access to other European and world markets.

2.2.2 Size of the industry

There are no formal statistics or studies on the size of the call center sector in Albania. Some rough estimations indicate and annual turnover of anywhere between 30 and 50 million Euros.

The accurate number of firms operating in the sector is also unknown, but various estimates place the number of firms in 400-500 range. Majority of call centers, more than 80 percent of providers have less than 250 seats and majority of them even less than 100 seats. Only about 20 providers have more than 1000 seats, with the largest call center with about 2500 seats. Such numbers changes continuously as, due to increased competition, many small firms go out of business while and new firms are established.

Majority of the firms are located in Tirana, while Durres, Vlore and Shkoder are other important destinations. Recently, existing call center firms are extending their activity in other cities, including Elbasan, Fier and Korce.

2.2.3 Call center types

Only a few local companies, mainly telecommunication firms and banks, use call center services for handling business processes. All of them use in-house call centers, whose functions generally focus on customer care, sales and marketing. We have excluded these call centers from our study.

All other call centers in the country are export oriented – they are offshored outsourcing providers, functioning as third party providers for international firms. We have identified only one captive offshore center, which is established by an Italian food manufacturer for handling part of its sales and customer care services.

By far the majority of existing call centers focus on outbound activities - different estimates put this figure at around 80-90 percent of the total number of the call centers. The rest of centers are blended call centers, providing both outbound and inbound activities.

2.2.4 **End markets**

Telecommunication is the main industry served by the Albanian call centers, followed by gas and utilities. Other industries include banking, food manufacturing, retail, health and beauty, and travel and tourism. In the past few years, a number of call centers have expended into the finance and accounting, insurance, and foreign currency exchange industries.

The Italian market remains by far the largest target market. Almost all buyer firms in the telecommunication, gas and utilities, food, health and beauty, and travel and tourism industries are Italian. It is estimated that between 70-80 percent of country's total call center activity is provided on behalf of Italian companies.

As a result, the majority of end users of the call center services are Italian customers and international customers of Italian companies, mainly European.

The main sales channels used by the Albanian companies are through direct contacts with the Italian or other international counterparts, direct personal contacts, and via agents. The Albanian companies are progressing slowly towards the sales channels expansion, they are not proactive, and they do not participate in BPO International Fairs.

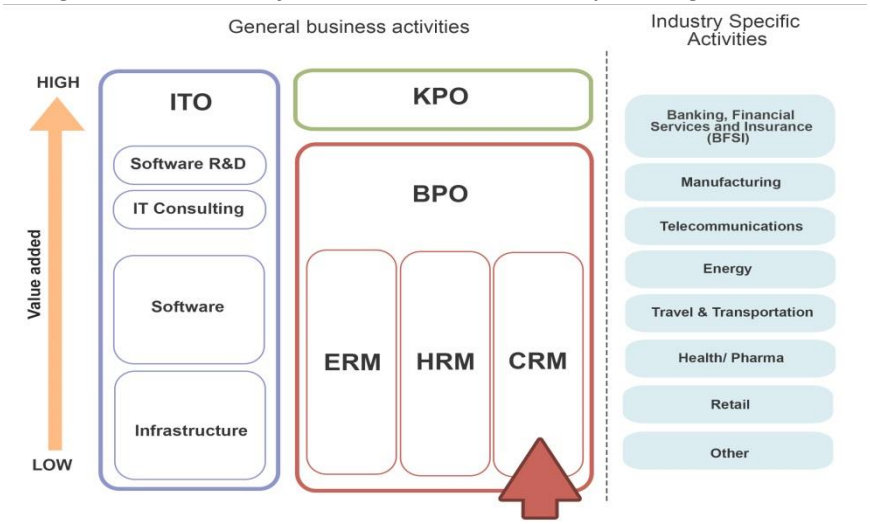
In the past few years Albanian call centers have been able to enter new markets, in particular the British, French, Swiss and German. Currently, a limited number of call centers are providing services to finance and accounting, and insurance industries in these new markets.

Most of call center activity is business to customers, with only a small fraction of the activity targeting businesses.

2.2.5 **Call center services**

Almost all services currently provided by call centers pertain to customer relationship management (CRM) category (or front office services) as explained below. With the exception of some low value finance and accounting services, no other process services related to human resource management (HRM) or enterprise resource management (ERM) are being offered. The following picture depicts graphically the position of the local call center industry in the global offshore services industry, practically at the lower value end of the entire industry.

Figure 10. Position of the Albanian BPO industry in the global value chain



Customer acquisition and sales

Customer acquisition and sales is the main group of activities provided by the local call center industry. Customer acquisition is conducted through telemarketing targeting prospective customers based on targeted customer base provided by the buyer. Sales are mainly carried through outbound calls but a number of all centers provide inbound sales. All the end markets are covered both as regarding the industries and countries.

Customer services

A number of call centers provide customer services, such as responding to queries, offering assistance with orders and customer accounts, etc. Main industries served are telecommunications, utilities, and travel. Almost all the buyers of services are Italian companies.

Back office

Back office services have started to be provided recently and involve mainly data entry and processing. Main industry served is finance and accounting.

Call center research

At least two call centers provide market and opinion research for an Italian research firm.

2.2.6 **Governance issues**

Based on their ownership call centers can be divided in three categories:

- *fully owned subsidiaries of foreign third party providers* (mainly Italian providers);
- *majority owned by foreign firms or individuals*
- *majority owned by Albanian firms or individuals*.

In general, large and medium sized call centers have foreign majority or minority share-holding.

- Call centers are generally *flat organizations* where employees, most of which are occupied in frontline agent positions, perform routine tasks under high supervision. Management of the call centers is mainly involved in operations, administrative and financial aspects of the business, while other managerial aspects are conditioned by services buyers.
- Typically, the call center industry is *buyer driven* - buyers have much control over supply chain decisions and governance. Buyers leverage over providers is amplified in particular by the low cost of relocation and the ever-increasing global competition for provision of BPO services. Hence, buyers decide almost all the conditions for the delivery of the services including the quality and standards. The chain is governed by complex contracts imposed by the buyers, which among others define all the technical and financial aspects of the service delivery, including fees.
- Given the early stages of development of the BPO industry and lack of experience of most of the providers in Albania such *buyer dominance is stronger than in many other countries*, which have entered the industry decades ago. A specific of many Albanian BPO providers is that many of them actually are either subcontracted by foreign call centers, mainly Italian, or by other intermediary firms which add another layer between them and the final buyers of their services, and as a result added conditions and costs.

- Based on their ownership and governance specifics, various call centers use *various channels to reach the end markets and market their services*. However, most of them reach out to potential clients through third parties. The few call centers that are branches of international call centers simply operate as offshored providers of the mother firms. Some call centers work mainly as subcontractors of foreign call centers who decide to offshore part of their portfolios. Other firms use "middlemen" or "brokers" (firms or individuals) to find clients. Only few call centers firms have been able to contact and conclude contracts directly with the final buyer of their services. Such indirect channels including intermediation are important facilities for mitigating lack of knowledge on Albanian offshore services capabilities and lack of knowledge or understanding of country's economic, business and socio-cultural characteristics, which affect the business transactions and relations.

  From the other side, a large number group of call centers, usually small or very small, work mainly as subcontractors for larger local call center, which prefer to subcontract part of their work for various reasons, such as cost savings (small call centers usually charge lower rates); temporarily work overloads, etc.

2.2.7 **Competition and barriers to entry**

Barriers to entry in the domestic market are low which explains the relatively big number of call centers, in particular the many new entrants, estimated in the hundreds, only in the past couple of years.

Internationally the barriers to entry are also minimal, which also explains the big number of developing countries, which are competing for attracting offshore services. Only in Europe, almost every other Eastern European country is already an important player in the international industry, including Bulgaria and Romania, which are the most direct competitors to Albanian firms.

Another factor that increases competition between countries is the low cost that buyers incur in changing their country and particular firms where they offshore their services.

2.2.8 **Employment**

There are no accurate employment statistics for country's call center sector. However, some rough estimates put the total number of employees in the sector between 20 thousand and 30 thousands workers. About 90 percent of the total number of employees work in front line positions, mainly as call center operators. Other employees work on supportive, and supervisory and management positions.

More than 90 percent of people employed work on a part-time basis, not exceeding 36 hours per week. In particular, front line operators are almost part-timer workers. Usually, full time employees occupy management and administrative positions, but also a small percentage of operator particularly in the older firms.

Call centers face a very high turnover rate – some of the firm representatives interviewed reported as turnover rate as high as 40 percent annually - mainly among the part time frontline agents. In most cases, employees do not stay in their employment more than 1.5 to 2 years.

The call center industry has become a main source of employment for young people. Most of the employees are young, between 18 and 24 years old. They are usually university students, which work while they continue their studies. One of the causes of the low retention rate is due to the fact that most of the employees are students who look for other opportunities after graduation.

