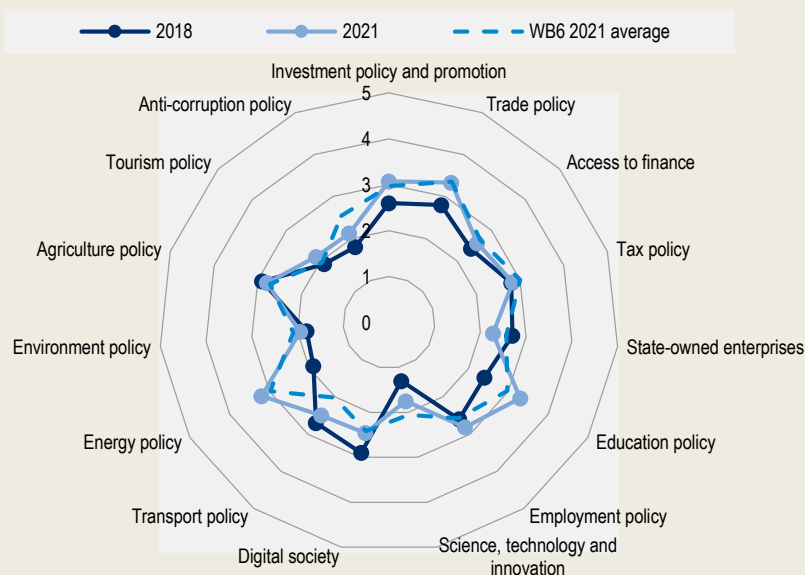


# 20 Albania profile

## Key findings

Figure 20.1. Scores for Albania (2018 and 2021)



Note: Dimensions are scored on a scale of 0 to 5. Dimension scores for 2021 are not directly comparable to the 2018 scores due to the addition/removal of relevant qualitative indicators. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Scoring approach section for information on the assessment methodology. Scores for Dimension 5 Competition Policy are not included in the figure due to different scoring methodology. See the Scoring approach for more information.

Albania has improved its performance since the publication of the Competitiveness Outlook 2018 report in 10 out of the 15 dimensions<sup>1</sup> scored in the assessment (Figure 20.1). Although this clearly indicates progress in the setting up of policies to enhance its competitiveness – at least in about two-thirds of the policy dimensions covered in this assessment – if they are to have a lasting impact then the effective and continuous implementation, monitoring and upgrading of those policies should remain a key priority. Albania achieves its highest average scores in the trade policy, education policy, energy policy, tax policy, investment policy and promotion, and employment policy dimensions. The following are some of Albania's major achievements in these areas:

- **Investment promotion and facilitation has seen notable progress.** A new strategy for investment promotion is underway which is expected to include the internationalisation of Albanian investments, outreach campaigns, aftercare programmes and strategies for attracting foreign direct investment (FDI) and the manufacturing of products in Albania. The Albanian Investment Promotion Agency (AIDA) has a broad mandate that is crucial for investment promotion, facilitation and retention and has started reinforcing its investor targeting actions. A wide range of incentives are provided for investors which can all be found on AIDA's website. Albania is also reinforcing its investment facilitation activities by accelerating the digitalisation of its public services. As of January 2020, 73% of all public services were available on line to citizens and businesses through the E-Albania Portal. Key improvements to investment procedures include the introduction of e-registration and electronic notification of balance sheets and financial reports.
- **The trade policy framework has been strengthened significantly.** The conclusion of Additional Protocol 6 on Trade in Services to the Central European Free Trade Agreement (CEFTA) in December 2019 created an important stimulus for reducing restrictions on services between parties

and for making services markets more attractive to third-country investors. Regulatory transparency has improved, as have public consultations on trade policy. Albania has reinforced its inter-institutional policy co-ordination by adopting new rules and procedures for the National Trade Facilitation Committee (NTFC). It has also established two working groups to explore reducing or eliminating import and export fees and charges. Dialogue with local stakeholders is now required at all stages of trade policy making. All draft laws are published electronically.

- **The education system is improving at a rapid pace.** Albania is one of the fastest-improving participants in the OECD Programme for International Student Assessment (PISA), although it still scores significantly below the European Union (EU) and OECD averages. Its mean score for student performance in mathematics increased by around 24 points between 2015 and 2018, compared to the OECD average 2-point increase. The gap between the highest and lowest-achieving students has also narrowed. Participation rates in school education are high: in 2019, net enrolment in primary education was 98%, and 96% in lower secondary education. The government has also introduced important policy reforms, such as a competency-based curriculum framework, decentralised school governance and a modernised vocational education and training (VET) sector.
- **Employment conditions have been broadly improved.** Advances have been made in tracing the employability of young people after they complete their education and Albania also conducts skills need surveys. It has seen significant progress in increasing women's employment rates, which have risen by 9 percentage points since 2015 to reach 54% in 2019, the highest in the region. Its public employment service (PES) has begun to modernise the delivery of its employment services, including a new information technology (IT) system, individual counselling and individual action plans, as well as the systematic introduction of employer services.
- **Alignment with EU standards has improved in the energy sector.** Albania has made significant progress transposing the Third Energy Package. It is well on track to establish and operate a competitive energy market – it has a strong independent regulator, is currently finalising the operational deployment of a power exchange and is unbundling the distribution system operator for electricity.
- **Tax policy has seen greater international co-operation and greater alignment with recent international tax trends.** In August 2019, Albania became a member of the Inclusive Framework on Base Erosion and Profit Shifting (BEPS), leading to several other initiatives. Its tax system alignment with the Action 5 minimum standard is currently under review by the Harmful Practices Secretariat. In September 2020, Albania ratified the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS and work on treaty abuse and mutual agreement procedures has been scheduled. The OECD Global Forum Assessment team carried out a peer review of Albania and found it was “largely compliant” on the exchange of information on request (EOIR). Albania introduced a law in February 2020 on the automatic exchange of information (AEOI); the first exchanges should occur in the near future. Finally, Albania has transfer pricing legislation in force and its legislation is in line with the OECD Guidelines on Transfer Pricing.

### Priority areas

Although Albania has made significant progress, it needs to make more efforts in several areas. It scores below the WB6 average in the access to finance; science, technology and innovation; environment policy; and anti-corruption policy dimensions. Although in line with the WB6 average, Albania's performance in the state-owned enterprises and digital society policy dimensions has worsened since the last assessment (Figure 20.1). To improve its performance in these priority areas, Albania should consider the following:

- **Increase efforts to diversify access to finance.** Alternative financing sources remain very limited in Albania. Although factoring and leasing are available and backed by well-developed legal

frameworks, crowdfunding, venture capital and business angel networks are non-existent. Giving firms access to funding beyond traditional lending schemes, and meeting their needs at all stages of their development, would help to diversify Albania's currently bank-dominated financial sector.

- **Strengthen the institutional arrangements for state ownership.** Ownership of state-owned enterprises (SOEs) is spread across central government in Albania, being exercised by several other line ministries and central government bodies as well as the Ministry of Finance and Economy. These dispersed ownership responsibilities are not guided by a common ownership policy. This has led to a lack of clear performance expectations from the state, contributing to corporate inefficiencies. The authorities should move forward with their initiative to establish a central state ownership agency – or, if this is not possible, a co-ordination entity – to further harmonise state ownership practices and fully separate ownership and regulatory roles.
- **Strengthen science, technology and innovation through investment in public sector research and business-academia collaboration.** Albania's public scientific research sector remains systemically underfunded, with public spending in research amounting to only 0.06% of GDP in 2018. This may jeopardise its goal to increase investment in research to 1% of GDP by 2022. To achieve this goal, the government should consider expanding the range of financial incentives for collaboration between businesses and academia. Investment in the scientific research system would make the profession more attractive, leading to higher-quality research outputs in the medium to long term. Albania could also reintroduce innovation vouchers to create financial incentives for innovation.
- **Enhance the digital society by investing in digital skills and upgrading information and communication technology (ICT) in schools.** The development of digital skills for adults is not yet fully integrated into VET systems or lifelong learning programmes, despite the lack of digital skills in the economy. IT curricula should be designed with the support of the ICT sector to improve digital skill levels. Training programmes and lifelong learning policy frameworks should be guided by the need to address the digital skills gap in the labour market. Albania also needs to ensure that all schools and students have access to broadband, functioning computers and digital education aids. In 2020, only around 25% of schools had Internet connections at speeds above 10 Mbps, which is below the WB6 average.
- **Protect the environment through comprehensive land-use policies and improved wastewater treatment.** Albania is one of the economies in Europe most at risk for multiple natural hazards, as illustrated by damage wreaked by the 2019 earthquake. The government lacks an all-inclusive land-use policy framework to provide clear direction, focusing on modernising building codes, updating seismic hazard maps and combatting unregulated and illegal building. Meanwhile, wastewater treatment plants cater for only about 15% of Albania's population, and the system faces key concerns such as the lack of licensing and tariffs for wastewater treatment, insufficient operation budget and maintenance, and the negative impact on the environment from underdeveloped networks and connections. A clear mapping of the situation is needed to identify key investment priorities. The government should try to finance these projects as much as possible from the domestic budget and higher water tariffs.
- **Intensify anti-corruption efforts by improving whistle-blower protection and strengthening high-level corruption cases.** Analysis is needed to identify and tackle the factors behind the discrepancy between the large number of investigations and the small number of convictions (of the 90 cases against high-level officials sent for prosecution in 2019, only 5 people were indicted). A fair and transparent assessment should be carried out to identify the obstacles preventing indictment and to increase the effectiveness of the fight against high-level corruption. Albania's whistle-blower protection legislation lacks several important elements found in the EU Directive on whistle-blower protection, such as protection for whistle-blowers who resort to public disclosure.

Albania should provide protection for public disclosure and for people connected with the whistleblower, remove conditions preventing external reporting to the High Inspectorate for the Declaration and Audit of Assets and Conflicts of Interest (HIDAACI), and establish the right to protection in cases of mistaken identity.

1: Please note that Dimension 5 (Competition policy) is excluded from the key findings section as it uses different scoring model (Scoring approach).

## Economic context

### *Key economic features*

Albania is a small service-oriented economy with a sizable tourism sector, but also a large agricultural sector. Services, dominated by wholesale and retail trade, real estate, transport, and storage services, account for 48.6% of gross domestic product (GDP) and 43.4% of employment (INSTAT, 2021<sup>[1]</sup>; World Bank, 2021<sup>[2]</sup>). Industry, including construction, contributes 20.2% to GDP, with the highest contribution coming from the construction sector (10.8% of GDP) (INSTAT, 2021<sup>[1]</sup>). Meanwhile, the manufacturing sector is very small, contributing just 6.3% to Albania's GDP. Despite a significant decline over the past decade, agriculture, forestry and fishing remains a very important sector in Albania, accounting for 18.5% of GDP, 36.4% of formal employment and a significant share of informal employment (World Bank, 2021<sup>[2]</sup>). These contributions are well above the contributions in neighbouring economies, both in terms of value added and employment.

Albania's growth over the past decade has been moderated compared to the period prior to the global financial crisis (Table 20.1), and even though macroeconomic stability has since improved, significant imbalances still persist. The economy is still mainly consumption-driven and investment, including foreign direct investment (FDI), remains concentrated in a few key energy projects and in the real estate sector, which have limited productivity-enhancing potential. In this context, the growth of the tradable sector has been limited. At 31.6% of GDP, the contribution of exports was lower than regional leaders in 2019 (e.g. 62.1% of GDP in North Macedonia) even prior to the impact of the COVID-19 pandemic. Exports consist of goods and services with limited technological content and value added, including tourism, textiles and apparel, electricity, as well as metals and metal-based products (INSTAT, 2021<sup>[1]</sup>). Moreover, due to the importance of the electricity sector, exports and their contribution to GDP have also been relatively volatile as they depend on hydrologic conditions. Meanwhile the impact of the COVID-19 pandemic has been amplified by the high dependence on tourism exports (see section). In the context of highly import-dependent consumption (imports represented 45.4% of GDP in 2019), the trade and current account deficits have remained relatively large at 13.8% and 8.9% of GDP respectively (World Bank, 2021<sup>[2]</sup>; European Commission, 2020<sup>[3]</sup>).

This economic model has not been conducive to productivity growth. Over the past decade, growth has been mainly driven by labour and capital accumulation, while total factor productivity growth has either been low or negative (World Bank, 2019<sup>[4]</sup>). Labour productivity growth saw a marked decline in the post-crisis period due to more limited gains from labour reallocation between sectors, as well as weaker gains from within-sector productivity growth. As a result, labour productivity across all sectors remains very low, at less than a quarter of the EU average (World Bank, 2021<sup>[2]</sup>). And even though employment in Albania is higher than in most economies in the region, at 53%, most jobs are low-skilled and low-waged, including a high share of employment in subsistence agriculture (World Bank, 2019<sup>[4]</sup>; World Bank, 2021<sup>[2]</sup>).

Other labour market indicators point to notable outstanding challenges. Despite significant declines over the past decade, the unemployment rate remains elevated at 12.2% (Table 20.1). Moreover, the share of those who have been unemployed for one year or more was 64.3% in 2019, well above the OECD average

of 25.8% and the EU average of 40.4% (WIIW, 2019<sup>[5]</sup>; World Bank, 2021<sup>[2]</sup>). Meanwhile, the share of youth not in employment, education or training is also high at 25.8%, which is nearly double the OECD average of 13.6% and the EU average of 10% (World Bank, 2021<sup>[2]</sup>).

Albania's growth prospects over the coming decade and beyond will strongly depend on the strength of its reform efforts to upgrade human capital, boost investment and expand, diversify and upgrade its exports and modernise the agricultural sector. This will entail improving the quality and relevance of education at all levels, improving the business environment by tackling corruption and informality, strengthening contract enforcement and strengthening property rights, bridging the infrastructure gaps, and improving SMEs' access to finance.

**Table 20.1. Albania: Main macroeconomic indicators (2015-20)**

Indicator	Unit of measurement	2015	2016	2017	2018	2019	2020
GDP growth <sup>1</sup>	% year-on-year	2.2	3.3	3.8	4.1	2.2	-3.3
GDP per capita <sup>2</sup>	Current international \$	11 659	12 079	12 771	13 546	14 231	13 818
National GDP <sup>2</sup>	USD billion	11.4	11.9	13.0	15.1	15.3	14.8
Inflation <sup>1</sup>	Consumer price index, annual % change	1.9	1.3	2.0	2.0	1.4	1.6
Current account balance <sup>1</sup>	% of GDP	-8.6	-7.6	-7.5	-6.8	-8.0	-8.9
Exports of goods and services <sup>1</sup>	% of GDP	27.3	29.0	31.6	31.7	31.6	23.3
Imports of goods and services <sup>1</sup>	% of GDP	44.5	45.9	46.7	45.4	45.4	38.1
Net FDI <sup>1</sup>	% of GDP	8.0	8.8	7.8	7.9	7.9	7.3
Public and publicly guaranteed debt <sup>3</sup>	% of GDP	72.7	72.3	71.9	69.5	67.9	77.4*
External debt <sup>4</sup>	% of GDP	72.9	70.0	72.1	62.8	60.1	...
Unemployment <sup>1</sup>	%	17.5	15.6	14.1	12.8	12.0	12.2
Youth unemployment <sup>2</sup>	% of total labour force ages 15-24	39.6	35.6	30.9	28.2	27.0	...
International reserves <sup>1</sup>	In months of imports of G&S	7.6	7.2	6.7	7.0	6.5	9.6
Exchange rate (if applicable local currency/euro) <sup>1</sup>	Value	139.7	137.4	134.1	127.6	123.0	123.8
Remittance inflows <sup>2</sup>	% of GDP	11.3	11.0	10.1	9.6	9.6	9.9
Lending interest rate <sup>5</sup>	% annual average	7.88	6.73	6.22	5.93	6.28	6.12
Stock markets (if applicable) <sup>1</sup>	Average index	n.a	n.a	n.a	n.a	n.a	n.a

Note: G&S = goods and services; \*estimates for 2020.

1. (European Commission, 2021<sup>[6]</sup>) EU Candidate Countries' and Potential Candidates' Economic Quarterly (CEEQ) Q1 2021, [https://ec.europa.eu/info/sites/default/files/economy-finance/tp048\\_en.pdf](https://ec.europa.eu/info/sites/default/files/economy-finance/tp048_en.pdf).

2. (World Bank, 2021<sup>[7]</sup>) World Bank WDI data <https://databank.worldbank.org/source/world-development-indicators>.

3. (World Bank, 2020<sup>[8]</sup>) World Bank Western Balkans Regular Economic Report <https://www.worldbank.org/en/region/eca/publication/western-balkans-regular-economic-report>.

4. (EBRD, 2020<sup>[9]</sup>) *Transition Report 2020-21*, <https://2020.tr-ebd.com/countries>.

5. (IMF, n.d.<sup>[10]</sup>) IMF Data <https://data.imf.org/regular.aspx?key=61545855>.

## Sustainable development

Over the past decade, Albania has made progress towards reaching the targets of the 2030 Agenda for Sustainable Development, but considerable challenges still remain in meeting most Sustainable Development Goals (SDGs) (Table 20.2). Albania is only on track to achieve or has maintained the achievement of the SDGs in three main areas – quality education (SDG 4), affordable and clean energy (SDG 7), and climate action (SDG 13). Strong performance in the latter two SDGs reflects Albania's heavy reliance on hydropower and limited use of fossil fuels outside of the transport sector. Meanwhile, in the education dimension, the rates of net primary enrolment, lower secondary completion and literacy are above 92% and on track to reach the 100% SDG targets (Sachs et al., 2021<sup>[11]</sup>).



**Table 20.2. Albania's progress towards achieving the SDGs**

SDG	Current assessment	Trends
1 – No poverty	Challenges remain	Moderately improving
2 – Zero hunger	Significant challenges remain	Stagnating
3 – Good health and well-being	Significant challenges remain	Moderately improving
4 – Quality education	SDG achieved	On track or maintaining SDG achievement
5 – Gender equality	Significant challenges remain	Stagnating
6 – Clean water and sanitation	Significant challenges remain	Moderately improving
7 – Affordable and clean energy	Challenges remain	On track or maintaining SDG achievement
8 – Decent work and economic growth	Major challenges remain	Moderately improving
9 – Industry, innovation and infrastructure	Significant challenges remain	Moderately improving
10 – Reduced inequalities	Significant challenges remain	Information unavailable
11 – Sustainable cities and communities	Significant challenges remain	Stagnating
12 – Responsible consumption and production	Significant challenges remain	Information unavailable
13 – Climate action	SDG achieved	On track or maintaining SDG achievement
14 – Life below water	Major challenges remain	Stagnating
15 – Life on land	Significant challenges remain	Stagnating
16 – Peace, justice and strong institutions	Significant challenges remain	Stagnating
17 – Partnerships for the goals	Significant challenges remain	Moderately improving

Note: The order of progress (from greatest to least) is as follows: SDG achieved; challenges remain; significant challenges remain; major challenges remain.

Source: (Sachs et al., 2021<sup>[11]</sup>), *The Sustainable Development Report 2021: the Decade of Action for Sustainable Development Goals*, <https://s3.amazonaws.com/sustainabledevelopment.report/2021/2021-sustainable-development-report.pdf>.

Moderate improvement has been noted in many areas, though notable challenges persist. While extreme poverty – defined as people living on less than USD 1.90 per day – has been almost eradicated (0.2%), the share of people living on less than USD 3.20 per day is 8.5%, above the 2030 target of 0% (SDG 1). Health outcomes (SDG 3) have been improving, with mortality rates for mothers and children under 5 declining below the 2030 target levels. However, considerable progress needs to be made in improving universal health coverage. In the area of clean water and sanitation (SDG 6), more progress is needed to expand access to drinking water services (9% of the population still lacks access) and improve wastewater treatment. Significant challenges remain in the SDG related to industry, innovation and infrastructure (SDG 9), which partly reflect low spending on research and development (R&D) and innovation, low-quality higher education, and the weak quality of trade and transport infrastructure as measured by the logistics performance index (LPI) – for more see the Structural economic challenges). More progress is also needed in improving city life (SDG 11) by reducing air pollution and improving access to piped water, transport and other services; and in fostering a circular economy (SDG 12) through the collection and recycling of waste. In the area of peace and institutions (SDG 16), the biggest gaps lie in tackling corruption, improving the protection of property rights and strengthening the criminal justice system (Sachs et al., 2021<sup>[11]</sup>).

The most significant gaps vis-à-vis the SDG targets are in the areas of decent work and economic growth (SDG 8), and marine life (SDG 14). High unemployment remains an important challenge despite the progress achieved over the past decade. Likewise, stronger economic growth is needed for more and better jobs as well as higher incomes. Growth also needs to be more inclusive. At 41.7, the Gini coefficient measuring income inequality is still well above the target value of 27.5 (SDG 11). Last but not least, significant efforts are needed to reduce marine pollution and improve the sustainability of fishing practices in Albania's coastal regions (Sachs et al., 2021<sup>[11]</sup>).

### **Structural economic challenges**

Albania faces a number of key structural challenges that undermine its competitiveness, investment environment and integration into global value chains (GVCs):

*Weak knowledge and skills hinder economic diversification and upgrading*

- **Low-quality education** reflects both low spending on education, as well as poorly targeted spending that undermines education outcomes. In 2018, the Albanian Government spent 2.5% of GDP on education (World Bank, 2020<sup>[12]</sup>), well below the OECD average of 4.5% (OECD, 2019<sup>[13]</sup>). A significant share of this spending was on teaching staff, and as a result Albania has a high teacher-to-student ratio, especially at the primary school level (18 in Albania, compared to 13 in EU and 15 in the OECD). At the secondary school level, the number of students per teacher is in line with the EU average but below the OECD average (12 in Albania/EU and 14 in the OECD) (World Bank, 2021<sup>[2]</sup>). Nevertheless, lower teaching quality in Albania is reflected in considerably poorer learning outcomes. For example, in the latest Programme for International Student Assessment (PISA), fewer than 60% of Albanian students achieved the minimum level of proficiency across all testing subjects (reading, mathematics and science) compared to 76% for the OECD average (OECD, 2019<sup>[14]</sup>). In the case of reading, just 48% of students achieved the minimum proficiency. Although the latest testing results indicate considerable progress since the previous PISA assessment, more progress is needed to improve education quality over the coming years (OECD, 2019<sup>[14]</sup>).
- **Skills gaps.** Albania's labour market is characterised by predominantly low-skilled and low-waged employment; skills gaps are limiting the scope for economic upgrading and diversification. In the World Bank's employers' Skills Measurement Program (STEP) survey, more than 90% of firms requiring higher-level skills, including cognitive and socio-emotional skills, reported difficulties hiring staff. For most of these firms, the limited number of candidates was reported as the main obstacle, followed by a lack of experience. Over 50% of firms cited the lack of required skills as the main obstacle to filling available vacancies (Honorati, 2018<sup>[15]</sup>). In the 2019 Balkan Barometer survey, nearly 40% of respondents noted that the skills that they acquired during their education do not meet the needs of their job. The most deficient skills noted in the survey included foreign language skills (42% of respondents); communication skills (24%) and other cognitive skills, including ability to learn on the job (27%); and creativity, innovation and risk-taking (20%) (Regional Cooperation Council, 2019<sup>[16]</sup>).

*A challenging business climate undermines investment and private sector development*

Over the past decade, Albania has made progress in reducing the regulatory and administrative burden on businesses, especially in the area of judicial reform, trade, resolving insolvency and starting a business. However, Albania is still ranked 82<sup>nd</sup> out of 191 economies globally on the World Bank's Doing Business (DB) assessment, reflecting considerable outstanding challenges including corruption, weak contract enforcement, lengthy and costly processes for obtaining licences and permits, weak property rights, and high informality (World Bank, 2020<sup>[17]</sup>):

- **Corruption** remains an important cost of and obstacle to doing business in Albania. In the latest Business Environment and Enterprise Performance (BEEPS) survey, Albanian firms recorded greater depth and prevalence of corruption than firms in peer economies as well as globally. For example, 36.1% of firms experienced at least one bribe payment request, which is considerably higher than the Europe and Central Asia (ECA) average of 8.7% and the global Doing Business (DB) average of 17%. According to the BEEPS, nearly one-third of all public transactions include a request for a gift or informal payment. Furthermore, 34.6% of firms noted that they were expected to provide gifts when meeting with tax officials, compared to the 7.4% and 13.4% ECA and global averages respectively. Over 40% of firms identified corruption as a major constraint for their business (World Bank, 2020<sup>[18]</sup>). Reforms of recent years that have increased the availability and use of e-services should lead to a reduction in the frequency of meetings with tax officials and reduced incidence of corruption (European Commission, 2020<sup>[19]</sup>).
- **Contract enforcement** is slow, costly and unreliable. Contract enforcement takes on average 525 days, which is somewhat faster than the OECD average (590 days), but considerably longer than the



global leaders on the DB index (120 days). The process is slowed down by the overburdened court system, which has a significant backlog of cases (World Bank, 2019<sup>[4]</sup>). Contract enforcement is also quite costly: at 42.7% of the claim value, it is well above the OECD average of 21.5%. Finally, and perhaps most importantly, confidence is lacking in the judicial system's fair and impartial decision making. In the latest Regional Cooperation Council barometer survey, 71% of respondents stated that they do not trust the court system, and the same share stated that they do not believe that the judiciary is independent of political influence. Likewise, 76% of respondents do not believe that the law is applied equally to everyone (Regional Cooperation Council, 2019<sup>[16]</sup>). In the latest BEEPS, 40% of firms identified the courts as a major constraint (World Bank, 2020<sup>[18]</sup>).

- **Obtaining licences and permits** is a long and costly process in Albania. For example, obtaining a construction permit takes on average 324 days (compared to a 152-day average for the OECD), requires 19 procedures (compared to the OECD average of 13), and costs 6.8% of the warehouse value (compared to 1.5% for the OECD average). A very large part of the costs are two municipal taxes (on infrastructure and an examination fee) (World Bank, 2020<sup>[17]</sup>).
- **Inadequately defined property rights** are another important deterrent for investment. This is a problem with long historical roots, and has resulted in widespread competing claims over property ownership that are very difficult to resolve. The resulting uncertainty creates an important impediment for investment, particularly FDI.
- **Unfair competition**, particularly from the informal sector, represents an important constraint for businesses in Albania. In the BEEPS survey, 44.7% of firms stated that they compete against informal firms, while 37.2% of firms stated that informal competition is a major obstacle for their business (World Bank, 2020<sup>[18]</sup>). The share of informal employment is estimated at about 37.8% (WIIW, 2019<sup>[5]</sup>).

#### *Infrastructure deficiencies undermine investment, trade and GVC integration*

These deficiencies include the unreliable electricity supply and insufficiently developed transport infrastructure and connectivity:

- **The unreliable electricity supply** is an important obstacle to doing business in Albania. In the latest BEEPS survey, 58.7% of firms stated that they had experienced electrical outages over the past month and 43% of all firms identified electricity as a major obstacle. Nearly 50% of firms own or share a generator (compared to less than 20% for the ECA average), which produces on average about 12% of the total electricity used (World Bank, 2020<sup>[18]</sup>). Even though considerable progress has been made in recent years to improve the reliability of the electricity supply, more progress is needed on a few fronts. The heavy reliance on hydropower makes the electricity sector highly vulnerable to periods of low rainfall, when the sector has to rely on expensive electricity imports. Distribution losses are also an important challenge. They remain high at 21.5%, with 64% representing technical losses (INSTAT, 2018<sup>[20]</sup>). Therefore, further diversification of the energy supply, further infrastructure upgrades to reduce distribution losses and strengthening financial buffers against import-induced financial shocks are needed to improve the reliability of the electricity supply.
- **Deficiencies in transport infrastructure connectivity** also reduce the attractiveness of Albania as an investment destination. In terms of network size, Albania lags behind peer economies across all modes of transport. In road transport, the length of motorways is lower than peers of comparable size, as is the length of the overall road network (Eurostat, 2018<sup>[21]</sup>). In the rail sector, Albania also lags behind peers for freight transported through the network, even compared to economies that are considerably smaller and have a similarly sized manufacturing sector (as a share of GDP), such as Montenegro (Eurostat, 2018<sup>[22]</sup>). Limitations in transport policy and investment in transport infrastructure development and maintenance mainly account for these gaps – see Transport policy (Dimension 11).

*Poor access to finance hinders SME investment, innovation and technology adoption*

Even though the banking sector has been stable, liquid and well-capitalised, credit to the private sector – at 34.4% (37% in February 2021) of GDP – is lower than in peers and advanced economies. This is the case despite a significant decline in non-performing loans, lending interest rates, and a strong growth in deposits. In fact, Albania has one of the lowest loan-to-deposit ratios among emerging economies, at 47% (IMF, 2019<sup>[23]</sup>). Credit is particularly constrained for SMEs, which face steep lending requirements from the banks. These include most notably the high collateral requirements, which exceed 177% of the value of the loan. And since over 90% of loans require collateral, the barrier for SMEs to access finance is high (World Bank, 2020<sup>[18]</sup>). Meanwhile, alternatives to bank financing are very limited – see Access to finance chapter (Dimension 3).

*Cross-cutting and sector-specific constraints undermine the growth of key sectors*

Agriculture is mainly characterised by subsistence farming, and compared to peers, holdings are highly fragmented and small scale, the access and take-up of new technologies is low, compliance with standards is limited, and input costs are high (World Bank, 2019<sup>[4]</sup>). As a result, agricultural productivity is one of the lowest in Europe and agricultural exports are also very low, at just 15% (World Bank, 2021<sup>[2]</sup>; INSTAT, 2021<sup>[1]</sup>). Efforts to consolidate land and foster agricultural co-operatives are further hampered by lack of clearly defined property rights – see Agriculture policy (Dimension 14). Limited access to finance also constrains the growth of this sector – see Access to finance (Dimension 3).

- **Manufacturing** sectors and their GVC integration are constrained by gaps in infrastructure, customs and logistics, challenges in the business environment, skills gaps and firms' limited capacities for technology adoption, limitations in access to finance, etc. (OECD, 2019<sup>[24]</sup>). Upgrading and diversification of the manufacturing sector could play a key role in boosting exports and GVC integration. Analyses of Albania's product space reveal considerable long-term potential for growth in the automotive industry (vehicle and engine parts), machinery and metal processing. Short- to medium-term gains can also be achieved through the expansion of agri-food processing.
- **Tourism** is characterised by high seasonality and concentration in the coastal areas. Moreover, the value added of the sector is still relatively low, because Albania tends to attract mostly regional tourists and diaspora visitors with low spending power. Given the small size of the economy, the development of higher-end tourism would be beneficial. However, further development and upgrading of this sector is constrained by poor infrastructure, lack of quality standards, weak branding and marketing, high informality etc. (World Bank, 2019<sup>[4]</sup>). See Tourism policy (Dimension 15).
- **The ICT sector** is mainly constrained by infrastructure gaps, the low supply of skilled workers, weak collaboration between the sector and the relevant educational institutions, and lack of access to finance – particularly financing for start-ups and high-risk venture capital, etc. (World Bank, 2019<sup>[4]</sup>). Although the sector is still relatively small, it is growing very fast (computer programming and related services have been growing at nearly 30% annually over the past five years) with considerable potential to further boost Albania's service exports and GVC integration.

*Weak management of public finances holds back long-term development*

- Albania faced the COVID-19 pandemic with a relatively limited fiscal space. Increased spending in the aftermath of the global financial crisis, coupled with weaker revenue performance, increased fiscal deficits and elevated public and publicly guaranteed debt from 57.7% in 2010 to 72.4% in 2016. Thanks to subsequent fiscal consolidation, public debt declined to 67.9% in 2019, but this trend was reversed by the pandemic which increased the expenditure needs while reducing revenues. As a result, at the end of 2020, public and publicly guaranteed debt rose to 77.4% of GDP, the second highest in the region (World Bank, 2021<sup>[25]</sup>). Improved performance in the fiscal sector will require addressing key

underlying structural constraints, including weak revenue performance (27.4% of GDP compared to 44.7% for the EU average) due to a low tax base, high informality, and high tax evasion, as well as inefficient allocation of expenditures (IMF, 2019<sup>[26]</sup>; OECD, 2021<sup>[27]</sup>). The latter requires limiting the rise of non-discretionary current expenditures, including high social transfers, thus creating more space for higher and better targeted expenditures on infrastructure, health, education, etc.

