

REPUBLIC OF ALBANIA

COUNCIL OF MINISTERS

NATIONAL STRATEGY FOR DEVELOPMENT AND INTEGRATION

2015–2020

—EUROPEAN INTEGRATION—

—GOOD GOVERNANCE, DEMOCRACY, AND RULE OF LAW—

—MACROECONOMIC AND FISCAL STABILITY—

—ENHANCING COMPETITIVENESS—

—HUMAN DEVELOPMENT AND SOCIAL COHESION—

—SUSTAINABLE USE OF RESOURCES—

MAY 2016

The Vision 2020

Albania: a strengthening democracy on the path toward EU integration, with a competitive, stable, and sustainable economy, and with guarantees of fundamental human rights and liberties.

Acronyms

All	Adriatic-Ionian Initiative
FSA	Financial Supervisory Authority
VET	Vocational Education Training
WB	World Bank
EU	European Union
BSEC	Black See Economic Cooperation
BoA	Bank of Albania
CEI	Central European Initiative
DDFFA	Department for Development, Financing, and Foreign Aid
SEE	South East Europe
FDIs	Foreign Direct Investments
ECHR	European Court of Human Rights
IPMG	Integrated Policy Management Group
GRECO	Group of States against corruption
Ghg	Greenhouse Gas
SWG	Sector Working Groups
HEC	Hydropower Stations
HEI	Higher Education Institutions
INSTAT	Albanian Institute of Statistics
IPA	Instrument of Pre-Accession
UN	United Nations

EC	European Commission
CEC	Central Elections Committee
SPC	Strategic Planning Committee
MARRI	Migration, Asylum, Refugees Regional Initiative
SAA	Stabilization and Association Agreement
NATO	North Atlantic Treaty Organization
NE	Social Assistance
LGU	Local Government Unit
WHO	World Health Organization
ODIHR	Office for Democratic Institutions and Human Rights
OSCE	Organization for Security and Cooperation in Europe
SDG	Sustainable Development Goals
MDG	Millennium Development Goals
MTBP	Medium-Term Budget Programming
GDP	Gross Domestic Product
PIP	Public Investments Program
NPEI	National Plan of European Integration
NPER	National Program for Economic Reform
PPP	Public Private Partnership
PAR	Public Administration Reform
RCC	Regional Cooperation Council
SEECF	South East European Cooperation Process
SELEC	Southeast European Law Enforcement Centre
PEFA	Public Expenditure and Financial Accountability

SIGMA	Support for Improving Governance and Management of Administration
NSDI	National Strategy for Development and Integration
PFMS	Public Finance Management System
IPS	Integrated Planning System
ICT	Information and Communication Technology
UNDP	United Nations Development Program
DCM	Decision of the Council of Ministers

The Ministries of the Government of Albania

MoARDWA	Ministry of Agriculture, Rural Development, and Water Administration	www.bujqesia.gov.al
MoC	Ministry of Culture	www.kultura.gov.al
MoD	Ministry of Defense	www.mod.gov.al
MoEDTTE	Ministry of Economic Development, Tourism, Trade, and Entrepreneurship	www.ekonomia.gov.al
MoES	Ministry of Education and Sports	www.education.gov.al
MoEI	Ministry of Energy and Industry	www.energija.gov.al
MoE	Ministry of Environment	www.mjedisi.gov.al
MoEI	Ministry of European Integration	www.integrimi.gov.al
MoF	Ministry of Finance	www.financa.gov.al
MoFA	Ministry of Foreign Affairs	www.punetegashtme.gov.al
MoH	Ministry of Health	www.shendetesia.gov.al
MoSIPA	Ministry of Innovation and Public Administration	www.inovacioni.gov.al
Mol	Ministry of Internal Affairs	www.punetebrendshme.gov.al
MoJ	Ministry of Justice	www.drejtesia.gov.al
MoSLA	Ministry of Local Affairs	www.ceshtjetvendore.gov.al
MoSRP	Ministry of Relations with the Parliament	www.marredhenietmeparlamentin.gov.al
MoSWY	Ministry of Social Welfare and Youth	www.sociale.gov.al
MoTI	Ministry of Transportation and Infrastructure	www.transporti.gov.al
MoUD	Ministry of Urban Development	www.zhvillimiurban.gov.al

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PART I: STRATEGIC CONTEXT

1.0 NSDI II GOAL

The National Strategy for Development and Integration (NSDI) is the core strategic document that combines the EU integration agenda with the country's sustainable economic and social development goals, including its correlation with the sustainable development goals. NSDI II is the document that contains the vision for the development of democracy and social and economic development between 2015 and 2020, while highlighting the EU integration aspiration. NSDI 2015–2020 is a depiction of how this vision is going to be translated into policies and priorities, as follows:

- Promoting the country's development rates by fostering sustainable economic growth through macroeconomic and financial stability;
- Achievement of standards to the service of citizens by ensuring better quality of life and protection of their rights;
- Transforming Albania into a country whose standards would enable its EU membership;
- Building policies that enhance competitiveness and foster the country's economic growth, comparable to the countries of the region and beyond.

■ NSDI II: Part of an Integrated Planning System

NSDI II¹ is a key component of the Integrated Planning System. IPS is a union of operational principles that ensure that planning and implementation of the government's planning policies are coherent, efficient, and integrated. IPS has evolved and includes two main pillars of strategic planning and policy coordination at the national level:²

- The medium-term strategic planning process up to the long-term planning of NSDI II, alongside sector strategies that guide policy-making at high levels, in the definition of national strategic priorities and goals, and,
- Medium-term budgeting program, which requires every governmental agency and ministry to draft a three-year plan, within a given ceiling of expenditures, for the delivery of the policy objectives, as interim steps in the realization of NSDI II.

¹ The first NSDI for the period 2007–2013 was approved by the Decision of the Council of Ministers in March 2008 (DCM no. 342, dated March 12, 2008). This was preceded by Albania's first strategic development plan, the "National Strategy for Socio-Economic Development - Medium-Term Program of the Albanian Government: Growth and Poverty Reduction Strategy" (GPRS 2002–2004).

² IPS was adopted by DCM no. 256, 2005. IPS includes four parallel planning processes: (1) the government's program for 2013–2017; (2) European integration process, which describes planning measures and resource requirements to achieve the objectives under the EI agenda, and in particular the implementation of the SAA; (3) Public Investment Management, as integral part of MTBP; and (4) Foreign aid management, in particular the government efforts to optimize the use of foreign aid in agreement with a range of international conventions.

Also, NSDI II guides annual adopted budget funds, by introducing policy objectives that are part of the guidelines of the Ministry of Finance during budget preparation, by all ministries and implementing agencies. NSDI II represents an important reference document for development partners from the perspective of the harmonization of their countries' strategies and programs and aligning them with the national strategies for development and integration of the country in the EU, as well as for reporting on progress made. Finally, NSDI II is an overview of the current stage of the country's development vis-à-vis the country's aspirations and progress in its historical road toward European integration.

■ **Alignment with other important documents**

NSDI II is harmonized in terms of content and timeline with a number of other strategic documents that were drafted in the same time frame as this document. It is worth pointing out that the process of drafting NSDI II has run parallel with the sector programming documents of institution and with a number of programming reports and documents drafted by development partners, in the context of development funding planning. This has led to synergies in the prioritization of policies and programming of reform funds for the country's development and integration.

The NSDI II timeframe (2015–2020) coincides with the period of EU financial planning for 2014–2020, the EU Lisbon Strategy until 2020, and with three MTBP cycles. In addition to these processes, NSDI II is also harmonized with other key strategic documents, namely:

- The National Plan for European Integration, as the national instrument for full alignment of the Albanian legislation with the EU *acquis communautaire*;
- The National Program for Economic Reforms (NPER) 2015–2017 and 2016–2018;
- Adopted sector and cross-sector strategies (Annex 1);
- Medium-term budget program for 2016–2018;

Furthermore, NSDI II is based upon and along the same lines as other documents drafted by development partners, as well as other development documents for the entire region, such as:

- EU Strategic Indicative Paper for Albania (2014–2020), also referred to as the EC Country Strategy paper;
- EU Progress Reports and the World Bank reports (such as Country Partnership Framework for 2015–2020);
- Reports of country's development partners, with an impact on the national development strategies and EU integration, and;

- South East Europe Strategy 2020 (SEE 2020) – jobs and prosperity from a European perspective.

■The process behind the drafting of the strategy

The process for the formulation of the NSDI 2015–2020 is characterized by a certain dynamic and synergy as a result of drafting in parallel of a number of other key strategic documents for the country. During the period of the formulation of NSDI II, a number of sector and cross-sector strategies were drafted, which have served as a reference base for NSDI II.

NSDI II represents a synthesis of sector and cross-sector strategies, and other planning documents for reforms drafted until end of 2015, which were mainly adopted through Decisions of Council of Ministers (DCM). Out of the total number of strategic documents, 37 were adopted through DCMs,³ of which two were adopted by law in the Albanian Parliament, and one with a decision of the Assembly of the Republic of Albania.

In the preparation of the sector strategies, a number of factors were taken into account with regard to: (i) their importance in terms of the sector development; (ii) the definition of the relationship between and among the strategies with the EU legislation (EU Acquis Communautaire, from here forward to be referenced to as: Acquis);⁴ (iii) the establishment of financial levels; (iv) the number of programs required for their implementation.

The technical process for drafting the NSDI II document was coordinated by the Strategic Planning and Development Unit in the Prime Minister’s Office (part of the Department of Development, Funding, and Foreign Aid (DDFFA)). This unit is responsible for coordinating and ensuring the cooperation with the task groups established in the line ministries, with the independent and central institutions, such as the Bank of Albania, INSTAT, and other departments in the Council of Ministers (Delivery Unit, Department of Legislation, Program Monitoring and Anti-Corruption, Department of Communication and Public Relations), and ensuring the support of national and international experts for the preparation of NSDI II.

As a complex and multidimensional process, NSDI II has been guided by the political leadership of a strategic team, composed of senior political and leading officials of the main institutions represented in the Strategic Planning Committee (the Council of Ministers; Ministry of Finance; Ministry of Economic Development, Tourism, Trade, and Entrepreneurship; Ministry of European Integration; Ministry of Foreign Affairs).

■The drafting of NSDI II has gone through several phases, as follows:

³Part of NSDI II are twenty-seven national strategies (adopted by Order no. 93, of 7/8/2012), of which twenty-one strategies were adopted by DCM.

⁴The *acquis communautaire* is one of the most important concepts in the European Union as it “covers all treaties, EU legislation, international agreements, standards, court verdicts, fundamental rights provisions and horizontal principles in the treaties such as equality and non-discrimination. In short: EU-law. All member states and their citizens must obey the Acquis and all candidate countries must accept the full Acquis to become a member of the European Union. The complete body of the EU Acquis is composed of more than 108,000 documents.” See <http://en.euabc.com/word/12>.

- Definition of short to medium term implementation priorities. During this stage six priority areas for the government were defined (alongside with relevant policies and actions), as well as fifty-six short-term priorities for the line ministries. In addition, this phase served for establishing the vision and main objectives and pillars for NSDI II, based on the country's development priorities.
- Review of sector policies by the line ministries, in line with the government's key priorities. This phase concluded with the preparation of the main chapter on sector policies, based on the contribution of the line ministries—mainly Policy Department, Strategic Planning, and European Integration Directorates, and monitoring-related structures. At this stage independent institutions that provided valuable contributions to the sector strategic objectives were also included. This is an additional value for the strategy, since it included the buy-in of independent institutions at this phase of the formulation of the document, thus lending NSDI II comprehensive and national features.
- Sector budget analyses took into account the key projects in each sector. At the end of this process, an analysis was drafted on the sector budget and on the key priority projects for each sector. The analysis was conducted in cooperation with the Budget Directorates of the line ministries, Budget Directorate in the Ministry of Finance, Directorate of Investments in the Ministry of Economic Development, Tourism, Trade, and Entrepreneurship. The analysis served for the indicative budget of the strategy policies.
- Formulation of the macroeconomic and fiscal framework looked into the current program of public finances and budgeting, as well as on the planned funds from the development partners, either as grants or loans, through their development strategies and/or other agreements. This phase coincides with the formulation of the chapter on the macroeconomic framework and the financial implications of NSDI II. The main contributors at this phase were the Ministry of Finance, as well as the Ministry of Economic Development, Tourism, Trade, and Entrepreneurship and the Bank of Albania.
- Definition of the monitoring indicators took place in several phases, given the difficulties in establishing measurable indicators, for the respective medium to long-term goals. The most important phases are related to the definition of the indicators and goals for each sector that are integral parts of the sector strategies drafted by the line ministries. The text of the document refers to specific indicators and goals regarding sector policies. Additionally, the indicators and goals of the Indicative Country Strategy Paper of the EU for 2014–2020 were also defined.⁵ Furthermore, the process reflected the indicators and goals in the framework of piloting of Objective 16 of Good Governance, in the context of the Sustainable Development Goals for 2015–2030.⁶
- Consultations for NSDI II with development partners. Consultations were part of the continuous communication during the formulation of reports and conducting of analyses, which served as the

⁵ Indicative Country Strategy Paper, 2014–2020.

⁶ Albania signed the 2030 Agenda for Sustainable Development in September 2014. This agenda, at the global level, defines the Sustainable Development Objectives for 2015–2030.

main programming documents for foreign aid, while ensuring synergy of donor strategies with NSDI II. In addition, the document was disseminated to the key development partners for their comments and feedback, and was launched in a meeting of the Donors Technical Secretariat, as well as in other meetings of the group of the development partners.

In summary, for the formulation of NSDI II, formal processes of consultations with broad participation from a large number of governmental and non-governmental organizations and institutions were followed. The process called for approximately forty-four Albanian institutions, of which sixteen were line ministries, three state ministries, and twenty-five independent institutions, which provided essential contributions to the formulation of the document. The participatory process included the participation in meetings and workshops organized with the institutions during all technical stages of the drafting of the document.

The document was reviewed in the meeting of the Strategic Planning Committee on December 1, 2015, which endorsed the document in principle, while also providing some specific recommendations. The revised document was adopted in its final shape in the meeting of the SPC of February 8, 2016. In line with the law on “Public Notification and Consultation,” the final draft has been published on the official webpages of the line ministries during March and April, 2016, according to a communications platform designed around general consultations, thematic consultations, and consultations with the civil society and stakeholder groups.⁷

■ Document layout

NSDI II is organized around four main parts, as follows:

Part I reiterates the main achievements from the implementation of NSDI I from 2007 to 2014, including key lessons learned, main triggers of change, and the government’s national vision for the next five years. In addition, the document includes a brief summary of the most recent macroeconomic trends and key challenges. The national vision looks into the actions that are necessary in a range of areas and policies in the public domain, together with development partners, non-governmental organizations, the private sector, and civil society, for ensuring economic growth and welfare for a European Albania.

Part II of this document addresses the objectives and outcomes foreseen for six governmental priorities in the medium-term. These priorities include: (1) ensuring innovative, citizen-centered good governance; (2) integrated water management; (3) recovery and financial consolidation of the energy sector; (4) enhancing innovation and competitiveness; (5) land-integrated management; and (6) structural reform of the financial system. These topics run through most of the NSDI II sectors, and

⁷ Consultations were focused on the publication of the draft on the website of the main institutions of the SPC (Prime Minister’s Office, Ministry of Finance, Ministry of Economic Development, Ministry of European Integration, and Ministry of Foreign Affairs). Thematic consultations were focused on the publication of the draft on the website of the relevant line ministries of the chapters referred to in the four pillars of NSDI II. Consultations with stakeholder groups and civil society groups were focused on the publication of the document on the official websites of the Agency for Supporting the Civil Society (AMSHC), Agency for Development of Foreign Investments (AIDA), National Agency for Territorial Planning (AKPT).

hence may be perceived as cross-sector subgroups in the context of broader priorities and strategies of government policies for national development and European integration during 2015–2020.

Part III represents the core of the document, presenting and depicting the statement/declaration for the vision for the country's development and integration. This part is about the foundations and main pillars for the delivery of NSDI II vision, which include:

- A major objective: EU integration;
- Foundation of the vision: Consolidation of good governance, democracy, and the rule of law;
- Pillar 1: Ensuring economic growth through macroeconomic and fiscal stability;
- Pillar 2: Ensuring growth through enhanced competitiveness and innovation;
- Pillar 3: Investing in human capital and social cohesion;
- Pillar 4: Securing growth through sustainable use of resources and territorial development.

Part IV is about the conditions and terms for the implementation and coordination of NSDI II, including risk factors and financial considerations. This part is about the main coordination and cooperation mechanisms among institutions, and with international partners that would enable the implementation of the strategy.

At the end of the document there are tables (as annexes) with approved sector strategies, and tables with the NSDI II key indicators. It is worth pointing out that the data in the document are provided alongside respective references. The data may belong to different periods, depending on when the information was generated respective resource institutions.

2.0 ACHIEVEMENTS, LESSONS LEARNED, AND TRIGGERS OF CHANGE

2.1 Main achievements for 2007–2015, including NSDI I

Albania has made progress in terms of national development and EU integration from 2007 to 2015,⁸ which is described below as a summary of the progress and challenges according to aspects in line with the main pillars of NSDI I.

■ European integration

For starters, the country's greatest achievement was the granting of the candidate country status by the EU Council of Europe on June 27, 2014. Further, in 2010 Albania became a full-fledged member of the

⁸ A midterm assessment of the NSDI I was conducted in 2011, with the support of the Integrated Planning System Trust Fund administered by the World Bank, and funded by the European Union, the Swedish International Development Agency, and the Austrian Development Agency. The present section is for the most part a brief update of the midterm assessment.

North Atlantic Treaty Alliance (NATO),⁹ and has signed the SAA with the EU.¹⁰ Albanian citizens are free to travel with no visa in the Schengen area, thanks to liberalization of the visa regime with the EU.¹¹ Albania scored high among middle income countries, according to the World Bank classification. In addition, Albania was for the first time a selected member of United Nations Council for 2015–2017.¹² All of these events have been deemed as important steps toward the initiation of a new phase in the country's EU integration process.

The main factors behind this new status can fulfill a broad range of political and economic criteria and EU requirements. From the perspective of political criteria, this is particularly valid in terms of the constructive cooperation between the parliamentary majority and the opposition regarding the priorities of the integration process, the parliamentary elections of June 23, 2013, the anticorruption measures, as well as measures against organized crime.

In order to expedite the opening of accession negotiations, the Government of Albania drafted and is implementing a road map for meeting the five priorities recommended by the European Commission in its Enlargement Strategy for 2013–2014.^{13,14} These priorities are given in more detail as part of Section 7, and are the following:

1. Public administration reform;
2. Independence, efficiency, and accountability of the institutions of the judiciary;
3. Fight against corruption;
4. Fight against organized crime; and
5. Protection of human rights (including the rights of Roma community, antidiscrimination policies, and implementation of property rights).

These five key priorities also represent the framework of reforms that need to be expedited during 2015–2020, which coincides with planning of NSDI II and IPS.

The roadmap is an important demarcation point in the country's path toward EU integration. On the one hand, it marked the culmination of intensive but constructive consultations between the government and the European Commission. On the other hand, it marked the launch of a very determined and greatly structured action plan in the continuous and long-term fight of Albania against corruption and organized crime, reform in the public administration and civil service, strengthening of the judiciary, and better performance in the protection and enforcement of human rights, including property rights.

⁹ NATO membership, on April 4, 2010 at the Bucharest Summit.

¹⁰ Effectiveness of the Stabilization-Association Agreement, April 1, 2009.

¹¹ EU Visa Facilitation Agreement and Readmission Agreement (2010).

¹² Elections of October 21, 2014, 69th Sessions of UN General Assembly.

¹³ Adopted by DCM no. 330, May 28, 2014, "On Adoption of the Guidelines for Five Priorities Recommended by the European Commission, 2013."

¹⁴ http://ec.BEropa.BE/enlargement/pdf/key_documents/2013/package/strategy_paper_2013_en.pdf

The government has reiterated the strategic aspects of these challenges: support of achievements; continuing on the same path; further investments in planning; coordination, attraction, and sustainability of key reforms. To this end, the government will implement measures that address the five above mentioned priorities, in the context of the broader and longer-term national plan of European integration, which covers all aspects of the EU integration process, including the accomplishment of the Copenhagen political criteria.

In terms of meeting the economic requirements, Albania has continuously advanced toward the establishment of a functional market economy, and the preservation of the macroeconomic stability through a sound monetary policy, despite the decline in the scale of growth of the GDP since 2009. However, the global financial and economic crises of 2009 is perceived to have had an impact on the country, reiterating the need and the reaction of the government to focus on economic growth and competition. Attention to these areas will be accompanied with improvements in overall economic governance and the investments climate in order to meet certain criteria for EU integration. Important aspects that address macro-economic and fiscal stability (debt and deficit), foreign direct investments (FDIs), business climate, economic integration in the EU, and related areas are addressed under Section 9 of this document.

In summary, the government holds that a sustainable market economy and a competitive business environment cannot be guaranteed or supported in their development without rule of law, a sustainable and professional public administration and civil service, the will and capacities for law enforcement, or an independent and efficient judiciary.

In meeting the requirements for European standards, Albania has in general met the SAA requirements, according to the established deadlines and joint EU-Albania recommendations. Albania has gradually approximated its legislation with the EU Acquis in a broad range of sectors, ranging from the free movement of goods up to the free movement of capital, to public procurements, competition and transports, etc. The successful implementation of the SAA so far has yielded positive results, in particular with regard to the introduction of a free trade area between Albania and the EU.

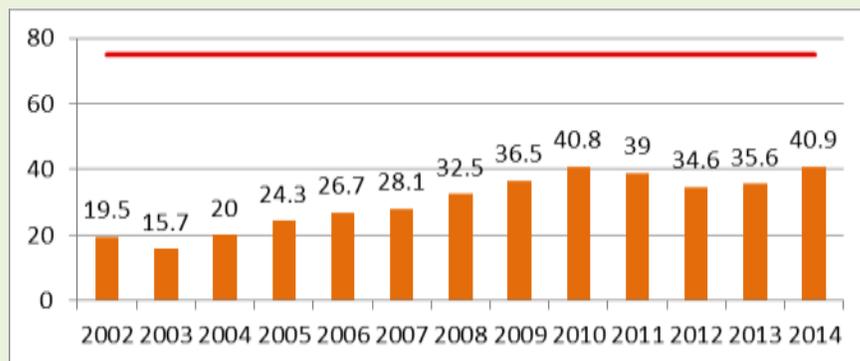
As reported in the most recent EU Progress Report for Albania in 2014 and 2015, the government should take further actions for advancing harmonization of the national legislation with the EU Acquis. These actions and related challenges are addressed in detail in Part III of this document.

■ Democratization and rule of law

Albania has made progress in the consolidation of the judiciary, despite the fact that efforts have been more guided toward operational measures such as the modernization of infrastructure, and partial introduction of IT to improve communication with the public. In several instances legal changes were introduced with the view of improving certain aspects of the organization of the judiciary and governance, based on the principle of “checks and balances.” These include, for instance, the approval of laws for the establishment of the Serious Crimes Court, and the Administrative Court, and changes to the law on Supreme Court and the High Council of Justice.

Despite the reforms that have been carried out, the judicial system is still perceived as highly corrupt.¹⁵ Albania ranked 59 out of 102 countries in the 2015 Access to Justice Index, and it ranked 101 out of 142 countries in the 2014 Judicial Independence Index.¹⁶ According to measurements of the World Bank Institute about the rule of law indicator (one of the key corruption indicators), Albania in general made visible progress from 2002–2014, as illustrated in Figure 1, despite a drop during 2010–2014. The ranking of 40.9 for 2014 is far below Millennium Development Goal (MDG) for 2015, where the targeted level is 74.¹⁷

Figure 1. Rule of law, 2002–2014



Source: World Bank Institute/MDGReport 2015

The Council of Europe Progress Report for Albania,¹⁸ draws attention in particular about operation of the Judiciary, indicating *inter alia* that “the Judiciary system is in its early stages of preparation, “while pointing to the fact that there is widespread corruption in the justice system. The report indicates that there has been some progress with the establishment of the ad-hoc parliamentary committee for the justice reform, in November 2014, while reiterating as a priority the adoption of a strategy and action with broad consultation to guide the reform and to implement relevant concrete measures.

The main areas that require focused attention *inter alia* include the need for: (1) increasing independence and impartiality of the judiciary, including the removal of potential for politicization; (2) increased transparency and issues related to the appointment, promotion, transfer, appraisal, and security of judges; (3) speeding up the allocation and management of judicial cases; (4) full harmonization and unification of the case law system; (5) ensuring better public access to more complete information (e.g., on court rulings); (6) clarification of the role and accountability of judicial

¹⁵ INSTAT, “Corruption in Albania: Bribery as Experienced by the Population,” UNDOC, 2011.

¹⁶ These two indices comprise the composite used by the EU in its ISP 2014–2020 table 2 composite sector indicator to measure judicial reform. Access to justice is the seventh factor in the World Justice Project’s Rule of Law Index, and measures whether civil justice systems are accessible and affordable, free of discrimination, corruption, and not improperly influenced by public officials. Judicial Independence is the second index used by the EC, and is one of several used in the World Economic Forum’s Global Competitiveness Index.

¹⁷ Albania’s MDG performance has been assessed and is presented in the report “Millennium Development Goals in Albania: 2015,” prepared by the Government of Albania and the UN, August, 2015.

¹⁸ EU Progress Report, 2015

institutions; (7) combating instances and/or allegations of corruption; and (6) increasing efficiency and capacities of judicial institutions.

Reforms in property rights continued, mainly in service provision related to property transactions. The provision of online services through the “one-stop shop” concept reduced the time needed for property registration, and enhanced transparency. However, the reform contributed little to the safeguarding of ownership rights and the elimination of legal uncertainty. The legalization of construction is not complete and the restitution and compensation of ex-owners was not properly addressed. Albania’s ranking on the 2013 Property Right Index was at the bottom in comparison to other countries in the Balkan region, as illustrated in Figure 2.

Among the many issues to be addressed is the need to finalize the first registration of properties in order to ensure certainty of ownership and to resolve disputes associated with ownership. Indeed, these and other issues in securing property rights and establishing a sound system of land management are numerous; they are complex and they will need a long time to resolve. For these reasons, the government identified property and the sustainability of land management as one of its six key priorities. The issues and challenges will be further addressed under Section 5.5, as well as under Section 10.1 that looks at the sector as a whole.

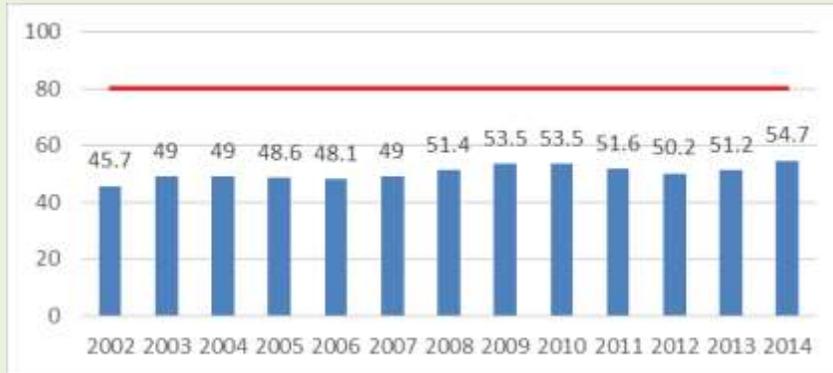
Figure 2. Property rights index, SEE countries



Source: World Economic Forum (Global Competitiveness Index)

There has been progress in public procurement as regards support of anti-corruption measures through the introduction of the e-procurement system. In addition, the introduction of e-tax and e-customs systems have reduced possibilities for corruption and fiscal evasion. However, the Council of Europe Progress Report for 2015 reiterates that: “there is widespread corruption and there is need for more efforts to have a solid track record of investigations, criminal prosecution, and punishment at all levels, in particular for cases with the involvement of senior government officials.”

Albania’s ranking in terms of “Voice and Accountability,” one of the key indicators of corruption of the World Bank Institute has shown fluctuations in the course of the several past years. Following a decline in 2011–2012, there was an increase in 2014, with an appreciation of 54.7. However, the MDG for anticorruption for 2015 for 81 is still unmet (Figure 3).

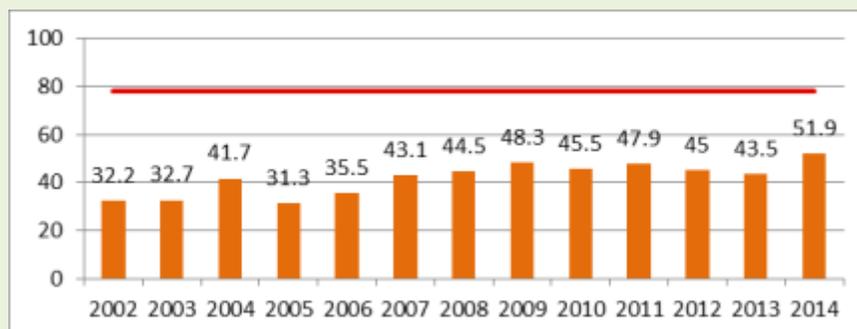
Figure 3. Voice and accountability, 2002–2014

Source: World Bank Institute/MDG Report 2015

The decision to grant Albania candidate status was based, in part, on the condition that the government must continue its fight against corruption and organized crime. To this end, the government approved the Anti-Corruption Cross Sector Strategy: 2015–2020, in March 2015, wherein it is stated that corruption continues to be “the main obstacle to sustainable political, economic and social development . . . In 2013, for the third year in a row, based on the corruption perception index, Albania was . . . last among other countries of the region, being thus marked as the most corrupt country in Europe.”¹⁹

Given that corruption is extremely complex and affects many sectors, the government has appointed a national Anti-Corruption Coordinator; it has also established a network of persons responsible for the fight against corruption in all line ministries. Still, the biggest challenges lay with regard to law enforcement and in the coordination of the work of the institutions, as well as in the necessary legal changes to ensure efficiency in the fight against corruption. Greater attention should be paid to the fight against corruption in the educational and health sectors, which currently represent a source of major concern.

Public administration and civil service reforms were improved through legal changes for the consolidation of the operation of an efficient institutional network, and to ensure a more sustainable and professional administration.

Figure 4. Good governance effectiveness, 2002–2014

Source: World Bank Institute/MDG Report 2015

¹⁹“Inter-Sectorial Strategy against Corruption: 2015–2020,” adopted by DCM in March 2015.

The World Bank Institute Government Effectiveness indicator demonstrates many fluctuations between 2002 and 2014, with 2014 marking the peak at 51.9 compared to other years (Figure 4). The implementation of the Civil Service Law and of the National Cross-Sector Strategy on Public Administration Reform, 2014–2020, which was adopted in early 2015, are expected to address the challenges that are aimed at enhancing government effectiveness. It is of paramount importance to ensure that the civil service is more professional, modern, depoliticized, and based on merit.

■ Growth and economic development

The Albanian economy has shown good progress in terms of growth, with an annual real growth of 3.1% during 2008–2015, as is addressed in detail under Section 4 of this document. Monetary policies have played an important role in alleviating the aftermath of global financial crises, and ensuring macroeconomic stability. During the global crises of 2009–2013, the growth of GDP slowed, but during 2014–2015 growth rates resumed, creating growth expectations for the next period.

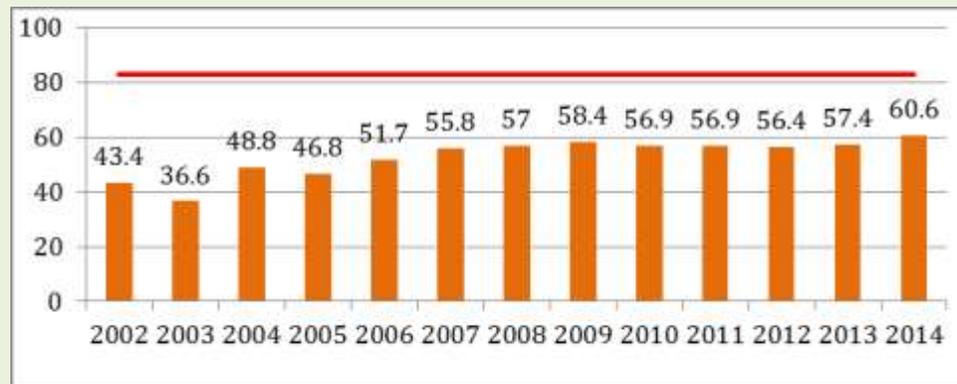
One of the important factors in avoiding recession during the global crises were the strong fiscal incentives injected in the economy in 2009 through the fiscal expansionary policy. Yet domestic debt escalated to 72.5% of the GDP until the end of 2015, due to the government's failure to settle a considerable amount of arrears due to businesses in the last three to four years, leading to a weakened liquidity and trust in the market. In 2014, the government launched a series of successful short-term measures for improving public financial management, and ensuring macroeconomic stability through adoption of: (i) a Strategy for the Prevention of Future Arrears and the Settlement of Existing Ones in 2014; (ii) while settling debt arrears accumulated during 2014–2015, with the support of International Monetary Fund and World Bank loans; (iii) stabilizing with the growing trend of economic growth during 2014–2015; (iv) and regulatory measures aimed at fiscal and financial consolidation.

A cautious monetary policy has played an important role in alleviating the aftermath of the global financial crises. Reforms focused on the harmonization of instruments of monetary policies with the ECB standards and the introduction of new elements—with the view of deepening the money market and ensuring greater flexibility in the management of liquidities—strengthen the trust in the banking system for the implementation of the monetary policy, and the development of the interbank market.

Progress is also been made with regard to further consolidation of budgetary planning and its linkage with the government's priority policies. One of the main achievements of NSDI I with regard to public finances was the institutionalization of the Medium-Term Budget Program, as an instrument for budget reconciliation with sector policies. Public expenditure management and monetary instruments were further consolidated with the introduction of the Automatic Treasury System, strengthened internal audit of public finances (to ensure alignment with EU standards), expansion of the tax base, and alignment of the customs systems with the requirements of the World Trade Organization.

There has been progress regarding establishment of a favorable business climate. In the most recent Doing Business Report for 2015, Albania has demonstrated significant improvement in the overall score, in particular regarding “ease of doing business.”

Figure 5. Regulatory quality, 2002–2014



Source: World Bank Institute

Until 2015, Albania’s rank in the Doing Business Indicator was sixty-eighth, a significant improvement from the ranking of 108 in 2014, and 136 in 2008. Improvement in the Doing Business Indicator is at the core of reforms to lead to increased competitiveness and innovation, increased flows of Foreign Direct Investment, and overall economic growth. In the course of 2007–2015 policies were implemented aimed at reducing red tape, together with reforms in the tax area, while strengthening e-governance. In general, regulatory quality remains an indicator with a very positive and growing trend, as illustrated in Figure 5, within its peak in 2014. However, the goal of eighty-three for 2015 in the context of MDGs remains well below the target.

The Small and Medium Enterprises Sector continues to represent a very important component of the Albanian business economy, accounting for 81% of employment (EU average: 67%), and providing for approximately 70% of the value added (EU average: 58%).²⁰The current distribution of active enterprises, according to the sectors of the economy is as follows: trade (43.4%), hotels and restaurants (16.2%), transport and communication (9.9%), industry (9.6%), construction (4.3%), agriculture and fishery (1.7%) and other services (14.9%). However, despite positive growth of SMEs there have been considerable inequalities among the regions.

There are major public investments ongoing in infrastructure, as part of the key support for the development of all other sectors of the economy. Attention has focused on the integration with regional networks, improvement of services for the population, and creation of a sustainable environment. Road transport was the main focus during 2007–2013, in particular the North-South Corridor, the nation’s highway that connects Kosovo with the North-South Corridor and the Durrës port, and the construction of VIII Corridor. These investments represent a considerable contribution in connecting with Balkan

²⁰European Commission, “Enterprise and Industry 2014 SBA Fact Sheet – Albania” (Small Business Act for Europe).

infrastructure networks, and with the long-term goal for the future integration in the pan-European transport networks.

Since 2014, Albania was actively involved in the Berlin Process launched by the German government, with the view of further fostering the political dialog and economic development of the Balkan countries, in the context of the joint EU membership perspective. This process began with the High Level Conference in Berlin, in August 2014, and provided for a framework for promoting the dynamics of efforts for EU membership of the countries of the Western Balkans. The Government of Albania deems this process as a vision “for a region of peace and well-prepared for EU membership, while guaranteeing a dignified life for its citizens.”²¹

In the framework of this process several financing instruments of the EU and member countries were outlined and translated into concrete projects aimed at linking the regional infrastructure with that of the EU and generating economic growth and promoting welfare in the region. The South East Europe Transport Observatory deems that this infrastructure will be worth 7.7 billion euro in terms of priority projects. Results of a study conducted by the Vienna Institute for International Economic Studies indicate that such a comprehensive infrastructure investments package totaling 7.7 billion euro would be conducive to an economic growth of 1% for all countries of the region for a period of fifteen years. In addition, the project is believed to generate 200,000 new jobs in the region.

Liberalization of the energy market in the course of 2011–2013 did not bring about the expected progress in the country’s development. On the contrary, privatization of the distribution sector led to instability in the country’s macroeconomic situation due to the unsuccessful privatization of the Power System Distribution Operator (OSHEE). Power losses increased, while the tariff collection rates fell. In addition, during 2007–2013, the sector continued to be characterized by high losses in transmission and distribution networks, low tariff collection rates, and high rates of bad debt. Currently, the sector is one of the six medium-term priority sectors of the government, where intervention has focused on the introduction of effective measures for proper management of the sector and increasing the rates of investments in the sector. Consequently, during 2014–2015, financial aspects were stabilized, while there was an increase in the collection rates. There are still many key challenges ahead that need to be addressed with regard to efficient and management of the sector and the liberalization of the energy market, with the view to ensure a safe and affordable power supply.

During 2007–2013 the approach followed in water-related sectors was a fragmented one. Despite high rates of investments in infrastructure in the water and wastewater sector, the situation during 2008–2013 was characterized by several problems regarding: (i) water supply for the population, (ii) poor management of water and wastewater utilities, (iii) high levels of losses in the network, (iv) and low levels of coverage of the wastewater treatment service. The same situation applied to the irrigation and drainage infrastructure during 2007–2013, accompanied by low levels of efficiency, with an impact on the agricultural development. This trend changed during 2014–2015, since in the course of 2015–2017 there is a plan for ensuring irrigation of 210 thousand hectares of land (through state budget funds and the

²¹http://www.punetjashtme.gov.al/files/news_files/Albanian_Working_Paper_for_Berlin_Conference_28_08_2014.pdf

World Bank Water Resources and Irrigation Project) and improvement of drainage for 270 thousand hectares of agricultural land.

Given the importance of water, since 2014 the government has been following an integrated water management approach, which is one of six national key priorities. A water IPMG has been established. The IPMG is chaired by the prime minister, while a national sector program is being drafted, and is expected to ensure sector coordinated policies.

Efforts to ensure progress in the waste management sector have been insufficient to address the many challenges of the sector. The waste strategy approved in 2010 failed to translate into a useful tool for guiding interventions and investments, which have been very low. The need for a more operational platform for the sector has guided the preparation of a master plan for the sector, which has been underway since 2015, and will contribute to the prioritization of interventions and the shaping of a realistic and enforceable sector policy.

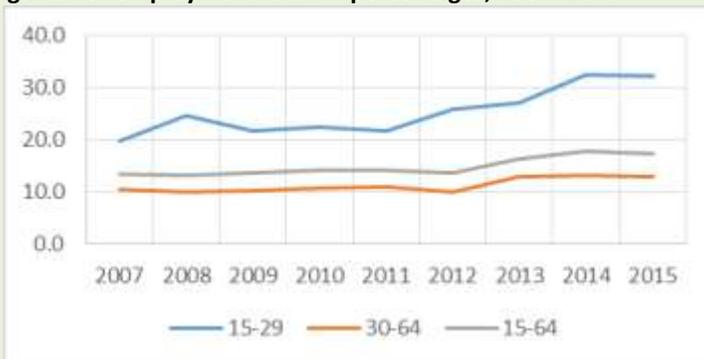
In terms of the Information and Communication Technology sector, and the information society in general, the electronic communication market is liberalized. There is internet in the entire country. This liberalization includes the expansion of electronic services (for instance, the establishment of the National Center for Licensing and National Center for Registration, expansion of Gov Net infrastructure, e-taxes, e-procurement, e-customs, and e-patents). A number of laws were passed in line with EU standards. The challenge remains intensification of use of ICT in light of assuring better quality services for citizens, with the view of strengthening good governance.

■Policies and social development

The focus of policies during 2007–2014 was on promoting employment, the generation of new jobs, the consolidation of social support and social protection, and the modernization and improvement of quality of the health and education sectors.

In the labor market, the unemployment rate showed slight fluctuations over the years (Figure6). There is a growing trend in unemployment, and in 2015 it reached 17.5% for those aged 15–64 years old, compared to 2007, for which the figure of unemployment was at 13.5%. Unemployment was substantially high among youth (15–29 years old), rising from 19.8% in 2007 to 32.5% in 2014). In response to this situation, the government has implemented policies for the generation of new employment, including the expansion of Vocational Education Training (VET) public centers, linking VET more closely with the labor market, strengthening training capacities, etc. This policy has begun to yield its first results, and in the third quarter of 2015, youth unemployment was at 32.3%.

Figure6. Unemployment rates in percentages, 2007–2015



Source:INSTAT

Poverty alleviation and social inclusion are at the core of the national development policies. The most recent trends demonstrate that the scale of poverty is a direct

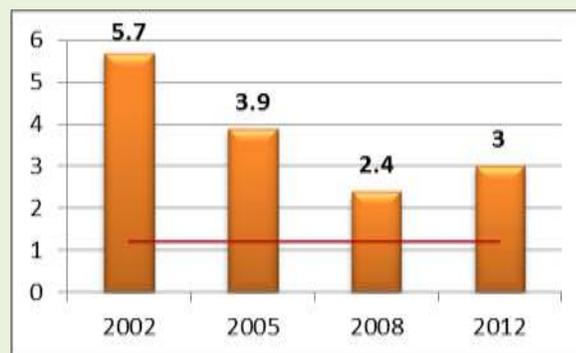
expression of social exclusion. Relative poverty is growing, and was at 14.3% in 2012,²² having grown from 12.4% in 2008, and was accompanied by a broadening of the poverty gap among regions. The percentage of persons living in extreme poverty almost doubled during 2008–2012, from 1.2%, which was the figure for 2008 to 2.2% in 2012. The poverty gap, as illustrated in Figure 7, fell from 5.7 in 2002 to 2.4 in 2008, but experienced an increase of 3.0 until 2012. On a positive note, there was a decline of 11.8% in the number of poor persons living in rural areas during 2008–2012. Policies and investments in these areas remain an important challenge for the future.

There has been progress in the area of social protection, as regards strengthening of control over payments and the decentralization and quality of services. However, certain vulnerable groups such as Roma and Egyptian communities, persons with disabilities, and the elderly are faced with difficulties in living conditions, and often times are subjected to exclusion from health care, education, and other governmental services.

The poverty gap is defined as the mean shortfall from the poverty line (counting the non-poor as having zero shortfall), expressed as a percentage of the poverty line. This measure reflects the depth of poverty as well as its incidence (World Bank, Development Research Group).

The poverty gap is also used as part of Albania's first Millennium Development Goal. The 2012 target was 1.2.

Figure 7. Poverty gap in Albania, 2002–2012



Source: LSMS/INSTAT

Achievements in the health system consisted in the improvement of the operation of primary, secondary, and tertiary health care, and in the continuation of strengthening their administrative and financial autonomy. Today, Albania has in place a compulsory immunization scheme against key childhood diseases that covers over 97% of the country's children. The Health Insurance Institute has strengthened its role as a sole purchaser of healthcare services. Yet again, major challenges lay ahead in terms of deteriorating and inadequate medical facilities, unequal access to healthcare, underfunding, and inadequate staffing.

While the number of primary health care facilities is over 400, private secondary and tertiary healthcare remains limited. Expenditure for hospitals account for approximately 55% of the overall health care budget, which explains the improvement in hospital infrastructure. Approximately 70% of the population regularly uses the public healthcare system. Albanians are healthy, according to regional standards, but the country needs to guide the healthcare system toward reduced mortality rates, and increasing risks on the health of the population.

²²INSTAT, Living Standards Measurement Survey – LSMS.

Reforms in the education system resulted in improved teaching and learning conditions, moving Albania closer to EU average indicators. The internet has been installed in all schools thereby expanding significantly the possibilities for new methods of teaching and learning, but this infrastructure is beginning to deteriorate. Public expenditures on education are low at 3% of the GDP, and explain in part the fact that Albania continues to have gaps in years of schooling, enrollment rates at the secondary level, the quality of curricula and teaching, and in relevance to the economy. In higher education the main achievements were in improving the access and participation of young people, and in the implementation of the reformed three-cycle studies, in line with the Bologna Process. The number of enrolled students in higher educational institutions increased from 90,205 in 2007 to 145,028 in 2013–2014, a significant 60% increase, but the increase in teaching staff was only half that rate, resulting in reduced quality in teaching delivery.

■Urban, rural, and regional development

Albania's legal framework as regards territorial planning and development has recently suffered many changes. As of October 1, 2014, there is a new law in place (no.107/2014, "On Territorial Planning and Development"). Albania has adopted the legal framework regarding the procedures and requirements for issuing construction permits, as well as planning instruments and development regulations. The growth of small and medium enterprises has generally followed a positive trend throughout the country, while there is inequity in the development of the regional economies, which is reflected in the number of small and medium enterprises established at the regional level. Empowerment of the Regional Development Fund is expected to play a key role in promoting a balanced and sustainable development of the regions and fostering local and regional economic potentials.

Agriculture continues to be one of the most important sectors, with potential for future development, while also remaining the main sector of employment, with approximately 52% full-time employees. Even though there are no accurate data, it is believed that more than two-thirds of general agricultural land is in use. In order to secure financial support, and to promote crediting in agricultural and rural development, the establishment of the National Guarantee Fund for crediting agriculture and rural development was approved in 2015.

2.2 Lessons learned

The implementation of the NSDI I commenced in 2007 and was extended to 2014. This eight-year period was formative and a learning experience in many ways: it addressed the setting up of the original Department of Strategy and Donor Coordination at the Council of Ministers; it marked the introduction of new mechanisms and the expansion of the existing ones for policy coordination (such as sector working groups); it involved the continued roll-out of major components of the IPS; and it pursued major investments in the development of sector and cross-cutting sector strategies. A lot of this was pioneering work for the government, and a number of lessons were learned.

■Capacities and needs

NSDI I failed to sufficiently address the aspect of capacities required for the implementation of policies, absorption of considerable financing levels, or capacities that were required for the continuation, and the preservation or operation of implemented reforms. Different capacities required for their successful implementation were not sufficiently understood in all cases. Sustainable human and institutional capacities require a more comprehensive and strategic approach, and instruments such as the regulatory impact assessment should be used in a more systematic fashion. These aspects of implementation, *inter alia*, get more broadly addressed in Part IV of this document.

■The complexity of the strategy

Despite the logical structure of NSDI I in three main pillars, building it around thirty-seven sector and cross-sector strategies proved to be complex. Some specific strategies failed to be drafted, or were alternatively drafted and adopted with delays. Even though the government has reduced the number of adopted key strategies, there are still a considerable number of support strategies, long-term programs, and master plans. The aspect of complexity is also related to the definition of priorities. Under NSDI II, the policy priorities are clearly defined and get addressed in the Six Key Priorities of the Government (Section 5), medium-term national development priorities, and EU integration priorities (Section 6), as well as agreed specific priorities that stem from Council of Europe annual progress reports (Section 7).

■Performance measurement

NSDI I included a considerable number of indicators through which to measure progress in the implementation of the strategy. For both NSDI products, as well for specific sector strategies, measuring performance has proved to be too difficult and complex a task. Broadening the processes of understanding, acceptance, and implementation of results and evidence based decision-making is a lengthy, time consuming process, and requires considerable investments in the training and preparation of support systems. NSDI II pays more attention to measurement and reporting on the progress, in particular as regards: (i) a broad range of goals and indicators, cross-cutting sector and program areas addressed under Part III of this document; (ii) agreed goals and indicators regarding Indicative Strategy Paper, 2014–2020 (to be discussed under Section 7); and (iii) the inclusion of Sustainable Development Goals in NSDI II, with particular attention to agreed goals and indicators under Sustainable Development Objectives about governance.

■Accountability and reporting

The systems and procedures under the IPS for routine monitoring and reporting of the NSDI and the sector strategies in many instances were not effective. The goal was for each ministry to report about its progress on an annual bases, based on its integrated plan. The reports of the ministries would serve to complement an annual progress report of NSDI, tailored mainly for the broad public. These annual reports were incomplete and drafted with delays, thus having no impact on the policy-making cycle. A more practical approach regarding monitoring and reporting, including coordination, is addressed in detail under Part IV of this document.

2.3 Triggers of change

Reforms in the Albanian economy and society, or in the intrinsic democratic systems of its governance, have not occurred in what could be considered an organic way. On the contrary, reforms and changes in Albania during the last 25 years were driven by a number of internal and external factors, the most important of which was the country's transformation from a highly centralized system to a democracy based on the principles of open market, greater decentralization, more freedoms, and human rights. This necessary transformation, accompanied with the aspiration of Albania to become an EU member, will continue to be the main trigger of change for the future.

However, during each major planning, other and different important drivers of change come into play that are taken into account in the national development policies and strategies. For NSDI II, the main drivers behind change include:

■Citizens and demands

With the new government coming into power, the main impetus for change and reforms was the response to citizens' demands for more qualitative, timely, safer, more accessible services, and for more accountability, transparency, and more cost effective services. At the center of the country's development are its citizens, civil society, and the respective market/business organizations. The government's Six Key Priorities, together with all sector and cross-sector strategies will be increasingly driven by the citizens and the demand side of operations, and will be guided by the services of the government. Consequently, the goal is to transform the existing system, by making it into a new model for service delivery, with the citizens at its core, while fighting corruption through innovation and modernization.

■EU integration

The SAA and all other related agreements entered into by the government, as well as obligations resulting from them, will continue to exert significant pressure on the government and all sectors of the economy to live up to these agreements. This external driver of change will increasingly be internalized as Albanian institutions respond to demands for greater performance across all criteria for EU integration. The benefits of EU integration are seen by both the government and the population to far outweigh the costs and the adjustments that need to be made.

■Global financial crises

The effects of the global financial and economic crisis—primarily external—have had long-lasting impacts. This crisis is far from over, as it reaches into national issues beyond simply remittances, trade, banking, or fiscal considerations, but to issues of national sovereignty and survival. Albania will continue to monitor, analyze, and respond to this evolving crisis through major policy actions in monetary, fiscal, and other macroeconomic policies and strategies, and these strategies will have secondary or collateral change impacts on all sectors of the Albanian economy and society.

■Energy and water

The national obligation for affordable, sustainable, available, and safe water and energy resources will in the predicted future constitute a key driver of major changes and development in all these sectors and the support sectors. In addition, the government has responded to the requirements for change in these areas through two out of its six key priorities. But, in order for these priorities to be delivered and sustained for a long time it is important to have in place carefully drafted and implemented broader sector strategies, as well as integrated sector management systems and citizen-centered services.

■Information and communication technology

The introduction of ICT in a broad range of the government’s functions has had and will continue to have a transforming effect on the ways governance operates, on the type and modalities for service delivery, and on the types of businesses and sectors of the economy with growth potential. Together with other forms of technological changes and innovations, the Government of Albania and private sector institutions will not only have to react toward the drivers of change, but also actively seek opportunities for change, greater competitiveness, and growth and development in general.

Needless to say, other drivers of change and reforms will need to factor in the country’s national development and the EU integration policies and strategies. These, *inter alia*, include climate and environmental changes, demographic changes, other regional and global conventions and agreements, including, among other things, NATO membership and national/regional security. However, the abovementioned five drivers are those expected to have a more important impact on the national development policy during the planned period of NSDI II for 2015–2020.

3.0 NATIONAL DEVELOPMENT AND INTEGRATION PRIORITIES

3.1 The national vision

Having achieved candidate status for EU integration and obtaining membership in the Euro-Atlantic community, Albania is positioned to secure major advances in its national and long-term development aspirations over the 2015–2020 planning period. The many successes over the past several years, combined with important lessons learned, need to be consolidated. Albania’s development potential continues to be considerable in terms of both its human and natural resources, and in terms of its relative economic and geographic positioning within the region, Europe, and beyond.

The many investments made in infrastructure—especially transport—in the development of a buoyant business climate, and in strengthening its human, social, economic, and democratic foundations, will see Albania graduating from a middle-income country, to upper-middle income and then to a fully developed and eventually to an advanced economy. This second National Strategy for Development and Integration sets the following vision for 2015–2020:

Albania: a strengthening democracy, on the path toward its integration with the European Union, with a competitive, stable, and sustainable economy, and with guarantees of fundamental human rights and liberties.

Realization of this vision will be translated into three main outcomes:

- Sustainable economic, environment friendly growth throughout 2015–2020, ensured through increasing macroeconomic stability, a more competitive and innovative business environment, and through the more sustainable use of resources, all of which build on Albania’s long record of strong growth over the last two decades.
- Using enhanced wealth from this long period of growth, the generation of greater well-being among Albania’s citizens in an increasingly cohesive society that tends to the needs and rights of all of its citizens.
- Being in a position, by 2020, to demonstrate to Albania’s partners in the EU that its institutions and its society are well on their way to successfully completing the negotiations for Albania to become a full rights member of the European Union.

3.2 Pillars of national development and integration policy

Albania’s aspirations for national development and European integration can best be met through the articulation of specific priorities and policies and their broad acceptance among all segments of governance and society, with the agreement of Albania’s closest development partners.

The vision of NSDI II is based on the delivery of the main objective (“the roof”) and four strategic policy pillars (the schemes). Each pillar is focused on the key dimension of national development and integration, and is translated into strategic objectives, outcomes, and expected impact (Figure 8).

Figure 8. Pillars of the National Strategy for Development and Integration, 2015–2020



■ Major objective: EU membership

The government vision and priority for EU integration enjoys full political consensus and popular support. The successful opening and conclusion of negotiations for Albania’s European integration process remains the signal priority over the implementation period of NSDI II. Albania’s progress—EU integration, accession, and then membership—depends on the successful fulfillment of many complex and interrelated conditions that were set out and agreed to in the SAA, and among which five areas have been set by the EU in its Enlargement Strategy 2013–2014. Achievement will be measured through:

- Public administration reform, stable institutions, and a modern, professional, and depoliticized civil service;
- Strengthening the independence, efficiency, and accountability of judicial institutions;
- Increasing the fight against corruption;
- Increasing the fight against organized crime; and
- Ensuring the protection of human rights (including property rights).

European integration not only brings the prospect of EU membership, but the very process of accession itself presents a unique opportunity to stimulate growth and development and to enhance well-being among all of Albania’s citizens.

■Foundation: Consolidating good governance, democracy, and the rule of law

Strong, effective, and democratic government institutions are Albania's foundation for competitiveness and growth. They are essential for EU membership. Good governance in Albania defines well-functioning legal and regulatory frameworks for businesses, social groups, and individuals, and embodies the key notions of transparency, accountability, participation, and client-oriented service delivery. These foundations will be strengthened and consolidated through:

- A fully functional and open judicial system with equal access for all;
- Stronger and more effective legislative and electoral processes;
- Consolidated and integrated border management that ensures open and safe borders;
- The creation of an albanian society free from organized crime and terrorism;
- An effective and broadened system of public order;
- The establishment, respect for, and safe guarding of human rights and guarantees;
- A reformed public administration and modern, professional civil service;
- A more integrated and concerted approach in the fight against corruption;
- Decentralized government services and empowered local government;
- The provision of quality and comparable statistical information;
- A strengthened and active foreign service;
- Enhanced national defense of Albania through a more professional armed forces; and
- Better cooperation and partnership between government and civil society, including the existence of a free and independent media.

■Pillar 1: Ensuring economic growth through macroeconomic and fiscal stability

Economic growth and the sustainable development of Albania will have a greater chance of success by ensuring macroeconomic and fiscal stability, especially in light of the economic, political, and financial uncertainties within the region and globally. The levels of national debt and budgetary deficits will be reduced to manageable and sustainable levels through:

- A reduction in the national debt to below 60% of the GDP by 2020, putting public finances on a sustainable footing; and

- A reduction in the annual deficit to 1% of the GDP by 2020, and the efficient execution of the state budget.

■Pillar 2: Ensuring growth through increased competitiveness and innovation

Increased productivity in both labor force and businesses represents a key input to greater competitiveness in the Albanian economy. Productivity and competitiveness are among the most important challenges to sustained growth in Albania. Access to growing markets will convert competitiveness into economic growth. The guarantee of property rights and increased flows of foreign direct investment combined with research and innovation will combine to foster a dynamic business environment in Albania through:

- A guarantee to property rights;
- The promotion of business and direct foreign investment;
- Research and innovation capable of dealing successfully with future challenges;
- A society based on knowledge and information;
- A stable policy environment that provides planning reliability for investors;
- Consumer safety and honest, safe, and competitive market; and
- The protection of competition and a transparent system for state aid control.

■Pillar 3: Investing in human capital and social cohesion

The most important resource in Albania is its people, and by extension its society and culture. It is in these segments of the state that all those values essential to freedom, equality, well-being, and the security of person and property are embedded. Along with systems for good governance, democracy, and the rule of law, it is the human and social dimensions of Albania that underpin economic growth and prosperity through:

- A modern educational system that has students' needs and interests at its core;
- A universal and quality health care system accessible to all resident albanians;
- Expanded opportunities for decent employment for all women and men in Albania;
- A financial sustainability social security system;
- A stronger social protection system;
- Social inclusion where society enables all albanians equal access;

- Gender equality and equality of opportunity;
- A vibrant arts and cultural heritage;
- Greater access to and involvement in sports; and
- Greater and more focused support of the youth of Albania.

■Pillar 4: Ensuring growth through connectivity, the sustainable use of resources and territorial development

The vision and priorities of the government in terms of economic growth takes into consideration the vision for EU accession to ensure the development of a productive and competitive Albanian economy based on a balanced and sustainable use of resources. This pillar also takes into consideration the regional approach concerning connectivity in the framework of the Berlin Process. Investments in the country's infrastructure—energy, transport, natural resources and the environment, agriculture, mining, tourism, water—will expand opportunities for business and the economy, will increase the well-being for all Albanian citizens, and advance the country on its path to integration into European systems through:

- A cost-effective and sustainable energy system based on market principles;
- A national and integrated transport system;
- A growth-conducive more diversified agricultural and agro-food sector;
- Dynamic and balanced regional development;
- A healthy and sustainable environment;
- A sustainable and diversified mining industry;
- A recognized and attractive tourism industry;
- Improved water supply, sewerage, and waste management systems;
- Increased coverage of urban wastewater treatment plants for the population;
- Sustainable management of water resources;
- Strengthened measures on adaptation to climate change and flood protection; and
- Strengthened territorial and urban planning with the view to ensuring sustainable development.