Employee remuneration – for frontline agents usually structured as base salary plus bonuses - is relatively good. The hourly rate for these agents varied between 1,5 to 3.0 USD per hour. Some accounts report that most of the employees make on average more than twice the country's minimal monthly wage in the country although not working full time.

Gender characteristics of employment

Gender ratio in employment is highly skewed towards women – various estimate show that about 70-80 percent of the total number of employees and in some cases as high as 90 percent are women. Such percentages are such bias in favor of women seems to be the result from one side of the employer's preference for women due to the perception that women have specific innate characteristics which are relevant to call center activities, such as patience, communication skills, voice quality, etc.

While this high share in front-line agent position is common in all countries, the specific in Albania seems to be that women are also more common in supervisory and management positions in call centers.

There appears to be no gender discrimination in employment, work remuneration or career advancement. In addition, there are no significant social or other constraints to any specific gender employment and career in the sector. From the other side, women may find call center employment as preferable due to their schedule flexibility and relatively good payment, especially in the face of the high unemployment rate in the country.

Long, inflexible shifts, the stigma associated with female night work, a strong gender bias in role assignation, and a lack of gender-sensitive benefits, such as maternity leave and childcare facilities, are just a few of the constraints that make long-term female engagement in the industry challenging

2.3 Software development industry

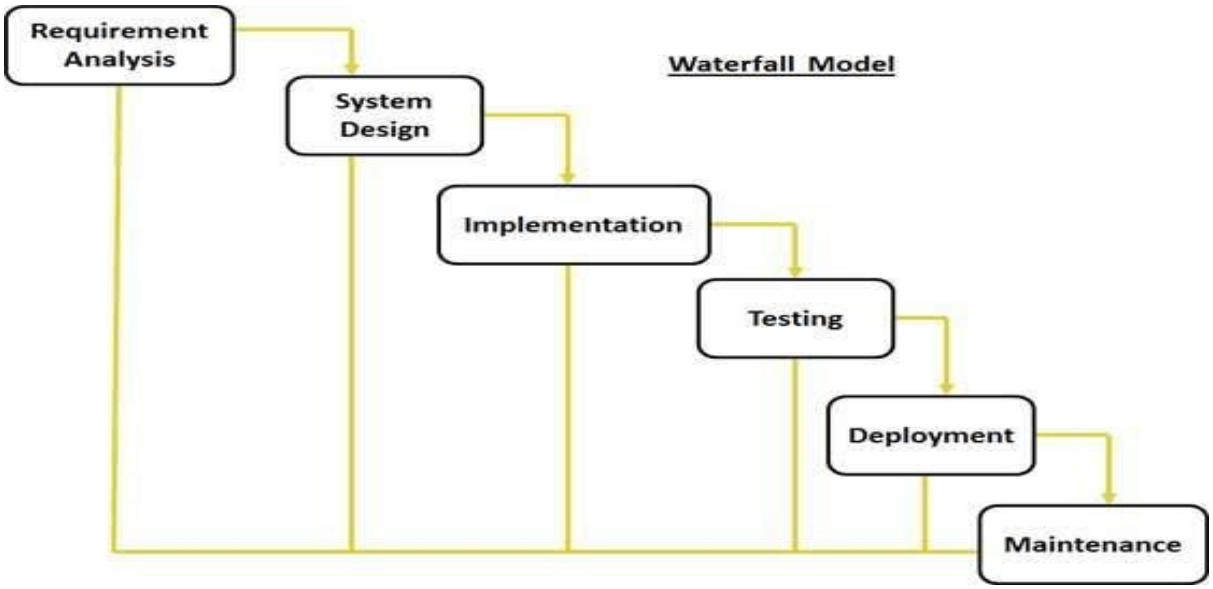
2.3.1 **Background**

Albania's software development (SD) industry is very young, its beginnings are in the early 1980s, but the sector really took off only in mid 2000s. The industry has been growing slowly, but has failed so far to become an important part of the economy, both in terms of its spread and output. It has remained largely a local development, to some extend isolated from the international markets and developments.

2.3.2 **SD value chain**

Local software development firms have generally adopted a systems development life cycle approach in the production process, usually the waterfall model of software development. Such approach organizes the production as a sequential process of various stages, each following the completion of the previous one. A standard waterfall diagram is depicted below.

Figure 11. The standard waterfall model of software development



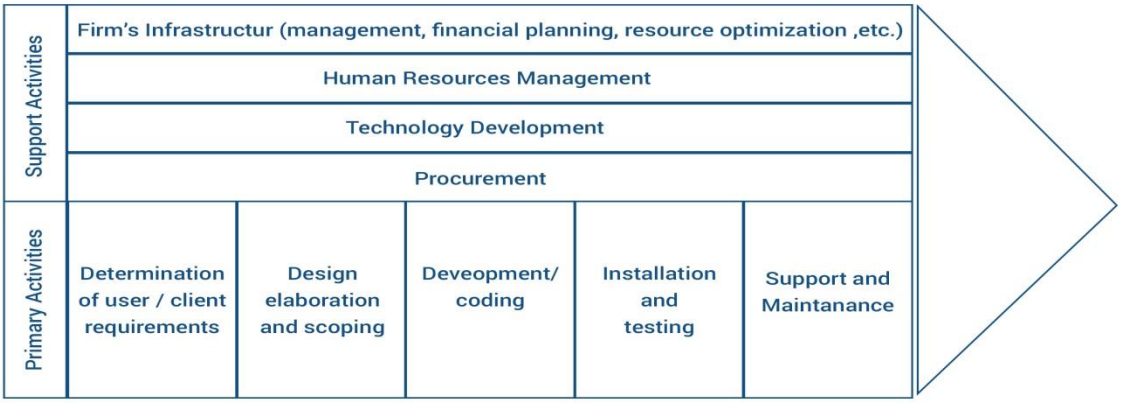
Such approach makes it easy to map the value chain based on the standard Porter model as applied to software development. The software production chain includes the following primary activities:

- Client Requirements' capture, during which client's needs and requirements are determined and clarified usually though verbal discussions;
- Design, which includes scoping of the tasks required and proposal of the software architecture;
- Development that includes codding and related programming work;
- Installation and testing that includes installation in the clients premises and testing, and sometime also testing at developer's premises prior to installation;
- Maintenance, which includes all the services offered to the client during the operations of the software.

The support activities, contributing indirectly to the production process are the typical activities present in every firm: infrastructure, including general management, financial planning and management, resources optimization, legal, etc.; technology development, including equipment, hardware, software and the technical know-how of the firm; procurement, including procedures and resources employed in acquisition of inputs; and human resources management.

Below there is the map of the value chain of the software development industry.

Figure 12. Software development value chain



Mainly, the entire software development business is *demand driven* and project based – products are developed as a direct response to a specific request.

As a result,

- The first stage in a software development project is capturing and understanding of the client's requirements or specifications for the requested product. Such request may be conveyed through a number of channels such as a request for proposal of a bidding procedure, direct contacting of the firm, etc. In some cases the client requests are included in a formal document, which serves as the basis for the discussion with the SD firm. In other cases, clients convey their needs and requests verbally in a series of meetings, which serve, both, to clients for better identifying own needs, and to software firms for understanding clients' needs and requests. In most cases the product of this first phase is a written formal document.
- The second stage in the chain is analysis and design of client's requests and determining of the scope of the task, i.e. the business nature and characteristics of the requested product; the technology platform that shall be used for developing the product; and the architecture and specifications for the programming process in the next phase.
- The development stage involves the actual programming or writing of the code for building the product.
- It is followed by a testing at firm's premises and then installation and testing at client's premises. This phase includes necessary revisions and adaptations of the product.
- The last stage in the chain is the maintenance phase that involves monitoring of the program or the system developed and offering support to the client in using it. Maintenance services might be offered based on a framework services contract, or, as it is mostly the case, on an ad hoc basis when clients face user problems.

An important stage, usually present in every industry, including software development, but usually in the value chain of the local SD industry is marketing and sales, due to the fact that marketing and sales are usually conducted through direct soliciting, participation in public biddings or referrals.

Another stage also undeveloped is Research and Development due to the fact that forms do not invest almost at all in research and development, which is one of the reasons that their products are mainly low value solutions.

In all stages of the software production process are required and employed experienced and skilled staff with advanced know-how. In the development stage the main experts involved are programmers and coders, while in other stages are employed business processes analysts and software architects and engineers, in addition to senior project managers. In a few cases, such support services lead to software upgrades or solution improvements.

2.3.3 **Size of the industry**

The IT sector in Albania is small accounting less than 1 percent of the GDP. Its software development segment is quite insignificant. Although there are no accurate statistics on the size of the sector and its subsectors, our rough estimations indicate that the entire software market in Albania does not surpass 20 million Euros a year.

