



## **Growing Inclusive Markets**

Business Works for Development • Development Works for Business

**Western Balkans • Albania**

### **Edipack: a Paper Recycling Pioneer**

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**Sector • Consumer Products, Waste Management**

**Enterprise Class • MSME**

**CASELET**



## Executive Summary

Edipack is a leading paper recycling and packaging material enterprise, located in one of the most environmentally hazardous places in Albania - the city of Durrës. Mr. Bardhyl Balteza started Edipack to produce packaging material for his cosmetic business. In doing so, he was able to transform a strong obstacle, namely the lack of production capacity of packaging materials and the high cost of imported raw material, into business opportunity.

The company receives its inputs from small individual suppliers as well as from two waste management companies. With the aim of including poor and vulnerable people in its supply chain and generating income opportunities for them, Edipack partners with three NGOs, which coordinate paper collection from about 120 individual collectors from vulnerable groups. By employing and providing on-the-job training to 75 low-skilled employees in the production process, Edipack further contributes to social inclusion.

Edipack produces a large variety of goods, including sheets of corrugated paper, sophisticated packaging materials such as cosmetics paper boxes and packaging for agricultural products or beverages. The company currently has over 370 clients and sells its products to a variety of businesses, the majority of which are small and medium sized Albanian enterprises.

Having broken even in 2009 in spite of the crisis, Edipack is profitable today. The main constraints the company faced were barriers to access to finance, the lack of sector-specific knowledge and skills among its employees and the unfavorable regulatory environment related to waste management and recycling that prevailed in Albania.

In order to enhance the development and growth of its business, Edipack partnered with several developmental actors such as the International Finance Corporation (IFC), the European Bank for Reconstruction and Development (EBRD) and United States Agency for International Development (USAID). These actors provided technical assistance, training and financial resources to Edipack.

The main achievements of Edipack's business model are threefold:

- The business has become economically profitable and has a turnover of about 2 million USD and a production of up to 350 tons of packaging materials per month. Its performance suggests potential for long-term growth.
- In social terms, Edipack's impact lies in the inclusion of individual paper collectors in its supply chain. The company buys approximately 600 tons of waste paper per month from around 120 small suppliers, who earn an average monthly income of 120 Euros. Furthermore, Edipack employs 75 mostly low-skilled people who receive training in a sector with promising growth prospects and benefit from stable employment.
- In addition, Edipack contributes to the environmental health of the city of Durrës by organizing waste collection, recycling paper and raising awareness for more environmentally sustainable waste disposal habits. The recycled paper production process does not harm the environment, as Edipack uses 100% recycled water and other inputs (starch and chemicals) that comply with European Union standards.



Affected by the economic crisis and the resulting decrease in the demand for paper, Edipack is currently looking into new market opportunities such as entering the vegetable and fruit packaging market or the high quality packaging market in Albania.

## Background

*“In Albania, unfortunately, many people just throw their garbage on the ground and besides rudimentary recycling they certainly don’t see the wider environmental and economic benefits of recycling.”*

Dan Berg, Head of the EBRD office in Albania<sup>1</sup>

During the course of the last decade, Albania started developing democratic and market-institutions along with its Balkan neighbors. Pro-business and environmental policies, rooted in the Albanian constitution, have slowly emerged.<sup>2</sup> Albania was the last country in the Western Balkans to start creating its democratic institutions in 1992 and still remains one of the poorest countries in Europe, with a GDP per capita of \$6,000 at purchasing power parity.<sup>3</sup> Until the economic crisis, its economy was growing steadily at over 5 percent per year. At the same time, many Albanians worked in Greece or Italy and supported the country with large remittances, which constituted up to 15 percent of the GDP.<sup>4</sup> Despite the high growth and remittances from abroad, 12.4 percent of population lives below the poverty line (although this number is half of what it used to be).<sup>5</sup> Approximately 3.5 percent of Albanians still live in extreme poverty with incomes of less than one dollar per day, and disparities between urban and rural areas are significant.<sup>6</sup>

As for the environmental situation, the United Nations Environment Programme identifies the absence of solid waste management as “an enormous and readily apparent problem in Albania”.<sup>7</sup> The adoption of a market economy with an increase in imports combined with rapid population growth and urbanization has led to a considerable increase in the amount of waste and put additional stress on an almost non-existent waste management system. As a consequence, unmanaged and illegal dumpsites or uncontrolled incineration of waste are growing risks to the health of the Albanian population.