### *Environmental degradation threatens long-term development and well-being*

- **Air pollution** is an important challenge in cities across Albania. Transport is the main source of pollution due to the growing number of people and vehicles in the major cities. And with nearly 87% of private cars aged 10 years or older, and nearly 20% 20 years or older, the pollution burden is high (INSTAT, 2021<sup>[1]</sup>). Residential heating is another important source of air pollution, especially in the winter. Since there is no district heating infrastructure in Albania, a large proportion of the population uses old wood-burning stoves and fireplaces for residential heating (UNECE, 2018<sup>[28]</sup>), leading to high particulate matter (PM) pollution, especially during the winter. Although annual exposure to PM 2.5 is the lowest in the Western Balkan region (18 micrograms per cubic metre,  $\mu\text{g}/\text{m}^3$ ), it is still considerably higher than the EU and OECD averages of 13.1  $\mu\text{g}/\text{m}^3$  and 12.5  $\mu\text{g}/\text{m}^3$  respectively, and nearly double the World Health Organization (WHO) recommended maximum annual exposure level (10  $\mu\text{g}/\text{m}^3$ ) (EEA, 2020<sup>[29]</sup>) (World Bank, 2017<sup>[30]</sup>).

Albania is highly prone to natural disasters (floods, earthquakes, landslides, etc.) and has suffered significant economic and physical damage as a result of these disasters. It therefore needs to ensure better stewardship of its natural environment, which provides natural buffers against these disasters. This also ensures the preservation of the country's rich biodiversity. Improving water resource management is also important, being essential for the continued reliance on hydropower, as is providing reliable access to high-quality and safe drinking water to all citizens. Preserving natural resources is also critical especially in the context of climate adaptation. Finally, reducing solid waste and fostering a circular economy will contribute to Albania's sustainable development – see Energy policy (Dimension 12).

### *Inequality remains an important challenge*

- Even though living standards have improved substantially over the past decade, according to the latest European Income and Living Conditions Survey (EU-SILC), inequality in Albania is above the regional average and 40% of households are severely materially deprived (Eurostat, 2020<sup>[31]</sup>). There are considerable disparities across ethnic groups, with the Roma and Egyptian minorities lagging considerably behind on most well-being indicators, such as access to education, infrastructure, and public services. Regional disparities are strong as well. GDP per capita in Tirana is more than double that of the poorest province, Kukës. Likewise, health and social security coverage is up to five times as high in Tirana than in other regions (INSTAT, 2021<sup>[1]</sup>). In light of this, ensuring that the gains from prosperity are shared by all ought to be an important development priority for the Albanian economy. More inclusive growth will improve the incomes and well-being of all citizens.

### *COVID-19 has exacerbated structural challenges*

The COVID-19 pandemic has had a significant impact on the Albanian economy over the past year. The brunt of the impact was felt in the second quarter of 2020 when domestic and external demand were hit hard by COVID-related restrictions on movement, disruptions in value chains etc. Exports were hit the hardest, declining by 49.9% year-on-year (y-o-y), while investment fell by 11.1% y-o-y on account of the dual impact of the pandemic as well as the completion of major energy projects that had strongly contributed to investment in recent years. Private consumption also declined by 7.9% y-o-y, as did public consumption (0.6% y-o-y). The GDP decline was moderated by a fall in imports of 36% y-o-y. The output decline lessened in Q3 to -3.5% y-o-y, due to smaller declines in private and public consumption and

exports, a recovery in investment (4.1% y-o-y) and a further decline in imports (-23.9% y-o-y) (European Commission, 2020<sup>[3]</sup>; European Commission, 2020<sup>[32]</sup>).

The service and manufacturing sectors were most strongly affected by the crisis. Retail and wholesale trade, transport, and tourism and hospitality services were worst affected, declining by 27% y-o-y in Q2. Industrial output, meanwhile, fell by 13.1%, led by a decline in manufacturing of 19.1% y-o-y. The only sectors that saw an increase in output were agriculture and real estate (European Commission, 2020<sup>[3]</sup>; European Commission, 2020<sup>[32]</sup>).

The impact on the labour market was mitigated by government support measures, which included direct and indirect financial support to businesses affected by the pandemic-related closures, including subsidies for employee salaries, guarantees for loans, etc. (OECD, 2021<sup>[33]</sup>). Unemployment rose mildly in the second quarter, from 12% to 12.5%, but had returned to the pre-crisis level of 12.1% already by Q3 of 2020, while employment continued to decline in Q3 although at a more gradual pace (-1.2% y-o-y down from -3.9% y-o-y in Q2). Labour force participation also recovered to pre-crisis levels in Q3, though the recovery was more pronounced for men than for women (European Commission, 2020<sup>[3]</sup>; European Commission, 2020<sup>[32]</sup>).

Government support also helped to mitigate the impact on household incomes and poverty, which were strongly affected by the decline in remittances (-35% y-o-y in Q2 2020). These support measures included a one-off transfer to employees who had lost their jobs due to the pandemic, doubling of unemployment and social assistance payments, and additional support to the most vulnerable households (OECD, 2021<sup>[33]</sup>).

Many of the structural challenges described above have played a role in either amplifying the impact on the COVID-19 epidemic or limiting the scope of the policy responses to lessen its impact. The crisis has, therefore, provided important lessons on how to build more resilient economies and institutions:

- **Fiscal policy:** Albania has implemented a number of tax policies as part of its response to the COVID-19 pandemic:
  - Waiving 2020 CIT payments and pre-payments for taxpayers with an annual turnover up to ALL 14 million (EUR 113 000). Postponement of CIT payments and pre-payments concerning the period April-September 2020 to April-September 2021 for companies with an annual turnover above ALL 14 million (except for companies in the banking, telecommunication, pharmaceutical and food trade sectors).
  - Tax filing extension for the submission of the 2019 PIT tax returns, from 30 April 2020 to 31 July 2020. The extension concerns individuals with an annual income above ALL 2 million (EUR 16 200).
  - Deferring rent payments for small businesses, individuals who stopped working during the pandemic and students forced to leave their residence.
  - Wage subsidies paid directly to eligible companies, equivalent to the minimum wage.
  - One-off additional payment for beneficiaries of unemployment benefit or other economic assistance.
  - Series of ALL 40 000 (EUR 320) payments to employees of companies that were forced to close down due to the pandemic.
  - Introducing two sovereign guarantee funds, amounting to ALL 11 billion (EUR 88.5 million) and ALL 15 billion (EUR 120.7 million) each.

The fiscal response has been critical for avoiding significant economic fallout from COVID-19, especially on labour market outcomes. However, it has resulted in a significant narrowing of the fiscal space. In the context of weaker prospective revenues in the wake of the crisis, particularly if the recovery is slow, improving the efficiency of public spending will be crucial over the coming

months, as will be prioritising expenditures that can support the recovery and promote productivity growth and structural transformation for stronger and more resilient long-term growth. This also includes increasing public investment. The crisis has also highlighted the importance of rebuilding fiscal buffers in the post-crisis period. This goal will require tackling the structural constraints that undermine revenue performance.

- **Innovation and technology adoption:** The COVID-19 crisis has starkly demonstrated the importance of firm adaptability in meeting new challenges and changing circumstances. It has also revealed the advantages that firms which have embraced digitalisation and modern practices have over others. The resilience of the post-COVID recovery will therefore depend on addressing structural issues limiting firm innovation and technology – see Structural economic challenges section – and mainstreaming digitalisation and digital skills.
- **Access to finance:** The crisis highlights the significance of having a well-developed and diversified financial sector that can respond to the financing needs of enterprises, not only in times of crisis but also during the recovery phase. As in the rest of the region, the main instruments for providing additional liquidity for enterprises during the crisis came through government support for subsidised lending or lending guarantees. However, the resilience of the Albanian financial sector through the crisis has further reinforced the growing trust in the sector. Going forward, a robust financial sector made up of diversified financial institutions that can provide financing for riskier and innovative ventures, and not just established enterprises, will be very important in the recovery phase and beyond.
- **Informality:** The large size of the informal sector, and the significant share of informal employment even within the formal sector, have limited the scope of the measures to protect the income and employment of people in the worst-affected sectors. Informality is widespread in sectors affected highly by the crisis, including retail trade and tourism, and this segment was not able to benefit from government support measures to the same extent as the formal sector (some support was provided to the informally employed who lost their employment) (ILO, 2019<sup>[34]</sup>) (European Commission, 2021<sup>[35]</sup>). Developing a more resilient economy will also depend on enhancing incentives for formalisation and improving the oversight and sanctioning of non-compliance.
- **Health sector:** Spending on health care in Albania, at 5.3% of GDP in 2018, has been below spending in the other WB6 economies with available data, and the EU (9.9%) and OECD (12.5%) averages (World Bank, 2020<sup>[12]</sup>). This has resulted in relatively high out-of-pocket expenditures (44.6% of current health spending), which negatively impact everyone but particularly the low-income families (World Bank, 2020<sup>[12]</sup>). The private healthcare system is even more expensive, but as it provides faster and better-quality care, many people choose this option (Health Consumer Powerhouse, 2018<sup>[36]</sup>).

## ***EU accession process***

Albania's path to EU accession began in April 2009 with its application for membership and the subsequent entering into force of the Stabilisation and Association Agreement. In 2010, Albanian citizens were granted visa-free travel to all EU member states that are part of the Schengen area, and in 2014 Albania gained the status of EU candidate country. Following the EU's decision to open accession negotiations in March 2020 and the subsequent presentation of the draft negotiating framework to the Member States in July 2020, Albania is awaiting the start of the negotiations.

Advancing on the socio-economic reform agenda remains a critical priority in Albania's path to EU membership. The findings in this Competitiveness Outlook (CO) 2021 are relevant to a number of critical chapters of the *acquis*, while its recommendations provide the guidance needed to meet the accession requirements. The CO also provides a good basis for assessing the critical challenges that the economy faces as a starting point for developing the Economic Reform Programmes (Box 20.1).



### Box 20.1. Economic Reform Programmes

Since 2015, all EU candidate countries and potential candidates prepare Economic Reform Programmes (ERPs) which play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness, and improve conditions for inclusive growth and job creation. The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda.

The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

1. Public Financial Management
2. Green transition
3. Digital transformation
4. Business environment and reduction of the informal economy
5. Research, development and innovation
6. Economic integration reforms
7. Energy market reforms
8. Transport market reforms
9. Agriculture, industry and services
10. Education and skills
11. Employment and labour market
12. Social protection and inclusion
13. Healthcare systems

The structural reforms part of the ERPs is organised in two parts:

- A first part identifies and analyses the three key challenges across those 13 areas. The identification and prioritisation of key challenges imply a clear political commitment at the highest level to address them and the ERPs should propose a relevant number of reform measures to decisively tackle each of them in the next three years.
- A second part provides an analysis of the remaining areas (not included as key challenges) and may propose additional reforms to address them.

The European Commission and the European Central Bank then assess these programmes, which form the basis for a multilateral economic policy dialogue involving the enlargement economies, EU Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include economy-specific policy guidance reflecting the most pressing economic reform needs. The findings of the Competitiveness Outlook provide guidance to the six Western Balkans EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

Source: (European Commission, 2021<sup>[37]</sup>), Guidance for the Economic Reform Programmes 2022-2024 of the Western Balkans and Turkey, [https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/erp\\_2022-2024\\_guidance\\_note.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/erp_2022-2024_guidance_note.pdf); (European Commission, 2018<sup>[38]</sup>), Economic Reform Programmes: Western Balkans and Turkey, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf>.



## ***EU financial and development support***

The EU is the largest provider of external financial assistance to Albania. Since 2007, the EU has provided EUR 1.25 billion in pre-accession funds aimed at strengthening democracy and the rule of law, reforming the public administration, strengthening competitiveness and improving environmental outcomes and food safety. A further EUR 464 million has been provided through lending from the European Investment Bank (EIB) since 1999. The Western Balkans Investment Framework (WBIF) has provided EUR 143.8 million in grants that have leveraged further investments of an estimated EUR 2.3 billion. Finally, the EU has provided much-needed grant financing of EUR 115 million to support Albania's reconstruction efforts in the aftermath of the 2019 earthquake (European Commission, 2021<sup>[39]</sup>).

In addition to the grant funding and lending, the EU also provides important support through guarantees for public and private investment to reduce the risks and costs associated with those investments. The new Western Balkans Guarantee Facility is expected to mobilise up to EUR 20 billion in investment over the coming decade (European Commission, 2020<sup>[19]</sup>).

The Connectivity Agenda seeks to support investments in sustainable transport and clean energy. Set up under the WBIF, the latest package, which was presented at the Western Balkans Summit in Sofia on 10 November 2020, completes the delivery of the EU's 2015 pledge to finance EUR 1 billion of investment to support better connectivity in the WB region. It also represents the first step in implanting the flagship projects under the Economic and Investment Plan for the region. Albania is expected to receive up to EUR 193.6 million between 2021 and 2026 under this programme (European Commission, 2021<sup>[40]</sup>).

The EU has also been instrumental in supporting Albania's response to the COVID pandemic. EUR 50.65 million in bilateral assistance from IPA 2014-2020 was provided to Albania to cover the urgent needs of the health sector and to support economic and social recovery in the crisis aftermath. A further EUR 180 million was approved, and EUR 90 million disbursed, in macro-financial assistance to support the economic recovery. Albania and other WB economies have also been recipients of the EU's regional economic reactivation package of EUR 455 million. In December 2020 the European Commission also adopted a EUR 70 million package to help WB economies gain access to COVID-19 vaccines. Moreover in February 2021, a joint EU/WHO project provided assistance of EUR 7 million to support vaccination readiness and health sector resilience in the region (European Commission, 2021<sup>[39]</sup>).

## **Scope and methods**

### ***Process***

Following the first two Competitiveness Outlook assessments, published in 2016 and 2018, the third Competitiveness Outlook assessment cycle for the WB6 economies was launched virtually (due to the COVID-19 pandemic) on 3 April 2020. The OECD team introduced Albania's Competitiveness Outlook Government<sup>1</sup> and Statistical Office Co-ordinators<sup>2</sup> to the new digitalised assessment frameworks (see the Assessment methodology and process chapter for details). The two primary documents for assessing each of the 16 policy dimensions – the qualitative questionnaire and statistical data sheet – were explained in depth, giving particular attention to new questions and indicators. The OECD team also explained digital solutions to be used to disseminate the material together with the detailed guidelines, tutorials and information on the assessment process, methodology and timeline.

Following the launch of the assessment, the Ministry of Finance and Economy disseminated the materials among all 16 Policy Dimension Co-ordinators and Statistical Office contact points in Albania. Where additional guidance was needed, the OECD team held teleconferences with Dimension Co-ordinators and Statistical Office contact points in April and May 2020.

All 16 Dimension Co-ordinators and Statistical Office contact points completed the assessment between April and May 2020. They assigned a score (see Scoring approach) to each qualitative indicator used to assess the policy dimension in question, accompanied by a justification. The completed assessments (qualitative questionnaires and statistical data sheets) were returned to the OECD team between May and July 2020.

The OECD reviewed the inputs and, where necessary, requested additional information from the Ministry of Finance and Economy, Policy Dimension Co-ordinators and Statistical Office contact points. The updated assessment materials were sent back to the OECD between July and September 2020. In addition, the OECD organised policy roundtable meetings between October and November 2020 to fill in any remaining data gaps, to get a better understanding of the policy landscape, and to collect additional information for indicators where necessary.

Based on the inputs received, the OECD compiled the initial key findings for each of the 16 policy dimensions. It then held consultations on these findings with local non-government stakeholders (including chambers of commerce, academia and NGOs) in November 2020. As a follow up, the OECD presented the preliminary findings, recommendations and scores to the Competitiveness Outlook Government Co-ordinator, Policy Dimension Co-ordinators and Statistical Office contact points at a virtual meeting on 29 January 2021. The draft Competitiveness Outlook economy profile of Albania was made available to the Government of Albania for their review and feedback from mid-February to mid-March 2021.

### **Scoring approach**

Each policy dimension and its constituent parts are assigned a numerical score ranging from 0 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 0 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 20.3).

For further details on the Competitiveness Outlook methodology, as well as the changes in the last assessment cycle, please refer to the Assessment methodology and process chapter.

**Table 20.3. Competitiveness Outlook scoring system**

<b>Level 5</b>	Level 4 plus independent impact evaluation. Results of monitoring and impact evaluation inform policy framework design and implementation updates in line with OECD good practice
<b>Level 4</b>	Level 3 plus evidence that the framework is monitored and, if necessary, adjusted accordingly
<b>Level 3</b>	Level 2 plus some concrete indications that the policy framework is being implemented effectively
<b>Level 2</b>	Framework specifically addressing the policy area concerned is solidly in place, officially adopted by the government or parliament (where applicable). The framework includes policy features necessary for it to have an impact
<b>Level 1</b>	Existing draft or pilot policy framework with signs of government activity addressing the policy area concerned
<b>Level 0</b>	No framework (e.g. law, institution, project, initiative) exists for the policy topic concerned

### *Exceptions*

Unlike the other 15 policy dimensions, competition policy (Dimension 5) is assessed using yes/no answers to 71 questions in a dedicated questionnaire. A “yes” response (coded as 1) indicates that a criterion has been adopted, whereas a “no” (coded as 0) indicates the criterion has not been adopted. The overall score reflects the number of criteria adopted. Moreover, some qualitative indicators which have been added to this edition of the assessment for the first time, are not scored due to the recent character of the policy practice they capture and the unavailability of relevant data.

## Investment policy and promotion (Dimension 1)

### Introduction

Albania has slightly improved its performance in the investment policy and promotion dimension. The economy's score has increased from 2.6 in the 2018 Competitiveness Outlook to 3.1 in the 2021 assessment, with notable progress in enhancing its investment promotion and facilitation and implementing green investment strategies. Albania is the third-best performing economy in the Western Balkan region for investment policy and promotion, scoring above the regional average for investment promotion and facilitation and green investment, though trailing behind in its investment policy framework (Table 20.4).

**Table 20.4. Albania's scores for investment policy and promotion**

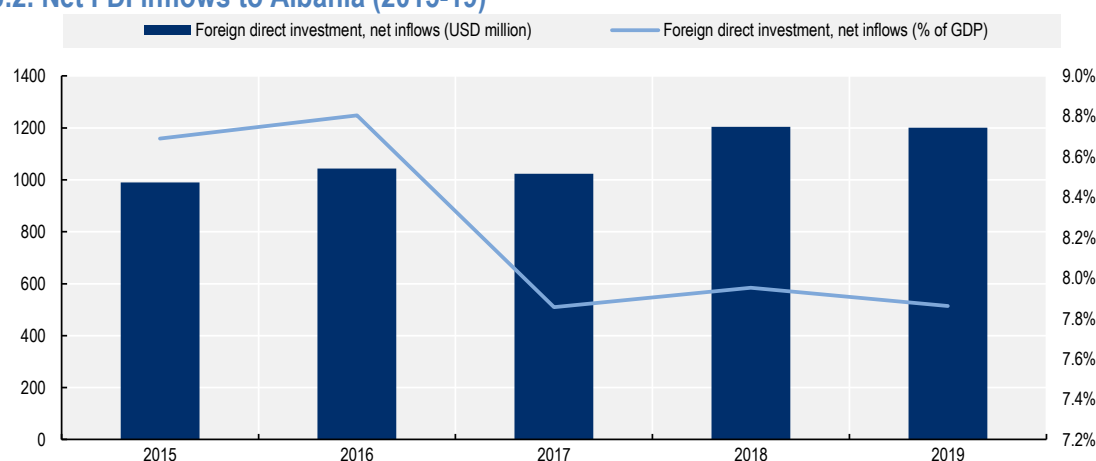
Dimension	Sub-dimension	Score	WB6 average
Investment policy and promotion dimension	Sub-dimension 1.1 Investment policy framework	2.9	3.2
	Sub-dimension 1.2 Investment promotion and facilitation	3.4	3.0
	Sub-dimension 1.3 Investment for green growth	2.8	2.0
Albania's overall score		3.1	3.0

### State of play and key developments

Albania has been increasingly successful in attracting FDI over the last decade, with average net FDI increasing from USD 484 million over 2000-09 to USD 1.2 billion from 2010-19 (

Figure 20.2). Net FDI inflows have represented on average 8.2% of the economy's GDP over the last five years, making Albania one of the best performers of the WB6 economies. This is also a better performance than the average for upper middle-income countries (2.0% of GDP) and OECD economies (2.4% of GDP) over the same period (World Bank, 2020<sup>[12]</sup>). FDI is concentrated in the energy sector, extractive industries, banking and insurance, telecommunications, and real estate, and comes from diverse sources, notably Austria, Canada, Greece, the Netherlands, Switzerland and Turkey

**Figure 20.2. Net FDI inflows to Albania (2015-19)**



Source: (World Bank, 2020<sup>[12]</sup>), *World Development Indicators*, <https://databank.worldbank.org/source/world-development-indicators>.

StatLink  <https://doi.org/10.1787/888934255285>

### *Sub-dimension 1.1: Investment policy framework*

Overall, Albania's **legal framework for investment** and conduct of business is complex and lacking clarity. The economy does not have a stand-alone investment law; instead it has several laws governing investment activities, including the 1993 Law on Foreign Investment and the 2015 Law on Strategic Investments, as well as a number of sectoral laws and regulations.<sup>3</sup> In 2019, a new investment law that simplifies and unifies the legal framework for investment was drafted and consultations initiated. This new law merges the laws on foreign investment and strategic investment and is currently undergoing final preparations in co-ordination with the state advocacy. It is expected to be adopted within 2021.

Since 2017, the government has started modernising its ageing investment framework, though progress has been slow to materialise. The government has taken steps towards aligning its investment framework with modern international standards and good practice.

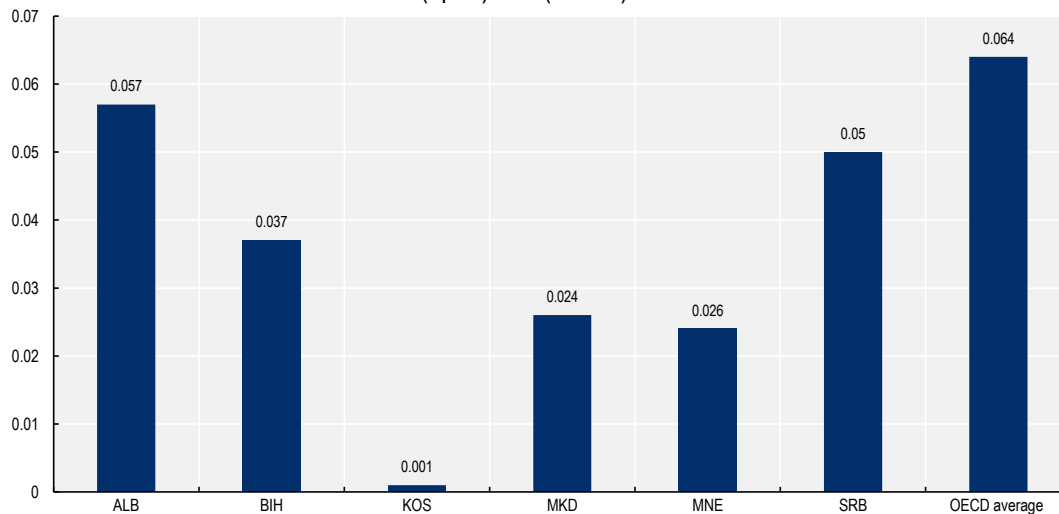
Despite the success of its investment regime in attracting FDI, investors in Albania often complain about the lack of clarity regarding the legal framework, as the government has introduced multiple changes and amendments to the investment framework and sectoral regulations in recent years. They also report a lack of transparency when dealing with the administration, as well as uneven enforcement of the law. These challenges are reflected in the economy's ranking in the 2020 Doing Business Index of 82<sup>nd</sup> out of 190 economies, scoring particularly poorly on enforcing contracts, at 120<sup>th</sup> out of 190 economies (World Bank, 2020<sup>[41]</sup>).

Public involvement in policy making remains limited despite the government's efforts to increase transparency and consultations. All legislation, including those on investment, are published on the website of the National Publication Centre (Ministry of Justice), but are not always systematically available in English. Public consultations with stakeholders on draft laws, national and international strategic draft documents, as well as policies of high public interest are regulated by law and draft legislations are published on a dedicated webpage. The Ministry of Finance organises online meetings with target groups regarding draft legal acts and the Albanian Investment Council provides a discussion forum to gather and discuss opinions. However, the consultation process is efficient as the reliance on online consultations tends to generate limited inputs (European Commission, 2020<sup>[19]</sup>).

Albania's market is open and **exceptions to national treatment** are limited. The economy's score on the OECD FDI Regulatory Restrictiveness Index, which assesses and benchmarks market access and exceptions to national treatment, was 0.057 in 2019, below the OECD average of 0.064 (a low score indicates a less restrictive regime) (OECD, 2020<sup>[42]</sup>). The economy maintains some minimal investment restrictions, notably for arms production, inland maritime transport, fishery, notary services and judicial enforcement service, indicating that foreign investment rules do not constitute impediments to FDI. The economy does not currently have a negative list of the sectors where foreign investment is prohibited or conditioned, or which outlines any discriminatory conditions. However, one is currently being prepared with the support of International Finance Corporation (IFC) experts under the Multi-annual Action Plan on Regional Economic Area in the Western Balkans (MAP REA) and is being evaluated internally. Albania places restrictions on ownership of agricultural land, as foreigners are not allowed to acquire agricultural land, forests, meadows or pastures unless they incorporate their businesses locally. Foreigners can, however, rent agricultural land for 99 years. Additionally, ownership of commercial properties is only possible if the proposed investment is worth three times the price of the land.

**Figure 20.3. FDI Regulatory Restrictiveness Index (2019)**

Restrictions are evaluated on a scale of 0 (open) to 1 (closed)



Source: (OECD, 2020<sup>[43]</sup>), FDI Regulatory Restrictiveness Index (database), <http://www.oecd.org/investment/fdiindex.htm>.

**Investor protection against expropriation** without fair compensation is enshrined in the constitution and the 2012 Law on Expropriation, which explicitly provides for the modalities and procedures of expropriation, and stipulates that expropriation can only occur when it is in the public interest. The law was amended in 2020, resulting in the establishment of the State Expropriation Agency. This new institution plans and handles expropriation claims and calculates the amount of compensation for each property affected. The Law on Foreign Investment provides for additional protection from expropriation for foreign investors.<sup>4</sup> The legal framework does not, however, explicitly recognise<sup>5</sup> the concept of indirect expropriation, which deprives investors of the certainty of compensation if the state interferes indirectly with their operations, impacts their benefits, investments or use (but without taking their property).

Albania has also signed a large network of bilateral investment treaties (BITs),<sup>6</sup> which constitute an additional layer of protection for foreign investors. The Government of Albania is also currently in the process of reforming its existing network of bilateral investment treaties and defining a new BIT model that will balance investor protection provisions and national strategic interests, while complying with EU standards and international good practices.

Administrative-judicial protection is available for parties dissatisfied with expropriation compensation as the Law on Expropriation recognises the right of appeal for the expropriated subject. However, this right is recognised only in relation to the amount of compensation, determined by the State Expropriation Agency, after the evaluation of the technical criteria. The law stipulates that the expropriated party must be notified on the Decision of the Council of Ministers by the State Expropriation Agency, after which the expropriated party only has the right to appeal to the court within 30 days regarding the amount of compensation determined in this decision.

Foreign investors have the same rights and remedies before the national court system as domestic investors when it comes to **dispute settlement**. The justice system is going through a comprehensive and thorough overhaul which, according to the EU, has “continued consistently, resulting in good progress overall” and that “justice reform is expected to contribute to strengthening the business environment and attracting investments” (European Commission, 2020<sup>[19]</sup>). The reform process is reinforcing the independence of the judiciary and limiting political interference. The justice system’s financial resources were increased by 14% in 2018 compared to the previous year. Overall, the court system is improving both in terms of efficiency and effectiveness for commercial procedures. However, due to these judicial reforms and vetting of judges, there have been delays to court proceedings, including the lack of a quorum in some specific courts. The Tirana District Court has a special division that judges commercial matters, known as

the Commercial Section. This section is composed of nine judges specialised in commercial matters. In 2019 the Tirana District Court adjudicated most of the commercial cases within one month from the date of registration: 50.8% of the cases were adjudicated within one month, 36.7% within one to six months, 10.3% within seven to twelve months and only 0.5% took more than two years to adjudicate.

Albanian legislation offers alternative dispute resolution mechanisms. Mediation is regulated by the Law on Mediation in Dispute Resolution<sup>7</sup> and applies to the resolution of all disputes in the field of civil and commercial law. Moreover, Albania has ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention) and the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). By virtue of their adherence to the New York Convention, foreign arbitral awards are recognised in the economy. However, according to the EU, the impact of alternative dispute resolution continues to be low as “the total number of cases referred to and solved through mediation was 2 077 compared with 1 260 in 2016” (European Commission, 2020<sup>[19]</sup>). It should be noted that the draft investment law should reinforce the role of international arbitration.

Albania has sound **intellectual property (IP) rights laws** and regulations. The economy is a member of the World Intellectual Property Organization and adheres to the main international treaties and conventions on IP rights, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The economy’s IP rights are overall aligned with EU legislation, notably in the area of industrial property rights, as well as in improving the functioning of collective management agencies. Key advances include the adoption of secondary legislation on trademarks and the legal protection of designs in May 2018.

The General Directorate of Industrial Property (GDIP), under the supervision of the Ministry of Finance and Economy, is the public authority in charge of registration, protection and enforcement of IP rights. The GDIP operates in compliance with the most important international conventions and agreements on intellectual property ratified by Albania. Since 2018, the GDIP’s mandate and resources have been reinforced. It has undergone an institutional reform, and now consists of 39 employees, 15 more than previously. This increase in employees is to meet the objectives set out in the National Strategy on Intellectual Property 2016-2020 and highlights the economy’s engagement in reinforcing its IP policy.

The GDIP also co-ordinates with key stakeholders. These include the Copyright Directorate of the Ministry of Culture on respecting and promoting copyright and related rights in Albania, as well as the State Inspectorate for Market Surveillance (SIMS), which is responsible for inspection, control and enforcement of copyright and related rights.

Albania is lagging behind other Western Balkan economies in IP implementation and enforcement. However, the economy has been making some progress on IP implementation as indicated by the rise in applications for industrial property objects recorded by the GDIP: according to the EU, in 2018, the number of applications to register trademarks rose by 24.4% compared to 2017, and applications for patents and utility models increased by 11.7%. SIMS has improved its performance in all areas in comparison to 2019 (European Commission, 2020<sup>[19]</sup>). The number of complaints handled by the inspectorate increased by 280%, from 40 in 2019 to 152 in 2020; inspections increased by 26%, from 1 308 in 2019 to 1 649 in 2020; and the amount of administrative measures carried out by SIMS increased by 43.9%, from 221 in 2019 to 318 in 2020 (SIMS, 2020<sup>[44]</sup>). Mechanisms in place to resolve disputes include the Board of Appeals, Administrative and First Instance Court, Appeal Court, and the Supreme Court.

Additional resources for the GDIP have improved **IP rights awareness raising and access to information** in Albania. The Copyright Directorate offers various amenities and e-services, including an electronic help desk, Patlib (providing local access to patent information and related issues), information kits and other informative brochures, websites, and visual and social media. Since 2018, the GDIP has intensified its IP rights awareness-raising activities in conjunction with businesses, technical and scientific information centres through seminars and lectures in public and private universities as well as for interest groups.