The small size of the sector is also reflected in the low number and small size of the software development firms operating in the market. According to AITA, only about 10-15 companies carry

their activity in the field of software development. All of them are micro companies – majority employing less than 10 programmers. Only about 5 of them employ between 20-40 programmers, and only one more than 40 programmers.

In addition to the above-mentioned firms, a larger number of individuals provide services in the field of software development as well, operating as physical persons. Their activity is very small and their involvement is limited to small-scale projects or assignments. A number of IT firms operating mainly in the hardware sector, also offer in specific cases software services.

With the exception of three Kosovo firms, the majority of all other companies operating in Albania are local. The small market and the fact that the current demand is mostly for low-level solution most likely have been discouraging to foreign companies for considering the Albanian market. However, some foreign companies have been able to offer their products without having a formal presence in the country.

Most of the SD firms have been established in the past ten years, while the oldest firms have been operating for about two decades.

2.3.4 **Products and services**

The range of products and services offered by the local software development industry is very limited, and focused only on modest and not sophisticated solutions. There are only few firms occasionally involved in the provision of software services. The IT services is almost under development.

The most broadly used solutions developed and marketed are financial and accounting solutions (there are three main accounting packages available which are used by more than 90 percent of Albanian companies, Finance 5, Alfa Accounting, and Bilance); POS and inventory solutions (there several competing packages); as well as human resources management solutions. Other common services are web-based solutions, such as websites, web portals, e-commerce, mobile solutions to a lesser extend e-businesses solutions.

The main products offered by Albanian firms are cross-functional solutions, mainly financial and accounting software, while ERP solutions are recognized little and used modestly by the private market.

SD firms are not generally involved and, for that matter, not specialized on industry specific solutions. Local demand in particular in the banking, telecommunications and manufacturing sectors is usually met by foreign companies or by a consortium of international companies with local ones.

Specific solutions are mainly offered to the public sector, in particular public applications, e-government applications and information management systems.

Technology specific products are in the early phase of development, as only few firms have entered recently in the mobile applications, cloud computing, etc.

2.3.5 **End markets**

The domestic software development industry serves entirely to the local market. There is almost no formal export of software products, with the exception of a few cases where certain solutions, mainly enterprise resource management solutions, have been provided to the Kosovo and

Macedonian markets, but even in these cases the clients have Albanian businesses operating in such markets.

Albanian IT industry in general has not entered the global offshore services, which for countries like Albania presents the best opportunity to export IT services. Albania is in fact only one of very few Eastern European countries that are lagging behind in this direction.

Given the fact that the main software products developed and marketed by local firms are cross-functional, it could be said that almost all industries in the country are served by the SD firms. Thus, accounting and POS solutions are provided to companies in almost every sector from retail to utilities to financial companies. The same is true for human resources management software, although the main industries that are employing IT solutions in resource management are financial and banking, telecommunication, and large wholesale firms.

However, with regard to industry specific solutions only a few industries are served. In general, there is no clear specialization or for that matter even specific focus on any industry by any firm.

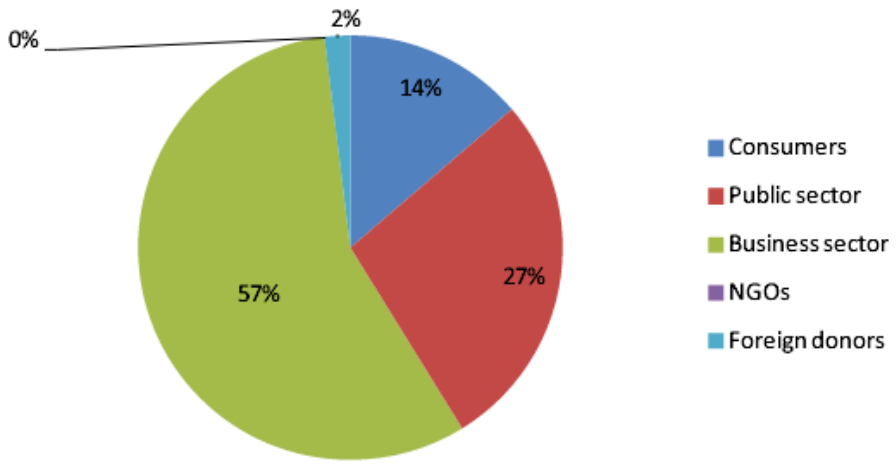
Public sector remains not only the largest client for the industry, but also the major client of customized solutions, including solutions related to e-government services and specific processes management.

Public services and efficiency of their distribution have a major effect on economic and social development of a country. Today all ministries have their web sites and databases where electronic legal acts and regulations, updates on ministry activities, strategic documents, reports different, etc. are published electronically.

Work has been conducted GOVNET government network with the support of UNDP and European Commission. Thanks to this project, ministries and departments of the Government of Albania and two public service organizations are connected through a fiber optic network with high speed.

However, based on AITA study “General Overview of Information Technology Companies in Albania”, private business sector is the most important primary client for the majority of IT companies - 57percent of them. It is followed by public sector which is primary client for about 27 percent of companies. Non-for-profit organizations and foreign donors are the least important clients.

Figure 13. Distribution of companies by their primary clients



The list of top five IT/ITO and training service provider companies in Albania is shown in Annex B.

2.3.6 **Competition and barriers to entry**

There is a high competition in the SD sector. The main reason for such competition is the low barriers to entry and the general low value of the services provided.

The main competitors to local firms have been the Kosovo and Macedonian companies, which are focusing more and more in the Albanian market.

International big players always pose a serious threat and competition to the local players.

2.3.7 **Employment**

There are no exact statistics on the employment in the software industry. However, given the limited number of firms and the small employment of each of them, the total employment in the industry is very low, it is counted towards several thousands.

As in the BPO industry, there seems to be no gender discrimination on employment or conditions of employment. This conclusion is based on direct interviews with top management of several companies. Other than that, there are no surveys or studies dealing with this issue.

The major employment potential relies in the current firms to expand their business in and out of the country, also in the introduction of successful startup that aim the global market. Many firms that were interviewed had a preference for women employees as they were perceived to be more loyal and hardworking than man.

Albania has adopted a number of policy documents which recognize the key role of ICT in national development, and aim to promote the development of the sector.

As a result, there are several strategic and policy documents about Information Society. In general, once the strategy papers, laws, and other orders are adopted and approved, policy documents are widely, publically available at the public respective institutional websites.

http://akshi.gov.al/legjislacioni
http://www.inovacioni.gov.al/al/legjislacioni/ligje-strategji
http://www.akep.al/en/legislation

The most important laws and legal acts are as follows:

- Law No. 9918 dated 19.05.2008 on Electronic Communications
- Law No. 10273 dated 8 May 2010 on E-Document
- Law No. 10 325 dated 23.9.2010 on State Database
- Law No. 10132 dated 11.5.2009 On Some Amendments and Addenda to the Law No 8530 of 23.9.1999 “On the Postal Service in the Republic of Albania”
- Law No. 9880, dated 25.02.2008, amended by the normative act no. 8, dated 30.09.2009, “On Electronic Signature”
- Decision of Council of Ministers No 331 date 14.4.2011
- Law No. 9887 dated 10.03.2008, “on Protection of Personal Data”
- Law No. 10 128 dated 11.05.2009 "on Electronic Commerce"
- Digital Agenda of Albania, 2014-2020

3. IT constraints analysis

3.1 General IT industry constraints

Albania's IT sector in general is facing a number of constraints, some of them critical, which are hindering sector's development and growth. Most of the constraints are similar to those faced now or in the past by countries at the same stage of development as Albania. At the top of the list of such constraints are difficulties related to the policy environment and the IT infrastructure framework, discussed in the next few paragraphs, which affect the entire IT and IT based services industry. The rest of the constraints are either specific to one of the segments, or if they fall under the same category they have different specifics for each of the segments, and in both cases are discussed under separate headings.

Probably the most important factor slowing the growth of the IT in Albania is the lack of *an effective strategy for its development.* Although, the government has continuously emphasized its commitment to the development of the sector, such commitment has never materialized in concrete and meaningful actions. Beyond some liberalization reforms, Government has never provided and significant direct support for the sector such as financing or market incentives. Such situation is likely to continue. Government is currently in the process of drafting a national ICT development strategy, but the approach it seems to have embraced is one of arm's length: while government will push with further liberalization reforms in the sector, it will not be directly involved in the sector and will not provide any meaningful support to the sector.