3.3 Principles of national development and integration

Albania’s vision and strategic priorities are based on a sound knowledge of the factors for European integration and national development. The development of the NSDI II was guided by a number of underlying principles, some of which are articulated in a range of international conventions and agreements;²³ others emerged and were applied during the processes of consultation and policy analysis. Principles have also been applied to the development of specific sectorial and cross-cutting sectorial strategies and plans, such as principles for fair trade and good public financial management, or the principles of the EU Charter for Local Self-Government, and so forth. However, certain higher-level principles underpin the vision of the NSDI II as a whole. These are:

■The principles of sustainability

The NSDI II is based on the application of globally accepted principles of sustainable development, including those of the European Commission’s Declaration on Guiding Principles for Sustainable Development. Among the many principles that are integral parts of sustainability, particular focus is given to the following:

- Human development and social cohesion, where Albanian citizens are at the core of the development, in a free, democratic, socially inclusive, cohesive, healthy, safe, and just society, with due respect for fundamental human and civil rights, and a rejection of all forms of discrimination.
- Environmental preservation, through the promotion of sustainable production and consumption, the prevention of environmental degradation, water resource depletion, the integration of environmental issues in all sector strategies, and in the notion of corporate social responsibility, and in the application of the precautionary principle in all planned activities.²⁴
- Participation and consultation, where citizens, civil society, and the private sector participate in or are consulted on policy decision-making, and where social dialog is promoted and encouraged.
- Information and knowledge use as a factor for development; and basis for evidence-based decision making.
- All planned developmental initiatives should be economically, socially, technically, financially, and environmentally sound, feasible, and cost-effective. Albania and its institutions should have in place the necessary capacities for the implementation, absorption, and ongoing operations, maintenance, and monitoring of initiatives, with tangible return on investments.

²³To wit, “the Republic of Albania committed itself to respecting the general principles of democracy and human rights as proclaimed in the Universal Declaration of Human Rights and as defined in the European Convention on Human Rights, in the Helsinki Final Act and the Charter of Paris for a New Europe,” extracted from the “National Plan for European Integration 2014–2020.”

²⁴Each project, program, and/or activity must be planned and implemented in such a way as to have the least possible negative impact on the environment, or would otherwise mitigate any such negative impacts through remedial and/or preventative measures.

■ Principles of entrepreneurship

Albania’s aspirations for EU integration and national development should be delivered through innovation, competitiveness, and a focus on performance and results—in both the public and private sectors. All of this can be captured in the applied principle of entrepreneurship: first through modernized governance, where focus is on the cost-effective delivery of public services in a climate of macroeconomic and fiscal stability; and second in a vibrant, vivid private sector that promotes equitable economic growth diversification, productivity, and prosperity that contribute to the overall well-being of the country’s citizens.

■ Principles of good governance

Strong and effective government institutions constitute Albania’s foundation for competitiveness, growth, and sustainability. These are essential for EU membership. All government functions of policy, programming, and delivery are to be carried out in a transparent, accountable, and predictable manner. All policy is coordinated and integrated through this NSDI II and related instruments and mechanisms such as the Integrated Planning System and the Sector Budget Approach, and is subject to workable monitoring and evaluation mechanisms. Albania’s political will, at all levels, in achieving integration and national development goals is translated into meaningful commitment and important actions, a modern and professional public administration and civil service, in making available the necessary resources, and in providing for effective control and oversight mechanisms.

3.4 A note on sustainable development objectives

The United Nations Sustainable Development Agenda 2030 includes seventeen sustainable development goals and 169 targets. SDGs should be able to provide a plan of action to bring poverty to an end, and to promote sustainable and inclusive economic growth, ensure social protection, and generate a healthy environment.²⁵The government is committed to the implementation of the Sustainable Development Agenda by 2030, aiming to achieve sustainable development in its economic, social, and environmental dimensions, while doing it in a balanced and integrated fashion.

In the implementation of the SDGs’ agenda, the country can use as a basis their experience in implementing the millennium development goals that were concluded at the global level in 2015. Albania implemented eight MDGs,²⁶and a ninth objective related to good governance, which was implemented voluntarily in Albania. Albania has marked progress in achieving the goals for each MDG, and reaching five goals (health, education, infant mortality, poverty, and gender equality), and is close to achieving four additional ones.

²⁵The goals aim, between now and 2030, to end poverty and hunger everywhere; to combat inequalities within and among countries; to build peaceful, just, and inclusive societies; to protect human rights and promote gender equality and the empowerment of women and girls; to ensure the lasting protection of the planet and its natural resources; and to create conditions for sustainable, inclusive, and sustained economic growth. This includes shared prosperity and decent work for all, taking into account different levels of national development and capacities. Global indicators are also developed to ensure that all countries, including Albania, can report on progress on a comparable basis.

²⁶ At the global level there are eight defined MDGs, with objectives and goals for developing countries.

SDGs are compatible with and complementary to Albania’s strategic goals associated with European integration and national development, as outlined in this NSDI II. Annex 3 presents a high level linkage between the SDGs and the main NSDI II pillars and strategies. The Sustainable Development Agenda in Albania involves many fields, but the subject and key to success will be determined by the justice system reform, the rule of law in the economic field, and environmental protection—all necessary tools for building a competitive economy and fostering solidarity within the society.

■ Governance indicators

As presented throughout this document, the government places a strong emphasis on the issue of governance. Over the period 2014–2015, Albania was one five volunteer countries (together with the UK, Indonesia, Tunisia, Rwanda) to implement a pilot project for preparing and testing the goals and indicators of good governance (SDG 16), with the aim of feeding into the UN SDG agenda, for the post-MDG one, and to ensure a switch from MDGs to SDGs. The pilot project offered expertise for integration of measures and indicators of good governance in NSDI II, with an impact on improving government capacities for the collection, monitoring, and analyses of data for the selected unit of indicators. The pilot project helped the government to exchange experience for informing preparation of SDGs for a post-2015 agenda in the field of “rule of law, efficient and capable institutions” (SDG 16). The pilot project range focuses mainly on the main principles of innovative and good governance such as accountability, transparency, participation, and predictability. As a result of this pilot exercise, twenty-one good governance indicators were selected (out of 120 that were taken into account), with the basic data, information sources, and goals for 2020, in line with each NSDI pillar. Of these indicators, seven are indicators included in the list of indicators of Annexes 1 and 2 of NSDI III, mainly on (i) justice, (ii) anti-corruption, (iii) effective public administration, (iv) service level, (v) transparency, (vi) media freedom.

4.0 SUMMARY OF MACROECONOMIC TRENDS

This section presents a brief summary of selected macroeconomic trends and prospects that have a strong bearing on Albania’s national development and European integration strategies. Other key macroeconomic factors addressed in the NERP (2016–2018), the MTBP 2016–2018, and other strategic documents identified in Part I of this document, and are to varying degrees addressed in the specific national development and sector strategies presented in Part III of this document (for e.g., employment and the labor market in Section 11.3, agriculture in Section 12.3, and so on), as well as in Part II on the government’s six key priorities.

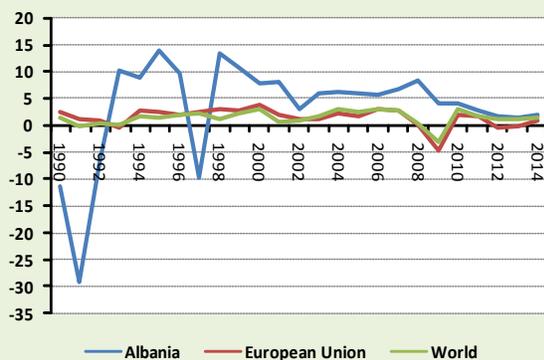
■ Overall growth trends

As described in brief under Section 2.1 of this document, Albania’s economic growth has been consistently positive since the beginning of its transition toward a free market economy. The country’s relative insulation from the global crisis is explained in large part (1) by the low degree of integration of its financial sector with the rest of the world; (2) by the presence of sufficient buffers of capital, liquidity, and accommodating monetary policy; and (3) by the government’s counter-cyclical fiscal policy that

focused on increasing internal demand through increased public investments. Consequently, this helped the country avoid the deep contractions experienced in other EU economies, as illustrated in the graph of Figure9.

Nonetheless, national economic growth rates have been falling since 2008, from 7.5% in 2008 to 1.1% in 2013, likely reflective of a delayed negative impact of the global economic downturn. The data for 2014 are seemingly indicative of a turnaround point, given that growth rates improved somewhat compared to the rates of growth for 2013 (an increase by 2.0% in 2014).²⁷This trend prevailed during 2015, where there was there GDP growth, estimated at 2.6%, with a continuing expected trend.

Figure9. Trends of Albania’s GDP per capita compared to the EU and globally, 1990–2014



Source: WB data, July 2015

Figure10. Albania’s comparative growth rates, 2005–2014



Source: WB data, July 2015. The source for GDP data for 2013–14 is MoF (DCM 80, 03.02.2016)

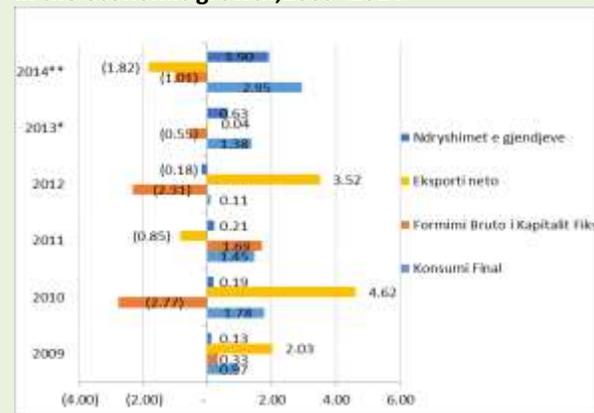
Albania’s economic benefits in terms of GDP per capita (Figure 9) have continued with somewhat high rates compared to EU and global average. This fact is an indicator of the country’s economic growth and its progress toward EU integration. However, the rates of GDP per capita showed a decline after 2008, pointing to the necessity for greater economic growth and competitiveness in the Albanian economy, coinciding with the current priorities of the government.

²⁷ Data on economic growth refer to DCM no.80, February 3, 2016, “On Adoption of the Macroeconomic and Fiscal Framework for 2017–2019.”

■ Demand-side dynamics

On the demand side, growth has been driven mainly by a combination of consumption and heavy public investment from 2008 to 2011, with subsequent lower levels post-2012. Growth in all sectors of the economy continued to slow after 2012 as result of increasing uncertainties and low levels of confidence in the private sector. As previously noted in Section 2.1 of this document, the substantial arrears that had accumulated in public investment contracts with private sector companies was a main cause for this low confidence.

Figure11. Contribution of demand side components in the economic growth,2009–2014



Source: INSTAT, July 2015

2013* quasi final assessments; 2014**preliminary

The arrears were reflected in high levels of nonperforming loans within the banking sector, which resulted in banks becoming more reluctant to extend new loans to these companies. Following new directions and standards applied at EU level for banks of EU origin,²⁸the Albanian banking sector's tightened lending policy resulted in increased borrowing costs.

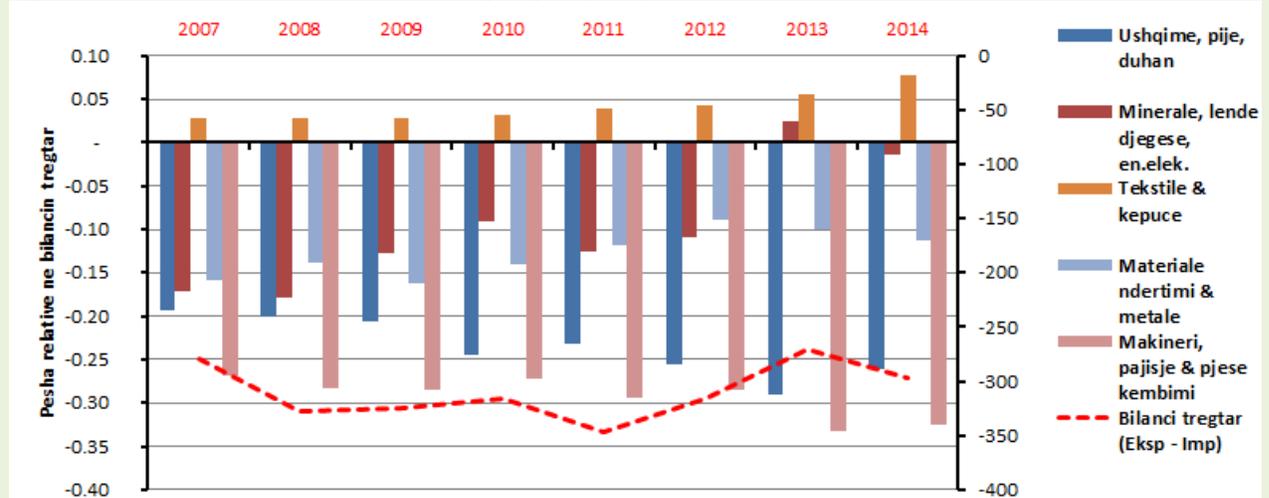
International developments, poorer growth, and the more pronounced credit slowdown had an adverse impact on the expectations of households and businesses, thus translating into lower consumption and investments levels. Consequently, domestic aggregate demand components slowed down considerably over the period 2009–2013, while external demand remained sluggish due to continuing challenges within EU economies.

Export and import dynamics reflected this lackluster demand on the side of both households and government. In general, Albania's trade balance has been negative, with the import of goods having a greater impact on an overall negative trade balance (Figure 12).

The graph in Figure 12 illustrates the trade balance trends, according to products, during the period from 2007 to 2014. The category of food and beverages combined with plastic and chemical products (for the consumption market) had the largest adverse impact on the negative trade balance (by over 30%).

²⁸ In Albania in 2013, the subsidiaries of EU foreign banks owned at least 78% of the banking system's total financial assets, which accounted for 92% of the country's financial assets. On the other hand, credit to the corporate sector in 2013 accounted for 73% of total loans. Household loans were focused primarily in the immovable properties sector.

Figure 12. Albania's trade balance, according to groups of products, 2007–2014



Source: INSTAT, July 2015

Note: Right axes shows trade balance in billion lek

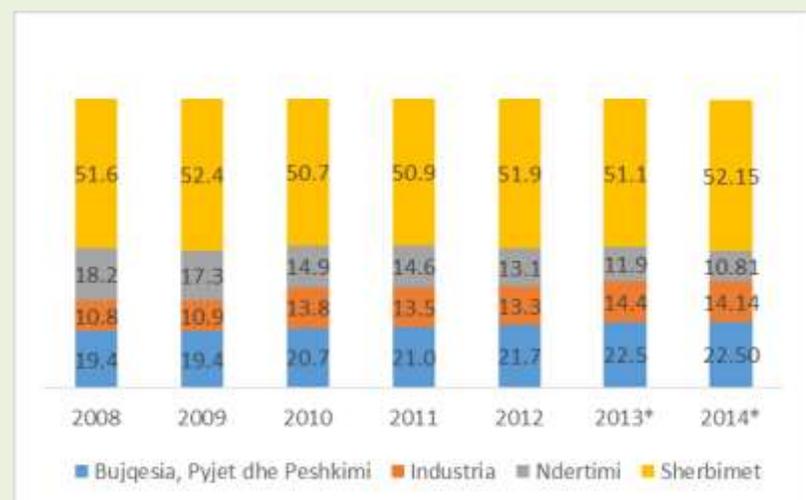
The noted high import levels in 2013 and 2014 in machinery and equipment corresponded with increased demand for foreign investment in the extractive Industries, due to more favorable market conditions. The group of textiles and footwear is the only group that has had a positive impact on the trade balance, which has increased steadily since 2007, up to over 7% until 2014.

This brief analysis demonstrates that Albania continues to have not only a narrow production base but also one that is situated at the lower end of the value-added chain. This points to the need for greater support to private sector development and overall competitiveness, and is indeed one of the main priorities of the government.

■ Supply-side dynamics

The structure and dynamics of the Albanian economy in the course of 2007–2014 was dominated by the service sector (on average with about 52%), followed by agriculture (on average 20%), industry (on average 11–14%), and construction (which went down from 18% in 2008 to approximately 11% in 2014). It is significant to note that agriculture has continued to be the main

Figure 13. Structure of gross values added, according to economic activity, 2008–2014, with current prices



Source: INSTAT

2013* quasi final; 2014** preliminary

employment generator in Albania, despite the fact that its contribution to economic growth has been slowly declining over the past several years.

The specific dynamics of the sector are discussed in Section 12.3 of this document, including its employment dimensions (in Section 11.3). Other notable trends and patterns in other subsectors include:

- Industry. The contribution share of the industry subsector in terms of both gross value added and the economic growth rate has been increasing steadily from 2007 to 2013, supported especially by increasing levels of activity in the extracting industry. The rates of industrial activity after 2012 accelerated from 3.97% to 5.65% of GVA, as a result of favorable market prices for minerals. According to recent Bank of Albania data, this acceleration was also due to higher flows of FDIs.
- The contribution of manufacturing to economic growth has been driven mainly by textile products and related activities, and by hydropower generation. While these subsectors have provided modest contributions to general economic growth, they have nonetheless been important in terms of the positive impacts they have had on Albania's trade balance and on FDI flows.
- The construction sector has suffered a continuous decline since 2008 in terms of both GVA share and productivity. The subsector is seen as one of the main factors that has influenced Albanian economic performance in terms of the positive/negative output gap prior to, and after 2008.²⁹Before 2008, the subsector contribution to the GDP growth rate reached as high as 1.6%; however, since 2008, the contribution has been mainly on the negative side reaching its lowest level of -0.93% by 2013. These dynamics call for caution in forecasting the impact of its capital intensive subsector and capacity/responsiveness to absorb future spending foreseen in the NSDI II.³⁰This is one of the more important factors for adopting a prudent macroeconomic baseline and pessimistic scenarios for the NSDI II planning period.

■Financial sector

Albania's financial sector comprises bank and non-bank entities. With respect to loans, 75% are business and corporate loans, with the remaining 25% being consumer loans. Due to heavy lending prior to the international financial crisis, the largest component of loans to households (70%) were real estate

²⁹According to INSTAT data on GDP using the production method, construction's contribution to the GDP growth rate in 2007 and 2008 was 1.6% and 1.5% respectively, and 27% and 20% respectively of GDP real growth rate of 5.9% and 7.5%. In line with BoA findings and NERP 2015, the Albanian economy over this period performed with a 1.0% and 2.2% positive output gap. On the contrary, over the period 2009–2013, the Albanian economy operated at negative output levels: that is, with values ranging from -0.6% for 2009 to -1.5% for 2013. Construction's contribution to the growth rate in these years remained between -0.09% in 2009 and -0.93% for 2013.

³⁰According to output gap methodology and literature, in order to close the output gap with appropriate macro/fiscal and monetary policies, one of the most important factors to be considered is the question of whether unused capacities during negative output gap periods have been lost or can be reactivated in the short term so economic activity can respond to fiscal stimulus or business opportunity. This ability or responsiveness capacity is a critical factor in assessing the degree of impact of macroeconomic short term to medium policies at both the fiscal and monetary levels.

related. Generally, this level of credit has sustained construction's strong growth dynamics prior to 2008.

Banking activity ownership over the past several years has concentrated in foreign owned subsidiaries. The largest five of these banks at the end of 2013 owned more than 78% of total assets of the financial sector, of which four were owned by EU parent institutions. Insurance activity has continued to be relatively modest and concentrated mainly in non-life insurance products (accounting for 89% of prime volume in 2014).

In order to address increased risks of contagion from foreign banks in EU countries, the Bank of Albania initiated and succeeded in adopting some legal changes to allow for the incorporation of national branches of foreign banks as subsidiaries, according to Albanian Law. At the same time, the BoA increased the capital requirements for all banks to guarantee their solvency. The main contagion risks stemming from the Greek crisis appeared to be well under control: the share of subsidiaries of Greek parent banks fell from 28% in 2008 (in terms of share of banking system total assets) to 16.8% by 2014.³¹

A major impact on the banking sector and the economy as a whole was the increasing incidence of non-performing loans (NPL) with the onset of the global financial crisis in 2009. By 2013, the NPL rates in Albania were the highest in the region. Based on analyses carried out by the BoA and the IMF in 2013–2014, it was determined that one of the main underlying reasons related to loans to businesses engaged in public infrastructure investment programs post 2009. The increase in the stock of arrears was translated into an increase in NPL stock year after year as businesses needed to cover financing needs to cover the shortfalls from timely payments from the government. The other component of the NPL stock related primarily to household real estate (housing) loans, reflecting lower available income due to lower economic growth, higher unemployment, and lower remittances, in addition to problematic collateral backing terms.

■Public finances

As discussed in more detail in Section 9.2 of this document, the government launched several legal and institutional measures, with the view to strengthening public finances, ensuring fiscal stability, and a more efficient and transparent system of public financial management. These include, *inter alia*, the Organic Budget Law, the law on public financial management, the Internal Audit and Financial Law, the law on public procurement, strengthening of public finances management, and that of the treasury system.

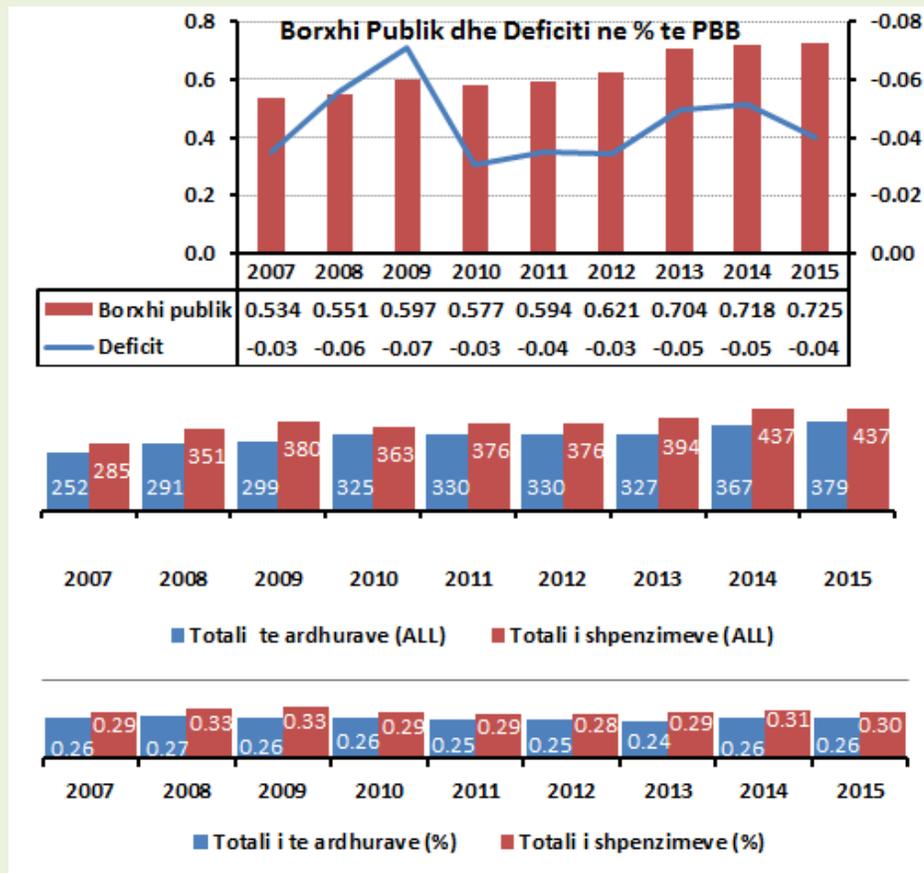
However, progress in public finances has been somewhat mixed, as can be seen in Figure 14, despite the continuously positive trend of revenues, in terms of percentage of GDP, and despite almost continuous positive revenue performance in terms of percent of GDP, expenditures at the beginning of each fiscal

³¹ Source: Albanian Association of Banks Statistics, July 2015. It is also interesting to note that the share of these banks in loans has been reduced significantly as well, from 41% of total bank loans in 2008 to 19% by the end of 2014 (ibid). Greek banks appear to have the highest levels of NPL in terms of gross loans, more than 35% as compared to the national average of 25% in 2014 (ibid).

year had been projected at higher levels, especially from 2008 onward. This resulted in successively higher commitments for contracts against unavailable budget appropriations, in successively higher deficit levels and in consequent budget cuts in order to meet real revenue performance.

Given that the Organic Budget Law did not allow for the debt level to exceed 60% of the GDP, public works failed due to unavailability of budget. This, as previously noted, resulted in the accumulation of arrears that remained unrecognized for so long as private companies did not submit invoices. The overall situation led Parliament to lift the 60% debt to GDP restriction in 2012, resulting in formal public levels to exceed 60% of GDP by the end of 2013. Concrete actions to further address this situation are discussed in Section 9.2 of this document.

Figure14. Dynamics of expenditure, revenues, debt, and deficit, 2007–2014



Source: MoF, February 2016 (DCM no. 80, 3/2/2016)

Note: Expenditure and revenue data are in million lek and in percent of GDP, while data on debt and deficit only as percent of GDP.

PART II: SIX GOVERNMENT PRIORITIES

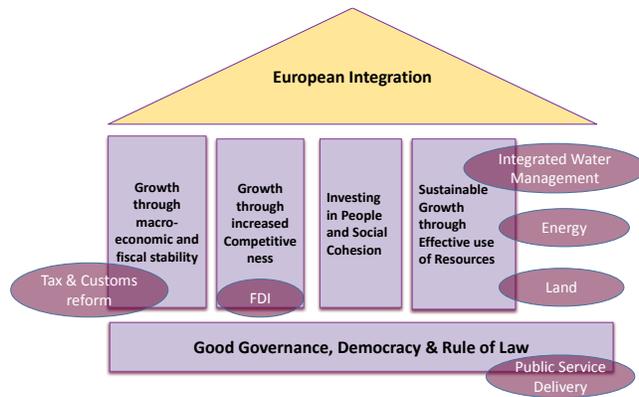
5.0 THE GOVERNMENT’S PROGRAM CONTEXT

The platform on which the new government was elected in the June 23, 2013, national elections was based on a vision of accelerating growth, creating jobs, restoring trust in the government, furthering progress toward EU accession, and meeting the pressing needs of citizens. By mid-2014, the government developed its program to translate its vision to action through the identification and adoption of six key priorities.³²

The overall goal is to . . .
“provide Albanians with improved access to high quality public services and to ensure positive, accelerated, and measurable impact.”

The six priorities are: (1) innovative and citizen-centered public services (good governance); (2) recovery and financial consolidation of the energy sector(energy); (3) fostering innovation and competitiveness (foreign direct investments and domestic investments); (4) integrated water management; (5) integrated land management; and (6) financial structural reform. Linkage of the priorities with the main pillars of the vision ofNSDI2015–2020 is presented in Figure 15.

Figure15. Linking priorities with NSDIII pillars



For ensuring implementation and delivery of its priorities, the government launched a special network for the delivery and identification of priority, policy-specific objectives, expected outcomes, and the measures for monitoring progress. All line ministries now have in place their own Priority Delivery Directorates, which are coordinated by the Project Delivery Unit, at the Prime Minister’s Office, whose task is to guarantee achievement of results for these priorities. The main role of this unit includes: (1) to clarify the vision and desired results in the priority areas; (2) to ensure agreement on the activities and roadmaps that will provide results; (3) to define the resources, roles, and implementation

³² The new government also carried out a broad redistribution of responsibilities and changed the structure and names of the ministries. The government currently has sixteen ministries, one more than the previous government, and three ministers of state.

responsibilities throughout the project delivery chain; (4) to support the development of cross-government delivery agreements; (5) design performance, risk management, and reporting systems; and (6) to engage in problem solving and resolve implementation obstacles.

The Project Delivery Unit coordinates the work to ensure the implementation of main reforms for the six government priorities. As instruments for coordinating and determining results, and institutional roles and responsibilities, “project delivery agreements” between the Prime Minister’s Office and the line ministries/institutions, which have either been negotiated and adopted or are underway, have been adopted. These agreements, one for each priority, are a key management tool to ensure the focus of all stakeholders on producing agreed upon results. They demonstrate the government’s commitment to meeting the six priorities. They also define clear responsibilities for delivery against performance indicators, set out the risks and mitigation measures to be used, establish delivery timelines, and detail monitoring and reporting obligations.

The government has established a complementary structure to ensure coordination with broader priorities and objectives associated with the key sectors within which some of the six key priorities are to be delivered. This mechanism is composed of Integrated Policy Management Groups (IPMGs) that will be in charge of leading and managing on ongoing and systematic bases the formulation, delivery, and monitoring of reforms in specific sectors (through a national sectorial program). They should be in line with governmental priorities, NSDI II, other sector strategies, MTBP, the EU accession process, and Albania’s international obligations.

During the preparation of NSDI II, the government, through its Priority Delivery Unit, started working on ensuring implementation of all key priorities. In the following subsections, each priority area is described in terms of its current situation, the issues to be addressed, strategic objectives and key performance measures by which they are to be met, and the general coordination or governance arrangements to be applied.

5.1 Delivery of innovative, citizen-centered public service

Good governance in the broader sense covers a very wide scope of activities, functions, and programs, and is seen as the main foundation supporting national development and EU integration. Within this broad scope, the government has identified the need for the more efficient, effective, and accountable delivery of services to citizens as one of the six top priorities over the short to medium term. The full scope of good governance, also a main medium-term priority of the government, and as the main foundation to national development and EU integration, is presented in Part III of this document.

Delivery of public services has a tangible and direct impact on the lives of the citizens; public services are also important for shaping the citizens’ living standards. The delivery of public services facilitates access to critical social and economic opportunities. Albanian public administration and civil service are the main “agents” responsible for the delivery of public services, and as such are, metaphorically speaking, “the window” through which the citizens of Albania view the government in the performance of its duties and obligations.

With due acknowledgment of the progress made in the recent years, however, the current situation regarding the delivery of a number of services leaves considerable room for improvement. The current system, more supply driven, is far from being centered on citizen needs. It is generally seen as somewhat self-serving, inefficient, and in many cases corrupt. Citizens face high compliance costs in terms of the time and financial resources needed to obtain a service. The underlying causes often times consist of outdated regulations, complex procedures, insufficient use of modern technology, poor training, a lack of incentives for public servants delivering the services, high fragmentation of the system, and a general mentality that the system is not merit based (more details on this are discussed in Part III).

The Government of Albania is proposing an overhauling reform aimed at the radical change in the modalities of service delivery, and improving the efficiency of the delivery of main administrative services in the country through the use of innovative solutions and ICT, and aligning Albanian system with the international best practices.

In June 2014, the Albanian government asked for the World Bank for assistance on a new program entitled Innovation against Corruption: Building a Citizen-Centered Service Delivery Model in Albania. The World Bank was willing to fund the good governance and public services delivery reform through a Program for Result (P for R) Loan. In addition, further funding is envisaged from the EU through the IPA 2014 Program, in addition to budgetary support.³³

The main reform pillars are: (1) establishment and management of an integrated national model for service delivery—the introduction of one-stop shops—whereby the front offices will focus on public relations, and will be separate from the back offices that provide the services;³⁴ (2) standardization of service delivery by the administration (front office and back office), while ensuring simplification of new job processes, so that these processes are clear and properly defined, and that they leave no space for corruptive practices; (3) digitalization of state registers and archives, and focusing on the development of online services; and (4) broadening citizens’ information channels, and monitoring of performance for the service delivery, aiming its continuous improvement.

■ Short- to medium-term priorities

1. Enhanced efficiency in the delivery of administrative services, through significant reduction of the time it takes citizens to obtain public services, as measured by the number of days needed to get a certain public service.
2. Significant reduction of corruption levels during public service delivery, as measured by instances of corruption reported by citizens through an SMS citizen feedback mechanism.

³³In addition, IPA 2015 sector budget support for public administration reform in the amount of 32 million euro includes service delivery as one of its components.

³⁴It is recognized that one of the risks of the new delivery system is the potential for exclusion of vulnerable groups such as widows, the Roma community, and people living in suburban/remote areas, among others. To minimize such risks, the implementation of the new system will be closely coordinated with those sectorial strategies dealing with social exclusion and service delivery related sectorial strategies discussed in Part III of this document).

3. Launching and operation of integrated one-stop shop public service delivery centers.

Several key indicators will be used for measuring performance, results, and achievement of objectives. These indicators are related to reduce time for administrative processing of a certain procedure, citizens' perception of corruption, number of digitalized services and registers, etc. Work on these aspects will include (i) monitoring of reduced time for citizens' services, as a result of the introduction of the model of the integrated one-stop shop center for the provision of public services; (ii) a survey will be conducted to measure citizens' satisfaction perception; (iii) and the levels of corruption in the delivered services.

5.2 Recovery and financial consolidation of the energy sector

Electrical power, as part of Albania's energy sector, is a central component of the country's economic and social infrastructure. A reliable and efficient generation and distribution system of energy is a prerequisite for the country's growth and the prosperity of its citizens. In recent years, the government has worked toward the modernization of the energy infrastructure and strengthening of its institutions. This was in response to high levels of energy losses, due to deplete infrastructure, low collection rates for billed electricity, and wide-spread theft and the illegal consumption of energy. These factors have brought about the need for high levels of subsidies, while posing a heavy burden on the annual state budget, by draining the scarce resources from other important development projects.

As a result of poor management of the power distribution company (OSHEE, the primary power utility in Albania), the level of losses surged from 36.4% in 2007 to 45.04% in 2013, while cash collection rates fell from 88.5% in 2007 to 79.3% in 2013. The government is committed to improve financial performance of the energy sector, and to recover the financial gap caused by the poor management of the sector. A series of comprehensive measures were launched, which were aimed at the minimization of losses and the improvement of settlement of bills and other arrears. As part of this commitment, a major investments program is underway, with important changes in the system design and administration. As a result of these measures, immediate tangible improvements were introduced in the last two years in terms of level of losses and collection of cash, as compared to 2013.

Expected outcomes are connected to improved financial performance of OSHEE with regard to reduced technical losses in the distribution system, reduced levels of illegal consumption of energy, non-payments, recovery of a large share of accumulated debt, and improved customer relations via a new service culture.

■ **Short- to medium-term priorities**

1. Reduction of power losses (both technical and non-technical loss).
2. Improved payment collection rates, as measured against percentage of collected payments per billed services.

3. Improved recovery of debt accumulated during 2007–2014, measured by the ratio of debt recovered as a part of total debt.

The Ministry of Energy and Industry will lead and take over the general responsibility for the delivery of objectives defined in the Priority Agreement. This includes the provision of policy and strategic guidance to OSHEE, securing funding for all investment programs envisaged under said agreement, support and monitoring of the implementation of efforts by OSHEE, and connection/coordination of this priority with other strategic priorities and objectives in the energy sector, as described in Part III of this document. The main governing body for this agreement will be an inter-agency committee chaired by the Minister of Energy and Industry, with the participation of senior officials from MoEI and OSHEE. Progress will be measured through key performance indicators.

5.3 Integrated water management

The Government of Albania is committed to a new approach on water management and its use. This new approach is broadly based on the EU legal framework principles and political program. The vision of the government regarding this new approach is “meeting the basic livelihood needs, user competitiveness and prioritization toward economic profit, with due consideration for the sustainability of the ecosystems sustainability.”³⁵ The main principles that run through this new approach are the following:

- Water resources protection, and sustainable water use, while meeting basic needs and preserving resources for the next generations;
- Promoting equitable access to water;
- Creating opportunities for the use of water in the economic and social development of the country;
- Water use cost recovery; and
- Protection of ecosystems and equilibrium of biodiversity.

For the implementation of this new approach, the National Water Council was established, together with a Water Technical Secretariat. The National Water Council, which plays the role of the Integrated Water Policy Management Group, ensures political leadership and decision-making for an integrated and efficient management of the water sector.³⁶ The Secretariat of the National Water Council (SNWC) provides the technical skills for management of the new approach, with the view of ensuring the integrated programming, implementation, and monitoring of policies.

³⁵This summarized analysis is also based on the “Sector Planning Document” on the water sector drafted by the government in mid-2015.

³⁶ The Integrated Policy Management Mechanism is explained under Part IV: Implementation and Coordination.

The operation of the SNWC/IPMG will be supported through the establishment of sub-thematic groups. For the integrated water management there are in place four sub-thematic groups, namely: water for people, water for food, and water for environment, and water for industry, each to be chaired by the ministries responsible for the respective water-related issues.

■ **Short- to medium-term priorities:**

- Water for people: Improved water supply and drainage in the tourist areas in the country, through:
 - 1.1 Ensuring drinking water supply for the population in the tourist areas;
 - 1.2 Rehabilitation of existing water supply systems.
 - Water for food: improved irrigation and drainage systems through:
 - 1.3 Increased area of irrigated land, as measured by the number of hectares covered by fully operational irrigation systems;
 - 1.4 Qualitative improvement of the operation of the drainage system, as measured by the hectares covered by fully operational drainage systems;
 - 1.5 Rehabilitated and modern irrigation and drainage infrastructure, and flood protection.
 - Water for environment: ensuring sustainable use of water, as a vital component of natural environment through:
 - 1.6 Introduction and maintenance of e-water national cadaster.
 - Water for industry: ensuring sustainable use of water for industrial purposes, in particular for generation of electricity.
- 5.4 Improving innovation and enhancing competitiveness

The Government of Albania views foreign direct investments³⁷ as one of the three engines for growth in the country, alongside with tourism and development of “technical and economic zones.”³⁸ To guide developments in this sector, in October of 2014 the government adopted the Business and Investment Development Strategy (BIDS), 2014–2020.

Table 1. Albania, main FDI indicators, 2006–2014 (million USD)

Treguesit	2006	2007	2008	2009	2010	2011	2012*	2013*	2014*
Prurjet e IHD	325	663	959	991	1050	876	859	1265	1153
% eGDP	3.6	6.1	7.6	8.3	8.8	6.8	6.9	9.8	-
Stoku i IHD	1391	2689	2902	3256	3250	4392	5134	5661	5537
IHD për frymë	108.6	223.2	325.4	338.5	360.5	301.6	296.2	436.6	398.3

Source: BoA

*Values in line with 6th edition of Balance of Payments Manual

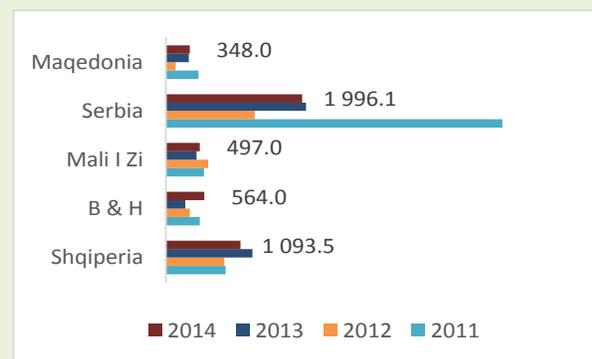
Prior to the global financial and economic crisis, South-East European countries were relatively successful in attracting FDIs: inflows increased to USD 13.3 billion in 2008 from USD 2.1 billion in 2002.³⁹ This positive trend was reversed in 2009, due to the global financial crisis, resulting in a sharp drop of FDIs in the region, with the figure for FDIs in 2014 at USD 4.7 billion.

However, Albania has maintained a relatively stable trend during this period, and Serbia with Albania were the biggest FDI beneficiaries during 2014 (Figure 16). Despite that, there was a drop in FDIs, as indicated in Table 1. For the government it is clear that FDIs represent a critical resource for innovation, competitiveness, and economic growth (and employment), in particular in the sectors of energy, transport, manufacturing, construction, tourism, telecommunications, and natural resource development, etc. In addition there is a serious lack of balance in the agriculture sector, which accounts for only 1% of investments, while it accounts for 20% of the GDP, and more than half of country's employment.

The aftermath of the global financial crisis led to a net drop of FDIs by 18%, from 2010 to 2012;⁴⁰ however, from 2013 to 2014 there was an increasing trend in FDIs.

Institutional factors in Albania are deemed to be barriers and challenges for FDI flows; they dampen innovation and competitiveness, as

Figure 16. FDI flows in SEE countries, 2011–2014 (million USD)



Source: UNCTAD WIR, 2015

³⁷Growth through enhanced competitiveness is one of the main pillars of the NSDI II, and is discussed under Section 10 of this document.

³⁸Previously referred to as industrial zones.

³⁹ UNCTAD WIR, 2015.

⁴⁰ Source, Bank of Albania. This compares well to the 70% reduction in net FDI flows to the region over the period 2008–2012 (source, UNCTAD, 2013).

revealed in “Doing Business” indicators. Although reforms are proceeding along many fronts, challenges still remain in aspects such as: starting a business, obtaining construction permits, red-tape, property registration, access to infrastructure (especially in energy, transports, ports), access to crediting, taxes and tariffs, trade, contract enforcement and perceptions of corruption, and addressing aspects of bankruptcy.

■ Short- to medium-term priorities⁴¹

- Reform of the legal and regulatory framework, aimed at improving business and investments environment⁴²;
- Support for investors in determined strategic sectors, such as: infrastructure, tourism, energy or agriculture etc.;
- Developing necessary driver mechanisms, for increasing annual IHDs and/or achieving an IHD ratio to GDP of 9% by 2020 (for instance through introduction of a [package of incentives; *fast-track mechanisms; support programs etc.*]);
- Focusing the attention on one or more of the planned technical and economic development zones;
- Fostering and supporting public private partnerships (PPP) by reforming legislation, administrative procedures, or in a specific sector.

5.5 Integrated land management

Integrated land management is a medium- to long-term priority of the government. Challenges pertaining to land and property are many, and include: (1) formalization of land settlements; (2) increasing the productivity, availability, and sustainability of land needed to promote development (especially in priority sectors such as tourism, agriculture, manufacturing); (3) establishing a land market and land management systems (including addressing aspects of informality); (4) using land as a productive asset against which credit might be accessed (thus strengthening overall land and related capital/credit/mortgage markets); and (5) addressing equity aspects between men and women regarding land property aspects⁴³; (6) modernization of land and property services (property titles).

Within this broad objective, the main goal of the government in the context of this key priority remains addressing long-term and historic land and property rights issues.⁴⁴ This is deemed to be very important for increasing economic development, fostering urban and rural investments, overcoming regional disparities, and addressing poverty. Issues related to property rights, land management, property in

⁴¹These areas will be discussed in more detail under Section 10.2.

⁴²It is worthwhile to note that several aspects of the legal framework have already been updated (or are ongoing): PPP/concessions, TEDAs, and SIL. Meanwhile, work is underway to create a comprehensive legal framework or otherwise referred to as “Code of Investments.”

⁴³Based on a pilot program of the World Bank in registration of properties, it was found that male landowners outnumber female landowners by about 2:1 and most female landowners have a property share of less than 25%. Source: World Bank, “Country Partnership Framework,” 2015–2019.

⁴⁴Ensuring the sustainability of Albania’s land or real property markets is one of the government’s approved sectors that requires a strategy and is discussed in Section 10 of this document.

Albania go well beyond the simply economic aspects.⁴⁵This is a politically sensitive issue, hence any action taken by the government in this respect will be duly considered.

5.6 Fiscal structural reform

Structural reform coincides with the government's sixth priority, and in the medium-term it is related with improved revenues (tax and customs system). As an essential component of the fiscal policy, the structural reform may constitute an efficient instrument for enhancing innovation and competitiveness, through facilitation of business and economic development on one hand, and macroeconomic growth and fiscal stability on the other. As established in the Strategy for the Management of Public Finances for 2014–2020, some of the future actions include:

- Review of tax policy and reform of the tax and customs administrations, with the view to enhancing revenue collection efficiency, reducing the tax gap, fighting tax evasion, and closing informal economies.
- Adopting the tax policy to the new legislation on corporate income tax and personal income tax.
- Reform of property tax.
- Continuous review of tax percentages in light of the budget needs and in line with economic developments.
- Measures against fiscal informality and payments systems.

6.0 NSDI II: CONCEPT AND APPROACH

The NSDI II vision and policy priorities of the government will be delivered through a set of realistic and achievable measures in six key areas, as illustrated in Figure 17.

Figure 17. Pillars of the National Strategy for Development and Integration, 2015–2020

⁴⁵ National Cross-Sector Strategy on Property Rights Reform, 2012–2020, was adopted in June 2012.



EU integration is the overarching goal. Good governance, democracy, and rule of law form the foundation upon which the NSDI II vision will be achieved. These goals work around four pillars:

- Pillar 1: Growth through macroeconomic and fiscal stability constitute.
- Pillar 2: Growth through enhancing competitiveness.
- Pillar 3: Investing in human capital and social cohesion.
- Pillar 4: Growth through sustainable use of resources and the territorial development.

Each pillar is composed of a number of interrelated sectors, and corresponds to one specific sector or broader priority, as defined under Section 3.2 of this document. Each of these is presented and discussed under the following sections, from the perspective of current circumstances, challenges that need to be addressed, strategic objectives that need to be delivered, which will be used for measuring performance. Hence, NSDI II incorporates the principles of results-based management and the use of SMART (specific, measurable, attainable, relevant and time-bound) indicators.

7.0 OVERARCHING GOAL: EUROPEAN UNION MEMBERSHIP

■ Current situation

EU integration is the first priority of the government program and represents not only an opportunity, but also a challenge in terms of delivering the structural reforms and for transition toward a competitive

market economy as an EU member state. The EU integration process is determined by Article 49 TBE (Copenhagen Criteria) and the SAA⁴⁶ and is guided by the NPEI for 2016–2020.⁴⁷ Albania’s obligations under the SAA are in line with the Copenhagen Criteria, required to be met by a European country aiming for EU accession; overall, Albania has been implementing these smoothly.

Progress made in the fulfillment of obligations in line with the political criteria, especially constructive cooperation and political dialog between the ruling majority and the opposition on major reforms linked to the priorities of the accession process, the parliamentary elections of June 23, 2013, and measures against corruption and organized crime, conditioned the granting of candidate status to Albania by the European Council on June 27, 2014. In addition, for ensuring swift opening of accession negotiations, the Government of Albania developed and is successfully implementing, through an inclusive process, the roadmap,⁴⁸ while addressing five priorities set out in the European Commission’s Enlargement Strategy, 2013–2014.⁴⁹

Following the publication of 2015 Report of the European Commission on Albania, on November 10, 2015, the Government of Albania drafted a short-term action plan to address recommendations of the European Commission on opening of accession negotiations.

The Government of Albania has made progress in fulfilling the political criteria for EU accession in the following areas: (1) the upholding of the constitution; transparency and inclusiveness in the legislative processes; (2) the overall functioning of Parliament; decentralization and reforms in local self-government; (3) public administration and civil service reform; (4) public financial management; (5) the fight against corruption and organized crime; and (6) the protection of human rights and social inclusion.⁵⁰ The local elections of 2015 were a step further toward meeting obligations deriving from the political criteria.

The parliamentary monitoring of the accession process and activities were further enhanced with the adoption of the Law no. 15/2015 of March 5, 2015, “On the Role of the Parliament in the Integration Process of the Republic of Albania in the European Union.” The National Council of European Integration, led by the opposition, was set up as an advisory body of Parliament. In line with this law, the National Council of European Integration is the highest national

⁴⁶ The SAA agreement between the Republic of Albania and the European Community was signed in 2006 and entered into force in April 2009.

⁴⁷ Adopted by DCM no. 74, January 27, 2016, “On Adoption of the National Plan on European Integration.”

⁴⁸ Approved by DCM no. 330, May 28, 2014, “On the Approval of the Roadmap on Five Priorities for the Opening of Accession Negotiations,” Commission, 2013.”

⁴⁹ These key priorities are: (1) “continue to implement public administration reform with a focus on depoliticization of public administration”; (2) “take further action to reinforce the accountability of judicial institutions”; (3) “make further determined efforts in the fight against corruption and organized crime, including toward establishing a solid track record of proactive investigations, prosecutions, and convictions”; and (5) “take effective measures to reinforce the protection of human rights and social inclusion, as well as anti-discrimination policies, as well as the protection of human rights.” http://ec.europa.eu/enlargement/pdf/key_documents/2013/package/strategy_en.pdf

⁵⁰ European Commission, “Albania 2014 Progress Report,” Commission Staff Working Document, 2014, pp. 5–14.

Copenhagen Criteria

“Membership requires that the candidate country has achieved:

- **“stability of institutions guaranteeing democracy, the rule of law, human rights, respect for and protection of minorities,**
- **“the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union.**
- **“Membership presupposes the**

advisory structure on European integration aspects, which promotes and guarantees comprehensive cooperation among political forces, public institutions, and the civil society, as well as ensures increased transparency in the decision-making process on the EU integration aspects. The National Council of European Integration is chaired by the opposition and includes MPs, government representatives, representatives of independent institutions, the civil society, academia, and other stakeholders involved in the monitoring of the EU integration process.

Concerning the economic criteria, Albania made progress toward establishing a functional market economy and preservation of macroeconomic stability through a sound monetary policy, despite a sharp drop in GDP growth, as discussed in Section 4 of this document. The government has launched a series of measures to guarantee the continuity of economic reforms aimed at recovery of growth, competitiveness, investments, trade, employment, and reduction of public debt and budgetary deficit.

Concerning the third criteria on European standards, Albania has generally and smoothly implemented the SAA according to established deadlines and according to the recommendations of the EU-Albania joint institutions set up under the SAA. The aforementioned NPEI 2016–2020 is aimed at the strategic planning and the full alignment of Albanian legislation with the EU Acquis, according to the SAA and expected obligations that come with the EU accession process.

Thus far, the successful implementation of SAA has ensured positive developments, in particular in the establishment of a free trade zone between Albania and the EU. The EU continues to be Albania's main trade partner, with annual average exports to EU-28 countries at 8.7% from 2010 to 2014. In 2014, the share of Albanian exports to EU-28 countries in value of total exports was 77.4%, while the share of Albanian imports from EU-28 countries in value of total imports was 61.1%.⁵¹

In March 2014, the European Commission accredited the Albanian structures for decentralized management of EU funds thus enabling the implementation of six pilot projects of IPA 2013 by the Albanian government, and in June 2015 two other projects funded by IPA 2012 were switched to decentralized mode as well. In addition, the Ministry of European Integration has taken over “duties for implementation of the budget” from the European Commission for the implementation of cross-border cooperation programs, in line with the indirect management approach. Simultaneously, the Indicative Strategy Paper for Albania, 2014–2020,⁵² is being drafted which provides for the priority sectors to receive support during the next seven years. Successful programming and implementation, in line with the sector approach, represent important challenges that would enable full absorption of the financial assistance envisaged in line with the Indicative Strategy Paper for Albania (2014–2020). Hence, immediate measures are being introduced to strengthen the institutional capacities of the ministries and beneficiary institutions.

Attention should also be given to the institutional capacities of local authorities and stakeholders, as regards their skills for developing and implementing successful projects of territorial cooperation under

⁵¹http://ec.europa.eu/enlargement/pdf/key_documents/2015/20151110_report_albania.pdf.

⁵²http://ec.europa.eu/enlargement/pdf/key_documents/2014/20140919-csp-albania.pdf.

the new financial prospects of IPA II. Currently, Albania is participating in eight EU-funded territorial cooperation programmes, and that presents a very good opportunity for the Albanian applicants (namely, regional and local institutions, civil society organizations, universities, etc.), to expand the network of potential partners for regional cooperation activities.

Furthermore, Albania is part of the EU Strategy for the Adriatic and Ionian Region (EUSAIR) and therefore the implementation of the specific objectives of the strategy, through the Territorial Cooperation Programs, is of prime importance.

■Challenges

The challenges and priorities of the Government of Albania in terms of EU accession are articulated in a number of key strategic planning documents, in particular in the Integrated Strategic Planning for Albania (2014–2020), the NPEI 2016–2020, the roadmap on the five key priorities, and other documents issued by the EU.⁵³In essence, all of these reports and evaluations point to the need for continued action across the board for the implementation of EU accession criteria and the fulfillment of the SAA obligations. The main challenges focus on the need to: (i) implement the roadmap on the five key priorities and the action plan addressing the recommendations of the 2015 EC report on Albania, and accomplish the key reforms to open and successfully carry out the accession negotiations; (ii) fulfill all of the obligations deriving from the SAA, and full alignment of the Albanian legislation with the EU Acquis, as required by the SAA, and the EU accession; (iii) successfully open, administer, and finalize the accession negotiations; (iv) better manage the EU assistance and the successful decentralized management of IPA funds.

■The vision: Opening accession negotiations and being able to demonstrate to EU member countries Albania's ability to meet EU accession criteria.

The vision of the Government of Albania enjoys full political consensus and broad social support. It asks for improved capacities and enhanced transparency of the sector, with the view of further strengthening and development of a stable and consolidated civil society, as a dignified representative of the general public interest.

■Strategic objectives

1. Monitoring fulfillment of the obligations of the Republic of Albania in the context of SAA, and identifying shortcomings and taking redress measures through:
 - 1.1 Formulation and constant monitoring of the implementation of the NPEI, as the main document for the approximation of the Albanian legislation with the EU Acquis, while ensuring its alignment with the MTBP;

⁵³ These include primarily the EC annual progress reports, annual Sigma reports, and EC reports on multi-country programs.

- 1.2 Reporting to the EC on Albania's progress on the European Integration process (mainly through the annual contribution on the EC Progress Report on Albania), and identifying and including EU recommendations in the NPEI, as well as in action plans of other ministries and public institutions;
- 1.3 Monitoring the approximation process of Albanian legislation to the EU Acquis by assessing the alignment of all draft national legal acts with EU Acquis; and through
- 1.4 The fulfillment of the approximation obligations to ensure that Albania's existing laws and future legislation shall be gradually made compatible with the EU Acquis. The closer Albania's legislation is to EU law, the better its starting position in the accession negotiations.
2. Coordination of the process of negotiations for Albania's EU accession, to ensure fulfillment of accession criteria by 2020 through:
 - 2.1 Reviewing of the legal and institutional framework for the coordination and management of the integration process and drafting of recommendations for improvements;
 - 2.2 Planning and proposal of national negotiation structures that will guide and coordinate the process of negotiations;
 - 2.3 Setting the methodological context for the negotiations process;
 - 2.4 Appointment of Chief Negotiator and establishment of negotiation team; and
 - 2.5 Enhancing institutional capacities of the ministries, institutions, and negotiation structures, with a view of concomitantly ensuring their functionality and capacities for being up to par with the negotiation process.
3. Absorption of 100% of EU financial assistance through:
 - 3.1 Enhancement of institutional capacities of line ministries and other beneficiary institutions to ensure better planning and implementation of EU funds through quality programs and projects, implemented in line with the EU standards;
 - 3.2 Strengthening capacities of Local Government Units (LGUs) and other local/regional stakeholders, with the view of preparing qualitative project proposals and ensuring smooth implementation of projects in the context of territorial cooperation policy area;
 - 3.3 Monitoring of concrete projects, actions, and capacities for absorption of EU funds, during the programming and implementation processes, conducted by responsible national units and EC units.

4. Translation of EU legislation into Albanian, and translation of the Albanian legislation into one of the official languages of the EU, as a prerequisite for EU accession by 2020 through:
 - 4.1 Qualitative, cost-contained translation of the European legislation into Albanian;
 - 4.2 Review of the translation of the legislation in Albanian, and the Albanian legislation in one of the EU languages, as well as linguistic review and publication of legal acts translated in cooperation with the line ministries, and other central institutions;
 - 4.3 Broad cooperation with the Republic of Kosovo for the translation, review of acts, and formulation of common terminology manuals; and
 - 4.4 Translation of the European Legislation into Albanian, and of the Albanian legislation into one of the EU languages.

8.0 FOUNDATIONS: GOOD GOVERNANCE, DEMOCRACY, AND RULE OF LAW

Strong and effective government institutions are Albania’s foundation for competitiveness and growth. They are essential for Albania’s EU accession. Good governance in Albania defines well-functioning legal and regulatory frameworks for businesses, social groups, and individuals, and embodies the key notions of good governance promoted by a broad range of international institutions (see box to the right). Achieving EU standards in public administration, ensuring accountability and transparency in the public sector and expanding decentralization and local democracy remain top priorities for good governance for Albania.

Successive governments have demonstrated consistent high levels of commitment and effort in creating a healthy business environment that is attractive to investors at home and abroad. This is reflected in international assessments such as the International Finance Corporation’s Report on Doing Business. Reforms will continue to focus on strengthening the judiciary, respecting human rights, including property rights, enhancing fundamental freedoms, addressing corruption and crimes of all forms, and ensuring security and public order.

Pillar 1 encompasses thirteen sectors or components, listed as follows. Some of them are seen as a cross-cutting sectors or subsectors for which individual strategies have been developed or are underway.

- Justice system reform
- Transparency/anti-corruption

Good governance. . .

“is about the role of public authorities in establishing an environment whereby economic operators may operate and function and in determining the distribution of benefits as well as the relationship between the rulers and the ruled.”

— OECD

“summarized as predictable, open, and enlightened policy-making; buracracy embued with professional ethics; an executive arm of the government that is accountable for tis actions; and a strong civil society with a participatory role in the public affairs; ...everyone abiding by the rule of law.”

— The World Bank

“inter alia participatory, transparent ,and accountable. It is also effective and equitable...promotes the rule of law”

— UNDP

- Legislative and electoral processes
- Integrated border management
- Organized crime, terrorism, and trafficking
- Public order
- Human rights
- Public administration reform
- Decentralization and local governance
- Statistics
- Foreign affairs
- Defense
- Civil society

National defense and foreign affairs may not be seen as components of good governance in the conventional sense, but are nonetheless essential to the smooth, secure, and free functioning of the state, while statistics is key to good governance as it contributes directly to the progress of various local and national policies through support to sound, informed, transparent, and evidence-based policy analysis and decision-making.

8.1 Justice system reform

■ Current situation

Efforts of institutions to improve the justice system are many; however, they have been partial and fragmented, and have consisted mainly in improving the system through operational measures, such as modernization of infrastructure, introduction of information technology to improve communication with the public, etc. In several instances there have been mainly legal interventions to address or improve several aspects of organization of the system and its governance. For instance: the adoption of law in Serious Crimes Court and law in administrative court, recent changes in the law in the Supreme Court and High Council of Justice, law on the School for Magistrates, etc.

However, despite awareness about the paramount importance of the justice system there have been no comprehensive and deep efforts to analyze the results of the justice system overall or to radically and in an integrated fashion address the numerous challenges of the system. The National Strategy of Justice Sector, 2010–2014,⁵⁴ was adopted in 2010 failed to transform into a substantial and operational platform, to guide a radical reform of the system, while concomitantly failing to address the challenges related to system consolidation.

The establishment of the ad hoc Parliamentary Committee on Justice System Reform in 2014 is an important step that ensures the highest political and consensual commitment, so much needed for a radical reform. The committee

⁵⁴ The “National Sector Strategy of Justice 2015–2020” is currently in the init

Public perception about the judiciary in Albania:

“There is a widespread public perception that the system suffers from the phenomenon of corruption and outside influence in delivering justice.

Corruption, lack of transparent, overlong processes or non-execution of court decisions have contributed to the negative perception of the public on judicial transparency.”

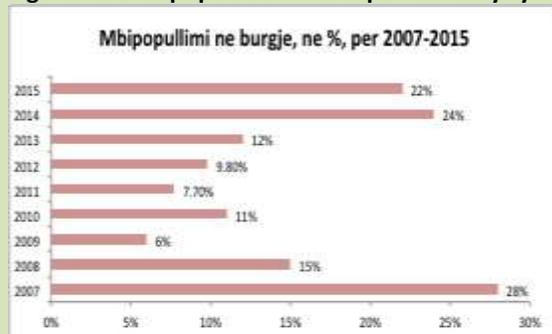
Analyses of the Judicial system in Albania, June 2015, pg. 10

drafted and adopted the Analyses of the Justice System in Albania in June 2015. This document represents a deep analyses of the system, while addressing the justice system as a whole. The observations of document are specifically related to the legal analyses of justice reform, and Constitutional Court reform, analyses of the judiciary, criminal justice system, and education system of justice, legal services, anti-corruption measures, and funding and infrastructure of the justice system. In addition, the analyses focuses on other issues related to public perception about the justice system (see box to the right). This analyses serves to provide guidance and show the steps for the justice system reform.

An independent and efficient judiciary system is a key prerequisite for the functioning of the rule of law, and hence a primary aspect of democracy, and an important enabling environment for the country's sustainable development.