### *Sub-dimension 1.2: Investment promotion and facilitation*

Albania has a solid **investment promotion agency structure and strategy**. Although its Business and Investment Targeting Strategy (BITS) 2014-2020 has now ended, the Ministry of Finance and Economy received technical assistance in 2020 to draft the new strategy for investment promotion (BITS 2021-2027), which is now underway. The strategy is expected to include the internationalisation of Albanian investments, outreach campaigns, aftercare programmes, and strategies for attracting FDI and manufacturing products to Albania. The ministry has been working closely with experts since September 2020 to adapt this strategy to help mitigate the impact of the pandemic.

The Albanian Investment Promotion Agency (AIDA) has a wide mandate that encompasses export promotion and SME development, in addition to investment promotion, facilitation and retention. AIDA co-ordinates and collaborates with several stakeholders at the local and central level to promote and facilitate business processes in order to enhance the development of investment and reinvestment opportunities. The organisation is a government entity under the auspices of the Ministry of Finance and Economy and reports directly to the organisation's board which is chaired by the Prime Minister of Albania.

The agency also hosts the secretariat for the Committee on Strategic Investment, which ensures the implementation of the Law on Strategic Investments. This committee is chaired by the Prime Minister of Albania and includes the Deputy Prime Minister and other line ministries such as the Ministry of Finance and Economy, the Ministry of Tourism and Environment, the Ministry of Agriculture and Rural Development, the Ministry of Infrastructure and Energy and the State Advocate. According to the Law on Strategic Investments, AIDA serves as a one-stop-shop for strategic investments and as an "assisting agent" for investors.

In addition, AIDA co-operates with Albanian embassies and consulates, as well as with the Ministry of Foreign Affairs and Diaspora, bilateral foreign chambers and foreign embassies, in order to attract foreign investment. One of its key objectives is to increase co-ordination within the Albanian network of domestic regional and local investment promotion agencies (IPAs).

AIDA plays an important role in developing linkages between local firms and multinational enterprises (MNEs). This was defined in the Business Investment and Strategy 2014-2020 and is expected to be included in the new strategy. The IPAs provide information and accompanying services both to local firms and international companies through the SME help desk and facilitates contacts by organising training courses, workshops and business-to-business (B2B) meetings. Other measures aimed at creating and deepening linkages include assistance in finding new local suppliers, technology transfer, and information exchange on AIDA's website (B2B online platform), as well as financial support through funds managed by AIDA.

AIDA has substantially increased its staffing, from 28 employees in 2018 to about 38 employees in 2020. In 2019 alone, the agency concluded 20 new employment contracts, confirmed 17 existing contracts and approved 9 departures at staff request or due to disciplinary measures (AIDA, 2019<sup>[45]</sup>). These changes are a direct result of an expanded mandate and aim to achieve the most effective division of tasks. The agency is organised into five directorates: investment (13 employees), SMEs and projects (8), marketing and research analysis (5), co-ordination (4), and support services (8). In comparison, the Development Agency of Serbia (RAS) has 29 staff members to carry out its more limited mandate, making AIDA the investment promotion agency with the highest level of staffing in the region. AIDA's funding comes from the state budget, via a special sub-programme of the budget of the Ministry of Finance that covers the economy and income generated by its activities and donations. In 2020, AIDA's budget was approximately ALL 64 million (about EUR 520 000).

Albania is also reinforcing its **investment facilitation services and activities**. It has accelerated the digitalisation of its public services and as of January 2020, 73% of all public services were available to citizens and businesses online through the e-Albania Portal. Key developments for investment procedures

include the introduction of e-registration and electronic notification of balance sheets and financial reports. Registration and licensing services are offered through a one-stop-shop model by the National Business Centre, streamlining the certification process by abolishing many licensing requirements and simplifying other licensing procedures. Starting a business has become easier, with forms and procedures published online, and taking 4.5 days on average (World Bank, 2020<sup>[41]</sup>).<sup>8</sup> Registration costs have been reduced and tax, health insurance and labour registration combined in a single application. AIDA also provides one-stop-shop services for strategic investments.

AIDA is reinforcing its **investor targeting** actions, by adopting a proactive approach involving outreach campaigns for the agriculture sector (2019) and car manufacturing (2020). AIDA evaluates its targeting missions and uses the results for future targeting activity. It keeps an investor tracking database, which is updated regularly. Investor targeting activities are co-ordinated through the use of e-invest software that is managed by the AIDA team. This system connects all government departments and institutions dealing with investments, including embassies, in order to co-ordinate leads and investments. A considerable share of AIDA's promotional budget is devoted to arranging meetings with foreign companies, attending conferences and trade fairs as well as undertaking missions abroad. However, this budget has decreased from EUR 115 000 in 2019 and EUR 72 000 in 2020 and, due to the COVID-19 pandemic, no funds were distributed to SMEs through various grant funding schemes. The support schemes under AIDA have been under revision and budgetary funds were instead used to finance part of the government support measures to mitigate the consequences of COVID-19.

Albania provides a wide range of **investor incentives**, all of which are listed on AIDA's website. Investors can also negotiate other incentives directly with AIDA. Additional incentives and special treatment are also provided for strategic investments, under the Law on Strategic Investments. The law identifies the following sectors as being strategic: 1) energy and mining; 2) transport, electronic communications infrastructure and urban waste; 3) tourism (tourist structures); and 4) agriculture (large agricultural farms) and fisheries. The law also outlines the criteria, rules and procedures that state authorities should use when approving a strategic investment. The government provides fiscal and administrative incentives for companies starting businesses in a Technical and Economic Development Area (TEDA).

Tax incentives for investment remain under the authority of the Ministry of Finance and Economy, which regularly monitors tax expenditures approved by parliament. Tax incentives are analysed and serve as government decisions on future projects. Information on them is publicly accessible through the annual report on tax included in the Budget Law.

**Aftercare services** are included in AIDA's mandate. The agency contacts and surveys foreign investors on a regular basis through a formal co-ordination mechanism and produces annual reports on investor feedback and perceived issues. AIDA also prepares frequent reports to highlight problems faced by investors. These are submitted to the Ministry of Finance and Economy in order to make the necessary policy or regulatory adjustments. Finally, AIDA conducts an annual investor satisfaction survey and organises on-site visits in order to listen to the concerns and needs of each sector.

### *Sub-dimension 1.3: Investment for green growth*

Albania has begun developing a sound **green investment policy and promotion** framework and has developed comprehensive legislation outlining its green growth priorities and objectives. Its General National Spatial Plan (PPKT), Albania 2030, provides a strategic reference framework for the sustainable development of the territory and a reliable and sustainable climate for domestic and foreign investment in long-term infrastructure projects (National Agency for Territorial Planning Albania, 2015<sup>[46]</sup>). It promotes the balanced economic and social development of the economy, the responsible management of its natural resources, environmental protection, and the rational use of land. The plan was developed using strategic environmental assessment to avoid or minimise any negative impacts. Tirana has aligned its green investment promotion strategies with national policies by incorporating Albania's Green Development

Agenda into its development plans. These include the General Local Plan for Tirana 2030, Tirana Masterplan, Sustainable Development Plan 2018-2022 (Box 20.2), The Green City Action Plan (GCAP) and the Sustainable Urban Mobility Plan, which is being developed.

### Box 20.2. A strategy for green investment in Tirana

Tirana adopted the Development Strategy for Growth 2018-2022 in 2018, which aims to achieve more sustainable economic, social and ecological development by encouraging eco-friendly businesses and farming, as well as by providing the financial means and technological ability for other businesses to be more energy efficient and innovative. The strategy contains four programmes aimed at promoting the green economy:

14. A programme that reinforces rural economic development by supporting eco-friendly business, drafting plans for forestry development and promoting local agricultural and livestock products.
15. A programme to increase infrastructure investments in the irrigation and drainage system, to promote efficient use of public assets and property registration (AMTP), and to strengthen its trade network by creating markets across the municipality's territory.
16. A programme to design two favourable fiscal and tax exemption packages for farmers and businesses to promote and expand their activities, facilitate market access and increase employment and self-employment.
17. A programme to create a Technology and Economic Development Area (TEDA) to promote further investment, job creation and revenue growth; introduce advanced technology; accelerate regional development; and expand national and international market economic ties.

Tirana is also hoping to launch another project in the future that would identify and create genuine industry clusters based on the most successful schemes in the region and Europe.

Source: (General Directorate of Strategic Planning of Tirana, 2018<sup>[47]</sup>), *Development Strategy of Growth of the Municipality Tirana 2018-2022*, [https://tirana.al/uploads/2019/3/20190304142936\\_szhqbt-2018-2022-30-e-miratuar-per-web-finale.pdf](https://tirana.al/uploads/2019/3/20190304142936_szhqbt-2018-2022-30-e-miratuar-per-web-finale.pdf).

Albania continues to respect core investment principles such as investor protection, intellectual property rights protection and non-discrimination in areas inclined to attract green investment. The laws on industrial property and the investment fund provide protection for investors and intellectual property rights, and non-discriminatory procedures in all investment domains. These laws also provide for the establishment of feed-in-premium tariffs through a non-discriminatory tender process for photovoltaic plants larger than 2 megawatts (MW). Albania is continuing to align its national and sub-national plans with international environmental and infrastructure standards by working on implementing the EU's recommendations on transitioning to a greener economy and infrastructure.

Albania has also developed a strong framework for **choosing public and private partnerships (PPPs) for green growth**. According to the laws on public procurement, public auction, and concessions and public-private partnership, the Public Procurement Agency<sup>9</sup> is the institution responsible for all public procurement and PPPs, including those for green projects. On the basis of this legal framework, the Albanian Government is conducting hybrid auctions and auctions for photovoltaic renewable energy. For instance, the 140 MW Karavasta photovoltaic park is being implemented by the bid winner, the French company Voltalia. The winning bid for the 100 MW hospital photovoltaic park will be announced later this year.

### ***The way forward for investment policy and promotion***

Though Albania has made substantial progress since the last CO assessment, improving the attractiveness of Albania as an FDI destination requires policy adjustments and reforms in the following areas:

- **Reduce the complexity of the legislative and regulatory framework for investment and increase its transparency.** Accelerating the adoption of the draft investment law would streamline the complex investment regime, improve the investment climate and boost the attractiveness of Albania as an investment destination. This should be complemented by harmonising and stabilising the various sectoral texts and laws governing investment in order to provide investors with a more stable and conducive environment. Finally, reinforcing private sector participation by establishing effective consultation mechanisms with businesses would bolster the transparency and predictability of investment legislation.
- **Reinforce further the independence, resources and capacity of the court system, especially for commercial disputes.** While the reform of the judiciary has progressed well in recent years, investors still complain about enforcing contracts and settling disputes in the economy. In order to improve the attractiveness of the economy, more focus should be placed on improving the efficiency of commercial disputes to reduce the case backlog, as well as building judges' capacity in commercial matters.
- **Increase public awareness and implementation of mediation mechanisms.** While Albania has a mediation law, it is rarely used. Mediation mechanisms are generally favoured by the business community and can help to reduce the backlog of commercial cases by facilitating the resolution of commercial disputes.
- **Align Albanian IP legislation further with international standards and reinforce the co-ordination, resources and capacity of IPR implementation and enforcement bodies.** An effective IPR system is a crucial component of a sound investment climate. While Albania has made important efforts to align its IP legislation with international standards, improve its registration systems as well as raise awareness of IP rights, enforcement remains a challenge. In order to strengthen IP rights, the capacity of the various enforcement agencies needs to be fortified, backed up with sound governance and co-ordination mechanisms.
- **Streamline the multiple investment incentives and reinforce mechanisms for evaluating their cost and benefits, appropriate duration, and transparency.** Simple and unified tax incentive regimes can make it easier for governments to evaluate the cost and benefits of these measures, and improve the allocation of resources and the clarity of the system for investors. In addition, to increase transparency and good governance, tax incentives should be included in the main body of the Tax Law and fall under the authority of the tax administration.
- **Reinforce AIDA's investment facilitation role, notably through better co-ordination with other government bodies and agencies.** IPAs play an important role in the facilitation and retention of investments through their services to accompany the investor through all the steps of a project. In order to fulfil this role effectively – even when the IPA is not the sole interlocutor with the investor – the agency should strengthen its co-operation with other agencies and bodies.

## Trade policy (Dimension 2)

### Introduction

Albania's performance on the trade policy dimension has improved since the last assessment. The economy's score has increased from 2.8 in the 2018 Competitiveness Outlook to 3.3 in the 2021 assessment (Figure 20.1 and Box 20.5), with progress made especially on regulatory transparency, improving public consultations in trade policy making and trade policy development and co-ordination. The economy's inter-institutional co-ordination mechanism has been strengthened through the adoption of new rules and procedures for the National Trade Facilitation Committee (NTFC)<sup>10</sup> and the setting up of two working groups focusing on the reduction and elimination of import and export fees and charges. Moreover, a regulatory framework for public-private consultations (PPCs) is in place, which mandates a dialogue with local stakeholders at all stages of trade policy making. All draft laws are published electronically. Channels of communication with the private sector and civil society are established through the NTFC. However, government consultations with local stakeholders are yet to be systematised. A formal process to monitor and evaluate public consultations mechanisms is yet to be fully integrated into the legislative process.

However, limited progress has been made in removing restrictions on an open market for trade in services. Except for the courier services sector, there has been no change or improvement to Albania's trade in services sector since 2014. On the other hand, while the COVID-19 pandemic has undermined the efforts of many states to lower barriers to trade (OECD, 2021<sup>[48]</sup>), Albania is one of the few economies not to have introduced trade restrictive measures. Albania, like other economies in the region, has become more open to foreign service providers since the previous round of analysis. Future efforts could be oriented towards improving the economy's company regulations and amending costly procedures for registering a company. Finally, the economy still has not reached its full potential in the effective use of e-commerce. Albania has a strong regulatory environment for e-commerce; however, a number of challenges still persist in its implementation. Some strong aspects of the law, such as consumer protection, are not sufficiently monitored and enforced. Similarly, the low use of credit and debit cards and the high use of cash, as well as the low capacity of telecommunication operators and Internet service providers, materially limit the development of e-commerce, even during the COVID-19 pandemic. Albania is fully aware of these difficulties and has recently drawn up an action plan to steer future activities.

**Table 20.5. Albania's scores for trade policy**

Dimension	Sub-dimension	Score	WB6 average
Trade policy dimension	Sub-dimension 2.1: Trade policy framework	3.5	3.5
	Sub-dimension 2.2: Services trade restrictiveness	n.a.	n.a.
	Sub-dimension 2.3: E-commerce and digitally enabled services	3.0	3.1
Albania's overall score		<b>3.3</b>	<b>3.4</b>

### State of play and key developments

Albania's exports of goods and services,<sup>11</sup> which had been growing steadily since 2015, stabilised in 2018. Overall trade in 2019 was 79.9% of GDP, roughly the same as in 2018 (in real terms), compared with 75.4% in 2014. Albania's goods exports reached EUR 2.4 billion in 2019, while imports grew more slowly, to reach EUR 5 billion. In 2019, Albania's exports of goods and services reached 31.6% of GDP while its imports were 45.3% (Table 20.1). Overall, the external trade deficit amounted to 13.8% of the economy's GDP in 2019.

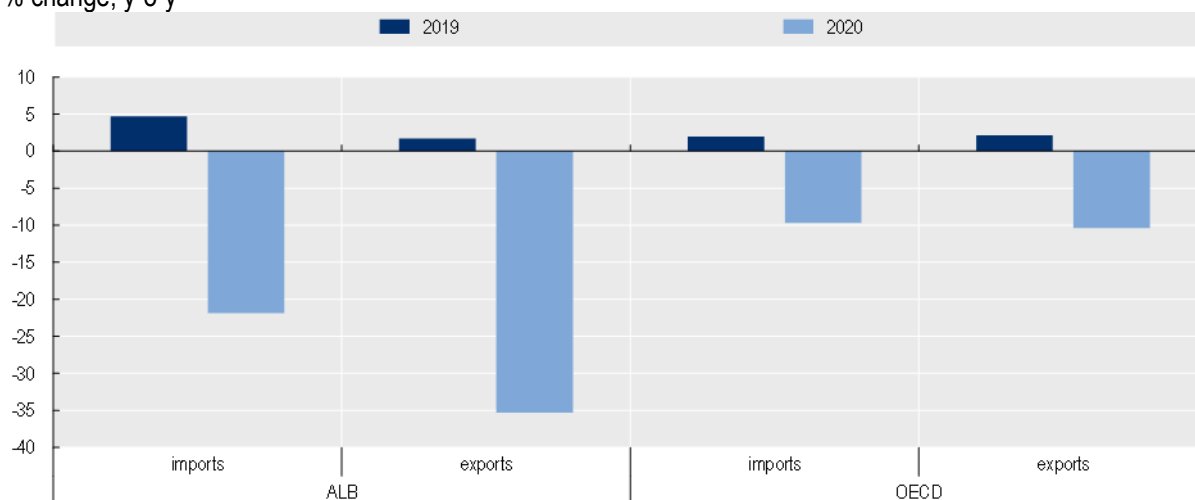
Albania is mostly dependent on trade in services, which makes a larger contribution to the economy than the trade in goods. Albania is a net exporter of commercial services, which amounted to EUR 3.0 billion in 2020, compared to EUR 1.9 billion in imports in 2019. The European Union remains Albania's main trading

partner. In 2020, trade with EU countries represented 61.3 % of total trade. Exports to EU countries accounted for 74.4% of total exports (76.6% in 2019 and 76.3 in 2018) and imports from EU countries made up 58.5 % of total imports ( against 59% in 2019 and 58.4% in 2018). Italy is the largest trade partner for Albania, accounting for 61.9% of total exports (compared to 47.9% in 2019) and 43% of imports (25.3% in 2019).

Like all economies, Albania was heavily affected by the COVID-19 pandemic. Its GDP was already in decline following the 2019 earthquake. The pandemic-related export bans, restrictions on movement of people and closures of shops and services have seen a significant decline in trade, with imports down by 23% and exports by 34% in Q2 and Q3 2020, (INSTAT, 2021<sup>[49]</sup>) (Figure 20.4). In Q4 of 2020, trade picked up again. On December 2020 the value of exports increased by 5.4% compared with the same period of the previous year and decreased by 15.6% compared with November 2020. The value of imports increased by 10.5 % compared with the same period of the previous year and by 10.1% compared with November 2020 (INSTAT, 2021<sup>[49]</sup>).

**Figure 20.4. Impact of COVID-19 on trade, Albania versus the OECD (2019-20)**

% change, y-o-y



Note: y-o-y=year-on-year.

Source: (IMF, 2020<sup>[50]</sup>), *World Economic Outlook*, <https://www.imf.org/en/Publications/WEO/weo-database/2020/October>; (OECD, 2020<sup>[51]</sup>) *OECD Economic Outlook*, Volume 2020 Issue 1, <https://dx.doi.org/10.1787/0d1d1e2e-en>.

StatLink  <https://doi.org/10.1787/888934255304>

The fall in demand from the EU, the destination of almost 75% of Albania's exports, has had the most significant effect on the economy's international trade.<sup>12</sup> The structure of Albania's export basket exposes it to variations in demand. Leather footwear alone accounts for 8% of all Albania's exports. The other sectors concerned are mainly crude oil, which represents 5% of exports, as well as chromium ore, agro-food products (vegetables, perfume plants and processed fish, among others) and metals (crude iron bars and ferro-alloys). The demand shock has had a significantly negative impact on trade in building materials, electrical equipment, plastics and the fashion sector. Decline in trade with Italy has been a large shock, given that Italy alone accounts for nearly 48% of exports and 25% of imports.

Overall, economies with a greater dependence on services trade, such as Albania, have suffered great losses due to the restrictions on movement of people implemented in response to the pandemic. Services such as tourism, education and health contribute a 48.6% share to Albania's GDP. Albania's tourism sector had been growing until 2020, especially in the previous three years, and the revenue from tourism alone exceeds 20% of the economy's GDP. The sector has been greatly affected by the movement and travel restrictions imposed due to the spread of COVID-19. The decrease of tourism has also damaged other



related industries such as food, entertainment and retail, as well as tourism-related investment (World Bank, 2020<sup>[52]</sup>).

### *Sub-dimension 2.1: Trade policy framework*

Albania has strengthened its trade-related institutional framework since the last assessment cycle. A National Plan for Trade Policy Coordination and Trade Facilitation (2017-2020), was adopted in 2017 – one element of the broader national development and integration strategies.<sup>13</sup> Its main objective is the medium-term integration of Albania into the European Union and is aligned with EU industrial policy and World Trade Organization (WTO) principles.<sup>14</sup> Two ad-hoc working groups have been established to work on the reduction or elimination of fees and charges for imports and exports. Since 2018,<sup>15</sup> the National Trade Facilitation Committee has aimed to enhance inter-ministerial co-ordination and improve the decision-making process on trade issues.

Albania has a solid **inter-institutional co-ordination mechanism** for trade policy formulation. The Ministry of Finance and Economy (MOFE) is responsible for co-ordinating trade policy with the National Trade Facilitation Committee (NTFC), the formal inter-ministerial co-ordination institution, itself composed of state institutions and private sector professionals, and chaired by the minister responsible for trade.<sup>16</sup> The 2018 Order of the Prime Minister “On the establishment of the inter-institutional working group for the trade facilitation and trade policy”<sup>17</sup> extended the scope of the representatives on the committee to include line ministries and the business sector. Moreover, the 2018 Order of the Prime Minister now mandates the NTFC to hold four meetings a year with all stakeholders, including business associations and Chambers of Commerce. In 2019, the NTFC approved the expansion of its scope to include trade in services.

An Inter-Institutional Working Group (IWG) within MOFE co-ordinates and implements public policies in line with the obligations of the EU accession process, including, but not limited to, trade policies. Its duties include ensuring inter-institutional technical co-operation and communication for implementing the commitments under EU integration policy documents.<sup>18</sup> Regular consultations take place through this group with all ministerial institutions working on the implementation of trade policy for Chapter 30 “External Relations” of the *acquis Communautaire*. The IWG consults closely with other working groups responsible for the free movement of goods, intellectual property law, agriculture, etc, as well as other ministries involved in trade through their sectorial policies (transport, health, environment, etc.)

However, evidence shows that these inter-institutional co-ordination mechanisms have yet to reach their full potential and the participation of the private sector needs to be enhanced. The NCFT should meet four times a year, but in the last three years it has met only six times in total, including twice in 2018 and once in December 2019. In 2020 and 2021 the NCFT seems to have increased its activity, in particular through electronic meetings.

A system of mandatory **public-private consultations** is firmly entrenched in the Albanian decision-making and regulatory process from a regulatory point of view. Public consultations are required for policy and legislative development. Inter-ministerial co-ordination and stakeholder consultation processes on trade issues are conducted in a complementary manner during all stages of policy making. The Investment Council was set up in 2015 to intensify the dialogue between the government and the private sector to improve the business climate. The private sector, especially the Chambers of Commerce, but also non-government organisations (NGOs) and academia, are involved in the different stages of trade policy making through NTFC meetings, which are scheduled and made public two weeks in advance. A variety of other stakeholders is also involved through ad-hoc consultation meetings on the measures and policies which were decided upon.

The Law on Public Notifications and Consultations<sup>19</sup> is in line with European standards. It regulates the process of notification and public consultations of draft legislative acts, including national and local strategic policies of high public interest.<sup>20</sup> Within this framework, the NTFC consults with the business community

and other stakeholders, discusses strategic documents and policies, proposes measures to facilitate trade and monitors trade policy by preparing annual reports on the progress of trade policy.

However, there are limitations to the existing framework and its implementation that should be highlighted. The scope of application of the Law on Public Notifications and Consultations does not extend beyond the legislative norms to government decisions. Moreover, even though the law suggests that every law and sub-law on free entrepreneurship, investment, business, production, employment and trade should involve public consultations in an open dialogue between the public and private sector, requests or incentives for consultations and dialogue are limited or lacking (though the government publishes the laws and sub-laws on a dedicated consultation website).<sup>21</sup> Furthermore, although it is compulsory to report on how the contributions by civil society organisations are taken into account, the effectiveness of the feedback mechanisms remains to be proven as there are no concrete data to show that their comments have been used in the decision-making process. Thus, although Albania has established consultation mechanisms, no major progress has been made and a methodology for public consultations has yet to be adopted. Finally, though the electronic web-portal for public consultations<sup>21</sup> is operational, its use by the public has been very limited and it focuses more on process than content (European Commission, 2020<sup>[19]</sup>). The monitoring process for public consultations is also ad hoc. The Law on Public Notifications and Consultations requires institutions that draft legal acts to publish annual reports on the consultations they have conducted.<sup>22</sup> However, the reports in question are only available for 2020 and not all institutions that conducted public consultations in that year have published their reports. In the area of trade, for example, the report of the Ministry of Finance and Economy is not available. Moreover, the system requires institutions to self-evaluate, which raises the question of harmonisation of approaches.

With regard to evidence-based policy and legislative development, Albania has developed guidelines for regulatory impact assessment (RIA). This has enabled more systematic impact assessments for legislative measures within ministries. Progress has also been made in establishing quality criteria for RIAs and in building capacity in the Prime Minister's Office to guide the process. These regulatory dossiers are made available on the NTFC website after publication or can be acquired on express request by users. This is a positive practice benefiting from a mandatory legal basis.<sup>23</sup>

Albania has extended its network of **bilateral and multilateral free trade agreements** since the last assessment cycle.

Albania joined the WTO in 2000, the first of the Western Balkan economies to do so. It first opened its economy to free trade agreements with the signing of the Stabilization and Association Agreement (SAA) with the European Community, granting preferential customs tariffs for industrial and agricultural products exported from Albania to EU countries.

Shortly after signing the SAA, in 2006 Albania became a founding member of the Central European Free Trade Agreement (CEFTA) with the aim of achieving full tariff liberalisation on trade in manufactured products and agricultural goods, and to establish a negotiating framework for eliminating non-tariff barriers (NTBs).

In terms of trade facilitation policies, Albania established a free trade agreement with European Free Trade Association (EFTA) member states in 2010/11, removing customs duties on industrial products, fish and other sea products as well as tariff concessions for processed agricultural products.

The economy recently reinforced its bilateral trade agreements' network by signing 12 new treaties. It now has 36, of which 13 are with EU Member States, the most recent being the Memorandum of Understanding with Croatia on co-operation in the field of entrepreneurship signed in 2019. Albania also has an extensive network of bilateral investment treaties, 45 in all, with another 7 under negotiation (with Canada, Iceland, Iran, Lebanon, Morocco, Saudi Arabia and the Slovak Republic) (European Commission, 2020<sup>[19]</sup>).

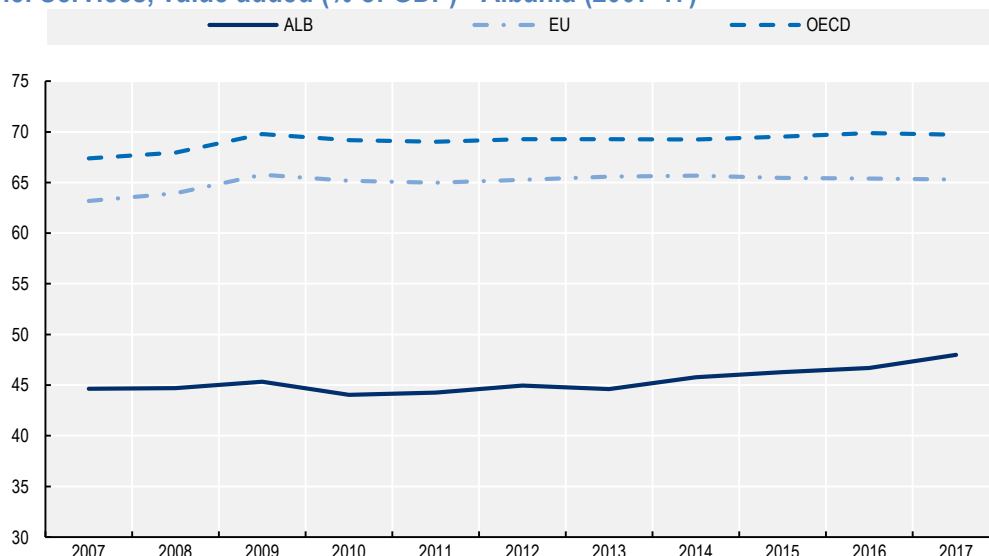
Negotiations are also ongoing with Turkey on the free trade agreement signed in 2008, focusing on trade in services and investment and on the implementation of rules of origin under the Pan-Euro-Med Convention (European Commission, 2020<sup>[19]</sup>).

### *Sub-dimension 2.2: Services trade restrictiveness*

Services contribute almost two-thirds of GDP in the WB6 economies, which illustrates how strongly economic growth, innovation and labour markets depend on effective policies on services that promote open and competitive service markets. Services contributed to 48.6% of GDP in Albania in 2019, a steady number compared to previous years (Figure 20.5), and account for more than 43% of employment.

Enhancing the openness of trade in services can improve domestic firms' efficiency and productivity, whereas restrictions such as regulatory barriers to trade can be harmful (Box 20.3). Trade in services allows countries to specialise according to their comparative advantages in services and skills. The potential gains from liberalisation in services trade are significant because increased domestic and foreign competition complemented by effective regulation can enhance performance.

**Figure 20.5. Services, value added (% of GDP) - Albania (2007-17)**



Source: (World Bank, 2020<sup>[12]</sup>), *World Development Indicators* (database), <http://data.worldbank.org/datacatalog/world-development-indicators>.

StatLink  <https://doi.org/10.1787/888934255323>

### Box 20.3. The costs of regulatory barriers to trade in services

Recent OECD analysis reveals that services trade restrictions significantly affect trade by raising the costs for firms to operate in the host economy (Rouzet and Spinelli, 2016<sup>[53]</sup>). Trade costs arise both from policies that explicitly target foreign suppliers, and more generally from domestic regulation that falls short of best practice in the area of competition and rule-making. The costs resulting from barriers to trade in services are much higher than those from trade in manufactured goods.

Trading services is costly. The studies show that policy-induced services trade costs are relatively high. Expressed as percentages of total trade value, average multilateral costs for cross-border services trade are around 57% for communication services and 54% for business services, around 60% for transport services, around 103% for insurance services, and around 255% for financial services. Even exporting to the most liberal countries still requires compliance with regulation at a cost that corresponds to around 30% of the export value in most sectors and nearly 90% for financial services. Within the European Single Market, however, services trade costs are significantly lower – policy-induced costs of cross-border services trade are at around 10% in most sectors and around 32% for financial services.

Source: (Benz and Jaax, 2020<sup>[54]</sup>), *The Costs of Regulatory Barriers to Trade in Services: New estimates of ad valorem tariff equivalents*, <http://dx.doi.org/10.1787/bae97f98-en>.