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<sup>1</sup> Braterman, N., & Xhunga, M. (2009, January 12). Edipack: Paper recycling comes to Albania. Retrieved August 10, 2009, from <http://www.ebrd.com>

<sup>2</sup> UNEP. (2000). *Post-Conflict Environment Assessment - Albania*. Geneva: UNEP. Pgs 6 and 14.

<sup>3</sup> Agency, C. I. (n.d.). Country Comparison GDP per capita (PPP). Retrieved August 10, 2009, from <http://www.cia.gov>

<sup>4</sup> Ibid.

<sup>5</sup> State, U. D. (2009, June). Background Note: Albania. Retrieved August 3, 2009, from <http://www.state.gov>

<sup>6</sup> UNDP Albania. (2009). Retrieved 2009, from <http://www.undp.org.al>

<sup>7</sup> UNEP. (2000). *Post-Conflict Environment Assessment - Albania*. Geneva: UNEP, from <http://enrin.grida.no>



In a country with “no organized solid waste management, no waste reduction targets, and no waste management monitoring programs” in 1998, the story of Bardhyl Balteza’s paper recycling business stands out.<sup>8</sup>

## Edipack – History and Business Model

Edipack is a good example of the ability of a successful entrepreneur to spot and create business opportunities at the right time. Mr. Balteza started his cosmetics business in 1993, when he found his wife and himself unemployed.<sup>9</sup> He started his business by producing cosmetic creams for Albanian pharmacies and gradually improved the quality of his products while also expanding the product range and the quantities produced.

The cosmetics business faced a constraint in the limited availability of packaging materials in Albania. While plastics could be purchased from a local firm in Durrës, all paper-related packaging materials had to be imported from Greece, Italy or Turkey and the resulting transportation - related costs were quite substantial - about 70% of the total costs. By taking a loan of 30,000 USD, Mr. Balteza managed to import bigger quantities of corrugated boards, consequently reducing the costs of transportation to 50% of the overall costs. In 2004, he decided to start his own packaging business in Albania as high prices for imported packaging continued to affect the international competitiveness of his steadily growing cosmetic business. The company started with a second hand paper mill line bought in Italy for the production of corrugated boards, gradually expanding the production of packaging material by taking up loans and buying new machinery<sup>10</sup> and finally entering the paper recycling market in order to diminish raw material costs and create environmental value<sup>11</sup>. What began as an offshoot of another business soon became his second business, Edipack.

Edipack keeps costs for packaging production low by keeping paper production local – previously, up to 50% of the packaging costs were transportation costs.<sup>12</sup> Now, Mr. Balteza can offer cheaper packaging not only to his own cosmetics firm but also to other Albanian companies, who had to import their packaging from abroad up till now.

The company currently collects raw materials from two sources - waste management companies and small suppliers/individual collectors. Two waste management companies get free paper from several chains of supermarkets, offices and other places. About 120 small suppliers who work with three NGOs bring paper to the NGOs’ storage locations where Edipack picks the paper up.<sup>13</sup> Only 10-12 individual collectors deliver the paper directly to the factory in Durrës<sup>14</sup>. Vulnerable small suppliers are paid in cash and do not have formal

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<sup>8</sup> (UNEP, 2000, p. 16).

<sup>9</sup> Balteza, B. (2009, December 7, interviewed by I. Kleinova, & B. Duerr).

<sup>10</sup> In 2004, Mr. Balteza invested a loan of 640,000 Euros plus his own savings in the purchase of new machinery.

<sup>11</sup> Ibid.