This aspect is reiterated in the EU Indicative Paper for Albania for 2014–2020,⁵⁵ which refers to the prioritizing of “an accountable, independent, and efficient justice system, which is aligned to EU legislation and best practice.” In addition, the EU Progress Report for 2015 states that the judiciary in Albania is at an early preparation stage, and gives guidance on substantial gaps that need to be addressed “regarding independence and accountability of judges and prosecutors, enforcement of verdicts, cross-institutional cooperation, and administration of justice, which remains slow.” The report reiterates the importance of drafting a strategy and an action plan that would guide the reform through a series of concrete measures and interventions. Regarding the system of prisons, prisons conditions and standards for prisoner and detainee treatment improved. However, despite many years of investments, there are still fluctuations in overpopulation in the penitentiary system (Figure 18).

Figure 18. Overpopulation in the penitentiary system



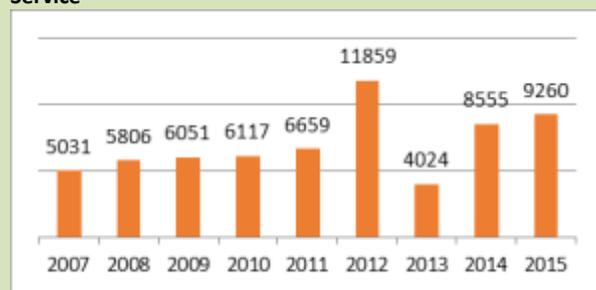
Source: Ministry of Justice

⁵⁵EU Indicative Paper for Albania, 2014–2020, pp 17–18.

At a more operational level, standards for treatment of juvenile offenders and new offenders have improved. There has been a considerable increase in alternative sentencing for juveniles, as compared to pre-detention. During 2009–2014, the ratio of minors with alternative sentencing as compared to overall number of sentenced juveniles was 46.5%.

However, the juvenile justice system in itself represents an important challenge for the system, which needs to be addressed in the future. The European Commission Report on this point reiterates the need to introduce a separate system for juvenile justice, to ensure that the current legislation is aligned with international standards.

Figure 19. Number of cases executed by the State Bailiff's Service



Source: Ministry of Justice

The strengthening of private bailiff service significantly improved the performance and enforcement of executive acts, even though the challenge lays with reducing back logs and faster delivery of execution of verdicts. Statistical data from State Bailiff Service indicate that during 2015 9,260 cases were executed (Figure 19). The sound operation of the mediation system for settlement of disputes has contributed in the reduction of

the court's case load.

As far as the court-related professions are concerned, such as attorneys-at-law and notary publics, mediation progress was made regarding the review of legal and institutional frameworks. Currently there are efforts underway to regulate the arbitration institute and to launch the reform on the notary public through one-stop shop delivery of service. Attention was also given to the introduction and operation of the Notary Electronic Register, the execution of wills and hereditary certificates from notaries, and the establishment and functioning of the respective registers. Special importance has been attached to timely execution of rulings of the European Court of Human Rights (ECHR). Between 2007 and 2014, thirty-six ECHR decisions were executed.

■ Challenges

As discussed under Section 2.2, the justice sector will be faced with many challenges ahead. These focus on the need for (1) a continuous process of reforms that need to be implemented in the judiciary; (2) further consolidation of the independence of the judiciary and greater efficiency within the judiciary; (3) greater transparency and a higher level of public trust in the judiciary; (4) further strengthening of the performance of public and private bailiff services and other related professions; (5) measures to ensure respect of the fundamental rights of individuals; (6) the transformation from the notion of criminal punishment to one of rehabilitation opportunities through strengthening community rehabilitation programs; and (7) enhancing the overall accountability and transparency in the judiciary through further development and integration of information management support systems.

■**The vision: Albania: a nation based on the rule of law, a guarantee of human right sand freedoms, with an open and equal judicial system ensuring justice for all.**

■**Strategic objectives**

1. Consolidation of independence and efficiency of judiciary through:
 - 1.1 Frequent review of the justice system, including gap analyses and identification of areas in need of improvement;
 - 1.2 Strengthening legislation in order to ensure independence of the judiciary;
 - 1.3 Implementation of the legislation along with measures that would enhance the independence, efficiency, integrity, and accountability of the judiciary at all levels of the system;
 - 1.4 Improving efficiency in the operation and organization of First Instance and Appeal courts, in light of the new territorial map;
 - 1.5 Review of court efficiency by reducing case load compared to the number of cases registered for trial;
 - 1.6 Improving infrastructure capacities;⁵⁶
 - 1.7 Strong mechanism of control within the judiciary related to the status and professional skills of inspectors and verification methods;
 - 1.8 Improving the filing system of the judiciary through operation and functioning of the central archive of the judiciary;
 - 1.9 Strengthening inter-institutional cooperation through Cooperation Agreements and organization of joint trainings; and
 - 1.10 Promoting regional and international cooperation in the judiciary through new cooperation agreements.
2. Enhancing transparency and consolidating the public confidence in the justice system through:
 - 2.1 Increased professionalism and performance through (i) merit-based and transparent criteria for appointments of judges, prosecutors, and court administrators; (ii) evaluations of performance, merit based promotions, and court inspections, and publication of the results of the appointments;

⁵⁶ Construction of the Palace of Justice in Tirana, construction of courts and prosecutors' offices in several cities.

- 2.2 Considerable reduction of backlogs;
 - 2.3 Strengthening the role and independence of the prosecutors during investigation process;
 - 2.4 Increased levels of legal predictability and enforcement of laws and court decisions in the interest of businesses and citizens;
 - 2.5 Enhanced court information and processes through the implementation of the Integrated Case Management Information System and audio systems in all courts, to ensure that information is user-friendly for citizens at large;
 - 2.6 Expansion of State Commission on Legal Aid through opening of seven new offices and strengthening human resources skills;
 - 2.7 Strengthening professionals skills of the state advocate’s office;
 - 2.8 Improving public opportunities for access to legal norms and information, by increasing the print run of publications of Official Gazette editions, codes, legal summaries, etc.
3. Improving further public and private bailiff’s service and performance of legal professions through:
- 3.1 Increased enforcement rates of executed titles;⁵⁷
 - 3.2 Greater bailiff service quality by fostering staff professionalism and strengthening the control over and inspection of each bailiff office (results with respect to the bailiff system are also covered in Section 10.1 on property rights);and
 - 3.3 Improved efficiency in general of the activity of experts and professionals in the justice field, while improving legal provisions;
 - 3.4 Delivery of interdisciplinary training programs for legal and other professionals related to the justice system, including programs that promote opportunities for new professionals in juvenile justice, justice for children, domestic violence, gender-based violence, etc.
4. Ensuring personal fundamental rights and the transformation of criminal punishment into re-education opportunities through:
- 4.1 The further improvement of detention and pre-detention systems;

⁵⁷ Referred to decision execution data of state bailiff service.

- 4.2 The compliance of the penitentiary system with international standards, including specific treatment for different categories of detainees;
- 4.3 The reduction of the overpopulation rate in penitentiary institutions; and
- 4.4 Strengthening social policies through actions aimed at: (i) extending the nine-year education system over the entire penitentiary system;⁵⁸ (ii) establishing special care sectors for persons with mental health problems in five IEVPs; (iii) drafting standard protocols for preparing the path to re-integration following release, and to ensuring increased engagement of detainees in activities that support their re-integration upon release from prison; (iv) providing of up to 3.5 hours of counseling per detainee per month.
5. Further upgrade of penitentiary infrastructure and security elements in detention and pre-detention systems in line with international standards and conventions and installation of closed-circuit television systems in all penitentiary institutions, while ensuring the gradual transformation of juvenile facilities into open or semi-open structures.
6. Establishing an electronic database for prisoners through a software for online searching of files, connecting local prisons with detention centers and central institutions, and installing a database for information and statistics management.

8.2 Strengthening legislative and electoral processes

In the recent years, Albania has made considerable progress in strengthening the electoral and legislative processes, which have contributed to strengthening democracy and the overall rule of law. However, the strengthening process by its very nature requires ongoing attention toward consolidation of the achievements made so far, as well as focusing on continued reforms of the democratic system that will ensure respect of human rights and fundamental freedoms, in compliance with European standards.

8.2.1. Strengthening legislative processes

■Current situation

Regarding strengthening of the legislative processes, the European Commission Report of 2015 attests to improved transparency and comprehensiveness. The report underlines that parliamentary committees have been proactive in holding consultations with civil society and stakeholder groups, also in light of the adoption of a resolution on the role of civil society in the country's democratic development by Parliament in December 2014. However, the EU Report reiterates the need for improvements in the organizational parliamentary structures, with administrative capacities and

⁵⁸ The Ministry of Justice and Ministry of Education and Sports have signed a Memorandum of Understanding (July 2014) on secondary education delivery for minors in conflict with the law.

expertise, while focusing on securing sufficient funds for staff hiring and training, specifically on research and analyses.

In light of improving transparency and increasing participation in decision-making through stakeholder consultations, in 2014 the Law on Public Notification and Consultation and the Law on the Right for Information were adopted, for which the appropriate necessary measures were taken to ensure their complete and qualitative implementation.⁵⁹

Currently, work has started on legislative reform for which two working groups have been established, one at the strategic level and the other at the technical level, with aim of running an inventory of legislation, analyzing the structures in charge with formulation of legislation and its alignment, establishing clear criteria for hiring persons that will work on lawmaking, etc. The process of transposition of EU Acquis with the local legislation, even though often backed up by EU funding and technical assistance, still needs to be further consolidated, while capacities need to be improved to ensure better quality of proposed legislation, in particular in terms of prospects for opening accession negotiations with the EU.

■Challenges

From the prospective of legislative processes there are a number of key policy changes that need undivided attention in the future. These include:(1) enhanced transparency and public confidence in the state democratic institutions; (2) further improvement of constitutional functions related to lawmaking and legislative process; (3) strengthening of administrative lawmaking capacities; (4) enhanced transparency in the lawmaking process, and cooperation with the civil society; and (5) increased cooperation and interaction among constitutional institutions, with the view of ensuring an efficient legislative process; (6) establishment of institutional capacities for the legislative process. Addressing these challenges is expected to ensure further consolidation of electoral processes and democracy in the country.

■The vision: Ensuring a transparent, inclusive and qualitative process, in line with best European practices.

■Strategic objectives

1. Further improving the lawmaking function through better review of legislation during the legislative process and introducing improvements in the legislative procedure to ensure better alignment of Albanian legislation with that of EU.
2. Strengthening inter-institutional cooperation among constitutional institutions in charge of the delivery of the legislative process (mainly the executive and lawmakers), with the aim of enhancing efficiency.

⁵⁹ Law no. 119/2014, "On the Right for Information," and Law no.146/2014, "On Public Notification and Consultation."

3. Increased transparency in the legislative processes through increased participation of public and civil society in the decision-making processes.
4. Enhanced efficiency of parliamentary oversight, in particular regarding implementation and alignment of new legislation with EU legislation.⁶⁰
5. Improved institutional capacities (at the Parliament and Council of Ministers) in terms of efficacy of legislative process.
6. Improving the process of drafting and adoption of legislation, and improved quality of legal acts through:
 - a. A transparent, comprehensive, policy-based system for drafting of legislation, which ensures alignment with the Acquis;
 - b. Improving procedures for conduct of expected impact assessment and compliance assessments with the Acquis, and connection of regulatory acts with country-level policies;
 - c. Increasing transparency in the publication of legislation.

8.2.1. Strengthening electoral processes

■Current situation

Regarding the electoral process, recent reforms have focused on changes in the Electoral Code. Their aim was to improve the setting of rules for the preparation, development, management, supervision, and announcement of election results and of the regulation of the electoral process. For instance, the changes introduced in the Electoral Code in 2012 provide for: (1) improving the administrative management of the entire electoral process; (2) keeping the balance among all political parties during the elections process; (3) improving independence of the Central Elections Committee (CEC) as the key institution for the administration of elections; (4) enhanced transparency;⁶¹and (5) minimizing pressure of the majority during the elections period.⁶²The legal framework regulating parliamentary elections

⁶⁰Oversight of the implementation of obligations stemming from the EU-Albania SAA; implementation of the Guideline on five key priorities recommended by the European Commission in 2013 (approved with CMD no. 330, dated May 28, 2014); implementation of the National Plan for European Integration 2015–2020 (approved with CMD no. 404, dated May 13, 2015); addressing the recommendations of the Annual Progress Reports of the European Commission for Albania for the period 2015–2020 and negotiating positions of the Albanian government during Albania's EU accession negotiation process (following the opening of negotiations).

⁶¹Forty days prior to the launch of the electoral campaigns, CEC establishes the Media Monitoring Board, whose task it is to monitor implementation of the provisions of this code, for electoral campaign from the public and private radio and TV stations.

⁶²Law no.74/2012, "On Some Amendments to Law no. 10019,", of December 29, 2008, "Electoral Code of the Republic of Albania."

now provides a sound basis for the conduct of democratic elections in Albania.⁶³ However, more remains to be done for transparency, in particular reporting on the funding of electoral campaigns.

In addition, measures were introduced for the adoption of the System of Information and Administration of Elections, introduction of modalities about training and learning, and to further promote transparency of electoral processes.

In January 2015, the Albanian Parliament adopted some amendments to the Electoral Code in light of the local elections held on June 21, 2015.⁶⁴ The changes consisted in the technical alignment of the election administration by the CEC, following the new territorial division and changes associated with gender quotas. According to these amendments, 50% of the candidates in the lists for municipal councils should be women. These measures will contribute in creating an enabling environment for women to advance in their political and public careers, and are considered key aspects of the electoral reform.⁶⁵ Following local elections of June 2015, the ratio between men and women (in terms of municipal council members) was 34.8% female and 65.2% male, while the ratio for the mayoral positions was 14.75% female and 85.25% male.⁶⁶

■ Challenges

In terms of electoral processes, a number of challenges remain to be addressed over the 2015–2020 planning period: (1) the need to increase transparency during the entire electoral process, both in parliamentary and local elections; (2) the need to strengthen the electoral processes to ensure that they are free from the influence of political parties; (3) the need for clarification of the roles of constitutional instructions regarding electoral processes; (4) the need to strengthen accountability of political parties, in general, regarding increased transparency of funds raised during electoral campaigns.

■ The vision: Ensuring free and fair elections, whereby the citizens may express their free will, based on due administrative process, free from political interventions, and in line with the standards.

■ Strategic objectives

1. Continued improvement of the overall legal framework and of the Electoral Code, while addressing the recommendations made by the Organization for Security and Cooperation in Europe/Office for Democratic Institutions and Human Rights in their 2013 and 2015 election observation mission reports.

⁶³OSCE, "Albania's Parliamentary Elections of June 23, 2013, Elections Observation Mission – Final Report," Office of Democratic Institutions and Human Rights (ODIHR), Warsaw, October 10, 2013, pg. 1.

⁶⁴Law no. 31/2015 on some amendments and additions to Law no. 10.019, dated December 29, 2008, "The Electoral Code of the Republic of Albania," as amended.

⁶⁵In line with the Electoral Code of Albania, parliamentary and local elections also held every four years, but with a time difference of two years between the two. The Albanian parliament currently consists of 140 deputies elected through a proportional system, and is composed of twenty-nine women and 111 men. From the local elections held on June 21, 2015, sixty-one mayors were elected (ten women and fifty-one men).

⁶⁶Albania's Central Elections Committee.

2. Improving levels of civic information about their rights regarding the electoral process, in order to ensure greater participation in the elections.
3. Increased transparency about funds raised by the electoral parties during the electoral campaigns through necessary legal changes.

8.3 Integrated border management

■Current situation

Solid progress in border control and surveillance was one of the conditions that led to the visa-free agreement with EU countries. Since December 2010, Albania has produced results in all components of the Integrated Border Management system, in particular with regard to: improving basic legislation; organization and management of border agencies; improved administrative and professional skills of respective structures; delivery of standard operating procedures; conduct of training programs and drafting of curricula; strengthening infrastructure and information system; high quality services for citizens; facilitation of trade exchanges; strengthening the fight against illegal activities; and improving border security.

In this context, progress was made in the development and implementation of the National Cross-Sector Strategy on Integrated Border Management and its Action Plan, 2014–2020 (adopted in 2014), which aims at: (1) the consolidation of the achievements of Integrated Border Management; (2) improvement of security at the border; (3) facilitation of the movement of citizens and trade exchanges; (4) guarantee open and safe borders.

An important component of the border control is the Inter-institutional Maritime Operational Centre (IMOC). IMOC is an inter-ministerial institution with the mandate to ensure the surveillance of Albanian maritime space. As a relatively new organization, IMOC needs to further strengthen its capacities in order to abide by its mandate.

Risk analyses is used in the identification and analyses of trends for illegal activities, such as: trafficking of narcotics and vehicles, use of false papers, and trafficking of human beings. Recently there is has been an increasing trend in illegal activities, related mainly to levels of surveillance at land borders. The main reasons behind this phenomenon include: border length, difficult terrain, border crossings, and small number of border police patrol and police stations. Border patrols often lack capacities and techniques. Another key factor is found in the small number of border police officers and seniority (old age) of the border police and migration staff who work in the field, at the border stations (currently 1.4 police officers for every kilometer, while the EU standard policy provides for three to five police officers for every kilometer).⁶⁷Some border crossing points lack appropriate infrastructure to help them deal with the flow of citizens, vehicles and goods, and technical supplies in the vehicles that are used by the

⁶⁷ Schengen Borders Code, March 15,2006. This regulation applies to any person crossing the external borders of all EU countries, except those of the United Kingdom and Ireland, and the internal borders of the Schengen area.

operational units of Border and Migration Police. In addition, existing capacities need to be further strengthened to manage the uneven pattern in the flow of migrants arriving from other countries.

■Challenges

There are still some serious challenges that need to be addressed with regard to increased cross-border crime: (1) improving sector appropriate policies to strengthen the border security system, in particular with the view of reducing and preventing cross-border crime and illicit trafficking; (2) the requirement to continue strengthening capacities, particularly with respect to operational performance associated with border monitoring and surveillance; (3) the need to apply best practices of integrated border management; and (4) formulation of a new legal framework, in line with EU standards and the Schengen Code.

■The vision: Consolidation of achievements in consolidated border management, to ensure safe and open borders, fully aligned with EU standards.

■Strategic objectives

1. Strengthening detection powers in the fight against cross-border crime through:
 - 1.1 Increased detection rates of illegal trafficking;
 - 1.2 Increased detection and elimination of trading of narcotics.
2. Enhanced professionalism and technical skills in the detection and fight against use of false papers for border crossing purposes.
3. Improving monitoring and surveillance standards through standardization of Border Crossing Points (BCP), in line with the EU standards, and the Schengen Code.
4. Prevention and downsizing of cases of illegal migration and of the numbers of foreign citizens caught in Albanian with irregular papers through:
 - 4.1 Conducting of accurate risk analyses;
 - 4.2 Deployment of staff in the most problematic areas; and
 - 4.3 Supply with modern technology for the prevention of illegal migration.
5. Prevention and reduction of illegal migration through:
 - 5.1 Increased rates of detection and elimination of illegal migration;
 - 5.2 Reduction of cases of illegal migration and of the numbers of foreign citizens caught in Albanian with documents not in order;

5.3 Monitoring migration flow through monthly and annual analyses of risk, in line with FRONTEX standards.⁶⁸

5.4 Monitoring of migration flow through monthly and annual analyses of risk, in line with CIRAM model; and

5.5 strengthened cooperation with the neighboring countries, for the prevention and fight of irregular migration of Albanian citizens and third-country nationals in the framework of existing bilateral agreements, the Police Cooperation Convention for South-East Europe, and other regional initiatives.

6. Overall strengthening of the capacities of the Inter-institutional Maritime Operational Centre.

8.4 Fight against organized crime, terrorism, and trafficking

■Current situation

In the recent years, Albania has made progress in its fight against organized crime, trafficking, and terrorism. The Cross-Cutting Strategy on Combating Organized Crime, Trafficking, and Terrorism, 2014–2020, was updated in November 2014 to include the fight against child trafficking, the fight against money laundering, and the fight against drug trafficking. In addition, a specific action plan for the strategy on the fight against human trafficking was developed and adopted during the same year.

Progress was reflected in the EC Progress Reports for Albania for 2013, 2014, and 2015.⁶⁹ The moratorium on the speedboats represented a strong legal instrument in the five-year policy for the elimination of illegal migration, and managed to eliminate illegal migration to Italy via the sea route.

International police cooperation continued to produce good results in relation to police operations, detentions, and investigative exercises. This was followed by an increase in the number of infestation of assets, confiscations, and court proceedings.

There was significant improvement in terms of risk analyses and use of criminal intelligence. The prosecution and confiscation of drug cases increased due to the efficient use of available means and equipment, risk analysis, and international cooperation. Capacities for ensuring witness protection were further strengthened. MONEYVAL recommendations regarding money laundering were also addressed.⁷⁰ Changes in the criminal code addressed aspects of internal human trafficking, including the criminalization of the use of the services of victims of trafficking.

⁶⁸FRONTEX promotes, coordinates, and develops European border management in line with the EU Charter of Fundamental Rights applying the concept of integrated border management.

⁶⁹European Commission, Brussels, October 16, 2013 SWD (2013) 414 final, Albania 2013 Progress Report, 2014 Brussels, October 8, 2014 SWD (2014) 304 final, 2015 Brussels, November 10, 2015 SWD (2015) 213 final.

⁷⁰MONEYVAL is the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism.

A new unit for combating cybercrime is now in place. Compared to the previous structure, this new unit runs computerized investigation and preliminary review of all computer data saved on computer devices, and is used as material evidence. This has led to increased cooperation between the police and the prosecution authorities. Joint trainings with the police, prosecution, and other staff of law enforcement agencies has been ongoing.

While the fight against production and trafficking of drugs was significantly strengthened in the course of 2013–2015, it still remains an important challenge. Special attention has been given to the fight against terrorism, in particular prevention of extremism and radicalization, especially those with strong religious and ethnical connotations. This was reflected in amendments to the criminal code and the entry into force of the law of "Prohibition of Albanian Citizens Joining Armed Conflicts Outside State Territory," which provides for serious punishment for such criminal offences.

Regarding money laundering, progress was made during 2015, as observed in the increase of 25.7% from 2014, in criminal proceedings related to money laundering and products of criminal acts or criminal activities. The processes were accompanied with confiscation of assets and banks accounts.

Given that the fight against corruption and corrupt officials remains one of the main priorities of the government there has been an increase in the number of detected and penalized cases of corruption. Special investigation techniques are being increasingly applied. In 2015, the fight against corruption focused on the justice system and on other areas including education, health, and tax. There was an increase of 110 identified criminal offenses, or 10% for corruption cases, compared to 2014. In the course of 2015, the economic and financial sectors saw an increase of an additional 16.3% in the detection rates of criminal offenses, compared to 2014. Compared to the previous year, fifty-three additional police operations were delivered, or an additional 10%.

■Challenges

Despite tangible achievements and progress made in the fight against organized crime, trafficking, and terrorism, main challenges include: (1) greater efforts in strengthening cooperation among law enforcement agencies; (2) introduction of reliable "track record" of proactive investigations, proceedings, and punishment combined with the systematic use of financial investigation; (3) expediting and intensification of the fight against productions and trafficking of drugs to ensure longer impact; and (4) a more coordinated and focused fight against all forms of organized crime, and international cooperation, and strong counter measures.

■The vision: Albania: with a society free of trafficking, organized crime and terrorism threats; projecting an image of a peaceful country, abiding by European security standards.

■Strategic objectives

1. Creating a safe environment for the society through reduced offer and access to illegal use of drugs through:

- 1.1 Prevention and significantly decreasing drug production in Albania by a targeted 67% reduction by 2020;
- 1.2 Prohibiting access to the illegal use of drugs through intensification of the fight against individuals, groups, and criminal organizations involved in the sale, distribution, and internal and international trafficking of drugs;
- 1.3 Maintaining quantities of strong drugs seized from neighboring countries with origin or transited through Albania at low levels.
2. Reduction of illegal trafficking and in particular trafficking of human beings from/through Albania by 2020 through:
 - 2.1 Increased detection of crime rates for individuals and criminal networks involved in illegal trafficking;
 - 2.2 Increased number of joint international operations against illegal traffics;
 - 2.3 Increased number of operations against illegal trafficking through special investigation techniques.
3. Improved efficiency in the fight against economic and financial crime, money laundering, corruption, and crime proceeds through:
 - 3.1 Increase in the number of investigations of crime related assets and prevention cases of corruption;
 - 3.2 Increased number of criminal proceedings against money laundering of crime assets;
 - 3.3 Increased number of investigated cases for other offenses related to economic crime.
4. Increased efficiency of the Cyber Crime Unit through:
 - 4.1 Increased number of investigations of criminal offenses related to cybercrimes;
 - 4.2 Increased number of investigations of cases of abuse of minors through the internet; and
 - 4.3 Increased numbers of preventive investigations of cybercrimes.
5. Prevention and reduction of terrorist threats through:
 - 5.1 Better results in the fight against terrorism through the establishment and use of an efficient risk evaluation system combined with institutional strengthening of units engaged in this area.

Expected results include: (i) increased operations that use special investigation techniques; (ii) increased number of joint international operations; and (ii) increased detection and elimination rates of terrorist criminal offenses;

- 5.2 Formulation of an organic law, in line with EU standards, in the fight against terrorism;
 - 5.3 Establishment and operation of the Inter-Institutional Committee for the Coordination of Actions in the Fight against Terrorism; and
 - 5.4 Establishment of a secure communication network for the exchange of information among committed agencies in the fight against terrorism.
6. Establishment of a state-of-art investigation service based on:
- 6.1 Enhancing investigation capacities toward intelligence-based investigations;
 - 6.2 Improved tools and modern technology through the completion of the Total Information Management System (TIMS), establishment of the Risk Management Information System, and implementation of the communication network for the state police;
 - 6.3 Increased capacity of scientific police through the introduction of new technologies that will ensure an increased number of forensic examinations in the process of detection and identification of crime evidence in the crime scene; and
 - 6.4 Establishment and operation of the National Bureau of Investigation.
7. Strengthening international and regional cooperation through:
- 7.1 Enforcement of existing agreements and new forms of police cooperation with the countries of the region and the EU; mainly through enhanced exchange of information with EUROPOL and INTERPOL;
 - 7.2 Increased number of joint operations with EUROPOL; and
 - 7.3 Increased number of detained wanted persons.

8.5 Strengthening public order and preparedness for the cases of civil emergencies

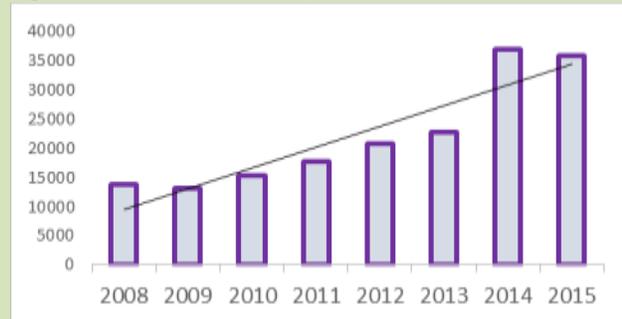
■Current situation: Public order

Public order is the result of efficient operations among police units, increased professional capacity of the state police, and strengthened territorial control.⁷¹

⁷¹“National Strategy of Public Order Sector, 2014–2020 (State Police)” was adopted by DCM no.702, August 26, 2015.

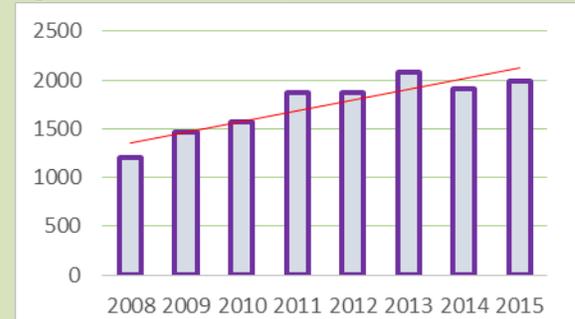
In the course of 2007–2014, there was an increasing trend of criminal offenses. Figure 20 illustrates an average increase of 75% in the number of criminal offenses during 2010–2015. Whereas during 2015, there was a slight decline in the number of committed criminal offenses compared to 2014. In addition, road safety remains an issue of public security in Albania. According to statistical data, the number of road accidents is showing an increasing trend (Figure 21), with an average increase of 24% in the number of accidents during 2015 compared to 2010.

Figure 20. Criminal offenses, 2008–2015



Source: Ministry of Internal Affairs

Figure 21. Road accidents, 2009–2014



Source: Ministry of Internal Affairs

■ Challenges

The implementation of the National Sector Strategy of Public Order, 2014–2020 (State Police), remains one of the key priorities of the public order sector focusing on: (1) the need to change the overall negative trends in public order, especially in road accidents; (2) the need to incorporate modern standards of policing; (3) strengthening of police–community partnerships through the professional management of criminal situations; and (4) greater attention to addressing domestic violence and antisocial behaviors.

■ Current situation: Preparedness for civil emergencies

Ensuring public order also means being prepared for emergencies and disasters. Albania has a high level of economic risk from multiple hazards, with 86% of its territory prone to two or more disasters, where 88.5% of national GDP is generated. Albania has one of the highest seismicity ratings in Europe, with the maximum potential probable losses from a disaster with a 250-year mean return period estimated at USD \$2.3 billion for earthquakes and USD \$1.3 billion for floods.⁷² As evidence of vulnerability to disaster, the recent floods of early 2015 in southern Albania resulted in significant damage to infrastructure and agricultural livelihood. Data from the Albanian Red Cross and local authorities estimate that 42,000 people had been affected.

⁷²Disaster Risk Mitigation and Adaptation Project, World Bank, April 30, 2014, http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/05/22/000016351_20140522141557/Rendered/PDF/ICR29910P110840C0disclosed050210140.pdf.

Disaster risk is also linked to housing, settlement, and livelihood patterns and exposure among different groups and locations throughout the country. Economic loss in Albania due to landslides, floods, and forest fires, and indirect costs on the economy and society, are deemed to be very high.

Albania is also at risk to a range of other natural and human-made disasters: forest fires, landslides, snow, drought, epidemics, avalanches, tsunamis, technological risks, failing dams, storms, and so on. According to the global risk index of natural disasters for 2014, Albania's rank is first in Europe and thirty-seven out of 171 countries worldwide.⁷³

In general, the civil protection system is fragmented and uncoordinated, with weak capacities across a wide range of institutions. These weaknesses and vulnerability to disasters and catastrophes are compounded by deforestation, poor river basin management, inadequate levels of preparation on the part of local populations, and inadequate warning and monitoring mechanisms. Climate change in particular presents risks to Albania in terms of the frequency, intensity, spatial extent, duration, and timing of extreme weather events. Rainfall and snow patterns in Albania are the most diverse in Europe. Albania National Communication under the UN Framework Convention on Climate Change identifies Albania's coastal areas and water resources, ecosystems, agriculture, energy, and tourism as sectors most vulnerable to climate change.

■Challenges

With respect to disaster risk reduction and civil protection management, the main challenges include the need to: (1) transform the overall system from being primarily reactive to one that is proactive in its approach to emergencies and disasters; (2) integrate emergency preparedness issues into sectorial strategies and plans at the central and local levels; (3) strengthen the legislation and regulations that cover those areas; (4) develop a strategic document on emergency preparedness; (5) strengthen the technical, organizational, and managerial capacities of the various institutions involved in emergency preparedness; (6) strengthen the capacities of emergency response entities; (7) upgrade construction and safety standards in buildings and other structures; and (8) ensure the development of an adequate and well-capitalized catastrophe/disaster insurance market.

■The vision: Albania: a safe and secure place for citizens and visitors, with reduced vulnerabilities to life, property, and the environment.

■Strategic objectives with respect to public order

1. Reduction of antisocial behavior and street crime by 2020, mainly crimes against property through:
 - 1.1 Reduction of number of criminal offences against property (per 100,000 inhabitants);
 - 1.2 Improving rates of detection of criminal offences against property;

⁷³The index is based on vulnerability and exposure to disasters, increases in susceptibility, response and coping capacities, adaptation, etc. World Risk Report's 2014, United Nations University.

- 1.3 Increased number of Immediate Protection Orders for victims of violence, with the view of improving safety of victims of domestic violence.
2. Improving service delivery quality and increasing public confidence through:
 - 2.1 Reduction in police response time to community calls;
 - 2.2 Reduction in public complaints against police officers (per 100,000 inhabitants); and
 - 2.3 Increase in the number of public calls.
3. Improving road safety parameters by 2020 in line with EU Vision Zero through:
 - 3.1 Reduction of number fatal road accidents(per 10,000 vehicles);
 - 3.2 Reduction of the overall number of road accidents due to use of alcohol, compared to 2013;
 - 3.3 Reduction of the overall number of road accidents due to speed, compared to 2013.
4. Improving human resources management standards, training, police assets, logistics services and budget monitoring through:
 - 4.1 The implementation of mandatory in-service training and recertification for all staff;
 - 4.2 The certification of personnel in specialized and advanced training focusing particularly on joint training with other law enforcement agencies in the fight against organized crime and illegal trafficking (training of staff within one year—certification and recertification);
 - 4.3 Improved logistics infrastructure through increased investment, good management of support services, and an improvement in information technology tools and communication networks.

■Strategic objectives with respect to disaster risk reduction and civil protection management

5. Strengthen disaster risk reduction and civil protection management through:
 - 5.1 Preparation and approval of the National Operational Plan for the integrated management of civil emergencies;
 - 5.2 Updating and strengthening of related legislation and regulations, including the establishment of construction and related standards in line with EU standards;
 - 5.3 Strengthened capacities of emergency preparedness and disaster response entities across Albania;
 - 5.4 Gathering and organizing risk information, and strengthening early warning systems; and

5.5 Review of catastrophe insurance market.

8.6 Strengthening human rights

■Current situation

Human rights and fundamental freedoms are essential conditions for the enhancement and advancement of the role of citizens in society. The constitution guarantees freedom of speech, the right to information, protection of personal data, occasional hearing, and the right to appeal. In the course of 2007–2014 a series of international acts were ratified and efforts were made to complete the legal and institutional framework in Albania in order to strengthen and ensure human rights.⁷⁴

The people’s advocate (ombudsman) contributed not only in promoting human rights, but also in protecting human rights when threatened by illegal and arbitrary actions of the state. They provided for protection in cases of persons deprived of their freedom and of persons in contact with judicial entities (in particular, in cases of vulnerable groups, such as minors, children, women, Roma, and other vulnerable groups). They also played an active role in the mechanism for the prevention of torture.

The Office of the Commissioner for Freedom of Information and Protection of Personal Data (ZKMDP) established in 2008 achieved progress in monitoring the personal data protection law, increased awareness, and strengthened the conduct of administrative investigations. Following the approval in September 2014 of Law no. 119/2014 “On the Right to Information,”⁷⁵ responsibility for this area was transferred from the ombudsman to the ZKMDP, strengthening its role and competencies in monitoring the other major pillar, the right to information. The administration is in the process of developing transparency programs, appointing access-to-information coordinators and establishing registries of requests for information, as required under the new law. So far 141 coordinators were nominated by public administration institutions.

⁷⁴UN Convention on human rights: International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families (adhered with Law no. 9703, dated July 2, 2007); UN Convention for the Protection of All Persons from Enforced Disappearance (ratified with Law no. 9802, dated September 13, 2007); UN Convention on the Right of Persons with Disabilities (ratified with Law no. 108/2012); Optional Protocol to the Convention on the Rights of the Child on the Sale of Children, Child Prostitution and Child Pornography (adhered with Law no. 9834, dated November 22, 2007); Optional Protocol on the Involvement of Children in Armed Conflict (adhered with Law no. 9833, dated December 21, 2007); Optional Protocol to the Convention on the Rights of Children on Communications Procedure (ratified with Law no. 86/2013); Optional Protocol of International Pact on Civil and Political Rights (adhered on October 4, 2007); Second Additional Protocol of International Pact on Civil and Political Rights (adhered with Law no. 9726, dated May 7, 2007); UN Convention on Rights of Persons with Disabilities (ratified with law no. 108/2012); conventions in the framework of the Council of Europe: Convention on Action against Trafficking in Human Being (ratified on February 6, 2007); Convention on the Protection of Children against Sexual Exploitation and Sexual Abuse (ratified on April 14, 2009); Convention on Acknowledge and Implementation of Food Obligations (adhered with Law no. 10398, dated March 17, 2011); Convention of the Council of Europe on the Exercise of Children’s Rights (June 2011).Convention on the Legal Status of Children Born Out of Wedlock (June 2011); Convention on Prevention and Fight against Violence against Women and Domestic Violence (104/2012); Protocol 13 of the European Convention for the Protection of Human Rights and Fundamental Freedoms, concerning the abolition of death penalty in all circumstances (2007); Protocol 15 of the European Convention on Human Rights and Fundamental Freedoms (2014).

⁷⁵Law no. 119/2014 “On the Right to Information” was adopted on September 18, 2014, and became effective in November 2014.

The Office of the Commissioner for Protection against Discrimination, established in 2010, contributed to the enhancement of public awareness on the protection from discrimination and available legal means. The office also offered assistance to victims of discrimination through the examination of discrimination complaints, carrying out administrative investigations, examining court opinions on discrimination issues, and developing recommendations to improve the legislative framework.

The State Agency for the Protection of Child Rights, with the support of the Ministry of Social Welfare and Youth, has undertaken a series of initiatives in line with the law “On Protection of Child Rights” at national and local levels. In this context, it is important to point out that children do not interact with the justice system—only in their capacity as alleged perpetrators of criminal offences—but that they should be viewed as rights holders who need to claim these rights whenever they are violated. Children should not be seen only as responsibility holders, but also as right-holders. Therefore, the challenge is to give children access to justice while focusing on efforts for the removal of barriers; access to information for children and their families about their rights, legislation, and possible means of redress; ways to find the right path in the system to seek these rights; and the introduction or strengthening of available services for their support.

It is important to highlight that for the first time Albania was elected as a member of the UN Council on Human Rights for 2015–2017 in the elections of October 21, 2014, of the 69th Session of the UN General Assembly, with extensive support from the electoral group and other member countries.

■Challenges

The main challenges that remain to be addressed over the NSDI II planning period are: (1) the need for greater attention to the protection of the rights of women, children, disabled people, minorities, Roma, juveniles, prisoners, and pre-detained persons; (2) greater assurance of the right to information and the protection of personal data; (3) advancing the awareness for protection from discrimination and available legal means; (4) more effective protection from discrimination; (5) the creation of conditions for the efficient implementation of final court decisions and European Court of Human Rights decisions; and (6) the strengthening the role and the capacities of independent institutions that ensure protection of human rights.

■The vision: A society that respects and safeguards human rights, guarantees the principle of equality, and promotes equal chances and opportunities as effective means for a consolidated democracy and rule of law.

■Strategic objectives

1. Enhanced integrity and assurance of human rights through:
 - 1.1 Having in place legislation for the protection of human rights, in line with EU legislation and international obligations, in particular through:

- (i) Improved legislation for establishing monitoring and tracking mechanisms regarding the implementation of all human rights conventions ratified by Albania;
 - (ii) Completing legislation in light of the framework law “On Inclusion and Accessibility of Persons with Disabilities”;
 - (iii) Improving legislation on protection of minorities and introducing opportunities for their education, in line with international commitments.
- 1.2 Strengthening capacities of independent institutions that ensure delivery of human rights, such as: the People’s Advocate, the Commissioner for the Right to Information and Protection of Personal Data, the Commissioner for Protection against Discrimination, and the State Agency for Protection of Children’ Rights, and strengthening the implementation of their recommendations and decisions;
2. Ensuring the right for information and protection of personal data through raising awareness of individuals, public authorities, and public and private oversight, as well as through increased numbers of administrative controls.
3. Raising awareness about antidiscrimination protection, in particular with regard to vulnerable groups such as: Roma and Egyptian communities, women, persons with disabilities, children, minorities and other vulnerable groups through:
- 3.1 Strengthened capacities of vulnerable groups and civil society organizations to claim their rights;
 - 3.2 An increase in the number of complaints and administrative investigations initiated ex-officio by the Commissioner for Protection against Discrimination;
 - 3.3 Improved cooperation and organization of joint activities of independent institutions that operate in the area of human rights protection.
4. Strengthening the institutional and legal mechanisms to ensure delivery of child rights through:
- 4.1. Harmonizing and strengthening legislation in light of child rights and international standards;
 - 4.2. Improving oversight system and promotion of evidence-based policies;
 - 4.3. Strengthening the Child Protection System through multidisciplinary and multisectorial approaches that clarify the roles and responsibilities of each actor involved in the child protection process, and appropriate budgeting at local and national levels;

- 4.4. Strengthening coordination between central and local power units: for an intersectorial approach in relation to care for parentless children or children victims of abuse exploited or neglected children and consolidation of de-institutionalization through alternative forms of care.
5. Protection of rights of children in conflict with the law and children in legal proceedings through:
 - 5.1 Establishment and consolidation of prevention services against juvenile delinquency to ensure child integration and protection;
 - 5.2 Taking away of freedom only as a last measure and for the shortest time possible to reflect international standards on the matter; and
 - 5.3 Ensuring social protection for children under fourteen years old in conflict with the law.
6. Ensuring social inclusion of all socially excluded categories due to poverty, social status, lack of access to public services, lack of attention on the part of public institutions, etc.
7. Ensuring independent living for persons with disabilities through:
 - 7.1. Delivery of social services and health services;
 - 7.2. Making sure that persons with disabilities lead a respected life, through means of wage indexation, employment, improving their access to urban and interurban transportation services, while improving services and infrastructure;
 - 7.3. Their inclusion in mainstream public education.
8. Respecting rights and treatment of prisoners and pre-detained persons in penitentiary institutions through:
 - 8.1. Minimization of cases of maltreatment and use of violence through systematic in penitentiary institutions through monitoring;
 - 8.2. Establishment and consolidation of a special medical institution for the treatment of prisoners with mental health problems;
 - 8.3. Respect of the rights and treatment of prisoners and pre-detained persons taking into consideration paid labor.
- 8.4 Creating an enabling environment for civil society and its development

■Current situation

Historically, civil society in the Western Balkans countries has been developed in similar ways. In most of the region, except for cultural and sports associations, other existing organizations had been subject to

communist regime monitoring. Following the fall of the communist regimes, non-governmental organizations and civil society organizations began to thrive in response to the need to help build democratic and inclusive systems and to tackle issues of poverty. Of the many components of civil society, the media in particular has become particularly important.

Currently, civil society in general is viewed by the government and citizens as a mechanism that enables the preservation and coordination of public interests, the facilitation of large-based discussions, the convening of organizational forums, the provision of information in the public interest, the promotion and advocacy for human rights, and the independent monitoring of government itself. These essential elements of political freedom are necessary for a functional democracy and accountable governance.

Over the past three decades, the civil society sector in Albania has offered an increasing range of services and products. Compared to the initial period of transition (1991–2000) when priority was given to supporting vulnerable groups and the promotion of human and women’s rights, attention is now focused on higher civic representation in the area of advocacy, rather than on service delivery. In the case of the media, the role in part is that of independent government watchdog, investigating and reporting on cases of corruption, and, through various research, analysis, and investigative capacities, reporting on government performance. There is also the importance of developing the partnership between civil society and private sector, not only as a way to generate funding to support civil society organizations’ activities but also in the light of promoting social responsibility of private sector.

In general, civil society organizations in Albania, as well as in the region, are characterized by low rates of civic participation. The majority of civil society organizations are found in the most developed regions of the country, which in many cases has led to under-representation of vulnerable groups, ethnic minorities, and those from the rural and remote areas of the country. One common feature of the civil society in Albania, and the region, is dependency on foreign donors’ funds.

According to existing legislation, civil society organizations may compete for government service contracts on equal terms with other competitors through open procurement processes. In practice, however, civil society organizations generally fail to engage in contracts with other service providers due to a lack of clear rules and procedures, and also due to weak contracting management capacities within public institutions.

The year 2014 marked a new history of cooperation with the civil society sector. In this framework, the drafting of a Guideline on Civil Society as an instrument to assist strengthening of the civil society role in policy-making processes was initiated. More recently, a road map was developed and approved by the government to strengthen its policy toward the creation of a more enabling environment for civil society.⁷⁶The commitment of the government to this new approach of improved dialog with civil society

⁷⁶“Roadmap for Albanian government policy toward more enabling environment for civil society development, “draft, November 2014, prepared jointly by the Government of Albania, Technical Assistance for Civil Society Organizations, and the Swedish Institute for Public Administration, with funding from the EU. The drafting of a Guideline on Civil Society and the roadmap was carried out in close collaboration between the Office of the Prime Minister, the Ministry of European Integration, the Agency for Support of Civil Society, the Ministry of Social Welfare and Youth, the European Delegation Office in Tirana, the

was reflected in the establishment of the National Council for Civil Society, adopted by Law no. 119/2015.⁷⁷ Now, there are in place several formal mechanisms for the representation of civil society organizations in policy and decision-making processes. The first was adoption by Law no. 15/2015, of March 5, 2015, on “The Role of the Parliament in the Process of Albania’s EU Integration” and establishment of the National Council of European Integration with representatives as well from the civil society sector. A second body, and quite essential for the representation of interests of civil society organizations, is the National Council of Civil Society. This council is composed of a majority of civil society representatives with participation from high level officials from state institutions. The council is meant to ensure that issues relevant to civil society are addressed by relevant state institutions: e.g., on capacities of civil society organizations or on legal frameworks and on funding arrangements, among other issues. In addition, the National Economic Council established in line with Law no. 57/2014 and the National Labor Council include representatives from the civil society.

The EU Integration Facility 2014, from IPA II funds, is expected to be a meaningful source of funding support to civil society organizations. The facility will be implemented in 2016 and result in grants to support activities related to increasing the knowledge of the EU accession process among all key stakeholders, including schools, universities, academic institutions, and citizens in general, as well as to related to increasing policy dialog between civil society organizations and the government.

With respect to the media, key policies are geared to achieving longer-term reforms to strengthen media independence. The reforms also aim to ensure full digital broadcasting so that media may function as a better voice for citizens’ interests. Progress was made in the approximation of legislation with the EU Acquis for audiovisual media services, such as the approval of the Law on Audiovisual Media Services (March 2013). However, further efforts are needed to ensure and guarantee the independence and regulatory authority of the media sector. Other bylaws were adopted through the implementation of the Audiovisual Media Law, including code transmission and transmission criteria for authorization and inspection procedures. Substantial work is needed regarding Albania's international commitments to transition to digital broadcasting.

■ Challenges

The main challenges faced by the Albanian Government in terms of its policies and working relationship with civil society as extracted from the aforementioned roadmap are: (1) the need to develop a national strategic policy environment for civil society development; (2) build and strengthen institutions supporting Government–civil society organizations cooperation; (3) the need to better involve civil society organizations in the policy-making process; (4) the development of a public funding framework for civil society organization programs;⁷⁸ (5) the need to develop and strengthen the legislative

donor community, and public and civil society organizations. It was approved by Decision of the Council of Ministers, no. 459, May 27, 2015.

⁷⁷ This increased level of consultation and cooperation was stated in the recent EC Progress Report for 2014 for Albania.

⁷⁸ According to EU Progress Report for Albania (2013), civil society organizations continue to be dependent on foreign donors’ funds.

framework for the registration and work of civil society organizations; (6) the streamlining and simplification of the mechanisms for financial reporting/accounting and tax treatment of civil society organizations (including value-added tax treatment); (7) the need to develop and implement systems for the collection of data and monitoring of civil society development; (8) the need to encourage and promote volunteering; and (9) the development of the mechanisms that will enable civil society organizations to contribute to Albania's EU accession process.

The main challenges ahead for the media sector include: (1) the need to further increase media independence especially with respect to ethical content/broadcast; (2) the digitization of the audiovisual media; (3) the need to increase content diversity and quality offered by the public and other operators; and (4) the need to capture the many opportunities associated with digital broadcasting.

■The vision: Creating an enabling environment for a strong and consolidated civil society that contributes to the development of the society and the country, together with an independent and free media.

■Strategic objectives

The short, medium and longer term objectives for the government's policy on developing and enabling environment for civil society in Albania are detailed in the aforementioned roadmap, and its supporting annex of priority areas and proposed actions. The following list of strategic objectives highlights those priority areas of action in the NSDI II.

1. Creating the legal environment and financial premises to support civil society organizations' sustainability through:
 - 1.1 Better application of existing procedures to fulfill financial obligations of civil society organizations in proportion to their annual turnover and non-commercial activities;
 - 1.2 The drafting and adoption of a law on "Functioning and Organization of Social Enterprises" in the framework of strengthened financial capacities of civil society organizations; and
 - 1.3 Review of the law on "Organization and Functioning of Nonprofit Organizations."
2. Strengthening and institutionalization of cooperation with civil society and public institutions, with the goal of establishing a partnership based on willingness, trust, and mutual understanding of common interests:
 - 2.1 Operation and strengthening the role and influence in public policies of the National Council of Civil Society, as a body that represents the interests of civil society;
 - 2.2 Formulation of a national strategy to strengthen civil society as a cooperating actor with greater impact on decision-making processes; and

- 2.3 The promotion and realization of partnerships between local government institutions and civil society for delivery of social services.
3. Promoting civil society organizations in line with national priorities and EU recommendations:
 - 3.1 Encouragement of voluntarism and citizens’ participation in community development through small funds, workshops, and local-level training; and
 - 3.2 The promotion and strengthening of civil society capacities according to national priorities and EU recommendations.
4. Promoting more open and efficient operation of media through regulatory policies for:
 - 1.1 Reducing economic pressure on the media market;
 - 1.2 Improving working conditions of journalists fighting informality;
 - 1.3 Establishing a self-regulatory entity;
 - 1.4 Strengthening capacities of journalists trade unions;
 - 1.5 Strengthening cooperation of the media, while strengthen the social service role.
2. Carry out a full switchover from analogue to digital broadcasting by 2015, and reduce the illegal use of frequencies by improving the legal and regulatory framework in the field of audiovisual broadcasting.
3. Enhancing administrative and technical capacities of the Regulatory Authority and Audiovisual Media Authority.

8.8 Public administration and civil service reform

■ Current situation

The Public Administration Reform (PAR) in Albania continues to be a necessary and high priority process of the government, and it is closely associated with the EU integration process. In fact, the European Commission has strengthened its focus on public administration as one of the fundamental pillars of the enlargement process, in its communication "Enlargement Strategy and Main Challenges, 2014–2015."⁷⁹ As an instrument

⁷⁹ The EC structures its work on PAR around six key issues outlined in the Enlargement Strategy: strategic framework of public administration reform, policy development and coordination, public service and human resources management, accountability, service delivery, and public finance management.

Accountability.

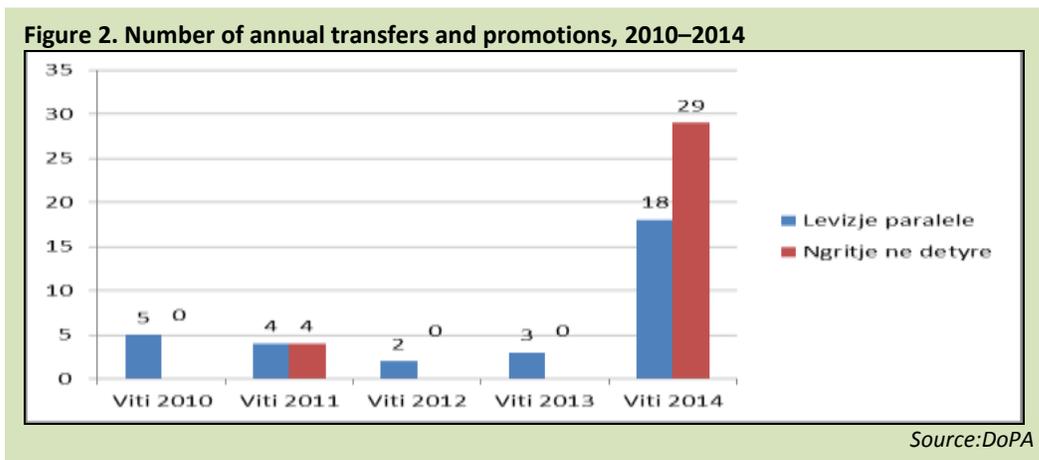
“An accountable government is one which makes itself answerable to the public, upholding standards of behavior and integrity, and both explaining and taking responsibility for its decisions and actions. Accountability requires that rules, regulations, and mechanisms be in place governing the exercise of public power and the spending of public funds. Specific and detailed measures are required to reduce corruption risks, to identify and prevent potential conflicts of interest, and to guard against illicit enrichment. There should be penalties for those who expose wrongdoing.”

of reform, PAR focuses on not only the civil service, but also on the structuring and functioning of the entire system of public administration (its organization, rules, administrative procedures, systems of accountability and transparency, control mechanisms).The final goal is ensuring cost effective and accountable delivery of services to citizens and businesses. These priorities are set forth in the government’s program for 2013–2017.

The Crosscutting Public Administration Reform Strategy 2015–2020was adopted by the DCM no.319, dated April 15, 2015. The strategy focuses on four main pillars: (1) policymaking and the quality of legislation; (2) organization and functioning of public administration; (3) administration of human resources in the civil service; and (4) administrative procedures and oversight. In addition, the PAR represents one of the four pilot sectors for the sector approach and the use of the Integrated Policy Management Group mechanism, as noted previously.

The percentage of contractual employment in the civil service over this period was relatively high (at over 20%).⁸⁰Most civil service staff hired on a contractual basis would have their positions confirmed through open competition. There were also a high percentage of replaced employees due to the politicization of the recruitment process. These practices have reduced the general capacity of the civil service, thus undermining the procedures and principles of the law on the civil service. Absence of a unified law on overall organization and operation of public administration during the same period has led to risk of fragmentation of different legal acts.

A number of important actions have been introduced recently (2013–2015).Law no. 152/2013 “On the Civil Servant,” as amended, and the bylaws approved in its implementation are currently addressing the need for a professional and merit-based civil service. The new legislation is comprehensive and defines the setups responsible for managing civil service. Implementation of the new recruitment procedure has begun, with positive, early results demonstrating the application of meritocracy. Figure 26 shows the number of annual lateral transfers and promotions over the period 2010 to 2014, while Figure 27 presents the number of annual recruitments from 2000 to 2014.



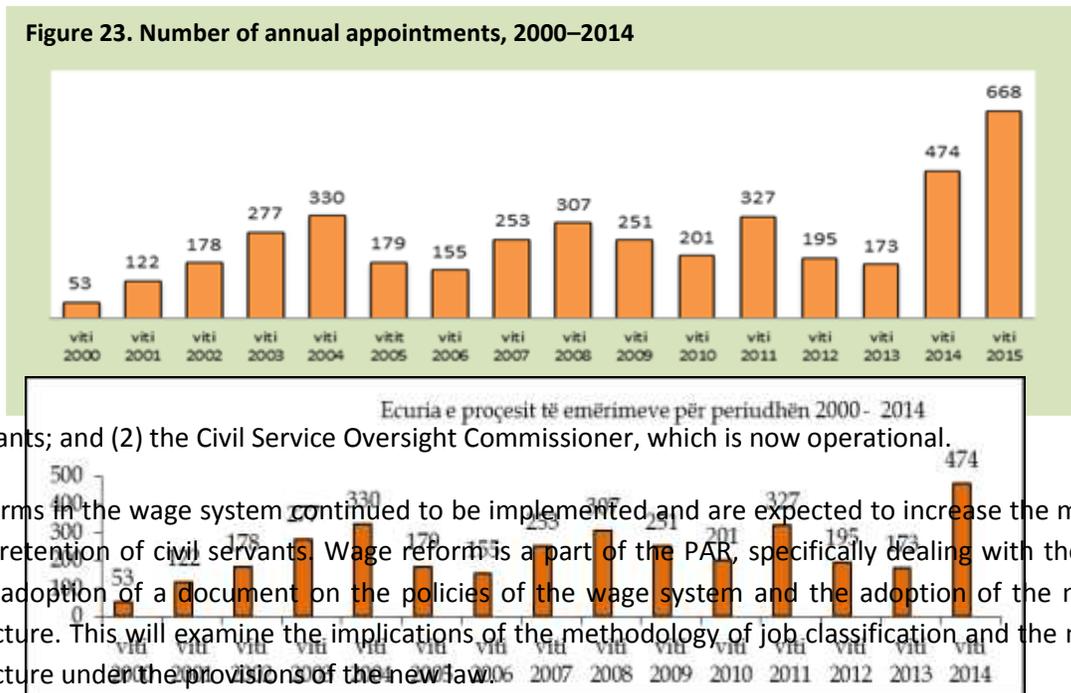
⁸⁰ EC Progress Report.

In terms of recruitment of senior level civil servants in 2014, 47% of the total were recruited into management positions and 53% into executive levels.

In order to adapt to the new provisions of the civil service law, a major achievement over the past several years was the redesign and implementation of the Human Resource Management Information System. The system became operational in May 2015 and is currently in the process of being populated with personnel files and other information from the line ministries. The system is integrated with the National Registry of Civil Status and is scheduled to be integrated with the Treasury System. The system is planned to be extended to other agencies and local government levels over 2016–2017.

Major steps were taken in strengthening the supervision over the public administration through the adoption of Law 44/2015, dated April 30, 2015 on “Code of Administrative Procedures.” In addition to legislative developments, institutional set ups have occurred as well. These include: (1) the Albanian School of Public Administration, established in 2013 in order to further strengthen the capacities of civil

Figure 23. Number of annual appointments, 2000–2014



servants; and (2) the Civil Service Oversight Commissioner, which is now operational.

Reforms in the wage system continued to be implemented and are expected to increase the motivation and retention of civil servants. Wage reform is a part of the PAR, specifically dealing with the drafting and adoption of a document on the policies of the wage system and the adoption of the new wage structure. This will examine the implications of the methodology of job classification and the new wage structure under the provisions of the new law.

■ Challenges

The World Bank 2014 Report highlights that the PAR strategy for 2009–2013 failed to address several issues related to effective public administration.⁸¹ Different components of that strategy were assigned to other national strategies leading to its overall fragmentation in implementation and the fact that it mainly addressed human resources management issues. The new PAR strategy for 2015–2020 is expected to address the above-noted issues. Other measures will be needed to address the following

⁸¹ World Bank Report no. 82013–AL, Albania’s Public Finances Control, May 2014.

challenges: (1) the need to improve the delivery of services to citizens (as per one of the government's six key priorities); (2) strengthening the accountability of public officials; (3) the need for greater delegation of decision-making; (4) the promotion of professionalism in the civil service and meritocracy in recruitment; (5) greater assurance given to the sustainability and depolitization of the civil service; (6) the need to establish more effective control mechanisms; (7) the stricter implementation of the law on civil service; (8) the need for more transparent recruitment procedures; (9) greater attention to the fight against corruption; (10) greater use of information technology in service delivery; and (11) the need to address the capacity development requirements within the public administration on a more strategic and system-wide basis.

■The vision: Development of public administration in line with the European Administrative Space for delivery of high quality services to citizens and businesses, in a transparent, effective, and efficient way, through the use of modern technologies and innovative services, in line with European integration requirements, through impartial and professional civil employees, as part of efficient structures.

■Strategic objectives

1. Improving public administration effectiveness and efficiency and reduction of corruption through:
 - 1.1 Strengthened public administration structures focused on improving services;
 - 1.2 Increased efficiency and accountability of public employees through the delegation of decision-making authority;
 - 1.3 Functional and organizational review of state administration institutions in the central and local level;
 - 1.4 Creation of a functional structure based on administrative and territorial reform that will support equality of access to public funds or other financial sources at the local and central levels; and
 - 1.5 Modernized institutions and public administration services for citizens and businesses including increased efficiency through the application of ICT solutions
2. Developing a professional, impartial, independent, and merit-based civil service through:
 - 2.1 Strengthened institutional capacities for unified implementation of new legislation and improved management of human resources;
 - 2.2 A restructured civil service salary system based on job position evaluation, annual performance assessment, and mandatory training;
 - 2.3 Improved performance and development of capacities through training; and

2.4 Increased transparency and accountability through the implementation of civil service reform at all decision-making levels.