While Government's strategy is a question of vision, it should be noted that such indifferent approach might also reflect lack of capacities in the Government for understanding and designing policies in support of the IT sector. It is important to note, as well, that that Government has not been under real pressure to change its approach towards the IT sector, mainly due to *lack of effective cooperation between stakeholders* in the field, including business, academia, and public sector institutions. The most successful development in this regard has been establishment and strengthening of AITA which brings together some of the main players in the IT industry. AITA has had some success in bringing together various stakeholders for discussing relevant sectorial issues, but it has been so far ineffective in lobbying and industry promotion efforts. In addition, mainly due to lack of resources, AITA has not been able to provide sufficient services to its members or the industry in general, such as information, marketing intelligence, training, etc. In the call center segment, as discussed below, there is no formal professional or industry association.

In addition to the policy framework, *IT infrastructure remains relatively weak* in the country. Despite increased public and private investments during the past decade, Albania lags behind in the development of a modern and accessible IT infrastructure. In particular, the broadband infrastructure is still limited – the country does not have a broadband backbone and fiber-optic networks are limited to a few main cities. Such weak infrastructure and the limited broadband access, as well as the relatively high costs of access remain significant constraints for having broad access to IT/ICT as a result the development of the IT based services.

3.2 Constraints related to SD domestic market

3.2.1 Limited domestic market and demand

The major constraint to business growth and upgrading in the field of IT and software development, in particular, is the weak domestic demand for IT services. Although there are no accurate figures, there are many indicators that demand for IT services, including software solutions, is very low.

Small size of the economy and its weak structure is arguably the main reason for the weak demand. Country's output does not surpass 10 billion Euros. Its main activities are trade and related services, agriculture and construction; industry is underdeveloped and the small manufacturing sector is concentrated in labor intensive products; the financial sector is limited mostly to retail banking and services; health and education are in a poor state; exports are small and mainly in raw minerals and labor intensive textile and leather products. With the exception of cellular telephony, there are no technology intensive industries in the country. R&D infrastructure is inexistent and investments in R&D are insignificant.

Demand for IT services is also affected by the still undeveloped organizational structures of most of country's firms and their poor corporate governance. The private sector is mainly composed of micro firms mostly operating in the retail and services sector. A typical firm has a flat structure where everyone reports to an executive director who is also the owner of the firm. There are no management procedures, processes and standards in place. Use of IT in management is at the earliest stage and usually is limited to use of accounting software. A contributing factor for such low use is a general lack of knowledge among businesses about the available solutions developed and offered by IT companies. In fact, many businesses seem to be even unaware of the benefits of usage of IT in management.

Government demand for IT services is also very weak. Public spending in IT, both in incorporating IT in the delivery of public services and public management, remains very low. In addition, limited purchasing power and low usage of IT technology among the general population limit the demand for IT applications among the general population.

It should also be stressed that in a vicious circle situation the fact that many of the solutions and applications offered are limited and generally not high quality, on its own limits the demand for such services.

Based on the WEF Global Innovation Ranking Report 2014, Albania is listed as below:

Figure 14. Statistics about Albania

Index	Rank (out of 148)	Value (1-7)
Networked Readiness Index 2014	95	3.7
Readiness subindex	86	4.6
Infrastructure and digital content	90	3.5
Affordability	87	5.1
Skills	62	5.2
Accessibility of digital content	116	4.1

Based on AKEP (akep.al), the number of subscriptions in broadband access in 3G networks, and broadband access, is listed below:

Figure 15. Number of subscriptions (broadband access in 3G networks)

Year	USB/Modem	Mobile Devices
2012	55.405	594.308
2013	111.367	1.119.892
2014	123.060	864.872

Figure 16. Number of subscriptions (broadband access)

Year	Fixed Networks	3G Networks
2011	139.697	34.493
2012	160.088	55.405
2013	182.556	111.367
2014	206.896	123.060

3.2.2 Shortage of skills and know-how

IT sector is faces shortage of specialized skills, both technical and management skills. In general the available technical skills cover basic are in general basic. There is little advanced expertise in particular in the area of programming and architecture engineering. The available skills profiles are generally outdated and do not reflect the latest know-how developments, such as the new programming languages, or latest applications and technologies, such as cloud computing, mobile applications, big data, e-commerce.

The main reasons for such backwardness are the poor quality of technological education and lack of specialized IT training. All interviewed firms report a significant gap between the level of knowledge and skills of the IT graduates and industry's demands for skill and expertise, even at lower value positions. As a result, many firms provide intensive in-house training for graduates, in some cases lasting up to six months, in order to enable them to undertake concrete tasks in the firm, which imposes additional costs. Limited access to current information on markets and technologies, due to high costs of access or even lack of awareness, is also a contributing factor for the low level of skills, in particular alignment of such skills with the latest technologies and know-how.

The same poor situation appears in the field of management know-how and capacities. In general, IT firms reflect the same corporate governance problems as most of other businesses in the country, such as lack of basic management practices and standards related among others to decision-making, operational efficiency, quality control, and cost management. In addition, IT companies suffer also from lack of specific management knowledge in the field of IT, specifically IT businesses and project management. Again, lack of specialized education and training in the field of IT management is a major reason for such situation, leaving learning-by-doing as the only way of developing know-how.

3.2.3 Lack of Specialization

One of the reasons for underdevelopment of skills is the fact that there is little specialization in the sector. With the exception of accounting software and enterprise solution companies there is little specialization elsewhere.

Weak and undiversified demand is a major factor that undermines the incentives of firms to specialize in specific products or fields. Another factor is the fact that usually clients do not require and contract maintenance or assistance services after procurement of solutions. As a result the work for development of most of the products ends with its delivery to the client. This means that once a product has been delivered, IT firms move personnel to other projects, which might be unrelated or quite different from the previous one.

3.3 Constraints related to export of SD services

Given the constraint related to the domestic market, many of which would be overcome only if the economy will grow in the long-term, and given lack of niche and innovative products the most feasible path for the development of the SD sector is export of services to foreign markets either through subcontracting or offshoring of the IT services from foreign firms. However, such perspective is hindered by several constraints, some of which are discussed below.

3.3.1 Low cost competiveness

Cost competitiveness is probably the most important factor for accessing foreign markets. Although there are obvious cost advantages offered by the sector, in particular compared with other international destinations for offshoring or subcontracting services, such advantages are not as significant compared with regional providers. In face value local labor costs for provision of IT services are lower than almost all regional providers, but the productivity of the IT labor force is also lower. This means that the real cost of services is higher than some of the neighboring countries including Kosovo and Macedonia. As a result, unless there will be increase in the productivity of labor the competitiveness of the Albanian SD sector will remain weak.

There is no adequate information regarding the market position of Albanian companies in export International market.

3.3.2 Limited size and lack economies of scale

The majority of the Albanian IT firms are micro and small sized. Referring to AITA, only about three software development companies have a turnover higher than 1 million euros, while the majority of them have am annual turnover of few ten thousand euros, and only a few reach the range of hundreds of thousand euros.

The same limitations are faced regarding the size of the expertise as software firms have very few technical experts, in particular programmers and software engineers. According to AITA, only about 5 companies have between 30 and 50 programmers, as the majority of companies have less than 10 programmers. With regard to software engineers and architects the numbers are significantly lower.

Such size limitations do not allow for the advantages of the economies of scale, and make Albanian firms, as a result, unsuitable for subcontracting or offshoring of services from international companies. From another perspective, the small firms size might be seen as an indicator for the lack

of experience and capacities of the local SD industry, which undermines its international image (discussed below). Problems of size could be mitigated by cooperation between firms to achieve resource pooling and increase attractiveness, but such cooperation has been lacking so far.

3.3.3 **Image and brand problems**

Due to its social and economic problems, Albania as a country faces serious image problems, which are reflected also in country's perception among foreign business communities. The country is believed to have poor law enforcement, including contract and business law enforcement; widespread government and justice system corruption; and inefficient bureaucracy, which are detractors to foreign investors. The interviews, confirmed that among foreign business communities, such as in Italy, Germany, UK, there is general lack of credibility towards Albania's businesses and business people, who are perceived not reliable and competent. IT firms, in particular, are also perceived to lack in quality and potential. Albania does not feature in any map of IT and generally there is no recognition of any level of development or potential in the IT related fields.

Such negative image and lack of any branding is a major hindrance for any firm looking to find international partners or export its services. However, despite such situation, there have been no efforts to tackle image problems, brand the country in general and in the field of IT in particular, and build and market value propositions. The high cost of any such effort forbids individual firms to market themselves, while the general lack of cooperation among them has not allowed for joint actions and cost sharing.

From another perspective, introduction and certification of quality management and technical standards helps to some extend to overcome the image and brand problems, but unfortunately many are not putting too much effort on them.

3.3.4 **Lack of experience and knowledge of foreign markets**

Albanian firms do not have any prior experience with exports and as a result they do not have the proper know-how for approaching and dealing in the foreign markets and with potential partners.