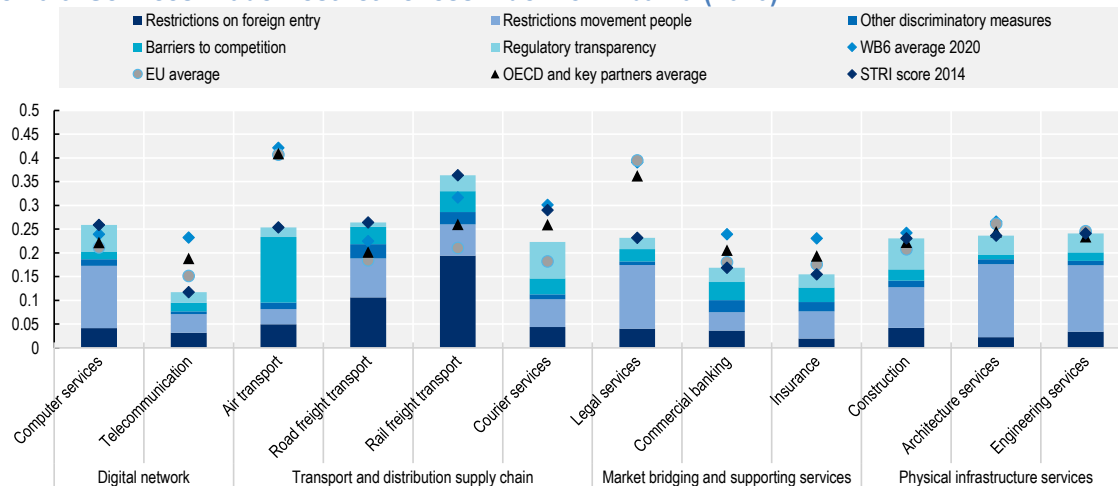
The OECD Services Trade Restrictiveness Index (STRI) was used to **analyse barriers to trade for 12 services sectors** in Albania. The OECD STRI project is a unique, evidence-based diagnostic tool that inventories trade restrictions in 48 economies,<sup>24</sup> allowing economies to benchmark their services regulations against global best practice, identify outlier restrictions, and prioritise reform efforts. For this CO assessment cycle, the 12 services sectors are grouped into four clusters: 1) transport and distribution supply chain (air transport, road transport, rail transport, courier); 2) market bridging and supporting services (commercial banking, insurance, legal services); 3) physical infrastructure services (construction, architecture, engineering); and 4) digital network services (computer services, telecommunications).

Information was collected from the WB6 economies' laws and regulations, and indices were calculated for seven years (2014-20). These composite indices quantify restrictions across five policy areas: foreign entry, movement of people, barriers to competition, regulatory transparency and other discriminatory measures. The indices quantify regulatory restrictions in each of the 5 policy areas for the 12 sectors by giving them a value between 0 and 1. Complete openness to trade in services gives a score of 0, while being completely closed to foreign service providers yields a score of 1.<sup>25</sup>

Each policy area is composed of a series of measures. These measures are called "horizontal" if they are present in all sectors, or "sector specific" if they only affect a particular sector.<sup>26</sup> The STRI measures the most-favoured-nation (MFN) restrictions and does not take into account any specific concessions, such as regional trade agreements or mutual recognition agreements (Geloso Grosso et al., 2015<sup>[55]</sup>).

Figure 20.5 shows the STRI indices for each of the sectors as well as the average scores for the WB6, EU and OECD. Like most economies in the WB6 region, Albania's services trade markets are in the more open range compared to the OECD and key partners' average STRI indices (represented by a "+" in Figure 20.6). Its least restrictive sectors (lowest STRI scores) relative to the WB6 average are telecommunication services, air transport and legal services. Those with the highest score relative to the WB6 average are road freight transport, rail freight transport and computer services.

**Figure 20.6. Services Trade Restrictiveness Index for Albania (2020)**



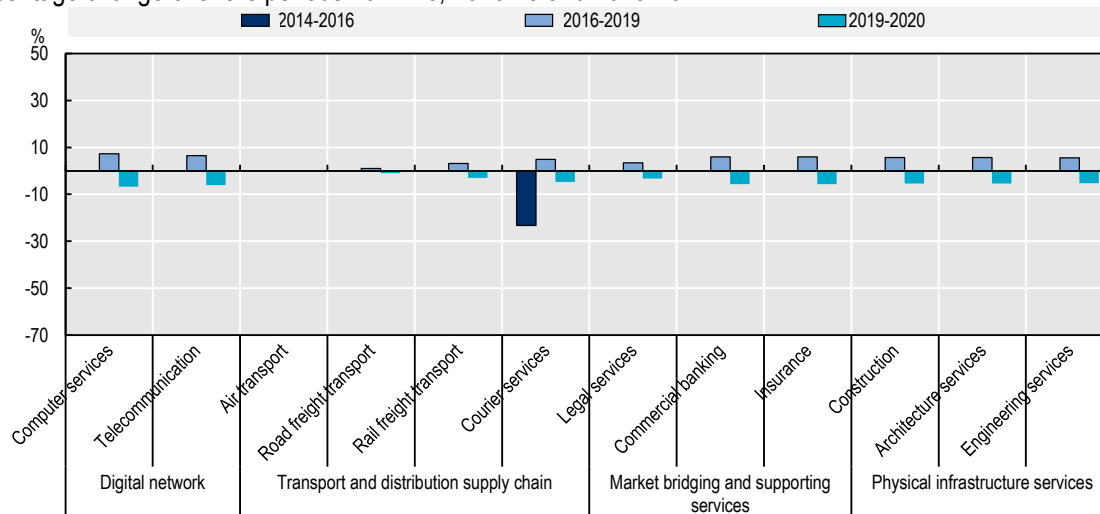
Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; Bulgaria, Croatia and Romania are not OECD members nor OECD STRI key partner economies and therefore are not covered by STRI indices; key partners to the STRI project are Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand.. Source: (OECD, 2020<sup>[56]</sup>), *Services Trade Restrictiveness Index Regulatory Database*, <http://oe.cd/stri-db>.

StatLink <https://doi.org/10.1787/888934255342>

Figure 20.7 displays the evolution of Albania's STRI indices by sector and period since 2014 in percentage terms. The economy's trade in services markets was already relatively liberal in the previous assessment cycle, which explains the limited amount of change since. The changes observed mainly reflect evolution in non-regulatory data incorporated in the STRI, such as the World Bank Doing Business indicators. One notable exception is the courier services sector, which benefitted from significant reform via the 2015 Law on Postal Services,<sup>27</sup> which has substantially opened the economy's postal market.

**Figure 20.7. Evolution of STRI scores by sector in Albania (2014-20)**

Percentage change over the periods 2014-16, 2016-19 and 2019-20



Note: Values are expressed as percentage change; negative values indicate a reduction in restrictiveness of the economy's trade regulatory environment.

Source: (OECD, 2020<sup>[56]</sup>), *Services Trade Restrictiveness Index Regulatory Database*, <http://oe.cd/stri-db>.

StatLink <https://doi.org/10.1787/888934255361>

The following analysis starts with the horizontal measures that are included in all sectors and that typically hamper services trade in the economy as a whole – especially in the area of general business regulations,

restrictions on the movement of service providers, standards for the cross-border transfer of personal data, the legal framework for public procurement and the screening of foreign investment. It then reviews each of the 12 sectors analysed, displaying the STRI scores, explaining what drives the results, and providing a brief description of the most common restrictions and good practices.

### Cumbersome horizontal measures affect firms' ability to operate

*General business regulations* affect firms' ability to operate in Albania. There are a number of areas in which Albania could improve its company regulations. This is the case for the acquisition or use of land and real estate by foreigners, which is limited by the law.<sup>28</sup> This mainly affects companies' ability to establish offices in the economy and operate a business, especially in the service sectors, which are highly dependent on the mode of supply. Box 20.4 presents the modes of supply of trade in services as defined by the General Agreement on Trade in Services (GATS) and used in the OECD STRI.

#### Box 20.4. Examples of the four services supply modes

The definition of trade in services under the General Agreement on Trade in Services (GATS) has four components, depending on the territorial presence of the foreign service provider and the consumer at the time of the transaction. Pursuant to Article I:2, the GATS covers services supplied.

**Mode 1: Cross-border:** Services are provided from the territory of one member into the territory of any other member.

*Example:* A consumer in economy A receives services from abroad through its telecommunications or courier infrastructure. These supplies may include any type of consultancy, legal advice, architectural services, or computer related services.

**Mode 2: Consumption abroad:** Services are provided in the territory of one economy to the service consumer of any other economy.

*Example:* Nationals of economy A have moved abroad as tourists, students, or patients to use respective services.

**Mode 3: Commercial presence:** Services are provided by a supplier of one economy, through commercial presence, in the territory of any other economy.

*Example:* The service is provided within A by a locally-established subsidiary, or representative office of a foreign-owned and controlled company (bank or insurance company, air company, construction firm, etc.).

**Mode 4: Movement of natural persons:** Services are provided by a foreign supplier, through the presence of natural persons of an economy in the territory of any other economy.

*Example:* A foreign national provides a service within A as an independent supplier (e.g., IT consultant) or employee of a service supplier (e.g. IT consultancy firm).

Source: (WTO, GATS, 1995<sup>[57]</sup>), Article I:2 ; (WTO, n.d.<sup>[58]</sup>), Trade in services modes of supply, [https://www.wto.org/english/tratop\\_e/serv\\_e/cbt\\_course\\_e/c1s3p1\\_e.htm](https://www.wto.org/english/tratop_e/serv_e/cbt_course_e/c1s3p1_e.htm).

The requirement of minimum capital in the form of a deposit that must be placed in a bank or notary's office to register a limited liability company further affects foreign companies.<sup>29</sup> The foreign company must submit the bank document certifying payment of a cash contribution of at least one quarter of the nominal value of its shares, together with the registration application. This restriction only applies for creating joint stock companies with a public or private offer, for which the law expressly provides for basic capital.



Starting a business has become easier (taking 4.5 days on average according to the WB Doing Business indicators (World Bank, 2020<sup>[41]</sup>). Forms and procedures are published online; registration costs have been reduced; and tax, health insurance and labour registration have been consolidated into a single application. AIDA also provides one-stop-shop services for strategic investments – see Investment policy and promotion (Dimension 1). With regard to the procedures for registering an entity/contractor, the law requires that they be finalised within 24 hours of submission of the completed documentation and accompanied by a payment of ALL 100 (approximately EUR 0.8). However, there is no payment required if the registration is done electronically. Nevertheless, the total cost of completing all the official procedures required to register a company in Albania is still 10.8% of income per capita (World Bank, 2020<sup>[41]</sup>). Although improved, this is still above the maximum best practice threshold of 2.8% within OECD member states and STRI key partners.

*Restrictions on the movement of people* are also an issue in Albania. Although significant progress has been made in easing the conditions for the movement of people between the CEFTA economies through the conclusion of Additional Protocol 6 to the CEFTA Agreement, people from economies outside CEFTA or the EU are subject to more restrictive requirements. Albania applies labour market tests for work permits issued to third-country nationals, although intra-corporate transferees are exempt.<sup>30</sup> This is in line with Directive 2014/66/EU of the European Parliament and of the Council of 15 May 2014, on the conditions of entry and residence of third-country nationals in the framework of an intra-corporate transfer. The length of stay of independent service suppliers (ISS), contractual service suppliers (CSS) and intra-corporate transferees (ICT) is limited to three months.<sup>31</sup> This duration is lower than those observed in the EU Member States participating in the STRI project, and much less than best practice elsewhere, which is more than 36 months (OECD, 2020<sup>[56]</sup>).

*Standards for the cross-border transfer of personal data* are set by the EU. Transfers to non-European Economic Area (EEA) economies may take place where these ensure an adequate level of data protection or, failing that, where appropriate safeguards (e.g. binding corporate rules or standard data protection clauses) are in place. These conditions are, however, stricter than recommended in the OECD Guidelines Governing the Protection of Privacy and Transborder Flows of Personal Data (OECD, 2013<sup>[59]</sup>).

Unlike some economies in the region, the *legal framework for public procurement* is generally in line with the 2004 EU Directives on public procurement, reflected in Albania's relatively low overall STRI scoring for these measures. The Public Procurement Act<sup>32</sup> does not impose domestic prices preferences or conditions on foreign contractors to source personnel and products locally when selecting tenders and awarding contracts. The procurement process explicitly refers to the principles of transparency, equal treatment and non-discrimination, although there is no explicit mention of non-discrimination towards third-country nationals – an additional protection found in the best public procurement regulatory frameworks and one that ensures legal certainty for foreign suppliers. The procurement process is determined by the estimated value of the procurement and is classified into two different categories in accordance with international good practice. A monetary threshold is used to determine whether the procurement requires an international procurement tender procedure or not. The law provides that procurement procedures with an estimated value above the “high threshold” (re-evaluated by a decision of the Council of Ministers every two years)<sup>33</sup> must be treated as an international tender. It does not exclude foreign economic operators from participating in procedures below this monetary threshold, nor are Albanian economic operators excluded from international procedures. The obligation set by the law for international procedures implies longer deadlines and requires contracting authorities to have all tender documents in English. For procurements below this monetary threshold there are shorter deadlines and no requirement to translate tender documents. However, in all types of procedures, whatever their estimated value, all economic operators (national or international) must submit tenders according to the criteria set.

With regard to *screening foreign investments*, Albania's laws and regulations aim to create a welcoming investment climate. Accordingly, Albania laws do not contain any elements restricting trade in services in

terms of investment screening. Screening of foreign investments refers to cases where laws or regulations enable governments or regulators to alter or prohibit foreign investment projects; the consideration of economic motives or economic interests is explicitly included in the criteria for approval. In Albania, regulations do not mandate that economic interests should be considered in the review of foreign investments. The economy does not set a threshold above which a foreign investment project is subject to screening.<sup>34</sup>

Albania is fully aware of the impact of horizontal measures on its economy and is therefore implementing reforms to remove unnecessary restrictions. Thus, in terms of entry of foreigners, the latest amendments to the law no. 108/2013, "On foreigners", which will enter into force in 2021 (and thus were not taken into consideration for the 2020 STRI scores) plan to ease some existing restrictions. These include 1) visa policy, to create the necessary mechanisms for issuing electronic visas online; 2) residence policy for foreigners in order to shorten the time limits for examining and issuing residence permits; 3) employment policy for foreigners to improve some provisions related to work permits and employment of foreigners by clarifying the time limits and procedures for obtaining a work permit and reducing unnecessary obstacles to the employment of foreign nationals in the territory of the Republic of Albania.

### **How restrictive are individual services sectors?**<sup>35</sup>

Beyond the regulatory measures that affect Albania's trade in services across the board, there are also a number of sector-specific restrictions in the 12 sectors analysed:

**Air transport services** are defined as passenger and freight air transport, carried domestically or internationally (code 51 under the International Standard Industrial Classification – ISIC – Revision 4). The STRI for this sector covers commercial establishments only. In light of the range of air transport subsectors, the approach in the STRI project is to focus on measures affecting carriers' transport of passengers and goods between points. Airport management and other aviation services are only relevant in so far as regulations enacted by relevant authorities affect the ability of foreign carriers to transport passengers and goods between points. The other aviation services are covered more fully in the STRI for logistics services.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.165 and 0.601 (where 0 signals a completely open sector and 1 indicates a sector closed to foreign service suppliers). Compared to the other WB6 economies, Albania is the least restrictive in the air transport services sector, with a score of 0.253. The economy scores lower than the EU (0.406), OECD (0.409) and WB6 (0.421) averages, reflecting its lack of restrictions in the sector.

Due to the regulatory structure of the sector, which is largely driven by a multilateral approach, there is limited variation across economies in STRI scores. Albania is no exception, although a few specificities should be noted. Freight and passenger transport by air is subject to a 2008 law amended in 2011. A 2019 draft law will bring the sector in line with European Commission regulations on common rules for the operation of air services in the community, but for the time being the law is not fully harmonised with the EU.

As regards *restrictions on foreign entry*, unlike many economies which limit foreign participation in the sector's capital to (at least) less than 50%, Albania does not apply any equity restrictions or specific limitations on the nationality of air carrier board members and managers. The leasing of foreign aircraft with crew (wet lease) is allowed, but subject to prior authorisation. Similarly, the leasing of foreign aircraft without crew (dry lease) is subject to prior authorisation.

*Barriers to competition* figure prominently in the results of Albania's STRI for air services. As with several countries, Albania maintains public ownership in the aviation sector through the national company Air Albania but does not limit foreign ownership in this company. The non-competitive allocation of slots contributes negatively to Albania's score in this sector. Like most economies, Albania allocates slots at airports with high demand on the basis of historical rights, prohibiting the commercial exchange of slots.

However, once historical slots have been allocated, half of the remaining slot pool is allocated to new entrants, which reduces the degree of restrictiveness in the sector.

**Road freight transport** (ISIC Rev 4 code 4293). The STRI for this sector covers commercial establishments only. Cross-border trade is governed by a system of bilateral and plurilateral agreements which provide for permits, quotas and other regulations.

The 2020 scores for all OECD member states and STRI partners in this sector range between a very low 0.124 and a high 0.624. Compared to the other WB6 economies, Albania is the most restrictive economy in the road freight transport sector, with a score of 0.284. The economy performs worse than the OECD (0.201), EU (0.184) and WB6 (0.225) averages. It should be borne in mind, however, that due to the wide dispersion of scores in this sector, Albania is still in the liberal bracket compared to the indices found in OECD member states, particularly among the worst performers.

Due to the specificity of this sector, the score is negatively affected by horizontal measures that affect the whole economy, particularly those related to movement of people and visa requirements, described above.

There are also sector-specific restrictions on the entry of foreigners, which account for about half of the total restrictions. Albania does not apply price regulation for transport services, nor does it have procedures in place to recognise certificates obtained in economies outside the scope of CEFTA and the EU, even though professional qualifications are paramount in this sector, particularly for truck drivers, who must obtain certificates demonstrating their professional competence.

**Rail transport** (ISIC REV 4 code 4912) is provided over a dedicated network where the market structure may take different forms, the two most common ones being: 1) vertically integrated rail services firms owning and managing both the infrastructure and the operation of freight services; and 2) vertical separation between the infrastructure management and operations. Regardless of the market structure, there are well-established best practice regulations that also take into account competition from other modes of transport, particularly road transport.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.129 and 1. With a score of 0.363, Albania is the most restrictive economy of the WB6 economies for the rail transport sector. It scores higher than the EU (0.210), OECD (0.260) and WB6 (0.316) averages.

The regulatory environment for foreign investment in rail freight companies is moderately open and non-discriminatory in Albania. As part of the alignment of the rail transport framework in the region with the EU rail transport *acquis*, vertical separation between the infrastructure manager and service providers has been gradually introduced. However, the implementation process is not yet fully complete.

In terms of *restrictions on movement of people*, the sector is negatively affected by the fact that diplomas and qualifications gained abroad are not recognised, apart from the application of preferential rules to EU Member States and CEFTA economies.

*Barriers to competition* are an important contributor to Albania's STRI performance in rail transport services. Competitiveness is reduced by the public ownership of the main rail transport operator. In addition, the government can also overrule decisions by the railway regulatory authority. Transfers and exchanges of infrastructure capacity are generally prohibited. Allowing exchanges of infrastructure capacity could help to reduce congestion on the network.

**The courier services sector** (ISIC Rev 4 code 53) includes postal and courier activities. While courier services have traditionally been important means for communication, the rise of modern information and communication technologies has contributed to the less frequent use of letters for communication between individuals.

The 2020 scores for all OECD member states and STRI partners range between 0.106 and 0.881. With a score of 0.223, Albania is the least restrictive economy for courier services in the WB6 region. The economy scores above the EU (0.181) but below the OECD (0.259) and WB6 (0.301) averages.

Since the previous cycle of analysis, the courier services sector has undergone the greatest transformation of all the sectors in terms of lowering the degree of restrictiveness. The score is, however, still affected by two sector-specific measures: the fact that 1) the universal service provider is the state-owned Albanian Post S.A.; and 2) the designated postal operator obtains preferential tax or subsidy treatment.

Overall, Albania's legislation is fully aligned with the EU postal *acquis* and the postal market has been fully open to competition since 2017. While Albanian Post is the universal service provider, there are a dozen other postal service providers. The Electronic and Postal Communications Authority (AKEP) is the independent national regulator.

While foreign entry restrictions represent the most significant component of performance in about three-fifths of the economies covered, Albania does not totally follow this trend. It does not impose equity restrictions on third-country foreigners, nor does it limit the ability of foreign investors to acquire shares in the incumbent national provider, Albanian Post. Similarly, while the provision of mail services is subject to licensing, as is the case in most STRI economies, licences are issued in a non-discriminatory manner and are not subject to any market test.

In terms of *barriers to competition*, until 2016 Albania had an imposed legal monopoly for a wide range of postal services, including letters and parcels up to 1kg. The designated postal operator (DPO) therefore enjoyed a privileged status which was partially abolished with the 2016 reform. However, residual preferential tax and subsidy treatments remain that favour the DPO. As a consequence, the public company, Albanian Post, retains a leading role in the sector.

*Regulatory transparency* also has a significant impact on the STRI scores for courier services. Although Albania has introduced pre-arrival treatment and a *de minimis* regime, lengthy customs clearance procedures are harming its STRI score. Albania uses transparent criteria for the decision-making process for licensing procedures and has in place an obligation to inform the operator of refusals and an appeal procedure.

**Legal services** (ISIC Rev 4 code 691) cover advisory and representation services in domestic and international law, and where relevant, measures are entered separately for each of them. International law includes advisory services in home country law, third-country law and international law, as well as a right to appear in international commercial arbitration. Domestic law extends to advising and representing clients before a court or judicial body in the law of the host country.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.141 and 1. With a score of 0.232, Albania is the second-least restrictive economy of the WB6 economies for the legal services sector. It scores below the EU (0.394), OECD (0.362) and WB6 (0.391) averages.

Although most economies limit the ownership of law firms to locally qualified lawyers, especially in the field of national law, such restrictions are not in place in Albania, which positively impacts its STRI score in this sector. Similarly, there are no ownership restrictions or requirements for the majority of the board of directors (or partners in the case of partnerships) or the director of law firms to be locally qualified.

However, Albania does apply restrictions on *the movement of people* in that a licensing requirement is necessary to provide legal services in the economy. All foreign lawyers in Albania must be registered in the Register of Foreign Lawyers. In order to obtain a licence to practise, a foreign lawyer must meet certain requirements, including passing the examination of the local bar association. With the new Law on the Bar Association of 2018, EU lawyers who have signed a co-operation contract with a law firm can practise law in Albania without preconditions, and thus enjoy more favourable treatment than their national counterparts from third economies. Nationality, citizenship, and previous or permanent residence are not required to

obtain a licence to practise. However, foreign lawyers do not have the option of obtaining a temporary licence to carry out a specific project or to give advice in certain areas of legal services. This has a negative impact on the STRI score in this sector as temporary licences greatly ease trade in legal services.

In the area of *barriers to competition*, Albania only provides for judicial remedies where business practices restrict competition. In addition, the STRI score is damaged by the imposition of a mandatory minimum capital and minimum and maximum fees for locally licensed lawyers, set annually by the Bar Association.

**Commercial banking** (ISIC divisions 64-66) includes deposit-taking, lending and payment services. Commercial banking services are traded business to business, as well as business to consumer for retail banking. Efficient banking services are one of the backbones of dynamic economies; they provide financing for investment and trade across productive activities and underly all value chains.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.131 and 0.517. With a score of 0.169, Albania is the second-least restrictive economy in this sector of the WB6 economies. It scores below the EU (0.180), OECD (0.205) and WB6 (0.239) averages.

*Restrictions on foreign entry* are often identified as the main contributors to restrictiveness in this sector. On this point Albania remains relatively open. The economy does not limit the share of foreign equity capital in local banks, nor does it restrict the establishment of branches of foreign banks. The licensing of foreign-owned banks is not restricted and is done based on objective and transparent principles applied on the same terms as domestic banks. Albania does not limit cross-border bank mergers and acquisitions. Foreign banks do not have to be established locally in order to provide services to residents. Finally, no restrictions are imposed on the members of the board of directors of a commercial bank.

Although *barriers to competition* generally contribute substantially to the scores for this sector, on this aspect Albania is among the most liberal third of the WB6 economies. Its scores are boosted by its adequate regulation of financial products, and the full operational, managerial and fiscal independence of its supervisory authority from the government. Finally, none of the largest commercial banks are state-owned.

As regards *regulatory transparency* in the licensing process, the authorities are mandated to provide reasons for the rejection of an applicant within a maximum of 15 days, which is in line with OECD good practice. However, the long time and high cost required to resolve a debtor's insolvency contributes negatively to Albania's scores.

Finally, in the category of *other discriminatory measures*, Albania's adherence to International Reporting Standards (IFRS) has positively contributed to its STRI score. However, Albania applies certain forms of restrictions for foreign banks when raising capital domestically.

**Insurance services** (ISIC REV 4 codes 651 and 652) comprise life insurance, property and casualty insurance, reinsurance, and auxiliary services. Private health insurance and private pensions are not covered.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.104 and 0.565. With a score of 0.155, Albania is the third-least restrictive of the WB6 economies in the insurance services sector. It scores lower than the EU (0.175), OECD (0.193) and WB6 (0.231) averages.

In terms of *restrictions on the movement of people*, the insurance sector follows the general logic of the financial sectors in Albania in its non-restrictive character. Thus, the main elements that contribute positively to the opening of the banking sector in Albania are to be found in the insurance sector. However, one restrictive element is that a residence is required in order to provide brokerage services.

**Construction services** (ISIC Rev 4 codes 41 and 42) covers the construction of buildings (residential and non-residential) as well as construction work for civil engineering.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.123 and 0.464. With a score of 0.230, Albania is the third-most restrictive of the WB6 for the construction services sector. It scores above the EU (0.207) and OECD (0.222) averages, but below the WB6 average (0.242).

Construction services is a labour-intensive sector (skilled and unskilled), which for most economies generally results in a higher share of employment than its contribution to GDP. Given the nature of construction, the potential for mechanisation and automation, and thus capital-intensive production, remains limited. Restrictions on the movement of people applied across all sectors in Albania therefore have a significant impact on the scores for this sector. In addition, it is affected by the measures applied to architecture and engineering services, outlined below.

**Architecture services** (ISIC Rev 4 code 711) cover architectural services and related technical consultancy. These services constitute the backbone of the construction sector, with key roles in building design and urban planning.

For 2020, OECD member states and STRI partners in this sector range from 0.113 to 0.684. With a score of 0.235, Albania is the third-most restrictive of the WB6 economies in the architectural services sector. However, it scores below the EU (0.260), OECD (0.244) and WB6 (0.265) averages.

*Restrictions to movement of people* reflect Albania's lack of progress in recognising higher degrees obtained in third economies, undermining its STRI score. Furthermore, licences or authorisation are required to practise and there is no temporary licensing system in place, meaning that foreign architects do not have the option to be given temporary entry to carry out a specific project or to advise on some areas of architecture services. On the positive side, a local examination is not needed to register on the list of architects and engineers and foreign architecture services suppliers are not required to redo their university degree in full, or to undergo local practice and an exam in order to be licensed.

Albania does not apply equity restrictions on third-country nationals and does not require that equity shares of architectural services firms be held only by licensed individuals or firms in the economy in question. Similarly, Albania does not restrict the form a business can take, and all kinds of businesses are permitted. There is no prohibition on commercial association with other professions. Foreign investors in Albania have the freedom to appoint board members and managers of their choice and there are no requirements in place that either the majority, or at least one, of the board members of an architecture services firm established in Albania be a national, resident or a licensed professional. The same is true for requirements relating to managers. There are no restrictions on the type of shares or bonds held by foreign investors.

*Barriers to competition* are only present to the extent that there is a minimum capital requirement for commercial and public joint-stock companies.

**Engineering services** (ISIC Rev 4 code 711) covers several related activities, such as engineering and integrated engineering services, and engineering related scientific and technical consulting services.

The 2020 scores for all OECD member states and STRI partners range between 0.118 and 0.575. With a score of 0.241, Albania is the second-most restrictive of the WB6 economies in the engineering services sector. It scores below the EU (0.246) and WB6 (0.244) averages, but above the OECD average (0.234).

Engineering services are the backbone of construction and supply. Engineers are involved in the construction of key infrastructure, such as buildings and roads. They also play an important role in the development of production processes and the adoption of new technologies. An important feature is the regulatory complementarity between engineering, architectural and construction services. The Albanian regulatory landscape reflects these similarities, with all three sectors having very similar STRI scores.

In engineering services, the results are mainly due to *restrictions on the movement of people*. This reflects the characteristics of these services, in particular their high intensity of skilled labour. Engineers from third countries are therefore mainly affected by economy-wide restrictions imposed on natural persons seeking to provide services on a temporary basis as intra-corporate transferees, contractual service providers or



independent service providers. In this respect, Albania's score is negatively affected as it applies various economy-wide limitations (as discussed above). The restrictions on the movement of people also take into account the fact that Albania does not have a process for the recognition of higher education qualifications obtained abroad, which plays a negative role in determining the economy's STRI score. In addition, a licence or permit is required to practise and there is no temporary licensing system, which means that foreign engineers cannot be allowed to enter Albania temporarily to carry out a specific project or to provide advice in certain fields. On the positive side, a local examination is not required to register as an engineer in Albania, and foreign engineering service providers are not required to retake their full university degree, local practice or in-country examination in order to obtain a licence.

**Computer services** (ISIC REV 4 codes 62 and 63) cover computer programming, consultancy and related activities and information services.

The 2020 scores for all OECD member states and STRI partners range between 0.123 and 0.448. With a score of 0.258, Albania is the third-most restrictive of the WB6 economies. It scores higher than the EU (0.211), OECD (0.221) and WB6 (0.239) averages.

Albania subjects computer services to general laws that apply to the economy as a whole; this sector is very rarely regulated by sectoral legislation. For this reason, the scoring is heavily affected by cross-sectoral limitations on duration of stay for contractual and independent services suppliers, as well as intra-corporate transferees that enter into the restrictions on the movement of people category. Those restrictions account for more than a half of the total scores in computer services. The skilled labour intensity of the sector together with the complementarity between cross-border trade and movement of natural persons explains why restrictions on movement of people feature prominently in this sector in Albania.

**The telecommunications sector** (ISIC Rev 4 codes 611 and 612) comprises wired and wireless telecommunications activities. These services are at the core of the information society and provide the network over which other services including computer services, audio-visual services, professional services and many more are traded.

The 2020 scores for all OECD member states and STRI partners range between 0.108 and 0.682. With a score of 0.117, Albania is the third-least restrictive of the WB6, scoring below the EU (0.151), the OECD (0.188) and the WB6 (0.231) averages.

In the telecommunications sector, the results depend on two policy areas: *restrictions on the entry of foreigners* and *restrictions on the movement of people*. In all STRI member states, barriers to competition account for 30% of the total STRI scores in the telecommunications sector. This reflects the particular characteristics of the sector, as well as the policy environment in which it operates. It is a capital-intensive network industry and its strategic importance has led many economies to restrict foreign investment and activity in the sector. This is not the case in Albania, where the EU accession process has benefited the sector through a rigorous review of its regulatory regime. The immediate consequence is the alignment of the regulation of the telecom sector with EU regulations and good practice in this field.

In order to ensure fair competition in the telecommunications market, Albania has an independent telecommunications regulator, AKEP, separate from stakeholders and the government. It operates without state intervention and without the presence of a state-owned enterprise (SOE) since the traditional provider has been privatised, in contrast to what is widely observed in this sector in OECD member states and STRI key partners. AKEP has sufficient powers to regulate the sector effectively through ex-ante regulation applied in accordance with EU precepts – but only in the case of the existence of an operator with significant market power (SMP), which is not the case in all telecom markets. *Ex ante* regulations are applied based on regular market analysis and are readily available on the AKEP website. In addition, Albania applies a "use-it-or-lose-it" policy to frequency bands – an important measure that prevents incumbent operators from over-holding valuable frequency licences as well as free tradable spectrum and telecom services.

In absolute terms, the regulatory framework for the telecommunication sector in Albania is competitive and constrained only by measures that apply to the economy as a whole – mainly the movement of people. Even though telecommunications lend themselves easily to cross-border trade from a technical point of view, restrictions on the movement of people account for a modest share of the total STRI score in this sector.

### *Sub-dimension 2.3: E-commerce and digitally enabled services*

E-commerce can bring about significant gains for businesses. It is positively related to firms' process innovation (OECD, 2018<sup>[60]</sup>). In addition, it enlarges businesses' market scope, reduces operational costs at various stages of business activities and lowers barriers to entry, thus intensifying competition (OECD, 2013<sup>[61]</sup>). E-commerce also benefits consumers by providing information on goods and services, helping consumers identify sellers and comparing prices, while offering convenient delivery and the ability to purchase easily via a computer or mobile device (OECD, 2013<sup>[61]</sup>).