3. Improving administrative and oversight procedures through:

3.1 Increased control over the activity of public administration and to ensure citizens’ rights;

3.2 Increased transparency and access to information on public administration through the application of ICT solutions;

3.3 Increased capacities of the administration to implement the new Code of Administrative Procedures;

3.4 Facilitation of compensation procedures in case of damages caused by the administration; and

3.5 Facilitation of administrative procedures through innovative solutions.

4. Improved public services and reduction of corruption through:

4.1 The modernization of public administration services to citizens and businesses and increased efficiency through ICT solutions; and

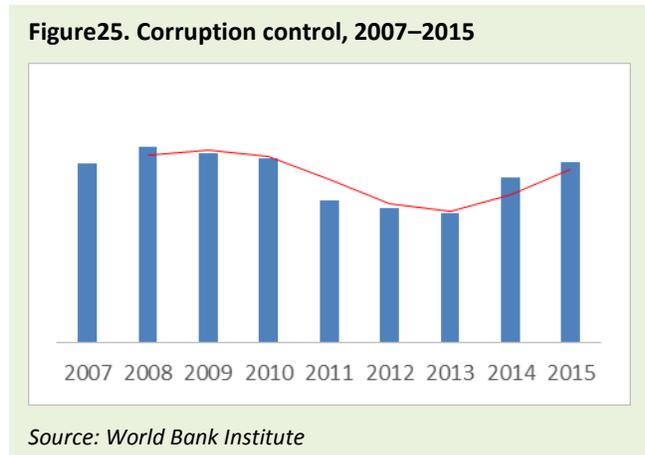
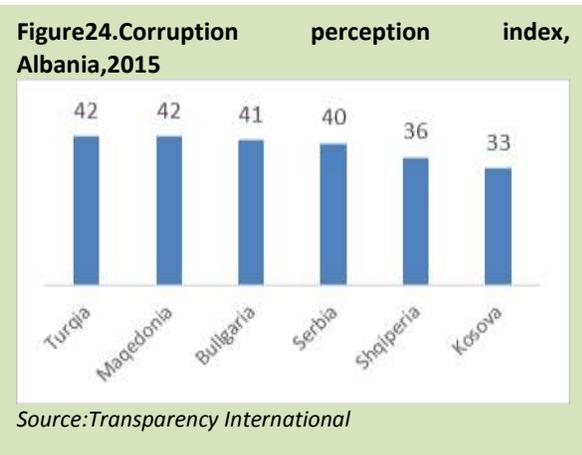
4.2 The integration of administrative procedures using innovative solutions for services.

8.9 Transparency and the fight against corruption

Current situation

Corruption is a highly complex and cross-cutting issue, which requires taking of different types of measures. Dimensions of corruption are significant across a number of areas, from the rule of law, voice and accountability, and quality of regulatory measures.

In terms of overall control of corruption performance, Albania has demonstrated considerable fluctuations over the years. According to World Bank Corruption Control Index (Figure 25), public perception about corruption in Albania remains high, despite ups and downs in years. Even at the



regional level, Albania and Kosovo score very high in terms of corruption levels (Figure 24).

Anticorruption reforms are focused on three main areas: (1) prevention, transparency, inclusiveness, and education of the public; (2) investigation and punishment of corruption acts; and (3) consolidation of international coordination and cooperation. Other achievements were related to delivery of public services in a number of government sectors, they include: (1) introduction and use of an electronic procurement system (e-procurement); (2) establishment of the National Center for Registration (NCR) and National Center of Licensing (NCL); and (3) introduction of tax and customs electronic systems (e-tax and e-customs), all of which have significantly facilitated the relevant administrative procedures.

Constitutional amendments limiting the immunity of MPs and judges paved the way for the criminal punishment of corruption at high levels. In the meantime, recommendations of the second and third round of the Group of States against Corruption (GRECO) for Albania were implemented regarding legislative measures on high official immunities, money laundering, and financing of political parties and election campaigns. In the framework of programs, the Inter-Sectorial Strategy against Corruption 2015–2020, the action plan,⁸² and the oversight instrument for the implementation of the strategy is based on a transparency and inclusive process.

■ Challenges

The main challenges for the planned period of NSDI II include: (1) enhanced governance transparency; (2) addressing the aspect of limited possibilities for the broad public and stakeholder groups to obtain information; (3) increased participation rates and public consultation in the formulation of public policies and legislation; (4) integrity among the public and party officials; (5) increased prosecution of corruption cases; and (6) increased public confidence.

■ The vision: Transparent and high integrity public institutions that enjoy public trust, guarantee quality services, and are not the prey of corrupt practices.

■ Strategic objectives

1. Prevention of corruption and increased public confidence through:
 - 1.1 Increased transparency of government activities through citizens' access to information, improved legislation, procedures and capacities of state institutions;
 - 1.2 Demonstrable track record in successful investigations, prosecutions, and final convictions in corruption cases;
 - 1.3 The regular review and necessary adjustment to anticorruption measures in order to increase effectiveness, including through necessary legislative changes, and fully functioning capacities of

⁸² DCM no.247, March 20, 2015.

- the prosecution and law enforcement agencies, as well as through a robust institutional framework to prevent corruption;
- 1.4 Improved communication and consultation with the general public in the process of drafting and adopting regulatory acts (laws, decisions, etc.);
 - 1.5 Adoption and implementation of the legal framework and legislation to protect whistleblowers and establishing a comprehensive system for their protection;
 - 1.6 A reduction in the levels of corruption cases through the tracking, development, and production of consolidated statistics, the analysis of trends, and the publication of periodical reports on corruption cases;
 - 1.7 Strengthened monitoring over the financing of political parties;
 - 1.8 A strengthened declaration regime and control of assets of public officials and cases of conflict of interest through an online declaration system for all reporting entities and the possibility of their publication, especially for senior and elected persons.
2. Prevention of corruption through improved procedures of public administration, in particular through:
 - 2.1 Strengthened electronic infrastructure of public institutions and automation of supporting processes;
 - 2.2 The review and update of the system and mechanisms that handle public complaints;
 - 2.3 Systematic use of risk analyses, and improved efficiency of auditing, internal inspection, and corruption proofing of legislation through an assessment methodology to identify gaps in new legislation which potentially carry a risk for corruption activity;
 - 2.4 Systematic use of integrity testing procedures;
 - 2.5 Adoption of policies against corruption at the local level.
 3. Punishment of corruption and reduction of impunity through:
 - 3.1 Greater efficiency and effectiveness of criminal investigations against economic and financial crimes, particularly in the area of proactive investigations and illegal enrichment;
 - 3.2 Improved cooperation among law enforcement institutions in order to prosecute and punish corruption cases detected through the management and exchange of information;
 - 3.3 Revision of the legal framework on criminal proceedings of economic and financial crimes; and

3.4 Enhanced international cooperation in the area of the judiciary in the fight against economic and financial crimes.

4. Raising public awareness in the fight against corruption through:

4.1 Encouraging the general public to actively use the mechanisms and systems of complaints and reports, and raise awareness on the consequences of corruption; and

4.2 Encouraging cooperation with civil society in order to draft and implement measures against corruption and to monitor their implementation.

8.10 Decentralization and local government reform

■Current situation

The imperative for decentralization in Albania is based on the constitution (1998), the European Charter for Local Self-Government (ratified in November 1999), and the decentralization strategy adopted by the Government of Albania. In this respect, the decentralization process in Albania was guided until 2013 by the National Decentralization Strategy, which had been adopted in 1999. Currently, in light of addressing the decentralization challenges, the Council of Ministers approved, on July 29, 2015, the Cross-Sector Strategy on Decentralization and Local Governance, 2015–2020, which became effective on August 13, 2015.

Reforms in decentralization and local governance have progressed steadily between 1999 and 2014. The first and most important step in the reform process was the adoption and implementation of Law no. 8652, on July 31, 2000, “On the Organization and Operation of Local Governance,” which provides for the rights and duties of the local government units (following the adoption of Law no. 115/2014, “On the Administrative and Territorial Division of Local Government Units in the Republic of Albania,” local governance has been reformed and re-sharped into sixty-one municipalities and twelve regions).⁸³

In terms of fiscal decentralization, local government revenues and expenditures have increased annually in nominal terms since 2000, having almost nearly tripled since 2002 (taken as baseline year). The ratio of local government revenues in terms of GDP and public expenditure share has shown a modest upward trend, increasing substantially between 2002 and 2007, with variations between 2007 and 2009. This was followed by a decline between 2010 and 2013, below the level of 2002 percentage. In the course of 2014–2015, the growing trend in percentage of the local budget picked up, with a respective increase in the GDP of 2.4% and 2.7% due to the increase of state budget transfers. Despite these trends, fiscal autonomy a local government level remains a challenge. Local authorities have neither sufficient

⁸³ Previously the local government was organized as per the Law no. 8653/2000, “On the Territorial and Administrative Reform” on which local government units, consisting of sixty-five municipalities and 308 communes, were established as units to provide public services. Transfer of immovable state assets and properties to the local governments (2001), the law on territorial and administrative division of local governance (2000), and specific law on organization and operation of Tirana municipalities were drafted and adopted at the same time.

resources, nor local revenues proportionate to their respective competencies and obligations for the delivery of services.

With regard to local revenues, the objective is to strengthen the collection of revenues, in particular from sources such as property tax and other taxes and payments. Reduction of the scale of business tax, followed by the reduction on the tax of vehicles, and the fact there is no national system for division of personal income tax for local government, have contributed to an adverse impact on the local government revenues in the course of the recent years.

The functions, roles, and competencies of central and local authorities, at the regional and local levels, including shared functions are not clearly defined in the legal and regulatory frameworks. This has generated insecurity and unclarity in the role of the local government units and decentralized institutions, and in their relations with the central authorities.

■Challenges

Despite noted progress in advancing with the decentralization reform,⁸⁴ during the last decade, several interrelated challenges have emerged and need continued attention. These consist primarily in: (1) lack of a clear legal and regulatory decentralization framework; (2) low level of fiscal decentralization; (3) insufficient human resource capacities at the local level; (4) poor performance standards in delivering local services; (5) the absence of consensus among locally elected officials, combined with their partisan behavior and low consensus inside local government associations; (6) the weakening position of local governance vis-à-vis the central government; and (7) delays in implementation of several important reforms.

Consequently, decentralization constitutes a key priority, and is perceived as a long-term process of a major change in governance. In line with the decentralization challenges, the government has adopted an action plan, which is an integral part of the new Cross-Sector Strategy on Decentralization and Local Governance, 2015–2020, as an instrument for the steps and measures that should be taken in the short-, medium-, and to long-term, for the implementation and completion of the consolidation of the local government units.

■The vision: Empowering local governance and strengthening its decentralization process with the view of ensuring greater efficiency of local self-governance.

■Strategic objectives

1. Enhanced efficiency of local governance structures through:

1.1 Implementation of the administrative and territorial reform;

⁸⁴ The Albanian Parliament approved on July, 31, 2014, Law no. 115/2014, "On the Administrative and Territorial Division of Local Government Units in the Republic of Albania," with the new map of sixty-one municipalities, and certified, also in December 2014, by the Constitutional Court, and in December 2015 the new law on decentralization.

- 1.2 Improved local governance structures; and
 - 1.3 Restructuring of decentralized structures of local governance at the district level.
 - 2. Strengthening local finances and enhancing fiscal autonomy through:
 - 2.1 Reform of the local fiscal system; and
 - 2.2 Improved financial management at the local level.
 - 3. Promoting local sustainable development through:
 - 3.1 The reform of local government functions;
 - 3.2 The review of shared functions of local government; and
 - 3.3 The review of delegated functions to the local government.
 - 4. Strengthening good governance at the local level through:
 - 4.1 Building capacities at the local level; and
 - 4.2 Including the role of local governance in the European integration process.
- 8.11 Strengthening Albanian statistics

■Current situation

The Census of October 2011 marks a key achievement for the sector, bringing population statistics closer to the reality. Between 2012 and 2013, INSTAT significantly improved indicators to measure the social and economic situation of families and individuals in Albania. The Living Standards Measurement Survey was held in 2012⁸⁵ and the Labor Market Survey⁸⁶ was launched in 2012. A series of macroeconomic indicators were assessed⁸⁷ alongside a number of existing indicators,⁸⁸ which were updated and improved. With the publication of these short-term macroeconomic accounts, Albania was able to meet another key requirement of the Special Data Distribution Standards. The statistical register of local units in line with EU requirements was the most important output of the Census of Non-Agriculture Economic Enterprises. NACE Rev.2 was implemented and has become an integrated part of all economic statistics provided by INSTAT allowing Albania to be in line with the international classifications used by the EU.

⁸⁵ The Living Standards Measurement Survey measured poverty and monitored the living standards in Albania.

⁸⁶ The Labor Market Survey pointed out indicators that measure the labor market dynamics every quarter, and has been conducted by INSTAT since 2007.

⁸⁷ GDP at the regional level, at Level II of Nomenclature of Territorial Units (NUTS).

⁸⁸ Quarterly measurement of GDP, while using the production approach for key economic sectors; product percentage and consumption goods basket; construction cost index for dwellings; producer price index for export goods.

■Challenges

Key challenges in the field of statistics for the period covering 2015–2020 include: (1) strengthening the role of the National System of Statistics to give public institutions sufficient, accurate, and transparent official statistics; (2) mobilization of resources for funding statistical programs and projects; (3) improving and updating step-by-step inter institutional contacts and professional capacities to ensure equal development from each perspective; and (4) increasing public confidence at INSTAT for the delivery of statistical information as a public good and service for public users.

■The vision: Ensure the provision of high quality, relevant, timely, and sufficient data and statistical information in response to growing demand from users for decision-making, research, and education in Albania, as well as for the interested community, through the use of modern network and information technology.

It is important to note that the integrity of data, statistics, and information (timely, complete, accurate, and consistent) is essential to support good governance in terms of transparency and accountability (i.e., in terms of measuring and monitoring government performance). In this regard, civil society organizations such as the media and the private sector are important stakeholders in the statistics function. The objectives set out below reflect these notions and will contribute to the building of public trust in INSTAT.

■Strategic objectives

1. Improving infrastructure of production and dissemination of statistical data through:
 - 1.1 Increased cooperation among statistical agencies, with the view improving statistical data processing;
 - 1.2 Increasing and improving resources of primary statistical data;
 - 1.3 New technologies for collection and processing of data, and ensuring exchange of information online with statistical agencies;
 - 1.4 Updated statistical systems and software, aimed at improving the quality of the analyses of the statistical indicators;
 - 1.5 Establishment of a data warehouse system, for the integration of INSTAT databases, including metadata; and
 - 1.6 Increased opportunities for statistical information through improving the calendar of publications, and increasing the data that are published electronically.
2. Improving demographic and social statistics through:

- 2.1 The automation of vital statistics (births, deaths, marriages);
 - 2.2 Application of new ICD-10 classification for causes of mortality and morbidity;
 - 2.3 Consolidate a continuous Household Budget Survey and the carrying out of the Income and Living Condition Survey according to the European format; and
 - 2.4 Constant improvement of the labor market indicators.
3. Improving macroeconomic statistics through:
 - 3.1 Implementation of national accounts indicators, according to ESA 2010;
 - 3.2 Development of quarterly components of GDP, while using the expenditure approach;
 - 3.3 Development of an integrated statistical system to construct supply-use and input-output tables to expand the scale of macroeconomic analyses; and
 - 3.4 The implementation of EDP transmission tables according to the subsectors of public administration and the final transmission to EUROSTAT.
4. Improving business statistics through:
 - 4.1 The development of better economic statistics of enterprises related to their quantitative and qualitative production;
 - 4.2 The measurement of new economic phenomenon and developments through statistical surveys, such as research and scientific development, innovation, information technology, etc.
 - 4.3 Enhanced comparability of national statistics to European statistics using new statistical classifications; and,
 - 4.4 Reductions in the nonresponse levels and information gathering times through new contemporary techniques.
5. Improving agriculture, forestry, and fishery statistics through:
 - 5.1 The establishment of the agricultural holdings register from the agriculture census and update through statistical and administrative data;
 - 5.2 The calculation of price indexing of agricultural products through surveys based on modern methodologies;
 - 5.3 Conducting surveys on livestock, milk, and dairy products using European methodologies and publication of statistical data in this area;

- 5.4 An increase in the number of agricultural statistical indicators for decorative and medicinal plants, etc.;
 - 5.5 Carrying out the Farm Structure Survey; and
 - 5.6 Improving the gathering of administrative information on fishery statistics.
6. Improving multifaceted statistics (environment, sciences, and IT) through:
- 6.1 Conducting an urban waste survey at the district level;
 - 6.2 Improving environmental statistics on pollution and CO² emissions from various pollution sources;
 - 6.3 Conducting a survey on ICT in large enterprises; and
 - 6.4 A survey on science and techniques, innovation, and technology in large enterprises.
7. Supporting generation of statistics (statistical registers and classifications) through:
- 7.1 Introduction of a statistical registry of population for economic units, enterprises, and local units and agricultural economic units, ensuring quality and updated geospatial information;
 - 7.2 The use of NACE Rev.2 revised classification in all statistical activities within INSTAT and implemented by other institutions that enforce and use this classification at the national level; and
 - 7.3 The use of the CPA 2008 product classification in all statistical activities.

8.12 The growing importance of foreign policy

■Current situation

Foreign policy is confirmed as a valuable tool in the presentation of Albania as an added value to peace, stability, prosperity, and the safeguarding of human rights in the region and beyond. Albania is internationally recognized as a country that contributes to the preservation of peace and global safety. Albania's constructive policies in the region for further cooperation and integration are preconditions for EU integration, and are the features of the country's foreign policy. Its geographical position, cultural heritage, and the exemplary tolerant nature of its society has made Albania a driver of dialog, respect and harmonious coexistence among different religions, cultures, and civilizations.

Albanian foreign policy played an essential role in achieving a number of objectives, such as fully-fledged NATO membership; free movement of citizens in the Schengen area; membership to the UN Human Rights Council, UN Economic and Social Council, and Executive Board of UNESCO; the granting of

candidate country status for EU accession, and support for membership in two Council of Europe bodies (Council of Europe Development Bank and the Venice Commission).

In recent years Albania has made significant contributions in various areas of regional multilateral cooperation. Albania chaired the Adriatic-Ionian Initiative, is currently chairing the Adriatic-A5 Charter, and in June 2014 took over the one-year presidency of the South-East European Cooperation Process. Cooperation increased significantly with Albania's key partners in Europe and beyond. Albanian diplomatic presence in the Balkan countries increased and the solution of the Kosovo issue was the main factor leading to stability of the region. Albania will continue its efforts to increase international recognition for Kosovo until it takes its deserved place within the United Nations.

■Challenges

Despite noted progress in its foreign policy, Albania is still facing a number of challenges that include: (1) intensification of the political dialog with the EU structures and institutions and EU member countries for meeting the goal of EU membership; (2) developing further the cooperation with strategic partners, friendly countries, and those of mutual interest; (3) strengthening cooperation under regional initiatives where integration of the Republic of Kosovo into these structures will represent one of the main midterm objectives; (4) for greater initiative to ensure active participation in international organizations and multilateral forums (UN, OSCE, Council of Europe, etc.); (5) for a more active role as a NATO member plus the strengthening of Albania's role as contributor to peace and stability in the region and beyond; (6) to fulfill obligations under the SAA framework for contribution to joint foreign policy and safety of the EU; and (7) to strengthen regional cooperation with Southeast European countries in general and Western Balkan countries in particular in order to accelerate the cooperation process mainly in infrastructure, energy, economy, tourism, etc., and progress toward European integration process.

■The vision: A European Albania in the region and the world – the Foreign Service system to ensure the country's good cooperation of mutual interest with regional countries, Euro-Atlantic countries, and beyond, to support fundamental developments in the country and protect the interests of the Republic of Albania and its citizens abroad.

■Strategic objectives

4. Further development of bilateral and multilateral relations with all countries, with particular focus on strategic partners, such as the United States, EU member states, and neighboring countries by:
 - 4.1 Promoting the new role of Albania in multilateral cooperation through intensified interaction with international organizations, increased representation, and a proactive profile to promote national values and interests;
 - 4.2 Necessary political contribution under NATO as a member with full rights;

- 4.3 Further expansion and international recognition of the state of Kosovo and the promotion of its membership and participation in regional and international organizations and beyond;
- 4.4 Continued constructive policy dialog in the region and an active role in the development of regional cooperation, considering regional integration as a prerequisite for the integration of the countries of the region in the Euro Atlantic structures;
- 4.5 Backing and supporting Albanian candidates for the chairmanship structures of regional organizations and initiatives, and the Albanian contribution to them;
- 4.6 Taking on the chairmanship of several international organizations and initiatives over 2015–2020, including the rotating chairmanship of the OSCE, membership in the UN Human Rights Council for the period 2015–2017, as well as lobbying for Albania's membership to the UN Security Council for the period 2022–2023;
- 4.7 Full engagement in the processes of regional cooperation, and in formats of SEE and WB, Albania will continue to foster its relations with main regional forums, centers, and structures such as RCC, SEECP, CEI, MARRI, SELEC, AII, BSEC, etc.;
- 4.8 In the WB6 format, following the outcomes of the Berlin Process, Albania will continue to promote good neighborly relations, aiming at concrete programs/projects in the areas of connectivity, energy, youth, and cross-border cooperation. As a sign of this approach, Albania will host for the first time the seat of the Western Balkans Fund;
- 4.9 Participation in joint projects with international organizations, in areas of interest for Albania;
- 4.10 Strengthening and promoting greater economic and trade cooperation with Albania's international partners, at bilateral and multilateral levels, aiming at ensuring measurable outcomes for increasing trade volumes and foreign investments in the country;
- 4.11 Constantly improving Albania's image, with the view of increasing its visibility and representation of Albanian values and interests, for strengthening economic relations with other countries, and increasing foreign investments in Albania;
- 4.12 Improved professionalism, quality, and agility of consular services delivered to Albanian and foreign citizens;
- 4.13 Participation in IPA II cross-border programs with other IPA II beneficiaries, mainly Montenegro, Kosovo, and the Former Yugoslav Republic of Macedonia, as well as a bilateral program with Greece;
- 4.14 Continued participation in the Mediterranean transnational program; and
- 4.15 Membership or participation in the new Adriatic-Ionian Program.

5. Moving forward with the implementation of the EU integration processes in the framework of preparations for opening of the EU accession negotiations and enhancing the capacities of the central structures of the Ministry of Foreign Affairs, the Albanian EU Mission, and foreign embassies to EU member countries.
6. Developing economic diplomacy as an effective instrument for increasing national revenues, to ensure rapid and sustainable economic development, and advancement of the economic and trade interests of the country.
7. Respecting the rights and interests of Albanian citizens abroad and supporting their projects in the fields of business, art, culture, sports, education, etc. Respecting the Albanian diaspora and absorbing its best values.

8.13 Consolidated defense

■Current situation

Albania became a member of NATO on April 1, 2009. This represented an important achievement since it had been a national aspiration and one of the key priorities under NSDI 2007–2013.⁸⁹ In July 2014, the Albanian Parliament adopted the National Security Strategy⁹⁰ in line with the constitutional obligations for: (1) guaranteeing the security of the country; (2) strengthening fundamental freedoms, human rights, and the rule of law; (3) protecting and promoting the interests of the Albanian citizens; and (4) preserving the national identity. At the core of the National Security Strategy lay the aspiration of the Albanian people and the political will to have in place a common vision that guarantees security, justice, equality, and prosperity for the current and future generations.

Progress in the defense sector consists in: (1) establishment of a professional force; (2) completing the hierarchy of the strategic documents in the defense area; (3) assigning to defense 2% of the GDP budget; (4) disposal of 180 tons of chemicals; (5) active participation in NATO, EU, and UN operations; and (6) completing the legal framework with legal and by-legal acts in the field of defense.

■Challenges

Challenges for Albania in the defense sector focus on accomplishment of obligations in light of NATO membership, which include: (1) meeting the obligations for the capacity/skills objectives; (2) introducing a comprehensive/inclusive approach of the state security institutions; (3) development and reshaping defense diplomacy in the regional and globally; (4) military cooperation based on the cost-sharing principle; and (5) building operational capacities in the context of the “Smart Defense” (NATO), and “Pooling and Sharing” (EU) initiatives.

⁸⁹ “Review of the Strategic Document on Defense,” adopted by the Council of Ministers in 2013.

⁹⁰ National Security Strategy was adopted by Law no. 103/2014, of July 31, 2014

■**The vision: A professional armed forces, small in numbers, agile, interactive, and with operational capacities and structures that can ensure successful operations in a complex and diversified security environment.**

■**Strategic objectives**

1. Better management of human resources and transformation of military education through:
 - 1.1 Integrated and comprehensive programs in line with NATO standards;
 - 1.2 Development and professional training of military and civil personnel that will serve in the armed forces.
2. Enhancing operational capacities needed to operate in the actual and future operational environments, to participate in international operations and to conduct military and nonmilitary operations in the country.
3. Supplying combating troops with tools and safety equipment's, transport, supply, maintenance and infrastructure, including command and control equipment, conditions for living, working, and exercising, through:
 - 3.1 Logistic support to priority units and subunits under "NATO Pool of Forces"; and
 - 3.2 By 2020, the development and implementation of logistics automated systems and introduction of a modern infrastructure for all Albanian forces.
4. Further development of capacities of armed forces in line with a long-term development plan through:
 - 4.1 Gradual increase in the defense budget; and
 - 4.2 Harmonization of relations of personnel categories, operations, and investments, in order to align them those of other NATO member countries, and with the recommendations of the defense strategic review document.

9.0 PILLAR 1:GROWTH THROUGH MACROECONOMIC AND FISCAL STABILITY

Since 2008, Albania's economic growth rates have slowed, while there has been an increase in unemployment rates. From an annual average growth rate of 6% before the onset of the global crises of 2009, growth average was less than 3%, while in 2014 it dropped to 1.3%, with (pessimistic) forecasts for medium-term growth to a range of 1.4%to (optimistic) forecasts of 2.8%. Should there be no substantial improvement in the eurozone economies, medium term growth in Albania may likely show a trend on the lower side. Unemployment rates have grown from about 13% in 2007 to over 17% by early 2015,

with unemployment rates being more problematic among the youth (about 34%). Macroeconomic factors and scenarios are discussed in detail in Part 16.

To be able to face these trends, almost all sector and cross-sector strategies and related program strategies and objectives outlined in NSDI II are designed to directly or indirectly foster economic growth and development. Indeed, these policies will lead to the generation of a “new economic model” for Albania in the course of the next 15–20 years. Acceleration of growth will require concerted and coordinated attention toward productive investments in human capital, energy and infrastructure, innovation, and other areas, combined with the elimination of a whole range of barriers to private investments and businesses. Consequently, macroeconomic and fiscal policies will need to be tailored in such a way that would not lead to increased debt or deficit, while concomitantly contributing to growth.

In the course of the NSDI II 2015–2020 planning period, special attention will be given to securing macroeconomic and fiscal stability, in particular in light of many economic and financial insecurities in the region and globally. For these reasons, macroeconomic and fiscal stability are defined as Pillar 1 for the national development and the country’s aspiration toward EU integration.

9.1 Strengthening the financial system and monetary policy

■ Current situation

In Albania, following a cautious monetary policy, the goal of ensuring stability has played an important role in softening the aftermath of the global financial crises. The Bank of Albania has frequently updated its monetary policy over the course of the last seven years. Reforms have consisted in: (1) continuous improvement of analytical and forecast capacities of the BoA; (2) harmonization of monetary policy instruments with standards of the Central European Bank; (3) introduction of new elements aimed at deepening the money market; (4) increasing flexibility in liquidity management; (5) increased confidence in the banking system, including through implementation of the monetary policy; and (6) development of the inter-banking market. In the course of 2012–2014, inter-banking market trading quadrupled, compared to 2008–2011.

Financial markets were further developed in terms of participants and products diversity. Recent years bear witness to the establishment of financial non-banking intermediaries whose key focus of activities is channeling savings toward investments in vouchers, thus making the market more competitive. This is particularly true for the primary market, which has seen major improvements through increased investment opportunities on different terms, thus increasing the number of participants and clarifying their investment strategies, ensuring better compliance between supply and demand, and with competitive interest rates. Participation in the primary market auctions is now significantly diversified through the participation of individuals in the purchase of bonds.

In the non-banking sector, the Financial Supervisory Authority has continuously improved its efforts to improve infrastructure and create the necessary regulatory basis that would ensure a smooth and sustainable development of non-bank financial markets, while aligning them with EU directives. Growth

of non-banking financial sector is evidenced through further liberalization and restructuring of the insurance market and in improvements in the legal framework.

The adoption in May 2014 of the law "On Insurance and Re-Insurance" paved the way to improving the effectiveness of supervision through the application of the risk-focused supervisory methodology, along with strengthening of governance supervision. These elements are setting the enabling conditions for alignment of the national legislation with EU directives and oversight practices, and with international standards of insurance supervision. While applying the same principle, projects were launched for improving the legal framework for private volunteer pension funds and voucher legislation, with the long-term goal of creating an appropriate and regulated environment for the promotion of the development of capital markets.

The development of this sector during previous planning period of NSDI2007–2014 focused on licensing entities, companies, and new physical entities to ensure their operation in the markets of vouchers, insurance, and private volunteer pension schemes. The year 2012 marked the beginning of the activities of the investments fund.

Current achievements are due to concrete programs, having in place and updating a reporting and monitoring platform for the insurance and private pensions markets, as well as a better risk-focused supervisory methodology. In addition, they are also the result of the introduction of the electronic reporting system "AMF In-Reg" and the establishment of the National Centre for the Data of Compulsory Motor Insurance.

■ Challenges

The main challenges of the financial and economic policies that Albania would need to address during the planned NSDI II period lay in a number of key areas, as presented in the National Program of Economic Reforms (NPER) 2015–2017 and in the Economic Reforms Program (ERP) 2016–2018. The first is related to the need for policies that can ensure medium-term sustainable growth in terms of employment and living standards of the Albanian population. Achievement of these goals depends on increased macroeconomic stability, in particular as regards reduction of public debt, putting finances on a sustainable footing, and removing barriers to midterm growth.

With regard to addressing the aspects of deficit and debt, policies need to be oriented toward fiscal consolidation in the medium term, with the view of reducing public debt as a percentage of GDP down to 60% or even lower by 2020. The main causes of high deficit may be addressed through tax revenues and Public Finance Management (PFM) reforms, as defined in the PFM Strategy of Albania for 2014–2020 (to be addressed further in this document).⁹¹ These reforms would need to be followed with: (1) further facilities for the monetary policy, under the assumption that inflationary pressure and exchange market pressures will remain low; (2) appropriate monetary policies that would ensure price stability, and facilitate full employment in the economy; (3) full settlement of unpaid government bills prior to

⁹¹Republic of Albania, "Albania Public Management Reform Strategy 2014–2020," Ministry of Finance, December 2014.

2013; (4) reduction of the rates of non-performing loans, with the goal of restoring the trust on the banks and recovery of crediting for the economy; (5) continuation of reforms directly related to progress toward EU accession as key components of the structural reforms program; (6) the need to address low inflationary pressures; (7) the need to ensure the return of a steady and healthy growth of lending; (8) safeguarding financial stability, especially with regard to credit risk management and improving indicators of bank asset quality in the framework of measures taken for cleaning the balance sheets of banks and addressing the problem of non-performing loans; and (9) mitigation of effects deriving from problematic developments in the eurozone (with direct and immediate focus on Greece, and the structural arrangements placed by imposed by EU-based banking groups in the context of reducing their exposure to subsidiaries outside the EU and international financial markets.)

■The vision: Albania: a strong economy with accountable financial institutions and a developed and consolidated financial market capable of supporting sustainable economic convergence while maintaining the country’s monetary and financial stability.

■Banking sector strategic objectives

1. Securing a sound financial and banking activity in the country, which would guarantee the safety of Albanian citizens’ savings, would support the financial stability and contribute to the positive performance of the economy as a whole. In this context, it is important to further broaden financial intermediation in the country;
2. Supporting private sector lending via the banking sector, non-bank financial institutions.
3. Improving the quality of loan portfolio in the banking system and further strengthening risk management.
4. Harmonization of the supervisory authority and fiscal policies in order to generate appropriate incentives for addressing bad loans and facilitating the lending process in the country.
5. Improving systemic risk assessment instruments and introducing a supervisory framework.
6. Strengthening information systems and analytical frameworks to identify risks and develop methodologies for the assessment and tracking of trends in immovable property prices.
7. Strengthening the dialog with the banking sector in order to improve accountability and sound management of banking activities in the public interest and progress work in the economic banking sector.

■Strategic objectives of non-banking financial system

8. Aligning national legislation with the EU legislation, and with international standards of supervision of supervision of the securities and pensions markets, as well as improving the legal framework for compulsory insurance in the motor transport sector.

9. Improving and completing the regulatory framework for the supervision of financial markets for enhancing harmonization with EU directives, international standards of financial supervision, as well as identification and effective management of associated risks.
10. Strengthening approximation of supervisory practice and operation of the insurance market with the International Association of Insurance Supervisors.
11. Strengthening supervision of the private volunteer pensions market through risk-based methodology, and promotion of the development of the third pillar pensions.⁹²
12. Strengthening supervision of investment funds, by strengthening the supervisory capacities of these funds and associated risk analysis.
13. Strengthening the FSA by ensuring its independence through formulation of a strategy for crisis management, a strategy for the securities market, and through enhancing supervisory capacities in the fight against money laundering and terrorist financing.

9.2 Strengthening public finances and fiscal stability

■ Current situation

Reforms in Public Finance Management in Albania have produced significant results over the years. The Public Finance Management Strategy of 2014–2020 was adopted in December 2014. In March 2015, the government adopted the Public Debt Management Strategy, 2015–2017, whose implementation ensured planning of settlement (repayment) of arrears and preventing accumulation of new ones.

Main achievements over the last years include technical and legal aspects: (1) institutionalization of the Medium-Term Budget Program as a key instrument for connecting the budget with national policies and sector activities; (2) improvements in public expenditure management and the raising of cash through the Automated Information Treasury System; (3) strengthening of Public Internal Financial Control in line with EU standards; (4) increased transparency since 2002 in intergovernmental fiscal relations through the application of the formula for the allocation of unconditional transfers; and (5) significant improvements in public procurement. Figure 26 shows the flow of revenues for the period of 2000–

⁹²The term "third pillar" is broadly used for the part of volunteer private pensions fund market, according to World Bank definition.

Figure 26. Flow of revenues



Source: Ministry of Finance

2015, and sustainable forecasts for the period up to 2020.

The 2011 Public Expenditure and Financial Accountability (PEFA)⁹³ came to the conclusion that public finance management in Albania had improved across a wide range of the performance indicators since the previous PEFA assessment.

Most of the progress made relates to the more technical aspects of public finance management.

In general, the assessment of the Public Expenditure and Financial Accountability continues to display several weaknesses, given improvement only in thirteen out of twenty-eight PEFA indicators, while in ten others there has been no change (see Table 2.13). Some indicators could not be scored. Indicators intended to capture the “results” in public finance management were less positive. Current collected aggregate revenues were far from the forecasts/planned collections and the current composition of expenditures differed considerably from budget expenditure.

Despite the fact that the Albanian economy managed to avoid recession and the worst effects of the

Table 2.13. Summary of PEFA scores

Indicator	Description
PI-1	Aggregate expenditure out-turn compared to original approved budget
PI-2	Composition of expenditure out-turn compared to original approved budget
PI-6	Comprehensiveness of information included in budget documentation
PI-7	Extent of unreported government operations
PI-8	Transparency of intergovernmental fiscal relations
PI-12	Multiyear perspective in fiscal planning, expenditure policy, and budgeting
PI-16	Predictability in the availability of funds for commitment of expenditures
PI-17	Recording and management of cash balances, debt, and guarantees
PI-19	Competition, value for money, and controls in procurement
PI-22	Timeliness and regularity of accounts reconciliation
PI-23	Availability of information on resources received by service delivery units
PI-25	Quality and timeliness of annual financial statements
PI-28	Legislative scrutiny of external audit reports

Source: PEFA Albania 2011, table 2, page 10

global financial/economic crisis that began in 2007, economic growth slowed in recent years and the level of public debt increased. As discussed under Section 4 on the macro-framework, over the global crisis period of 2009–2013, economic growth slowed significantly to an average rate of GDP growth of 2.5%, from an average increase in GDP growth of about 7% over a decade ago.

Weaknesses in public finance management are deemed to have contributed to the increase in public debt to 72.6% of GDP by the end of 2014, a significant increase compared to 55.1% at the end of 2008. In addition, the continued failure in revenue collection over this period resulted in the accumulation of

⁹³Public Expenditure and Financial Accountability (PEFA) is a partnership program of seven donor agencies and international financial institutions to assess the terms of public expenditure, procurement, and accounting system, and to develop practical follow-up actions to reform and build in-country capacities. The most recent PEFA reports for Albania go back to 2012.

arrears (despite the fact that this was due to optimistic forecasts for the system, the drop in tax collection, or both). According to the International Monetary Fund assessment, the stock of arrears was approximately 5.3% of GDP until 2013. The accumulation of arrears was also deemed to be undermining public confidence in the government's fiscal policy and its ability to meet its future payment obligations, as well as contributing to the build-up of non-performing loans in the banking system.

In this context, a number of important reforms were enacted in 2014, which were directed at strengthening public finances. The reforms comprised agreements with the International Monetary Fund and the World Bank. Their implementation is currently resulting in the annual check on commitments and an improvement of treasury management. Paid arrears, including most of the VAT arrears, amounted to Euro 241 million or 2.4% of GDP out of the total 5.3% of GDP by the end of 2014.

■ Challenges

Still there are many challenges ahead with regard to strengthening public finance management. The main challenges related to strengthening of public finances include, among others: (1) realistic forecasts about public revenues which generate fiscal security; (2) measures for fiscal adaptation and control in order to avoid accumulation of arrears; (3) better midterm operational planning of budget; (4) statistical systems to monitor products and expenditure outcome; (5) improvements in the treasury system; (6) efficient systems of internal audit; (7) tax administration modernization; and (8) the fight against informality in the economy.

■ **The vision: Stable fiscal framework, properly integrated planning and efficient public expenditures, efficient implementation of state budget, enhanced transparency in financial reporting of the government, and strengthened internal audit, and efficient supervision of public finances.**

■ Strategic objectives

1. Ensuring a sustainable and prudent fiscal framework through:
 - 1.1 Introduction of an appropriate fiscal rule that would ensure long-term sustainability of public debt;
 - 1.2 Enhanced controls on multiyear financial commitments;
 - 1.3 Strengthened registration of fiscal cash registers; and
 - 1.4 Reduction of public debt below 60% of GDP, by 2020.
2. Conduct of more realistic planning and budgeting, including better integrated and efficient public expenditure through:
 - 2.1 Greater consistency in programming budget goals and objectives;

- 2.2 The registration and automatic control at the treasury system in terms of budget commitments;
 - 2.3 Improving and ensuring better definition of fiscal intra-governmental relations through formulation of a new law on local governance finances;
 - 2.4 More realistic formulation of medium-term budget plan; and
 - 2.5 Implementation of a comprehensive Albanian financial management system.
3. Efficient implementation of budget and increased revenues, while ensuring formalization of the economy through:
 - 3.1 Reduction of the size of informal economy and increase tax revenues;
 - 3.2 Increased revenues from property tax;
 - 3.3 Approximation of laws on taxes and customs with EU directives and European best practices that promote competition and the free movement of goods and services in Albania and the region;
 - 3.4 Increasing tax revenue collection and curbing tax evasion by establishing a new system for risk management for the tax administration;
 - 3.5 Introduction of a national database and system for customs evaluation, based on risk assessment;
 - 3.6 Implementation of an improved budget monitoring system supporting better guidance on monitoring and permanent guidance on the budget execution;
 - 3.7 Improving implementation of public expenditure, supported by a strengthened (automated) system for debt management;
 - 3.8 Introduction of a short-term financial instruments market, and integrated monetary and debt management;
 - 3.9 Establishing a link between the human resources management system and the treasury system;
 - 3.10 Settlement of arrears in an accurate, transparent, and credible manner, and ensuring greater financial discipline to prevent generation of new arrears.
 4. Improving and enhancing transparency of governmental financial reporting through:
 - 4.1 Expanding the treasury system up to 150 budgetary institutions;

- 4.2 Full integration of the tax system in the treasury system in order to improve the process of receiving and registration of information on daily bases, and accounting of tax revenue collection;
 - 4.3 The review of existing public financial reporting, gradually implementing reporting standards of the International Public Sector Accountability Standards, as well as EUROSTAT and EU standards; and
 - 4.4 Increased transparency before the public through inclusive/comprehensive reporting of annual budget.
5. Strengthening public sector internal audit, with the view of improving public funds management and managerial account ability through:
 - 5.1 Improved internal audit system, while taking measures for internal review of financial control and management;
 - 5.2 Improved budgeting, by introducing in the planning phase an identification and risk assessment (i.e., formulation of a risk registry from each budgetary institution and discussion of the risk-based budget);
 - 5.3 Strengthening professional skills of auditors to give them opportunities to conduct auditing in line with international standards;
 - 5.4 Broader use of regulatory impact assessment instrument for any law, or regulation with major impact on the budget;
 - 5.5 Strengthened public procurement audit;
 - 5.6 Linking and supporting Public Finance Management with the new sectorial approach; and
 - 5.7 Implementation of the internal audit recommendations with the view of achieving objectives and activities of public economic units.
 6. Strengthening external supervision of public finance through:
 - 6.1 Increased effectiveness of external control of public finances by improving quality of financial audits;
 - 6.2 Strengthening oversight of the budget by the parliament and the external audit institution;
 - 6.3 Greater transparency in the budgeting process vis-à-vis civil society organizations and public opinion.

10.0 PILLAR 2: ECONOMIC GROWTH THROUGH ENHANCED COMPETITIVENESS AND INNOVATION

Productivity and competitiveness are among the most important challenges for ensuring sustained growth in Albania. The structural reforms of the last decade accompanied with the opening of the Albanian economy to European and global markets created momentum for sustained future growth. Further restructuring of the economy, however, will generate limited potential for further growth as the shift from traditional, low labor cost activities in sectors such as agriculture, construction, and textiles toward more skill-oriented and increased value added activities in sectors such as telecommunications, banking, insurance, and tourism has come almost full cycle. This important achievement, complemented by significant privatization, has upgraded Albania’s economy, while on the other hand has slowed down its potential for further economic diversification.

There is a strong correlation between Albania’s progress in improving rules of “doing business” and the continued positive growth of recent years.

In 2013, the Global Competitiveness Report 2013–2014 of the World Economic Forum ranked Albania in the ninety-seventh place out of 148 countries (see Figure 27). Actually, Albania’s ranking has dropped over the past two years after, following several years of steady improvement. The main factors leading to the decline in ranking as identified by “doing business” are: limited access to financing, tax rates, and corruption.

Another measure of Albania’s competitiveness relative to other countries in the immediate region is the World Bank’s “Ease of Doing Business” indicators for 2013–2014. Overall, Albania’s ranking according to this measure is ninetieth out of 189 countries. Table 3 presents ten factors and indicators of “doing business” and the scores for 2013 and 2014. Albania ranks high in access to credit and investor protection, but quite low in several others, pointing to considerable room for improvement and in increasing competitiveness.

Access to growing markets will be vital in order to convert competitiveness improvements into growth.

Table3. Albania “Doing Business” indicators, 2013–2014

No.	Indicators	DB 2014 Rank 90	DB 2013 Rank 82*	# in rank
1	Starting a business	76	68	-8
2	Construction permits	189	189	No change
3	Getting electricity	158	155	-3
4	Property registrations	119	115	-4
5	Getting credit	13	11	-2
6	Investors protection	14	14	No change
7	Paying taxes	146	146	No change
8	Trading accross borders	85	84	-1
9	Enforcing contracts	124	96	-28
10	Resolving insolvency	62	65	3

Source: World Bank, “Doing Business,” 2014

The Albanian market alone, with a total population of less than three million people, will provide only limited market opportunities for growth. With the passing of time, the EU market will be fully open to Albanian goods and services. In the meantime, Albania must expand market access to other markets. In addition to ongoing efforts to broaden market access in the Western Balkans and elsewhere, an important and relatively untapped opportunity lies on Albania's doorstep with Kosovo. Creating a free trade zone would double the size of Albania's market immediately.

Pillar 2 includes a number of key sectors to focus on economic growth through enhanced competitiveness, which are:

- Property rights
- Foreign direct investments
- Scientific research and innovation
- Information technology and communications
- Consumer protection and market surveillance
- Competition and control of state aid

A number of national strategies have been approved or are currently under development that address growth through increased competitiveness. The main strategies include (1) the Business and Investment Development Strategy (BIDS) 2014–2020, approved in 2014; (2) Digital Albania Strategy, 2015–2020, adopted in 2015; and (3) other sector strategies that have included in their design elements of growth and competition.

In addition, the right to private property is seen as a critical enabler of secure, transparent, and predictable business formation and activity, and is one of the government's six key priorities. Further reforms in the business environment and competitiveness also depend on and need to be coordinated with sectorial reforms under the other NSDI II pillars (e.g., anti-corruption, public administration).

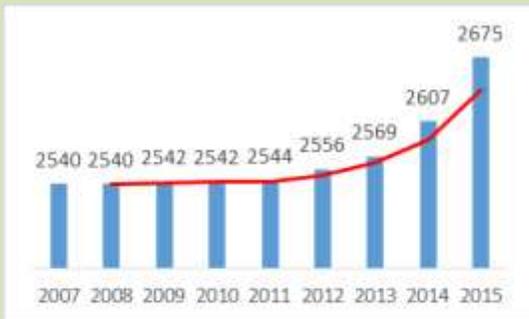
10.1 Securing and protecting property rights

■ Current situation

Reforms in the area of property rights are directed toward the protection of the clear right to ownership and the elimination of legal uncertainty, and are perceived by the government as a cross-cutting issue and a prerequisite for consolidating the rule of law, economic development, attracting foreign investment, and for meeting EU integration criteria.⁹⁴ The land reform is also one of the key sectors of the government reforms. The Sector Strategy for Reform of Property Rights, 2012–2020, was adopted in June 2012, while a new document is in the pipeline.

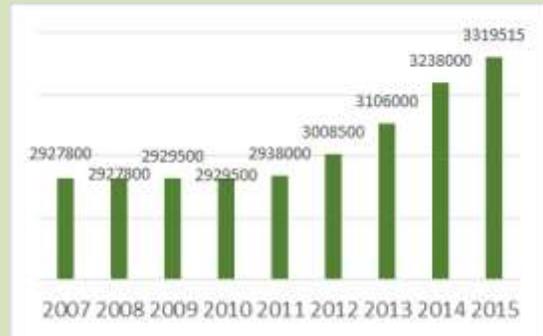
⁹⁴ Property in this sector refers primarily to real property (land). Property rights is also related to property of an intellectual nature, and this is addressed in the section on protection of competition and state aid control.

Figure 28. Number of cadastral zones in the IPRS, 2007–2015



Source: Immovable Properties Registration Office

Figure 29. Number of registered properties, 2007–2015



Source: Immovable Properties Registration Office

Land sector reform is longer term. Initial steps in this long-term process include the completion of the initial registration of immovable properties, which will guarantee complete security of property titles. Over the past few years, initial registration was completed in 2,675 cadastral zones, or about 86% of the total of 3,058 zones (Figure 28). In addition, initial registration was complete for 3,319,515 immovable property titles (83% of the overall number), as illustrated in Figures 28 and 29). Legalization of constructions led to completion of approximately 52,115 buildings by end of May 2015, plus an additional 420,000 new buildings where legalization process is underway.

The envisaged automation of the property/titles system is expected to improve the levels of service and transparency. Initial registration remains to be fully completed, with the support of the system, since data updating is in its nascent stage. Currently only 330,000 titles of immovable properties, or 10% of the overall number, have been updated. Introduction of online services, through the concept of the “one-stop shop,” has improved customer service, has reduced property registration time from forty-five to six days, and has improved transparency⁹⁵ However, absence of a comprehensive database and current weaknesses in updating the data limits service for the broad public.

Figure 30. Applications for financial compensation

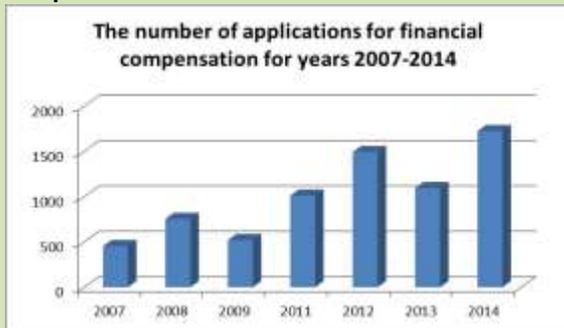
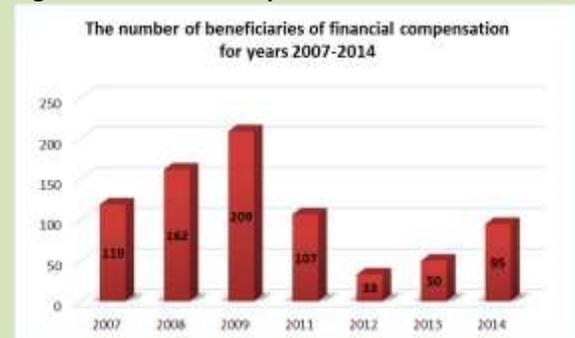


Figure 31. Financial compensation beneficiaries



Source: Agency for Restitution and Compensation of Properties

¹⁰⁹Online services for notary offices in connection with areas of buying and selling transactions for Tirana and Durrës, as well as the application procedure of citizens throughout the territory. For the system of immovable properties registration, the clients include the owners, banks and lending institutions, builders, real estate agencies, real estate appraisers, licensed surveyors, lawyers, legal, notaries, the Ministry of Interior, the General Prosecutor’s Office, district prosecutors, the General Directorate of the State Police, the General Directorate of Taxes, FIU, ILDKPKI/HIDA, local government institutions, private and state bailiffs, ALUIZNI, PRCA, the Department of Public Property Sales, AKPT, etc.

The process of property restitution and compensation remains a sensitive issue (see Figures 30 and 31). There is as yet no inventory on decisions taken over the period 1993 to September 2013. In addition there are not enough data on the state's financial liability for the compensation of all expropriated properties. However, for the first time in twenty years, Albania now has an accurate count of the files in the archives of the Agency for the Restitution and Compensation of Property, and the country is very close to estimating the full cost of compensating owners of the expropriated properties.⁹⁶ However, the absence of a real physical and financial fund has hampered progress of the compensation process.

In the course of 2013–2014 attention was given to the automation or digitalization of indexation of files and data, scanning of the administrative and court deliberations, as well as cartographic materials. Currently, the Agency for Restitution and Compensation of Properties is working to establish a compensation electronic registry, which will contain all existing decisions recognizing the right to property/compensation. Data encompass the period from 1993 to the present. This registration ended in December 2014 and the finalization of the registration process is deemed as an important step in deriving the total financial compensation cost.

An Order of the Prime Minister no. 154, of April 17, 2014, "On the Establishment of the Inter-Institutional Working Group for the Identification of State Properties (Assets) to Be Used for Physical Compensation," set in place a working group for identifying agricultural land that will be available to the Agency for Restitution and Compensation of Properties of the owners of the expropriated properties. Even though the legalization process started in 2004, it is as yet not complete.

■Challenges

Over the NSDI II planning period of 2015–2020, the main challenges in the area of property include: (1) establishment of an integrated land management system aimed at ensuring a functional land market; (2) securing a safe, efficient, and state-of-the-art registration system for immovable properties; (3) modernization and automation of immovable properties registration system; (4) facilitating civil flow of property titles; (5) ensuring due administrative process for concluding the process of recognition, restitution, and compensation within the set legal limits; (6) execution of rulings of European Court of Human Rights; (7) the finalization of three processes to guarantee rights in Albania: registration, legalization, and compensation; and (8) ensuring that the land registration system provides for de facto access of both women and men to their land. In addition, one of the agreed action items with the EU in the ISP is that "property rights management is further advanced and in line with the relevant jurisprudence of the European Court of Human Rights."

■The vision: Albania, a developed and consolidated European rule of law state, able to guarantee in practice the right to ownership, as one of the fundamental human rights, provided through a regulated system of harmonized real property, which offers clear and safe property titles for everyone."

⁹⁶ In 2015 was adopted Law no.133/2015, "On Handling Property and Finalization of the Property Compensation Process," which defines that the scope of activity includes all requirements under review.

■Strategic objectives include land management and administration reform to ensure integrated and sustainable management throughout the country

■Strategic objectives in the field of immovable properties registration

1. By 2020, completion of initial systematic national registration and introduction of a public consolidated electronic register of immovable properties.
2. Reform the Local Offices of the Immovable Property Registration (LIPRO) and strengthening institutional cooperation on issues of ownership, as well as enhancing professional capacities and supporting management systems.
3. Improving customer service quality, aiming at improving satisfaction rates (to be carried out through surveys).
4. Modernization and improving data integrity and information through digitalization and interconnection of immovable properties information systems (including digital maps) and provision of online services for the customers, through:
 - 4.1 Introduction of an automated system of immovable properties in all LIPROs;
 - 4.2 Provision of online information and services to public institutions;
 - 4.3 Linking the digital system of LIPROs and other state databases; and
 - 4.4 Improving and updating archives of manual information and registers for cadastral zones of the automated register of immovable properties.

■Strategic objectives in the area of properties restitution and compensation

5. Reforming and strengthening the role and capacities of ATP through:
 - 5.1 Improvements in the legal framework to ensure their alignment with EU standards in the field of property rights;
 - 5.2 Strengthening human resources and other capacities of ATP;
 - 5.3 Better standards for service delivery by introducing a new practice in addressing demands from expropriated subjects;
 - 5.4 The institution of a unique “map” for decisions regarding the process of property restitution and compensation; and

- 5.5 Regular update of information from the agency, including information on administrative or court acts or rulings through the electronic registry, which is integrated with court data from the years on claims for property compensation and restitution.⁹⁷
6. Finalization of the review of files pending final decisions through:
- 6.1 Finalization of the administrative procedure for the acknowledgment of ownership of expropriated properties;
- 6.2 Introduction of a unique and effective compensation scheme through the implementation of a new methodology for the evaluation of immovable property market, and introduction of a digital system for the drafting of property maps aimed at producing a final invoice of financial obligations.
7. Strengthening the system of property rights and their protection up to the execution phase according to ECHR standards through:
- 7.1 Improved quality of the bailiff service, the consolidation of the Albania Bailiff Information System, as well as its extension to all bailiff systems (results with respect to the bailiff system are also covered under Section 8.1 on the judiciary reform);
- 7.2 Preparation of a plan for the execution of final rulings of the Albanian courts, as well as their execution within a deadline set by the Albanian government;
- 7.3 Reduction in the number of appeals to the ECHR on the subject of property rights through the implementation of legal reform, in consultation with concerned stakeholder groups;
- 7.4 Priority execution of decisions for restitution or compensation, in line with ECHR obligations; and
- 7.5 Improved management of property rights in light of ECHR case law.

■ Strategic objectives in the area of legalization of informal buildings

8. Legalization of existing informal settlements and incorporating existing illegal construction within urban development plans through:
- 8.1 Review of existing legislation in order to set limits not only regarding the initiation of the legalization procedures, but also regarding those that are completed;
- 8.2 Finalization of the legalization procedure;

⁹⁷ Electronic register is available at PRCA website: www.akpp.gov.al.

- 8.3 Registration of immovable properties in LIPROs and supervision of execution of court decisions of final form;
- 8.4 Follow up of urban planning and development in the territories with legal constructions and the prevention of future informal construction;
- 8.5 Better definition of responsibilities and tasks of the local urban construction inspectorates for coordination purposes and control of the activities; and
- 8.6 Realization of the legalization process by upholding the rights of former owners and harmonizing a fair proportional benefit, for the category of the former owners and category benefiting from the legalization process.

10.2 Promoting business and foreign direct investments

■Current situation

Promoting business and foreign direct investments by reducing red tape constitute strategic priorities for sustainable economic and social development of the country, and for ensuring better competitiveness in the regional and global markets. In addition this area is one of the six priorities of the government.⁹⁸ Regarding improving business climate in Albania, reduction of administrative barriers⁹⁹ was also recognized by the World Bank's 2015 Doing Business Report, which ranked Albania in sixty-eighth position, in 2008 (among 189 countries).¹⁰⁰ Tax reform—as an essential part of the fiscal policy to facilitate doing business in Albania—developed in parallel with e-government, further facilitated the services to businesses, both in terms of regulatory aspects and in the introduction of online services such as those addressing procedures required before registration and registration (i.e., publication, notary services, inspection etc.).

The World Economic Forum's 2014–2015 Global Competitiveness Report ranked Albania ninety-seventh among 144 countries/economies compared to the 109th place in 2007–2008, showing the improved competitiveness of the Albanian economy (although this ranking slipped from eight-ninth place in 2011–2012). By 2014, the small- and medium-sized enterprises sector had become a very important component of the Albanian business economy, accounting for 81% (EU average: 67%) of employment and generating about 70% (EU average: 58%) of added value.¹⁰¹ The creative economy, with 56% of the

⁹⁸ As noted, the “Business and Investment Development Strategy (BIDS) 2014–2020” was approved by the government in October 2014, and an IPMG has been set up as one of the pilot sectors.

⁹⁹ Reforms to reduce administrative barriers include: (1) establishment of the National Registration Center, in September 2007, as a one-stop shop operating in Tirana and in thirty-two offices across the country, in order to radically simplify the business registration procedure from thirty-six days in early 2007, in just one day; and (2) establishment of the National Licensing Center, in June 2009, as a one-stop shop in order to reduce administrative barriers to business licensing, according to the principle of silent approval. Group I and II licenses are now issued by NLC in only two to four days. For other licenses issued by line ministries, the deadline has been reduced to a maximum of thirty days.

¹⁰⁰ See <http://www.doingbusiness.org/rankings>.

¹⁰¹ European Commission, “Enterprise and industry 2014 SBA Fact Sheet – Albania” (Small Business Act for Europe).

employed being women, is seen as a promising economic sector with the potential to contribute to the local, regional, and national economy.

Foreign direct investment play an important role in the Albanian economy.¹⁰²FDI flows in the country over recent years have been relatively high (equivalent to 8.8% of GDP in 2014, up from 7.7% in 2012), despite the recent disruption and uncertainty in the eurozone. Albania's private sector development and regulatory framework reforms are expected to contribute to the increase in FDIs as foreign investors become increasingly confident in the business environment over the NSDI II period and beyond, despite the unfavorable investment climate in global markets at the time of preparing the NSDI II. Albania ranks fourth in the region in terms of FDIs per capita.

In South-East Europe, FDI flows have been reduced to almost half over recent years, mainly due to a decline in investments from traditional EU investors who have been experiencing economic distress in their countries of origin. Before the onset of the financial and economic crisis, South-East European countries were quite successful in attracting FDIs, which resulted in an increase in FDI flows from USD 2.1 billion in 2002 to USD 13.3billionin2008.¹⁰³The surge in FDIs to the region, especially after 2006, was driven largely by economic recovery, a better investment climate and the start of access in negotiations with the EU.