The main barrier in this direction is lack of knowledge about the business and cultural aspects. Information on economic issues, market structures, business trends, demand characteristics for such foreign markets is minimal, but also lack of experience in using information. Knowledge about business practices and business culture, as well as general cultural and communication characteristics are also minimal.

In addition to lack of experience in the past, major barrier to obtaining information and improving the knowledge about foreign markets is the high cost of information that is unaffordable for almost all country's firm.

Another difficulty in this direction is lack of channels of communication or contact points with potential partners. Most of the companies have used personal contacts, but there have been no institutional or formal ways to match the country's firms with interested foreign firms.

The IT firms use in a limited way external business services such as marketing and branding, F&A, sales and so on, in order to add value to its products and services and to focus more on the main core business. The main services sub-contracted to external BSPs are accounting services.

3.4 Call center specific constraints

3.4.1 **Lack of government support**

The call center industry has received no attention from government so far - there have been no strategies, plans or measures to promote and support the sector. Although, the sector is currently the major employment creator, an important emerging exports generator, and a significant foreign investment attractor there seems to be a total lack of awareness by the Government about its role and positive affects in economy. As a result the sector is not even mentioned or acknowledged in Government policy program or development strategy.

3.4.2 **Image issues**

Part of the explanation for government's indifference might be related to a major problems that the industry is facing, that of the negative public perception. Call centers are perceived as an industry employing unskilled workers, who are exploited into performing routine and monotonous functions. Even among the young people who are the major employment pool for the industry employment in call centers is seen as a sign of failure to achieve better employment. Although, even the lowest level workers working in call centers, such as front line agents, are trained and gain valuable skills and experience in communication, problem solving, business culture etc. most of the people seem to be ignorant of such benefits. Such image problem is hurting the industry both in terms of human resources it attracts, and, in a more general consideration, the general support the sector receives.

Industry's efforts to create a more conducive environment and to attract support are currently undermined by lack of cooperation and coordination at any level between the firms in the industry. Although the industry includes a relatively big number of firms, there is little, if any, formal or informal networking or cooperation among them with the aim of overcoming the constraints faced by the industry and promoting common interests. A major reason for this kind of inaction is lack of any professional or industry based association or network. Almost all the representatives interviewed accept that it is time to align and coordinate their efforts for the promotion of the sector, but there have been no concrete initiatives in this direction.

3.4.3 **Cost constraints**

A major problem facing call centers is the high turnover in the industry, which in many cases results in considerable costs to employers. Given the considerable cost of hiring and training of new employees, it usually takes between 3 to 6 months of work by a new hire for the firm to recoup the individual's hiring costs. If the new hire leaves before such point the employer's loses money. Some of the firms interviewed estimated the direct turnover cost is quite high per year.

Country's social security scheme applied to the call center industry places a financial burden to the industry, given its employment policies. The current legislation requires employers to pay social security tax not only for workers but also for trainees. Given the fact that a percentage of trainees decide to pass on the employment opportunity, or quit soon after being hired, the social security payment for the training period are a net loss for the employers, which adds to other lost costs of the training.

3.4.4 **Shortage of skills**

Lack of specialized skills is a major constraint faced by call centers. Lack of such skills is reported by almost all the interviewed representatives as the main bottleneck hindering their efforts to upgrade to higher value services and grow. Skills shortage pertains both to soft skills to technical skills. While call centers offer training in softs skills for upgrading the sills of potential employees, language skills seem more problematic. Some of business representatives expressed their concern that while the Italian pool is being saturated by the industry, skills in other major European languages such as English, German, and French are more limited and they could hinder the capacities to offer services for these markets.

There are other required skills in the market which are hampering the broad introduction of value added services such as analytical and statistical skills, general financial and accounting skills, technical skills and so on. These skills require special attention in order to fill the market gap and be used by the BPO industry.

3.4.5 **Lack of knowledge and access to external markets**

The problem of knowledge of foreign markets and demand characteristics as well as business practices and culture is also felt by most of the call center firms, or at least by those established by Albanian businessman.

The BPO companies may use recruitment services, marketing and promotion services as external ones. There is no adequate information whether or not they use qualifies professionals, agents, salespeople to provide access to the international external markets.

4. Proposals

In order to address the constraints presented in the previous chapter, the following pillars are considered to be strategically fit for the good performance of the sector, such as:

1. The Growth Path
2. Government Support for the Sector
3. Development of Human Capital
4. Specific Measures
5. Establishing an Industry Association
6. Export Promotion

Each of them is depicted in the following subsections:

4.1 Growth path

Given the small size of the domestic market and the limited potential for strengthening of the domestic demand in the short run, exporting of services represents the main and most important development route for the IT industry, including software development. As a result, becoming part of the global offshore services industry should be the main priority in designing policies and measures for the development of the local software development industry, and in general the entire IT sector. Indeed, international experience has shown that for developing countries like Albania this is not only a successful approach, but also the only effective path for the development of the IT sector, with significant positive effects in the development of the entire economy. Countries such as India, Vietnam, Costa Rica, Guatemala, Russia, Bulgaria, and Romania are some of the most

successful countries in adopting such a development approach. For this reason, future development of, both, the call center industry and software related industries should be considered in the broad framework of the development of the offshore services industry in the country.

Albania currently offers and most likely will continue in the medium term to offer comparative advantages that could help it become an offshore services destination, in particular for major European offshoring businesses and industries. It offers relatively cheap labor and low operational costs compared to other destinations, in particular Eastern European countries; there is a relatively a significant untapped language pool and a lot of potential for strengthening the foreign language skills of the population; there are untapped skills relevant to the offshore industry, in particular those required for low to medium value services; the country is a nearshore destination for all European countries, giving it some advantage over Asian, Latin American and some African destinations; and finally it has cultural affinity with many western cultures.

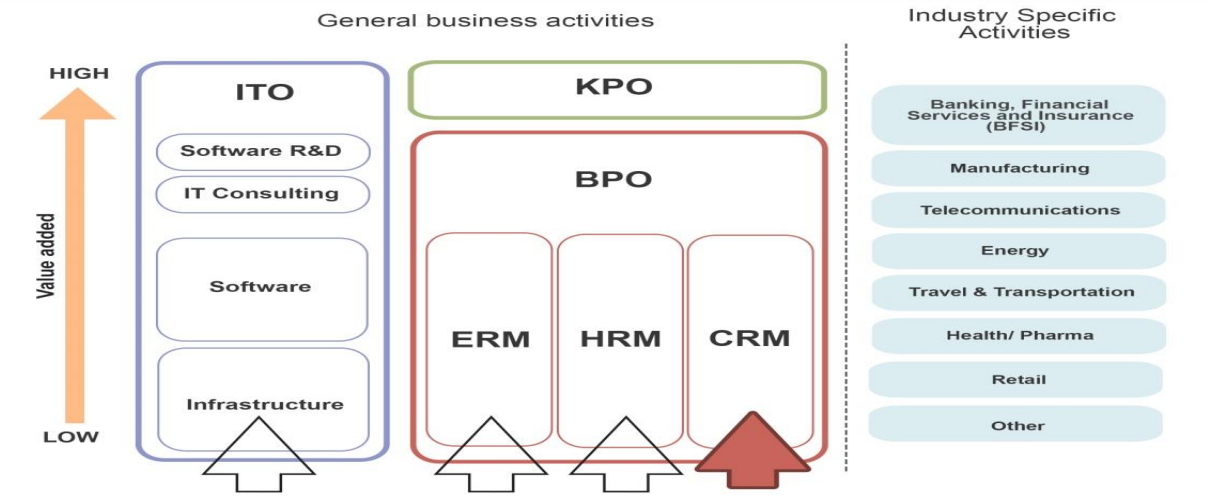
On the demand side, the international market for offshore services is growing fast, as more and more developing countries are turning to offshore provision for services. It is widely expected that such growth will continue well into the long term expanding the industry manifold. Most of the growth in demand is expected to come from western European countries, such as Germany, France, Spain, and Nordic countries, which are more likely to look to nearshore destinations such as Albania for offshoring of services.

Given such advantages, the nascent domestic offshore industry could potentially grow by:

a) strengthening and extending current services, especially by entering new markets; and
b) introducing or upgrading to higher value services.

Current firms, mainly call center service providers, can grow and extend their activity to cover the full range of BPO services – that is, in addition to the current, mainly, customer relationship management (CRM) services diversify into enterprise resource management (ERM) and human resource management (HRM) services. At the same time, the current BPO firms and/or IT firms, in particular software development firms can enter the information technology outsourcing segment, initially by providing infrastructure services and then moving into software services and, in the medium term, in higher value services, such as IT consulting and research and development. The following schematic illustrates such growth paths.