In the context of the COVID-19 pandemic, e-commerce appears to have been essential for maintaining trade flows despite the restrictions put in place to preserve public health. Indeed, buying online rather than in person reduces the risk of infection and protects jobs. Finally, e-commerce increases the acceptance of prolonged physical distancing among the population while allowing them to maintain a certain level of consumption (World Bank, 2020<sup>[62]</sup>).

2020 will certainly be a turning point in electronic commerce. This digital transformation underlines the importance of adopting a more holistic approach to policies, as well as more international co-operation (Ferencz, 2019<sup>[63]</sup>; OECD, n.d.<sup>[64]</sup>).

Modern e-commerce regulations should focus on a number of key elements, including electronic documentation and signature, online consumer protection, data protection and privacy, cyber security, intellectual property regulations and intermediary liability. On the other hand, an attractive regulatory environment should refrain from maintaining disproportionately restrictive measures such as licensing requirements for e-commerce platforms, limitations on the type of goods that can be sold online (other than for generally accepted public policy considerations), and restrictions on cross-border data flows.

This sub-dimension assesses those policies which are implemented in parallel and in addition to those of Digital society (Dimension 10). However, it is mainly focused on the trade in digitally enabled services, given the rapid growth of trade in services in the region.

Albania has a solid and well-designed **e-commerce policy framework**, despite the fact that the actual use of e-commerce is rather limited compared to neighbouring economies. Low use of credit and debit cards and high use of cash, as well as low capacity of telecommunication operators and Internet providers, are among the reasons why e-commerce has not bloomed even during the COVID-19 pandemic.

Regulations related to e-commerce fall under the competence of the Commissioner for the Consumer Protection, under the Ministry of Finance and Economy (MOFE). Albania's institutional framework allows for effective institutional co-ordination of e-commerce across ministries and agencies. The MOFE and the Ministry of Energy and Infrastructure, under the CEFTA Chairmanship in 2019, organised two meetings with businesses operating in this area to identify their needs and potential improvements. Very recently, an action plan for e-commerce has been developed. Prime Minister's Order No. 104 of 10<sup>th</sup> September 2020 established an inter-ministerial working group on e-commerce, headed by the Deputy Minister of MOFE, to draft this e-commerce action plan, which aims to remove obstacles to the development of e-commerce and identify new challenges in five key pillars: digital business; logistics and customs issues; private sector capacity and capabilities for e-commerce; e-commerce and consumer protection legislation; and electronic payments. Currently, the action plan is being submitted to the line ministries for their opinion and will then be submitted to the Council of Ministers.

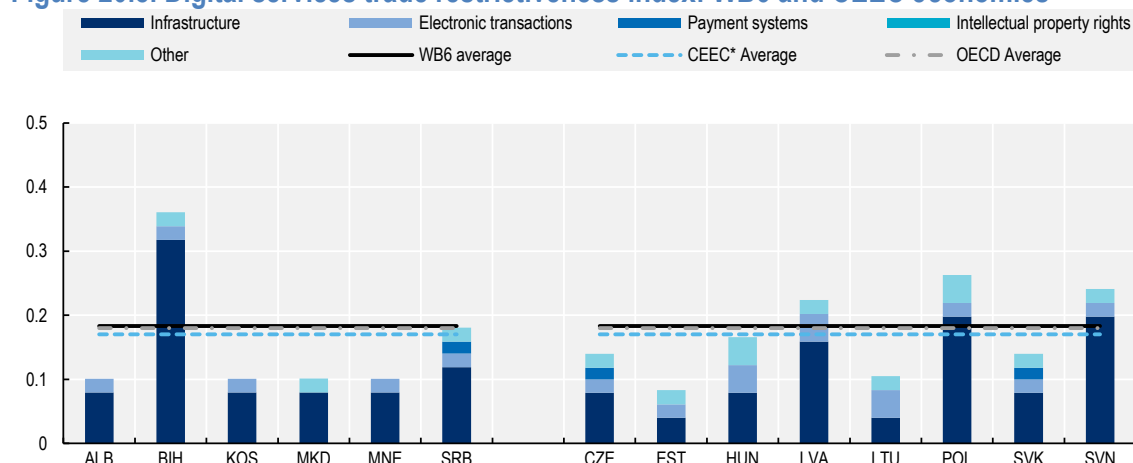
Albania has solid legislation that includes the main regulatory pillars of digital trade, while maintaining an open and non-discriminatory regime for foreign digital services. The Law on Electronic Commerce was adopted in May 2009 and amended in 2014 and 2016 and lays down the conditions for providing information services related to electronic activity and information society services, the protection of parties to such transactions, data privacy of consumers and of parties to such transactions, the free movement of information services and the responsibilities of service providers. The law is in line with the European Commission recommendations and with the EC Directives.

Favoured by Albania's willingness to gradually harmonise its framework with the EU *acquis*, most of the elements of a comprehensive regulatory framework are in place. Regulations on data governance, online consumer protection, electronic signature and intermediary liability are in line with international best practice and harmonised with the EU regulations.<sup>36</sup> The framework balances protecting individuals and consumers with limiting the costs and restrictions faced by digital businesses. As regards cybersecurity, regulation is still evolving, with a general framework complemented by sector-specific regulation – see Digital society (Dimension 10).

With the regulatory framework largely in place, adequate implementation remains a challenge due to Albania's institutional capacity constraints. There are no modern and effective independent regulatory bodies in the area of cyber security. Similarly, the consumer protection regime does not currently have an effective supervisory authority to monitor compliance, raise consumer awareness of their rights or resolve e-commerce disputes. Although progress has been made, areas where competent regulatory bodies are in place, such as electronic signatures and data privacy, could benefit from some improvement in practices and innovations. These issues are intended to be addressed by the new 2020 action plan when it comes into force.

Albania suffers from an underdeveloped e-commerce business community – there are only a very limited number of merchants who offer e-commerce and there is no nationally licensed operator yet to deal with e-commerce. Albania is still a cash-based economy and the use of credit cards, although increasing, is still limited<sup>37</sup> to the largest retailers or hotels. In practice, cross-border Internet shopping is in the early stages, and it's still not common, especially due to the low use of credit cards, low purchasing power and the high cost of shipping. In addition, many online merchants do not ship goods to Albania.

The OECD Digital STRI captures **the restrictiveness of digitally enabled services** by identifying cross-cutting barriers that inhibit or completely prohibit firms' ability to supply services using electronic networks, irrespective of the sector in which they operate. The regulatory data underlying the digital STRI were extracted from the existing OECD STRI database and data collected under public laws and regulations affecting digitally enabled services. Digital STRIs are the result of aggregating the identified barriers to trade into composite indices. The rating takes into account the specific regulatory and market characteristics as well as the links and hierarchies between regulatory measures affecting digitally enabled services (Ferencz, 2019<sup>[63]</sup>). Figure 20.8 shows Albania's score on the Digital STRI index.

**Figure 20.8. Digital services trade restrictiveness index: WB6 and CEEC economies**

Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; \*CEEC=Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia (Bulgaria, Croatia, and Romania are not OECD member states or OECD STRI Partner economies and therefore do not have calculated STRI indices); the absence of a category in the graph means that it is exempt from restrictions. Source: (OECD, 2020<sup>[56]</sup>), Services Trade Restrictiveness Index Regulatory Database, <http://oe.cd/stri-db>.

StatLink  <https://doi.org/10.1787/888934255380>

The 2020 scores in this sector are moderate to high, ranging from 0.043 to 0.488. The WB6 average is 0.183. With a score of 0.101, Albania is in the lower bracket of restrictiveness for its telecoms sector – one of the four-least restrictive WB6 economies.

Although results in most digital STRI economies are generally driven by the lack of effective interconnection regulation, this is not the case in Albania, whose regulation is relatively well-aligned with international good practice. Similarly, although Albania has stricter rules than the OECD guidelines in this area (OECD, 2013<sup>[59]</sup>), it does not impose excessive conditions on cross-border data flows (beyond those put in place to ensure the protection and security of personal data). However, like the 11 other digital STRI economies, Albania requires that some types of data are stored locally. The transfer of copies abroad is allowed as long as the authorities can have direct access to the data upon request.

Albania does not impose other restrictive regulations typically found in other jurisdictions, such as disproportionate licensing requirements for e-commerce platforms, or limitations on the type of goods or services that can be sold online (other than for generally accepted public policy considerations).

International standards for electronic contracts and key electronic authentication measures such as recognition of electronic signatures are generally in place.

Policy areas relating to intellectual property rights and payment systems account for a smaller share of scores for states participating in the digital STRI. Albania is relatively open in this category from a regulatory point of view, as it follows the principles of European regulations in this field. Thus, intellectual property protection regulations do not provide for less favourable treatment of foreigners and all the necessary regulations related to payment systems are in place, although their use is limited in practice (as mentioned above; and see Box 20.5 for OECD guidelines).

### Box 20.5. OECD policy guidance on mobile and online payments

A key component of a solid e-commerce regulatory policy is the establishment of sound measures for electronic payments and settlements. The main roles of a payment system are to provide a means of transferring value between different parts of the economy and to facilitate transactions at minimum cost. Its design will be optimal if it is organised in such a way as to allow rapid and efficient value transfers, while imposing minimum additional costs and risks. High costs for the payment process can seriously affect economic activity, making transactions too costly. Conversely, the lower costs of efficient payment systems can have a positive effect on economic growth.

Policy makers can help to encourage economic activity by promoting a framework for electronic settlements and payments. The OECD's Consumer Policy Guidance on Mobile and Online Payments (OECD, 2014<sup>[65]</sup>) provides an informative framework of policy measures to establish a regulatory environment for e-commerce that can be adapted to WB6 economies.

The framework is oriented around a number of pillars:

- Information on conditions and transaction costs. These principles focus on the accessibility and readability of payment information, the complexity of payment conditions, and the clarity and transparency of billing statements.
- The privacy implications of mobile and online payment: the collection and use of payment data.
- Security implications of mobile and online payment transactions: protecting the security of consumer payments.
- Confirmation process: issues that impede e-commerce transactions such as the uncertainty of transactions.
- Children: issues such as the costs incurred by children in accessing goods and services.
- Different levels of protection among providers and payment methods: this includes information on consumer protection and levels of payment protection.
- Fraudulent, misleading, deceptive and other unfair commercial practices: how to regulate inconsistent payment information, renewable contracts, renewable subscriptions and repeat purchases, unexpected charges and consumer confidence.
- Dispute resolution and redress: issues such as the roles and responsibilities of the parties and the cost of redress.

Source: (OECD, 2014<sup>[65]</sup>), *Consumer Policy Guidance on Mobile and Online Payments*, <http://dx.doi.org/10.1787/5jz432cl1ns7-en>.

### The way forward for trade policy

Albania has as a solid policy framework and inter-ministerial mechanism for trade, and has taken steps to improve these processes further, in particular through the new rules and procedures for the NTFC. Nevertheless, the Government of Albania can improve its competitiveness by paying attention to the following:

- **Monitor and evaluate trade policy-making co-ordination mechanisms** to guide policy makers in improving co-ordination and boosting consultation with an increased number of stakeholders. It should also ensure that the mechanisms can be adjusted based on evaluation results.
- **Establish mechanisms for evaluating and monitoring public-private consultations** to regularly assess their degree of openness and transparency. Ideally, an independent monitoring office with an adequate budget could be set up to allow for systematic evaluations. In addition, training could be provided in the use of various

quantitative and qualitative approaches for measuring compliance with the minimum standards set by regulatory frameworks for public consultations.

- **Implement a policy to increase stakeholder participation:** invite stakeholders who may be reluctant or unaware to become more involved in the legislative and regulatory process for trade, and build their capacity to participate. In doing so, Albania could follow the 2015 EU Better Regulation Guidelines (Box 20.6) to improve stakeholder involvement.
- **Broaden trade in services efforts beyond regional trade agreements.** Significant improvements have been made among the WB6 economies to open services trade through the conclusion of CEFTA Additional Protocol 6 in December 2016. Nonetheless, the STRI analysis in this section has provided some insights into where domestic reforms could help to attract new businesses and improve competitiveness.
- **Lift some of the stringent restrictions on services in trade:**
  - **Ease conditions on the temporary movement of natural persons** beyond regional trade agreements. This would further encourage innovation and knowledge transfer, and contribute to economic growth. A starting point could be to remove the remaining labour market tests which apply to third-country services suppliers. This is already addressed in a draft amendment to the Law on Foreigners – entry into force of this legislation will facilitate the provision of services by third country providers. Limitations on duration of stay for contractual and independent services suppliers, as well as intra-corporate transferees, could also be amended in order to make the economy more attractive to foreign services suppliers and investors.
  - **Reduce the remaining barriers to market entry and competition** in the road freight transport, rail freight transport and computer services sectors. Further efforts could be made to increase competitiveness, such as providing redress to firms in the road freight transport sector when business practices restrict competition in a given market. Moreover, the economy could consider providing some form of transit and access rights for international rail transport. Similarly, the licensing and permits which are subject to quotas for domestic traffic in the road freight transport sector could be lifted in order to decrease restrictions in the sector.
- **Finalise the e-commerce action plan.** Doing so will give Albania a much-needed solid e-commerce strategy. The action plan should go through the adoption process and enter into force as soon as possible in order to meet Albania's implementation challenges related to e-commerce, including establishing a consumer protection agency mandated to ensure safety on online transactions and online dispute resolution.

### Box 20.6. Stakeholder engagement throughout the European Commission policy cycle

Following the adoption of the 2015 Better Regulation Guidelines (European Commission, 2015<sup>[66]</sup>), the European Commission has extended its range of consultation methods to enable stakeholders to express their views over the entire lifecycle of a policy. It uses a range of tools to engage with stakeholders at different points in the policy process. Feedback and consultation input is taken into account by the commission when further developing the legislative proposal or delegated/implementing act, and when evaluating existing regulation.

At the initial stage of policy development, the public can provide feedback on the commission's policy plans through roadmaps and inception impact assessments (IIAs), including data and information they may possess on all aspects of the intended initiative and impact assessment. Feedback is taken into account by the commission services when developing the policy proposal further. The feedback period for roadmaps and IIAs is four weeks.

As a second step, a consultation strategy is prepared setting out consultation objectives, targeted stakeholders and the consultation activities for each initiative. For most major policy initiatives, a 12-week public consultation is conducted through the website “Your voice in Europe” and may be accompanied by other consultation methods. The consultation activities allow stakeholders to express their views on key aspects of the proposal and main elements of the impact assessment being prepared.

Stakeholders can also provide feedback to the commission on its proposals and accompanying final impact assessments once they are adopted by the College. Stakeholder feedback is presented to the European Parliament and Council in order to feed into the legislative process. The consultation period for adopted proposals is 8 weeks. Draft delegated acts and important implementing acts are also published for stakeholder feedback on the European Commission's website for a period of 4 weeks. At the end of the consultation process, an overall synopsis report should be drawn up presenting the results of the various consultation activities that took place.

Finally, the commission also consults stakeholders as part of the *ex post* evaluation of existing EU regulations. This includes feedback on evaluation roadmaps of existing initiatives, public consultations on evaluations of individual regulations and “fitness checks” (i.e. “comprehensive policy evaluations assessing whether the regulatory framework for a policy sector is fit for purpose”). In addition, stakeholders can provide their views on existing EU regulation at any time on the website “Lighten the load – Have your say”.

Source: (OECD, 2017<sup>[67]</sup>), *OECD Best Practice Principles on Stakeholder Engagement in Regulatory Policy* (draft), [www.oecd.org/gov/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm](http://www.oecd.org/gov/regulatory-policy/public-consultation-best-practice-principles-on-stakeholder-engagement.htm); (OECD, 2016<sup>[68]</sup>), *Pilot Database on Stakeholder Engagement Practices in Regulatory Policy. Second set of practice examples*; (European Commission, 2015<sup>[66]</sup>), *Better Regulation Guidelines*, [https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how/better-regulation-guidelines-and-toolbox\\_en](https://ec.europa.eu/info/law/law-making-process/planning-and-proposing-law/better-regulation-why-and-how/better-regulation-guidelines-and-toolbox_en).



## Access to finance (Dimension 3)

### Introduction

Albania's access to finance score has increased slightly – from 2.4 to 2.5 – since the previous assessment, reflecting some new elements introduced in this cycle. There has been some improvement in access to bank finance, most notably the adoption of the new capital market law which will help to mobilise long-term financing. Moreover, Albania is the second-best performer across the region when it comes to access to bank financing (Table 20.6). However, with a score of 2.3 for the mobilisation of long-term financing, Albania is well below the regional average.

**Table 20.6. Albania's scores for access to finance**

Dimension	Sub-dimension	Score	WB6 average
Access to finance dimension	Sub-dimension 3.1: Access to bank finance	3.5	3.4
	Sub-dimension 3.2: Access to alternative financing sources	2.0	1.9
	Sub-dimension 3.3: Mobilisation of long-term financing	2.3	2.8
Albania's overall score		2.5	2.6

### State of play and key developments

#### *Sub-dimension 3.1: Access to bank finance*

The financial sector is bank dominated in Albania; banks account for about 90% of financial sector assets, considerably more than in the euro area (around 45%). There is no limit on the foreign ownership of banks, except for shell banks/companies, bearer shares and nominee shareholders. In 2020, there were four banks with local capital and eight banks with foreign capital operating in Albania. As of December 2020, local banks accounted for 30.6% of the market share in terms of total of assets. Over the decade 2010-20, five banks with foreign capital origin have ceased to operate: two Greek banks were sold to local shareholders due to restrictions of presence imposed by the European Commission; one Italian bank was merged with another Italian one following the merger of both parent banks in Italy; another foreign bank was sold to a local bank following the shareholders' decision; and another foreign bank was self-liquidated on the decision of shareholders.

Albania's regulatory framework for the **banking industry** is moderately well-developed. Basel II core principles are mostly implemented,<sup>38</sup> while Basel III requirements are partially implemented (implementation began in 2019).<sup>39</sup> In 2017, the Bank of Albania adopted the guidelines on the internal capital adequacy assessment process (ICAAP), which has partially aligned its regulations with the requirements of the second pillar of the Basel's Capital Accord. At the time of drafting, the Bank of Albania was drafting a document on the Supervisory Review and Evaluation Process (SREP). Its potential effects will be assessed in the next cycle. In 2019, the Bank of Albania approved the new guidelines on banks' stress tests, as well as the new regulation on the liquidity coverage ratio (LCR). Both entered into force on 1 March 2020, bringing the regulatory framework closer to international standards.

In 2017, a memorandum of co-operation to increase the use of the national currency (ALL) in the Albanian financial system and economy was signed between the Bank of Albania, Ministry of Finance and Economy and the Financial Supervisory Authority. Subsequently, the law on consumer credit and mortgage credit and the regulation on transparency for banking and financial products and services were both amended in 2018. These amendments add extra regulatory requirements for banks and consumers to mitigate exchange rate risks; however, they could make accessing loans more challenging for businesses.

As of December 2020, the banking sector's assets and liabilities in foreign currency accounted for around 50% of total values, while the share of loans in foreign exchange stood at 50% (Bank of Albania, 2020<sup>[69]</sup>).

Income and expenditure statements indicate that the banking sector has generated a significantly higher profit from foreign currency activity than from domestic currency activity. In 2018, of a profit of ALL 18 billion, around ALL 11 billion was from foreign currency activity. In 2019, foreign currency recorded a profit of around ALL 15 billion (compared to ALL 5 billion for domestic currency). A more detailed analysis of income and expenditure indicates that, despite the fact that domestic currency activity generates around 1.5 to 2 times more income than foreign currency activity, the latter ensures a higher profit for the banking sector due to the significantly lower value of operational and personnel expenditures compared with domestic currency activity (Bank of Albania, 2019<sup>[70]</sup>).

There is a cadastre in place to **register** all properties. Registration is compulsory and ownership changes are immediately registered. The Registry of Security Charges is the central register and covers the entire territory. Applications for cadastral services can be made online through the e-Albania platform and 100% of the ownership of pledges is documented. However, competing historical claims on properties need to be resolved and clearly defined.

As regards **collateral requirements**, Albania has already established an adequate legal structure for a secured financing system enabling creditors to claim their rights over the movable properties of businesses and individuals. According to the Law on Cadastres, mortgaging requires registration of immovable property, which is used as a security for the obligation. To secure loans, the legal framework identifies a wide range of movable properties (tangible and intangible) such as accounts, instruments, securities, goods, equipment, inventory, vehicle machinery, livestock, intellectual property patents, etc. In practice, it is up to the operators to determine whether or not to accept collateral and/or its minimum value. In addition, the legal framework does not fix a threshold under which collateral is flexible for small businesses, which could potentially make access to traditional lending more challenging for micro and small firms.

No major legal changes have occurred since 2017 to Albania's **credit information services**. The only credit information service is the Credit Register established and managed by the Bank of Albania. The register is available both for financial institutions and the public. All financial institutions providing loan services are required to report, and both positive and negative data are reported. Financial institutions can request online data on existing or potential borrowers providing that a written confirmation from the borrower is issued. Borrowers can require data on their own exposure. However, mandatory reporting is only limited to institutions providing loans, covering slightly more than half of the adult population in 2019 (56%). The Albanian Association of Banks has initiated a project to set up a credit bureau, however the project could not be completed due to legal barriers, notably the article limiting the transfer of information.<sup>40</sup>

Two **credit enhancement and risk mitigation schemes** exist in Albania. The first is the Credit Guarantee Scheme (CSG) for SME loans, for which the main donor is the Italian Agency for Development and Cooperation. The CGS covers up to 60% of loan default, with a maximum of EUR 200 000. The second is Albania Agrobusiness Support Facility<sup>41</sup> (AASF), financed by the European Bank for Reconstruction and Development (EBRD) in co-operation with the Albanian Government. The latter aims to enhance access to finance for Albanian agribusinesses through the commercial banks and non-bank microfinance institutions. It backs 20% of the loans to sub-borrowers disbursed by the financial institutions. Up until the end of 2019, a total of EUR 46.8 million had been granted under AASF, covering more than 6 000 SMEs.

### *Sub-dimension 3.2: Access to alternative financing sources*

Alternative financing sources remain very limited in Albania, creating a major hindrance for business that don't meet the traditional banking criteria. **Factoring and leasing** are available and backed by well-developed legal frameworks, but **crowdfunding, venture capital and business angel networks** are non-existent. However, from 2022, a project to develop crowdfunding platforms, venture capital and business angel networks for entrepreneurs and start-ups that are not eligible for traditional bank lending will be launched by the Albanian Government, in co-operation with German Federal Ministry for Economic Cooperation and Development (GIZ) and the Swedish International Development Cooperation Agency

(Sida) under the EU for innovation programme.<sup>42</sup> The impacts of the project will be assessed in the next CO assessment cycle.

Leasing volumes have been increasing since 2015, from a total value of ALL 5.91 million to ALL 8.85 in 2019 (Bank of Albania, 2020<sup>[71]</sup>). Factoring and invoice discounting decreased from ALL 0.48 million to ALL 0.27 million over the same period. Of the leasing portfolio, 56% is concentrated on vehicles for personal use and 28% on work vehicles. The remainder (around 16%) is principally for product lines and work equipment.

**Factoring** is regulated by the Law on Granting of Licences to Non-bank Financial Institutions and the regulation on Risk Management in the Activity of Non-bank Financial Institutions. Both regulations were amended in July 2019, adding new requirements for factoring institutions. To prevent money laundering, these requirements cover not only the integrity of shareholders/partners, but also family relations or close personal, working or business relationships with persons with criminal records. In addition, the amendment requires that an internal audit function/unit is established in all institutions subject to the law. The Albanian Government has also put in place several incentives to promote the use of factoring – most notably allowing the interest on factoring to be deducted by up to 20% and exempting factored invoices from stamp taxes.

**Leasing** is mainly regulated by the Law on Financial Leasing; however, both of the laws mentioned above also include requirements for leasing institutions. The financial leasing law clarifies the definitions of lessor and lessee, the main rights and duties of a leasing relationship, how the process can be instigated and all the procedures to follow. The regulatory framework does not impose any limitations on the leasing market development; capital requirements and other criteria for licensing leasing activities are the same as for other non-bank financial institutions. The leasing regulatory framework is regularly revised by the Bank of Albania to comply with the latest market developments. The impact on the market of the regulatory framework is measured, either through off-site analysis or on-site inspections.

On 1 September 2020, the Law on Financial Markets based on Distributed Ledger Technology (DLT) came into force. This regulates the issuance and licensing of entities that are engaged in the distribution, trading and custody of digital tokens and crypto currencies, including **blockchain** as a specific form of this technology. The implementation and monitoring of the law are supervised by both the Albanian Financial Supervisory Authority (AFSA) and the National Agency of Information Society (AKSH). Chapter IV of the law clearly sets out the rules that should apply to security token offerings (STOs) and **initial coin offerings** (ICOs). It requires a white paper<sup>43</sup> to be published in case of ICOs and also defines the responsibilities of the issuer, safeguards for investors and the criteria for advertising STOs and ICOs. The law provides a clear framework for the protection of investors, such as the option of imposing administrative sanctions (Article 98) and in the event of a criminal offence, sending the case for prosecution in accordance with the procedures of the penal code of the Republic of Albania.

### *Sub-dimension 3.3: Mobilisation of long-term financing*

Albania has a well-established legal framework for **public-private partnerships** (PPPs). The law on Concession and Public Private Partnership regulates PPPs in mobilising long-term financing, covering a broad range of sectors. The Concession Treatment Agency (ATRAKO), created in 2007, assists the contracting authorities in preparing and negotiating concessions and PPPs.

In May 2020, Albania adopted a dedicated Law on Capital Markets,<sup>44</sup> drafted in partnership with the World Bank. It promotes the development and integrity of **capital markets**, and regulates **institutional investors**. Both domestic and foreign capital institutional investors are allowed to operate in Albania. Local asset management businesses only started in 2012; as of 2019 only three out of four licensed asset management businesses active in investment funds were operating in the territory. That same year, the total assets under management were ALL 70 billion (around EUR 572 million, or 4.5% of GDP). The regulation on the Operation of Collective Investment Undertakings, Fund Management Companies and

Depositaries, drafted by the Albanian Financial Supervisory Authority, was approved in January 2021. Its impacts will be assessed in the next CO cycle.

Albania has one operational privately owned Securities Exchange (ALSE) under the supervision of the Albanian Financial Supervisory Authority (AFSA). It was created in 2017 and trades government securities. In addition, the new law on Capital Markets allows other corporate securities to be traded. The ALSE had an initial capital of ALL 50 million (around EUR 400 000) and the company has three shareholders: Credins Bank (42.5% of total capital), the American Investment Bank (42.5%) and AK Invest (15%). In September 2019, the AFSA's board approved the increase of ALSE's capital through the issuance of additional shares. The new capital amount is ALL 85 million (around EUR 690 000) and the shareholder structure was changed as follows: Credins Bank 45.59%, American Investment Bank 45.59% and AK Invest 8.82%. The securities exchange started trading securities officially in February 2018 and by October 2019 the turnover on the exchange amounted to ALL 2.8 billion (around EUR 23.2 million).

The Law on Capital Markets increases transparency and investor protection. As result, it has aligned Albania's framework with the EU Markets in Financial Instruments Directive (MiFID) and forms the legal basis to potentially broaden access to the stock market. The **bonds** market issued by joint-stock companies with private placement has been active since 2011. However, there is still no corporate bond market with bonds open to the public. Currently there are six bonds issuers – mainly banks and microcredit institutions – and in 2019 the total outstanding bonds issued with private placement to institutional investors or up to 100 individuals was approximately ALL 7.45 billion (about EUR 61 million).

### ***The way forward for access to finance***

To enhance the banking industry and support businesses' access to finance, policy makers should:

- **Continue efforts to align Albania's banking regulations with international standards.** Monitoring recent regulatory reforms, and bringing the banking regulatory framework further into line with internationally agreed norms, would help build the resilience of the banking sector to withstand potential external shocks, such as the COVID-19 pandemic.
- **Continue efforts to diversify the financial sector.** While the regulatory framework for factoring and leasing is in place with incentives to promote their use, the financial sector remains bank-dominated. Albania needs to continue its efforts to implement the EU for Innovation programme while benefiting from the expertise of GIZ and SIDA to provide funding to firms from outside of the traditional lending schemes and meet their needs at various stages of their growth trajectory and development.
- **Review the blockchain legislative framework regularly** to quickly and efficiently adapt the sector to the needs of domestic firms and international market trends.
- **Facilitate market-based long-term debt financing for businesses.** A solution to increase the liquidity of the bond market and a way round the dependence on bank financing could be to establish a special framework coupled with technology platforms such as crowdfunding for private bond placements by smaller companies. One recent successful example is the Italian mini-bond market framework (Box 20.7).

### Box 20.7. Italy's "mini-bond" market

In 2012 the Italian Government introduced a series of laws<sup>1</sup> to initiate a mini-bond framework for unlisted companies to enable them to issue corporate bonds. The mini-bond framework provides a simplified process whereby unlisted companies with more than 10 employees and an annual turnover and/or assets in excess of EUR 2 million (except micro-enterprises and banks), can issue bonds that are available only to qualified investors. Firms are not required to publish a public prospectus – an admission document is sufficient.

In response to this new regulatory framework, Borsa Italiana introduced the ExtraMOT PRO segment in 2013, dedicated to the listing of bonds whose trading is only permitted to professional investors. Since its introduction, the mini-bond market has seen steady growth, with the number of issuances increasing from 16 in 2013 to 171 in 2018. The cumulated proceeds during this period amounted to EUR 10.6 billion, 25% of which was raised in 2018. Moreover, mini-bonds have also been securitised through special purpose vehicles which have created a diversified pool of mini-bond issuers available for institutional investors.

In 2019 the government introduced mini-bond placements on equity crowdfunding platforms. In October 2019, the operating rules for equity crowdfunding platforms willing to place mini-bonds were published by the competent authority (Consob). These include that the offers must be published on specific sections of the platforms; the issuers are limited to joint stock companies; and eligible investors are required to hold financial assets of at least EUR 250 000, invest at least EUR 100 000 in the mini-bond, or be client of an asset management company. The first offerings were published on crowdfunding platforms in January 2020.

1: Law Decree No.83/2012 and its subsequent amendments (Law Decree No. 179/2012; Law Decree No. 145/2013), Law Decree No: 91/2014; Law Decree No: 157/2019, (Fiscal Decree 2020) and Law Decree No: 160/2019 (Budget Law 2020) which created the possibility for unlisted companies to issue corporate bonds through the so-called mini-bond framework.

Source: (OECD, 2020<sup>[72]</sup>), *OECD Capital Market Review of Italy: Creating Growth Opportunities for Italian Companies and Savers*, <http://www.oecd.org/corporate/OECD-Capital-Market-Review-Italy.htm>; (OECD/FAO, 2019<sup>[73]</sup>), *Osservatorio Minibond : 2020 Italian Minibond Industry Report*.

## Tax policy (Dimension 4)

### Introduction

Table 20.7 shows Albania's scores for the two tax policy sub-dimensions, and compares them to the Western Balkan (WB) average. Albania has the highest score (along with North Macedonia) of the WB6 economies for the tax policy framework sub-dimension, driven by its slightly above-average ratings for each indicator. However, it scores below the WB6 average for the tax administration sub-dimension – explained by its low score for the “independence and transparency” indicator (the lowest of the WB economies).

**Table 20.7. Albania's scores for tax policy**

Dimension	Sub-dimension	Score	WB6 average
Tax policy dimension	Sub-dimension 4.1: Tax policy framework	3.0	2.6
	Sub-dimension 4.2: Tax administration	2.7	3.3
	Sub-dimension 4.3: International tax co-operation	n.a.	n.a.
Albania's overall score		2.8	3.0

Note: For comparability with the previous assessment, the new sub-dimension (4.3) has not been scored but is discussed in the text below.