<sup>12</sup> (Braterman & Xhunga, 2009)

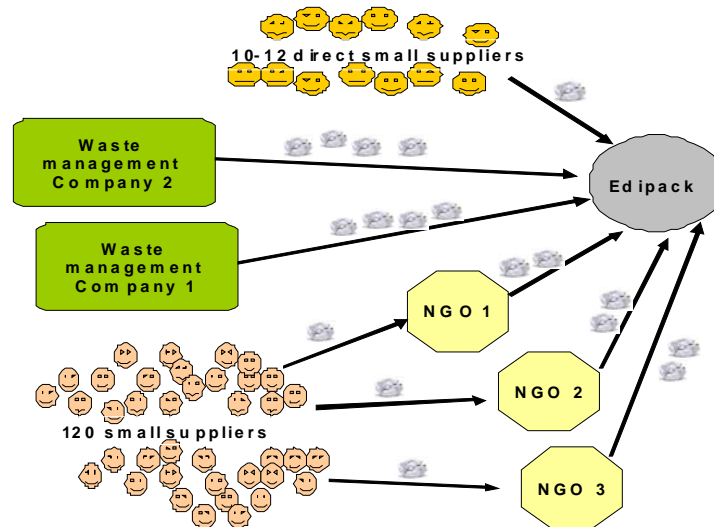
<sup>13</sup> IFC. (2008). *Recycling Linkages Assessment Findings*. Washington DC: IFC., and Balteza, December 2009.

<sup>14</sup> Balteza, December 2009.



contracts.<sup>15</sup> According to Mr. Balteza, small suppliers earn about 120-150 Euros per month<sup>16</sup>, which is in line with the average monthly gross salary of 150 Euros<sup>17</sup> in Albania. The three NGOs act as intermediaries between the firm and small suppliers, and ensure the inclusion of various vulnerable groups such as orphans, Roma and disabled people as small suppliers in Edipack's value chain.<sup>18</sup> When asked for his motivation for including vulnerable groups, Mr. Balteza stated, "The paper collection is the only possibility for them to make a living. When I am asked to help I try to do so."<sup>19</sup>

Figure 1: Edipack supply chain



Source: Author

The collected paper is then used to produce a variety of recycled products, including simple sheets of corrugated paper and more advanced products like cosmetics paper boxes or agricultural sector packaging.<sup>20</sup> Edipack is constantly trying to find new markets for its products.<sup>21</sup> The agricultural sector takes up one-fifth of Albania's GDP, although this is mostly attributable to family operations and subsistence farming.<sup>22</sup> Recently, Edipack started

<sup>15</sup> Popovska, V. (2009, August 7, interviewed by I. Kleinova, & B. Duerr).

<sup>16</sup> Balteza, December 2009.

<sup>17</sup> Southeast Europe Investment Guide. (2007). Retrieved December 29, 2009, from <http://seeurope.net>

<sup>18</sup> Balteza, B. (2009, July 28, interviewed by I. Kleinova, & B. Duerr.); Balteza, December 2009.

<sup>19</sup> Balteza, December 2009.

<sup>20</sup> Popovska, August 2009.

<sup>21</sup> Balteza, July 2009.

<sup>22</sup> Central Intelligence Agency, *op cit*.



producing recycled paper packaging for watermelon exports and plans to continue branching out into the packaging industry for the agricultural sector. The business is also expanding into the production of more advanced packaging - in December 2009 it concluded a contract with Tirana beer for bottled beverages, which require high quality offset printing solutions.

Edipack currently has around 370 clients – including producers of packaging materials, to whom it provides corrugated paper. These clients include a range of SMEs as well as large firms such as furniture exporters, shoe exporters, beer producers and agricultural exporters. Agriculture is becoming one of Edipack’s bigger target markets after a successful debut in packaging for 30-trucks worth of watermelons that were exported to Great Britain.<sup>23</sup>