Relatively low labor costs, easy access to European markets, and the privatization of the remaining state-owned enterprises all boosted FDI flows. This positive trend was reversed in 2009, with FDI in flows falling sharply in all countries of the region. In contrast, Albania was able to maintain a stable trend in FDI over this period, with Serbia, Croatia, and Albania being three main recipients of FDIs in the region during 2012.

During the first half of 2015, net foreign direct investments saw a rapid annual growth. For the entire year, expected annual growth is at 6.6%. The increase in FDIs is mainly focused in the energy sector. The TAP project and others in hydropower generation are expected to be key drivers of FDIs in the next years.

In February 2014the Investments Council was established, which is another instrument for improving business climate and more opportunities for attracting foreign investments.¹⁰⁴ The Investments Council represents a platform for dialog, bringing together the private sector, donors, and the Government of Albania regarding aspects of investments climate in order to address challenges with which the private sector is currently being faced. In addition, the Investments Council fosters debate and promotes new ideas for strengthening the investments climate in the country, with the view of generating new employment, fostering economic growth, and bringing more welfare for Albanian citizens. In addition,

¹⁰²To support this, the National Investment Committee was established to enable PPPs to finance strategic investment projects.

¹⁰³ UNCTAD WIR 2013.

¹⁰⁴ Part of the Memorandum of Understanding between the Government of Albania and European Bank for Reconstruction and Development.

this year was also established the National Economic Council, whose goal is to ensure institutional cooperation and public-private partnership for the development of economic policies.¹⁰⁵

In order to move closer to the group of middle income economies, further growth will need to be driven to a large extent by exports. Product diversification and orientation of the economy toward more value-added exports of goods and services will be required to minimize the risk of a growing trade balance. The development of Albania as a key trading partner with EU countries can be seen both as an opportunity for investment, through relocation of industries from these countries, and as a necessity to re-adjust production activities toward more sophisticated exports in other EU markets.

■Challenges

Despite the abovementioned progress in FDIs, Albania is still ranked low in the region. The main challenges in this sector over the NSDI II planning period include the need for: (1) further simplification of market entry procedures/business startup procedures; (2) reduced time for issuance of construction permits; (3) increased opportunities of power supply; (4) reduced number of days and simplification of procedures for assets registration; (5) removal of red-tape behavior; (6) better contract delivery; (7) improvement of bankruptcy policies and procedures; (8) improving competitiveness of products and services; (9) development of human resources that foster innovation; (10) strengthening technology capacities and implementing ITC; and (11) devoting greater attention to the implementation of measures of Central European Free Trade Association and other agreements of other trade integration agreements signed by Albania, all of which require a high degree of inter ministerial collaboration.¹⁰⁶

Addressing the challenges in these areas should to be combined with further business consolidation, for creating a stable and structured backbone of Albanian business and building a basic frame for a more stable Albanian economy.

■The vision: Competitive Albania, with a dynamic and productive industry.

Along with the National Economic Reform Program (NERP) 2015–2017 and the NERP Action Plan 2014–2020, the Albania Business and Investments Development Strategy 2014–2020 constitutes the main body of documents for the identification and implementation of the national policies for the promotion of business investments for 2014–2020.¹⁰⁷

¹⁰⁵ Law no. 57/2014, “On the Establishment and Operation of the National Economic Council.”

¹⁰⁶ CEFTA entered into force on July 26, 2007, for the five initial signatory countries: Albania, the FYR of Macedonia, Moldova, Montenegro, and United Nations Interim Administration Mission in Kosovo; and subsequently for Croatia, Serbia, and Bosnia and Herzegovina. The agreement highlights the importance of economic development in the region. The main objectives of the agreement are to “expand trade in goods and services and foster investment by means of fair, stable, and predictable rules, eliminate barriers to trade between the parties, provide appropriate protection of intellectual property rights in accordance with international standards, and harmonize provisions on modern trade policy issues such as competition rules and state aid.” <http://www.cefta.int/>

¹⁰⁷ Ministry of Economic Development, Trade, Tourism and Entrepreneurship, “Business and Investment Development Strategy for the Period 2014–2020,” February 2014. The strategy is in line with: (1) the principles of the SAA and its chapters, with its

■ **Strategic objectives**¹⁰⁸

1. Enhancing competitiveness of local businesses and promoting employment, by strengthening institutional capacities and improving business climate, through:
 - 1.1 Reducing red tape and procedures for opening a business, by considerably reducing the time required to open a new business and the time needed to obtain a construction permit;
 - 1.2 Improving institutional capacities to provide better services for businesses and payment of all taxes online;
 - 1.3 Development of the infrastructure for supporting businesses through the establishment of a technological business incubator and new centers for business development;
 - 1.4 Improved lending scale through introduction of business support schemes for those businesses led by women, and introduction of new businesses;
 - 1.5 Establishment of grant fund to support creative businesses, in particular in the domain of crafts;
 - 1.6 Increased number of employees, and generation of new employment, in private non-agriculture sector; and
 - 1.7 Increased participation in regional and European initiatives and programs such as South East European Center for Entrepreneurial Learning, European Investment Fund, EU program for the Competitiveness of Enterprises and Small and Medium-Sized Enterprises, HORIZON 2020 (the EU Framework Program for Research and Innovation), Enterprise Development and Innovation Facility, Enterprise Innovation Fund, Enterprise Expansion Fund, and Instrument for Pre-Accession Assistance.
2. Improving exports through integration in regional and European markets through:
 - 2.1 Annual progressive growth of annual exports volume;
 - 2.2 Expanding export sector;
 - 2.3 Increasing the share of scale of exports generated from internal manufacturing and inward processing industry;

ninety-one articles, “Promotion and Investment Protection,” and article 93, “Small-and-Medium-Size Enterprises,” linked also with principles of the Small Business Act; and (2) in harmony with the EU industrial policy, which is based on the SEE2020 (integrated, smart, sustainable, and inclusive growth) for the development of human resources and ensuring social cohesion.

¹⁰⁸ Objective indicators, as expressed in goals are part of the Business and Investments Development Strategy for 2014–2020.

- 2.4 Expanding competitiveness Fund (based on cost-sharing scheme) that will ensure grant support for companies, with the goal of making them more competitive;
 - 2.5 Strengthening legislation and Albanian export credit guarantee fund, providing support to export companies; and
 - 2.6 Participation of Albania in the EU program for competitiveness reform.
3. Promoting and development foreign direct investments through:
- 3.1 Improving the legal framework and procedures for supporting investors in the strategic sectors of infrastructure, tourism, energy and agriculture;¹⁰⁹
 - 3.2 Annual average increase of FDI flows;
 - 3.3 Increase of FDIs as share of GDP;
 - 3.4 Greater cooperation with investors for the inclusion of local enterprises in the early stages of investment and operation (i.e., the spill-over effect);
 - 3.5 Establishment of economic zones and technical and economic development zones;
 - 3.6 Strengthening institutional capacities of the Agency for Promotion of Investments, aiming at the transformation of companies into potential investors; and
 - 3.7 Promoting and supporting public private partnerships (PPPs), where the respective legal framework is present, by improving the legal framework and simplifying administrative procedures.
- 10.3 Expanding scientific research and innovation

■Current situation

Expenditures and investments in research in Albania have been scarce, resulting in relatively low levels of innovation and technology, business sophistication, as well as in terms of the framework for the development of industry clusters and technological incubators. Policies in the field of research over the period 2009–2015 were aimed at reforming this important sector for Albania’s economy and its development. In July 2014 a Memorandum of Understanding for Cooperation between the EU and the Republic of Albania was signed on participation in the Framework Programme "Horizon 2020" - Programme for Research and Innovation. This percentage of successful applications is quite low when

¹⁰⁹In May 2015, the Law on Strategic Investments in the Republic of Albania (Law no. 55/2015) was adopted.

compared with other countries in the region. This reiterates the need for more focused attention to encourage applications from Albanian researchers in scientific research community programs.

Innovation has been and will continue to be a driving force for increasing competitiveness in Albania. Technical and economic development zones will provide one of the preconditions for a transition from the present-day economic model characterized by use of a low or semi-skilled labor force and manufacture of products with low added value to a more innovation-driven and knowledge-based development model. To ensure a successful transition to innovative development, attention will need to be given to increasing support to Albanian enterprises that are seeking to modernize their technology. This will be achieved by transferring and absorbing (in cooperation with academicians and researchers) innovations currently being applied in other countries or in other local enterprises. Innovation will become a key source of growth and value added, even in traditional, relatively low-technology sectors, such as agriculture, food processing, industry, transport, construction, and light industries.

Progress in the field of research in Albania remains inadequate. National research institutions have limited participation in international research programs, and consequently the benefits are scarce. This is mainly due to weak institutional capacities and weaknesses in the research-oriented human resources base. Greater investments in research can also have a positive impact on employment and the retention of national human resources capacities, especially with respect for those in the professional and technical fields.¹¹⁰

■Challenges

The main challenges ahead include: (1) the need to integrate Albanian scientific research within the European Research Area; (2) more active participation of Albanian research activity and entities in all European programs of research and development; (3) the need for a greater focus of attention and investment in the level and quality of research and innovation in Albania; (4) an improved legal framework for intellectual property rights; and (5) research initiatives that need to be oriented more toward market demand which implies the need for stronger links with national programs and the international private sector.

■The vision: Creating a research and innovation system capable of successfully addressing future challenges in the development of the country such as: increasing the capacity of human resources, energy issues, environmental issues, public health issues, issues of innovation, and social cohesion. Harmonization of developments in research and innovation with regional, European, and global developments.

■Strategic objectives

1. Improving quality of research in the public sector through:

¹¹⁰This is also linked to the strengthening of higher education, the establishment of Albanian networks of excellence, and the contribution to “brain gain” and “brain circulation,” as addressed in the sector for education (Section 11.1).

- 1.1 Increased number of applications for participation in programs in the European research field;
 - 1.2 Increased number of successful applications;
 - 1.3 Strengthened capacity and a marked improvement in excellence in scientific research through the creation of three centers of excellence, in collaboration with international research centers and with the support of EU programs;
 - 1.4 Increased autonomy and accountability of research institutions by changing the legal framework and through reforms in higher education and scientific research; and
 - 1.5 An improved research evaluation system in higher education institutions as well as in public and private research institutions, focusing on external evaluations in line with the Platform for the Evaluation of Scientific Research in Albania.
2. Strengthening innovation and the transfer of knowledge and technologies in the manufacturing sector through:
 - 2.1 Greater and more effective cooperation between enterprises with technological capacities and higher public education institutions with the aim of increasing the number of joint projects between public higher education and the private sector;
 - 2.2 Increased innovation and technology transfer where the “triple helix” of cooperation among public institutions, academic institutions, and private business should prevail, aiming at benefiting investments through partnerships with research academic institutions;
 - 2.3 Modernization of the business sector through the stimulation of companies engaged in innovation and transfer of new technologies through funding from national and international programs;
 - 2.4 Improving the legal framework for intellectual property rights in order to promote the transfer of knowledge and technology; and
 - 2.5 Increased number of transferred technologies to Albanian enterprises.
3. Improving institutional capacities of the research and innovation system through:
 - 3.1 Strengthening structures and the establishment of the National Council for Science and Innovation, as an advisory body to the government and the Parliament;
 - 3.2 The use of common financial resources (match funding) for research and innovation through national and international programs (bilateral and multilateral) of research and development, with the goal of increasing funding;

3.3 Increased capacity for assessment and research in Albania, using the standard indicators of the Organization for Economic Co-operation and Development.

10.4 Investing in information communications technology

■Current situation

The ICT sector is of particular importance in Albania, given its special importance on the country's social and economic development, as well as just about all other sector of activity in the country. Some of the more significant achievements over the past several years include: (1) the liberalization of the electronic communications market; (2) increased use of the internet throughout the country; (3) the extension of electronic services across government functions (government-to-government or G2G) and the beginning of the delivery of electronic government-to-citizens services (G2C), and government-to-business (G2B). All of this has transpired within the context of the growing Albanian "information society." A number of laws were drafted and approved in accordance with EU standards¹¹¹ Currently, the electronic G2C services, especially in local governments, remains at the access to information levels, which constitutes the first level in the development of e-governance.

The new version of the e-albania.al portal was launched in 2015, offering citizens more electronic services. The Open Government Partnership has also been launched (the government published the National Action Plan 2014–2016) and is meant to address four commitments dealing with: improved public integrity, effective use of public resources, improved service delivery, and the establishment of safe communities.

A number of institutions were established to implement the government strategy: (1) DAETIK: Department of European Agenda for ICT (established to support the Minister of State for Innovation and Public Administration in the implementation of the cross-cutting strategy Digital Agenda of Albania 2015–2020); NAEC: National Authority for Electronic (responsible for the supervision of the Law no. 9880, February 25, 2008, "On Electronic Signatures," all certification service providers and assessment bodies operating in the Republic of Albania are required to be registered/accredited and audited by NAEC); (3) ALCIRT: National Agency for Cyber Security (which sets up, manages, and maintains the government online portal that will serve legal persons, the public and private sector, and publishes website addresses with illegal content); and (4) NAIS: National Agency for Information Society (which is the main institution in charge of the development of electronic government and modernization [digitalization] of work processes within the public administration. The Decision of the Council of Ministers no. 703, on October 29, 2014, "On the National Agency for Information Society," defines the role and duties of the agency).

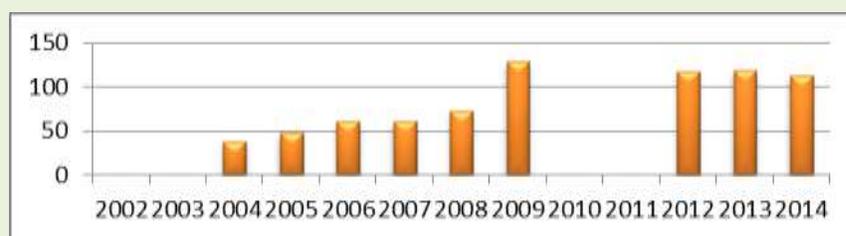
During 2009–2013 there was some progress in the provision of G2B public services. It is significant to note the establishment of the National Licensing Center, the National Registration Center, GovNET infrastructure expansion, e-tax services, e-procurement, e-customs, and e-patents. These developments

¹¹¹ Legislation reference: "On Electronic Communications," "On Electronic Signature," "On Electronic Documents," "On E-Commerce," "On Protection of Personal Data," Cybercrime Legislation," and "On State Databases."

improved the index of e-government readiness. The index for the provision of online services in Albania increased from 0.3913 in 2008 to 0.4488 in 2014.¹¹² However, according to the United Nations Public Administration Network reports, the situation in Albania as compared with countries in the region remains at low levels, as illustrated in Figure 37. The Electronic Governance Development Index¹¹³ for Albania is 0.5046 (eighty-fourth place out of 190 countries), versus 0.467 in 2008 (eighty-fifth place out of 182 countries) as seen in Figure 32.

Based on statistics published by the Electronic and Postal Communications Authority for 2014, key data for the ICT sector demonstrate that there has been a substantial increase in the providers of electronic communications services compared to 2012 in several aspects. The increase in the number of mobile networks operators is translated into a significant growth of the number of subscribers in the mobile networks, with an increase from approximately 39 per 100 persons in 2004, to 113 per 100 persons by 2014, a little more than the goal of 110 established in the Millennium Development Goals (Figure 33), but which however speaks of high rates of use of the service.

Figure 33. Number of mobile operator subscribers per 100 inhabitants, 2004–2014



Source: MoPWTT / AKSHI

Statistical data of the Electronic and Postal Communications Authority¹¹⁴ reveal that by the end of 2014, mobile phone penetration based on active users was about 120%, while broadband penetration based on fixed

and mobile (USB and card modem) was at 14.3%. Broadband penetration based on the number of households was 56.2%, while fixed telephony penetration reduced to 9%, the lowest level in the region.

The development of the information society in Albania, or the implementation of the digital agenda, are not perceived as a task or duty of any single department or administrative unit in the government, but rather as a common objective shared by all stakeholders: the public sector, academia, non-governmental organizations, and civil society and private sector organizations. In its path toward EU accession, Albania would benefit from the development of national strategic objectives in line with EU strategic priorities and goals. Hence the need arises to draft and take all the necessary measures and funding.

■ Challenges

The National Cross-Cutting Strategy for the Digital Albania, 2014–2020, was adopted in April 2015. The main challenges going forward are oriented toward the application and implementation of ICT as well as broadband internet relating to: (1) the development of electronic communications infrastructure; (2)

¹¹²According to UNPAN reporting.

¹¹³ According to UNPAN reporting.

¹¹⁴ www.akep.al/statistika.

the more efficient electronic delivery of services to achieve optimal conditions for improving the quality of life and economic and social development of the country; (3) strengthening and modernizing education, research, and scientific development based on the latest technological innovations; (4) the creation and promotion of a favorable business environment that would promote innovative entrepreneurship and a more competitive economy; and (5) acknowledgment of and response to the fact that the ICT sector is characterized by very high dynamics of change and innovation, especially with respect to: increasing penetration of broadband internet for all; more and improved services offered online to citizens and businesses; increased demand and use of online services; and the need to continuously adapt the enabling legal and regulatory frameworks to keep up to a converging ICT environment.

■The vision: A society based on knowledge and information for sustainable economic and social development, consolidation of digital infrastructure in the entire territory of the Republic of Albania, strictly respecting European principles of free and fair competition, improving the quality of public services and increasing the transparency of government.

■Strategic objectives

1. Improving ICT infrastructure as a pillar for the rapid development of the Albanian information society and increasing electronic preparedness through:
 - 1.1 Increased percentage of the population users of internet; and
 - 1.2 Improved access to high-speed transmission.
2. Further development of e-governance and interactive delivery of public services through internet for citizens and businesses through:
 - 2.1 Interactive delivery of public services to individuals and businesses;
 - 2.2 An increase in electronic government by obtaining a change in the ranking(growth index of e-government readiness by UNPAN);
 - 2.3 Simplification of administrative procedures and streamlining/simplification of associated processes; and
 - 2.4 Building a citizen-centered model of services by setting a one-stop shop, combined with improvements in access to services by citizens and increased transparency, primarily through the application of ICT solutions.

3. Developing and implementing a national policy for the establishment of National Infrastructure of Spatial Data in accordance with the EU requirements,¹¹⁵ thus addressing internal issues in the field of geospatial information through:
 - 3.1 Introducing a geo-portal and gravimetric network;
 - 3.2 Enabling and certifying of the Albanian Satellite Positioning System (ALBPOS)¹¹⁶ and introduction of ALBPOS passive network;
 - 3.3 The building of the leveling network, class I and II, and the obtaining of European certification; and
 - 3.4 The maintenance and updating of networks in line with European standards.

10.5 Ensuring consumer protection and market surveillance

■ Current situation

Over the past several years, Albania has implemented a series of horizontal and sector reforms in the ambit of consumer protection. The National Cross-Cutting Strategy for Consumer Protection and Market Surveillance, 2015–2020, was adopted in September 2015.

Reform policies related to consumer protection and market surveillance undertaken are aimed at providing safer consumer products, and increasing the transparency of commercial practices. In the context of the operation of a safe and competitive market environment, more than 200 acts were adopted in the fields of food safety, aquatic products, veterinary, and the phyto-sanitary area.¹¹⁷ A new legislation is in place for consumer protection, trade, safety, and general market surveillance of non-food products, leading to adoption of more than 90% of EU standards. A total of thirty-three subjects were accredited to conduct conformity assessments. Measurement and calibration capacities were notified to the International Database of the Bureau of Weights and Measures.

The Albanian Commission of Consumer Protection, established in 2009, has issued decisions about cases related to regulation and transparency of trade practices, which in the majority of the cases are used by the economic operators. Despite the existence of an online system for the registration of consumer complaints, more attention is needed when it comes to consumer complaints.

Progress achieved in the drafting of legal initiatives on safety-related aspects has not always been followed with their effective implementation in practice. Since 2010, there was some improvement in implementation capacity of the National Food Authority (NFA) and the twelve regional laboratories

¹¹⁵ EU Directive 2007/2/EC INSPIRE (Infrastructure for Spatial Information in the European Community), see <http://inspire.ec.europa.eu/index.cfm>.

¹¹⁶ Albania's positioning System for the GNSS -Global Navigation Satellite System.

¹¹⁷ Since September 2000, Albania has been a member of the World Trade Organization and is obliged to comply with the WTO Sanitary and Phyto-Sanitary (SPS) measures. "Phyto" refers to agricultural goods crossing borders, certificates, and sanitary requirements with regard to pests and pathogens.

which carry out laboratory tests of samples taken for official food control. However, human resource capacities are limited in the area of risk assessment, and the monitoring of residues, microbiological criteria, and contaminants. There is need for improvement in terms of planning within the inspection system and traceability of food, according to established procedures.

The implementation of the Hazard Analysis and Critical Control Points (HACCP) system¹¹⁸ as a prerequisite for licensing of food business operators is limited.

Livestock-related food security in Albania remains an issue. The Veterinary Directorate in the Ministry of Agriculture, Rural Development, and Water Administration is responsible for controlling livestock diseases in Albania. When the new government took office in September 2013, the ministry started a reform in the veterinary state services, to align it with the Acquis requirements; currently a comprehensive review of the veterinary state service is underway.

In January 2016, the Council of Ministers issued a DCM for the establishment, organization, and operation of the State Inspectorate for Market Surveillance. The establishment of the inspectorate for market surveillance of non-food products,¹¹⁹ foreseen under the consumer protection and market surveillance strategy, will guarantee to the citizens that the products introduced in the market are safe, with a direct and positive impact in their confidence in the law enforcement.

In addition, it is important to address the issue of intellectual property rights as a condition of the SAA and EU integration.¹²⁰ To this end, is being drafted the National Strategy on Intellectual Property, which addresses challenges for ensuring protection of intellectual property rights. In addition to the need for an effective and aligned legal and regulatory framework, capacities in various government institutions need to be developed or strengthened in terms of market inspection and customs administration in terms of enforcing intellectual property rights. Furthermore, it is necessary to have in place modern information systems and databases to improve intellectual property management (e.g., responding to requests for protection of intellectual property rights), and to strengthen the judicial system (e.g., specialized training for judges).

■ Challenges

One of the priorities for the sector is the implementation of the National Cross-Sector Strategy for Consumer Protection and Market Surveillance 2014–2020. Future challenges are related to the guaranteeing of safe products for consumers as well as transparent and fair commercial practices through: (1) food control according to the principle from the farm to the table; (2) the strengthening of institutional capacity to NFA, National Centre for Drugs Control, the Central Technical Inspectorate, Consumer Protection Commission; and (3) the establishment and effective functioning of the Market Surveillance Inspectorate, supported by an efficient quality infrastructure .

¹¹⁸ HACCP is a preventive system for food safety, to scientifically analyze microbiological, physical, and chemical hazards in every step of the production, storage and distribution of a food product.

¹¹⁹ DCM no. 36, January 20, 2016 “On the Establishment, Organization, and Operation of the State Inspectorate of Market Surveillance.”

¹²⁰ Intellectual property rights are also problematic for the sectors of arts and culture and scientific research and innovation.

■**The vision: Empowered and safe consumers, and a confident, safe, and competitive market, where consumers can actively participate in exercising their rights and their power of well-informed choices.**

■**Strategic objectives in the field of food safety**¹²¹

1. Improving consumer food safety through:
 - 1.1 Control of food products in line with the principle “from-farm-to-table” through alignment with EU legislation;
 - 1.2 Mechanisms for assuring animal health and plant protection;
 - 1.3 Risk-based classification of food companies; and
 - 1.4 Increasing the number of official inspections of food products, with the view of reducing lack of conformity and implementing traceability element, and by increasing the number of operators of the food business sector that make use of it.
2. Ensuring consumer protection through prevention and elimination of food risk through:
 - 1.1 Full implementation national program of waste monitoring, microbiological criteria and contaminants in live animals, food products of animal or non-animal origin, and the waters of bivalve mollusks; and
 - 1.2 Ensuring a growing trend in the number of products included in the monitoring plans and analyzed samples, annually.
3. Strengthening the administrative and professional capacities of the National Food Authority and its operational structure through:
 - 1.1 Human resources training in the regional laboratories and border inspection points;
 - 1.2 Unification of testing methodologies for food products;
 - 1.3 Strengthening the Veterinary and Food Safety Institute as the national reference laboratory center by accomplishing the recognition of the results at European level.
4. Protecting animal health and reduction of transmission of animal diseases to humans through:
 - 4.1 Implementation of national programs and tracking and updating livestock farms registries; and

¹²¹Indicators for objectives are referred to in the cross-sector strategy for Consumer Protection and Market Surveillance, 2015. Also, refer to objectives related to veterinary/food and expected results in Section 12.3, “Agriculture.”

4.2 Harmonization of epidemiological surveillance systems to enable animal traceability.

5. Improving Albanian national veterinary service through:

5.1 Establishment of an appropriate structure for the state veterinary service;

5.2 Establishment of an effective national laboratory network for veterinary diagnostic work;

5.3 Full implementation of the animal disease surveillance system, including the basing of animal disease control programs on a risk-based approach;

5.4 Strengthened bio-security and related waste management (i.e., animal healthcare waste management, bio-security of the food chain, animal welfare, and human capacities in the animal healthcare waste management systems);

5.5 Establishment of effective systems and controls for animal movement and livestock markets.

■Strategic objectives in terms of non-food goods safety and quality infrastructure

6. Strengthening overall security for non-food goods by establishing the Market Surveillance State Inspectorate and through:

5.6 Increased inspection rates of **gazit në përdorim**;

5.7 Reducing levels of nonconformity of market products;

5.8 Ensuring the safety of lifts in use by the citizens; and

5.9 Reducing non-conformity of drugs that are traded in the market.

7. Achievement of high targets in the adoption of a range of standards in respect of adoption of the following standards: European Committee for Standardization (CEN)/European Committee for Electro technical Standardization(CENELEC), ETS, Albanian standards and IEC and ISO standards, and meeting the technical requirements for full membership in the General Department of Standards in CEN and CENELEC.

8. Achieving the recognition by the EU of test reports of the testing laboratories, certification, and inspection bodies accredited in Albania.

9. Implementation of traceability of measurements at the highest international level.

10. Improved levels of consumer protection from inaccurate measurements through increased number of verifications and inspections of measurement instruments in the market and in use.

11. Reducing prepackaged products not in conformity with the rules.

■Strategic objectives in consumer protection aspects not related to safety:

12. Strengthening effectiveness of Consumer Protection Commission by analyzing complaints and reviewing the standard operating contracts with an impact on the collective consumer interests by:

12.1 Reducing unfair/dishonest practices based on legal inconsistencies in the areas of customer service delivery through evaluation of market practices before and after measures taken by the commission; and

12.2 Raising customer awareness.

13. Establishing at least three counseling centers that fully meet the criteria as set by the Ministry of Economic Development, Tourism, Trade, and Entrepreneurship.

■Strategic objectives in the protection of intellectual property rights

14. Developing and implementing strategies and policies compatible with EU legislation and best practices in the area of protection of intellectual property rights through:

13.1 Development of uniform internal procedures in the enforcement of intellectual property rights, regarding withdrawal, storage, and destruction of pirated and counterfeited products; and

13.2 Strengthened legal, administrative, and institutional capacity of the Ministry of Economic Development, Tourism, Trade, and Entrepreneurship, the Ministry of Internal Affairs, the customs administration, judicial authorities, and other relevant institutions regarding and the management and enforcement of intellectual property rights.

10.6 Protecting competition and ensuring control of state aid

■Current situation

In the field of competition and state aid, Albania's obligations are governed by Articles 40, 70, and 71 of the SAA. The Competition Authority was established in 2004, in line with Law no. 9121, July 28, 2003, "On Protection of Competition," and is focused on the promotion and protection of free competition in Albania. The effect of the law was strengthened through penalties imposed on companies for anticompetitive behavior in the market (totaling 1.038 billion Lek in penalties).

In the field of state aid, a comprehensive legal framework was put in place in 2006 and a national system of state aid control is also now in place to carry out supervision and monitoring activities. The legal framework includes Law no. 9374, of April 21, 2005, "On State Aid," three regulations for its implementation adopted by the Council of Ministers, and a number of guidelines for certain aspects or categories of state aid adopted by decisions of the State Aid Commission. The State Aid Commission has

worked continuously to increase the number of notifications of state aid schemes by aid providers aimed at promoting employment, including proposals of draft decisions for the decision-making process.

■Challenges

The overall challenge during the planned period of NSDI II, 2015–2020, lays in the need for greater protection of free and efficient market competition. Specifically, more attention needs to be given to: stopping anticompetitive behavior in the form of prohibited agreements between enterprises of so-called cartels (i.e., abuse of dominant position); (2) more effective control of concentrations, through a concentration control regime geared to preventing those concentrations that limit real competition; (3) greater liberalization required for assessing individual and exclusive rights; (4) the need for more proactive cooperation among policy makers, public authorities, and regulatory bodies in order to protect and enhance effective competition in markets where there is state intervention; and (5) greater need to strengthen the administrative capacities of the structures and institutions charged with the control of state aid (the primary focus of which is the need to improve staff capacities within the sector).

■The vision: Improving welfare by providing the best quality products and services; securing lower prices and more choices for businesses, customers, and consumers through the promotion and protection of free and effective competition in the market; and the establishment of an effective and transparent state aid control.

■Strategic objectives in the field of competition

1. Finalization of the alignment of primary and secondary legislation with European law in order to meet the obligations arising from EU integration.
2. Strengthening investigative capacities through investments aimed at optimization of the information infrastructure and increasing the level of expertise and the number of experts on competition.
3. Strengthening and promoting competition in Albania through:
 - 3.1 Study of economic sectors and markets, while conducting analyses about competition levels;
 - 3.2 Identification of legislation, regulations, and normative and administrative practices that have bearings on the level of competition in the market; and
 - 3.3 Drafting recommendations for the government and regulatory entities regarding legislation that might restrict competition in the respective markets.
4. Improving knowledge of the judiciary by providing training to them for better understanding of the law and best practices of the European Court of Justice in the area of competition law, to the best interest of the public.

5. Ensuring active cooperation between regulators of specific markets and other public institutions for a more effective market through increased competition.
6. Improving the culture of competition by strengthening law enforcement and outreach activities, such as roundtables, media publications, and highlighting the public interest and the economic benefits that competition brings about not only for end consumers but also for businesses.

■ Strategic objectives in the area of state aid

7. Increasing the number of notifications on state aid schemes by aid providers;
8. Ensuring approximation of Albanian legislation on state aid control with the EU Acquis through the development of a new legal package on state aid;
9. Continuously increasing awareness, raising efforts among the aid providers of state authorities at the central and local level, as well as among businesses on policy control of state aid, and strengthen the rule of law by the courts.
10. Introducing and implementing a simplified system of monitoring state aid, including de-minimis assistance.
11. Improving effectiveness of monitoring in light of state aid approved by the State Aid Commission.

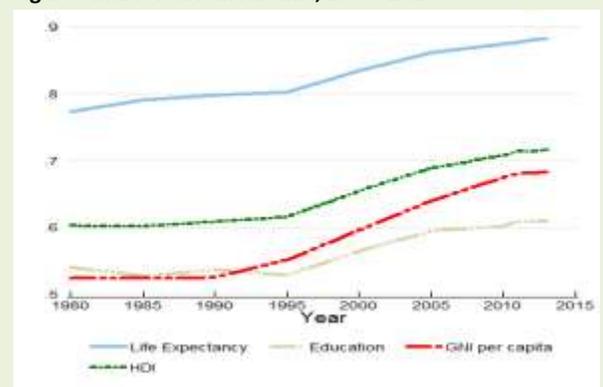
11.0 PILLAR 3: INVESTING IN HUMAN CAPITAL AND SOCIAL COHESION

Albania's most important resources are its people, and consequently society and its culture. It is in these segments of the state that all those values essential to freedom, equality, well-being, and the security of person and property are embedded. Along with systems for good governance, democracy, and the rule of law, the human and social dimensions of Albania lay at the core of economic growth.

As presented in Figure 34, Albania has generally experienced a positive trend in the main components of its Human Development Indicator (HDI) since 1980. In 2013, the HDI rating for Albania was 0.716, which, according to UNDP standards, ranked the country in the category of "high human development." The country was in the ninety-fifth position out of 187 countries and territories. Since 1980, the HDI score for Albania has grown to 18.1% (from 0.603 to 0.716), or representing an average annual increase by approximately 0.52 percent.

For the sake of maintaining sustainable growth of human development, welfare, and social cohesion, NSDI II will focus in nine key sectors as follows. While sectors like education and health

Figure 34. HDI trends in Albania, 1980–2013



Source: UNDP

account for the highest percentage of human resources of the national budget, other sectors under Pillar 3 lay at the core of human and social development of Albania.

- Education
- Health
- Employment
- Social insurance
- Migration management
- Social protection
- Social inclusion
- Gender equality
- Arts and culture
- Sports

11.1 More opportunities and better quality in education

The education sector covers the pre-university system (primary and high-school education) and higher education or university system. The sector also includes career development for teachers and the building and maintenance of educational institutions and facilities. This subsection is organized to first address the mainstream education and the pre-university system in Albania, and then to give an overview of the situation and objectives specifically targeting higher education.

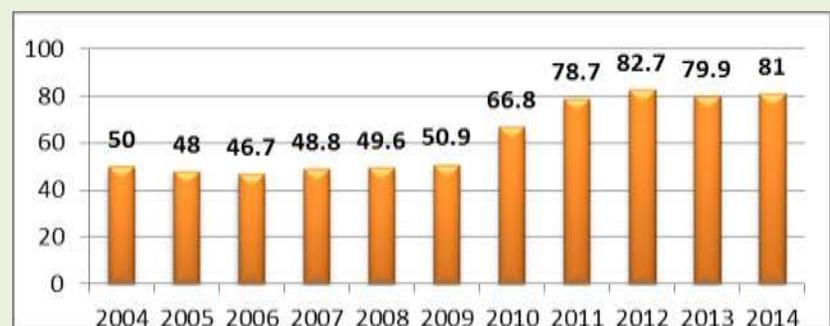
■ Current situation of the education system in general in Albania

The educational system in Albania as a whole is experiencing a number of significant challenges, at virtually all levels.¹²²First, based on EU quantitative and qualitative indicators, reforms in the pre-university education system during 2009–2013 did not generate any substantial performance improvement. While enrolment in preschool education institutions failed to achieve total enrolment of all children of the three to five year age group, there was however an increase from 50% in 2004 to 81% by 2014, as illustrated in Figure 35. Until 2014, enrollment rates were higher for males (86.2% male compared to 75.2% female).¹²³Dropout rates were targeted toward zero (school dropout rates in basic education in 2009 were 0.46%, whereas in 2012 at 0.39%).

Enrollment rates in high and secondary education were also below average, according to EU indicators. Enrollment in

high-school education during 2011–2012 reached 70.6%. The ministry aimed at reducing dropout rates in

Figure 35. Pre-school enrollment rates (age group from 3-5 years old) 2004-2014



Source: Ministry of Education and Sports/ INSTAT

¹²²Currently there is no sector strategy for the education sector as a whole.

¹²³These levels nonetheless exceeded Albania's MDG-2 target for 2014, which was set at 70%.

high-school education to zero; however, dropout rates in basic education in 2009 were 0.46%, and a little less in 2012, at 0.39%. There were efforts made in terms of the reform for the high-school school and university curricular in 2010, whereas for basic education reforms took place primarily in 2013. However, these reforms failed to generate expected improvements in key indicators, unlike the more positive performance evidenced in most EU and OECD countries.

Over the years, the Government of Albania has made efforts to strengthen teachers' professional development. Efforts for the implementation of Law no. 69/2012, "On the Pre-University Education System," did not bring about significant results in terms of improving the quality of teaching. This was due primarily to lack of proper attention in determining teachers' training needs, and hence the training programs that were developed did not match the real needs.

Finally, the generally poor state of physical infrastructure of school facilities does not help the delivery of quality education at all levels. In the case of children with disabilities, the issue is not simply about ensuring physical access to the schools, but it is also about supplementary support (e.g., financial assistance, social assistance, transportation, etc.) for these children and their families (and the necessary cross-linkages to social inclusion programs).

To address challenges in the sector, the Pre-University Development Strategy, which was adopted in January 2016, defines the development objectives for pre-university education until 2020.

■Challenges

The main challenges over the 2015–2020 planning period focus on the need to: (1) increase and maintain pre-university education enrolment rates; (2) proactively address inclusion, including through policies designed not only to attract, but also to provide instruments to support and facilitate participation of children from vulnerable and socially excluded groups (e.g., girls, minorities, children with disabilities); (3) improve overall curricula, the quality of education, and professional quality of teachers at all levels; and (4) address deficiencies in educational infrastructure and facilities.

■The vision: Creating an education system that has students' needs and interests at its core; that creates opportunities and conditions conducive for students to build and develop their knowledge, skills, and values required by the society; that allows students to develop independently and to contribute to their welfare and that of the society, in a constructive way, and to face life's challenges.

■Strategic objectives in pre-university education

1. Improving access and increasing enrollment in pre-university education through:
 - 1.1 Increased preschool enrollment rates (five to six years old);
 - 1.2 Maintaining the ratio between the number of students finishing basic education and those finishing higher education;

- 1.3 Reducing school drop rates in basic education;
- 1.4 Implementing policies for attracting children from vulnerable groups.
2. Improving "Quality Education for All" service through:
 - 2.1 The reform of the pre-university education curricula oriented toward curricula based on competencies and student achievements;
 - 2.2 Professional development of teachers and managers;
 - 2.3 Provision of psychosocial services in all pre-university educational institutions;
 - 2.4 The development of contemporary models of teaching combined with an increase in the use of technology;
 - 2.5 Introducing reporting standards and instruments on the quality of service in schools; and
 - 2.6 Updating and introduction of infrastructure in new and existing kindergartens and schools to ensure alignment with European standards, including access for children with disabilities.
3. Improving decision-making relations between central and local levels of education institutions through:
 - 3.1 Ensuring more efficient decision-making by the Ministry of Education and Sports regarding formulation of education policies, assessment, and quality reporting;
 - 3.2 Greater support for local authorities in the delivery of their obligations and legal functions; and
 - 3.3 Improving legislation for supporting decision-making in schools.
4. Improving effectiveness and efficiency of financial resources through:
 - 4.1 Higher levels of financial support to education from the central and local government for public education; and
 - 4.2 An improved financing scheme based on the number of students, according to the principle "money follows the students" at all decision-making levels.

■ **Current situation of the higher education system in Albania**

Development in the higher education system during the period 2008–2013 in Albania aimed to increase access.¹²⁴The number of students enrolled in higher educational institutions (HEIs) increased 60% from 90,205 in 2007 to 145,028 in 2013–2014. Nevertheless, the increase in student enrollment numbers was

¹²⁴Pre-university Education Development Strategy, 2014–2020, was adopted by DCM no.11, January 11, 2016.

not matched by the increase in the numbers of academic staff or improvements in the infrastructure of higher education institutions. The total number of lecturers increased 32% to 3,651 by 2013–2014, up from a total of 2,785 in 2007. This was about half the rate of the increase in numbers of students. Infrastructure investments in 2013 in public HEIs totaled 1.571 billion Lek.

Despite the introduction of a number of standards over the years, expansion and development of the education sector proceeded in a fragmented manner. It was to be expected that such a large sector like education, with its critical role in the development of human resources, would warrant a more strategic approach, and one that is linked to other sectorial development needs of the country. Lack of a strategic approach to education contributed to a significant drop in the quality of higher education.

In the best case scenario, monitoring was carried out more as a formality. Findings and recommendations were not acted upon, thus leading to further deterioration in the overall situation. Furthermore, curricula did not benefit from external evaluations or accreditations, also seen to contribute to declining quality. Under these prevailing conditions, forty-four private and fifteen public higher education institutions failed to meet the minimum requirements, as established in the law on higher education. Furthermore, the curricula are not adequately harmonized at the national level.

■Challenges

The main challenges in higher education include the need for: (1) improving quality of education by improving teaching conditions; (2) increase in the number and quality of staff; (3) improving infrastructure; (4) updating curricula and ensuring qualitative standards in line with best European practices; (5) ensuring alignment of strategies, curricula, and education programs with those of the private sector in light of labor market needs; (6) expanding post-secondary education in line with the specific area needs and regional developments; (7) strengthening overall institutional capacities; and (8) increased autonomy and self-governance of higher education institutions.

■Strategic objectives

1. Improving quality of higher education through:
 - 1.1 Concerted attention toward improvement in teaching conditions in all their components (staff, infrastructure, etc.);
 - 1.2 Implementation of higher education reform, including the drafting and adoption of a new law and secondary legislation leading to the establishment of new agencies included in the higher education scheme;
 - 1.3 Strengthening human resources capacities and other relevant capacities in the Ministry of Education and Sports;

- 1.4 Improving quality of higher education institutions through accreditation of public and private higher education institutions and study programs; and
- 1.5 Relevant improvements in the legislation in line with EU standards.
2. Supporting and increasing the number of study programs aimed at meeting labor market demand through:
 - 2.1 Restructuring of all study programs according to the new law and best European practices in the respective fields, as well as European directives for regulated professions and other directives on specific study programs;
 - 2.2 Implementation and adaptation of the Albania Qualification Framework to the European Qualification Framework and EU directives, including the preparation of the sectorial framework; and
 - 2.3 Delivery of qualitative study programs according to the best EU experiences that will lead to the recognition of higher education diplomas earned in Albania, as well as the recognition of EU qualifications to enable the hiring of Albanian specialists in EU countries.
3. Ensuring professional education corresponding to the needs of specific fields and developments of the specific regions through:
 - 3.1 Running profiles and differentiation of higher education institutions to better respond to labor market demand, needs for national and regional development, and to the EU integration process;
 - 3.2 Qualitative support to public universities through the Strategic Development Fund, with the goal of delivery of professional study programs;
 - 3.3 Creating conditions and legislation for monitoring employment indicators; and
 - 3.4 Improving cooperation between higher education institutions and manufacturing and service sectors.
4. Increasing autonomy and self-governance of higher education institutions through:
 - 4.1 Clear definition and strengthening of HEI legal status, including organizational restructuring and increased institutional efficacy and autonomy;
 - 4.2 Increased accountability, management efficiency, and overall capacities of HEI structures to better respond to the public according to the principles of autonomy, accountability, and good governance;

- 4.3 Greater involvement of academic staff and students in the decision-making processes;
 - 4.4 Greater financial autonomy of universities based on student performance and numbers by implementing a new financing formula;
 - 4.5 Increased public funds for higher education by 2020;
 - 4.6 The establishment of systems and procedures to provide funding assistance to students based on their academic performance and social conditions; and
 - 4.7 Establishment of Strategy Development Fund (competitive grant), as an instrument for higher education policies, development of university infrastructure, and improved quality of teaching and scientific research.
5. Internationalize higher education and increase the contribution of Albanian excellence to the labor market through:
- 5.1 Strengthened international cooperation among higher education institutions and an increased level of participation in EU scientific, research, and joint programs;
 - 5.2 The establishment of a network of Albanian excellence living abroad in order to increase their contribution through definitive or non-definitive return to Albania (i.e. transforming “brain gain” into “brain circulation”);
 - 5.3 An increase in the mobility of students, lecturers, and scientists to exchange “best experiences” among higher educational institutions in Albania and abroad, and ensuring a greater contribution of EU experience in higher education and scientific research areas;
 - 5.4 Reform of the Excellence Fund to ensure funding not just for students, but also for the state administration;
 - 5.5 Growing number of direct applications of Albanian students and lecturers to the best institutions of higher education, funded through a dedicated assistance office to enable their relations with the respective institutions; and
 - 5.6 Benefitting from EU programs through ERASMUS+, the educational program of the EU aimed at the modernization of education systems and their adaptation to labor market needs and to an ever-changing world.
- 11.2 A stronger and more accessible health care system

■ **Current situation**

Albanians are healthy by regional standards, but the country needs to address the changing burdens of disease and rising population health risks.¹²⁵ Average life expectancy at birth reached an estimated 77.4 years (by 2014). This relatively high level can be explained by the generally healthy Mediterranean diet of Albanians. A key measure of the health system is the incidence of infant mortality per 1,000 live births which dropped from 17.5 in 2002 to 7.9 by 2014, as illustrated in Figure 36, and is below the MDG target of 8.0. However, the estimates of infant mortality in 2012, published by WHO, show a significant difference between Albania and other countries in the region: Bosnia and Herzegovina (at 5.8 per 1,000 live births), Montenegro (at 5.5 per 1,000 live births), Serbia (at 5.7 per 1,000 live births) and FYR Macedonia (at 6.5 per 1,000 live births).¹²⁶

In general, non communicable diseases dominate the burden of disease: heart disease, stroke, lower respiratory infections, and lung cancer are the primary causes of premature death. Eating habits are also changing for the Albanian population. The Global Burden of Disease Profile of 2010 cites dietary habits as the main risk factors in Albania before hypertension and smoking. The Demographic Health Survey of 2009 found the prevalence rate of smoking among Albanian adults to be 38%.¹²⁷

Another health related challenge is the prevalence of chronic diseases. Non communicable diseases require prolonged and costly treatment as well as prophylactic care. The current health care system is simply not equipped to provide for them all.

This is especially for the case of the adult HIV prevalence rate, which has been increasing significantly over the past several years, as shown in Figure 37, with an estimated 869 cases in 2015.

Hospital care in Albania is mainly public but private outpatient services and pharmacies are widely used and broadly available. There are over 400

Figure 37. Adult HIV prevalence rates, 2002–2014

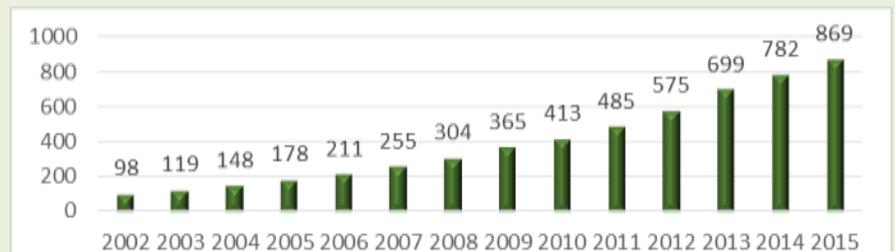
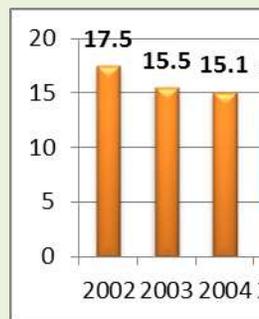


Figure 36. Infant mortality rates, 2002–2004



Source: MoH/INSTAT

Satisfaction with the health system

“Albanians are not generally satisfied with the quality and efficiency of public health services. Only 45% of them are satisfied—the lowest share among countries in the region. Bosnia and Herzegovina, Serbia, and Montenegro all achieve at least 55% satisfaction. The same survey sheds light on possible reasons (apart from quality and efficiency) for the dissatisfaction of Albanians: 39% of respondents reported that informal payments are usually needed to obtain services in the public sector. This is not only by far the highest share in the region, it is also about twice the share of respondents from the same survey who said they need to make informal payments to access general public services in Albania.”

World Bank Report No. 82013 – A Public Finance Review; Part II: Improving the Efficiency and Quality of Public Spending, May 2014.

¹²⁵National Strategy of Health Sector, 2016–2020, is currently being drafted.

¹²⁶The World Bank; Report no. 82013.

¹²⁷UN Millennium Development Goals indicators.

primary health care facilities. Hospital expenditure account for approximately 55% of the overall health budget.¹²⁸In practice patients frequently bypass primary and secondary referral facilities due to perceived poor quality. Although more than 500 million Lek were spent to build, reconstruct, and equip health care centers, they still present serious deficiencies in infrastructure and in hygienic and sanitary conditions, facilities, and equipment. This has forced people to meet their higher level needs for health care services in the polyclinics and hospitals. This has led to reduced efficiency of the system and has put a strain on household budgets. The private provision of primary and outpatient care is widespread, and includes private services offered by dual-practice public providers. Private secondary or tertiary care is limited, and hence approximately 70% of Albanians regularly use the public health system.

By 2013, the health care contribution system in Albania covered less than half of the active population. Approximately 1 million Albanians of working age cover their own health care costs, and approximately 60% of household health expenditures are made out-of-pocket at the point of service delivery.¹²⁹Insurance premiums are not proportionate to income level, implying that salaried persons at the upper level of the income ladder contributed less in relative terms compared to salaried persons at the lower level of the income ladder. Hence, the insurance scheme is seen as nonprogressive and contributing to social injustice.

Insurance coverage does not seem to significantly decrease out-of-pocket expenses for health care.¹³⁰Out-of-pocket health expenditures are higher among the insured than among the non-insured. While this might reflect the fact that insured people tend to be wealthier, it raises questions on the effectiveness of the current insurance scheme. Average per capita household consumption is approximately 13% higher among insured individuals. From the same optic, the insured spend twice as much as the uninsured on nonprescription drugs, 80% more on prescribed drugs, and almost 70% more on out-of-pocket health expenditures in general.

While these numbers should be treated with caution, they clearly raise concerns over the effectiveness of financial protection under the current system. They also suggest that improving the effectiveness of coverage should be prioritized before making substantial public outlays to further increase coverage, particularly among the non-poor. The high rates of spending by insured patients for prescription drugs— even though these should be financed by insurance—underscores the importance.

Reduction in the price of drugs, often higher than those in the EU countries, is one of the aspects that requires attention, including the need for expanding the pharmaceutical services in the rural areas. To this end, in 2015, the list of reimbursable drugs was expanded to include fifty-six new drugs, leading the number of drugs in the reimbursed drugs list to 477. The list is expanded for all categories, focusing, however, on children, pregnant women, pensioners, cancer patients, and the blind.

¹²⁸HIF data.

¹²⁹<http://data.euro.who.int/hfad/>.

¹³⁰Reference to the World Bank Report:

<https://openknowledge.worldbank.org/bitstream/handle/10986/20442/820130v2GRAY0COVER0Box385323B00PUBLIC0.pdf?sequence=1>.

The Health Card is yet another step toward modernization of health care system, as part of the health reform, together with e-prescription, the Health Card enables online monitoring of the system. This reform has been applied since 2014.

Finally, emergency service is facing difficulty due to a number of factors: (1) lack of territorial organization results in delays in emergency responses; (2) emergency service is poorly equipped and it lacks adequate equipment needed to save lives; and (3) emergency staff is under qualified. These factors have contributed to the otherwise avoidable deaths of thousands of patients. Hospitals generally lack work protocols and standard procedures, with the consequence of increased abuse or misuse of medicines and medical equipment. There is a lack of monitoring systems and standards (accrediting) for health service quality. Health information and health care indicators at the individual and national levels are generally lacking, insufficient, inaccurate, or fragmented.

■Challenges

Albania is being faced with considerable challenges for providing adequate and qualitative health care. The government has proposed a move toward universal health care coverage financed through general revenues, but the sequencing and fiscal implications of this transition need to be carefully considered. The proposed reform includes two main elements: (1) a gradual transition from the current hybrid model of financing public service provision through both payroll insurance premiums and general revenues to a model financed purely by general revenues; (2) expanding the range and intensity of health coverage for the entire population; and (3) completion and approval of the Health Strategy, 2016–2020, within first semester of 2016. In addition, universal health coverage has multiple dimensions, including the percentage of the population covered by insurance, the proportion of costs covered, and the number of services covered.

In transforming the health care system, there is need for integration and better coordination with programs dealing with social protection, workplace safety, environmental protection, sports policies, territorial planning, and regulation policies. With limited budgets, priorities also need to be clear, giving focus to major health issues such as drug use, alcohol abuse, smoking, road safety, food safety and malnutrition, new infectious diseases and neglected diseases, strategic management of chemicals, and environmental factors. Hence the need for the establishment of a National Emergency Service that would provide rapid and professional response to health needs based on equal standards and adaptable to seasonal needs for care in case of illnesses and trauma.

■The vision: Qualitative and timely universal health care for all Albanian residents.

The health care vision in Albania may be translated in the establishment of a modern infrastructure system, with increased safety. Public hospitals will not be only be places where people go to seek medical assistance, but also centers of solidarity and social culture. The health system will be based on correct and scientific protocols and standard procedures, as key elements of transparency, verifiability, accountability, responsibility, and hospital service quality. Principles of clinical governance in hospitals will be established, adopting high standards for health care, effective services, transparency and

accountability, and giving priority attention to the most vulnerable. Hospital payments will be switched according to costs and diagnosis-related group. Public and private hospitals will be accredited and subject to periodic reevaluation.

■ **Strategic objectives**

1. Improving quality of health care by ensuring full access for all Albanian residents based on a stable financial system through:
 - 1.1 Establishment of a national and professional health service that meets the needs of the population, in all regions of the country;
 - 1.2 Introduction and application of equal standards in all health centers to respond to climate changes;
 - 1.3 The targeting of early screening for the forty to sixty-five year age group for diabetes, health technology assessment, colorectal cancer, stress, and depression;
 - 1.4 Updating the screened citizens register;
 - 1.5 Establishment of a National Emergency Service;
 - 1.6 Improved health service through progressive expansion of the reimbursable medicaments list; and
 - 1.7 The development of financing models for health care at the primary, hospital, and tertiary service levels through the compulsory Health Insurance Fund.
2. Increasing the number of health life of the Albanian population by:
 - 2.1 Promoting the role of public health and prevention and health promotion programs;
 - 2.2 Reducing infant mortality rates;
 - 2.3 Reducing maternal mortality rates;
 - 2.4 Increased rates of testing and consultation in the HIV/AIDS testing and counseling centers;
 - 2.5 Strength
ening health care services and cross-sector systems to better respond to climate changes; and
 - 2.6 Raising awareness and improving attitudes to health.
3. Modernization of infrastructure and increased safety and quality of hospital care through:
 - 3.1 Reconstruction or rehabilitation of damaged or poorly designed hospital premises/facilities;

- 3.2 Increasing availability of diagnostic equipment in the regional hospitals;
 - 3.3 Decentralization of hospital services related to diseases of high incidence in death through such causes as tumors and cardiovascular diseases in the Durrës, Vlorë, and Shkodra hospitals;
 - 3.4 Accurate and scientific drafting and implementation of protocols and standard procedures;
 - 3.5 Provision of hospital health care through improved financing mechanisms, strengthened autonomy, and well-developed standards;
 - 3.6 Increased capacities and competencies of doctors and nurses through the use of new techniques and diagnostic practices;
 - 3.7 Assessment of performance of health care professionals through an updated accrediting system;
 - 3.8 Establishment of clinical governance principles aimed at achieving high health care standards, effective services, transparency, and accountability;
 - 3.9 More efficient administration and funding of hospitals based on individual contracted service packages;
 - 3.10 Outsourcing of services for sterilization of surgery rooms throughout the country;
 - 3.11 Establishment of public-private partnership models for the more efficient management of time, material, and financial resources; and
 - 3.12 Establishment and development of community mental health services at the national level.
4. Improved drug quality and safety in line with the European standards through:
 - 4.1 Reduced price of drugs sale in Albania;
 - 4.2 Increasing quality control during drug distribution;
 - 4.3 Availability of qualitative pharmaceutical services countrywide;
 - 4.4 Establishing a tracking system; and
 - 4.5 Establishment of the National Drugs and Medical Equipment Agency.
5. Developing an integrated and better coordinated approach to health care through:
 - 5.1 Development of cross-sector coordinating mechanisms for major public health issues related to drug use, alcohol abuse, smoking, road safety, food safety and malnutrition, infectious diseases, strategic management of chemicals, child protection reporting and referral of cases, and problems related to domestic violence;

- 5.2 Timely immunization of children according to the national immunization calendar;
 - 5.3 A targeted reduction of water-borne epidemics;
 - 5.4 Developing coordination mechanisms for persons with disabilities enabling integration in social life;
 - 5.5 Increased monitoring of environmental agencies; and
 - 5.6 Increased number of labs equipped with equipment for the identification of causes of food borne diseases.
6. Enhanced transparency and improved accountability and restitution of public confidence in the health care system through:
- 6.1 The development and implementation of the Strategy for Health,2016–2020;
 - 6.2 The establishment of a unique automated health care information system to connect all public and private actors within the overall health system;
 - 6.3 The establishment and routine updating of disease registers; and
 - 6.4 Periodical implementation of National Health Accounts.
- 11.3 Increased employment opportunities

■Current situation

Albania’s labor market has continued its changes and adaptation to the market conditions, however not at the appropriate speed or flexibility. First, the labor market is still dominated by private agricultural activity which accounts for most of the total national employment (43%).¹³¹ Second, the percentages of the labor force in industry (17.4%) and services (39.4%) are well below those of other countries in South-East Europe and the EU. Third, in terms of labor participation, the employment rate for the population aged fifteen to sixty-four dropped from 55.9% in 2012 to 52.1% by early 2015. Trends in Albanian employment and unemployment over the period 2007–2014 are highlighted in Table 4.

The private sector has always been the largest source of jobs and employment in Albania over the past seven years, with over 80% of the workforce employed in the sector. Government programs have supported private sector economic growth, which is important for longer term sustainability of this sector and its labor force. Based on employment data, the nonagricultural private sector has been in continuous expansion as the economy shifts to more productive activities in the services and industry subsectors, in combination with urbanization processes.

¹³¹INSTAT, Labor Market Survey, 2013.

There has been progress with regard to expansion of service-related employment (ICT, restaurants, and hotels, etc.), light industry and extracting industries, etc. Expanding employment levels in new markets for the private sector will require proactive policies in increasing competitiveness, FDI, a wide range of training, the use of information and

communications technologies, the effective use of resources, investments in research and innovation, and a range of other interrelated initiatives set out in the NSDI.

The overall unemployment rates for 2015 grew to 17.5% (Figure 38). However, unemployment rates are a lot higher for youth of fifteen to twenty-nine years of age (from 19.5% in 2007 to 34.2% in 2015). Unemployment rates among women in 2014 were a little lower than for men (respectively 15.5% and 19.7%). In Albania's labor market there are

Figure 38. Unemployment rates for Albania, 2007–2015

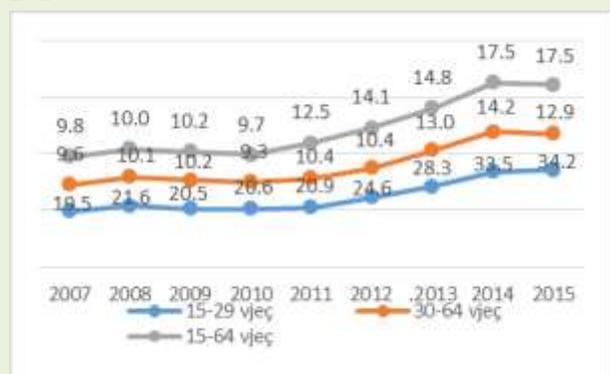


Table 4: Albanian unemployment and employment trends, 2007–2014

Unemployment	2007	2008	2009	2010	2011	2012	2013	2014
Age group 15-29	19.8	24.7	21.9	22.5	21.9	26.0	27.2	32.5
Age group 30-64	10.7	10.0	10.4	10.8	11.1	10.0	13.1	13.3
Age group 15-64	13.5	13.2	13.8	14.2	14.3	13.8	16.4	17.9
Age group 15+	13.4	13.1	13.8	14.0	14.0	13.4	15.9	17.5

Employment according to Sector	2007	2008	2009	2010	2011	2012	2013	2014
Employed (I+II+III)	939,000	901,708	905,088	904,210	925,242	959,227	916,916	925,262
I. Public sector	187,100	188,543	188,430	188,338	185,100	184,400	183,900	183,885
%	17.8%	18.5%	18.4%	18.4%	17.8%	17.1%	17.9%	17.7%
Budgetary	125,200	125,500	125,320	126,500	128,200	128,734	129,212	129,065
%	13.3%	13.92%	13.85%	13.99%	13.86%	13.42%	14.09%	13.95%
Non-budgetary	41,900	41,043	41,110	39,838	36,900	35,666	34,688	34,820
%	4.5%	4.6%	4.5%	4.4%	4.0%	3.7%	3.8%	3.8%
II. Non agricultural private sector	229,900	238,975	237,231	241,838	250,288	268,090	290,703	318,571
%	24.48%	26.5%	26.2%	26.7%	27.7%	28.0%	31.7%	34.4%
III. Agricultural private sector	542,000	496,190	501,427	496,038	503,854	526,137	482,253	442,808
%	57.7%	55.0%	55.4%	54.9%	54.5%	54.9%	50.4%	47.9%

Source: INSTAT, July 2015

Table 5. Shqipëria: nivelet e punësimit dhe papunësisë (2009–2013)

Viti	Përqindja e punësimit	Përqindja e papunësisë
2009	53.5%	13.8%
2010	53.5%	14.2%
2011	58.7%	14.3%
2012	56.3%	13.9%
2013	50.2%	16.1%
2014	52.1%	17.9%

Source: Bank of Albania

important gender distinctions, where employment rates for women are a lot lower than those for men, for all age groups. On average the gap is around 14 percentage points, as the employment rate for women between the ages of fifteen to sixty-four years stands at 45.1% compared to 59.4% for men (first quarter, 2015). The employment and unemployment rates over the period 2009–2014 are given in Table 5.