Figure 17. Development path for the local offshore services industry



As emphasized above, the most important drivers for the selection of the offshoring countries are low cost and available skills. For that reason, the main focus of any support for the growth of the sector should be in these directions. While, short of direct subsidies or fiscal incentives, there are limitations to what can be done to keep the costs low, there is much that can be done for improving the skills, both in the short term (mainly through training and technical assistance) and long term (mainly through education), for both soft skills and technical skills. Main directions of potential interventions in these fields, as well as in other directions are described in the following sections.

4.2 Government support for the sector

Development of the offshore services industry along the lines suggested above would be achieved only by establishing a growth conducive environment. Experience of successful countries in the industry suggests that government role in creating such environment is crucial. Leading countries, such as India, Philippines, Vietnam, Bulgaria, Romania etc. owe much of their success to government support, at a time when other countries with comparable potential, but whose governments did not support the sector, failed to develop the offshore services industry.

Given the lessons learned by other countries, and the nature of the major constraints hindering the growth of the offshore services industry in Albania, it is reasonable to believe that without specific government support the sector will not develop to its potential.

From the other side, there is a broader rationale for government's focus in the sector as offshore services industry has proven an important driver of economic growth in developing countries. Offshore industry in Albania has proven already to be a big generator of employment, which is the major social problem for the country; it also could become an important contributor in exports, which, among others, would improve country's hugely negative trade balance. Offshore industry promotes technology development, through technology transfer from developed countries; increases the local know-how and experience; promotes innovation; and improves management standards and practices.

Potential government support for the industry could focus on a wide range of aspects, including infrastructure development; market and fiscal incentives; human resources development; promotion and marketing of the sector. Support directions and specific measures could be included in a national program or strategy for the development of the sector which could be the blue print for government and other stakeholder's involvement in the sector as well as the coordination of such efforts. Below are suggested some specific measures that could be part of such national strategy.

4.2.1 **Increase in government IT spending**

As already pointed out, low Government spending on IT is low if not a constraint is an important factor for the underdeveloped state of the sector, in particular the software development and other IT services. Increase of public spending in IT should be a major priority of Government's policies for the development of the sector, and in general for boosting economic growth.

Government spending would provide important and far-reaching benefits. First and foremost government spending increases the amount of services supplied by the industry, thus increasing the financing of the sector, and as a result of competition for more services it will increase know-how and experience, and likely innovation. Government spending also affects positively the long- term

demand for IT services, because e-government services will drive businesses and individuals to adopt accordingly and incorporate IT into their activities. No the least, technology in general and IT in particular are an important driver of economic growth, and that is why government spending in IT benefits the growth of the entire economy.

There are various administratively and politically feasible ways to invest public funds on IT, and some of the main avenues might be:

- Invest in the infrastructure, including development of national broadband backbones;
- Invest in the creation/strengthening of national networks, including the government network and an academic network.
- Invest in strengthening and broadening of the e-government infrastructure and e-government services.

Invest in skills creation mainly by investing in the use if IT in education in general, and in IT and technological education in particular.

4.2.2 **Strengthening government institutional capacities**

In order to effectively prepare and implement strategies and policies for the development of the sector, government should increase its institutional capacities, by Implementation of government's measures in support of the sector will require improved capacities in various institutions. Among such changes, it is suggested to set up a special unit/office for the promotion of services export within government's foreign investments promotion agency, AIDA. Of special importance is strengthening of the capacities of INSTAT for gathering and producing statistics and information related to IT, call centers and the offshore services in general, including data on the size of the sector, exports, employment, etc.

4.3 Development of human capital

Investment in skills development is a key element for the development and strengthening of the offshore services industry and a continuous factor conditioning the long-term sustainability of the industry. Availability of skilled workforce and expertise is, in addition to cost advantages, the most important factor for attracting offshore services and foreign investments in the industry. Most importantly, advanced expertise is the key factor that enables development of the whole industry through upgrading to higher value services, particularly knowledge based services. From the supply side, qualification and capacities of the work force are the main determinants for services providing firms to become internationally competitive and to successfully access foreign markets.

Best international practice suggests that successful development of skills for the offshore industry, as for other sectors, requires initiatives and programs at the national level and the contribution of public and private actors for improving the education system and programs and other skills formation institutions. The major goal would be to ensure an adequate and continuous supply of skilled workers both in terms of numbers and quality for the global services industry. Efforts should combine short-term and long-term actions, which will improve current skills, but most importantly create the institutional capacities for sustainable production of skills in the future.

4.3.1 **Education**

The most important investment in the field of human capital development is investment in education. Improvement of IT education requires strengthening of the institutional capacities of education institutions, including training of teachers and faculty; improvements in infrastructure, particularly teaching infrastructure; improvements of curricula and teaching methodologies; and establishing and strengthening of links between academia and the industry. Such reforms should involve all levels of education and, both, technological and non-technological schools.

Coming up with concrete proposals for policy actions and other measures is beyond the scope of this report. However, a few important points and specifics could be advanced here.

- Invest in teaching infrastructure, especially in computer and technological, at all levels of education. Two main measures should be undertaken in this regard: a) ensure internet access to all schools in the country - higher education institutions and secondary technological institutions should be provided with broadband access; and b) equip all schools with computers, and ensure that secondary and higher education institutions have enough computers to guarantee easy access to all students.
- Invest in academic networks, by establishing internal school networks and an interschool network that will connect schools. Such measures are especially important for the secondary and higher education institutions.
- Invest in the teaching of the English language in particular and other languages in general at all levels of education. Such investment should include both improvements in infrastructure and technology, curricula, and teaching staff.
- Promotion of the IT and technological education. Secondary vocational schools should focus more on IT and technological skills. Subsidies or other incentives might be provided for enrolling in specific IT programs.
- Improve the IT curricula by aligning it to technological trends and industry needs, at all levels of education.
- A special focus should be given to strengthening of teaching capabilities of the IT faculty, particularly in the secondary education. This could be achieved through frequent training of teachers to improve their skills especially update their knowledge to the most recent developments in the field. It will require development of training capacities of education and training institutions, which will need preparation of training curricula and training of local trainers by international experts in the field of training on IT education.

4.3.2 **Training**

Development of training capacities in the IT and offshore services fields is important for mitigating the short-term shortage of skills, and to ensure the continuous development and upgrading of skills. In particular, training is necessary to develop soft skills which are crucial in the services sector.

Training should cover at least three main components:

- Development of soft skills, aiming at improvement of skills of workers involved in the low value services - such as language skills, professional communication; problem solving; decision-making; conflict resolution; etc.
- Firm capacity development training, aimed at increasing the capacities of the firms to manage projects and services, as well as relations with other stakeholders. Such training should cover issues from functional management skills - such as human resource management, marketing, financial management - to advanced training for mangers in the IT services industry – such as IT project management, IT business development, IT business processes, IT quality management etc.
- Advanced technical IT skills, for improving the skills of technical expertise and keeping them up to date with the latest technology, such as business process analysis, specific programming languages, specific technologies, etc.

4.4 Specific measures

4.4.1 **Specialized IT/BPO Services Training Center**

Establishment of a specialized IT services training center, which would provide training on the above topics and serve both the local IT industry and offshore services industry. Depending on the business model, the center might combine, both, paid and free training services.

Various arrangements could be explored for the institutional setup of the center. It could be established as a joint initiative with an existing IT education or training institution; as an agency under some ownership and management of interested stakeholders; as a center or training academy under the AITA or the potential services exporters association. The possibility of developing the center as a public-private initiative should also be considered. If there is interest, the government has the possibilities to provide infrastructure and other support to a new center, or could decide to convert an existing professional formation center into a specialized IT/offshore services training center. The training courses will be subject to the market demand, and they require the market and institutional readiness to be addressed in order to fill the employment skills gap.

In any scenario, assistance should be provided to strengthening the institutional capacities at AITA and/or the new services exporters association to be enable them to assess training needs, coordinate training activities, or design and deliver training programs for their member organizations. Indeed, AITA or the new association can potentially become a one-stop-shop for training and skills development for member organizations. Establishing the center or increasing training capacities within AITA's or new association's institutional framework has some clear advantages, such as better identification of training needs, and better tailored/targeted programs; increased cooperation among members of the associations; more access to technical assistance and other forms of institutional support for SME and business development.

4.4.2 **Keeping Costs competitive**

Cost advantage is arguably the most important factor in development of the offshore services industry. For this reason, keeping the operational costs low should be a priority of any efforts aiming to promote the growth of the sector.

Fiscal incentives, such as tax breaks, would be the most effective measure to provide cost related incentives for the industry. However, short of such incentives, another measure could help in reducing the current social security cost burden, by lobbying the governments to waive or offer some flexibility regarding the social insurance payment form the trainees during their (pre-employment) training period. Such waiver will clearly avoid the cost of payments for all the trainees that, for whatever reason, will not be employed, and will also mitigate the costs due to the high turnover in particular related to instances when the retention period is short.