## External Actors

External actors were crucial to the success of Edipack. Since paper recycling efforts did not previously exist in Albania, the new business caught the attention of several international organizations. Organizations such as the International Finance Corporation (IFC) and the United States Agency for International Development (USAID) supported Edipack mainly through the provision of market data, business planning and training.<sup>24</sup> The European Bank for Reconstruction and Development (EBRD) invested in a €2 million equity stake in Mr. Balteza’s business in 2007, providing not only the funds necessary to scale up his business but also valuable advice on how to make the business more efficient and profitable.<sup>25</sup> For instance, EBRD is advising the company on how to reduce energy costs through the introduction of new technologies. Currently, energy costs account for almost 50% of the total production costs faced by Edipack. Through the introduction of new technologies, EBRD is examining the possibility of reducing those costs to 15-20% of total production costs.<sup>26</sup>

Recycled paper production is capital intensive and requires large investments in machinery. While the company started producing recycled paper even before development actors were brought in, it had outstanding loans from a Greek commercial bank that it had trouble repaying.<sup>27</sup> At that point, Mr. Balteza reached out to the IFC, which was creating a new association of recyclers to co-finance his business. The IFC at the time found his project too small and too risky for their involvement. However, Mr. Balteza’s enthusiasm and commitment convinced the IFC to provide him with market data that helped him assess the market potential for recycling. The IFC also assisted Edipack in the development of a business plan, without which external financing would have been difficult to obtain. Edipack only paid approximately 30 percent of the total cost of IFC’s services. With the help of IFC’s advisory services, Edipack was able to attract €6.8 million of new investments for its business expansion as detailed below.<sup>28</sup>

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<sup>23</sup> Balteza, B. (2009, August 11, interviewed by I. Kleinova, & B. Duerr).

<sup>24</sup> *Balteza, July 2009.*

<sup>25</sup> (Braterman & Xhunga, 2009).

<sup>26</sup> *Balteza, December 2009.*

<sup>27</sup> *Ibid.*

<sup>28</sup> *Ibid.*



Since Edipack had a business plan, it was able to secure financing from EBRD. The EBRD funds constituted a 31% equity stake in the company and were “earmarked for the company’s plans to support the new recycled-paper production line and to establish waste paper recycling networks throughout Albania.”<sup>29</sup> With the introduction of the new paper production plant, the company was able to score a double first in Albania: opening the first paper manufacturing business and establishing the first paper recycling scheme. The bank also advised Edipack on strategic and operational improvements. While Edipack appreciated the cooperation with EBRD, it also noted that working with international institutions on business projects could sometimes be a very lengthy process. “Businesses are obliged to move quickly, trying to adjust to the changes in markets, while the negotiations with the EBRD took almost one year.”<sup>30</sup>

USAID also provided targeted technical assistance. Since Edipack’s owners were not trained in paper recycling, which is a complicated process, the company greatly benefited from external experts, who provided advice on paper recycling best practices. USAID noted the following tangible results - “the main machine ... [became] operational...delivering over 95% utilization, [and] saving an estimated \$150K per annum.”<sup>31</sup>

Recently, the Albanian government has been working in consultation with Edipack on some changes in the legislative framework. As a beginning, the government allowed the company to pay the small suppliers in cash, a practice which was illegal in Albania. This was done through lobbying the government and resulted in a change of the prevalent law.<sup>32</sup> The small suppliers’ liquidity needs encouraged them to frequently provide raw paper to the company. These changes were possible partially thanks to Mr. Balteza’s presidency of the first recycler’s association and thanks to the business’ collaboration with the IFC.<sup>33</sup>

However, there are many other government rules that are not favorable for the domestic recycling business. One example is that clients/buyers of packaging paper are obliged to pay VAT on packaging only when it is locally produced but not when it is imported from abroad. According to Mr. Balteza, this restriction greatly reduces Edipack’s ability to expand its client base and revenues. The company is currently lobbying the government to remove this restriction. Without the tax, Mr. Balteza estimates that Edipack could triple its sales.<sup>34</sup>

Edipack has also partnered with three NGOs that work with vulnerable people. The NGOs help with the information flow between Edipack and potential suppliers, who come from vulnerable groups. Edipack allows some of the individual suppliers to collect paper from Edipack’s contracted suppliers, such as supermarkets and other stores. Edipack saves money by directly hiring these people to collect paper, while also providing them with a stable source of income. However, the paper collection by individual suppliers currently only accounts for 3% of the total inputs of raw materials.<sup>35</sup>

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<sup>29</sup> (Braterman & Xhunga, 2009).