### State of play and key developments

#### *Sub-dimension 4.1: Tax policy framework*

**Tax revenues** as a share of GDP are relatively low in Albania. In 2019, the economy's tax-to-GDP ratio was 25.3% (Table 20.8), having risen from 24.1% in 2015. This ratio is below both the WB6 (30.6%) and OECD (33.8%) 2019 averages. While Albania raises less tax revenue as a percentage of GDP than other WB economies, it has a more balanced tax mix overall. For example, taxes on goods and services and social security contributions (SSCs) combined account for 66.3% of total tax revenues, which is significantly below the 80% WB average for 2019. Albania's lower reliance on these taxes reflects the balance found in OECD countries (58.4% of total tax revenues in 2018). Consequently, other taxes play a greater role in Albania than in other WB economies. While 14.5% of WB economies' total tax revenues originate from personal income tax (PIT) together with corporate income tax (CIT), Albania raises 20.1% of its revenues from these direct taxes. This is below the 33.5% average for OECD countries in 2018. Although Albania's tax structure is more balanced than in other WB economies, increasing its revenues from direct taxes would further diversify the tax mix.

**Table 20.8. Albania's tax revenues as a percentage of GDP**

	CIT	PIT	SSCs	Goods and services	Tax/GDP ratio
Albania	2.3%	2.7%	5.0%	11.7%	25.3%
WB6	1.8%	2.7%	9.3%	15.9%	30.6%
OECD	3.1%	8.1%	9.0%	10.9%	33.8%

Note: CIT: corporate income tax; PIT: personal income tax; SSC: social security contributions.

Source: (OECD, 2020<sup>[74]</sup>) OECD.Stat, <https://stats.oecd.org/> 2019 for overall tax/GDP ratio, 2018 for specific tax/GDP ratio); CO 2021 questionnaire for WB6 average and Albania (2019).

Corporate income tax is levied at a rate of 0% or 15% depending on the taxpayer's total annual income. Businesses with a total annual income below ALL 14 million (EUR 113 200) are subject to a 0% rate, while those whose total annual income exceeds this amount are subject to a 15% rate (Table 20.9). In addition, a reduced 5% rate is provided for specific activities. Albania's top CIT rate is the highest of the WB6, alongside Serbia. As a comparison, the average rate in four WB economies with a flat CIT rate was 9.8%

in 2020. CIT revenues account for 2.3% of Albania's GDP (Table 20.8), which sits between the 1.8% WB average (in 2019) and the 3.1% OECD average (in 2018). Dividend income is excluded from the CIT base if distributed by a company subject to CIT. Capital gains, on the other hand, are included in the tax base. When dividends are distributed, companies pay an 8% dividend withholding tax rate. Furthermore, a 15% withholding tax applies to interest payments sourced in Albania. Concerning taxation of international business income, Albania operates a worldwide taxation system whereby resident companies pay taxes on domestic and foreign-sourced income and non-resident companies are liable for taxes on income originating from Albania. A worldwide taxation system is currently adopted in all of the WB economies. However, such systems are increasingly less common in the OECD, particularly in small open economies. Albania may wish to re-evaluate the advantages and disadvantages of worldwide taxation systems.

**Table 20.9. Selected tax rates in Albania**

	CIT	PIT	SSCs	VAT
Albania	15.0%	23.0%	27.9%	20.0%
WB6	11.5%	12.8%	28.6%	19.0%
OECD	23.3%	42.8%	26.9%	19.3%

Note: CIT: corporate income tax; PIT: personal income tax; SSC: social security contributions; VAT: value-added tax. CIT and PIT averages for WB and OECD are based on top statutory rates. CIT for Albania is the top statutory rate. PIT in Albania is levied following a progressive rate schedule - the rate displayed in the table is the top rate.

Source: (OECD, 2020<sup>[74]</sup>) OECD.Stat, <https://stats.oecd.org/> (2020 for CIT and VAT, 2019 for PIT and SSCs).

Albania lacked **investment incentives** in its tax system until 2018, when it introduced CIT profit-based incentives. Several profit-based incentives – which generally reduce the effective tax rate – have been implemented. For example, companies operating in the sectors of software production/development, agricultural co-operation, agro-tourism or the automotive industry are eligible for a reduced 5% CIT rate. Furthermore, companies established in so-called areas of technology and economic development are exempt from 50% of their CIT liability for a five-year period. A CIT exemption for 10 years is also granted to hotels certified as “brand name” (four or five star hotels) at the beginning of their economic activity. Cost-based incentives – which lower the cost of investment and increase with the size of the investment – are also available for companies in these technology and economic development areas. For these companies, expenses for scientific research and staff development or training can be deducted from a company's CIT liability at double the value of the investment undertaken (for a 10-year period). These companies can also benefit from cost-based incentives – annual capital expenses may receive a 20% deduction from CIT liability in their first three years of economic activity. However, research has shown that profit-based incentives are more likely to lead to high redundancy of expenditure since the investment may have proceeded anyway (UNCTAD, 2015<sup>[75]</sup>). Albania may wish to assess empirically whether the current set of profit-based incentives are surplus to requirement and may create unnecessary redundancy.

Following a **PIT reform** in January 2019, personal income in Albania is taxed according to a progressive rate schedule which includes three rates on personal labour income: a 0% rate for taxable income under ALL 30 000 annually (EUR 240), a 13% rate for taxable income up to ALL 150 000 annually (EUR 1 200) and a 23% rate for income over ALL 150 000 (Table 20.9). The 2019 reform increased the threshold from ALL 130 000. PIT revenues in Albania account for 2.7% of GDP, which aligns with the regional average (2.7% in 2019) and the second-highest of the WB economies after Serbia (Table 20.8). However, this level remains significantly below the OECD average (8.1% in 2018). With regards to the taxation of personal capital income, a 15% flat rate applies to income such as interest, royalties, rental income and **capital gains**, including from the sale of immovable property. For **dividend income**, an 8% rate now applies (previously it was 15%). This low taxation of capital income, particularly of dividends, creates an incentive for entrepreneurs to incorporate their businesses and receive income in the form of capital rather than salaries.



Despite yielding the economy's second-highest tax revenues, Albania is less reliant on **social security contributions** than the other WB economies. While revenues from SSCs account for one-fifth of Albania's total tax revenues, they represent only 5.0% of its GDP (Table 20.8). This ratio is the second lowest in the region (after Kosovo) and below the OECD (9.0% in 2018) and WB (9.3% in 2019) averages. The total SSC rate on gross salaries is 27.9%, which sits between the 29.4% WB average (in 2020) and the 26.9% OECD average (in 2019) (Table 20.9). Despite this average rate, Albania's low SSC revenues suggest a narrow SSC base. Ensuring that more workers are active in the formal labour market should be a priority for future tax policies. The total SSC liability split is 16.7% for employers and 11.2% for employees. While OECD countries tend to levy higher employer SSCs than employee SSCs, WB economies on average do the opposite (9.5% for employers and 19.9% for employees in 2020). With regards to the self-employed, the total SCC rate is 26.4%, which is slightly below the WB average (29.7% in 2020). Contrary to other WB economies, which tend to impose high SSC rates on employees, Albania's taxation of labour income is more balanced. High employee SSCs reduce workers' disposable income, undermining their incentives to work in the formal economy, in particular those on low income with low skill levels. The relatively low employee SSC rate, combined with Albania's progressive PIT rate schedule (which shifts the tax burden from low incomes to higher incomes), limits these unwanted spillover effects.

In terms of the **design and functioning of VAT and environmentally related taxes**, Albania relies heavily on revenues from taxes on goods and services, though to a lesser extent than other WB economies. In 2019, revenues from these taxes were 11.7% of GDP (Table 20.8), which makes Albania the least reliant WB6 economy on taxes on goods and services. Though below the WB average (15.9% in 2019), this ratio broadly aligns with the OECD average (10.9% in 2018). Albania levies a standard 20% VAT rate, which is slightly above the averages for the OECD (19.3% in 2020) and WB6 (19.0% in 2020). Since June 2017, the VAT base has been narrowed by the introduction of a reduced 6% rate, which applies to a list of goods and services that includes tourism accommodation services, advertising services in visual media, public transport services and books. However, OECD research has found that reduced rates are not an effective way to help people on low incomes, and can be regressive in some instances (OECD, 2018<sup>[76]</sup>). The VAT registration threshold was increased in January 2021 to ALL 10 million (EUR 81 000) – a substantial increase from the previous threshold (ALL 2 million or EUR 16 200) and one of the highest of the WB economies. As regards other taxes on goods and services, excise duties are levied on gasoline and diesel, accounting for 2.2% of GDP. Albania has also implemented three other environmentally-related taxes (amounting to 1.1% of GDP): a circulation tax, an annual tax on used vehicles and a tax on plastic material and packaging.

Albania has an aggregated **tax revenue forecasting** model for all major types of taxes. In 2019, several micro-simulation models were implemented in co-operation with the World Bank. They are available for VAT, excise duties, PIT and CIT. Based on tax return data, these models can estimate the effects of alternative tax regimes in terms of revenues, and analyse effects across sectors. Albania is currently working in collaboration with the IMF to develop new models for VAT, PIT and CIT. These models are still being tested.

Albania is the only WB economy that implements a **tax expenditure report**. In 2019, the economy instigated a regular and systematic tax expenditure report for the first time. This report will be published every two years. Previously, a limited set of basic tax expenditure information was published alongside the annual budget. The introduction of a regular tax expenditure report in Albania should help the economy to manage efficiently its new set of investment incentives and other tax expenditures. This reform is welcome, and brings Albania's public finance management system closer to international best practice.

#### *Sub-dimension 4.2: Tax administration*

With regards to the **functions and organisation** of the tax administration, direct and indirect taxes are collected and administered by the General Tax Directorate (GTD), including VAT for domestic transactions

and social and health security contributions. Customs duties and VAT on imports are collected and administered by the General Directorate of Customs. Both institutions are part of the Central Tax Administration of Albania. The Central Tax Administration mixes a functions and taxpayer approach. The GTD, as well as the regional directorates, are organised on a functional basis. There is also a Large Taxpayer Directorate. Regular training courses are available for employees of the tax administration, notably through the Albanian School of Public Administration.

Concerning **compliance assessment and risk management**, tax audits are carried out by the Regional Directorate of Taxation through their audit division. Taxpayers are selected for audits through a risk-based approach. A monthly audit plan is established, 70% of which is based on recommendations from an IT system of risk modules. The remaining 30% are determined from proposals by the regional directorates. Three types of audits are carried out: 1) comprehensive audits (covering all types of tax and fiscal years since the last audit); 2) fiscal visits (focused on a single type of tax and fiscal year); and 3) field verifications (focused on issues such as registration of taxpayers or use of non-cash register for businesses). Albania has a comprehensive regulatory framework guaranteeing taxpayer rights during tax audits, including the right to appeal, the right to data confidentiality and the right to representation. Within its tax administration, the economy has created a special unit that monitors audit reports vis-à-vis its implementation plan. The Albanian tax administration uses segmentation models by sectors. It is currently designing sectoral plans for the bar/restaurant and construction industries. In January 2021, Albania launched a new fiscalisation process that aims at raising additional revenues and curbing tax fraud without raising any new taxes. By using a mobile application, the new system will enable each citizen to verify immediately if an invoice issued by a business is reported to the tax administration. Once the tax administration receives the information, it can verify the registration of the invoice and take action accordingly.

The **independence and transparency** of Albania's tax administration could be strengthened. While a Law on Tax Procedures defines the functioning and organisation of the tax administration, the administration lacks an independent management board. This might be one area for reform. The GTD's operational budget depends on annual budgeting procedures. A legal framework provides sanctions for misconduct by tax administration employees. The director of the GTD prepares an annual transparency programme.

In Albania, **electronic filing** is available for all taxpayers and is mandatory for all taxes. Tax filing procedures have been simplified and streamlined following a 2016 reform. This reform focused on compliance issues and building a stable declaration system for companies. Among other initiatives, filing guidelines are now attached to tax returns. The software needed for tax compliance is available for free.

Various **taxpayer services** are offered by the GTD and its regional directorates, including online access to information, electronic communications and in-person inquiries. Taxpayer services are accessible to all taxpayers across the economy through the 14 regional directorates, each equipped with a Taxpayers Services Unit. The Taxpayers Services Unit in the GTD monitors the effectiveness of the work carried out by regional directorates. Albania's tax legislation also provides for a Tax Advocate, who protects the rights of taxpayers.

#### *Sub-dimension 4.3: International co-operation*

Similar to other WB6 economies, Albania has become increasingly involved in the international tax dialogue and reforms since the last report. It became a member of the Inclusive Framework on BEPS (Base Erosion and Profit Shifting) in August 2019, which led to several initiatives. The Harmful Practices Secretariat is currently reviewing whether Albania's tax system is aligned with the Action 5 minimum standard. With the ratification of the Multilateral Convention (MLI) in September 2020, work on treaty abuse and mutual agreement procedures is scheduled to start shortly. Albania has also signed the Convention on Mutual Administrative Assistance in Tax Matters in 2013. With regards to exchange of information, Albania has been subjected to a peer review for its exchange of information on request (EOIR), carried out by the OECD Global Forum assessment team. Its overall rating is "largely compliant". Albania introduced

a law in February 2020 on the automatic exchange of information (AEOI); the first exchanges should occur in the near future. Finally, Albania has transfer pricing legislation in force and its legislation is in line with the OECD Guidelines on Transfer Pricing.

Albania has carried out some initiatives in the field of **digital taxation**, but would benefit from deeper involvement. With regards to VAT, Albania introduced international VAT/GST guidelines in 2014 (the first to do so of the WB6). Albania levies VAT on cross-border digital services and follows the destination principle. Concerning taxation of income from digital platforms, this income is not currently included in the PIT tax base. However, Albania's tax administration has requested from Airbnb the list of individuals who rent their real estate through their platform. Once this information is obtained, it will be cross-referenced with the individuals' tax returns, which should allow it to be included in the PIT tax base in the future. With regards to the OECD's Tax Challenges Arising from Digitalisation project, Albania might be less affected by Pillar 2 and its global minimum tax than other WB6 economies, as its top CIT rate is the highest in the region (along with Serbia). However, Albania's generous profit-based incentives might bring effective rates on corporate profits below the expected minimum rate. If a consensus is reached on a global minimum tax, Albania could be faced with the choice of either redesigning its set of investment incentives or risk forgoing tax revenues to foreign jurisdictions. Albania is encouraged to carefully assess its position on this issue and draft an action plan if consensus is reached among members of the Inclusive Framework on BEPS.

Regional co-operation is relatively modest in Albania. It has signed a memorandum of understanding on tax matters with Kosovo, focused on training programmes for tax administration employees and co-operation over tax fraud. Overall, Albania has signed 42 conventions for the prevention of double taxation, including with all other WB6 economy.

### ***The way forward for tax policy***

To enhance Albania's tax policy framework and achieve their objectives, policy makers may wish to:

- **Continue to support the economy in light of COVID-19.** Albania has implemented a comprehensive set of measures to mitigate the effects of COVID-19. The economy may wish to continue its efforts, while focusing on measures that could spark an economic recovery.
- **Increase tax revenues while maintaining a balanced tax mix.** Albania's 2019 tax-to-GDP ratio remains below regional and international levels. Scope exists to increase tax revenues. This increase should maintain the balance in Albania's tax mix, which resembles the balance found in OECD countries.
- **Continue to strengthen capacities to measure and report tax expenditures.** Albania's new regular tax expenditure report reform is welcomed. It should be maintained and possibly deepened, perhaps by issuing annual reports instead of every two years.
- **Evaluate the scope to broaden the VAT base by reducing the goods and services taxed at the reduced VAT rate.** VAT reduced rates are an ineffective way to support those on low incomes, while those with higher incomes benefit more from the reduced rate. Targeted cash support, reduced employee SSC rates and progressive PIT rates are better tools to support low-income households and make the tax system more progressive.
- **Expand the use of micro-simulation models to forecast tax revenues and to assess the distributive effects of tax reforms.** In 2019, Albania implemented several micro-simulation models and is currently working on new models with the IMF and the World Bank. These initiatives should be strengthened and Albania is encouraged to make wider use of micro-simulation models in the future.
- **Weigh the advantages and disadvantages of the differentiated taxation of capital and labour income.** Taxing capital and labour income differently allows for more targeted tax policies. However, it may create distortive spillover effects and encourage business owners to incorporate and receive

income in the form of capital rather than labour income. Albania may wish to assess its position on this issue.

- **Maintain the balanced taxation of labour income between SSCs and PIT.** Most WB economies levy high SSC and low PIT rates, which negatively impacts labour market outcomes and discourages the registration of informal businesses and workers. Albania's more balanced taxation of labour income provides better incentives for people to enter the formal economy.
- **Prepare an action plan in the case of consensus on Pillar's 2 global minimum tax amongst members of the OECD/G20 Inclusive Framework on BEPS.** The global minimum tax will likely be lower than the current statutory CIT rate in Albania. However, Albania's generous profit-based incentives could lower effective tax rates on corporate income to a level below the expected global minimum rate. Albania may need to choose whether to redesign its investment tax incentives or risk losing tax revenues to foreign jurisdictions. The economy should evaluate its position on this issue and prepare an action plan accordingly.
- **Establish an independent management board for the tax administration.** Independence and transparency are important features of a well-developed tax administration, if the tax system is to be seen as a legitimate public authority with the necessary safeguards in place when collecting money from taxpayers. The policy to establish an independent management board should be supported with strong procedural safeguards to guarantee its independence.
- **Continue to engage with the international tax community and implement international best practice.** Since the last CO report, Albania has strengthened its involvement in international tax matters; this approach is welcome.
- **Carry out a cost-benefit analysis on the merits of a worldwide taxation system for resident corporations.** For small open economies such as Albania, worldwide taxation may entail high administrative costs without raising significant revenues.
- **Foster co-operation and co-ordination on common tax issues within the WB region.** Albania shares common challenges with other WB economies; greater collaboration might be favourable for all economies involved. Areas such as tax compliance, training for tax administration staff and exchange of information would greatly benefit from a co-ordinated regional approach.

## Competition policy (Dimension 5)

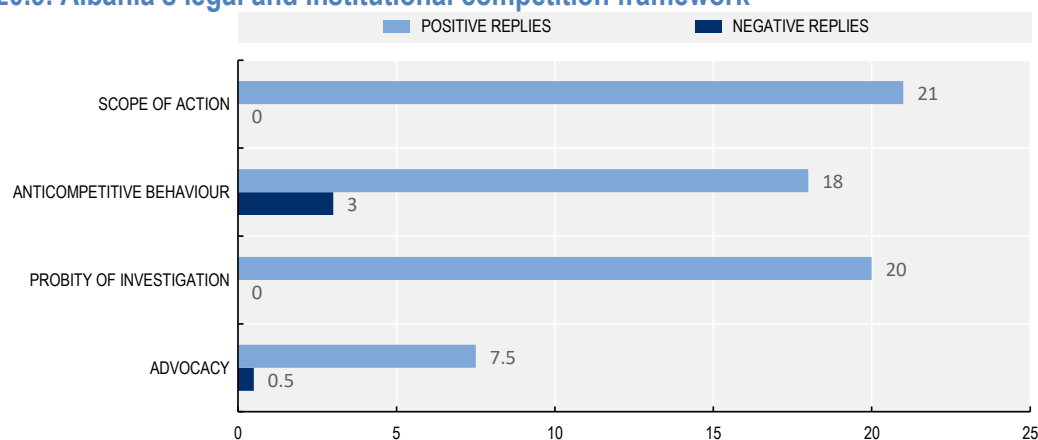
### Introduction

Albania's legal and institutional framework for competition shows a remarkable degree of alignment with international good practice.

Unlike the other dimensions, where indicators are allocated a score from one to five, the Competition policy dimension assesses four policy areas (i.e., scope of action, anti-competitive behaviour, probity of investigation and advocacy, plus a new area: implementation). Scoring is based on yes/no (coded as 1/0) answers to the 71 questions in the questionnaire administered by the OECD. Where a response to a question is yes (coded as 1), then we refer to this as an adopted criterion. Each of the four policy areas has a different number of possible criteria that can be stated as having been adopted. Each policy area is assessed through data collected from the questionnaire indicators and by measuring the number of criteria adopted. The new fifth policy area (implementation) is not scored, but is a quantitative analysis of how many competition decisions have been adopted by the competition authorities. The anti-competitive behaviour and implementation policy areas are discussed together below.

Figure 20.9 reports the number of positive (alignment with good practices) and negative answers to a questionnaire on alignment administered by the OECD for each of the four policy areas listed.

**Figure 20.9. Albania's legal and institutional competition framework**



Source: Based on the OECD assessment.

### State of play and key developments

#### *Sub-dimension 5.1: Scope of action*

Albania's Law no. 9121/2003 on Competition Protection and the implementing secondary legal framework are largely aligned with the relevant provisions of the Treaty on the Functioning of the European Union, namely Article 101 on restrictive agreements and Article 102 on abuses of dominant position, as well as the related EU regulations and European Commission guidelines.

The Law on Competition Protection also provides for prior control of mergers, in line with the EU Merger Regulation. In 2018, the Albanian Competition Authority (ACA) also approved guidelines on restrictions directly related and necessary to concentrations, implementing the related European Commission Notice of 2005.

The ACA is an operationally independent authority, responsible for implementing the Law on Competition Protection. It reports to the Albanian Parliament, which appoints the ACA chair and its four board members.

The administrative capacity of the ACA is above average in the WB region, both in terms of budget and number of staff. Furthermore, the level of staff expertise has been strengthened over the last few years through training courses.

In 2020 the Competition Commission approved the guideline “To empower the competition authority to be a more effective enforcer of the law no. 9121/2003 “On competition protection”, as amended “and to ensure the proper functioning of the market”. This is approximated with the EU ECN+ Directive (EU) 2019/1 of the European Parliament and of the Council of 11 December 2018, to empower the competition authorities of Member States to be more effective enforcers and to ensure the proper functioning of the internal market.

Chapter VII “Mutual Assistance” and Chapter VIII “Limitation Periods” of the ECN+ Directive, that deal with co-operation with homologue competition authorities of EU Member States, will enter into force and be implemented when Albania joins the EU as a member with full rights.

Albania is closely aligned with international best practice for the scope of action of its competition authorities and their powers to fight anticompetitive behaviour. As shown in Figure 20.9, discrepancies with good practice are almost negligible for this policy area.

The decision-making body of the ACA is the commission, which consists of a chairperson and four members elected by parliament, while the secretariat is the executive body, managed by the Secretary General. Following a structural reorganisation in 2017 approved by the Albanian Parliament, employees are now divided into six directorates: Production Markets Surveillance, Non-Production/Services Markets Surveillance, Market Analysis and Methodologies, Legal and Judicial Affairs, Integration and Communication, and Support Services. The total number of staff has been steadily increasing between 2015 (37 employees) and 2019 (46 employees). This figure compares well with other OECD and non-OECD countries listed in the OECD CompStats database.<sup>45</sup> For example, in 2019 the average total staff of the 15 competition authorities in small economies (with a population lower than 7.5 million) was 114, of whom 43 were working on competition.

Parliament approves the ACA's annual budget, which has grown from approximately EUR 470 000 in 2015 to EUR 645 000 in 2018 and EUR 628 000 in 2019. However, it is very low by international standards. In 2019 the average financial resources of the 15 competition authorities in the small economies listed in the OECD CompStats database were EUR 5.4 million.

The Albanian Law on Competition Protection ensures competitive neutrality. In particular, the **competences** of the ACA encompass any national or foreign undertakings and associations of undertakings that have or may have an influence on the markets in the territory of the Republic of Albania. These include public undertakings and undertakings entrusted with services of general economic interest, as long as their activity is not obstructed.

The ACA has appropriate **powers to investigate** and **powers to sanction** possible anti-trust infringements, e.g. restrictive horizontal and vertical agreements and exclusionary or exploitative practices by dominant firms. The authority can impose cease and desist orders and remedies on firms that have committed anti-trust infringements. It can also adopt interim measures if the alleged competition breach poses a risk of irreparable damage on its initiative or following a request by the parties. In addition, it can accept commitments offered by the parties to remove the competition concerns and close the investigation.

The ACA can compel investigated firms and third parties to provide relevant information and can perform unannounced inspections of parties' premises. The assessment of alleged anti-competitive conduct follows a thorough scrutiny of the evidence collected, which typically includes an economic analysis of the competitive effects of vertical agreements or possible exclusionary conducts. The authority has the power to impose fines of up to 10% of the aggregate turnover of the undertaking.

The Law on Competition Protection also allows for a leniency programme, which grants total or partial immunity from sanctions to firms that report to the authority the existence of the agreement and submits

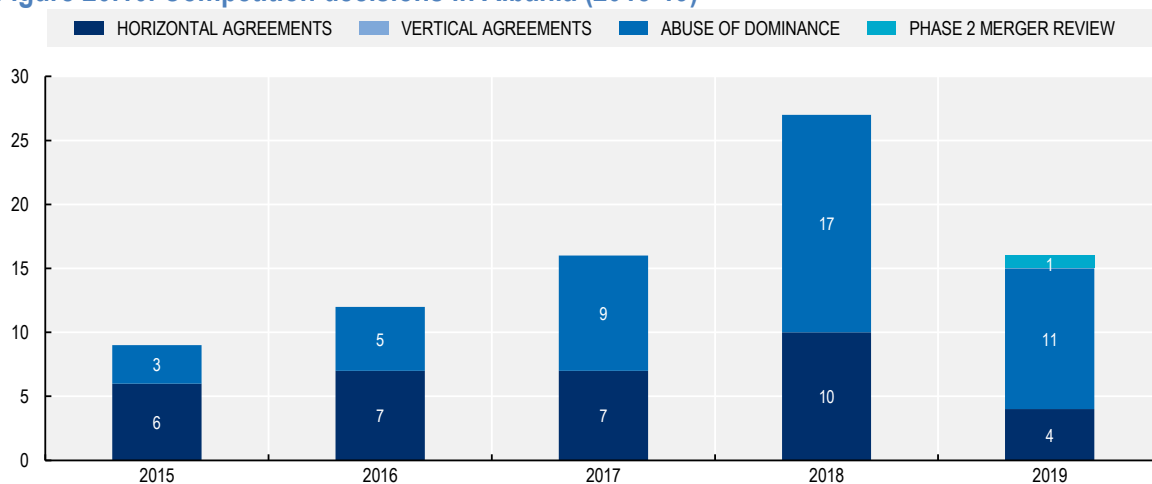
appropriate evidence. The law also provides for *ex ante* control of **mergers**, following the principles of the EU Merger Regulation. The ACA must prohibit concentrations that significantly restrict effective competition, in particular as a result of creating or strengthening a dominant position. It can authorise the transaction subject to structural and/or behavioural remedies – i.e. divestiture of assets and/or obligations to act or refrain from acting in a certain way – suitable for addressing the competition concerns. The assessment of notified mergers must follow a thorough scrutiny of the evidence, which includes an economic analysis of the restrictive effects and of possible efficiencies stemming from the concentration. In the course of the investigation, the ACA can compel merging firms and third parties to provide relevant information and may perform unannounced inspections of parties' premises.

Regarding **private enforcement**, individuals, firms and consumers – either collectively or through consumer associations – can bring a legal action to seek damages from firms that have committed anti-trust infringements.

#### *Sub-dimensions 5.2 and 5.5: Anti-competitive behaviour and implementation*

The anti-competitive behaviour and implementation policy areas together gauge the use of powers and resources in terms of decisions adopted and fines imposed for horizontal agreements, vertical agreements and exclusionary conduct. They also explore the actual activity of the competition authority on reviewing mergers. Over the last five years the ACA has taken 34 **horizontal agreement** (cartel) decisions and 45 infringement decisions concerning abuse of dominance. It has not conducted any cases on **vertical agreements** (Figure 20.10).

**Figure 20.10. Competition decisions in Albania (2015-19)**



Source: Data provided by the authorities.

The cases conducted by the ACA have mostly related to the agro-food and the energy sectors, insurance, liquid gas, telecommunication and ports, as well as bid rigging in public procurement. Most of them were opened *ex officio* by the authority. No leniency application has been submitted to the authority.

The total amount of fines imposed on participants in anti-competitive agreements over the last five years is EUR 2.2 million. In 2015-17 no fines were imposed on infringers. In 2018 the ACA sanctioned seven undertakings: five undertakings that participated in prohibited agreements and two undertakings for abuse of dominant position (**exclusionary conduct**). In 2020 the Competition Commission took 11 decisions with a total fine amount of EUR 16 256.

Despite the positive increase in sanctions, it should be highlighted that the average annual fines for cartel infringers in 2015-19 for the 15 competition authorities in smaller jurisdictions that participated in CompStats was EUR 2.7 million.



The Albanian Competition Authority performed an appreciable number of unannounced inspections in 2019: 5 cases in 2019, 7 cases in 2018, 5 cases in 2017, 5 cases in 2016 and 6 cases in 2015.

The **merger** notifications received by ACA range from a minimum of 11 in 2015 to a maximum of 30 in 2018. In 2019, the ACA adopted 24 merger decisions. Approximately 40% of the annual merger notifications received by the ACA refer to extra-territorial transactions. The sectors affected by the most relevant transactions were mobile telecom services and banking and insurance.

All mergers were unconditionally cleared in the so-called Phase I (i.e., without the need for an in-depth review in Phase II), except one in the banking sector, which was approved with remedies in 2019 (Figure 20.10). Another transaction was eventually cleared with conditions and obligations in 2020 (Decision of Competition Commission no. 676, dated 07.02.2020 on the authorisation with conditions and obligations, on the acquisition of control of ABCom SHPK from Vodafone Albania SHA).

### *Sub-dimension 5.3: Probity of investigation*

The Albanian Competition Authority is a public, **independent** institution established in 2004, as foreseen by the Law on Competition Protection. It is **accountable** to the Albanian Parliament, to which it regularly submits an annual activity report; in turn, every year parliament issues a resolution on the activity of the competition authority, in which it recommends the main areas of work and sectors of the economy that the ACA should focus on in the following year.

In terms of **procedural fairness**, the ACA must give notice of its decision to open formal proceedings in the Authority Official Bulletin. This notice must state the purpose of the investigation and the parties concerned, while encouraging interested third parties to come forward if they wish to take part in the investigation. All final decisions regarding alleged competition infringements and mergers are published.

Prior to the adoption of a final anti-trust decision, the ACA must inform the party of the relevant facts, evidence and other elements on which the decision is based, and enable the party to submit a defence. The parties have the right to be heard before the commission takes a final decision. At every stage of the proceedings, the parties may consult with the case team.

Likewise, if the ACA intends to prohibit a merger transaction, it must inform the merging parties about the evidence and conclusions on which the decision would be based and enable them to submit their remarks and possible remedies. The parties can participate in the process that leads to the determination of conditions and obligations and can consult with the ACA during the entire procedure.

The authority's decisions can be appealed before the Administrative Court of Tirana within 30 days of the date of notification. The appeal does not have suspensory effect on the decision. The judgements of the Administrative Court of First Instance can be further appealed before the Administrative Court of Appeal.

Every year, the ACA issues its annual report and the annual bulletin of decision, which contains all the decisions taken during the year. Furthermore, the ACA has adopted and published several regulations and guidelines, concerning *inter alia* the investigative procedure, the procedure for concentrations of undertakings, the assessment of dominant position and abuse of dominant position, the assessment of horizontal and vertical agreements and the calculation of fines, which is in full alignment with the EU notice on fines and EU guidelines on fines.

### *Sub-dimension 5.4: Advocacy*

The ACA can formulate opinions on national or local laws or regulations that affect or may affect competition. The competition issues analysed by the authority include restrictions on trading and market access, granting exclusive rights and imposing uniform practices in sales terms and conditions. The authority must assess the degree of restriction or prevention of competition brought by draft normative acts.

The ACA can also assess possible barriers to competition in economic and administrative regulations aimed at pursuing general economic interests. In performing this duty, the authority must co-operate with regulatory institutions and may issue appropriate recommendations.