An important set of measures could be related to promoting establishment of call centers (and offshore service providers, in general) outside Tirana, where costs currently are and will likely continue to be lower compared to Tirana.

Interventions in two main directions could be considered to this end.

First, and most important, is extension of skills development efforts, in particular training programs, outside Tirana.

Second direction is creation of optimal or advantageous conditions for production and delivery of offshore services in other cities, including development of a proper infrastructure, including extension or access to broadband networks. Local authorities might also develop specific measures to attract investments, including facilitation of finding premises, support for marketing and promotion efforts, etc. In this regard, they might need support with technical assistance.

4.5 Establishing an industry association

Establishment of some kind of coalition, network or association of all firms and stakeholders in the offshore services industry is an important measure that could have significant impact in promoting the interests of the industry. There is already some interest among some of the current firms and, it is believed that with some support and facilitation, such interest can bear fruits. Two alternatives might be considered:

- Establishing an association of offshore/export services, whose members will be only firms involved in the provision of services for export (currently, almost all are call centers)
- Extending the scope of AITA to also include the offshore services firms.

The main purpose of the association would be to promote coordination and cooperation between its members and promotion of the industry. Some of the objectives/tasks of the association might be:

- Serve as a forum for sharing information, experiences and practices, and ideas;
- Facilitate and coordinate lobbying efforts;
- Assist in the promotion of the sector within and outside the country;
- Gather information and statistics about the industry;
- Offer special services for members and other stakeholders such as: development of standards and quality certifications, market intelligence on foreign markets, facilitation of contacts and cooperation; etc.;

- Represent the industry in international professional association and networks, and international activities.

In the first stage of creation and development, the new association might need assistance for institutional and capacities development.

4.6 Export promotion

Challenging the negative image or lack of information about Albania in general and offshore services in particular should be a major priority of the efforts for the promotion of the sector. Such goal shall be achieved through a combination of direct and indirect promotional and marketing activities, some of which are outlined below

Inclusion of the offshore services sector as a priority sector in country's foreign investments and export promotion programs and efforts. To this end, a special unit for promotion and facilitation of the offshore industry could be established within AIDA, which could provide information on Albania's opportunities in the offshore industry; facilitate contacts between interested parties; and assist in featuring the industry in promotional materials and activities related to foreign investments and exports promotion.

Development of value propositions, either general or targeted to specific international markets or market segments. Development of specific marketing materials such as sector briefs, investment briefs, brochures, etc. for marketing the local industry and local potentials internationally, which can be either general or tailored to specific markets and in specific foreign languages.

Organization of special promotion events, such as annual Albanian IT events in major European offshoring markets; annual fairs/shows for offshoring industry in Tirana that will show case to foreign visitors and the general public local opportunities and capacities, etc.

Facilitation of institutional contacts and cooperation between Albanian and foreign industry association and business associations and contact networks.

Facilitation of individual business-to-business contacts. Development of a program for enabling and facilitating business-to-business contacts and communications by directly targeting major western offshoring firms. Such efforts could initially focus on identifying 2-3 priority target markets and potential offshoring firms within such markets.

Enhancement of the knowledge of Albanian providers with regard to western European market needs. Creation of a special information bank that would collect and offer access to information on international offshoring markets, sector trends, demand characteristics, etc., as well as a directories of major international offshoring and outsourcing companies.

Improving skills of local providers in dealing with foreign companies, including information on business culture and practices, presentation and pitching skills, negotiation skills, etc. Technical assistance and counseling as well as specific training would be the best approaches to this end.

Encouragement of Albanian migrants in offshoring markets to serve as facilitators for contacts and involvements of offshoring firms in Albania. Their personal contacts and know-how could be an important asset in mitigating many factors that could be a deterrent to foreign investors such as lack

of local culture and business knowledge, image problems, etc. In the past, several schemes offering market incentives to Albanian migrants investing in Albania have been proposed but never materialized. Some such specific scheme could be considered related to their involvement in the development of the offshore services industry.

5. Intervention areas and potential partners

In principle, most of the above mentioned proposals or measured might be considered by RISI Albania as focus for its future assistance. It is however clear that further elaboration and evaluation of such interventions would be needed for such decision to be made based also in other considerations such as budgets and other resources. However, based on our discussion with program's staff, the following interventions are proposed for consideration.

5.1 Facilitation for IT teaching development

Establishing of a technical assistance program for improving IT teaching in secondary education, both at general education and vocational education schools. The program would ideally be implemented in collaboration with the Ministry of Social Welfare and Youth.

The program could consist of two main components:

- Improvement of the curricula and courses, by reviewing the current curricula and proposing the necessary improvements;
- Improvement of the training capacities for training IT teachers, by designing training curricula and training of trainers.

Based on available resources an additional component could focus on supporting the university level IT education, where the needs are even greater than in the secondary education.

5.2 Support with capacity building or setting up a training center

The training center referred above most likely would not be established without some outside support, including technical assistance. Such assistance could be part of a specific technical assistance project, which could offer support for:

- Establishing the center, including drafting and designing its mission, rules and procedures, organizational structure, training of the staff, etc.
- Capacity building, including expertise for developing of training programs and curricula; and training of trainers.

5.3 Enhance industry advocacy

Establishment of the services industry association is a necessary step to improve the efforts of the promotion and support for the industry in almost any direction. While there is interest to establish such organization, as well as willingness by some firms to provide support for setting up the association, technical assistance will be indispensable to achieve this goal. A specific technical assistance project could consist of two main components:

- Assistance for establishment of the association including drafting of its organization documents and structure; training of the staff; establishment of international contacts; etc.
- Assistance for evaluating and designing the main short-term activities/interventions of the association including information collection; promotion activities; etc.

5.4 Assistance for standards and quality management

Set up a program to assist and support the adaptation of management and technical standards and acquiring of relevant certification by IT or BPO firms that could include:

- technical assistance for improving rules, procedures, structures, etc., and training of staff;
- cost sharing/subsidies for acquiring such certifications.

Annex A – Top 5 BPO in Albania

Teleperformance Transforming Passion into Excellence	**Teleperformance Albania**
Description	Teleperformance Albania was founded in 2008 to provide an off-shore CRM (Customer Relationship Management) solution for the Italian market.
Founded	2008
Number of employees	2900
Owned by	Massimo Lauro & Giovanni Carlone
Services they offer	Organizing and running and on behalf of third parties from the call - center, meaning to "call - center" a set of elements of telecommunications, computing and human component to run efficiently and effectively outgoing calls (outbound) or incoming (inbound), where calls are realized for certain customers to realize sales activities, taking orders, customer assistance, courtesy and public services, Telemarketing, green numbers, contacts management, vocal services of informative and professional and other activities that are related to the world of commerce "; Market research, opinion polling, media requests for various quantitative indicators.

multimedia contact center ALBACALL	**ALBACALL**
Description	Albacall, it is a society that provides services needs of at-Contact Center Outsourcing. Part Abramo Industrial Group, that is a leader since 1908 in sectors of Printing, Logistics and Customer Care.
Founded	2009
Number of employees	1600
Owned by	Abramo Holding
Services they offer	Providing all services related to "Call Center" and Contact Center including data processing to other companies and / or public entities, commercial mediation and marketing in the field of telephone services. Acquiring new customers: Activities teleshopping once to attack and capture prospective customers (telesales, cross-selling, up-selling). Services geared towards those companies who need to retain and consolidate its customer base and stimulate passive customers. Customer support: Activities that aims to enhance, improve and enhance the consumer experience of the services / products purchased. Back office: Support activities to marketing actions. Services operated through multiple channels, from traditional (post, telephone, fax).

	Intercom Data Services
Description	IDS, Intercom Data Service Group, robust and leading company in the provision of call center services, offers its customers a number of services in relation to their specific needs. The company continues to expand bases its versatility and strength on the collaboration of young professionals who wish to improve and grow professionally, which may become important collaborators in the market. The feature of IDS is to empower the customer, supporting him in his demands, through a variety of services offered: Inbound, Outbound and Back Office.
Founded	2005
Number of employees	3000
Owned by	Agron Shehaj
Services they offer	Delivery, support and operation of Telephonic Services offered . Importing, marketing and technical support and mobile telephone equipment and materials and processing telecommunication .Production, promotion and marketing of goods and services, phone, print and electronic media, information services operation, Offering the training and consulting services in telecommunication matters . Providing services and information through telecommunication. Import-export trade of various goods.
	Future Generation
Description	Future Generation acts as outsourcer in the field of call center (inbound and outbound) of the Telemarketing and market research.
Founded	2011
Number of employees	280
Owned by	Alessandro Gala & Gentian Drenova
Services they offer	Operates in the telecommunications sector by performing any activity by telephone on its behalf and / or on behalf of third parties in the territory of Albania as well as in every other country that links with the Republic of Albania. Main Services are Telemarketing, technical support , green numbers, contacts management, vocal services of informative and professional and other activities that are related to the world of commerce "; Market research, opinion polling, media requests for various quantitative indicators; scientific experimentation - complete statistic for research and individualization of new methodologies.