Another strong feature of the Albanian labor market is the relatively high proportion of inactivity, which rose by 4.9% in 2013, resulting in 1.6 times higher for women than men. This tends to reinforce the stereotype that the place of women and girls is at home, and that they need to tend to housework.¹³²

Educational attainment is a strong determinant of both labor market performance and poverty. In particular, vocational education and training has the potential to positively affect integration in the labor market and income generation. Over the period 2009–2013 Vocational Education and Training (VET) was delivered through a centralized system. The system has not been able to meet local needs due primarily to the separation between education and vocational training (as noted previously) and an inadequate approach to monitoring and evaluation. This led to low participation rates (14.2%) in VET during this period. Adult training in Albania is still in its nascent stage, with only about 1% of adults aged twenty-five to sixty-four years in training programs and professional retraining during 2012 (as compared to 9% in EU countries). In the 2014–2015 academic year, about 6,000 students are newly enrolled in vocational schools, a significant 40% increase from 2013–2014 levels.

The Albanian VET system is still affected by: (1) limited involvement of social partners—in particular the relations between the vocational education and training system and industry are weak; (2) most curricula offer little scope for hands on working experience and are not linked to occupational/qualification standards; (3) aspects of entrepreneurship are limitedly included in VET curricula; (4) a highly centralized and low quality system (more than 60% of the public VET providers are deemed as low or poor performers with low responsiveness to local needs);¹³³(5) lack of skilled teachers, teacher training programs (pre-service and in-service), and other instruments of continuous professional development; (6) the persistence of a dichotomy between vocational education and vocational training despite the shift of all VET affairs under MoSWY; (7) vocational training centers are far from being efficient and fulfilling their mission; (8) under-financing, with poor incentives for participation of employers; and (9) as previously noted, there continue to be deficiencies in VET infrastructure, facilities, competencies of training staff, and curricula.

Informal employment, as part of informal economy, is one of the most crucial problems of the Albanian economy and society. It is a concern from a number of perspectives: (1) it directly affects job security due to lack of contracts; (2) it affects social security entitlements; (3) it reduces pay and source of income, thus posing a burden on economic well-being; (4) it puts a fiscal burden on the economy through tax evasion; (5) it impedes market development in fields that rely heavily on family labor such as agriculture;¹³⁴ (6) it increases vulnerability and promotes the exclusion of women and other vulnerable groups such as Roma and Egyptian communities.

¹³² According to the INSTAT/Labor Force Survey definitions: non economically active population comprises all persons who are not classified as employed or unemployed (pupils/students, housekeepers, those in compulsory military service, retired, disabled, discouraged, unemployed). See <http://www.INSTAT.gov.al/en/themes/labour-market.aspx>.

¹³³ MoSWY, GIZ, ETF, Baseline Survey of Public VET Providers in Albania, 2014.

¹³⁴ Other employment aspects and agriculture labor dynamics are discussed under Section 12.3 of this document.

Informality is present in both the traditional sectors and the more modern and urban sectors outside of agriculture. Persons employed in the informal sector are not covered by the labor legislation, or social insurance, nor do they contribute to the social insurance system. In terms of working conditions and unpaid family labor, informality rates are high. The majority of young women account for unpaid family labor, in particular in rural areas.

■Challenges

One of the key challenges for Albania remains high unemployment rates among the youth. Some other challenges for this sector in the context of NSDI II planning include: (1) the need to reduce unemployment and informal employment rates through better labor market policies; (2) the requirement for more comprehensive packages of services and programs for the expansion of employment services and vocational training to rural areas; (3) the need to reorient education and vocational training to meet the real needs of the labor market, combining theoretical teaching with practical work; (4) reactivation of the National Labor Council as a key tool in developing policies associated with employment salaries and social benefits; (5) the need to remove barriers to business formation in order to reduce informality; and (6) the need to better link and coordinate employment and training activities with those in research and innovation and other priority sectors.

To address all of these concerns, in November 2014 the government adopted the National Cross-Sector Strategy on Jobs and Skills, 2014–2020, while there is an IPMG on employment, skills, and social policies in place.

■The vision: Higher vocational skills and better jobs for all men and women.

■Strategic objectives¹³⁵

1. Promoting decent employment opportunities through more effective labor market policies, specifically through:
 - 1.1 Reorganization of labor offices under the new service model, with the goal of increasing annual participation rates of women/men in active labor market programs;

Vulnerability

There is no universally accepted definition of vulnerability or what may constitute a vulnerable group as these are relative terms that, in this NSDI, depend on context (e.g., social, economic or political vulnerability, location, vulnerability to a range of disasters or climate change, health, vulnerability to corruption, and so on).

For example, in the context of poverty reduction, vulnerable groups are those *“that experience a higher risk of poverty and social exclusion than the general population. Ethnic minorities, migrants, disabled people, the homeless, those struggling with substance abuse, isolated elderly people and children all often face difficulties that can lead to further social exclusion, such as low levels of education and unemployment or under employment.”*

EQAVET, <http://www.eqavet.eu/qc/gns/glossary/v/vulnerable-group.aspx>.

¹³⁵ Part of the development objective indicators established in the National Strategy on Employment and Skills, 2014–2020.

- 1.2 Improving legal and institutional frameworks in line with ratified international standards, with the goal of reducing accidents at the workplace and increasing worker's life expectancy;
 - 1.3 An increase in the number of women and men participating in active programs through greater promotion of participation and ensuring greater diversity and effectiveness of programs.
2. Ensuring qualitative VET for young people and adults through:
- 2.1 Increased number of participants in VET programs through the optimization of the VET providers network;
 - 2.2 Increased quality and effectiveness of VET providers through the provision of financial support and the adjustment of the VET inputs and capacities (infrastructure, workshops, laboratories, equipment, curricula, teaching materials, human resources); and
 - 2.3 Strengthened links between study and work, and the facilitation of the transition to work through:
 - (i) Increased employment rates of students that complete VET, of which 25% should be girls;
 - (ii) Higher employment rates among participants in short-term VET courses, in particular an increase in the employment rates for women;
 - (iii) Further promoting the VET image.
3. Lowering opportunities for informal employment and informal employment rates in non-agriculture sectors through:
- 3.1 Removal of barriers for business startup, with the view of reducing informality;
 - 3.2 Stronger enforcement of existing legislation and regulations (such as labor inspections);
 - 3.3 Strengthened coordination among those entities involved directly or indirectly in the informal sector (with other sectors such as social protection, social security, agriculture, finance), at central and local levels;
 - 3.4 Strengthening of employment protection legislation, regulation, and policies targeted at informal employment (e.g., incentives and discouraging aspects);
 - 3.5 Strengthening and enforcing codes and standards in respect of the work environments where there is a high incidence of informal employment (i.e., tackling health and safety issues);
 - 3.6 Organization of proactive training and employment programs focusing on women, girls, and other vulnerable groups such as the Roma and Egyptian communities;

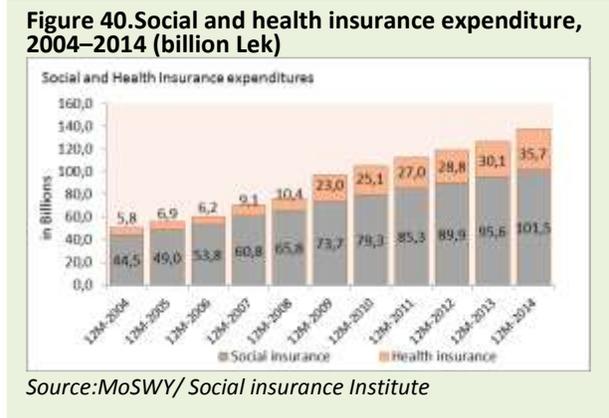
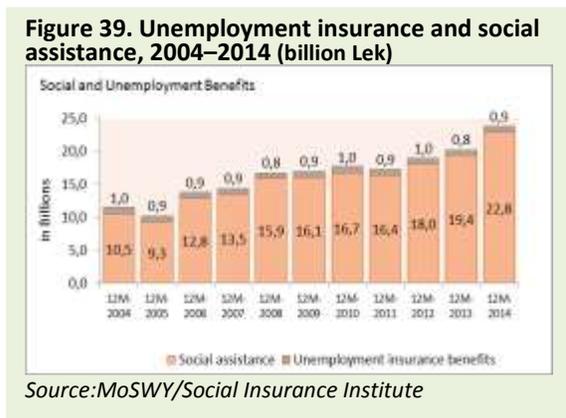
- 3.7 Better research, analyses, and information on the informal sector;
- 3.8 Special focus of VET programs to priority segments of the informal labor market (e.g., vulnerable communities, high-risk occupations, and the like); and
- 3.9 Education and awareness programs targeted to employers and employees alike.

1.4 Social Insurance Fund

■Current situation

Currently, the Albanian pension scheme is considered to be financially unsustainable. Revenues raised from contributions are not able to meet pension obligations, due primarily to low participation rates in the social insurance scheme (estimated at 55.7% of the labor force) and a corresponding high degree of informality. Benefits from the scheme are currently 41.6% of the average salary, somewhat below average European levels.

Unemployment benefit expenditure (Figure 39) during 2014 were about 2.2% over budget, and were also 2.4 billion Lek or 10% higher than the previous year. Social benefits for 2014 totaled 1.8 billion Lek, 8.8% higher than 2013. While the levels of social benefits have been relatively stable over the past ten years, there has been a steady increase in unemployment benefits. Expenditures on social and health insurance in 2014 amounted to 138.54 billion Lek, which was 2.7 billion over the amount planned. Figure 40 shows the continuous annual increase in



the payments.

Albania currently has a young population. However, long-term projections point to an increasingly aging population. Based on 2012 statistics, the proportion of the population at retirement age was 14.9% of the total population, and is projected to increase to 25% by 2031 and by 35.0% by 2080.

The low levels of benefits received from contributions paid into the scheme have partially caused an increase in informality and in the false declaration of salaries, upon which pension contributions are calculated. Should this prevailing situation continue, it will likely impose a significant burden on social services in the future, and potentially lead to further deterioration over time. For example, if there is a change, future benefits paid from the system as a percentage of the average salary could well be lower than the current percentage, and this may place increasing pressure on the fiscal deficit. Should these low participation rates persist, a considerable share of the population will not be able to benefit.

However, fully implemented reforms would encourage participation in the scheme by linking pension measures with paid contributions. In this case, the number of the contributors could increase from the current level of 705,000 beneficiaries in 2015, to 759,000 by 2018 and 778,000 by 2020. The number of contribution years would also increase from thirty-five in 2015 to thirty-seven by 2020. This would lead to a drop in the deficit of the scheme from 1.6% of the GDP in 2015 to 1% by 2018, and on.

To address these issues and to achieve long term sustainability of the system, the government launched a series of pension reforms in early 2014. The reforms were formalized through necessary changes to the law "On Social Insurance in the Republic of Albania," adopted in July 2014, with implementation commencing in early 2015.¹³⁶

The reforms are being spearheaded by an inter-ministerial group with broad participation from social partners and other stakeholders. Decisions on reform were based on extensive public consultation. As part of the reform strategy development, several scenarios were developed incorporating international best practices in pension administration, from which the most suitable was selected, focusing on strengthening the link between individual contributions and the amounts paid for benefits.

The selected scenario, reflecting simplicity, flexibility, and transparency, also provides for adjustments to the pension calculation formula based on changing demographics, social, fiscal, and other variables. The proposed reforms, once implemented, are expected to lead to a more rapid reduction in the financial deficit of the scheme from an estimated 1.6% of GDP in 2015, to 1.0% by 2018, to 0.4% of GDP by 2030, and eventually to 0% by 2043. The new scheme, once implemented, will guarantee the maintenance of benefits. In the current scheme, the replacement rate would be in excess of 30% by 2032 and would then begin to drop dramatically to a projected 25% by 2039, to 18% by 2050, and to a very low level of 6.2% by 2080.

■ Challenges

Main challenges and priorities in pension reform over the 2015–2020 planning period include: (1) the need to strengthen the contributory principle of the pension system and to generate a greater

¹³⁶ As noted in the preceding subsection, the government has identified "employment, skills, and social policies" as one of the four pilots for the sector approach. In December 2015, the National Social Protection Strategy for 2015–2020 and its action plan were adopted, and in February 2016 the policy paper for social inclusion, 2015–2020 (including social security, social assistance, housing, and policies for groups with special needs—persons with disabilities, Roma) was adopted. In addition there is a Document on Pension Policies in place.

participation rate, thus leading to greater opportunities for higher pensions, assuming longer periods for participation, and an increase in contribution amounts based on higher salaries; (2) the need to improve the financial viability of the scheme and to reduce the deficit; (3) the need to find the ways and means of providing a social pension for those resident citizens without income from an old-age pension; (4) unifying the criteria for pension benefits for both urban and rural areas by combining them into a single scheme; and (5) the need for a greater level of coordination of schemes with other countries in the region and with the EU.

■The vision: Ensuring coverage of all Albanian citizens through social security elements, providing adequate benefits, and providing poverty alleviation for the elderly through strengthening the contributory and solidarity nature of the system.

■Strategic objectives

1. Increased rates of participation of working age population in the insurance scheme through:
 - 1.1 Application of the new formula for the calculation of pensions by removing restrictions on the maximum allowable benefits, combined with linking of pensions to the salary of the last years of work;
 - 1.2 Strengthened collection of contributions, through the enforcement of legislation and regulations, and reducing informality rates through better coordination of all implementing agencies; and
 - 1.3 Identification of the minimum contributing salary with the official minimum salary and indexation of the maximum contributing salary according to the increase in average salary.
2. Increased financial sustainability of the financial scheme and reduction of deficit by:
 - 2.1 Increasing revenues from contributions;
 - 2.2 Growing number of persons that contribute in the system;
 - 2.3 Targeted increase in the number of contribution years in the social insurance schemes from thirty-five in 2015 to thirty-seven by 2020;
 - 2.4 Targeted gradual increase of retirement age for women by two months annually, to reach sixty-one by 2020; and
 - 2.5 Implementation of a unified scheme for urban and rural areas alike by 2018.
3. Ensuring better coordination of social insurance schemes with those of other countries in the region, and in particular with those of the EU, and warranting comprehensive protection for the migrant population through:

- 3.1 Enforcement of agreements ratified by Turkey and Belgium;
 - 3.2 Ratification of agreements with Hungary, Luxemburg, and Romania, and their enforcement;
 - 3.3 Finalization of negotiations for agreements with Canada, Czech Republic, FYR of Macedonia, and adoption of these agreements by the Council of Ministers and their ratification by the Albanian Parliament; and
 - 3.4 Launching of negotiations for bilateral agreements with Germany, Austria, Spain, and Bulgaria.
4. Ensuring adequate pension income for pensioners and the elderly, and maintaining and improving living standards through:
 - 4.1 Establishing the regulatory framework for pension funds in line with the consumer prices growth index; and
 - 4.2 Increasing provision of social pensions for persons over seventy years who have not been able to contribute to the scheme.
 5. Strengthening planning, implementation, and overall administration of the social security system in order to increase safety, efficiency, and transparency through:
 - 5.1 The automation of the social security system, the development of verification procedures, assignment, calculation, and control of benefit payments;
 - 5.2 Conclusion of the process of digitalization of seniority at work and periods of insurance;
 - 5.3 The creation of personal accounts, increased transparency, and better management of funds; and
 - 5.4 A targeted improvement in service to citizens by reducing the time of pension allocation.

11.5 Managing migration

■Current situation

Migration continues to be a crucial element in Albania's social and economic development. Generally, Albania is still considered a country of origin of economic emigrants, transit, and destination country for economic immigrants, asylum seekers, and refugees.

The country is highly dependent on remittances of emigrants. As of 2007, the remittances of emigrants reached the highest level, 953 million EUR to fall in 2013 and reach the lowest amount of 544 million EUR. During 2014, there was a slight increase to 592 million EUR, a phenomenon which shows the beginning of improvement of the position of Albanian emigrants in labor markets of host

countries.¹³⁷ While emigration flow of Albanian citizens has shown signs of moderation, the flow of those Albanian citizens requesting asylum in EU member states mostly on economic grounds has increased in 2015 with about 3.5 times compared to 2014 (59,030 cases for the period January–November 2015, against 16,945 in 2014).¹³⁸ On the other hand, the refusal rate of the asylum requests is high and so therefore the eventual returns to Albania from EU member states are also high, more than double of 2014 (25,100 in the first 9 months of 2015 against 12,295 for the whole 2014).¹³⁹

2015 has been characterized by high flows of mixed migration movements within the Western Balkans of those trying to reach the European Union member states. The number rose by two to three times compared to 2014, reaching for a total number of 627,527.¹⁴⁰ The largest group entering the Balkans is represented by Syrians, counting for about 75% of the total flow. The most common migration route through the Western Balkans was via the FYR of Macedonia, from Greece, then on to Serbia and Hungary.¹⁴¹ Albania is not yet “a preferred transit or destination country” of the mixed migration flows in the Western Balkans region; however the risk of a sudden and large influx at the borders of Albania is high. Effective responses to complex migration flows in the Mediterranean (preparedness for massive flows of asylum seekers and refugees) poses institutional as well as legal challenges for the Albanian authorities. The Government of Albania is finalizing a contingency plan for an eventual migration and refugee crisis.

This intensive dynamic of out and in country migration movements requires a cross-cutting approach to migration governance in order to address challenges related to complex migration flows (irregular migration, asylum seekers and refugees, unaccompanied minors, etc.) as well as to enhance the development impact of migration (remittance channeling and human and financial investments). The country lacks a coherent migration governance policy that would guide all programmatic actions in the area of migration. It is therefore important that Albania develops a country policy on migration that shall encompass all issues pertaining to migration governance including emigration of Albanian citizens and return migration, immigration of foreigners, and the impact of migration on Albania’s development.

■ Challenges

Despite progress in effectively managing migration in Albania, following the implementation of the first National Strategy on Migration (2005–2010) and the Strategy for the Reintegration of Returned Albanian Citizens (2010–2015), several challenges remain unaddressed: (i) prevention of irregular migration from the country and misusing the visa-free regime in the EU Schengen area; (ii) sustainable return of Albanians through the provision of reintegration support; (iii) the development impact of migration needs to be enhanced through, *inter alia*, the promotion of human and financial investment of Albanians abroad to the country; (iv) consolidation of migration management structures and advance

¹³⁷ Extended Migration Profile for Albania, 2012–2014.

¹³⁸ EUROSTAT data.

¹³⁹ *Ibid.*

¹⁴⁰ Unofficial data exclusively about the so-called blue borders, as deduced from data of the IOM staff in Greece and Greek authorities (January 1, 2015–November 4, 2015).

¹⁴¹ In August 2015, over 3,000 emigrants passed the border through Greece and FYROM daily. This figure reached 7,000 in the beginning of September 2015.

immigration policies and their implementation based on solid evidence and in compliance with international standards, including with respect to ensuring the human rights of all migrants.

■**The vision: Establishing an effective system of migration governance in Albania.**

■**Strategic objectives**

1. Promoting safe and regular channels for migration in Albania to prevent irregular migration, toward channeling 70% of the out migration from Albania through official bilateral agreements (existing and new agreements with EU and EU member countries)
 - 1.1 Enhancing effectiveness of implementation of existing labor migration agreements with the countries of destination and increase the number of new agreements in order to ensure ethical recruitment and rights protection;
 - 1.2 Including internship programs in foreign enterprises in the labor migration agreements, as a means to increase the skills and employability of the Albanian labor force;
 - 1.3 Increasing the number of youth exchange agreements with EU countries, including internship programs, in order to increase youth employability;
 - 1.4 Improving legislation in the area of labor migration.
2. Enhancing the development impact of migration by creating favorable legal and institutional mechanisms for:
 - 2.1 Improving remittance related services for migrants in order to channel migrant remittances toward investment in Albania;
 - 2.2 Protecting the rights of Albanian migrants where they live; demanding equal treatment according to the international standards in the area;
 - 2.3 Mapping, building trust, mobilizing, and organizing Albanian communities abroad in order to establish cooperation mechanisms;
 - 2.4 Attracting Albanians abroad for the purpose of enlarging entrepreneurship initiatives in Albania, for promoting investment, philanthropy, technology transfer, and innovation.
3. Enhancing sustainability of return migration through the support of reintegration of returning migrants through:
 - 3.1 Increasing capacities of migration counters to provide information and support to various categories of migrants;

- 3.2 Enhancing actions for the recognition of skills and qualifications (formal and informal) obtained abroad by Albanian citizens and their integration in the labor market.
- 3.3 Enhancing active labor market measures, including VET training, for returned migrants to facilitate their reintegration.
- 3.4 Promoting self-employment and entrepreneurship activities among returning migrants in rural areas and the formalization of their activities.
4. Advancing implementation of immigration policies in order to ensure the equal treatment of citizens of other countries and their integration in Albania, in compliance with international standards through:
 - 4.1 Advance steps to ensure that the right to seek and gain access to asylum in Albania is fully respected;
 - 4.2 Enhance institutional capacities for addressing increased mixed migration flows to and through Albania;
 - 4.3 Revisit the system of immigration detention in order to use detention as last resort, in full respect human rights of migrants;
 - 4.4 Assess the situation and the enjoyment of the rights of migrant workers and members of their families living in Albania in order to undertake measures to foster integration in the social and economic life of various categories of foreigners residing in the country.
5. Consolidation of migration policy, legal framework, management structures, and coordination, in order to ensure better response to migration challenges through:
 - 5.1 Completing the policy framework on migration management by adopting a policy document and action plan on migration governance, as well as necessary legal provisions;
 - 5.2 Increasing efficiency of coordination among various migration management structures at the national and local level;
 - 5.3 Improving the data collection system and provide for an effective monitoring and evaluation mechanism for migration management; regularly updating the extended migration profile.

11.6. Consolidating social protection

■ **Current situation**

Social protection ensures that benefits of economic growth reach the poorest and the most marginalized: e.g., the Universal Declaration of Human Rights and the Child Rights Convention are legal

instruments that establish social protection as a means to protect the most vulnerable citizens. Furthermore, there is growing evidence from a range of developing countries that social protection programs can effectively increase the nutritional, educational, and health status of children, and reduce their risks of abuse and exploitation with long term developmental benefits.

In Albania, social protection policies have focused on social assistance, disability benefits for persons with disabilities, and some social care/residential services.¹⁴² In terms of actual support, total expenditures on social assistance in Albania—1.6% of GDP—are comparable to the regional average for Europe and Central Asia.¹⁴³ The three main social protection schemes that have been implemented in Albania are the cash assistance (Ndihma Ekonomike) program, the disability allowance, and social care services.¹⁴⁴

The cash assistance program is the main poverty reduction scheme covered by the social protection strategy. During 2014 approximately 80,000 households were beneficiaries of the social assistance scheme. Expenditures in the social assistance program are relatively well focused on poverty reduction with the poorest quintile (20%) of the population receiving 56% of social assistance expenditures.

However, there is low coverage of poor households (in 2013 only 23% of extreme poor households were covered), the benefits are very low, the targeting is poor and administration is inefficient. The cash assistance program represents only about 15% of post-transfer household consumption levels for households in the lowest quintile. The current average social assistance payment is about 3,800 Lek per month and has limited impact on poverty reduction.¹⁴⁵

Overall, social assistance expenses increased somewhat in nominal terms over the last decade but fell as a percentage of GDP. Likewise, the number of families receiving social assistance fell by almost one third (31.6%), with a particular drop in 2013–2014 corresponding to the introduction of administrative reforms (see Figure 41).

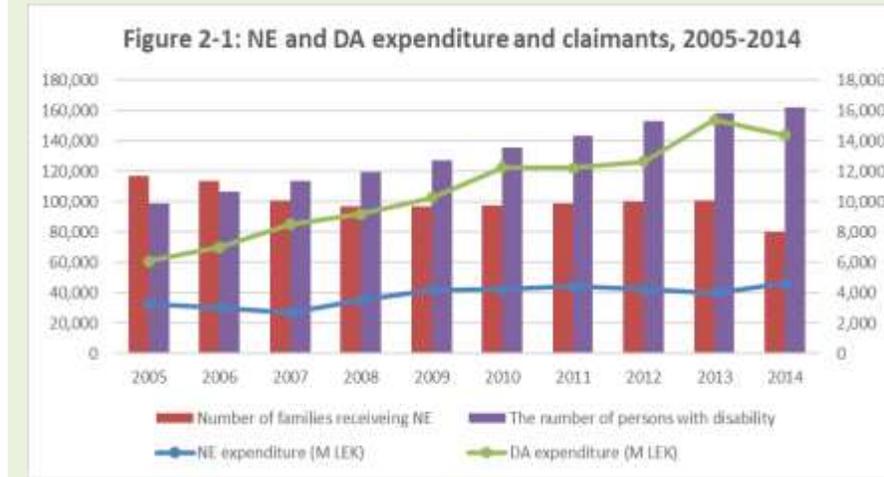
¹⁴²Social protection encompasses “all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs, provided that there is neither a simultaneous reciprocal nor an individual arrangement involved.” EU, Social Protection Performance Monitor (SPPM), 2015, page 19.

¹⁴³World Bank, social assistance policy paper, 2010.

¹⁴⁴In addition, the area of social protection is going to be part of the pilot sector for “employment, skills, and social policies” as one of four pilots for the sector approach. In December 2015 the National Social Protection Strategy for 2015–2020 and its action plan were adopted, while in February 2016 the Policy Document on Social Inclusion, 2015–2020, was adopted.

¹⁴⁵See URI/NCSS, Reforming Economic Aid: From Survival to Investment in Poverty Reduction, UNICEF, 2011.

Figure 39. NE and disability allowance expenditure, 2005–2014



At present, the main tool used by the Ministry of Social Welfare and Youth to support people with disabilities is the non-means tested disability allowance. Expenditure on disability payment increased rapidly in recent years and it is now the main component of social assistance spending. This has been driven by annual indexation of the benefit and by expanded coverage. The level of disability payment is much higher than the level of the cash assistance program. For example, the amount of disability payment to a person with a physical or mental disability is 9,900 Lek per month (compared to an average payment of only 3,800 Lek per household as part of social assistance).

Overall, expenditure on disability increased significantly in nominal terms over the last decade and, unlike the cash assistance program, also increased as a percentage of GDP. Likewise the number of persons receiving disability payment increased by almost two-thirds (63.7%) to over 160,000 (Figure 41).

Although the disability allowance scheme is not explicitly poverty targeted, in practice the poorest quintile of the population receives 39% of disability expenditure. However, as is the case in many transition countries, there are serious issues regarding the operation of the scheme. The assessment system is purely medical based and does not reflect the severity of the disability or functional impairment. A nationally representative study (2011) suggested that 30% of disability allowance recipients either have no functional disability or only a mild disability. In addition, there is anecdotal evidence of levels of fraud and abuse. The government has agreed to a process of administrative reform of the scheme (supported by the World Bank), which aims to refocus payments on those with a more serious disability.

Institutional social care services are very limited. Most social care services are provided by community services organizations funded on a voluntary basis or by development partners. Services are mainly to

be found in larger urban areas (90% are in urban areas), and 75% are in the western and central areas of the country.¹⁴⁶

■Challenges

The main challenges that need to be addressed in the social protection sector over the 2015–2020 planning period include: (1) the need for improved efficiency of the financial assistance scheme, shifting from a passive to active scheme through social inclusion programs and altering them with employment schemes; (2) the need to create functional and effective social care services based on the principle of diversification, decentralization, and deinstitutionalization for better targeting and inclusion of vulnerable groups in social protection programs with a focus on the individual and family; and (3) the need to forge partnerships with non-governmental organizations, and private providers to compensate for limited government resources at the national, regional, and local level.

■The vision: Building a social protection system to combat social and economic inequalities, and providing for a system with policies and mechanisms for the protection of all vulnerable or excluded individuals through prevention and social inclusion programs, combined with employment schemes.

■Strategic objectives

1. Mitigating and reducing poverty and absolute poverty by:
 - 1.1 Improving effectiveness and transparency of the scheme, and better allocation for poor households;
 - 1.2 Modernization of the economic aid scheme through the implementation of a national electronic registry and unique scoring formula;
 - 1.3 Increasing capacities of local, regional, and central structures in areas including management, monitoring, and evaluation of the scheme;
 - 1.4 Improving auditing of the scheme in order to reduce cases of fraud;
 - 1.5 Transforming the scheme into an active scheme through social reintegration scheme: beneficiaries will be involved in active labor market policies, with the introduction of integrated service packages and employment opportunities.
2. Improving the quality of life of persons with disabilities through bio-psycho-social assessment based on international standards for classification of disability, in combination with a cash benefit scheme for integrated services to ensure their social and economic integration. The specific goals include:

¹⁴⁶ UNICEF study on the social care map of services.

- 2.1 Reform the system for disability assessment: introduction of the new evaluation schemes according to the “social model” and reducing the rates of disability-free beneficiaries;
 - 2.2 Enhancing transparency of the scheme through introduction of the e-register: initially in the local governments of the pilot regions that will apply procedures related to disability benefit through this registry;
 - 2.3 Introduction of an integrated system of services that combines social care services with cash payments: persons with disabilities will be given access to an integrated package of services; and
 - 2.4 Introduction and strengthening of an oversight and inspection mechanism for the quality of service delivery at the central and local levels: generation of quarterly reports of the performance of the scheme, risk profile assessment, and discovery of fraud for the policy makers.
3. Making sure that every child, elderly, and Albanian household enjoys equal access to functional and inclusive social care services based on the principles of decentralization, de-institutionalization, and diversification through:
 - 3.1 Introduction of an integrated system of social care services in the LGUs and at the national level;
 - 3.2 Review of planning functions and social service delivery functions for different layers of central government, and the implementation of new models;
 - 3.3 Establishment of an integrated information system at the regional and national levels, with the view of identifying and referral of needs for social care services;
 - 3.4 Introduction and strengthening of monitoring and inspection system of social care services at the national, regional, and local levels;
 - 3.5 Ensuring professionalism of service providers through establishment of a qualification system, and
 - 3.6 Raising awareness and organizing public campaigns with the view of prevention of social problems, but also increasing access to social care services.

11.7 Building a more inclusive society

■Current situation

Social inclusion involves measures to enable individuals and groups to access public services so that they can participate to the fullest extent of their abilities in social, economic, and political life of the society in which they live. Policies that support inclusion therefore aim to ensure access of all citizens to good quality public services and to access public goods that enhance their well-being.

Social inclusion policies in Albania are primarily focused on issues of poverty alleviation, welfare, and the inclusion of vulnerable groups such as children, youth, vulnerable minorities (Roma and Egyptian communities), persons with disabilities, the elderly, and persons that live in remote and undeveloped areas.

In terms of recent trends in Albania, the level of poverty as a direct expression of social exclusion, increased to 14.3% in 2012, up from 12.5% in 2008,¹⁴⁷ and is doubled by a growing gap among regions,¹⁴⁸ with the exception of the mountainous areas, as indicated in Figure 42. The percentage of persons living in extreme poverty has almost doubled in the course of 2008–2012, from 1.2% in 2008 to 2.3% in 2012.

These trends are generally an indication that government policies for reducing poverty and increasing social inclusion and protection of vulnerable groups have not contributed significantly to poverty reduction or to improvements in the welfare of individuals. This was due to a number of factors: lack of budget planning, inadequate institutional coordination, absence of local platforms to support disadvantaged groups, a lack of statistical data on national and local level, and inadequate financial resources. Without addressing these issues, policy implementation would be ineffective.¹⁴⁹

■Challenges

¹⁴⁷INSTAT Living Standards Measurement Survey, a survey that is conducted every four to five years, 2013.

¹⁴⁸ Regions: coastal, central, mountainous, and the urban part of Tirana have been divided into districts (in 2002 when the survey started), in groups according to geographical vicinity, and similar of phenomena that were being studied. They are different from administrative divisions: districts and are only used for statistical purposes.

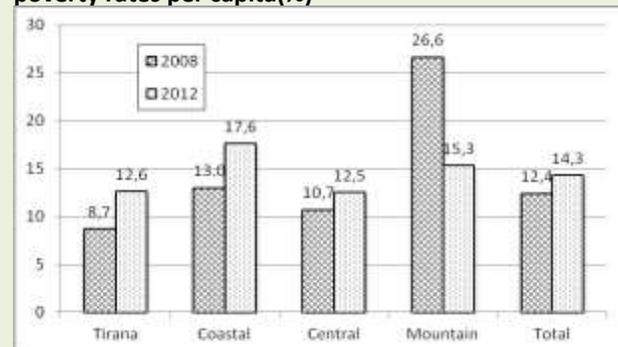
¹⁴⁹ In addition, social inclusion will be covered under the pilot sector of “employment, skills, and social policies,” and in the national cross-sector Strategy for Social Inclusion and Social Protection, 2015–2020.

Social inclusion

“is defined as a process whereby certain individuals are pushed to the margins of society and prevented from participating fully in society by virtue of their poverty, or lack of basic skills and possibilities to engage in the labor market, or in this policy document is defined as a response to the phenomenon of social exclusion, which occurs when individuals in society suffer from a lack of access to effective public services. Tackling social exclusion involves measures to enable individuals and groups to access public services so that they may participate to the fullest extent of their abilities in social and economic life of the society. Social inclusion policies therefore aim to ensure access of all citizens to good quality public services.”

MSWY, *Social Inclusion Policy Document 2015–2020: Measuring, Monitoring and Reporting for Result-Led Policies*, August, 2015, page 128.

Figure 42. Poverty indicators according to regions: poverty rates per capita(%)



Source: INSTAT

The main challenges and priorities that need to be addressed in the area of social inclusion over the 2015–2020 NSDI II planning period include the need to: (1) tackle the underlying causes that lead to exclusion in the economic, social, and political life of every excluded citizen; and (2) the need to prevent discrimination through the promotion of equality, according to treaties on human rights and ensuring the real integration of Albania in the EU. This would require:

- (a) Identifying and addressing challenges facing the monitoring and measurement of social inclusion by advancing EU and national indicators, which are required to support poverty reduction and the development of effective measures that improve welfare;
- (b) Promoting policy coherence, setting priorities, and assigning responsibilities for carrying out the monitoring and measurement of social inclusion; and
- (c) More transparency on the effect of policies pursued and the efforts made by the government to strengthen policies that have impact on social inclusion.

Introduction of systems that support social inclusion functions of the public administration have so far been fragmented. Narrow topics were addressed, with no attention to interdependencies prevailing among the intensity, causes, and types of social inclusion or the use of EU and national indicators for measuring and monitoring social inclusion in different policy areas.

The Document of Social Inclusion Policies for 2015–2020, adopted in 2015, expresses the vision, spread, and objectives for monitoring and measuring social inclusion, translating them into priority action plans. In this framework, Document of Social Inclusion Policies will guarantee a system for monitoring and measuring social inclusion in all areas of policies for reducing poverty and improving social protection, employment, and support for entrepreneurship, education, health, housing and basic needs, and participating in human rights; and promoting transparency and accountability in the ways social inclusion is measured and used to inform performance of social services.

The use of SAKJ and rules of ABF and VET will bring changes in the culture of policies in fighting poverty and ensuring social inclusion, and will open perspectives for the use of social inclusion indicators in the performance assessment and policy outcomes.

■The vision: An inclusive society that enables all Albanians equal access to quality public services, that facilitates and supports their active participation in society, regardless of income level, gender, age, disability, ethnic origin, sexual orientation, place of residence, or religious beliefs.

■Strategic objectives

1. Formulation and implementation of sustainable systems of social inclusion through:

- 3.1 The establishment of a Statistical Indicators and Integrity Group to ensure consistency in the definition and use of indicators, combined with the establishment of a historical baseline of

indicators (2010–2015) and the ensuring of compliance with the introduction and transition to EU SILC;

- 3.1 The preparation and publication of a glossary of terms for social inclusion that is circulated to all public bodies, think tanks, non-governmental organizations;
 - 3.2 The regular collection and analysis of administrative data on gender, ethnicity and disability; and
 - 3.3 The establishment of a Technical Resource Facility for social inclusion and poverty analysis purposes.
4. Formulation and implementation of efficient systems of social inclusion governance through:
 - 4.1 The establishment of a Thematic Group on Social Inclusion that ensures the coordination and implementation of the SIPD as part of the Employment, Skills, and Social Policy;
 - 4.2 The conducting of an institutional review of measures to improve the technical competencies and organizational governance of social inclusion in Albania; and
 - 4.3 The preparation and implementation of the communications strategy for social inclusion that takes account of central and local government, the private sector, and civil society actors.
 5. Fostering policy dialog through:
 - 5.1 Publication of an annual report on social inclusion in Albania based on existing and future survey and qualitative data;
 - 5.2 Development and implementation of periodic/thematic qualitative surveys of social inclusion in Albania that focus on the intensity, causes, and types of social exclusion; and
 - 5.3 Establishment of a policy dialog on social inclusion in Albania through periodic events and organization of an annual National Conference on Social Inclusion.

11.8 Ensuring gender equality

■Current situation

The Albanian government considers women rights an integral part of human rights, and aims to eliminate gender discrimination and reduction of domestic violence. The government seeks to further warranty the transposition of the EU Gender Equality Acquis (EU legislation and directives applied within the EU) to ensure gender equality.¹⁵⁰

¹⁵⁰The EU Roadmap for Equality outlines six priority areas for EU action on gender equality: (1) equal economic independence for women and men; (2) reconciliation of private and professional life; (3) equal representation in decision-making; (4) eradication of all forms of gender-based violence; (5) elimination of stereotypes; and (6) promotion of gender equality in

The adoption of the law "On Gender Equality in Society" in 2008 brought about a significant innovation in setting a quota of no less than 30% women in all the legislative, executive, judicial bodies, and other public institutions. Despite achievements in the rates of participation of women in political decision-making during the parliamentary elections of 2013, representation rates of women at local levels remain low (7.7% mayors). In addition, if we refer to Figure 43, there is a growing trend of the percentage of women representation in Parliament during 2008–2015, reaching 22.1% in 2015. In addition, it is worth reiterating that in 2016, the percentage of female ministers is 42% (eight women out of a total nineteen). In the area of education, participation rates are high: 53.5% of persons completing high-school education were female (2013–2014, INSTAT) and 63% of the teachers in high-school education are also women. (See education data disaggregates, under Section 11.1).

Figure 43. Percentage of seats in Parliament held by women, 2008–2015



Source: MoSWY /INSTAT

Regarding domestic violence there is now a referral mechanism for cases of violence in place.

The mechanism was gradually introduced to twenty-seven municipalities, with the goal of providing expedited and efficient support for cases of domestic violence at the local level. During 2014–2015, an online data collection system was introduced for monitoring the situation. Ensuring full economic empowerment of women remains a challenge. As part of the 2013 National Human Development Report, Albania was ranked forty-fourth out of 149 countries in the Gender Inequality Index (the composite index reflects gender-based inequalities on three levels—reproductive health, empowerment, and economic activity).

In this context was adopted the Action Plan for Supporting Women Entrepreneurs, 2014–2020, while in 2014 the Fund for Women Entrepreneurs was established. This area remains one of the government's long-term priorities taking into account the burden of unpaid labor and family responsibilities of women. This situation results in women having few real opportunities to participate in the labor market, to run a business, or to have access to loans.

Formulation of the strategic framework on Gender Equality 2020 is one of the serious steps of the Government of Albania toward gender inclusion and empowerment of women. This strategic framework will be the building block for further actions to expand support of the government for economic empowerment of women, in particular in the areas of employment and skills, as well as entrepreneurship of women.

■ Challenges

The main challenges and priorities over the 2015–2020 planning period include the need to: (1) increase the representation of women in decision-making at all levels of government; (2) ensure the greater economic empowerment of women at both the urban and rural levels; (3) ensure that gender mainstreaming is reflected in all policies; (4) reduce domestic violence; and (5) improve mechanisms for promoting gender equality.¹⁵¹

■The vision: A society in which gender equality is respected, valued, taught, supported, and encouraged, and where equality of opportunity and treatment is a reality for all, regardless of gender, where gender-based violence in any form is not tolerated, but punished, and where the persons affected by it are supported and protected.

■Strategic objectives

1. Fostering economic empowerment of women and promoting their economic independence by:
 - 1.1 Applying the special fund for promoting women entrepreneurs for a period of four years;
 - 1.2 Increasing the number of women that have access to loans from support schemes in the agriculture sector; and
 - 1.3 Adoption and implementation of the Strategic Framework on gender equality, 2016–2020.
2. Increased representation of women in policy and public decision-making through:
 - 2.1 Meeting the 30% gender quota for equal representation in all the legislative, executive, judicial bodies, and other public institutions;
 - 2.2 Annual monitoring of the application of the over 30% quota of participation of women in the higher levels of decision-making in politics and administration, the education system, the justice system, and in all levels of the economy, including the private sector and civil society; and
 - 2.3 Strengthen overall capacities in line ministries and other government institutions in terms of gender-related policy analysis, planning, data management, reporting, and monitoring (this includes the capacities of Department for Social Inclusion and Gender Equality at the Ministry of Social Welfare and Youth).
3. Strengthening institutional and legal mechanisms for promoting gender equality and ensure the human rights of all Albanian citizens irrespective of gender through:
 - 3.1 The harmonization of Albanian legislation in line with international and EU documents and the alignment with the EU Acquis for the integration of a gender perspective and the application of gender budgeting;

¹⁵¹ The National Strategy for Gender Equality, 2016–2020, currently under development, will address the full spectrum of gender issues, policies, and strategies for the NSDI II planning period.

- 3.2 Periodic monitoring of implementation of legislation and strategy for gender equality on the basis of reformed statistical instruments and monitoring packages; and
- 3.3 Strengthened capacities to ensure sustainability of gender employees' structures at the central and local level.
- 4. Reduced gender-based violence and domestic violence through:
 - 4.1 Constant awareness raising of the general public through campaigns to make violence socially unacceptable including the contribution of men and boys, media, public education programs, and publication of awareness materials;
 - 4.2 The expansion and strengthening of the National Referral Mechanisms in all municipalities of the country;
 - 4.3 Establishment of national free online counseling for cases of gender-based violence and domestic violence;
 - 4.4 Strengthened capacities of public administration (in education, health, police, justice), on issues of gender-based violence and domestic violence; and
 - 4.5 Strengthening the role of civil society in advancing gender issues and combating gender-based violence and domestic violence.

11.9 Empowering youth

■Current situation

In comparison to other European countries, Albania continues to be a country with an average young age, 30% of its population belonging to the fifteen to twenty-nine years old age group, accounting for the bigger group of active labor force in society. Even though young people have continuously been the focus of attention of different governments, they are still faced with different challenges, such as their involvement in decision-making processes and democratic processes, employment, education, health care, and social inclusion, etc.

In 2015 the National Youth Action Plan was adopted, focusing on youth oriented platforms for creating space for development of talents and fostering creativity. This platform is aimed at improving employment and participation of youth mechanisms in society, volunteering and social commitments.

■Challenges

With respect to the youth of Albania, the main challenges can be summarized as: (1) the need for greater youth economic empowerment through employment, education, and health and social protection promotion programs; (2) the need to create public spaces to serve young people; (2) the

strengthening of capacities of youth organizations; (4) establishing youth networks, regional councils, and national consulting committees on youth issues; and (5) the need to increase active participation of young people in community and cross-regional programs.

■The vision: An active and equal youth in all areas of social life—healthy, educated, and with a consolidated status in society.

■Strategic objectives

1. Supporting and integration of youth in the labor market as employees and entrepreneurs through:
 - 1.1 The establishment of the National Youth Service as a budgetary structure under the ministry responsible for the implementation of youth policies and issues;
 - 1.2 The establishment of regional youth centers as direct units of youth services;
 - 1.3 The setting up of “youth business incubators” to enhance youth participation through administrative spaces that provide young entrepreneurs with office space and other administrative facilities;
 - 1.4 The setting up of the National Youth Corps; and
 - 1.5 The collection and provision of information on programs that promote youth employment.
2. Promoting and intensifying youth participation in society, decision-making, and welfare by:
 - 1.1 Increased awareness raising and strengthened youth capacities and organizations on community programs;
 - 1.2 Support provided for youth welfare focusing on the promotion of mental and sexual health, physical activity, and healthy living;
 - 1.3 Promoting youth participation in representative democracy and civil society at all levels; and
 - 1.4 Establishing and promoting youth internship programs.
3. Strengthening VET for youth at all levels, and increasing opportunities for lifelong learning through:
 - 3.1 Certification and acknowledgement of non-formal education as a part of lifelong learning;
 - 3.2 Awareness raising campaigns on vocational education training oriented toward labor market demands; and
 - 3.3 Establishment of career development offices attached to high schools or universities in order to orient young people toward labor market demands.

11.10 More attention to arts and culture

Culture and heritage constitute one of the sectors with the strongest impact on the democratic development of the country and reaffirmation of cultural identity in the region and Europe. The sector aims at enhancing and developing the local cultural industry, as well as protecting, preserving, and integrating the transmission of the entirety of cultural heritage values created by the Albanian people over the centuries. Currently, the National Strategy for Culture is being drafted, which includes cultural heritage art.

It is worth pointing out that main legislation for the development of the sector, the law “On Arts and Culture” adopted in 2010, and the later changes to this law created the space for self-administration of facilities of arts and culture institutions, which also in turn led to better quality, competition, and institutional performance.

Albania has successfully participated in two EU programs: “Europe for Citizens,” with twenty-nine winning organizations and municipalities from Albania (in three as leading), and “Culture 2007–2013,” where nine Albanian projects were winners.

However, challenges remain in: (1) increasing rehabilitation of architectural and panoramic heritage; (2) improving standards and quality of services of the National Archeological Parks; (3) improving infrastructure and services of museums for their visitors; (4) improving and enlarging culture and tourism products offered in the parks and museums.

■Challenges

The main challenge for the sector is to give more priority to cultural products as part of the country’s social, economic, and development program, and promoting Albanian values outside it. With the view of increasing the role and access of the broad public in arts, promoting spiritual values and those of cultural heritage within the Albanian territory, and digitalization of tangible and non-tangible arts and culture assets, it is important to have a more efficient and effective governance for improving cultural products.

■The vision: Arts and cultural heritage as a driving force for sustainable social and economic development of the country.

■Strategic objectives

1. Improving and expanding cultural markets through legislation to the benefit of creators, artistic and cultural creativity, and cultural heritage through:
 - 1.1 Establishment of a more effective legal framework to protect, develop, and promote arts and cultural heritage;
 - 1.2 Finalization and adoption of the National Strategy on Culture;

- 1.3 Creating spaces for self-administration, with the view of enhancing transparency, allocation of funds, and increasing competition;
 - 1.4 Harmonization of competences and functions of central institutions, national boards of material cultural heritage, and local institutions and active stakeholder groups in this field; and
 - 1.5 Reducing pirating acts in the case of intellectual property rights.
2. Preserving and protecting material and nonmaterial cultural heritage as a national asset for future generations of the Albanian people by 2020 through:
 - 2.1 Integrated rehabilitation of tangible heritage (historical centers, ensembles, cultural monuments, archaeological parks and zones) and their transformation into open centers for visitors, aiming at increasing rehabilitated spaces;
 - 2.2 Improving standards and quality of services at the National Archeological Park and national museums, with the goal of increasing rehabilitation interventions and increasing touristic demand;
 - 2.3 Promoting tangible and intangible nonmaterial cultural heritage through increased number of activities; and
 - 2.4 Increased contribution of creative industries.
3. Supporting creativity of Albanian artists and increasing cultural and art activities through:
 - 3.1 Achieving annual growth of creative potential, in particular among young artists;
 - 3.2 Moving toward annual increase of public funding for arts and culture; and
 - 3.3 Digitalization and compilation of catalogs and publications to be filed in the archives of cultural heritage.
4. Promoting and representing cultural values of Albanian arts and heritage (material and nonmaterial) in important international events and introduce best practices in Albanian stages, with the view of increasing activities by 30% through:
 - 4.1 Organization of cultural days devoted to the recognition and promotion of respective cultures among the countries of the region and beyond, with the target of an 8% annual increase in the number of activities;
 - 4.2 Targeted increase of representation and support of artists and culture and heritage institutions in international activities; and

- 4.3 Increased Albanian presence in cultural community programs and signing of bilateral agreements in the fields of culture and cultural heritage.
- 5. Formulation and implementation of an educational platform through art and cultural heritage institutions, and pre-university system through:
 - 5.1 Formulation of the National Strategy of Education through Arts and specific calendars for every culture and cultural heritage institution;
 - 5.2 An increased number of schools and other institutions involved in educational and awareness raising activities; and
 - 5.3 A review of the pre-university system curricula in cooperation with the Ministry of Education and Sports.

11.11 Strengthening the role of sports

■Current situation

Sports are seen in Albania as important developmental activities within educational institutions, often as part of the formal curricula (e.g., in terms of physical education). In Albania, however, little formal attention or institutional support is provided in either the pre-university or university levels, or to the formulation of legal, technical, and administrative solutions. Implementation of the law “On Sports” proved problematic, due to the fact that the autonomy and self-management of sports structures were the object of political interference, often in terms of appointments and the management of sports related institutions.¹⁵² This resulted in inefficiencies and tended to weaken institutional capacities.

■Challenges

The main challenges facing the sports sector for 2015–2020 include: (1) the need for increased autonomy and self-administration of national and local sports organizations; (2) the need for increased focus at the educational level for the evaluation of sports as an efficient instrument for strengthening human and community capacities and their furthered development; (3) rehabilitation and construction of sports infrastructure; and (4) the need for restructuring overall funding of national sports system.

■The vision: Albania, where citizens have the right to pursue sports in accordance with the European Charter of Sports and the recommendations of international sports organizations in the area, and where all citizens have an equal opportunity for participation in sports activities.

■Strategic objectives

1. Increased autonomy and self-management of national and local sports organizations through:

¹⁵²The law on sports was approved by DCM no.1720, October 29, 2008, “on the criteria determining high-level sporting, method of remuneration of athletes who meet these levels, and treatment for the benefit of preparatory sports.”

- 1.1 The reform of the National Sports Council and its committees to ensure that they become functional, apolitical, and oriented toward inter institutional partnership;
 - 1.2 The clear definition of competencies of sports actors (federation, associations, and clubs) in order to increase autonomy and strengthen their internal democracy;
 - 1.3 The drafting of a legal package on sports aimed at privatizing sports clubs, at supporting elite sports, at defining amateur and professional sports, and at taking measures to prevent sports-related violence as a primary objective of all institutions;
 - 1.4 The reform of the Sports Services Agency into a National Sports Center in order to increase the quality of elite sports, and in order to improve training and living conditions in line with international standards;
 - 1.5 An increased number of anti-doping tests to thirty tests annually; and
 - 1.6 The establishment of a human resource training program for managers, sports doctors, trainers, and specialists.
2. Strengthening education through sports to contribute to overall human and community development through:
 - 2.1 The inclusion of the evaluation of basic psycho-motor skills in the standard curriculum for children aged three to six;
 - 2.2 The review of physical education programs as part of the core curriculum;
 - 2.3 The reorganization of sports inside and outside of the school curriculum through the establishment of the School and University Sports Federation as a coordinating institution; and
 - 2.4 An improvement in the quality of sports related instruction within the pre-university educational system through training, improved materials and a didactic base for the improved health of students, and the identification of talents and stimulation of elite sports.
3. Improving sports infrastructure and participation rates of Albanians in sports activities through:
 - 3.1 Expanding existing internal and external sports facilities in line with EU norms;
 - 3.2 Establishment of two national sports centers for up-to-date training of athletes;
 - 3.3 Increased representation of Albania in the international arena(e.g., in Tirana the former sports facility Dinamo, or in Korça the former stadium Skënderbeu); and
 - 3.4 Reconstruction and construction of sports facilities in schools.

4. Introduction of a functional scheme for the national sports system through:

- 4.1 Increased levels of basic and secondary funding for sports through sports lotteries sponsored by the state and other instruments; and
- 4.2 Improvements in sports legislation and its funding.

12.0 PILLAR 4: GROWTH THROUGH SUSTAINABLE USE OF RESOURCES AND TERRITORIAL DEVELOPMENT

The vision and priorities of the NSDI II in terms of economic growth takes into consideration the vision of the European Union to ensure the development of a competitive European economy based on a balanced and sustainable use of resources. Greater attention will be given to further the development of the country's infrastructure to provide greater access to the population, in parallel with its further integration into European systems. Particular attention will be paid to the protection of nature, national resources, and the sustainable use of the environment. It is also essential that the benefits of economic growth are spread across the country, including underdeveloped regions, aiming at balanced development and strengthened territorial cohesion.

In line with the government’s six key priorities described in Part II of this document, specific attention will be given to energy, water, agriculture, and certain aspects of land and property. However, these more immediate priorities of the government must be pursued in the context of the overall scope and associated policy priorities of these sectors as a whole. The sectors associated resource management in Albania are also directly and indirectly linked to other immediate priorities of the government dealing with increased competitiveness, greater FDI flows, and innovation. It is in these contexts that the specific visions, strategic objectives, and anticipated results are presented and discussed for the sectors listed below.

Connectivity agenda

- Energy
- Transport infrastructure

Efficient public services

- Water and wastewater supply
- Integrated waste management

Sustainable environmental and economic development

- Sustainable environment
- Spatial planning and urban development
- Agriculture and rural development
- Regional development and tourism
- Mines

12.1 Connectivity agenda

12.1.1 Energy

■ Current situation

As reiterated in Part II of NSDI II, the government has identified specific elements of the power supply system as one of the six key priorities for the midterm, regarding addressing issues related to recovery and strengthening of sector finances, with an impact on macroeconomic stability of the country. This subsection refers to the broader objective of the energy sector as one of the ongoing priorities of national development. Currently work is underway for the formulation of the National Energy Sector Strategy for 2015–2030.

The Government of Albania considers the energy sector as important for the country's economic, strategic, and social development. The primary focus continues to be in the provision of primary energy sources and the building of the necessary infrastructure for the safe supply of energy to clients.

Generation of electricity from renewable energy sources is considered as a potential source, and is dominated by the construction of small hydropower plants. Despite the fact that a number of concessionary contracts for building small power plants have already been signed, only a small number have been built, accounting for 8% of the country's energy generation. Despite high expectations of installed capacity, real progress has been very low due to several factors, primary of which is the lack of funding and the financial situation of wholesale suppliers.

With regard to exploitation of wind power for generation of electricity there have been efforts made for installation of windmills, but the results are not tangible. This is due to the ongoing economic and financial crisis that has had an adverse impact on foreign investors involved in the construction of the facilities. Considering the potential of solar power as a source for generation of electricity, many local and international investors have expressed an interest in photovoltaic facilities.

Albania is rich in oil and natural gas deposits, and has a perspective for the exploration of new hydrocarbon layers. Given the country's rich petroleum resources, the sector has developed as a result of the introduction of foreign operators, both in terms of increasing crude oil production from existing fields as well as in the intensification of exploration in the exploration blocks. Albania is one of forty-nine member countries of the Extractive Industries Transparency Initiative.¹⁵³ In line with this initiative, the government publishes periodical information reports on the extracting activity in oil, gas, and minerals; the contribution of this industry in the state budget; and the utilization of incomes from this industry, with the goal of promoting transparency and preventing corruption, as well as raising awareness of citizens to seek fair use of revenues from the utilization of natural resources of the country.

In 2015 work began for the implementation of the Trans Adriatic Pipeline project,¹⁵⁴ paving the road for the implementation of gas supply infrastructure in the country. The Trans Adriatic Pipeline project will

¹⁵³ Extractive Industries Transparency Initiative has been internationally recognized since 2002, with the initiative of Mr. Tony Blair (at the time Prime Minister of Great Britain). Albania's reporting to Extractive Industries Transparency Initiative is in line with Law no. 10304, "On the Mining Sector in Albania," and Law no. 7746, "On Hydrocarbons," of July 28, 1993 (amended).

¹⁵⁴ Trans Adriatic Pipeline will connect Albania with main international corridors and networks. In particular, the expansion of the south gas pipeline, Trans Anatolia Natural Gas Pipeline, Trans Adriatic Pipeline, and connection between Greece and Bulgaria (IGB), and the Trans Caspian Pipeline are among the projects included in the list of projects of energy community interest.

enable transportation of gas from Azerbaijan to redistribute it further in Europe. The Trans Adriatic Pipeline project is considered as an excellent opportunity for the diversification of ways for the supply of natural gas. In addition, this project is a driver for building the Ionian Adriatic Pipeline, thus establishing important lines for basic network of gas in the Balkans and in Europe.

The challenge remains the development of capacities in the oil sector. Thus, with regard to oil resources there has been no improvement processing of crude oil, resulting in continued very low production of petroleum by-products in the country. Significantly, almost all crude oil produced in the country is exported, while most oil by-products are imported.

The efficiency of energy use in Albania has progressed a little since 2009 as a result of a lack of investment for the realization of the first National Action Plan. Compared to the national target, only 3% of energy is saved as a result of efficiency.¹⁵⁵In January 2016 the National Action Plan on Renewable Sources of Energy covering the period between 2015–2020 was adopted.

Reform in the energy sector went a step further with the adoption in April 2015 of the law “On the Power Sector,”¹⁵⁶ as the main law providing for relations in the power sector. The law tries to achieve a comprehensive and deep reform in the power sector, while meeting the responsibilities of Albania as a member of the Energy Community Treaty and an EU candidate member country. The law tries to ensure complete opening of the energy market and safe operation of the latter, which will guarantee the power supply of consumers, meeting of obligations related to security of the system, and the development of an effective market operating in full compliance with market economy principles.

■ Challenges

The longer term challenges that need to be met in the energy sector apply to: (1) meeting the demands for energy in order to ensure economic and social development; (2) determining and applying best practices to meet demand on the “least cost” principle; (3) achieving short term increases of energy efficiency, in compliance with the country's EU integration obligations; (4) increasing the use of Renewable Energy Sources (RES) and maintaining an economically viable approach to consumers; (5) addressing the development of tariffs in order to sustain private/public investment, and ensure customer protection; and (6) meeting the energy needs of vulnerable groups.

■ The vision: An energy system based on market principles, able to meet demand for energy and for sustainable development of the economy, ensuring safety, environmental protection, and increased welfare at minimum social cost.

The realization of the vision may be stated in terms of a high level goal, which is to ensure the security of supply in the internal market, based on the “least cost and environmental impact” principle, in harmony with the EU Acquis, including those principles that underpin the NSDI II. The anticipated outcomes applicable to all of the energy subsectors are:

¹⁵⁵ Energy efficiency monitoring report, GIZ, 2012.