<sup>30</sup> *Balteza, July 2009.*

<sup>31</sup> USAID. (2006). Albania Small Business Credit and Assistance Project. Washington DC: USAID, 34.

<sup>32</sup> *Balteza, July 2009.*

<sup>33</sup> *Ibid.*

<sup>34</sup> *Balteza, August 2009.*

<sup>35</sup> *Ibid.*



## Business Model – Constraints and Solutions Strategies

Edipack faced several constraints in its business operations. Most of the constraints were overcome by partnering with other actors, as stated in the previous section. The constraint of restricted access to finance, characterized by high interest rates for loans from Albanian banks of up to 8.3 percent was overcome by partnering with donors like EBRD.<sup>36</sup>

Another constraint was the lack of knowledge and required skills of Edipack's employees in paper processing. The company partnered with USAID, which advised the owner on international best practices of paper processing and recycling. The acquired knowledge was then transferred to the employees by conducting on-the-job training.

Edipack overcame constraints in the regulatory environment by partnering with other recycling companies and jointly engaging in policy dialogue with the government. For over three years, Mr. Balteza held the Presidency of the Albanian Society for Recycling Companies, which represents all the major companies involved in the sector. By joining forces, the recycling companies are able to more effectively lobby the government to improve the legal framework for waste management and recycling. Among their aims is the elimination of the VAT for locally produced packaging material. Furthermore, the Recycling Society is trying to influence the government to allocate more resources in the setting up of an adequate waste management infrastructure in Albania.

## Impacts

### ECONOMIC IMPACT

Due to the financial crisis and a significant decrease in the price of paper worldwide, the company is currently producing at 15% of its total capacity (300 tons out of a possible 2,000 tons per month).<sup>37</sup> However, it is still able to cover its expenses and any shortages are currently bridged with the capital received from EBRD.

Edipack's success before the crisis shows that there is potential for long-term growth. Thanks to increased collection efforts, the input of secondary raw materials increased from 1,575 tons in 2006 to 4,725 tons in 2008, growing at 73 percent annually during that period. Its sales grew at 60 percent between 200 (Braterman and Xhunga) (Agency) (Recycling Linkages Assessment Findings) (Salzmann) (Southeast Europe Investment Guide) (State) (UNDP Albania) (UNEP) (USAID) (Balteza) (Balteza)7 and 2008,<sup>38</sup> and during the same period, Edipack increased its income by 30%. It maintained this profitability even during the current financial crisis, though its profits have not increased since.<sup>39</sup> In September 2009, the company

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<sup>36</sup> Balteza, December 2009.

<sup>37</sup> Ibid.

<sup>38</sup> (IFC, 2008, p. 20).

<sup>39</sup> Popovska, August 2009.





broke even with a turnover of about 2 million USD and a production of up to 350 tons of packaging material per month.

The company estimates that the total potential in Albania for paper waste collection is approximately 1000 tons per month, or about half of Edipack's own total production potential.<sup>40</sup> Therefore, in order to optimize its total production potential, the company would have to import raw materials.

## **SOCIAL IMPACT**

The company currently has approximately 75 full time employees, mostly from a low-income background.<sup>41</sup> Edipack's employees benefit from stable employment and a regular income source. Through training, employees are acquiring skills in a sector with promising growth potential, which in turn is expected to have a positive impact on their future employment opportunities in Albania.