Pursuant to a specific article of the Albanian Law on Competition Protection, public institutions are obliged to submit their normative acts to the ACA if competition assessment is needed. Since not all public institution were complying with this provision, in 2015 the ACA issued a decision on the obligation to obtain a preliminary assessment by the Competition Authority when granting exclusive or special rights through concessions.

The legal department of the ACA is entrusted with the analysis and assessment of normative acts. In complex cases, a working group is created. The procedure followed by the ACA to carry out its assessment is illustrated in the guidelines Assessment of the Consequences of Legislation on Competition, which also provide a concrete example.

The authority issued 25 formal opinions in 2019 – a substantial increase on 17 in 2018 and even lower figures in previous years. The sectors addressed by recommendations on draft regulations include water, energy, media and telecommunications. Recommendations provided by the ACA were eventually implemented by the Bank of Albania, the Water and the Energy Regulatory Body, the Ministry of Infrastructure and Energy and the Ministry of Health. In 2020, the authority issued 37 formal opinions which included sectors such as energy, water, media and telecommunications, insurance etc.

The ACA co-operates closely with the Public Procurement Agency and exchanges views on investigations into bid rigging. The ACA has also given recommendations to the Public Procurement Agency on the prevention and detection of bid rigging. In 2011, the authority issued a guideline on Fighting Prohibited Agreements in Bids in Public Procurement (based on the OECD guidelines) and a leaflet, Hints of prohibited agreements in bids in public procurement, which are available on its website. In 2019, the ACA signed a memorandum of understanding with the Public Procurement Agency in order to facilitate co-operation between both institutions to protect competition in public procurement through exchange of information, as well as joint meetings and training, etc.

The ACA can conduct a general inquiry in any sector of the economy, on its own initiative or following a request by parliament or other regulators, if price patterns or other circumstances suggest that competition might be restricted or distorted. In the period 2015-19, the ACA concluded an average of four general inquiries a year, addressing key sectors such as higher education, banking, healthcare and liberal professions.

In 2019 and 2020 ACA concluded the following general investigations:

- In the area of liberal professions such as public notaries, attorneys and real estate evaluators in which it made some recommendations to the Ministry of Justice, National Attorney Office and National Public Notary Office related to the profession of attorney and public notary; and to the Ministry of Infrastructure and Energy and to the Real Estate Association, for real estate evaluators. It also made some recommendations to second-level banks on transparent and competitive procedures that should be followed in selecting real estate evaluators.
- In the higher education sector, it made some recommendations to the Ministry of Education, Sport and Youth, National Institute of Statistics, Public and Private Higher Education Institutions, and also gave some conditions and obligations to private higher education institutions.
- In the banking sector, the ACA concluded an investigation, resulting in some recommendations for the second-level banks under investigation.

Furthermore, the ACA organises a number of workshops, training courses, campaigns, and events for consumers, companies and ministries aimed at developing a competition culture. The staff of the ACA have benefited from a series of training courses organised with the European Commission through the EU

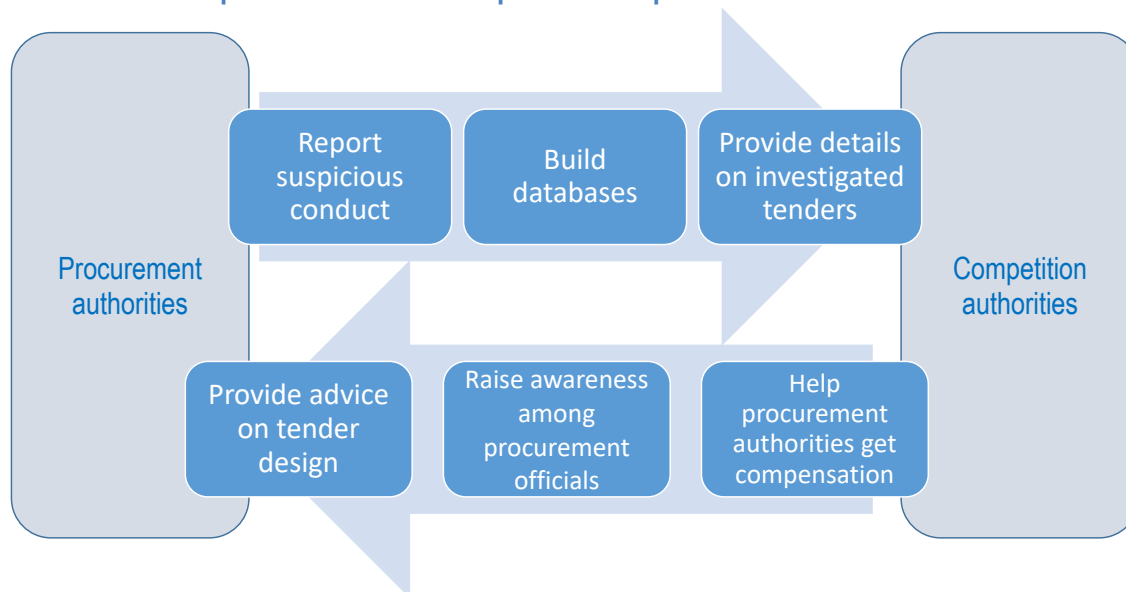
Technical Assistance and Information Exchange instrument (TAIEX); IPA Twinning Project (2019-2020) on Further Strengthening the Competition Authority's capacities to protect the free and effective competition in the market, funded by the European Union in co-operation with the Spanish National Commission of Markets and Competition (CNMC); as well as other international projects, including the EBRD Project (2019-2020) on Capacity Building for the Albanian Competition Authority (ACA) - Promoting Advocacy of Competition and Strengthening the Institutional Capacities of the Albanian Competition Authority, in co-operation with the consultancy firm Lear.

### ***The way forward for competition policy***

The ACA demonstrates good enforcement capacity and an appreciable record of formal proceedings tackling prohibited agreements and abuses of dominant position. In addition, the ACA has engaged in a set of advocacy initiatives to promote competition principles and foster competition culture. Nonetheless, there is still scope for improvement, particularly on prioritising competition enforcement and increasing the sanctions for cartels. Furthermore, the challenges brought about by the COVID-19 pandemic suggest the need for some further recommendations aimed at expanding the role that the ACA can play to contribute to a quick economic recovery:

- **Provide the ACA with adequate financial resources, in line with international standards.** Despite an increase over the last few years, a substantial growth in the budget appears necessary to enable the ACA to further develop its potential for competition enforcement and advocacy. In fact, adequate financial resources are crucial not only to recruit but also to retain and motivate officials with high competition skills (see Box 20.8 for an example from Italy).
- **Give priority to boosting cartel enforcement and impose high fines.** Cartels are the most clear-cut and undisputedly harmful competition infringements and affect every economy. The efforts of the ACA should be focused on detecting cartels and imposing heavy fines on infringers, in order to deliver a strong message that firms that engage in collusion risk being severely punished. Fines that exceed the illicit gains can deter offences even when the probability of paying a fine is low. The concern about fines is also a key driver of leniency applications, fostering the effectiveness of the leniency programme and further boosting detection. The ACA might engage in expanding its detection skills, for example by further strengthening the fight against bid rigging (see point below on public procurement).
- **Pay specific attention to public procurement, particularly during the COVID-19 crisis.** Public procurement is a key sphere of action both for cartel enforcement and for competition advocacy. Bid rigging results in significant harm for public budget and taxpayers, dampening of innovation and inefficiencies. The ACA has a fruitful co-operation in place with the Public Procurement Agency and the publication in 2011 of guidelines and a leaflet based on the OECD Guidelines on Fighting Bid Rigging in Public Procurement (OECD, 2009<sup>[77]</sup>), was a valuable initiative to reduce the risks of bid rigging through careful design of the procurement process and to detect bid-rigging conspiracies during the procurement process. Figure 20.11 shows how co-operation between competition and procurement authorities can help detect and avoid bid rigging. Albania's efforts in this domain could be repeated, particularly in times of crisis and emergency procurement. The OECD can also provide assistance through a project aimed at assessing the main rules governing procurement of public works as well as procurement practices of major public buyers. It can provide recommendations for designing competitive procurement and fighting bid rigging in accordance with international good practices. It can also offer training to both competition and public procurement officials based on the Guidelines on Fighting Bid Rigging in Public Procurement.

Figure 20.11. How co-operation between competition and procurement authorities could work



- Advocate strongly for competitive neutrality, to make sure that all enterprises face the same set of rules, irrespective of their ownership or nationality.** Competitive neutrality occurs where no entity operating in an economic market is subject to undue competitive advantages or disadvantages. In other words, it is a framework within which all enterprises, irrespective of their ownership (state-owned or privately owned) or nationality (domestic or foreign). In most jurisdictions, the state has a dual role as policy maker/sector regulator and supplier or purchaser of goods and services. Consequently, in markets open to competition the state also acts as a market participant and interacts with private businesses, most often indirectly, through SOEs. Governments may be tempted to grant SOEs certain advantages, e.g. privileged market position, soft loans, outright subsidies, regulatory exemptions or tax benefits. Given the importance of SOEs in Albania and the increased role of the state in the economy that will likely result from the COVID-19 crisis, the ACA can make a decisive contribution to promoting competitive neutrality. The authority might need to discourage the government from granting selective aid to SOEs and resist political pressure to adopt a more lenient approach when investigating SOEs' conduct.
- Expand international co-operation and training.** In the face of increasingly complex anti-trust issues and the frequent cross-border nature of competition infringements, the management and staff of the ACA should have frequent opportunities to meet and participate in policy discussions. International organisations like the OECD, the International Competition Network (ICN) and United Nations Conference on Trade and Development (UNCTAD) offer valuable opportunities to this end. The OECD-GVH Regional Centre for Competition in Budapest also provides an ideal forum for capacity building and sharing of good practices with colleagues from other jurisdictions, focusing on the specific challenges of Eastern European and Central Asian countries. The ACA is already a regular participant in the centre's events and would benefit from actively continuing.

### Box 20.8. Financial independence for the Italian Competition Authority

Until 2012, the financing of the Italian Competition Authority (AGCM) was based on two main sources: annual funding from the state and fees paid by companies subject to merger notification requirements.

Legislative Decree no. 1/2012 modified the AGCM's funding system, which is now based on mandatory contributions imposed on companies incorporated in Italy whose turnover exceeds a threshold of EUR 50 million. The revenues from these contributions replace all previous forms of funding. The level of contribution, originally fixed at 0.06 per thousand, has been gradually lowered by the AGCM to 0.055 per thousand. The authority's financial statements have to be approved by 30 April of the following year, and are subject to auditing by the Court of Auditors.

This funding system can be regarded as an indirect recognition of the positive role played by AGCM in supporting a healthy and level competition field, which justifies the imposition of a small contribution on the largest businesses incorporated in Italy.

Importantly, the previous funding system entailed the risk of possible fluctuations in the amount of the annual budget, due to unpredictability in the number of notified mergers and levels of state funding. The new system shelters the AGCM from that risk, thus allowing for more stable and forward-looking recruitment planning.

Source: (OECD, 2016<sup>[78]</sup>), Independence of competition authorities: from designs to practices, [https://one.oecd.org/document/DAF/COMP/GF\(2016\)5/en/pdf](https://one.oecd.org/document/DAF/COMP/GF(2016)5/en/pdf).

## State-owned enterprises (Dimension 6)

### Introduction

State ownership responsibilities for Albania's approximately 78 central SOEs are exercised by the Ministry of Finance and Economy as well as several other line ministries and central government bodies. These dispersed ownership responsibilities are not subject to a common ownership policy. The resulting absence of clear performance expectations from the state contributes to corporate inefficiencies, including many insolvent SOEs, leading to a score on the lower end of the spectrum in the sub-dimension for SOE efficiency and governance (Table 20.10). Albanian SOEs are subject to sound financial disclosure requirements, including a mandate for external audits of their financial statements, resulting in a slightly above-average score for SOE reporting practices. Albania achieves an average score for ensuring a level playing field between state-owned and private companies (sub-dimension 6.3), reflecting the fact that most SOEs are subject to the same laws and regulations as private competitors, but that competitive distortions still exist. These are created, for example, by structural inefficiencies that lead many SOEs to underperform. Albania's performance in the state-owned enterprise dimension has not changed significantly since the last CO 2018 (Figure 20.1). Although the Ministry of Finance and Economy has proposed establishing a central ownership agency, which would have the potential to strengthen SOEs' ownership arrangements, there is currently no consensus within the government on the need for such an entity.

**Table 20.10. Albania's scores for state-owned enterprises**

Dimension	Sub-dimension	Albania	WB6 average
<b>State-owned enterprises dimension</b>	Sub-dimension 6.1: Efficiency and performance through improved governance	1.6	2.2
	Sub-dimension 6.2: Transparency and accountability practices	2.8	3.0
	Sub-dimension 6.3: Ensuring a level playing field	2.8	2.8
	Sub-dimension 6.4: Reforming and privatising state-owned enterprises	n.a.	n.a.
<b>Albania's overall score</b>		<b>2.3</b>	<b>2.6</b>

Note: For comparability with the previous assessment, the new sub-dimension (6.4) has not been scored but is discussed in the text below.

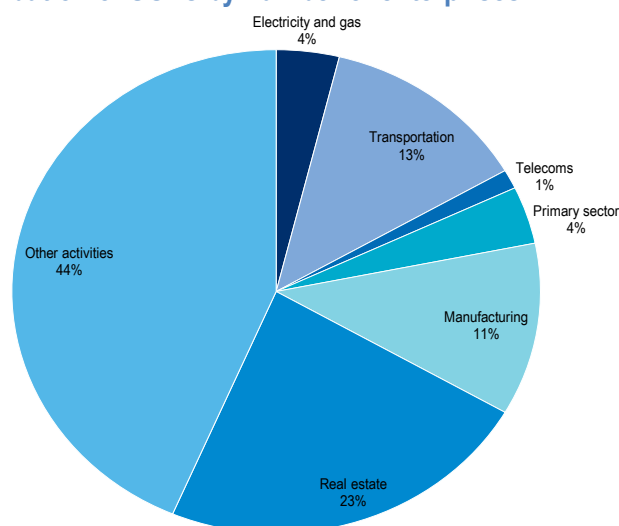
### State of play and key developments

#### *Sub-dimension 6.1: Efficiency and performance through improved governance*

Albania's state-owned enterprise portfolio consists of approximately 78 SOEs held by the central level of government, and an additional 73 companies – mainly water supply and sewage companies and local football clubs – owned by municipalities.<sup>46</sup> Of the 78 SOEs held by the central government (the focus of this assessment), 36 are under the sole purview of the Ministry of Finance and Economy. The remaining 42 are overseen by sectoral line ministries, including the Ministry of Energy and Infrastructure which oversees Albania's four economically important state-owned energy companies as well as the state railway company; and the Ministry of Culture, which oversees Alba Films. While the Ministry of Finance and Economy, in undertaking its state budgetary role, is legally responsible for state ownership rights in all SOEs, the administration of 42 SOEs is in practice delegated to line ministries. Some ownership decisions, notably board nominations, in these 42 SOEs are subject to some degree of inter-ministerial co-ordination. By international comparison, the number of SOEs in Albania is overstated, since it includes about 30 entities that are either public agencies, or entities such as universities and hospitals, that in many other countries would not be corporatised and simply operate as entities of the general government. The Albanian state also holds minority shares in 28 companies.

Concerning their sectoral distribution, central government SOEs in Albania are particularly concentrated in transportation (25% of all SOEs by employment and 13% by number of enterprises), electricity and gas (39% by employment and 4% by number of enterprises) and the primary sector (9% by employment and 4% by number of enterprises) (Figure 20.12 and Figure 20.13). The state also owns several real estate and manufacturing companies, accounting, respectively, for 23% and 11% of all SOEs. At the sub-national level of government, 58 of Albania's 73 municipal SOEs are water supply and sewage companies, while the remaining 15 are local football clubs wholly owned by municipal governments. Additionally, municipal governments hold minority shares in 12 football clubs that are majority owned by private investors.

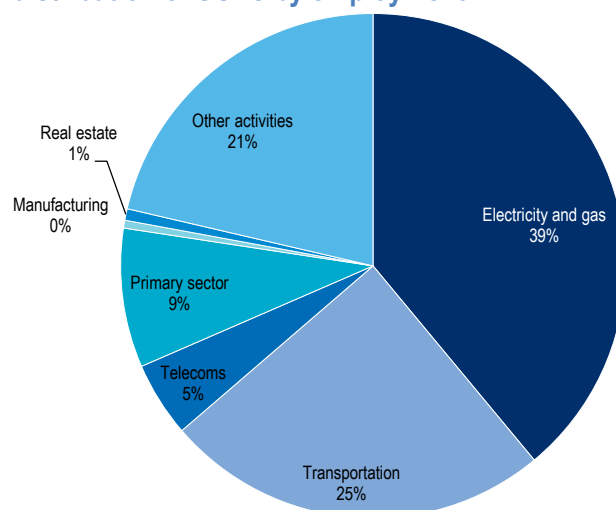
**Figure 20.12. Sectoral distribution of SOEs by number of enterprises**



Note: The relatively large proportion of "other activities" SOEs comprises enterprises operating in the following sectors: accommodation and food services; professional, scientific and technical activities; administrative and support services; public administration and defence; education; and arts, entertainment and recreation.

Source: Calculations based on figures provided by the Albanian authorities concerning enterprises majority or fully owned by the central level of government.

**Figure 20.13. Sectoral distribution of SOEs by employment**



Source: Calculations based on figures provided by the Albanian authorities concerning enterprises majority or fully owned by the central level of government.

Some illustrative examples of individual SOEs operating in Albania include, in the primary sector: the petroleum production company *Alb Petrol*; in the electricity and gas sector: Electricity Corporation of



Albania (ECA), Electricity Distributor of Albania (EDA), Transmission System Operator (TSO) and the gas transmission company Albga; in the transportation sector: Albanian Railways, Albanian Post, Albanian Air and the Airport “Mother Theresa” Tirana, as well as a few port operator companies. Some less commercially important SOEs (some of which are either not operational or are undergoing prolonged liquidation procedures) also include, in the primary sector: the copper ore extraction company *Alb Copper Tiranë* and the chromium ore extraction company *Alb Chrom Tiranë*, and in the manufacturing sector: the wooden furniture manufacturing company Furniture Manufacture Tirana and Tobacco Producer of Albania located in the city of Shkodër.<sup>47</sup> While many of Albania’s sectors have been liberalised since the early 1990s, SOEs remain dominant in the energy sector: approximately three-quarters of national electricity consumption is provided by SOEs (European Commission, 2019<sup>[79]</sup>). Concerning SOEs’ general economic importance, central government SOEs account for an estimated 1.6% of total national employment.<sup>48</sup> A 2019 IMF report estimated that SOEs at all levels of government account for between 6 and 7% of total national employment (IMF, 2019<sup>[80]</sup>).<sup>49</sup>

The Albanian authorities do not gather aggregate financial performance data on SOEs, making it difficult to draw general conclusions about their efficiency. However, a 2019 review of the 36 SOEs under the Ministry of Finance and Economy’s purview undertaken by a government working group, found that of the 36 SOEs in the ministry’s portfolio, 12 enterprises no longer pursued activities in accordance with their original objectives and 8 were in the process of being liquidated (European Commission, 2019<sup>[79]</sup>). The Albanian authorities also indicated that several SOEs were “inactive”. This points to significant structural issues and inefficiencies in the state’s SOE portfolio. As mentioned earlier, the state also holds minority shares in 28 companies, often pointing to failed or stalled privatisations for which the rationale for continued state ownership is not clear. Investments in the state-owned energy sector have historically been insufficient and efforts to liberalise the sector have not been entirely successful (European Commission, 2019<sup>[79]</sup>).

Concerning the **clarification of ownership policy and rationales**, the Albanian authorities have not developed an overarching state ownership policy defining the objectives of state ownership or describing how ministries should exercise their shareholding function. Line ministries do have policies concerning the functioning of the SOEs under their remit, but these policies do not clearly stipulate the basic rationales for maintaining enterprises in public ownership or what the state expects in terms of the performance of the enterprises in its portfolio. In the absence of clearly expressed reasons and objectives for state ownership, ownership practices inevitably vary across the public administration. Additionally, the authorities report that the objectives of individual SOEs are decided upon by their general managers, subject to approval by responsible line ministries, which, in the absence of overarching guidelines, points to an ad hoc system of objective-setting with an unclear division of responsibilities between the state as owner, SOE boards and management. The Albanian authorities reported, in the context of this assessment, that the rationales for state ownership include: supporting national economic and strategic interests; ensuring continued national ownership of enterprises; supplying specific public goods or services; and supporting social objectives. There is, however, no evidence that these rationales are clearly set out in a policy or legislative document. The possibility that “social objectives” include activities that are not necessarily in the interest of corporate efficiency, or even in the public interest, introduces some risk of SOE under-performance.

In the context of its predominantly decentralised ownership arrangements, Albania has not established a co-ordinating body to **professionalise state ownership** practices and introduce consistency across ownership ministries. In many cases the division of responsibilities for state ownership decisions is not clear in the applicable legislation. Under the Law on the Corporatisation of State Enterprises, the Council of Ministers is accorded certain explicit decision-making responsibilities concerning SOEs, such as defining board remuneration and approving SOEs’ articles of association, as well as the possibility to reassign its responsibilities to line ministries. The law further establishes that the Ministry of Finance and Economy is primarily responsible for exercising the state’s ownership rights in SOEs and that sectoral line ministries are granted “administrative” roles, but there is no clear overview of how these arrangements should

translate into practice and the Albanian authorities report that the law does not sufficiently define the differences between the two roles (ownership and administrative roles).

There are nonetheless some elements in place to introduce a degree of harmonisation in certain ownership decisions, for example the fact that the Ministry of Finance and Economy nominates one-third of board members of SOEs that are under the administrative purview of other ministries, who nominate the remaining two-thirds. Decisions by the Council of Ministers, for example concerning the composition of SOE boards, also introduce some consistency in ownership decisions. Finally, a concern that is usually associated with decentralised ownership arrangements – namely, an insufficient separation of ownership and regulatory roles – is partly remediated by the fact that ownership ministries have established SOE monitoring units that are separate from their sectoral policy-making units. This helps clarify institutional division of functions.

Albania has taken some basic initial steps to establish a **board nomination framework**, notably through the aforementioned Council of Ministers' decision on the composition and competencies of SOE boards of directors. This policy document establishes that all SOEs must have boards of directors – with six members for strategic SOEs and three members for non-strategic, small and medium-sized SOEs – and accords line ministries and the Ministry of Finance and Economy shared responsibilities for nominating their members. However, there is limited evidence that the process relies on transparent and merit-based appointment criteria, leading to a high risk of political influence in appointing board members.

Albania has not taken any significant measures to **promote independent and professional boards** in SOEs. In general, SOEs are perceived to operate as arms of their ownership ministries, who exercise a strong role in company oversight, despite the fact that the company law accords boards authority over certain corporate decision making. In practice, SOE boards are often staffed by public officials, which include in some cases politically affiliated individuals such as vice-ministers or advisors to ministers, introducing the risk that corporate decision making is influenced by political concerns. Experts interviewed for this assessment indicated that remuneration for SOE board service (which can reach up to four times that of a civil servant salary) can make multiple board positions attractive for civil servants and that, in some cases, public officials serve on many SOE boards. This could make it difficult for these board members to devote sufficient time to their board duties. SOE board and management positions are often perceived to be accorded to individuals based on their personal and/or political affiliations, rather than their professional qualifications.<sup>50</sup> Together, these factors contribute to the perception that SOE boards in Albania do not have sufficient political independence or professional qualifications to adequately fulfill their corporate board duties.

Concerning the legal framework for boards, many supervisory board decisions must subsequently be approved by the General Assembly (i.e. the state shareholder), meaning that boards do not really fulfill the standard role of corporate decision-making entities, at least when compared to stock-exchange listed companies. On the contrary, supervisory boards mainly exist to ensure that decisions of the General Assembly are properly implemented by SOE management. All SOE boards in Albania are two-tier structures: the top-tier supervisory board (comprising only non-executive members) and the lower tier administrative board, which in SOEs is usually composed of a single person “administrator”. Concerning board member duties and liabilities, the company law, which is applicable to SOEs by virtue of their status as joint-stock or limited liability companies, does establish that board members must act in good faith in the interest of the enterprise and are liable for any damages to the company resulting from not performing their fiduciary duties. This constitutes sound basic legislation to ensure that board members act in the best interest of the enterprises that they oversee. However, there are no requirements for SOE boards of directors to include independent (outside) or non-executive directors, which introduces the risk that SOE board members may have material interests in the company or related entities that could introduce conflicts of interest and jeopardise their ability to make independent judgements in the interest of the enterprise. The Albanian authorities have not taken steps to encourage gender diversity on SOE boards of directors, reflecting broader limitations in the required professional qualifications of SOE board members.

### *Sub-dimension 6.2: Transparency and accountability practices*

Concerning **financial and non-financial reporting**, SOEs are, like all companies, required to submit annual financial statements to the National Registration Centre, which subsequently publishes them. It appears that at least most large SOEs comply with this requirement, but a conclusive assessment would require a more in-depth review. There are no parallel requirements concerning non-financial reporting. As an EU candidate, Albania will be expected to ensure that all large companies, including large SOEs, are required to publish non-financial information on their policies for environmental impact, employee relations, human rights, anti-corruption and bribery and board diversity (under EU Directive 2014/95/EU). Given that several of Albania's large SOEs undertake activities in the public interest, improved disclosure on the nature and funding arrangements of these non-commercial activities is warranted. Currently the state does not produce an annual report on the performance of the SOE sector as a whole or how well SOEs perform the activities that they undertake in the public interest. Just as financial reports are a crucial source of information that shareholders in listed companies need to make ownership decisions, transparency regarding SOEs' public policy activities is important for the public to understand what SOEs are doing in their interest.

Concerning **auditing practices**, all SOEs (i.e. all enterprises in which the state holds at least 51% of shares) are required to have their financial statements audited by an external auditor, in line with good practice. Companies in which the state is a minority shareholder only undergo external audits of financial statements if they exceed a certain size threshold (determined by a mixture of criteria related to their asset valuation, net income and number of employees).<sup>51</sup> Several large SOEs regularly have their financial statements audited by large international audit firms, which suggests a certain quality and credibility of their audit reports.<sup>52</sup> The state as shareholder is responsible for appointing external auditors, in line with standard corporate practices. SOEs are additionally required to establish internal audit committees, but the authorities report that compliance is low. Separately, the Supreme State Audit body also audits some SOEs' financial statements, in particular large SOEs of strategic national importance. The authorities report that the audits undertaken by the Supreme State Audit body focus primarily on ensuring that the activity of each company conforms with relevant legislation, whereas the audits performed by external auditors focus on ensuring that the financial statements have been prepared in accordance with applicable accounting standards. In sum, SOEs are subject to different types of audits at four levels: internal audits by departments within each enterprise (departments which are required for all SOEs, but are reportedly not always established); ministerial audits conducted by the internal audit departments of ownership ministries; audits by the Supreme State Audit body; and external audits of SOEs' financial statements.

Only three of Albania's SOEs have non-state minority shareholders, none of which are listed, since the public stock exchange was shut down in 2014.<sup>53</sup> There are sound basic laws in place to ensure the **protection of minority shareholders** – i.e. basic provisions calling for shareholders' equitable treatment – and no recent publicly reported cases of abuse of minority shareholder rights in favour of the state. Still, it is possible that weaknesses in the judicial system, which are common across the region, could make it more difficult for minority shareholders to obtain redress if their rights have been violated. And good practice calls for the state to take targeted measures, beyond just legal protections, to ensure that minority shareholders are actively involved in corporate decision making so that their interests are consistently taken into account. The SOEs with non-state minority shareholders are as follows: Alb Kontroll Durrës, which undertakes quality control for import-export goods (97% state-owned), the Share Registration Centre of Albania (SRC) Tiranë, which maintains national shareholder account data (84.94%) and the tobacco and cigarette manufacturing company Tobacco Producer of Albania, Shkodër (89.65%).<sup>54</sup> The Albanian state is itself a minority shareholder in 28 companies, most of which were originally slated for privatisations that have since been delayed (the authorities intend to privatise these companies in the medium term). It is possible that these companies would in fact be considered SOEs, if the state holds the highest concentration of shares and thus exercises control over corporate decision making, but more information on the shareholding structure of these companies would be necessary to draw a conclusion about this.

### *Sub-dimension 6.3: Ensuring a level playing field*

According to data provided by the Albanian authorities, all SOEs are incorporated following the company law (as either joint-stock or limited-liability companies) and face broadly the same **legal and regulatory treatment** as their private competitors. The Albanian company law was adopted in 2008 to align national legislation with the EU *acquis*. The Law on Corporatisation of State Enterprises, adopted in 1995 and subsequently amended, also applies to SOEs but is reportedly subsidiary to the company law. It sets out complementary requirements concerning, for example, the capital of SOEs, their statutes and their boards of directors. The authorities report that SOEs do not benefit from any exemptions from tax, competition, environmental or zoning rules. Nonetheless, a 2019 IMF study found that Albania was one of eight countries that reported granting some legal preferences to SOEs, indicating that SOEs may still benefit from some operational advantages owing to their state ownership (IMF, 2019<sup>[80]</sup>). As an example of regulatory issues associated with state ownership in certain sectors, the state-owned oil company Alb Petrol has been the subject of some criticism owing to its simultaneous role as a market player and as a regulatory authority with responsibility for granting oil-extraction licenses in some of Albania's oil fields.<sup>55</sup>

Concerning **access to finance**, Albania's large SOEs often obtain debt financing on the commercial marketplace, with a strong possibility of receiving favourable terms owing to their state ownership. In the context of the COVID-19 crisis, an explicit state guarantee was issued to large SOEs to allow them to access bank credit at a fixed rate of 2.85% for the purpose of maintaining employment levels. Beyond the conditions for commercial debt financing, there are some broader issues related to funding support from the state. Firstly, the existence of several insolvent SOEs under the MOFE indicates that many SOEs do not earn economically significant rates of return, which amounts to a cost of equity capital that is not market consistent. The economic downturn associated with the COVID-19 pandemic has exacerbated existing profitability problems for SOEs. The authorities report that the majority of SOEs posted losses in 2020 and will therefore not distribute dividends to the state. Many SOEs also benefit from state subsidies from their responsible line ministries. In the absence of evidence from the authorities that the amount of these state subsidies corresponds to the approximate cost of SOEs' public policy (non-commercial) objectives, it can be concluded that subsidies may constitute a distortion to the level playing field with private competitors, by granting SOEs operational funding advantages. Even if subsidies are merely keeping low-performing SOEs from going insolvent (rather than fuelling market expansion), in this context they would still constitute an inefficient use of economic resources that is not conducive to improving the performance of SOEs. Clarifying the costs of SOEs' non-commercial objectives, and ensuring that state subsidies correspond to these costs, would be important to ensure that SOEs do not hinder the efficient allocation of resources.

### *Sub-dimension 6.4: Reforming and privatising state-owned enterprises*

**Recent SOE reform** initiatives in Albania have mostly consisted of efforts to assess and restructure insolvent SOEs. In 2019, the Ministry of Finance and Economy notably assessed all the SOEs under its remit and made the decision to merge eight insolvent companies with other SOEs. One of the reported rationales for merging these insolvent companies with solvent SOEs was to avoid the costs associated with bankruptcy and liquidation, pointing to broader issues regarding the efficiency of insolvency procedures in Albania. Separately, the Ministry of Finance and Economy formally proposed to the Council of Ministers the establishment of a central Agency for Public Property Administration, but the proposal was ultimately not approved by the government. If such an institution were established and granted ownership rights for Albania's largest SOEs, it could provide a sound institutional foundation for further professionalising state ownership practices and improving the performance of SOEs. At the current juncture, however, there does not appear to be a consensus within the government on the need to establish such an entity.