¹⁵⁶ Law no.43/2015, adopted on April 30, 2015.

- Security of supply for a sustainable development of energy.
- A competitive market for generation and supply, and regional and European integration of the Albanian power sector.
- A consolidated legal and institutional framework based on European standards.
- Integration of the Albanian gas sector in regional and European gas connectivity initiatives based on a comprehensive energy security concept in the framework of the Energy Union.
- Gas, renewables, and electricity will fulfill energy demand in the near future.

The government's key priority dealing with energy supply, and addressed by the Delivery Unit, forms part of the broader 2015–2020 strategy for energy. An immediate objective that applies to all of the energy subsectors is the final development, approval, and implementation of the National Energy Sector Strategy, 2015–2030. Strategic objectives in each of the main subsectors are given below.

■ Strategic objectives in the electrical-energy subsector

The long-term objectives of the subsector include: (1) safe power supply for clients, in line with state-of-art technical parameters; (2) diversification of sources of power generation; and (3) integration in the regional electricity market.

Main strategic objectives for the short to midterm include:

1. Financial recovery and strengthening of the sector through:
 - (I) Reduction of power losses in the distribution network;
 - (II) Increased cash collections from sale of electricity.
2. Installation of interconnection networks with Kosovo and FYR of Macedonia, and integration in ENTSO network.

■ Strategic objectives for renewable energy and energy efficiency subsector

The long-term objectives of the subsector include: (1) meeting commitments of Albania in the context of Initiative 20/20/20, with the view of increasing use of renewable resources; (2) improving energy efficiency and reduction of CO₂ carbon emissions; (3) diversification of renewable sources in the country, not just from hydro resources, but also from wind, sun, biomass, and geothermal resources; and (4) management of power supply demand by improving efficiency of use of energy in particular in housing.

Main strategic objectives for the short- to medium-term are:

3. Increased use of renewable energy, compared to total final consumption of energy through adoption and implementation of the National Action Plan on Renewable Energy.
4. Increased energy efficiency in all sectors of the economy, compared to total final consumption of energy through:
 - 6.1 Adoption of the new legal framework “For Energy Efficiency,” in accordance with Directive 2009/28 of the EC and the EU Acquis;
 - 6.2 Implementation and monitoring of the First National Energy Efficiency Action Plan (NEEAP-1) for the period 2011–2018, and the second creation of the National Plan of Action for Energy Efficiency (NEEAP-2) for the period 2014–2020; and
 - 6.3 Approval of the legal framework “Energy Performance of Buildings” based on Directive 2010/31 of the EC.

■ Strategic objectives for oil subsector

Long-term objectives of the subsector include: (1) maximization of public revenues through research and production activities by enhancing institutional and technical capacities; (2) strengthening the regulatory role of the state; (3) modernization of capacities for processing crude oil, with the goal of securing by-products of higher quality, and lower cost; (4) building the appropriate infrastructure for transportation and distribution of natural gas, and ensuring its integration in the regional gas network.

Main strategic objectives in the short to medium-term include:

5. Increased production and processing capacities, through:
 - (I) Increased local production of hydrocarbons;
 - (II) Increased capacities for processing of oil in the country by at least 50%.
6. Utilization of Vlora thermal power plan with natural gas.
7. Aligning legal and regulatory framework in the oil sector with the EU Acquis, with the goal of enhancing fair competition and development of the gas sector.
8. Formulation of the master plan for the gasification of Albania and its regional integration in gas infrastructure to diversify gas sources and supply, with the goal of diversifying sources of gas supply and enhancing technical capacities for the management and improvement of the natural gas market.
9. Development of basic gas infrastructure, through (i) support for the implementation of the Trans Adriatic Pipeline and Ionian Adriatic Pipeline projects in: (ii) support for the gasification of the country (including supply with natural gas of main industrial clients).

10. Development of hydrocarbons sectors, with due attention for the environment.

12.1.2 Transport infrastructure

■Current situation

The development and modernization of Albania's transport infrastructure has been and remains one of the top priorities of the government. The aim has been to create the preconditions for the development of other sectors of the economy, to increase the accessibility of freight and passengers in trade and service delivery, and to significantly contribute to overall economic growth and development of the economy.¹⁵⁷The development and modernization of Albania's transport infrastructure has been and remains one of the top priorities of the government. The aim has been to create the preconditions for the development of other sectors of the economy, to increase the accessibility of freight and passengers in trade and service delivery, and to significantly contribute to overall economic growth and development of the economy.

A basic draft of the National Sector Strategy for Transport,2016–2020, is expected to be finalized upon revision of the National Transport Plan. Despite significant investments, especially in improving road infrastructure, the transport sector has yet to become a significant promoter of economic development in Albania. Timely and adequate funding of annual and midterm program investments remains problematic. Further, the quality of transport related public works is still not yet up to EU standards.¹⁵⁸Below is a summary of each of these key segments of the transport sector (roads, railways, maritime transportation, airline, and a combination).¹⁵⁹

Several conventions and agreements have been signed with neighboring countries on international road transport for passengers and goods and regarding mutual recognition of driving licenses with Kosovo, Montenegro, Croatia, the FYR of Macedonia, and Serbia. The transposition of the EU Acquis is done in accordance with engagement derived from articles 54, 59, 70, and 106 of the SSA, and articles 2, 11, 14, and 16 of protocol number 5 of the SAA for transport. The EU legislation on road transport has been developing over many years and currently constitutes a significant number of legal acts (as directives or regulations, as well as for case law of the Court of Justice of the European Union). While all such acts are of importance, domestication thereof into a legal order of any country as a rule takes place gradually, according to the national priorities of Albania.

The majority of investment has been directed at road infrastructure and the construction of main road axes (North-South Highway Durrës-Kukës as well as some segments in corridor VIII).¹⁶⁰The main goal of

¹⁵⁷Also in the framework of Article 106 and protocol 5 of SAA.

¹⁵⁸Albania fully supports the inclusion of some key transport segments of the Regional South East European Transport Observatory (SEETO) comprehensive network in the Trans European Transport (TEN-T) Core Network, which will increase national network standards in Albania in order to comply with the EU standards.

¹⁵⁹ This summary analysis is based in large part on the Sector Planning Document for the transport sector, which was developed by the government in late 2014 (Ref. Ares [2014]3784354, November 13, 2014).

¹⁶⁰ Albania is also part of the SEETO Comprehensive Network. Regional cooperation in the transport sector is realized through active participation in SEETO in order to absorb investments in the infrastructural projects with regional importance.

these investments was ensuring integration in the Balkans and pan-European transportation network systems, while they were not accompanied by projects that would have an impact on the development of regional and local economies potential. There is a strategy in place for the road toll tax that would ensure optimal use of road tolls in Albania.

Increased capital investments in road infrastructure have resulted in the need for a rebalancing of maintenance expenditures. The benefits derived from roads can be sustained only if road infrastructure capital investments are complemented with adequately funded and well-planned maintenance. The budget allocated for road maintenance is about 25% to 30% of the total budget needed for road infrastructure maintenance.

Limited road safety is a major issue for Albania. The number of accidents resulting in fatalities and serious or light injury has increased significantly over the past ten years. Fatalities are high compared to European standards and it is the aim to see these reduced by half by 2020 from 2009 levels. This issue has health, social, and safety dimensions, and it is also an issue of public order, as discussed in Section 8.5 of this document.¹⁶¹

The state of rail transport in Albania has been declining for several years. This is reflected in declining rail traffic volumes for both freight and passengers, especially with the closing of the Tirana railway station which had processed about 50% of annual passenger volume. State budget allocations have been far less than what would be required to bring rail transport up to technical standards required by the domestic as well as international market.

The European Transport Policy defines a vision for integrated, upgraded, and inter-modal railway transport, a vision which can be applied to Albania to modernize and integrate its own railway system with EU rail corridors. Recent government efforts have focused on drafting legislation that is aligned with the EU as a precondition for comprehensive institutional reform, and the strengthening of administrative capacity. A first step in this direction was the formulation of the Rail Code of the Republic of Albania, which is foreseen to be finalized in 2016. Subsequent to this, three other implementing legal acts will be prepared and approved on infrastructure management, railway undertaking, and the setup of the Railway Security Authority.

Albania has a considerable coastline, many parts of which are conducive to the construction of port facilities. Ports present very significant economic growth and potential as they can serve as a transport hub for the region. Over the past several years, there has been a significant increase in maritime traffic in the Ionian and Adriatic region, including in Albanian waters. Due to anticipated growing demand for marine transportation, increased traffic volume is expected to continue well into the future, both in terms of the

Furthermore, participating in the Black Sea Economic Cooperation intensifies regional cooperation in the transport sector and determines effective ways to use the interregional capacities and growth potential of the Black Sea Region countries.

¹⁶¹There are a number of institutions involved in road safety in Albania: the Directorate of Traffic and Road Safety of the Ministry of Transport and Infrastructure, the Albanian Roads Authority, the General Directorate of Service Road Transport, the General Police Directorate in the Ministry of Interior, and the Red Cross, among others. There exist weaknesses in overall coordination among these institutions, in terms of roles and responsibilities, in delivering services, in collaboration in carrying out common projects, and in funding arrangements. The Secretariat of the Inter ministerial Road Safety Council has been established as part of the road safety system and representative body of stakeholders for improving road safety in Albania.

number and the size of ships. The government has recognized these trends and has invested considerable attention and resources in port infrastructure construction over the past few years.

In Albania there are four maritime ports that process both cargo and passengers and two oil terminals. There is a growing trend in the traffic of goods, which is expected to continue. In this context, given an expected growth in traffic and demand, the government will continue to invest in marine infrastructure, including greater attention to be given to the need for greater safety, security, and protection against environmental hazards.

Civil aviation is characterized by rapid and dynamic development, mainly thanks to policies of the government in meeting European standards for trade liberalization and safety under the common European Agreement of Civil Aviation. An important example of this progress is in the number of passengers flying through Mother Theresa Airport, which has seen an average growth of approximately 7%. Current efforts are being applied to implement the covering legislation and to achieve further alignment with the EU Acquis, including the adoption of air service operations, air carrier liability, working time for mobile workers in civil aviation, and insurance regulations.

It is also noteworthy that Albania, through the Albanian Civil Aviation Authority, is part of the Joint Service Provision Area initiative, which aims to enhance the cooperation between competent authorities through the sharing of expertise and human resources and through training activities such as auditing courses and multilateral seminars.

Combined transport in Albania is currently in the form of multimodal transport, which is defined by shifting transport by sea to road and vice versa. This combined transport is applicable for the transport of containers stored at the port of Durrës toward Kosovo. Multimodal transport is expected to be developed in the years ahead, as it will include also the transportation of goods by rail, mainly after the rehabilitation of the Tirana–Durrës railway line.

The overall objective for developing multimodal transport in Albania is through gradual development linking Albanian ports with those of neighboring countries especially in the axes: (1) Corridor VIII (to complete construction of the railway line with the FYR of Macedonia and to connect it with the Adriatic Sea and Ionian Sea); (2) Tirana–Shkodër–Podgorica; (3) Durrës, Vlore, Shëngjin ports; and (4) Kosovo and beyond.

■Challenges

The overall challenge ahead is to address existing weaknesses in transport by building modern infrastructure according to international and EU standards by increasing road safety, increasing system efficiency, improving and maintaining transport infrastructure according to European standards, ensuring the protection of environment, and ensuring compliance and further integration with neighboring countries as well as with the Trans European Transport (TEN-T) Network.

The main challenges associated with road transport over the 2015–2020 NSDI II planning period include the need to: (1) complete construction of the national road network, including strategic arteries;¹⁶² (2) complete the feasibility study for the Adriatic-Ionian North-South Motorway¹⁶³ (to facilitate the commencement of works on particular segments), including the full completion of the road Milot-Morine, Arber Road as a branch of Corridor VIII, etc.; (3) harmonize national legislation with the EU Acquis for road transport of goods and passengers, (4) reform the intercity passenger road transport network; (4) maintain road transport infrastructure according to EU standards; and (5) apply technical standards including the need to increase road safety.

In the framework of the “*Berlin Process*” and the Connectivity Agenda/Initiative, the Government is committed to improving regional cooperation. The following segments of the Albanian territory are part of the Regional South East European Transport Observatory (SEETO) and TEN-T networks: (1) the North–South National Road Corridor, part of the agreed Adriatic–Ionian Corridor, going through Croatia, Montenegro, Albania, and Greece; (2) the Durrës–Morinë road segment, part of Nis–Prishtina–Durrës route, connecting the existing Corridor X to the Adriatic coast; and (3) Corridor VIII road that connects the Adriatic to the Black Sea.

Main challenges in railroad transport are related to the need for: (1) reforming the rail system to set up an open market for different investors whether in terms of infrastructure management or cargo operators; (2) strengthening capacities at all levels, thus enabling the administration to effectively respond to interoperating (among various infrastructure managers and entrepreneurs) and interactive (completion of technical standards) requests at the European level; and (3) creating favorable legal and institutional conditions for attracting foreign investments; (iv) improving railroad infrastructure through rehabilitation of existing lines and building new lines to ensure regional interconnection.

In the area of maritime transport, the key challenges ahead include: (1) the modernization of port infrastructure through investment; (2) the need to strengthen the Maritime Administration in accordance with EU standards; (3) the need to achieve greater specialization of port functions with a view to increasing their inter modality, particularly with respect to improving rail connectivity; and (4) ensuring better port processing skills combined with an orientation toward an intermodal system, which would have a positive impact on the economic development of the country.

Finally, with respect to air transport, the main challenges include: (1) the development and construction of new airport infrastructure in the south of the country; (2) the creation of a more competitive market with liberalized air services; (3) the implementation and unification of international and EU standards for air safety; and (4) a reduction in passenger travel tariffs.

¹⁶²Such as corridor VIII (the Tirana–Elbasan, Qukës–Qafë Pllocë, etc.) as well as the Green Corridor the North–South Highway (the Tirana–Durrës part/expansion of the existing two lanes in three lanes for each side, Thumanë–Vora, the Tepelena bypass etc., as well as new investments for upgrading them to EU standards, such as doubling the Milot–Lezha–Shkodra, etc.).

¹⁶³This is now part of the extension European TEN-T Corridors, also part of the Core Network Corridors for the Western Balkans (based on the SEETO regional development plan) which encompasses the Albanian North-South Road Corridor linking the Montenegro border with the Greek border).

■The vision: An efficient transport system, integrated in the region and in the EU network, which promotes economic development and the citizens quality of life.

The main objective in the field of transport is accelerating the integration of the transport system, the establishment of an integrated market—consisting of transport infrastructure by land, by sea, and inland waterways—that efficiently supports the demand for transport development. To achieve this objective, the first step is the finalization of Sectorial Strategy for Transport and the Albanian National Transport Plan. This includes the approximation of national legislation with EU legislation, and the harmonization of the rules on safety and standards, environmental preservation, and transport services.

■Strategic objectives for road transportation

1. Strengthening cooperation with Kosovo, FYR of Macedonia, Greece, and Montenegro through land connections, in order to increase average annual volume of cargo and passengers.
2. Improving national road network maintenance and performance, with private sector companies, through the road assets management system and the implementation of the World Bank’s Road Safety and Management Project.
3. Strengthening coordination, capacities, and funding of the various road safety related institutions, which will lead to a drop in the number of road accidents by 2020.
4. Expanding the national roads network through partial crossing routes of the rural network into the national road network (under the administration of the Albanian Road Authority), with the aim of improving performance-based road maintenance.
5. Developing a central database on passengers, road transport operators, and goods, enabling full monitoring of all operators in road transport.
6. Ensuring operation of road passenger transport market in line with EU standards.
7. Ensuring the establishment and functioning of a single selection mechanism for identifying priority investments considered for blending IPA II grants with IFI loans in line with the existing transport strategies and plans (applies to all transport modalities).

■Strategic objectives for railroad transportation

8. By 2020, the volume of passenger traffic will increase five times, while cargo transportation will double comparatively (focusing on regional transportation) by building the following railways: Tirana–Durrës, Vorë–Hani-Hotit, Durrës–Elbasan, Rrogozhinë–Vlorë, and Elbasan–Pogradec border with the FYR of Macedonia.¹⁶⁴

¹⁶⁴This would include the extension of TEN-T to the Western Balkans Core Network Definition Railways Route 2, Podgorica (Montenegro)–Durrës/Tirana (Albania).

9. Formulation of a comprehensive legal framework for rail transport, including a new railway code, which will foster an open market for operations and interoperability with technical standards aimed at high speed by:
 - 9.1 incorporating the Railway Regulatory Entity within the Competition Authority;
 - 9.2 Establishment of railway entrepreneurs on infrastructure; and
 - 9.3 Establishment of railway entrepreneurs on operations.
10. Establishing safety entity for protection of railroad traffic through: establishment of the Safety Authority, establishment of Railroad Licensing Authority, and establishment of the Unit for Investigation of Incidents and Accidents.

■Strategic objectives in the field of maritime transportation

11. Development of maritime transportation in order to achieve EU standards by increasing the number of seafarers to align it with the standards of the International Maritime Organization.¹⁶⁵
12. Continue the development of ports through investment as per master plans and with an orientation toward the market economy by 2020 through:
 - 12.1 Increase in the volume of cargos handled in the Albanian ports;
 - 12.2 Growing number of ferry passengers;
 - 12.3 Rehabilitation of the infrastructure and superstructure of Durrës port authority and portual authorities of Vlora, Saranda, and Shëngjin, including tourist ports; and
 - 12.4 Increased volume of container processing.
13. Development of tourist ports, including the construction of their infrastructure and superstructure, in order to increase the number of tourist vessels that will board in these ports, thus increasing the number of tourists and revenues generated from marine tourism.

■Strategic objectives in the field of air transportation

14. Harmonization of international transport with national transport, as well as making the latter efficient for public service. This represents a political challenge: the Republic of Albania will be an integral part of the European aviation system and Tirana International Airport might become an important regional hub for air transport in South East Europe, taking into account the very good geographical position of Albania in this region.

¹⁶⁵ Extension of TEN-T to Western Balkans Core Network Definition Sea Ports – Durrës.

15. Ensure that the Albanian air transport market will become competitive in full compliance with international standards to ensure direct flights with main European airports in order to increase the flow of passengers to and from Albania.
16. Strengthening regional cooperation in the field of air transport through the efficient implementation of legislation and airport projects aimed at increasing traffic capacity and using the most effective methods of attracting private capital to these services.
17. Improving passenger flows by creating a competitive market, fully aligned with international standards.¹⁶⁶
18. Implementing unified standards for security and safety through the adoption of international documents of civil aviation security, targeting an average 10% annual reduction in shortcomings in enforcing safety standards.
19. Strengthening the role of the Civil Aviation Authority as the National Supervisory Authority in civil aviation, through continuous monitoring and analysis of the market and of the costs of civil aviation.

12.2 Efficient public services

12.2.1 Integrated water management

Water is vital. Albania is very rich in water resources, including surface and underground water, with highest available water quantities per capita, at 8,700 m³/year. Even though Albania is rich in water resources, use and utilization of these resources has suffered from inappropriate and inefficient water management. The management of the water sector has suffered from fragmented management with the involvement of several water-related institutions, often leading to an overlap of responsibilities. The approach to integrated water management is referred to in Chapter 2. The main pillars of the government's water policy are as follows:

1. Water for people (focusing on water supply and sewerage)
 - 1.1 Water for food (focusing on irrigation and drainage)
 - 1.2 Water for environment (focusing on water resources)
 - 1.3 Water for industry (focusing on energy, economy, etc.)

■Water for people: Improving water supply and sewage service

■Current situation

¹⁶⁶ This would include the Indicative Extension of TEN-T to Western Balkans Core Network Definition Airports – Tirana (TIA/LATI).

Water supply and sewerage in Albania (as part of the “water for people” component under the integrated water management priority as discussed in Part II of this document) have seen some improvements over the past several years. There is a strategic framework for the sector in place: the National Strategy for Water and Sanitation, 2011–2017, and the Water Master Plan, 2011–2025.

Currently, coverage with water supply is available in almost 80% of the urban areas and 50% in the rural areas. Wastewater coverage is available in approximately 80% for the urban areas and 10% of the rural areas. Investments have not generated expected efficiency gains in service levels due to a number of factors: (1) the manner in which the investments have been distributed over the years; (2) high costs of wastewater treatment due to poor operations and maintenance; and (3) sub-optimal quality management of service delivery.

The level of water losses remains high and problematic. Currently, water production capacity in Albania is 270 million m³ produced from 316 sources.¹⁶⁷ The data show that only 89 million m³ or 33% of water produced is sold in order to generate revenues from the sector. Consequently, 181 million m³ or 67% of the produced water results in lost revenues.

The main issues with respect to water supply and wastewater include: (1) lack of adequate infrastructure; (2) sub-optimal water coverage for both urban and rural areas; (3) inadequate wastewater coverage; (4) large number of illegal connections; (5) low service availability at an average of twelve hours per day; (6) low use of metering (flat rates applied widely); (7) non-billed water and low collection rates; and (8) out of eight wastewater treatment facilities, only five are operational.

There continue to be concerns in the overall management of water and wastewater services as well: (1) local governments do not exercise their responsibilities as set out in the law; (2) formal supervisory councils fail to regularly observe the requirements of the law, including weak enforcement; and (3) the generally weak professional and technical capacities of the water supply companies.

■ Challenges

The overall challenge in the sector over the next several years is to meet the demands for water supply and wastewater services. Specific challenges include: (1) the need for improving water supply and wastewater services, while increasing their access; (2) the need to improve the efficiency of utilities in urban and rural areas by applying the principle of full cost recovery; (3) more attention to the identification, formalization, and differentiation in the tariff structure; (4) a better defined orientation of investment in the infrastructure sector toward the optimal and efficient use of electricity; (4) the need to strengthen overall capacities in the protection of water resources; (5) reducing service delivery costs; and (6) a general restructuring of the sector.

¹⁶⁷ 109.8 million m³/year water is generated from ninety-three “free flow” system sources, and 160.5 million m³/year, water generated from 223 mechanical system sources.

■**Vision: A reliable nationwide system for water supply and sanitation services that meet the needs of a developing economy and of the society at large while preserving and protecting the environment and the health and the safety of citizens.**

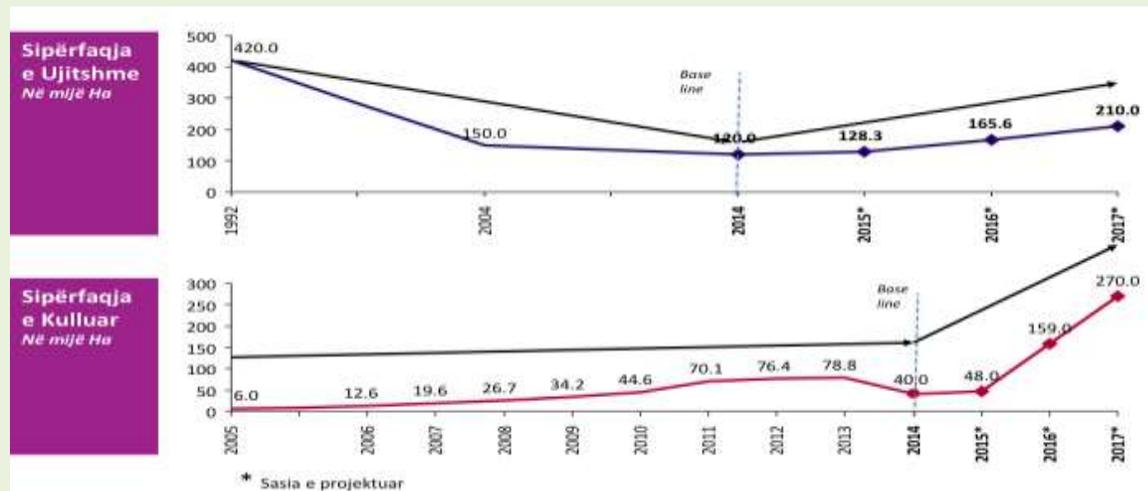
■**Strategic objectives regarding water for people**

1. Expanding and improving the quality of water supply and wastewater services by:
 - 1.1 Updating and full implementation of the National Water Supply and Wastewater Sector Strategy,2011–2020;
 - 1.2 Achieving water supply coverage in urban and rural areas;
 - 1.3 Achieving wastewater network coverage for urban and rural areas:
 - 1.4Increasing the number of households connected to the water treatment facility;
 - 1.5 Increased water supply coverage countrywide; and
 - 1.6 Reducing non-revenue generating water amounts.
2. Improving the efficiency and effectiveness of water utilities in urban and rural areas through:
 - 2.1 Applying full cost recovery principle;
 - 2.2 Review and possible adjustment of tariff structure;
 - 2.3 Reorganization of water services in line with new territorial reform; and
 - 2.4 Building wastewater treatment facilities in line with the national water supply and waste master plan.

■**Water for food**

Agriculture is a strategic development sector of the Albanian economy, as discussed in Section 12.3 of this document. Access to irrigation and drainage systems to increase the availability of usable land is a critical prerequisite for its development and is of high significance in the wider, rural development context. Moreover, meeting the requirements of the EU single market is a major challenge that Albania is currently facing on its path to EU integration. Providing access to irrigation and drainage services will dramatically improve the incomes of Albanian farmers, increase the productivity and competitiveness of the sector domestically and internationally, and spur economic growth. Figure 44 illustrates the situation of irrigated and drained land during2005–2015, and expected outcome following implementation of government priority policies in improving the sector for2016–2017.

Figure 44. Historical trends and projections for irrigated and drained land



Source: Ministry of Agriculture, Rural Development, and Water Administration

The agriculture sector is the one of the most important water users, particularly for food production. However, this sector is confronted by several issues: (1) water shortages for irrigation during the summer period; (2) risk of floods during heavy rainfall in the winter/spring period; (3) safety concerns over irrigation reservoirs and dams; (4) old and deteriorating infrastructure (interventions in the systems are becoming overly costly); (5) lack of funding and investment in maintenance of irrigation and drainage systems; (6) lack of an operational cost recovery system; and (7) the need to address institutional and user issues.

The government is committed to radically improving the irrigation and drainage dimensions of water management system performance as well as to improve the productivity and competitiveness of the agriculture sector. Reforms aim at creating better economic and social conditions for Albanian citizens and businesses, especially targeting the rural population involved in farming. The outcomes have started to be tangible in increased land surface with access to irrigation, and a qualitative improvement in the Albanian drainage system (see Figure 42),

■ Strategic objectives related to water for food

2. Strengthened management of water used for food production through:
 - 2.1 Increased area of irrigated land, as measured in the number of hectares covered by fully functional irrigation systems;
 - 2.2 The qualitative improvement in the functionality of the drainage system, as measured in hectares covered by fully functional drainage systems;
 - 2.3 Rehabilitated and modern irrigation, drainage, and flood protection infrastructure;

- 2.4 The development and implementation of mechanisms for the sustainable management of irrigation, drainage, and flood protection systems (also noted in Section 5.3 on the government's priority dealing with irrigation and drainage).
3. Improving performance of water-related authorities and institutions through:
 - 3.1 Review and strengthening of the mandate of local government units;
 - 3.2 Strengthening the role of drainage boards.

■Water for environment

From a hydrological point of view, the country is divided into six river basins, namely: Drin-Buna, Mat, Ishem-Erzen, Shkumbin, Seman, and Vjosa. There are national and local authorities responsible for their management; however, very often they were seen to overlap responsibilities and lack proper management. With the rapid and uncontrolled economic development over the last two decades, and based on data provided by yearly environmental status reports, the quality of the water resources has deteriorated significantly. River gravel extraction and the construction of hydropower plants has placed major pressures on waters and river beds.

The main instrument for managing and protecting water resources is the river basin management plan, a new concept for Albania, introduced by the EU Water Framework Directive. Currently work is underway for drafting river basin management plans.

The thematic group on water for environment is responsible for water quality, under the leadership of the Ministry of Agriculture, Rural Development and Water Administration and in cooperation with the Ministry of Environment, for preparing specific emergency plans for addressing challenges of the sector. Currently the Strategy for Water Resources Management is being drafted, while the challenge remains the basin-based water resources inventory.

■Strategic objective related to water for environment

- 1.0 To ensure the sustainable use of water as an essential component of the natural environment through:
 - 1.1 The establishment and maintenance of the electronic national water cadaster;
 - 1.2 Protection and proper management of the river basins through the development and implementation of management plans;
 - 1.3 Strengthening of the role, mandate, and responsibilities of institutions at local levels;
 - 1.4 Linking and coordination of water use with tourism development activities;

1.5 Coordination and management of water use in the context of climate change/mitigation related issues; and

1.6 Rehabilitation of damaged river beds.

■Water for industry

Water is widely used in the industrial sector, including the energy production sector. Priority areas of this development include the food industry, mining, light industry, and electricity production. Nevertheless, the over exploitation of both surface and groundwater has led to difficulties in ensuring water supply for all users at the required time, in terms of both quantity and quality.

The main challenge for this thematic area relates to ensuring water availability for every industrial process, without compromising quantity for living and ecosystem services.¹⁶⁸ However, the generation and sale of hydroelectric power is one of the main sources of government revenue, and hence has a direct impact on fiscal stability. Despite its economic importance, the sound development of water for industry is impeded by a lack of surface and ground water inventories (specifically for water resources potentially to be used for electricity production) and legal gaps in the responsibilities of river basin authorities.¹⁶⁹

■Strategic objective related to water for industry

1.0 Ensuring sustainable use of water for industrial purposes, in particular power generation through:

1.1 Identification and assessment of water resources to be used for power generation;

1.2 Identification of potential map; and

1.3 A clear definition and distinction of roles, mandates, duties, and responsibilities of institutions regarding use of industrial water, in particular in terms of power generation, mining, and other forms of processing.

12.2.2 Integrated waste management

■Current situation

In the course of 2007–2013, integrated waste management was one of the government’s priority areas for regulatory reform. The National Cross-Cutting Strategy for Waste Management, 2010–2025, and the National Plan for Waste Management, 2010–2025, were approved by the government in 2011. However,

¹⁶⁸ The thematic group for water for industry is responsible for water used for hydropower production and industry under the leadership of Ministry of Energy and Industry and the Ministry of Economic Development, Tourism, Trade, and Entrepreneurship.

¹⁶⁹ And as noted in Section 12.5 on environment, one of the challenges stated therein is the more strategic management of water resources. This is also to be addressed by the development of the National Water Sector Program.

the priority for waste management was not adequately reflected in government strategic and budgetary planning. Consequently, reform priorities in the sector have focused on the legal and regulatory frameworks, where a series of international obligations arising from the SAA and the requirements of the Basel Convention were adopted through amendments to a number of important laws.¹⁷⁰

With regard to final removal of waste, the method currently applied in the country is through waste dumps. There are sixty-five such open waste dumps in the country, mainly in the outskirts of the cities and villages, and in many instances by the rivers. They present health risks to the local populations and to the surrounding environment. Except for the sanitary landfill in Sharra (for Tirana), the interregional landfill in Bushat (for the districts of Shkodra and Lezha), and two local sanitary landfills in Rrëshen and in Bajram Curri, there are no other functional landfills. The regional landfill in Bajkaj (Saranda region) is expected to be operational and work is ongoing to build the landfill of Maliq for the Korça region.

There exist a number of significant concerns with respect to the integrated management of waste. First, there is an absence of a well-organized system for the reduction, collection, and transportation of solid waste. Services are oriented mainly in urban areas, with the resulting creation in rural areas of open illegal landfills, pollution hotspots, and the pollution of territorial space. Second, practices associated with waste separation at the source, or the intermediate treatment of waste, are sporadic. These are mainly in the form of pilot projects which are considered to be unsustainable. Hence, recovery levels of recyclable waste at source are extremely low, with only 10% of recycled urban waste generated, and none of it composted. Third, the management of hazardous waste is substandard due to inadequate segregation and the absence of any means for processing. Consequently, hazardous waste is for the most part exported to other countries through licensing arrangements with private companies.

Strategic studies identify landfills as the most appropriate medium-term means for final waste disposal. However, with the adoption of new administrative territorial reforms, it will be necessary to review the policy and planning of integrated waste management at the regional level in order to achieve economies of scale.

■Challenges

The main challenges for integrated waste management over the 2015–2020 planning period can be summarized in terms of: (1) the need for the further establishment and functioning of integrated waste management; (2) the promotion of public-private partnerships; (3) the need for financial empowerment of local governments and service cost recovery; and (4) the regionalization of services.

■The vision: An efficient and effective integrated waste management system that contributes to the protection and conservation of the environment, the protection of human health and

¹⁷⁰Law no. 10463, dated September 22,2011, "On Integrated Waste Management"; Law no. 10431, dated June 9, 2011, "On Environmental Protection"; Decision no. 798, dated September 22,2010, "On the Management of Hospital Waste"; Decision 175, dated January 19,2011, "On Approval of the National Plan and Strategy on Waste Management"; Decision no. 177, dated March 6, 2012, "On the Packaging Waste"; and Decision no. 178, dated March 6,2012, "On Waste Incineration."

safety, and supports the rational use of natural resources through reuse, reduction, recycling, and recovery.

■ Strategic objectives

1. Ensuring comprehensive and strategic management for integrated urban solid waste management by:
 - 1.1 Updating and full implementation of the National Cross-Cutting Strategy for Waste Management,2010–2025, and the National Plan for Waste Management,2010–2025;
 - 1.2 Formulation of the master plan for integrated urban solid waste management;
 - 1.3 Conducting studies on and designing the closure and rehabilitation of waste dumps for 15% of the most hazardous sites; and
 - 1.4 Conducting studies on and designing the creation of new regional landfills servicing 50% of the national territory.
2. Improving overall waste management performance through:
 - 2.1 Increasing amount of waste going to landfills;
 - 2.2 Increasing amount of waste going for recycling and compost;¹⁷¹
 - 2.3 The implementation of rehabilitation plans for nine priority hotspots and the development of plans for the remaining hotspots;
 - 2.4 The construction and operation of two landfills;
 - 2.5 The rehabilitation of the five existing landfills; and
 - 2.6 The planning for and construction of at least one plant for the treatment of hazardous waste.
3. Improving waste management accountability through:
 - 3.1 Establishment of a national/regional authority for the review and approval of tariffs for removal of waste in landfills;¹⁷²
 - 3.2 Review and improvement of concession services and contracts; and
 - 3.3 Strengthening capacities of waste management responsible institutions.

¹⁷¹ In addition to recycling and composting of waste, this could also include reuse, incineration, and energy generation.

¹⁷²The Albania Regulatory Authority for the Water Supply and Wastewater Disposal and Treatment Sector has the legal mandate for establishing tariffs.

12.3 Sustainable environmental and economic development

12.3.1 Sustainable environment

■Current situation

Environmental protection is a shared responsibility in Albania. The scope of environment as a sector covers issues associated with air quality, climate change, chemicals and waste management, industrial pollution, the natural environment and protected areas, forests and pastures, and water quality. Consequently, the sector has required a strategic, integrated, and complex approach, where tackling environmental issues demands serious commitment in terms of both the regulatory/legislative basis as well as in terms of infrastructure investment. The National Cross-Cutting Strategy for Environment, 2014–2020, is currently under development and is expected, upon implementation, to address the many concerns discussed below.

In addressing aspects related to air quality, commitments in 2007¹⁷³ until 2012–2013¹⁷⁴ resulted in significant improvements of 30%¹⁷⁵ in the main urban areas. However, the population's exposure to air pollution continues to be problematic, as measured by an increase in the annual rate of polluted days.¹⁷⁶ The main sector contributing in greenhouse gas emissions is energy (57.29% of the total), followed by transports and agriculture (16.85%), industrial processes (14.67%), change in the use of land and forests (8.88%), and waste (2.31%). Meanwhile, Albania has transformed itself from a GHG emitter to a GHG sink.

Present per capita emissions in Albania are around 2.8 tons per capita (as compared to EU-27 emissions at 9.9 tons/capita). Emissions per unit of GDP are around 0.6 tons of CO₂ per 1,000 USD (as compared to EU-27 emissions of 0.4 kt CO₂ per EUR of GDP). Albania has relatively low per capita emissions, but rather high emissions per unit of GDP due to the low GDP level. Therefore it can be expected that emissions will grow in the future as the economy develops, but at the same time there is large potential for efficiency gains in this process.

The proportion of the country's coverage of protected areas increased from 10.4% to 16.6% of the country's territory by 2015, of which 16.1% is for inland and coastal areas and 0.5% is for the marine area. As seen in Figure 55, the proportion of these protected areas has increased steadily over the past fourteen years, and has exceeded the MDG target of 14%.

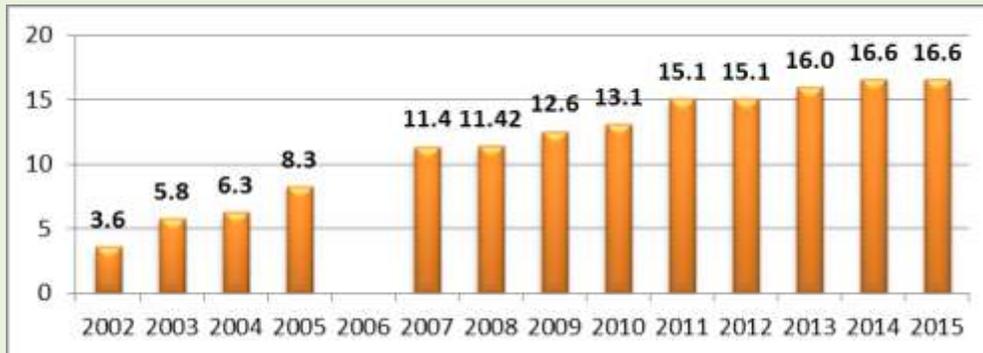
¹⁷³Comparative year for the National Strategy for Development and Integration, 2007–2013.

¹⁷⁴State of the Environment Report for 2012 and 2013 (published by the National Environment Agency) and administrative data provided by the Ministry of Environment.

¹⁷⁵ PM_{2.5} and PM₁₀, SO₂, NO₂, CO, Pb, O₃, and benzene.

¹⁷⁶ According to EU standards, the number of days with pollution levels above the minimum is thirty-five days per year.

Figure 45. Percentage of protected land and marine areas, 2002–2015



Source: Ministry of Environment, MDG Report 2015

Adapting to climate change is a significant challenge for Albania. So far, adaptation was taken into account to some extent only in planning for agriculture and forestry. The most urgent adaptation issue is with respect to coastal erosion that is threatening and causing the loss of the most valuable land in coastal zones, including land for residential and tourism use and for protected natural areas.

Work has been carried out on 12,000 hectares of degraded forests, resulting in the reduction in the erosion of 200,000 tons of sediments. However, there is a continuing need to increase the efficiency of management associated with 38% of economically sustainable forests and the rehabilitation of 50% of degraded areas.¹⁷⁷

Water quality in Albania is improved by 8%, according to main indicators for pollution and referred to EU standards on water pollution.¹⁷⁸ Out of seventy-three water quality monitoring stations in coastal areas for 2013, 42% (or thirty-one stations) received an “excellent quality” categorization; 11% (eight stations) with “good quality”; 4% at “sufficient quality,” and a fairly significant 42% (thirty-one stations) categorized as having “poor quality and in need of immediate action.” The number of stations receiving “excellent quality” decreased from 2012 to 2013, while the number of those falling under the other categories increased compared with 2012. The main factors for this are the increased pollution levels in coastal waters directly and indirectly caused by discharges of urban wastewater. According to the EU Progress Report for 2013, the operation of wastewater treatment plants remains problematic.

The legal framework for chemicals is partly in line with EU legislation. In compliance with NPEI (2015–2020), the law on chemicals and three bylaws are expected to be adopted in 2015.¹⁷⁹ The control of hazardous chemicals is covered mainly through procedures established by the relevant international Rotterdam, Stockholm, and Basel conventions on chemicals.

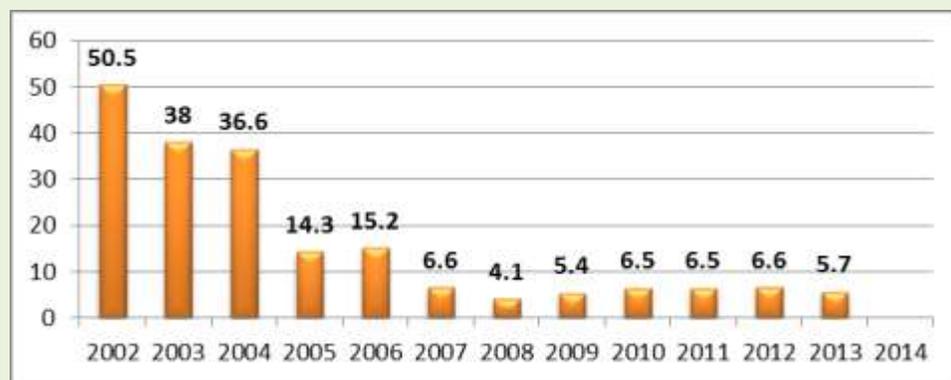
¹⁷⁷UNECE Report II, "Environmental Performance Review," 2012.

¹⁷⁸ The data refer to the State of the Environment Report from 2012 and 2013 (published by the National Environment Agency); BOD5, NH4, P-total.

¹⁷⁹ Issues related to other aspects of waste management are addressed under Section 12.9.

Regarding prevention of industrial pollution, different legal measurements were adopted in line with the EU directive on industrial emissions. In addition, it is expected that the Decision of the Council of Ministers will be adopted in 2015, and the Pollutant Release and Transfer Registers by 2017, at which time the BATs will also be prepared. In the area of ozone depletion substances, Albania has marked considerable progress in the recent years, as indicated in Figure 46, going beyond MDG-7 objective related to ensuring a sustainable environment.

Figure 46. Consumption of ozone depleting substances, 2002–2014



Source: Ministry of Environment /MDGReport2015

■ Challenges

The main challenge for Albania is to ensure the conservation and survival of species, habitats, and ecosystems of the country, with one of the first priorities being the finalization and approval of the National Cross-Cutting Strategy for Environment, 2015–2020. In terms of subcomponents of the environment strategy, specific attention is to be given to those areas identified below. In each of these areas, there is a need to expand the awareness and understanding of the need for environmental protection among all sectors of society. Education is seen as an important means to this end, and might be factored into educational curricula as well as training programs in other sectors (e.g., tourism, agriculture, mining, etc.)

In the field of air quality, the main challenges and priorities are: (1) to complete the adoption and implementation of European standards on urban air quality and air emissions; (2) to consolidate the National Monitoring System according to European standards; and (3) to adopt and implement action plans on air quality at the central and local levels.

In the field of climate change the need is to: (1) implement identified adaptation measures to the most impacted sectors; (2) reduce the emissions of greenhouse gases and ozone layer depletion substances, and to raise public awareness for climate change adaptation; and (3) establish a monitoring system focusing on verification and reporting of green house gasses in line with EU requirements.

In the field of chemicals, the priority is to establish a national system of chemicals management in accordance with EU regulations, the Rotterdam Convention and the Global Harmonized System.

In the field of industrial pollution and risks there is a need to strengthen the capacities of the NEA and of the State Inspectorate of Environment and Water. There is also the need to train their staff with regard to the implementation of the relevant legislation related to industrial pollution and risks.

With respect to nature protection the main challenges include: (1) the need to establish the Natural 2000 Ecological Network for Albania and the European community; (2) the restructuring and organizational empowerment of the protected areas management structures; and (3) the need to ensure more effective implementation of management plans for protected areas and action plans for species and habitats.

In the area of forest protection there is the need to: (1) have more effective administration of the forest and pastures fund in order to ensure sustainable forest management; and (2) establish an information system for the National Forest and Pastures Fund plus integration of this information into the National Cadastral System.

In the field of water quality, which refers to the subsector of water for environment (see chapter 12.8), the main challenges include: (1) the rational and sustainable use of water resources according to their intended use, ensuring their preservation both quantitatively and qualitatively; (2) the establishment of a national cadaster of water resources; (3) implementation of management plans for river basins to ensure the more efficient and sustainable use of water resources; and (4) the completion of the legal framework, in line with EU Directives.

■The vision: For the sustainable social and economic development of the country while protecting natural resources from pollution and degradation, through their integrated management.

■Strategic objectives

1. Achieving measurable results in air quality through:
 - 1.1 Reducing pollution levels in urban areas; and
 - 1.2 Reducing the level of air pollutants based on human health.
2. Reaction toward climate changes and the contribution to protect the ozone layer through:
 - 2.1 Reducing greenhouse gas emissions, compared to baseline scenario for reduction of CO₂ emissions, by 2030;
 - 2.2 Reducing the amount of hydro chloro fluoro carbons (HCFCs).

3. Intensifying and strengthening nature protection by:
 - 3.1 Increased surfaces of protected areas through growth and integrated management of protected areas;
 - 3.2 Establishment of "Natura 2000" ecological network; and
 - 3.3 Ensuring conservation status of end angered/threatened species and habitats.
4. Strengthened management and conservation of forestry and pasture resources through:
 - 4.1 Reduction of illegal logging in forests, by 2020;
 - 4.2 Formulation of management plans for all forestry economies in the country;
 - 4.3 Rehabilitation of degraded areas;
5. Strengthened water resources management and preservation through:
 - 5.1 Adoption of the National Water Resource Integrated Management Strategy;
 - 5.2 Establishment of national cadaster of water resources;
 - 5.3 Introducing of a water resource inventory;
 - 5.4 Formulation and implementation of water basins management plan;
 - 5.5 Meeting water quality levels;
 - 5.6 Rehabilitation of damaged river beds; and
 - 5.7 Aligning national legislation with EU legislation.

12.3.2 Sustainable spatial planning and urban development

■Current situation

Political and institutional change over the years in Albania has been followed by chaotic development within the territorial areas, including a lack of legal standards regarding design and development. Since September 2013, territorial developments have improved due to the strengthening of law enforcement and rehabilitation measures. The National General Plan, initiated by the end of 2013, is leading to the harmonization of sectorial strategies in the interest of economic and social recovery of citizens, and ensuring that planning becomes a common integrated function. In addition, administrative and territorial reform will have a major impact on territorial planning. Municipalities will need to develop their own local planning documents in order to manage their new territories.

The standardization process was improved through new legislation. These include: (1) Decision of the Council of Ministers no. 704, dated October 29, 2014, “For the Approval of Tariffs for Services in Territory Planning, Designing, Monitoring, and Testing”; (2) DCM no. 843, dated December 17, 2014, “Appendices Fees for Services in the Territory Planning, Designing, Monitoring, and Testing”; (3) Law no. 80/2014, “Changes and Additions to Law no. 9220 ‘For the Public Service of Burial’”; and (4) DCMs 711 and 712 in support of enforcing the standards on the projection, building, and administration of cemeteries. Licensing of activities for evaluation of immovable properties and evaluation, study, design, supervision, and assessment were improved in line with DCM no.759 of November 12, 2014, and DCM no.100, of February 4, 2015.

Housing activity has grown significantly over the period 2010 to 2014, increasing from 13,000 requests for permits in 2010 to approximately 32,000 requests in 2014¹⁸⁰. This increase in demand was accompanied by a corresponding increase in investment in social housing, and as a result 922 social housing apartments in eight local government units were built, accounting for 0.04% of the housing market.

Low levels of state budget funding, lack of funds at the local level, and financial restrictions of the National Housing Agency cannot meet the numerous unmet requirements for housing, in particular from vulnerable groups. Special attention needs to be given to projects that improve housing conditions for Roma and Egyptian populations.¹⁸¹ In December, the government adopted the National Action Plan for the integration of Roma and Egyptian Populations, and including measures for housing for these groups. Currently, the strategic document on housing is being drafted.

Informal constructions in the transition years affected a substantial part of the territory. Legal noncompliance continues to be one of the major challenges and the biggest obstacle to sustainable territorial planning.¹⁸² The pace of drafting spatial plans has not kept pace with chaotic development. The considerable activity in the informal construction of buildings over the years hampers urban, economic, tourist, environmental, and social development, and may generate other unanticipated consequences. An important aspect of these territory and property issues rests in completing the process of legalization of informal construction. Further, legal development and construction activity is negatively affected due to the absence of firm and comprehensive standards on the design, construction, and control of building materials.

■ Challenges

In the area of urban development the main challenges include: (1) the need for better planning at the regional and national levels in compliance with the new administrative territorial divisions; (2) the requirement to harmonize construction standards and building materials standards in accordance with

¹⁸⁰Based on data from the local government units.

¹⁸¹In 2008 and 2014, 55.4 million Lek had been invested for these groups, benefitting sixty families out of about 800 families planned by 2020.

¹⁸²It should be noted that the strategies associated with property rights also address urban, housing, and informal construction issues.

those of the EU; (3) the need to improve design and development standards; (4) the need to strengthen overall planning capacities at all levels; (5) the elimination of informal land development and the completion of the legalization process; (6) urban regeneration and social and economic integration of informal buildings; (7) the identification of the process of informal construction and the completion of the legalization process; (8) urban regeneration and social and economic integration of informal buildings; (9) the need over the medium term to achieve sustainable urban development through the application of comprehensive standards on building design and construction; and (10) completing the municipal plans for the sixty-one municipalities by 2017.¹⁸³

With respect to housing, the main challenges ahead include: (1) the need to ensure that a larger proportion of the Albanian population has access to affordable housing and do not suffer from housing exclusion due to vulnerability factors; (2) the need to further develop and then implement an integrated social housing policy that prioritizes housing needs of low income and vulnerable groups; (3) the need to provide a policy environment that is conducive to the availability, accessibility, and affordability of minimum standard housing solutions to target populations; (4) the creation of a National Registry of Housing; (5) increasing the stock of social housing for the most vulnerable and socially excluded parts of society; (6) improving housing conditions in terms of energy efficiency; and (7) improving housing conditions of the Roma and Egyptian communities as well as for other excluded or disadvantaged groups.

■The vision: Territorial planning and sustainable development at each level and full integration with each sector through urban regeneration and new models; legalization, development, integration, and urbanization of informal areas; unification and adaption of urban standards; providing suitable accommodation for low income and vulnerable groups.

■Strategic objectives

1. Growing attention and overall efficiency of urban development through:
 - 1.1 The development and implementation of a National General Territorial Plan by 2020;
 - 1.2 The development and implementation of the Integrated Inter-Sectorial Coastal Plan and Integrated Plan for the Tirana-Durrës economic area;
 - 1.3 Ensuring that the territory is covered by local territorial plans;
 - 1.4 Achieving the target of ensuring legalization of self-declared informal buildings by 2020; and
 - 1.5 The implementation by 2020 of a comprehensive set of standards on projection, building, and inspection of building materials.
2. Strengthening development of housing subsector through:

¹⁸³ The process is underway for the first thirty-one municipalities.

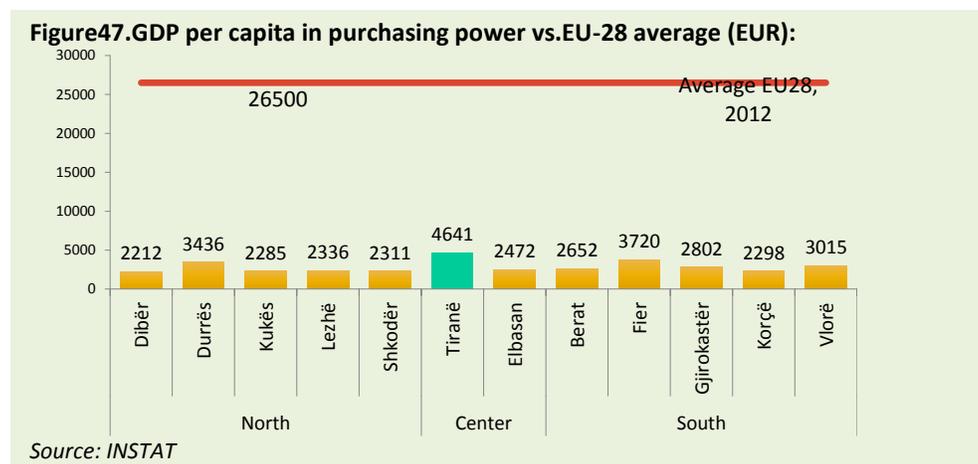
- 2.1 Improving housing conditions, and reducing the needs for housing;
- 2.2 Renewal of buildings and increased energy efficiency for apartments privatized in 1993; and
- 2.3 Measureable improvements of housing conditions for Roma and Egyptian communities;

12.3.3 Regional development management reform

■Current situation

The start of preparations for EU funded programs aiming at regional development and establishment of Regional Development Fund in 2009 have played a role in promoting balanced and sustainable development of the regions of the country, as illustrated in Table 16, and represent a broad range of GDP per capita.¹⁸⁴In order to develop integrated and sustainable regions and to adopt EU standards, Albania has adopted legislation governing regional distribution nomenclature based on the European Nomenclature for Territorial Units for Statistics (NUTS) classification. This has resulted in the defining of three statistical NUTS II regions: (1) Durrës and the northern area, (2) Tirana and Elbasan, and (3) the southern area.

In different regions there has been no development due to lack of clear policies and incentives for fostering development. Regions of the country present a very low GDP per capita compared to the levels of EU member countries (twenty-eight members countries), as reflected in Figure 47.



One of the main concerns in regional development is the inefficient use of infrastructure and services resulting from the depopulation of rural areas and the increasing congestion in urban areas (rural-urban migration). This is felt primarily in imbalances in schools, health-care centers, roads, water supply,

¹⁸⁴ There is no specific national strategy for regional development, but regional issues are addressed in a number of other strategies, such as the National Cross-Cutting Strategy for Agriculture and Rural Development, 2014–2020; the National Cross-Cutting Strategy for Decentralization and Local Government, 2014–2020; and other sector/cross-cutting strategies that have regional dimensions.

sanitation, water treatment plants for big and small polluted residential areas, and waste management and related services.

Another challenge is related to overall weak capacities of the governing authorities. These include facilities in connection with the management of regional development; current weaknesses in management competencies of staff in the districts; weaknesses in the relationships and coordination among and between the different levels of strategic planning and implementation at the national, regional, and local levels; and limited project management capacity within regional administrations.

Presently, the Albanian government has launched a reform to draft clear long-term policies for regional development, with the view of creating competitive regions, and fostering balanced development of the country, while enhancing competitiveness. This reform is focused on a comprehensive strategic, legal, and institutional framework on national policies for regional development, and for its approximation with EU cohesion policies, and to prepare for negotiations under Chapter 22 (transport, energy, environment, and regional development).

■Challenges

The main challenges that need to be addressed over the 2015–2020 planning period can be summarized as: (1) the need to address the uneven development between regions of the country and within the international context; (2) specifically, to balance development between the regions and within the municipalities, between urban and rural areas, and between coastal and peripheral mountainous areas; (3) address issues associated with migration both within and outside of the country; (4) address issues of congestion in the more developed areas and depopulation in other areas; (5) the need to address weaknesses in the covering policy framework and in institutional capacities.

■The vision: Vibrant and balanced development and cooperation among the regions of the country thus enhancing Albania’s global competitiveness.

■Strategic objectives

1. Increasing competition between regions, ensuring that the regions achieve sustainable socioeconomic development within their communities through the use of resources unique to each of them, thus enhancing Albania’s global competitiveness through:
 - 1.1 Ensuring necessary protection for economic development, generation of new employment, and delivery of VET, in line with the labor market needs;
 - 1.2 Improving infrastructure linkages within and between regions; and
 - 1.3 Expanding zonal functions and diversification of rural economies.
2. Enhancing social cohesion and reducing existing sharp inequalities in the use of resources, productivity, and social/environmental standards through:

- 2.1 Improvements in the standards of public infrastructure and utility networks;
 - 2.2 Ensuring of integrated regional environmental protection; and
 - 2.3 Generating increased public investments in the less developed regions.
3. Enhancing management effectiveness through a pragmatic approach to regional development by efficiently using limited managerial resources, through:
- 3.1 Capacity building for regional development at all levels of government;
 - 3.2 Establishment of effective and efficient mechanisms for managing regional development;
 - 3.3 Strengthened capacities of Department for Development, Financing and Foreign Aid as the main institution for the management of the Regional Development Fund;
 - 3.4 Improved inter ministerial cooperation;
 - 3.5 Improved coordination in the process of strategy development by involving regional actors to ensure that sectorial strategies (vertical coordination) take into account regional specificities and likewise regional strategies and programs that integrate the objectives of sector strategies; and
 - 3.6 Establishment of a monitoring system combined with the implementation of regional strategies at the regional level under the same standards set by the central governance.

12.3.4 Agriculture and rural development

■Current situation

Agriculture continues to be one of the most important sectors for the development potential of the country. For further defining directions for the development of the sector in 2014, the Council of Ministers adopted the National Cross-Sector Strategy on Agriculture and Rural Development, 2014–2020.

As addressed under Part II of this document, expanding surface of irrigated and drained land remains one of six key priorities of the government, and is expected to increase productivity and improve results in agriculture.

In economic growth in agriculture, compared to agro-industry, during 2007–2014, there was a growing trend for the latter. As illustrated in Figure 48, in 2014, the value of agricultural production reached 188 billion Lek, with a growth of 21.49% from its levels of 2007, while agro-industry reached 63.36 billion Lek, a growth of 32% from the level of 2007. However, it is important to ensure promotion of investments in the agro-processing area, with the goal of improving production, which has been showing a growing trend for 2012 and 2013.

In the area of management of agricultural land, with reference to INSTAT data, in June 2014, the total surface of agricultural land of 696,000 ha accounted for 24% of the overall country’s territory. Out of this surface, 561,000 ha, 81%, is privately owned and 134,000 ha, 19%, is public (owned by the state). However, due to informal constructions, expansion of urban areas and the change of use of land for public investment purposes, the land fund has been reduced, and work is underway for having the cadastral documentation accurately reflect this.

Average farm size grew from 1.14 hectares per farm in 2007 to 1.20 ha per farm in 2012, while the average size of land plots remained

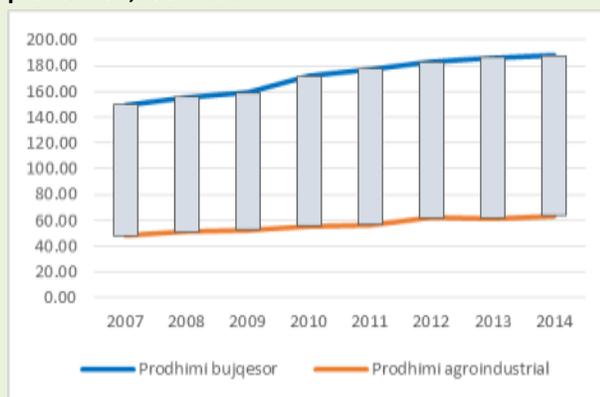
unchanged at 0.27 hectares (i.e., small farms and highly fragmented farms). With reference to INSTAT data, in June 2014, there were approximately 352,315 farm households, with the average land size in ownership for each farm household at approximately 1.16 ha.

Figure 49 presents real growth

of the agricultural sector compared to the non-agricultural sector for 2009–2014, while Figure 50 presents the trend of agricultural exports and imports for 2007–2015.