Edipack's work with small suppliers from vulnerable groups gives them a chance to increase their income. While there can be fluctuations in the availability of raw material or the international price for recycled paper, the suppliers would otherwise have lower or no income.<sup>42</sup> Every month, Edipack buys approximately 600 tons of waste paper from these small scale suppliers (individuals and NGOs) at €30 per ton. This provides an income of approximately €120 per person per month.<sup>43</sup> In comparison, in 2007, the incomes for factory workers and teachers were €80-120 per month and €120 per month respectively.<sup>44</sup> Mr. Balteza's suppliers usually also collect and sell materials other than just paper and therefore augment their income from these activities.<sup>45</sup>

## **ENVIRONMENTAL IMPACT**

Due to the very nature of its business, Edipack is environmentally friendly. Its raw material, traditionally dumped at unmanaged dumpsites or subject to uncontrolled environmentally harming incinerations, is now collected by its suppliers and reused for the production of packaging material. The company also uses 100% recycled water.<sup>46</sup> The recycled paper production process itself does not harm the environment. Beyond paper and water, the company uses starch and chemicals that do not harm the environment and conform to European Union standards.<sup>47</sup> Located in one of the environmentally most hazardous places in Albania, the city of Durres, Edipack contributes to both the environmental and civic improvement of the area. Through its outreach methods to schools (to which it provides free

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<sup>40</sup> *Balteza, 11 August 2009*

<sup>41</sup> *Ibid.*

<sup>42</sup> *Ibid.*

<sup>43</sup> *Popovska, August 2009*

<sup>44</sup> Salzmann, M. (2007, August 29). Albanian government introduces flat tax. Retrieved August 10, 2009, from World Socialist Web Site: <http://www.wsws.org>

<sup>45</sup> *Popovska, August 2009*

<sup>46</sup> *Ibid.*

<sup>47</sup> *Ibid.*



books in exchange for paper collection), the company also actively promotes good environmental habits among the younger generation.<sup>48</sup>

The IFC Advisory Recycling Linkage Program assessment concluded that in the last few years, Edipack diversified its business and improved its corporate social responsibility, environmental performance and supply chain management.<sup>49</sup> The IFC also remarked that Edipack has actively and successfully shaped the policy dialogue with government.<sup>50</sup>

## Conclusion

The main issue the company currently faces is the economic crisis and the resulting decrease in the worldwide price of paper. Despite a growing customer base, packaging orders by individual customers are falling.<sup>51</sup> Therefore, Edipack is looking for new market opportunities such as entering the vegetable and fruits packaging market or the high quality packaging market. In order to survive the crisis and increase its competitiveness, the company wants to optimize its production processes, for instance through more energy efficient production procedures or by replicating international best practices in paper processing.

According to the IFC, the biggest challenge for Edipack in the near future will be to grow its sales in new markets while contributing economically and socially.<sup>52</sup> By entering the agricultural packaging market, for example, Edipack could help to lower packaging costs for the agricultural market as well as contribute to the inclusion of more vulnerable communities.

Mr. Balteza's position as President of the Recycling Society can have a potentially huge positive impact on Albania's waste management systems. He sees a huge opportunity for local governments to provide the necessary inputs for the production of reduced paper by enhancing the waste management system. Considering the huge amounts of inputs that are needed for the production of paper, this opportunity should not be neglected in the long run.

Edipack has identified another business opportunity that could contribute to a cleaner Albania - it is pushing for a legal restriction on the use of plastics for small-scale packaging through the Recycling Society. Due to the lack of a functioning waste management system, Albania suffers from the improper disposal of plastics, which usually end up dumped in rivers and pollute the ecosystem. According to Mr. Balteza "our job as a Society is to push our government to limit the use of plastic, substituting it with paper packaging for a cleaner Albania."<sup>53</sup>

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<sup>48</sup> *Balteza, July 2009.*

<sup>49</sup> (IFC, 2008, p. 22).

<sup>50</sup> *Ibid.*, 31.

<sup>51</sup> According to the business owner, from September 08 to September 2009, Edipack's customer base increased from 268 clients to 372 clients while at the same time, total production hasn't increased much. *Balteza, December 2009.*

<sup>52</sup> *Ibid.*

<sup>53</sup> *Ibid.*



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The information presented in this caselet has been made available to the company in subject to ensure its accuracy and is accurate to the best of the author's knowledge. The views expressed in the caselet are the ones of the author and do not necessarily reflect those of the UN, UNDP or their Member States.

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