TREGI MARKETING GROUP 3G Brothers Holding S.A.	**Tregi Marketing Group**
Description	Call Centre, performing services than product sales through video call, phone calls and through telemarketing.
Founded	2009
Number of employees	1200
Owned by	3G BROTHERS HOLDING
Services they offer	Import-export, sale - purchase of goods, as well as any other activity related to the subject of the above, the performance of related services through video-call, telephone calls and telemarketing. Main Services are based on Telemarketing, contacts management, vocal services of informative and professional and other activities like as market research, opinion polling. Acquiring new customers: Activities teleshopping once to attack and capture prospective customers (telesales, cross-selling, up-selling). Services geared towards those companies who need to retain and consolidate its customer base and stimulate passive customers.

Annex B – Top 5 IT/ITO and training service provider

InfoSoft Group	**Infosoft Group**
Description	InfoSoft Group is composed of eleven companies that, with their unique products and services, are successfully serving in the Albanian and the regional market.
Founded	1991
Number of employees	100
Owned by	The main shareholder, Mr. Grigor Joti
Services they offer	Main Services they provide: Designing, modeling, production, implementation and testing of software. Software license sales and related services and renting of software. Services adoption and adaptation of software. Services and maintenance of technology and support of information. Technical consultancy services in the field of information technology. Services training and education in the field of information technology. Project management service in the field of information and communication technologies. Services data processing. Hosting services to databases and relevant data.

ikub.al	**IKUBInfo**
Description	One of the most successful initiatives in the market regarding information portal ikub.al. With a solid group of professionals, the company managed to build and bring to individuals and businesses a space where they can publish the information they want or find needed information.
Founded	2006
Number of employees	40
Owned by	Romeo Sherko

Services they offer	Main Services they offer: Activity of applicative software development. Java Web Assembler.1.2 on the tax field, Content Management, Portals, interoperability. Service activities on applicative software. Activities systems implementation Database, Middleware, BI, Data Warehouse and platforms that serve for development of applications. Training sessions for each specialty. Activity consultancy in the field of applied software. Solution Design Activity for software. Project Management with ICT subject. Selling products and services. Sales activities of ICT equipment. Software licenses sale. Services adoption and adaptation of software. Services data processing.

CCS Computer & Copier Systems	**Computer and Copier Systems/Tetra**
Description	CCS represents one of the oldest IT Companies in the Albanian market. Over the years, CCS has been able to continuously grow and to guaranty a gradual increase of the market share.
Founded	1993
Number of employees	35
Owned by	Genc Likskendaj
Services they offer	Main Services they offer : Security products, like Intrusion Detection, Firewall solutions, Content Filtering solution, Antivirus and Anti-spam etc.; System collaboration systems and solutions Mail services (including MS Exchange Server, System Portals, Document Management systems; High level of business solutions – like Accounting and Resource Planning solutions, Small and Medium Businesses payment solutions, Billing systems, Treasury Management Solutions, etc... Network and system management – like network management, service management. System monitoring and control, system backup.

DM Consulting Services *Solutions you trust and afford*	**DM Consulting Services**
Description	DM Consulting Services was established in 2005 to provide clients with top-quality, innovative, reliable, cost effective, and time-saving business and IT solutions.

Founded	2005
Number of employees	> 16
Owned by	Dritan Mezini
Services they offer	Main areas of expertise consist of the following: 1. HR Management, Recruitment and Training 2. IT Solutions and e-Business 3. Business & Financial Management 4. Business Process Analysis and Management IT Solution and e-Business include services: Web, E-Commerce, Mobile, Information Technology, IT Outsourcing, IT Consultancy Human Resources Management Services include: Headhunting / Executive Search, Employee Assessment Services HR Management Consultancy, HRMIS (HR Management Information System), Online job matching portal: http://www.duapune.com, Soft and Management Training, Event management, Career Counseling.

	**ISD**
Description	ISD was established back in 1991, being so the first private company operating in the area of financial informatics and IT services. The Company aims to create competitive advantages in the IT area, through being a close partner to its customers. ISD mission is to facilitate the success of its customers, through products, systems and applications' development optimisation, taking in close consideration business objectives and customer needs. ISD vision is to become customers' first choice, through offering of best solutions in terms of product and service optimisation. ISD values: • Integrity, honesty and respect • Passion to customers, partners and value creation • Encouraging creative thought, with a strong focus on practical application • Challenging problems and overcoming them • Constructive self-criticism, self-improvement and personal excellence. • Accountability to customers, partners and employees.
Founded	1991
Number of employees	> 30
Owned by	100% Albanian ownership

Services they offer	ISD offers to its customers high quality products and services, and ensures their cost effectiveness and timely delivery based on the customers' requirements and specifications. During the years, ISD has gained experience and adopted best practices that lead to successful implementation of projects and allow for delivery of solutions beyond its customers' expectations, such as the analysis, design, implementation, testing, installation and proper maintenance. Company's main activity is conception and programming of appropriate applications oriented towards management of economic and financial activities, covering so, the needs of a wide clientele both in the private (businesses) and public (state institutions) sectors.

	**Protik**
Description	The Protik ICT Resource Center is established by the combined efforts and goals of the Government of Albania, USAID, Albanian-American Development Foundation (AADF), Microsoft, Cisco, and Albtelecom.
Founded	7/4/1905
Number of employees	5
Owned by	OJF
Services they offer	Protik aims to become the Albanian ICT hub: a connection point for those seeking the latest and most innovative ideas, products, and services. As an ICT resource center, Protik will have a significant effect on long run productive activities in other sectors of the economy, through: promoting innovation and creativity, facilitating the creation of links between the ICT sector and other sectors of the economy; increasing the know – how of non ICT people on ICT related subjects, promoting the best practices and international standards, providing access in training and technology to underprivileged groups, etc. Doing so, the impact of ICT will become even more noticeable. Protik has the following goals: · Foster innovation and entrepreneurship · Help increase demand for ICT · Promote networking and partnership

Annex C: Ranking List of the countries based on GSLI Assessment Criteria

Figure 18. 2014 A.T. Kearney Global Services Location Index

Rank	Country	Financial Attractiveness	People and skills availability	Business Environment	Total
1	India	3.54	2.31	1.19	7.04
2	China	2.26	2.54	1.36	6.16
3	Malaysia	2.72	1.43	1.84	5.99
4	Mexico	2.68	1.61	1.61	5.90
5	Indonesia	3.15	1.56	1.16	5.87
6	Thailand	3.01	1.42	1.44	5.87
7	Philippines	3.06	1.48	1.21	5.75
8	Brazil	1.81	2.25	1.63	5.69
9	Bulgaria	2.99	0.97	1.66	5.62
10	Egypt	3.20	1.36	1.06	5.62
11	Poland	2.28	1.39	1.87	5.54
12	Vietnam	3.30	1.14	1.10	5.54
13	Chile	2.35	1.29	1.89	5.53
14	United States	0.49	2.89	2.15	5.53
15	Lithuania	2.73	0.93	1.87	5.53
16	Sri Lanka	3.30	1.05	1.16	5.51
17	Germany	0.94	2.13	2.39	5.46
18	Romania	2.74	1.15	1.56	5.45
19	United Arab Emirates	2.21	1.13	2.05	5.39
20	Jordan	3.11	0.91	1.36	5.38
21	Russia	2.02	1.88	1.48	5.38
22	Estonia	2.34	0.96	2.08	5.38
23	Latvia	2.61	1.01	1.63	5.35
24	Costa Rica	2.69	1.07	1.59	5.35
25	Pakistan	3.31	1.39	0.64	5.34
26	Bangladesh	3.43	1.17	0.74	5.34
27	United Kingdom	0.88	2.29	2.17	5.34
28	Tunisia	3.12	0.91	1.27	5.30
29	Ghana	3.35	0.80	1.15	5.30
30	Panama	2.86	0.88	1.54	5.28
31	Hungary	2.34	1.25	1.69	5.28
32	Spain	1.09	2.09	2.10	5.28
33	Czech Republic	2.05	1.27	1.93	5.25
34	Morocco	2.97	0.99	1.29	5.25
35	Slovakia	2.39	1.03	1.77	5.19
36	Mauritius	2.56	0.97	1.61	5.14
37	Canada	0.53	2.22	2.38	5.13
38	Argentina	2.27	1.48	1.31	5.06
39	Turkey	2.22	1.35	1.48	5.05
40	Senegal	3.26	0.80	0.98	5.04

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