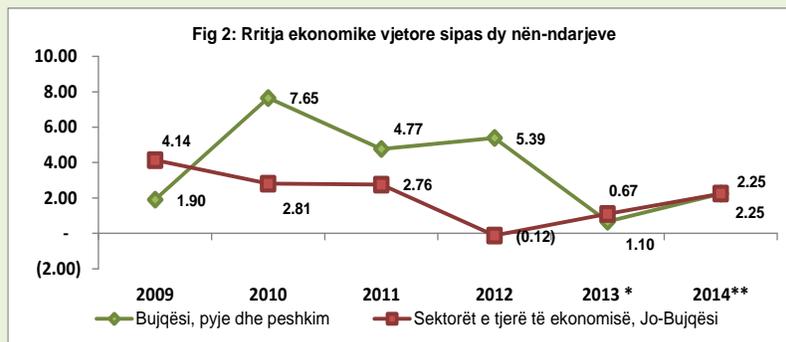
With the goal of ensuring financial support and fostering crediting for

Figure 48. Agricultural and agro-industrial production, 2007–2014



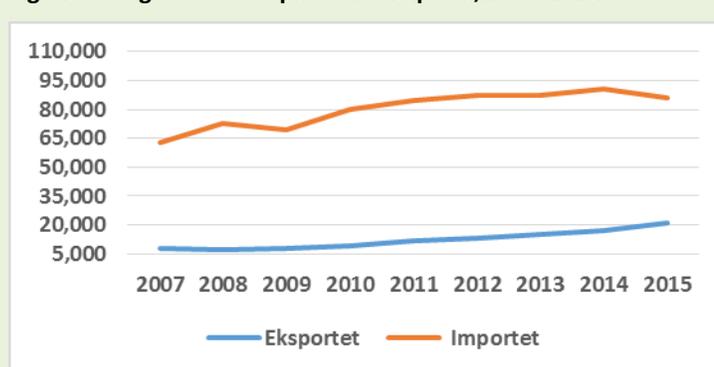
Source: Ministry of Agriculture, Rural Development

Figure 49. Real growth in agriculture versus non-agriculture sector, 2009–2014



Source: INSTAT

Figure 50. Agriculture imports and exports, 2007–2015



Source: INSTAT

agriculture and rural development, in 2015 the Council of Ministers adopted the establishment of the National Guaranty Fund for crediting agriculture and rural development. By the beginning of 2016, the government adopted the cooperation agreement between the Republic of Albania and the European Bank for Reconstruction and Development for facilitating agribusiness support.

Infrastructure for irrigation, drainage, and flood protection provides for the irrigation of approximately 360,000 ha, ensures 280,000 ha of drainage, and reduces the risk of river and sea flooding for a potentially-at-risk area of 130,000 ha. With this supporting infrastructure, approximately 120,000 farmers have full access to irrigation, with about 80,000 other farmers having limited access. More investments need to go to irrigation and drainage infrastructure, as one of the government's priorities on the aspect of water for agriculture.

Fishing and aquaculture provide significant opportunities for this sector's development in the future.¹⁸⁵Total current full-time employment in the fisheries and aquaculture sector is estimated at 4,215 persons. The employment of women in the fisheries and aquaculture sector is relatively small and is concentrated mainly in auxiliary services, such as fishnet manufacture, inland aquaculture, and fish processing.

One of the recent positive developments in Albania is the establishment and maintenance of a national fleet register.¹⁸⁶However, the economic performance of the marine fleet is poor and of low profitability and has resulted in very low investment and in low levels of activity. In some ports over half of the licensed trawl fleet is inactive with consequent significant underemployment in this subsector. To compensate somewhat, increased fish cultivation has reduced the demand for saltwater fish, and is meeting domestic demand of the average consumer as well as demand stemming from seasonal tourism. While the fish processing industry benefitted from investment over the past few years and currently has access to sustainable technology, further investment is needed to achieve higher productivity and production levels.

Finally, the government understands that farmers in the EU are becoming increasingly aware of the standards required under the GAPs, whether nationally driven or retailer driven. As this awareness expands, Albanian farmers and the agriculture and fishing industries in Albania will also need to increase their own awareness and understanding of the need to apply these standards in order to become more competitive and gain greater access to EU markets. This will require substantial investments in those agricultural subsectors where Albania has a comparative advantage. As these advancements are made, it is expected that the regional disparities will diminish.

■ Challenges

¹⁸⁵ The sector planning document for the fishing subsector addresses a broad range of aspects, such as legal and regulatory frameworks, inspection and implementation, fleet registry and employment in the sector, fishery infrastructure (ports), resources (marine, coastal, wetlands, and aquaculture), international cooperation, and funding.

¹⁸⁶ Recent fleet register data from September 2014 shows there are 553 licensed fishing vessels with 38.5% of these in Durrës, 34.4% in Vlore, 13.7% in Saranda, and 11.6% in Shëngjin (MoA Fleet Register, 2014). It might also be noted that in Albania the administration of the fishery and aquaculture subsector is based on article 9 of the Albanian law "On Fishery and Aquaculture", Regulation no. 1, dated March 29, 2005.

In addition to the challenges associated with increasing the availability of irrigated and drained land as discussed in Part II of this document, the main medium- to longer-term challenges in the agriculture sector include the need: (1) to address low levels of agricultural productivity and underdevelopment in the rural regions; (2) for greater attention and support to farmers and agro-business operators to better prepare them to exploit EU integration opportunities or to adopt EU agricultural market policies (especially with respect to the development of quality policy and CMO standards during the approximation process); (3) to accelerate the transformation of agriculture from subsistence and survival by in part addressing the small size and extreme fragmentation of farms; and (4) to address the trade imbalance in the sector by increasing exports of agro-food-products and lessening the dependence on imports.

Additional challenges for the sector include: (1) the need to increase the competitiveness of agriculture, agro-processing, and fisheries within the national, regional, and global markets; (2) addressing opportunities for optimizing farm size through land consolidation and land market development; (3) the need to enhance the transfer of technology and innovation; (4) further improvements in agricultural infrastructure systems for the management and sustainable use of natural resources and climate change mitigation; (5) the need to both expand and improve basic and recreational services in order to diversify income-generating opportunities in rural areas; (6) the need to establish facilities for collection, storage, and manufacturing, including the standardization and establishment of regional wholesale markets that offer agricultural products (seeds, fertilizers) and technical assistance; (7) the requirement for harmonization with international and regional legislation, including the implementation of the domestic legal framework; and (8) the need to strengthen capacities for fisheries and aquaculture.

■The vision: An efficient, innovative, and sustainable agro-food sector able to cope with competitive pressure in the EU market, and productive rural areas that provide economic activities and employment opportunities, social inclusion, and quality of life for rural residents.

■Strategic objectives¹⁸⁷

1. Promoting sustainable food production and quality by developing a competitive and innovative agro-food sector that is able to cope with competitive pressures.
2. Meeting EU market standards and requirements through:
 - 2.1 Annual increase of agricultural labor productivity, per annual work unit/full time employees;
 - 2.2 Ensuring that all farms and registered agro-processing operators are in full compliance with EU standards (application of standards for registered agro-processing farms and operator, in line with EU norms);
 - 2.3 Increased average farm size and increased average size of commercial farms;¹⁸⁸

¹⁸⁷ Development indicator objectives are defined in the National Cross-Sector Strategy for Rural and Agricultural Development.

¹⁸⁸ Farm size includes rented surfaces for the long-term.

- 2.4 Improving organization of chain values through the establishment of producers associations and groups and similar types of cooperation among farmers;
 - 2.5 Improving export-imports ratios:
 - 2.6 Ensuring the overall sustainable management of natural and agricultural resources through the development of applicable national GAPs that take into account specifics of landscape, soils, and climate in Albania.
 3. Ensuring sustainable management of natural resources and undertaking climate actions through:
 - 3.1 Better management of forests and water, and the application of agricultural production methods in environmental protection and mitigation of climate change;
 - 3.2 Increased number of certified organic farms; and
 - 3.3 Increased number of farmers beneficiaries from irrigation infrastructure.
 4. Balancing territorial development in rural areas by promoting diversification of economic activities, creation of employment, social inclusion, and improvement of living conditions through:
 - 4.1 Generation of new employment in agro-processing activities;
 - 4.2 Establishment of new micro-enterprises, together with generation of new employment in rural areas, through diversification of revenue generating activities;
 - 4.3 Establishment of new jobs in non-agriculture activities and other services;
 - 4.4 Growing number of farmers with non-farm revenues;
 - 4.5 Promotion of self-employment and entrepreneurial activities among migrants from rural areas, and formalization of their activities.
 5. Pursuing development of the sector, and ensuring sustainable management of living resources of marine and internal waters through:
 - 5.1 The development of a multi-year plan for sustainable management of living resources of marine waters and internal waters;
 - 5.2 The establishment of an effective system of data collection on the fishing fleet, the amount of fishing and landings, and the biological status of populations in Albanian waters and aquaculture;
 - 5.3 The construction of a fishing Port in Durrës, with associated wholesale fish markets;
-

- 5.4 The installation of necessary infrastructure for the repair of fishing vessels in the four ports;
- 5.5 The strengthening of human and infrastructure capacities for the control of fishing and aquaculture activities (e.g, equipment and logistical tools for data communication serving the mission of the inspectorate within the structure setup for the monitoring and surveillance of fisheries and aquaculture);
- 5.6 Greater cooperation with regional and international entities involved in fisheries and aquaculture (participation in activities and the established working groups); and
- 5.7 The management and protection of fishery resources in line with the EU Common Fishery Policy.

12.3.5 Tourism development

■Current situation

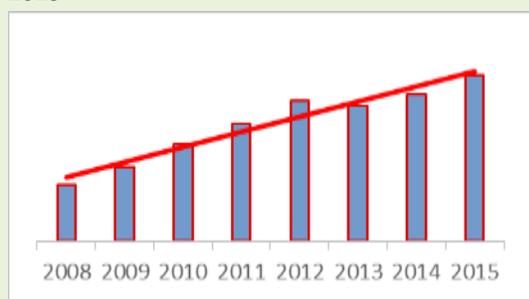
In recent years, tourism has become one of the most important growing sectors of the Albanian economy and is considered by the Ministry of Economic Development, Tourism, Trade, and Entrepreneurship as one of the three main engines of national growth (along with FDIs and technical and economic development zones). According to data, the percentage of contribution of tourism in employment saw a slight increase in 2014, while there was a drop in the course of 2010–2013 (Table6). However, there was a constant increase in the number of tourists during 2008–2015 (Figure 51), and this

Table6. Percentage of tourism contribution in employment, 2010–2014

	2010	2011	2012	2013	2014
Direct contribution in employment	5.6	5.2	4.9	4.2	5.3
Total contribution in employment	20.1	18.4	17.2	15.2	19.2

pace needs to be promoted further through sector development policies.

Figure 51. Number of foreign tourists, 2008–2015



Source: WTTC

GDP.¹⁹⁰

Albania is increasingly being recommended as a tourist destination by different international tour operators and travel guide books. The World Travel and Tourism Council calculates that the direct contribution of tourism to GDP in 2014 totaled 82.3 billion Lek, or 5.9% of GDP.¹⁸⁹ The total contribution was estimated at 291.6 billion Lek or 21% of the

Albania is increasingly being recommended as a tourist destination by different international tour operators and travel guide books. The World Travel and Tourism Council calculates that the direct contribution of tourism to GDP in 2014 totaled 82.3 billion Lek, or 5.9% of GDP.¹⁸⁹ The total contribution was estimated at 291.6 billion Lek or 21% of the

¹⁸⁹Direct contribution consists of total expenditures within a given country for purposes of travel and tourism by residents and nonresidents for business and leisure and "individual" expenses of the government for other services such as cultural ones (museums, archaeological sites, etc.) or recreational (national parks, etc.).

¹⁹⁰The total contribution of travel and tourism includes their broader impact (indirect and induced impact) in the economy. "Indirect" contribution includes GDP and jobs supported by expenditures for investment in travel and tourism; general government spending supporting the travel and tourism activity in various ways, such as expenses incurred on behalf of the "community at large"; domestic purchase of goods and services that are directly connected with tourists.

The tourism sector has generated economic development, employment, and self-employment opportunities. In terms of employment generation, tourism accounted for 5.3%¹⁹¹ of total national employment in 2014 (see Table 5). Indirectly, tourism accounted for 19.2%¹⁹² of employment in 2014. Tourism revenues in 2014 were 1.283 million EUR.

Tourism has also become more diversified over the past several years, and is now seen to comprise three main product areas. The first is coastal tourism where it has developed as the main product focusing on “beach and sun” tourism. The main coastal destinations are Velipoja, Shëngjin, Durrës (Adriatic Sea); and Vlora, Himara, Saranda, Ksamil (Ionian Sea). The “beach and sun” product in some regions of Albania offers advantages in the natural environment, accommodation facilities, and culinary and special services.

The second product is cultural tourism. While it has not been the main focus, Albania’s resources and history in archaeology, heritage, and culture offer considerable potential. This area has been identified as Albania’s main strengths by various visitor surveys and travel trade from foreign markets. Albania offers three World Heritage Sites: the Butrinti archaeological park, Berat, and Gjirokastra, followed by an array of historic and cultural attractions and monuments.

The third product is ecotourism in natural and rural areas. Albania’s climate, geography, and physical variety of territory, represented by a range of mountains, lakes, rivers, and lagoons, is accompanied by rich biodiversity of flora and fauna. These are present in a number of national parks and nature reserves within the country. Natural and rural areas in Albania offer possibilities for the development of rural tourism, ecotourism, and nature-based activities (river rafting, paragliding, mountain biking, fishing, trekking, climbing, hiking, horseback riding, study tours, etc.). Some of these activities are the main motivation for visits by foreign visitors to these locations, and the reason why this sector is seen as one of the main engines of national economic growth.

■ Challenges

Despite the generally positive situation, some major challenges need to be addressed by the sector. The broad field of tourism is generally underdeveloped and it is characterized by a lack of standards, poor quality in terms of tourist services and facilities, unsustainable development of tourism products, and a lack of cooperation and coordination among the players who are or could be an integral part of the industry. Some of the specific challenges include: (1) the need for greater integration of tourism planning and tourism destinations; (2) addressing weaknesses in the range and quality of tourism products; (3) developing a more favorable legal and institutional environment for attracting domestic and foreign private investors; (4) taking a more comprehensive and strategic approach to tourism development in Albania to ensure sustainability as well as the generation of income and employment

¹⁹¹This includes employment by hotels, travel agencies, and airlines and other transport services for passengers (excluding urban services). It also includes restaurants activities and recreational activities that are directly supported by tourists.

¹⁹²Total contribution to employment is the number of jobs directly generated by the travel and tourism industry’s contribution plus indirect and induced contributions, consisting of capital investments from all sectors in the tourist industry and the purchase of domestic products/services directly from various sectors of the tourism industry.

opportunities; and (5) approving and implementing the National Cross-Cutting Strategy for Tourism, 2015–2020.

■The vision: An attractive, authentic, hospitable, and welcoming tourism destination in Europe, based on the sustainable use of natural, cultural, and historic resources, easily accessible from international markets.

■Strategic objectives

1. Development of sustainable tourism in the country in order to contribute to economic development and employment through:
 - 1.1 An increase in overnight stays, for internationals, and modest growth of emigrants and ethnic Albanians;
 - 1.2 Growth of direct contribution of tourism in GDP; and
 - 1.3 Growth of direct contribution of tourism in employment.
2. Building an integrated tourism model, with cultural, natural, and coastal dimensions through:
 - 2.1 The development of a "Branding Albania" strategy with a unified logo and slogan related to tourism investment;
 - 2.2 Approval and implementation of the National Strategy for Tourism Development 2015–2020;
 - 2.3 The development and implementation of a National Plan for Tourism Development, integrated with the General Plan on National Territory; and
 - 2.4 Generation of new cultural, natural, and coastal tourism products.

12.3.6. A dynamic and sustainable mining sector

■Current situation

Currently, mining production in Albania is carried out entirely by the private sector (the former state mining enterprises are in their final stages of liquidation). Recent years witnessed a significant increase of about 36% in total mineral production. The major contribution to production was from basic minerals (chromium and copper), which are extracted entirely for export purposes.

Significant investments were made in the mining-processing sector, as evidenced by the operation of the ferro-chromium plant in Burrel and the construction of five new enrichment plants. Most of the mining activity, associated processing, and related investments were carried out primarily in the poorest regions of the country and this has had a positive impact on generation of new employment. Nonetheless, private companies are not fully active, due to market price fluctuations, a drop in the

construction activity, and poor performance of different entities involved in investments, market, expiry of permits, and consumption of reserve.

Despite generally positive performance in the sector, several concerns remain. First, production levels are hampered by delays in securing anticipated investments. This applies to the production of chromium as well as other minerals, although there was a recent positive inflow of investment for chromium. Environmental issues generated from mining activity over the years also need to be addressed, although such issues are continuously being brought to the attention of appropriate authorities, respecting legal regulations and follow up on the ground. Finally, there is a tendency on the part of operators to obtain mining permits only to sell them through the transfer of these rights. In response, the government enacted legal amendments to regulate the situation and it is currently being monitored.

■Challenges

Priority attention in the future will be given to: (1) the use of minerals in such a way as to ensure their sustainability as a national resource for the development of other branches of the economy; (2) improvements in the efficiency and effectiveness in the utilization of these natural resources in light of the fact that they are nonrenewable; and (3) increased processing aimed at final products in order to generate greater revenues and to reduce reliance on imports.

In general terms, the main challenge ahead lies in the creation of an enabling, dynamic, harmonious, and sustainable sector. Specific challenges include the need to: (1) promote domestic and foreign investment; (2) apply new technologies; (3) increase processing of minerals in location; (3) enhance competition, transparency, and professionalism of mining institutions; (4) strengthen capital mining; (5) increase specialization in regional markets, Europe, and beyond; (5) position the state as having the inalienable right to the ownership of the resource; (6) ensure that the country's mining policies support EU integration; and (7) reevaluate mineral resources according to international standards.

■The vision: A dynamic, sustainable, growing, and harmonious Albanian mining industry that contributes the wealth of the nation and well-being of its people by offering more and better employment opportunities, ensuring environment protection and preservation, and meeting all EU integration standards.

■Strategic objectives

1. Improving legal and by-legal framework on mines through:
 - 1.1 Establishing the terms and rules for changing the surfaces of mining permits;
 - 1.2 Establishing and managing financial guarantees;
 - 1.3 Strengthening cross-institutional cooperation regarding procedures for promoting investments in the sector.
2. Promoting investments climate and flow of investments for mining development by:

- 2.1 Opening the depths of Bulqiza mine;
- 2.2 increased exploitation of the other minerals, such as magnesium, combined with an increased level of processing and associated market value;
- 2.3 More effective use of the mineral stocks and tailings that are deposited next to mines and enrichment plants;
- 2.4 Increasing the level of recycling to reduce the costs of manufacturing; and
- 2.5 Reactivation of mining facilities that were not operational for different reasons (including the mines of Rehova, Përrenjas, Gomsiqe,etc.).

PART IV: IMPLEMENTATION AND COORDINATION

The implementation of the NSDI II is a very significant undertaking for Albania, requiring consistent and meaningfully applied political will, the coordination of all state actors internally within the country, and cooperation externally with Albania’s development partners. Furthermore, successful implementation depends on the commitment of significant resources, and the cost-effective absorption and management of these resources within state institutions to achieve the expected results, outcomes, and impacts. Successful implementation of the NSDI II depends on sound governance, clearly defined accountabilities, transparency throughout, and the ongoing participation of a wide range of institutions within the government and externally.

This section of the NSDI II describes: (1) the internal and external coordination mechanisms and associated institutional responsibilities; (2) monitoring and reporting on NSDI II progress; and (3) other important implementation considerations.

13.0 COORDINATION MECHANISMS

13.1 Overall “architecture”

The government is using a combination of internal and external mechanisms at the political and institutional levels for the coordination of the NSDI II, both in terms of its development and its implementation. In addition, there are in place joint coordination mechanisms in which both the government and development partners may participate. These coordinating mechanisms have been in place for several years, with slight modifications over time, and have been playing and still play a critical role in advancing Albania’s national development and European integration objectives.

13.2 Internal coordination mechanisms

■Political policy coordination: the Strategic Planning Committee (SPC)

At the political level, the NSDI II as well as the overall IPS process is directed by the SPC, the highest level interministerial decision making body chaired by the Prime Minister.¹⁹³ The SPC approves the main directions of the NSDI II, defines and approves the priorities of the government, defines and approves the framework of medium-term budget planning, and ensures the strategic coordination of external assistance with Albania’s development partners. In addition, the SPC plays the role of the National Investment Committee (NIC) which approves priority investments projects and the National Project Package,¹⁹⁴ which is an instrument for planning medium- to long-term priority strategic investments for the country’s development.

¹⁹³With permanent presence of Deputy Prime Minister, Minister of Finance, Ministers of Finance, EU Integration and Economy (DPM, MoF, MEI, MEDTTE), and occasional presence of other relevant ministers depending on the topic of discussion.

¹⁹⁴ Reference to EU terminology: National Single Project Pipeline.

■Institutional policy coordination: the Department of Development, Financing, and Foreign Aid (DFFA)

At the administrative or institutional level, the DDFFA, within the Office of the Prime Minister, is responsible for coordination of policies and foreign assistance at senior levels related to national development objectives and EU integration. The DDFFA plays the role of the Secretariat of SPC/NIC and of the Committee for the Development of the Regions, as key structures for the operation of an integrated, coherent, and efficient planning and policy-making system. As integral parts of the DDFFA there are four units that perform key functions related to policy coordination and the central level.

- Strategic Planning and Development Unit at the DDFFA is responsible for: (i) coordination of national sectorial and cross-sector strategies and programs; (ii) formulation and monitoring of NSDI II; (iii) ensuring coherence between NSDI II and other planning instruments such as MTBP, etc.; (iv) harmonization of national development policy with regional development policies or Fund for the Development of Regions. This unit is in charge of following and coordinating the process for putting together the National Projects Package.
- Finance Programming Unit at the DDFFA is responsible for supervising: (i) strategic budget development, while ensuring harmonization of domestic and external financings; (ii) guided programming of donors in line with government priorities; (iii) ensuring harmonization and funding efficiency of donors with the budget; (iv) monitoring foreign aid implementation.
- Research and Policy Development Unit at the DDFFA is responsible for: (i) development of policy plans and innovative reforms, and a "good governance model" for Albania, while making use of best regional, national, and international practices; (ii) guidance and development of strategic research partnerships with academic and research institutions (think tanks).
- Unit for Supporting Strategic Business Investments at the DDFFA is in charge of: (i) guiding financing programs for supporting investments with an impact on the economy; (ii) coordination of support programs for private strategic investments, according to strategic sectors; and (iii) development of favorable concepts and models for promoting and attracting strategic business investments.

■Sector coordination: the Integrated Policy Management Group (IPMG)

In March 2015 the government adopted the sector approach to policy coordination. The EU has defined it as a process in which “all significant funding for the sector—whether internal or external—supports a single policy and expenditure program under government leadership, with common approaches across the sector.” The sector approach and use of IPMGs is expected to strengthen overall government policy coordination, programming, and the implementation of EU integration and national development initiatives in priority sectors. This is to be achieved through the development of: (1) national sector programs that set out the policy approach, performance measures, budget requirements, funding

sources, institutional arrangements, and monitoring processes;¹⁹⁵ and (2) sector support programs that contain those elements of the national program supported by EU and other development partners with financing instruments such as technical assistance, loans, grants, budget support, etc. IPA budget support from the EU will be dependent on the formation and functioning of IPMGs. The sector/IPMG approach will put into practice the NSDI II principles listed in Section I of this document.

The main institutional mechanism for the sector approach is the IPMG. The IPMGs are to lead and coordinate on a continuous and systematic basis the development, implementation, and monitoring of sector reforms in Albania in line with the government's six key priorities, the NSDI II, the MTBP, the EU accession process, and Albania's international obligations. The IPMGs will initially be responsible for the development of National Sector Programs and specific sector programs.

The IPMGs will ensure that the SPC and other senior horizontal ministerial committees retain their strategic focus and effectively oversee the implementation of the government's priorities and overall program. Each IPMG operates on the basis of: (1) an individual Order of the Prime Minister setting out specific objectives, composition, and mandates; and (2) tailored guidelines to suit the particular circumstances of the sector.¹⁹⁶ The main principles and work practices are set out in a set of generic guidelines and will be observed across all IPMGs, which are part of an Order of Prime Minister establishing the sector approaches and IPMGs.¹⁹⁷ It is important to point out that the IPMG is a supervisory and coordinating body. It does not carry out the actual work required to prepare and implement specific sectorial reforms in the pilot sectors.

The IPMG concept is initially being applied in four pilot aspects: (1) integrated water management; (2) competitiveness and innovation; (3) good governance and public administration; and (4) employment and social sector. By 2017, the projection is for IPMGs to be further expanded and consolidated for all priority sectors of the government.¹⁹⁸ Based on the needs of these pilot groups, IPMGs will be assessed to inform future policies and their implementation regarding sector approaches and the use of IPMGs.

■ Coordination of Public Finance Management Reform (PFMR)

The implementation of the PFMR is coordinated by the PFMR Steering Committee and chaired by the Minister of Finance. The primary role of this committee is to provide oversight and be responsible for directing and monitoring PFMR activities. In addition to other duties, the committee will ensure

¹⁹⁵ In each sector, sector planning documents are being drafted as part of IPA specific document meant (1) to assess the level of willingness regarding sector approach, and (2) to plan and order IPA II priorities.

¹⁹⁶ One of the more important features of the system is the setting up of a full-time secretariat, based in the respective lead ministry to serve each IPMG by providing the managerial, coordination, and administrative support, as well as access to technical assistance to the IPMG and any thematic work groups.

¹⁹⁷ See "Integrated Policy Management Groups - Draft Operational Guidelines," November 17, 2014, prepared under the EU Project Preparation Facility, executed by the Austrian Development Agency.

¹⁹⁸ The IPMGs are expected to gradually replace the existing sector working groups (SWGs). During the NSDI I period 2007–2014, a total of thirty-two SWGs and subgroups were established for most of the sectors and subsectors in order to improve coordination and monitoring of external assistance. Improvements to this coordinating approach were made in 2009 and 2010 in terms of organization and regular meetings. However, one of the lessons learned was that these structures did not prove particularly effective in terms of broader policy coordination, though they were useful for the exchange of information and coordinating donor inputs to specific sector programs and projects.

appropriate feedback to the DDFFA monitoring mechanism and will address any coordination issues arising between stakeholders and facilitate policy dialog with the DDFFA. A supporting technical committee is to be set up to catalyze PFMR activities, and the DDFFA will be a member of this committee.

13.3 External coordination and development partnerships

The Government of Albania enjoys a strong working relationship with its development partners. It is through this partnership that the country has been able to achieve many of its national, sectorial, and EU integration objectives over the years. As Albania's economy and society continues to develop, and the country moves closer to its ultimate goal of becoming a member of the EU, the development partnership will become more focused. Fewer external development partners will be active and aid flows will reduce over time. However, this will not diminish the need for strong and effective external coordination.

■Donors Technical Secretariat (DTS)

DTS is a common initiative of Albania's development partners to strengthen exchange of information between the development partners and the government, to enhance aid effectiveness, and to come to the assistance of the government for taking more national ownership in the process of aid coordination. DTS is composed of four multilateral partners: EU Delegation Office, Organization for Security and Cooperation in Europe, the World Bank, and United National Development Program, and two bilateral development partners, on annual rotation bases.

■Development and Integration Partners (DIP) meetings

The DIP meeting is a technical forum, organized by the DTS, where bilateral and multilateral development partners meet periodically to discuss and take decisions on various donor coordination issues. The meetings also constitute a platform for DDFFA officials to discuss topics related to the IPS, the NSDI II, government priorities, national and sector strategies, aid coordination, and related issues. When the government attends these meetings, they are cochaired by the DTS chair and the director of the DDFFA. Representatives from the Ministry of European Integration and Office of the Prime Minister Delivery Unit also participate in the meeting depending on the agenda topics

13.4 Joint coordination mechanisms

■Government–Donor Roundtables (GDRT)

GDRT is cochaired by the Deputy Prime Minister and the permanent chair of the DTS. GDRT addresses strategic issues of coordination, monitors major progress in improved aid effectiveness and provides a forum for government–donor dialog on critical issues such as country strategic framework, EU integration, or IPA programming. Annual monitoring reports on NSDI II performance may also be presented and discussed. While GDRT have not been active for some time, the government and its development partners may decide to reactivate it in some form.

■DTS steering committee

The technical level of the six DTS agencies (DTS steering committee) meets with the DFFFA on a monthly basis to discuss operational and strategic issues, including follow-up on issues of aid coordination identified by the high level development partner and government structures. The heads of the seven DTS agencies meet on an ad-hoc basis to offer strategic advice to the steering committee and to represent development partners in high-level meetings with the government.

■Development cooperation protocols: Bussan Partnership

The elements of development cooperation between the Government of Albania and its development partners have been set out in a series of agreements and protocols.¹⁹⁹In late 2011, the fourth high level forum on aid effectiveness was held in Bussan, Republic of South Korea, during which time the signatories, including Albania, agreed to build on past experiences and to monitor performance in aid effectiveness based on four principles: (1) ownership of development priorities; (2) focus on results; (3) inclusive partnerships; and (4) transparency and accountability to each other. The mutual responsibilities between Albania and its development partners may be summed up as follows:

The Government of Albania will:

- Set the country's development objectives and policies through a broad-based and inclusive stakeholder dialog and consultations.
- Translate the NSDI II vision and strategic policy priorities into operational sectorial and cross-cutting strategies, programs, and action plans expressed in both the MTBP and annual budgets.
- Take the lead in coordinating external assistance among its development partners, civil society, and the private sector.
- Coordinate and maintain a harmonized and rationalized schedule for all development partners' joint missions.
- Adopt a participatory approach in contributing to development partners' own country strategies, partnership frameworks, and similar documents, including joint assessments of progress to achieve aid and development effectiveness.
- Ensure a smooth transition in development partners' engagement at the county level.
- Harmonize the definition of sectors for the NSDI II and the MTBP in order to improve consistency and transparency on annual budgetary allocations, thus enabling development partners to align their support to the national budget process.

¹⁹⁹ Albania was a signatory to the initial Paris Declaration on Aid Effectiveness in 2005 (www.oecd.org/dataoecd/11/41/34428351.pdf); as well as subsequent High Level Forums on Aid Effectiveness that were convened by OECD, in Paris (2005), in Accra (2008), in Bussan (2011), and in Mexico City (2014).

- Develop harmonized indicators that will be used to monitor and report on annual progress of established and agreed targets.
- Coordinate an annual government–development partner forum to review annual progress of NSDI II implementation, and to foster ongoing dialog.
- Coordinate the regular DIP meetings between the government and development partners.

Albania’s development partners will:

- Align their various country policies, strategies, and assistance programs to the NSDI II, the MTBP, and other relevant strategies, laws, and regulations of the government.
- Align their support to Albania through use of the government’s national systems in budgeting, procurement, reporting, accounting, auditing, and monitoring and evaluation. Annual assessments will be done to monitor progress of development partners’ use of national systems.
- Ensure that their support is integrated within the MTBP framework and use the sector approach and the IPMGs in planning, budgeting, and implementation of programs.
- Work closely with the Ministry of Finance to ensure that development partner support is integrated into the MTBP to provide reliable indicative commitments of aid over a multiyear period (three years).
- Work closely with the DDFFA in the Office of the Prime Minister to ensure effective ongoing coordination and harmonization of development assistance.
- Seek to improve the predictability of aid flows and absorption of aid funding.
- Commit to update information of External Aid Management Information System to warranty timely information and transparency in the implementation of programs/projects.

14.0 MONITORING AND REPORTING

■Annual reporting

The Strategic Planning and Development Unit at the DDFFA will establish the monitoring/oversight system for sector and cross-sector strategies, while standardizing and coordinating the process, and proving assistance to the ministries in monitoring the indicators of the strategies. Information System for Integrated Planning System is part of this system.

The unit will be in charge of drafting NSDI II performance progress reports. Reports will (1) run assessment of progress with regard to strategy implementation; (2) use other pieces of available statistical information to analyze long-term trends and compare Albania to other countries in the region;

and (3) selectively identify issues of critical importance in the process of meeting long-term development and integration national objectives.

The annual reports may not address progress in all of the sectors and subsectors, but rather may focus on only those areas that warrant special attention, either in terms of significant achievement or in terms of significant issues, such as major policy shifts, serious implementation issues, or other factors. The reports will be produced in a timely manner, so that government institutions and development partners might take the appropriate action. The production of the annual reports may be combined with an annual government–development partner conference or roundtable.

■National indicators

Implementation of NSDI II will be benchmarked against, and monitored through, three sets of national monitoring indicators (Annex 2). The first group of indicators are strategic development indicators that focus on specific aspects regarding development and EU integration. The second group includes main economic development and macroeconomic sustainability indicators. While the third group includes main sector indicators that are integral part of sector strategies. These indicators measure outcomes or products, and are generally available on annual bases.

It is important to note that annual progress reports will not present a full-fledged strategy, as this is the purpose of the NSDI II document; will not outline a forward-looking framework, as this is spelled out in the MTBP and is the responsibility of the Ministry of Finance; and will not substitute the Ministry Annual Reports which are to be produced by individual line ministries and other government institutions.

■Monitoring the progress of regulatory reform

Regulatory reform in Albania has been and will continue to be a very high priority of the government for EU integration, for the national development policies and strategies contained in the NSDI II and sectorial/cross-cutting strategies, and for the achievement of the government’s six key priorities. Formulation, review, and implementation of laws and regulations comprise the most significant institutional challenge for ministries and agencies of the government.

The government, development partners, and other organizations run annual routine and periodic activates of monitoring and assessment, and will continue to cover this aspect and report about it. Still, the need remains for the integration of these aspects to ensure better quality and levels of policy-making and legislation, and to draft better policies.

15.0 IMPLEMENTATION-RELATED RISKS

15.1 Main risks and mitigation measures

The government faces a number of risks in implementing the NSDI II and delays in achieving its vision for national development and EU integration. Most of these risks are internal and at the micro or sector levels (e.g. social, market, environment, health, credit, etc.), and are addressed in the sector strategies.

However, there are several risks at the central planning, policy, and coordination level, and of a cross-cutting nature that could have negative impacts government-wide. Table 7 below indicates high level risks that the government is faced with in the implementation of NSDI II. For each risk area, an estimation of the likelihood is given (High-H, Medium-M, Low-L), the potential level of impact (H, M, L), and the mitigation measures that may be taken by the government. In most cases, the application of the “principle of sustainability” will go a long way in mitigating these risks.

Table 7. Main risks in the implementation of NSDI II and mitigation measures

Main risk during implementation	Likelihood	Impact	Mitigation measures
1. Severe absorptive capacity constraints within the public administration and civil service could result in significant delays, low quality NSDI II implementation, and poor returns on development funding investments.*	H	H	A more determined and strategic approach to capacity assessments, regulatory impact assessments, and increased investments in capacity development at all levels. Stronger monitoring and reporting on NSDI II implementation, with a focus on capacity issues. Broaden recruitment and promotion base for a sustainable capacity within public administration by introducing performance-based promotion on clear criteria (which would increase access for women to management positions), ensuring that capacity building is equally distributed to both men and women in all spheres.
2. Limited policy and implementation coordination could lead to misallocation of resources, increased internal competition for resources, duplication, delayed and ineffective decision-making, loss of overall government strategic focus.	H	M	Greater level of political will and commitment to the IPS, the NSDI II and supporting systems and capacities necessary for coordination, with special attention to strengthening the related human resource capacities, as also noted above.
3. There is a risk that the resources available both in terms of funds and human resources are not sufficient, particularly with respect to the design and implementation of major reforms.*	M	M	Greater focus on the affordability of new investments and ensure that existing and new investments are sustainable (e.g., through carrying out regulatory impact assessments, capacity assessments, sound planning, etc.). New investments to be supported only when basic requirements for adequate management are in place.

Main risk during implementation	Likelihood	Impact	Mitigation measures
4. Corruption, in its many forms within the public administration and the civil service, could hamper the implementation of all reforms, including those to the administration and civil service.*	H	M	Determined and more forceful implementation of the national strategy on anti-corruption, and greater enforcement of the laws on anti-corruption.
5. Poor performance of the civil service could equally hamper implementation due to limited scope for remuneration, performance appraisal and promotional opportunities, training and development, etc.*	M	M	More attention and more focus in the implementation of Public Administration Reform Strategy.
6. Politicization of the civil service could impede the implementation of the NSDI II through excessive turnover of staff (especially at the senior levels); and in the case of the media and civil society, politicization could impede the overall development of democracy.*	M	M	More determination in implementation and higher focus on the Law on Civil Service, reforms of electoral law, and media reforms.
7. Lack of political will to move forward with certain key reforms, like land management and property rights, could delay or dampen economic development.*	L	L	More detailed study and a clearer understanding of risks and formulation of appropriate risk management strategies.
8. Overly optimistic forecasts on GDP and government revenue could adversely affect economic growth and worsen the debt and deficit situations.	L	L	Constant monitoring and reporting on macroeconomic and fiscal indicators, and rapid adjustments to monetary and fiscal policy to maintain GDP/debt and fiscal deficit targets.

* This risk is identified in and extracted from the Indicative Strategy Paper 2014–2020.

15.2 A note on development of capacities

The vast majority of the strategic objectives detailed in this NSDI II deal with capacity development of one form or another; capacity constraints are seen as one of the major risks to successful implementation of the NSDI II. It is well recognized by the government, the EU, development partners,

and many other stakeholders that Albania still struggles with capacity-related issues. These issues are long-standing and not new: inadequate policy and implementation coordination, severe limits in absorptive capacities, numerous constraints in public administration and civil service, and so on. The effects are predictable: suboptimal performance, significant delays in disbursements, bottlenecks, delays in decision-making, and a sense of overall frustration at the political and bureaucratic levels, as well as with Albania’s development partners. This is not a question of lack of financial resources, since the financial resources are there—it is that they are simply not deployed and absorbed cost-effectively.

■ A more strategic approach regarding development of capacities

The cost-effective implementation of the NSDI II, as well as all sector, cross-cutting sector, and other strategies and plans, depend on the application of a more comprehensive and strategic approach to capacity development. This depends on the understanding and acceptance of some basic capacity development concepts.²⁰⁰

- State capacities in Albania, as elsewhere, must be understood as an integral part of the broader realm of national capacities, including those of civil society and the private sector. It should be understood as the ability of state to manage the business of the executive, judiciary, and the legislature toward national and human development ends and, in the case of Albania, toward EU integration.
- System-wide linkages. The inter link ages between three levels of capacity must be taken into account: the systems or enabling environment level, the institutional level and the individual human level.
- Multidimensional nature of capacities at each level. For example, at the individual level within the civil service, it is not enough to simply develop technical skills, but rather to consider as well a broader set of interrelated hard and soft capabilities (e.g., attitudes, ethics, values, etc.) linked to the objectives of the specific institution, governed by proper regulations and processes, and supported by good systems of performance and measurement.
- Building on the current base. Capacities to be developed must to the maximum extent possible build on the current base, that nothing should be torn down or removed if it works and/or can add value to new capacity solutions.
- Capacity development as change. It is often a process of complex change, often requiring considerable time, especially in cases of Albania’s many reform initiatives. Identifying drivers of change and managing change, risks, and expectations need to be important considerations in design and implementation.

²⁰⁰The following text are for the most part extracted directly from a recent UNDP report prepared in collaboration with the Ministry of European Integration: “National Human Development Report: Capacity Development and Integration with the European Union,” 2010, http://hdr.undp.org/sites/default/files/albania_nhdr_2010.pdf.

■ Better use of methodology and instruments

Albanian ministries and institutions already have at their disposal a range of methodologies, management tools, and techniques to tackle capacity development more strategically and in such a way as to develop sustainable results, including especially the focus on understanding and strengthening absorptive capacities. Well established methodologies exist in the ICT and engineering domains (e.g., pre-feasibility and feasibility studies, requirements analyses, etc.). However, such essential management tools are not being used consistently, or effectively, due in large part to staff constraints (either not enough staff, or not adequately trained staff, or both). Hence, it is a matter of a better application and enforcement of government policy in using such tools. Two such tools are discussed below.

■ Regulatory Impact Assessment (RIA)

Albania had developed a policy for RIA. This is an important part of the law or regulatory drafting process and it is in compliance with the EU's "better regulation approach." The policy calls for the development of an "explanatory memorandum" as an important part of the law drafting process and is required to be produced by any ministry or government institution seeking a new law or regulation.²⁰¹The memorandum would contain:

- A justification in terms of the law or regulation's relationship to Albania's national development and EU integration policy objectives;
- An assessment of possible benefits, economic costs, and level of effectiveness;
- Any issues that may relate to enforcement;
- Assurance of conformity with existing laws and harmonization with EU legislation;
- Assurance of stakeholder consultation and participation in the drafting process; and
- Identification of institutions and/or bodies responsible for enforcement.

Significantly, a full budgetary assessment would form a critical part of the memorandum and justification for the proposed law or regulation. The assessment would contain: (1) estimates of the total amount of annual expenses for implementation; (2) an analysis of budgetary expenses for the first three years of implementation; (3) an identification where public funds were used; and (4) an indication of budgetary allocation. Existing procedures require the ministry or institution to submit the draft law or

"The experience of the Member States has shown the importance of regulatory impact assessments. They have proven key to determining whether the economy and businesses are ready to face the far-reaching challenges in national legislation."

From an address made by the EU Delegation to Albania at an international conference in the Framework of SME13, May 30, 2014

²⁰¹Law no. 9000, January 30, 2003; DCM no.584, August 28, 2003.

regulation together with the explanatory memorandum and budgetary assessment for comment to the Ministry of Justice (for legal considerations), the Ministry of Finance (for budgetary considerations), the Ministry of Integration (for EU accession considerations), and the Ministry of Economic Development, Tourism, Trade, and Entrepreneurship (for any significant economic considerations).

■Capacity assessment

Capacity assessment is a management tool or methodology that can be applied to any envisaged reform or development initiative, in addition to new laws or regulations. In fact, a capacity assessment may be seen as a variant of a RIA, or vice versa. An initial opportunity and standard first step in capacity development is to carry out a capacity assessment. Such an assessment could be carried out at a macro-level (e.g., assessing the capacities of the public administration as a whole), at an institutional or organizational level (e.g., the capacities of a ministry to achieve its objectives or results), or at a program and/or project level (e.g., the capacities required at all levels to develop and implement a specific program of the government). Such assessments could also form part of a program plan, or be carried out in a number of variant ways: feasibility assessments, functional reviews, and so on. The important thing is that such assessments be carried out such that informed management decisions can be made on the implementation and ongoing sustainability of development initiatives.

15.3 Financial considerations

For the NSDI II planning period, growth dynamics are seen to evolve according to one or a combination of the three scenarios that are set out in the macro-framework and NERP 2015–2017: namely, optimistic, baseline and pessimistic scenarios.

In order to preserve the simplicity of the framework and compatibility with the fiscal prudence principles of PFM, it would appear that only the baseline and pessimistic scenarios might be applied for forward financial planning purposes as reflected in the NSDI II.²⁰² GDP real growth rates in the baseline scenario can be averaged out across the planning period, although of course these growth rates may change due to changing national, regional, and global growth dynamics.

However, in light of the best available macroeconomic analyses, it might be seen that the level of the baseline scenario in average mode for the NSDI II may be lower than the macro-framework and NERP 2015–2017 actual levels.

The explanation may lie in the foreseen risks that have been accounted for in order to increase the NSDI's resilience in the case of external shocks, namely:

- Based on recent PFM and fiscal reviews, the consequences of optimistic forecasts and budgeting in Albania have generated substantial arrears for public contracts with unavailable funding. The

²⁰² The optimistic scenario might be applied as a potential desired surplus or policy contingency in order to absorb new policy initiatives of the government or to speed up the process of NSDI implementation.

problem is addressed in the PFM strategy. Measures to address this issue will require time²⁰³ and caution about annual and multi-annual processes of budgeting.

- The impact of new policies in the real sector may be incorrectly calibrated in view of faulty assumptions on elasticity/responsiveness of the sector in the short/medium term to new policy measures. This might be particularly important for activities that have a special importance for actual levels of operation of the Albanian economy such as construction.
- The external risks for eurozone from potential Greek exit appear to be unlikely to materialize on the basis of most recent developments. However, should such an event occur, the implications for Albania are considered to be low in terms of direct exposure to Greece's economy, but may remain high should the eurozone as a whole move into a new economic recessionary period.

²⁰³ Fiscal rule: the obligation to maintain the ceiling of next year at t-1 as the basis of first ceiling at, multiyear commitment in the treasury system planned to be implemented during 2015 are not yet there.

ANNEX 1. LIST OF STRATEGIC DOCUMENTS

1.1 List of strategic documents during formulation of NSDI II, 2015–2020

#	Sector strategies ²⁰⁴	Responsible institution	Approval
1	National Cross-Cutting Strategy on Rural and Agricultural Development in Albania, 2014–2020	Ministry of Agriculture, Rural Development and Water Administration	DCM no. 709, dated October 29, 2014
2	Revised Document of Defense Strategy, 2013–2020	Ministry of Defense	DCM no. 269, of April 3, 2013
3	Business and Investment Development Strategy, 2014–2020	Ministry of Economy, Tourism, Trade, and Entrepreneurship	DCM no. 635, dated October 1, 2014
4	National Cross-Cutting Strategy for Consumer Protection and Market Surveillance, 2015–2020		DCM no. 753, dated September 16, 2015
5	Albanian Public Finance Management Strategy, 2014–2020	Ministry of Finance	DCM 908, dated December 17, 2014
6	Justice Sector National Strategy, 2010–2014 ²⁰⁵	Ministry of Justice	DCM no. 519, dated July 20, 2011.
7	National Cross-Cutting Strategy for the Reform on Property Rights, 2012–2020		DCM no. 405, dated June 27, 2012,
8	National Sector Strategy for Water Supply and Wastewater, 2011–2017	Ministry of Transport and Infrastructure	DCM no. 643, dated September 14, 2011
9	National Cross-Cutting Strategy on Waste Management, 2010–2025 (including National Waste Management Plan, 2010–2025)	Ministry of Environment	DCM no. 175, dated January 19, 2011
10	Sector Strategy for Pre-University Education, 2015–2020	Ministry of Education and Sports	DCM no. 11, dated January 11, 2016

²⁰⁴ Strategies up to no. 21 are part of the list of strategies established by Order no. 93 of the Prime Minister, of August 7, 2012.

²⁰⁵ The revised justice sector strategy is currently under review, under the lead of an ad-hoc parliamentary committee.

#	Sector strategies ²⁰⁴	Responsible institution	Approval
11	Strategy for Science, Technology and Innovation,2009–2015		DCM no. 863, dated July 29, 2009
12	National Cross-Cutting Strategy on Integrated Border Management and its Action Plan, 2014–2020	Ministry of Foreign Affairs	DCMno.119, dated March 5, 2014
13	Cross-Cutting Strategy on Combating Organized Crime, Trafficking, and Terrorism,2014–2020 (Incl. fight against child trafficking, money laundering, and drug trafficking. Annex of this document is the fight against human trafficking and action plan.)		DCMno.663, dated July 17, 2013 Revised document is adopted by DCM no. 814, dated November 26, 2014,“On an Amendment to DCM no. 663.”
14	National Sector Strategy of Public Order,2015–2020 (Incl. State Police)		DCMno.702, dated August 26, 2015
15	National Cross-Cutting Strategy for Jobs and Skills,2014–2020		DCM no. 818, dated November 26, 2014
16	National Cross-Sector Strategy on Gender Equality,2011–2015 ²⁰⁶	Ministry of Social Welfare and Youth	DCMno.573, dated June 16, 2011
17	National Sector Strategy of Social Protection,2016–2020		DCM no. 1071, dated December 23, 2015
18	National Cross-Sector Strategy on Decentralization and Local Governance, 2015–2020	Minister of State for Local Affairs	DCMno.691, dated August, 29, 2015
19	National Cross-Cutting Strategy for Anticorruption and its Action Plan,2015–2020		DCMno.247, dated March 20, 2015

²⁰⁶ Strategic document on gender equality, 2016–2020, is currently being drafted by the Ministry of Social Welfare and Youth.

#	Sector strategies ²⁰⁴	Responsible institution	Approval
20	National Cross-Cutting Strategy for the Digital,2015–2020	Minister of State for Innovation and Public Administration	DCMno.284, dated April 1, 2015
21	National Cross-Cutting Strategy for Public Administration Reform,2015–2020		DCMno.319, dated April 15, 2015
#	Strategic documents	Responsible institution	Approval
22	National Plan on EU Integration, 2015–2020	Ministry of European Integration	DCMno.74, dated January 27, 2016
23	Action Plan for the Implementation of SEE2020 Strategy “Jobs and Prosperity in a European Prospective,”2014–2020	Ministry of Economic Development, Tourism, Trade, and Entrepreneurship	DCMno.611, dated September 17, 2014
24	National Economic Reform Program,2015–2017		DCMno.71, dated January 28, 2015
25	National Security Strategy	Ministry of Foreign Affairs	Law 103/2014, dated: July 31, 2014
26	Military Strategy of Republic of Albania	Ministry of Defense	Law 72/2015, dated July 9, 2015
27	Strategy for Prevention and Payment of Arrears and its Action Plan,2014–2016	Ministry of Finance	DCMno.50, dated February 5, 2014 Amended by DCM, no.331, dated May 28, 2014
28	Public Debt Management Strategy,2015–2017		DCMno.191, dated March 4, 2015
29	Roadmap for Drafting Policy and Measures for Enabling Environment for Civil Society	Council of Ministers	DCMno.459, dated May 27, 2015
30	Youth National Action Plan,2014–2020	Ministry of Social Welfare and Youth	DCMno.383, dated May 6, 2015

#	Sector strategies ²⁰⁴	Responsible institution	Approval
31	Program for Promotion of Employment of Persons with Disabilities		DCM, no.248, dated April 30, 2014
32	National Action Plan on Energy Efficiency, 2011–2018	Ministry of Energy and Industry	DCM, no.619, dated September 7, 2011
33	Mining Sector Strategy,2010–2025		DCM no. 479, dated June 29, 2011
34	Master Plan for Water Supply and Wastewater	Ministry of Transport and Infrastructure	DCM no. 643, dated September 14, 2011
35	Air Quality Strategy	Ministry of Environment	DCM, no.594, dated September 10, 2014
36	National Plan for Broadband Development	Minister of State for Innovation and Public Administration	DCM, no.468, dated May 30, 2013
37	Program of Official Statistics for 2012–2016	INSTAT	Decision .3/2013 of the Assembly of the Republic of Albania

ANNEX 2. HIGH LEVEL DEVELOPMENT INDICATORS AND SECTOR INDICATORS

Table: Indicators in the framework of integration commitments, for which there is agreement with the EU²⁰⁷

Sectors	Indicators	Baseline comparative value		Goal 2017	Goal 2020	Responsible institution
		2012				
Anticorruption	Fight against corruption	2012	29.9	42.23	51.33	MSHCV
Rule of law	Judiciary reform	2012	43.94	46.43	55.71	MoJ
Good governance	Governance and public administration reform	2012	53.23	60.19	63.19	MSHIAP; MD; MOEDTTE
Good governance	Composite indicator as an average of eight indicators	2012	44.9	57.43	64.33	MD; MSGCV; MOEDTTE; MSHIAP
Fundamental rights	Freedom of press, freedom of media	2012	41.72	30.5	28.25	MSHMP
Statistics	Statistics compatibility with European standards	2012	10–16%	20–30%	70–80%	INSTAT
Competitiveness	Competitiveness and innovation “Doing Business” and “Distance from the Border”	2012	59.46	66.42	67.54	MOEDTTE

²⁰⁷ Part of the monitoring framework under EU Indicative Strategy Paper for Albania, 2014–2020.

Employment	Overall unemployment (fifteen to sixty-four age group) rate in %;rural/urban	2012	55.9% (females: 45%, males: 55%)	54.5%	60%	MoSWY
Transports	Logistics performance indicator	2012	2.43	2.99	3.21	MTI
Local government	Territorial cooperation	2012	n/a	26	30	MEI; MSHCV

Table: High macroeconomic and development level economy indicators

Economic development and Macroeconomic High-level indicators	Sectors	Indicators	Baseline comparison		Goal 2017	Goal2020	Responsible institution
	European integration	GDP/capital compared to the average of twenty-eight countries in the EU	2013	28%	30%	35%	MF
	Decentralization	Contribution of local government revenues in GDP (%)	2014	1.1%	2.4%	3.9%	MF; MCV
	Decentralization	Indicator of local borrowing level	2013	0.04%	0.2%	0.5%	MF; MSHCV
	Public finance	Economic growth (real) rates	2015	2.6	3.9	4.3	MoF
	Public finance	Level of public debt (as % of GDP)	2015	72.60%	68%	Below 60%	MoF

Public finance	Total revenues level (as % of GDP)	2015	26.80%	27.30%	27.30%	MoF
Public finance	Deficit level(as % of GDP)	2015	-4.00%	-1.40%	0.40%	MoF
Energy	Increased collection of liabilities from sale of electricity	2014	91.90%	92%	93%	MEI
Foreign direct investments	Increased contribution of FDIs to GDP (% of GDP)	2014	7%	8.30%	9%	MZHETS
Competitiveness	Exports rates to GDP	2013	18.10%	19%	20%	MZHETS
Rural development and agriculture	Export import rates in agriculture	2013	1 (:) 5.7	1 (:) 4	1 (:) 3	MARDWA
Rural development and agriculture	Increased farm size (in ha)	2012	1.2	2	2.5	MARDWA
Rural development and agriculture	Real economic growth rates in agriculture (%)	2013	6.20%	5%	5%	MARDWA
Tourism	Increase of contribution rates of tourism in GDP	2013	4.80%	5.50%	6.10%	MZHETS
Energy	% imported energy versus total energy	2013	71%	68%	65%	MEI

Table: Sector indicators

Sectors	Indicators	Responsible institution	Reference document for the indicator
Public finance	Budget transparency index developed by International Budgetary Partnership based on budget information	MoF	Public Finance Management Strategy, 2014–2020
Public finance	Credibility of budgeting (deviation in% of actual costs and revenues)	MoF	Public Finance Management Strategy, 2014–2020
Public finance	Public revenues trend as % of GDP	MoF	Public Finance Management Strategy, 2014–2020
Competitiveness	New businesses established annually (by gender)	MoEDTTE	Business Development and Investments Strategy, 2014–2020
Decentralization	Local government budget in relation to GDP	MoLI	Cross-Sector Decentralization and Local Governance Strategy, 2015–2020
Competitiveness	FDIs as percentage of GDP	MoEDTTE; MF	Public Finance Management Strategy, 2014–2020
Competitiveness	Number of International and European standards adopted as Albanian standards	MOEDTTE-DPS	Cross-Sector Consumer Protection and Market Surveillance Strategy, 2020
Energy	Energy dependency (% of imports)	MEI	National Action Plan on Renewable Energy Resources, 2015–2020
Public administration	Number of services provided to citizens	MIAP	Cross-Sector Strategy for Public Administration Reform, 2015–2020

Public order	Increased public confidence in the police	Mol	Public Order Strategy and Action Plan, 2015–2020
Public administration	Number of recruitment claims in civil service accepted by courts	MSHIAP	Cross-Sector Strategy for Public Administration Reform, 2015–2020
Competitiveness	Competiveness indicator (score)	MOEDTTE	Business and Investments Development Strategy, 2014–2020
Anticorruption	Anti-corruption indicator, according to IT ranking	MSHCV	Cross-Sector Anticorruption Strategy, 2015–2017
Sectors	Indicators	Responsible institution	Reference document for the indicator
Youth	Youth unemployment (fifteen to twenty-four age group, by gender)	MoSWY	National Strategy on Employment and Skills and Action Plan, 2014–2020
Vocational education	VET participation (by gender)	MoES	National Strategy on Employment and Skills and Action Plan, 2014–2020
Social protection	Percentage of population in extreme poverty eligible for NE (by gender)	MoSWY	Social Protection National Strategy and Action Plan, 2015–2020
Water and wastewater	% of population that has access to water supply in urban and rural areas	MoTI	Water Supply and Wastewater Strategy, 2014–2017
Employment	Employment levels for VET graduates	MoSWY	National Strategy on Employment and Skills and Action Plan, 2014–2020

Employment	Number of enterprises run by women as % of total	MOEDTTE	Business and Investments Development Strategy, 2014–2020
Employment	Gender gap in employment	MoSWY	National Strategy on Employment and Skills and Action Plan, 2014–2020
Rural development and agriculture	Indicator of agricultural land area with rehabilitated and improved infrastructure compared to total	MOARDWA	Cross-Sector Strategy on Rural and Agricultural Development, 2014–2020
Rural development and agriculture	Real economic growth rate in agriculture, %	MOARDWA	Cross-Sector Strategy on Rural and Agricultural Development, 2014–2020
Rural development and agriculture	Indicator of utilized agriculture land	MOARDWA	Cross-Sector Strategy on Rural and Agricultural Development, 2014–2020
Water and wastewater	Access to water treatment	MTI	Water Supply and Wastewater Strategy, 2014–2017
Energy	Indicator of renewable energy consumption	MEI-AKBN	National Action Plan on Renewable Energy Resources, 2015–2020

ANNEX 3. CONNECTING SDGS WITH KEY COMPONENTS OF NSDI²⁰⁸

NSDI II	Part III: Development and Integration of Strategies	SDG
7.0	Overarching goal: achieving EU accession	n/a (mainly EU-related)
8.0	Foundations: good governance, democracy, and the rule of law	
8.1	An open judiciary system, with equal access for all	SDG 16
8.2	Strengthening legislative and electoral processes	SDG 16+5 (ref. gender equality)
8.3	Integrated border management	SDG 16
8.4	Fight against organized crime, terrorism, and trafficking	SDG 16
8.5	Strengthening public order	SDG 3 + 16
8.6	Strengthening human rights	Combination (1 + 10 + 16...)
8.7	Public administration and civil service reform	SDG 16
8.8	Transparency and fight against corruption	SDG 16
8.9	Decentralization and local governance reform	Partially SDG 11 + 17
8.10	Empowering official statistics	SDG 17
8.11	Growing importance of foreign policy	SDG 10
8.12	Stronger defense	n/a (mainly NATO-related)
8.13	Civil society	SDG 17
9.0	Pillar 1: Growth through macroeconomic and fiscal stability	
9.1	Strengthening financial system and monetary policy	SDG 8 + 10 + 17

²⁰⁸According to sections and chapters under NSDI.

9.2	Strengthening public finances for fiscal stability	Partially SDG 10
10.0	Pillar 2:Growth through competitiveness	
10.1	Securing and protecting property rights	SDG 1
10.2	Promoting business and FDIs	SDG 8
10.3	Expanding scientific research and innovation	SDG 9 +17
10.4	Investing in ICT	SDG 9
10.5	Ensuring consumer protection and market surveillance	SDG 2 + 12
10.6	Protection of competition and ensuring state aid control	
11.0	Pillar 3:Investing in human capital and social cohesion	
11.1	More opportunities and more quality in education	SDG 4
11.2	A stronger and more accessible health care system	SDG 3
11.3	Increased employment opportunities	SDG 8
11.4	Strengthened social insurance	Partially SDG 1
11.5	Consolidating social protection	SDG 1 + 10
11.6	Building a more inclusive society	SDG 8 + 10
11.7	Empowering youth	SDG4 + 8
11.8	Ensuring gender equality	SDG 5
11.9	Managing migration	SDG 10
11.10	More attention to arts and culture	SDG 4 + 11
11.11	Strengthening the role of sports	Partially SDG 3
12.0	Pillar 4: Growth through sustainable use of resources and territorial development	
12.1	Energy/services (utilities)	SDG 7

12.2	Transport infrastructure	SDG 9
12.3	Agriculture and rural development	SDG 2
12.4	Regional development	Partially SDG 11 + 17
12.5	Sustainable environment	SDG 13 + 14 + 15
12.6	Mining sector	SDG 12
12.7	Tourism development	SDG 8 + 11 + 12
12.8	Water supply and wastewater	SDG 6
12.9	Integrated water management	SDG 11 + 12 + 17 (PPP)
12.10	Spatial planning and urban development	SDG 11