The legislative framework for **privatisation** in Albania includes two foundational laws: on the privatisation of SOEs operating in strategic sectors and on the privatisation of SOEs operating in non-strategic sectors.

These laws are complemented by several formal published decisions by the Council of Ministers outlining, among others, the institutional responsibilities and procedures for privatisation. Albania has established a special process, involving heightened inter-governmental oversight, for privatisation cases involving SOEs of strategic importance. The process involves the establishment of a Consultation and Transparency Committee, comprising representatives of several departments within the Ministry of Finance and Economy to ensure that the privatisation procedures established by law are respected; make recommendations regarding the legislative, fiscal or economic situation to support the success of planned privatisations; and propose a schedule for privatisations to the Council of Ministers' Committee on Economic Policies.<sup>56</sup> For the privatisation of individual shareholdings in companies, the Ministry of Finance and Economy is primarily responsible for related procedures.

Concerning recent privatisations, in 2016, the previously 100% state-owned insurance company INSIG was fully privatised and the state's remaining 30% shareholding in the construction company *Euroteorema Peqin* was relinquished to private investors. An earlier privatisation of the economy's energy distribution network operator was reversed sometime after 2013. (In 2009 the state sold 76% of its shares in the Electricity Distributor of Albania (EDA) to the Czech majority state-owned company ČEZ, with the aim of boosting needed investments in the electricity distribution system. In 2013, the Albanian state removed ČEZ's license to operate in the economy and ultimately retook ownership of the power distribution company, which is currently under the purview of the Ministry of Infrastructure and Energy.) At the time of writing, the Ministry of Finance and Economy did not have any short-term plans to privatise any of the SOEs or minority shareholdings in its portfolio. However, the authorities did report an expectation that the 28 companies in which the state holds minority shares would eventually be privatised in the medium term. At the time of writing, a proposal by the Ministry of Culture to privatise the state-owned Alba Films was under consideration by the Council of Ministers.

### ***The way forward for state-owned enterprises***

As for most economies in the Western Balkans, ensuring that SOEs in Albania operate efficiently, transparently and on a level playing field with private companies will necessitate reforms in multiple policy areas that cannot be done all at once. Choosing the appropriate sequencing of reforms is just as important as their content and depends in large part on the national political climate and current reform priorities.

This being said, the OECD Guidelines on Corporate Governance of State-Owned Enterprises provide a guidepost for reforms that the Albanian authorities can use to inform their policy efforts in this domain (OECD, 2015<sup>[81]</sup>). Based on the state of play of SOE policy development in Albania, the following priority reform areas – which are in line with the OECD SOE Guidelines – could offer a basis for discussions with the authorities:

- **Strengthen the institutional arrangements for state ownership.** Albania has already taken some steps to separate SOE ownership and regulatory functions, by placing a large number of SOEs under the sole purview of the Ministry of Finance and Economy (which is not a sectoral regulator) and requiring that the SOE board nomination process for other SOEs involves both the MOFE and sectoral line ministries. The authorities should move forward with the initiative to establish a central state ownership agency – or, if this is not possible, a co-ordination entity – to further harmonise state ownership practices and fully separate ownership and regulatory roles. The state ownership or co-ordination entity could be charged with developing an overarching ownership policy, gathering performance and other data on Albanian SOEs and establishing clearly defined performance indicators for SOEs.
- **Increase the independence and operational autonomy of SOE boards of directors.** The presence of politically affiliated individuals on Albanian SOE boards points to a boardroom culture in which decision making is strongly linked to political goals rather than corporate efficiency. The absence of clear performance expectations from the state as an owner exacerbates this potential for politicisation.

As a first step, the authorities should establish SOE board membership criteria that minimise these and other conflicts of interest and ensure that SOE boards are staffed with a sufficient number of qualified professionals. The experience of some OECD countries in establishing inter-ministerial board nomination committees, and involving private recruitment agencies in the process, may be useful for the Albanian authorities.

- **Improve SOEs' efficiency so that they create economic value alongside private companies.** This assessment has highlighted that many SOEs in Albania do not earn economically significant rates of return, meaning that economic resources are not channelled to the economy's most productive actors. When SOEs operate efficiently and on a level playing field with private companies, they create value to the ultimate benefit of the general public, who are the "owners" of SOEs. The Albanian authorities should consider structural reforms within the most economically important SOEs to improve their productivity. Also related to broader market efficiency, the authorities should address any barriers to effective competition in markets where SOEs compete with private companies. Related issues appear to be particularly acute in the electricity sector, where the development of a competitive market is apparently hindered by preferential access contracts granted to state-owned electricity suppliers.<sup>57</sup> The Albanian authorities should move forward with removing barriers to market liberalisation in sectors where the establishment of a competitive market is a stated policy goal, with a view to maximising economic efficiency to the benefit of end consumers.
- **Gather and publish financial performance data on SOEs.** Differing figures regarding the total number of SOEs in Albania, as reported by both the national authorities and by external assessments, point to the need for a clear central overview of how many companies the government owns, including an indication of which companies are "active" and which are insolvent and/or undergoing bankruptcy proceedings. Such a central overview of SOEs could be enriched with employment figures, as well as financial performance data to provide the authorities with a clear understanding of how the SOE portfolio is performing. A mechanism is already in place to ensure the submission of SOEs' financial statements to a central authority (the National Registration Centre), which could provide the data necessary to calculate financial performance figures. Information on SOEs' performance could ultimately provide a point of departure for developing performance indicators (e.g. rate-of-return expectations) that are applicable to individual SOEs and benchmarked against industry standards. Lithuania's state ownership co-ordination body publishes financial performance data on SOEs, and could provide useful inspiration for the Albanian authorities (see Box 20.9). In cases where information for individual SOEs is insufficient, the authorities could develop targeted measures to improve SOEs' compliance with existent reporting requirements.

### Box 20.9. Gathering performance data on state-owned enterprises in Lithuania

Lithuania's Governance Co-ordination Centre (GCC) is a state ownership monitoring and co-ordinating entity which takes the lead in developing annual reports on the performance of the state's SOE portfolio. It also calculates three-year targets for the state's rate-of-return expectations for individual SOEs and comments on SOEs' yearly strategy documents. The annual aggregate report produced by the GCC notably includes the following financial performance data and other quantitative information on SOEs:

- Aggregate financial information on the entire SOE portfolio, including a profit-loss statement and a balance sheet.
- Market value of the state portfolio and explanations of changes compared to previous periods.
- Price-to-earnings ratios for SOEs with shares listed on the stock exchange, with comparisons to foreign industry peers.
- Portfolio returns to the state, including value of dividends, value of taxes and rates of return on both assets and equity.
- Information on SOEs' capital structure: debt-to-equity ratios for the portfolio and for individual SOEs.
- Number of employees overall and per sector, with year-on-year comparisons.
- Detailed related figures on large individual SOEs, together with explanations for significant changes.

Note: This overview is based on the 2017 annual aggregate report. More recent reports are also available, but only in Lithuanian.

Source: (VKC, 2018<sup>[82]</sup>), *State-Owned Enterprises in Lithuania: Annual Report 2017*, [https://governance.lt/wp-content/uploads/2018/09/SOE\\_Report\\_2018\\_EN\\_WEB.pdf](https://governance.lt/wp-content/uploads/2018/09/SOE_Report_2018_EN_WEB.pdf).



## Education policy (Dimension 7)

### Introduction

Table 20.11 shows Albania's scores for the four education policy sub-dimensions and the cross-cutting dimension on system governance, and compares them to the Western Balkan six (WB6) average. Albania scores above the WB6 average in all sub-dimensions. Indeed it has the highest score of the WB6 economies for the early childhood and school sub-dimension, driven by its above-average ratings for each of the sub-dimension's three indicators. Likewise it scores joint highest (along with North Macedonia) for the tertiary education sub-dimension.

**Table 20.11. Albania's scores for education policy**

Dimension	Sub-dimension	Score	WB6 average
<b>Education policy dimension</b>	Sub-dimension 7.1: Early childhood and school education	3.3	3.0
	Sub-dimension 7.2: Teachers	3.5	2.7
	Sub-dimension 7.3: Vocational education and training	3.3	3.1
	Sub-dimension 7.4: Tertiary education	3.0	2.8
	Cross-cutting dimension: System governance	3.5	3.3
<b>Albania's overall score</b>		<b>3.3</b>	<b>3.0</b>

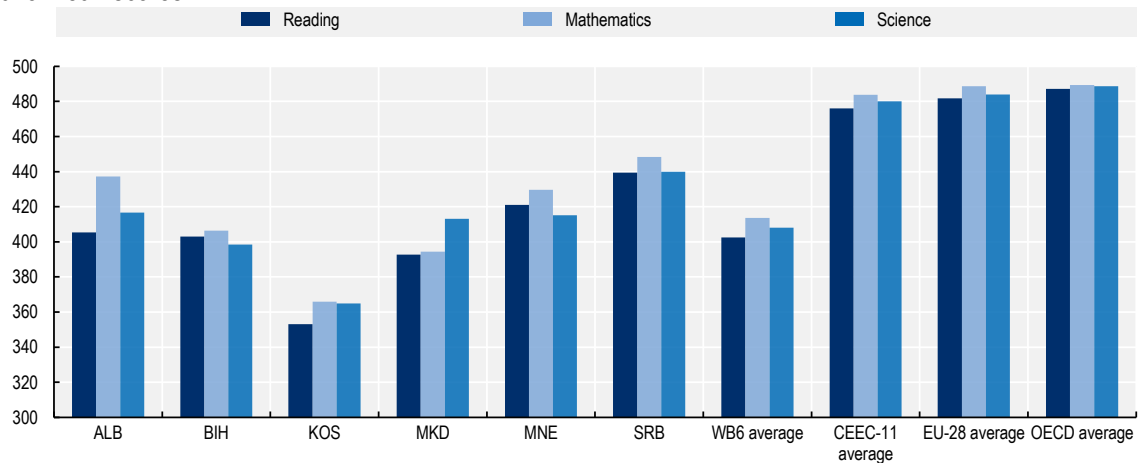
### State of play and key developments

Since the last CO assessment, Albania has implemented its competency-based curriculum across all grade levels, developed an assessment framework for pre-school education that aligns with contemporary child development theories and created a manual for monitoring children at risk of school dropout. As of 2019, net enrolment in Albania was nearly universal for primary (98%) and lower secondary (96%) education. However, net enrolment at the upper secondary level was only 82%, lower than the OECD and EU averages (UIS, 2020<sup>[83]</sup>).

In terms of learning outcomes, Albania's average scores in the Programme for International Student Assessment (PISA) are slightly above the Western Balkan average but much lower than the EU and OECD averages (Figure 20.14). Albania also has a large share of students who have not achieved baseline levels of proficiency in reading (52%) and maths (42%); much higher shares than the OECD average (around 23% and 22% respectively) (OECD, 2020<sup>[84]</sup>). These findings have implications for Albania's long-term economic development, as students without basic skills are less likely to attain well-paid and rewarding jobs. A positive trend is that improvements in the bottom of Albania's PISA performance distribution are outpacing improvements at the top in every subject, closing the gap between the highest and lowest-achieving students. Nevertheless, there is evidence that children in Albania from socio-economically disadvantaged backgrounds, those living in rural areas and those from Roma and Egyptian Balkan communities continue to face barriers to educational access and are more likely to have lower educational outcomes (Maghnouj et al., 2020<sup>[85]</sup>).

**Figure 20.14. Performance in reading, mathematics and science in Western Balkan education systems**

PISA 2018 mean scores



Note: CEEC - Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia.

Source: (OECD, 2020<sup>[84]</sup>), *PISA 2018 Database*, Tables I.B1.4, I.B1.5 and I.B1.6, [www.oecd.org/pisa/data/](http://www.oecd.org/pisa/data/) PISA database.

StatLink  <https://doi.org/10.1787/888934255399>

Albania has experienced major challenges recently that have had important consequences for the education system, as well as the economy and society at large. First, the November 2019 earthquake that struck the north-western part of the country displaced many students who attended one of the 52 damaged schools and kindergartens. Reassigning these students to other education institutions exacerbated issues of overcrowding in urban schools, some of which were already operating on multiple shifts to accommodate demand. Then, similar to countries around the world, Albania closed schools on 9 March 2020 to help slow the spread of COVID-19.

This crisis has delayed several policy developments in Albania, including the finalisation of the new education strategy. However, at the onset of the pandemic, the Ministry of Education, Sports and Youth, with support from international donors, was proactive in rapidly implementing remote learning across the country by broadcasting television and online lessons and providing teachers and schools with digital tools like Google classroom and Zoom to connect with students. A platform – academia.eu – was also created. While in-person instruction started in September 2020, the effects of the COVID crisis have pushed the ministry to emphasise the importance of digital competencies and it is working to develop online teaching methodologies across all levels of instruction. The creation of three learning scenarios, respectively in-presence learning, mixed online and in-presence learning, and full online learning, allows for the government to maintain flexibility in its response as the health situation evolves. Additionally, separate guidelines were created for organising online learning for students in VET (National Agency for Education, Vocational Education and Training of Albania, 2020<sup>[86]</sup>).

There has also been an effort to recruit psycho-social support staff to support student well-being. The government has reported that the number of psycho-social staff has doubled due to the employment of psychologists. To maintain Albania's recent progress in the education sector, enhanced and targeted spending is needed to ensure continuity of learning for all students, especially the most vulnerable (World Bank, 2020<sup>[87]</sup>).

### *Sub-dimension 7.1: Early childhood and school education*

Albania's performance in the **early childhood education (ECE) indicator** is slightly higher than the regional average (Table 20.11). There is a strong strategic and legal framework for the sector and while gross enrolment in pre-primary education (80.5% in 2018) is lower than the OECD (81%) and EU (98%)

averages, it is significantly higher than other Western Balkan economies, which on average have a gross enrolment ratio of around 53% (UIS, 2020<sup>[83]</sup>). However, pre-primary education is not compulsory in Albania and the government has not met targets to raise participation to 90% by 2020 (Wort, Pupovci and Ikonimi, 2019<sup>[88]</sup>). There is also evidence that some children, especially those from ethnic minority groups, continue to face barriers to access (Psacharopoulos, 2017<sup>[89]</sup>). In terms of ECE quality, in 2018 Albania introduced a series of curriculum programmes for different age groups<sup>58</sup> and an assessment framework to help monitor early child learning and development. There are also educational requirements and standards for pre-school teachers and principals; however, attracting quality teaching staff remains a key challenge in some regions (UNESCO, 2017<sup>[90]</sup>). While ECE is not exclusively donor-funded in Albania, donor-led initiatives still play an important role in implementing policy and monitoring and evaluating the sector.

The Albanian **instruction system**<sup>59</sup> rates among one of the highest performers in the region for this indicator. The Pre-University Education Strategy 2014-2020 sets out a vision for education and a series of policy priorities.<sup>60</sup> Since 2019, implementation of the competence-based curriculum has been rolled out to all grade levels and learning standards have been established to serve as a baseline for syllabuses, teacher guides, and other materials that support teaching and learning. These materials are being adapted to respond to new blended and digital learning environments as a result of recent challenges, such as the earthquake in late 2019 and the COVID-19 pandemic. Albania has taken steps to align the curriculum with its national examinations, which respectively certify the completion of basic (in Grade 9) and upper secondary education (in Grade 12), although the latter also serves as a university entrance exam. Both examinations are fit for purpose and Albania continuously works to increase their reliability. Another notable feature of Albania's instructional system is the Assessment of Primary Education Pupils' Achievement (VANAF),<sup>61</sup> which marks the only system-wide learning assessment in the Western Balkans. While the VANAF has the potential to help identify and address achievement gaps and support teachers' classroom assessments, the lack of standardised marking procedures do not support system monitoring and comparisons (Maghnouj et al., 2020<sup>[85]</sup>).

Albania established its school evaluation framework in 2011, setting out school quality standards that cover teaching and learning, in addition to serving as the main reference for external and internal school evaluation. However, the State Inspectorate of Education was dissolved in 2019 and Regional Directorates of Education now have responsibilities for school evaluation. The goal of this reform was to conduct more school evaluations and provide improvement-focused support to schools. As a result, Albania no longer has a single body with a mandate to assure the integrity of external school evaluations – a common feature in many European education systems (Maghnouj et al., 2020<sup>[85]</sup>). Nevertheless, the school system has seen many positive developments over the last two years. In particular, the ministry's Quality Assurance Agency is now reviewing the School Performance Card (a set of indicators used to rank individual schools) to ensure this data reflects contextual factors and is relevant to instructional quality. Another positive development is the establishment of the Centre for School Leadership<sup>62</sup>, which aims to support the preparation and professional development of school leaders. These types of initiatives are likely to further Albania's progress in strengthening its instructional system.

The **early school leaving** rate in Albania has declined over the last decade, but at over 16% in 2019, remains higher than the Western Balkan (8.5%) and EU average (10.2%) (Eurostat, 2019<sup>[91]</sup>). The Ministry of Education, Sports and Youth has identified several factors that contribute to Albania's high rates of school abandonment, which often start earlier in the education pipeline. Distance between school and home; pressure to contribute to family income; household obligations (e.g. caring for children and elders, etc.); early marriage; and factors such as disability, ethnicity, migration and poverty are all associated with school dropout (MoESY, 2017<sup>[92]</sup>). While Albania's Pre-University Education Strategy 2014-2020 calls for a specific strategy to deal with dropout and early school leaving, this issue is only covered indirectly through policy documents, such as the National Action Plan for the Integration of Roma and Egyptian Population 2016-2020 and the School as a Community Centre Framework. Without an explicit strategy on early school leaving or dropout and accompanying budget allocations, Albania may struggle to further reduce its share

of early school leavers. Nevertheless, donor agencies have helped develop indicators and collect data to better monitor students at risk of early school leaving and in July 2019, Albania published a manual for monitoring children outside education institutions and at risk of school dropout with support from UNICEF.

### *Sub-dimension 7.2: Teachers*

Albania's score for the sub-dimension on teachers is above the Western Balkan average (Table 20.11), largely because of the economy's high standards for entering the teaching profession and clear regulations on the professional management and development of teachers. All primary and secondary school teachers are required to have a master's degree at International Standard Classification of Education (ISCED) level 7; however, national data suggest that only 79% of teachers had attained this level of education as of 2019. Over the last ten years, teachers in Albania have benefitted from salary increases and average salaries are comparable to other public sector professionals (Council of Ministers, 2017<sup>[93]</sup>). In 2019, the average annual gross salary of a full-time public school teacher (ISCED 1-3) in Albania was slightly over EUR 6 000. This average is lower than most European countries (European Commission/EACEA/Eurydice, 2019<sup>[94]</sup>).

While Albania has a general accreditation process for higher education institutions, there are no programme-specific accreditation criteria for **initial teacher education (ITE)**. As a result, ITE providers do not have to demonstrate how their programmes help candidates develop the specific competencies needed to teach. However, Albania has taken several steps to ensure the most qualified students enter the teaching profession. For example, ITE candidates must have a minimum grade point average of 7.5, which gradually increased between 2018 and 2020. Candidates must also complete a nine-month teaching internship, pass a state examination and take a separate recruitment test before they can start working in schools. In 2019, Albania also introduced an online portal<sup>63</sup> to manage teacher recruitment nationally. However, there is a general oversupply of teachers, as well as shortages in some specific subjects and regions, especially in rural parts of the country (European Commission, 2018<sup>[95]</sup>). While Albania has tried to attract teachers to work in rural areas (by offering a transportation bonus), declines in the student population and other demographic changes will likely require a more comprehensive and proactive approach to teacher recruitment policies (Maghnouj et al., 2020<sup>[85]</sup>).

Albania has a clear regulatory framework for the **professional management and development** of teachers. A specific institution, the Commission for Accreditation of Training Programmes, is responsible for accrediting programmes. And the Agency for the Assurance of Quality in Pre-University Education studies teacher professional development needs using a range of sources, such as teacher self-assessment surveys, appraisals conducted by schools and external experts, results from teacher qualification tests and student results in assessments and exams. Teachers benefit from established professional learning networks and the state budgets pay for professional development activities; however, partnerships with donor agencies supplement delivery. There are three categories of teachers in Albania (qualified, specialist and master), which align with years of work experience and salary increases. Importantly, teachers at different qualification categories are not expected to demonstrate different levels of competency, as teachers' standards are not differentiated by competency level, unlike a growing number of OECD countries.

### *Sub-dimension 7.3: Vocational education and training*

Albania's score in the sub-dimension on vocational education and training (VET) is on par with the Western Balkan average (Table 20.11). Professionally oriented education starts at the upper secondary level, when students are allocated into either general (gymnasium), vocationally oriented programmes. While students in Grade 9 take the National Basic Education Examination to certify their completion of compulsory education, unlike most economies in the region, results from this exam are not typically used to sort students into an upper secondary track because most attend gymnasium<sup>64</sup> (Maghnouj et al., 2020<sup>[85]</sup>). Moreover, while data from PISA find that vocational students tend to have weaker literacy and numeracy

skills than their peers in general education, Albania has the narrowest learning gap in the region between general and VET education programmes (25 score points) (OECD, 2020<sup>[84]</sup>).

Responsibility for the **governance of VET** in Albania is centralised in the Ministry of Finance and Economy and, which oversees a state-funded system composed of two types of providers: vocational schools (for young people) and vocational training centres (mainly for adults). The ministry works with several government agencies to manage the VET sector, such as the National Agency for Employment and Skills and the National Agency of Vocational Education Training and Qualifications. Policy coherence at the central level is ensured by the National VET Council and a wide range of stakeholders can engage in the sector's development through regional governing committees and steering committees within VET institutions. Despite efforts to involve social partners, there is evidence that Albania's VET system remains traditionally classroom-based and struggles to respond to local needs, contributing to a mismatch between skills supply and demand (UNDP, 2018<sup>[96]</sup>). Albania's National Employment and Skills Strategy 2019-22 sets out clear implementation plans, budgets and timelines for offering quality VET to youth and adults. The 2017 Law on VET regulates the sector and aims to modernise qualification standards and framework curricula for VET programmes. However, there is evidence that implementation has been limited since providers often lack appropriate teaching skills and equipment (European Commission, 2020<sup>[19]</sup>).

Despite the challenges in modernising the overall VET system, Albania has given a new impetus to promoting **work-based learning** (WBL) in recent years, largely driven by a donor-led roadmap for a dual VET scheme (Eurydice, 2021<sup>[97]</sup>). There are also broad public awareness campaigns, presentations to social partners and dedicated career placement services that help match learners with WBL places. A range of data, such as rates of enrolment and completion of VET programmes and the number of learners who are hired after WBL placements, is collected to further support the sector's development and inform career paths. However, there is no official incentive scheme to encourage employer participation in WBL; nor is there information on the earning outcomes of recent graduates. Moreover, the government reports that engaging businesses to provide internships and WBL places is often a challenge.

#### *Sub-dimension 7.4: Tertiary education*

Albania's score in the tertiary education sub-dimension is on par with the Western Balkan average (Table 20.11). School life expectancy (from primary education through tertiary education) has increased in recent decades and was similar to the Western Balkan average (around 14 years) in 2018, but still lower than the average in the EU (16.6 years) and OECD (17 years) (UIS, 2020<sup>[83]</sup>). While national data show that the share of adults who have attained some form of tertiary education is on the rise, Albania has the lowest rate (24%) of tertiary-educated young adults (30-34 year-olds) in the Western Balkans (European Commission, 2020<sup>[19]</sup>). Gross enrolments in tertiary education also decreased between 2014 and 2018 (UIS, 2020<sup>[83]</sup>). These findings can be partly explained by migration outflows driven by the pursuit of education and career opportunities abroad (i.e. brain drain), as well as the closure of private universities<sup>65</sup> which reportedly awarded low-quality degrees (Maghnouj et al., 2020<sup>[85]</sup>; European Commission, 2020<sup>[19]</sup>).

There is no overall strategy for tertiary education, although this topic is expected to be included in Albania's future education strategy, which is currently under development. As a result, the sector is regulated by legal frameworks, in particular the 2015 Higher Education Law,<sup>66</sup> and in recent years, the government has been working to develop bylaws. The 2015 law introduced several changes to the higher education system, including greater institutional autonomy for universities, accountability measures and programme diversification to better align with labour market needs (EACEA, 2017<sup>[98]</sup>). The law also led to an increase in tuition fees that sparked widespread student protests in late 2018 (Erebara, 2018<sup>[99]</sup>).

Albania has established transparent processes for selection into higher education,<sup>67</sup> and student loans and scholarships are available<sup>68</sup> to support more **equitable access to higher education**. Moreover, a quota system provides a 50% reduction in tuition fees for students facing economic and social difficulties, such as those with disabilities, the blind, Roma and Balkan-Egyptian minorities and orphans. While access to

higher education for these groups is improving, they are still much less likely to participate in higher education; some evidence suggests that the quota system and other equity measures have not been fully implemented (European Commission, 2020<sup>[19]</sup>).

There have been studies on factors that contribute to higher education participation, and Albania's National Statistics Institute (INSTAT) collects some disaggregated data that can help monitor equity in the tertiary sector.<sup>69</sup> However, the Ministry of Education, Sports and Youth does not analyse this information to identify and address equity issues. Collecting data on the quality and labour market relevance of higher education is the task of individual institutions, which submit annual reports on graduate employment rates to the Ministry of Education, Sports and Youth. However, this information is only based on interviews with a selection of tracked students and there are no centralised definitions. As a result, it is impossible for the government or individuals to rigorously monitor and compare tertiary providers and programmes.

Despite somewhat limited information, Albania meets several of the higher level criteria for the indicator on **labour market relevance of higher education**. For example, there are a number of policies and programmes to promote the internationalisation of students and staff, quality assurance bodies align with the standards and guidelines of the European Higher Education Area, and each higher education institution has an academic senate<sup>70</sup> responsible for developing new study programmes and planning academic and scientific research activities. The 2015 Higher Education Law also considers student employability as a parameter for funding and ranking universities (EACEA, 2017<sup>[98]</sup>). While Albania continues to face high rates of unemployment and large shares of youth who are not in employment, education or training (NEET) compared to EU and OECD averages – see Employment policy (Dimension 8) – these rates have been steadily decreasing in recent years. Public expenditure on tertiary education in Albania as a percentage of GDP (0.68%) was lower than the regional (1.67%), EU (1.12%) and OECD (1.95%) averages in 2017 (UIS, 2020<sup>[83]</sup>). Further improvements will likely require a combination of greater investment in tertiary education, as well as increases in the demand for skills to use the economy's human capital and discourage emigration (especially by youth), which currently hinders competitiveness.

### *Cross-cutting dimension: System governance*

Albania's score for this cross-cutting dimension is similar to the Western Balkan average (Table 20.11), as some system governance features align with the policies and practices found in European and OECD education systems. For example, there is an established national education strategy and a national assessment system that respectively provide a vision for education and monitor student learning outcomes. Albania also has a national qualifications framework that was introduced in 2010. However, the Albanian qualifications framework does not clearly align with the European Qualifications Framework, making it difficult to recognise Albanian's qualifications internationally. To address this issue, the Albanian Ministry of Education, Sports and Youth and the Ministry of Finance and Economy created a joint task force in 2015 to align the two frameworks with support from the European Training Fund. The task force was expected to complete its mandate by 2022 but disruptions caused by COVID-19 have delayed progress.

The Albanian Pre-University Education Development Strategy 2014-20 sets out policy objectives to improve the governance, inclusion, quality assurance and teacher professional development in the pre-tertiary sector. This strategy does not cover higher education or VET, although the latter is addressed by the National Employment and Skills Strategy 2019-22. Albania developed the pre-university education strategy in consultation with a range of stakeholders and the document includes an implementation plan outlining the main activities, expected outcomes and timelines. However, an external evaluation of the strategy<sup>71</sup> found a 43% gap between the planned education budget in 2019 and what was approved (Wort, Pupovci and Ikonimi, 2019<sup>[88]</sup>). Considering that government expenditure on education as a share of GDP in Albania (3.6%) is much lower than the OECD (5.2) and EU (4.9%) averages, it is crucial that the country's next education strategy establishes a realistic budget to use available resources most effectively (UIS,

2020<sup>[83]</sup>). Prioritising investments will be especially important given that the draft education strategy plans to cover the whole education sector, from ECE through to tertiary.

Albania collects information on the education system's inputs, outputs and outcomes. In particular, data on student learning outcomes is collected through regular participation in international assessments and the Assessment of Primary Education Pupils' Achievement (VANAF), which is currently the only fully operational national assessment in the Western Balkans. The majority of EU and OECD countries already administer some sort of national assessment to monitor student learning (OECD, 2013<sup>[100]</sup>). Albania is also developing a new education management information system (EMIS), which is a positive development for system governance since administrative data and information on student results and the VET sector were all previously stored in separate databases (Maghnouj et al., 2020<sup>[85]</sup>).

### ***The way forward for education policy***

In today's increasingly global and fast-changing world, achieving inclusive and quality education in Albania can help increase regional competitiveness and create opportunities for more individuals to develop the competencies needed for sustainable development and social cohesion. Albanian officials will need to reflect on the economy's political, social and fiscal environment to determine how best to achieve their education goals. While the 2020 OECD review on evaluation and assessment in Albania's education system (Maghnouj et al., 2020<sup>[85]</sup>) provides detailed recommendations on how to strengthen the equity and quality of the education sector, the following considerations in particular can provide insights for discussions on the way forward:

- **Develop Albania's new education strategy with a clear set of priorities and a strong monitoring framework.** The development of Albania's next education strategy will cover a critical period for national development and potential accession to the EU, highlighting the importance of directing the education sector towards supporting more students to achieve good and excellent outcomes. It will therefore be important to focus on priorities that are clear and measurable to help mobilise stakeholders across the system. These priorities should be translated into financially viable implementation plans that can be measured through a monitoring framework. For example, Ireland includes specific indicators to measure progress towards national goals for education in its 2018 Action Plan for Education (Department of Education, 2018<sup>[101]</sup>).
- **Conduct forward planning exercises to identify teacher demand.** Albania has taken several steps to make entry into initial teacher education more competitive and collects a range of data on the skills and preferences of teacher candidates as well as teacher vacancies. However, there is still a general oversupply of teachers and shortages in some specific subjects and regions. The ministry should review and refine its teacher forecasting model and labour market data to inform further adjustments to initial teacher entry requirements and quotas. For example, Scotland (United Kingdom) adjusts admissions quotas to initial teacher education on an annual basis to project teacher supply and demand (Maghnouj et al., 2020<sup>[85]</sup>).
- **Ensure integrity in external school evaluation.** Since Albania has dissolved its State Inspectorate of Education as part of the education reform, the ministry should take steps to ensure that evaluators have objectivity and distance from responsibility for a school's performance. One way to do this is to supplement regional evaluation teams with contracted evaluators, a common practice found in OECD and European systems (Box 20.10) (Maghnouj et al., 2020<sup>[85]</sup>).
- **Continue to strengthen the collection and management of data.** Albania has already taken several important steps to modernise the collection and management of education data in recent years and is working to link various databases. These efforts should be continued so the system can more effectively analyse education inputs, processes and outcomes.



**Box 20.10. Contracted school inspectors in Scotland, United Kingdom**

In Scotland (United Kingdom), school inspection teams include:

- full-time inspectors employed by Education Scotland, the central inspection body
- contracted associate assessors (i.e. high-performing principals, deputy principals and local education unit staff) who join inspection teams three times a year
- individuals with diverse backgrounds who are selected and trained for their role.

Source: (European Commission/EACEA/Eurydice, 2019<sup>[94]</sup>), *Assuring Quality in Education: Policies and Approaches to School Evaluation in Europe*, <http://doi.org/10.2797/678> (accessed on 18 November 2019).

## Employment policy (Dimension 8)

### Introduction

Advances have been made in the regulatory framework of the labour market since the last assessment; however, improvements are more limited when it comes to implementing the regulations. The capacities of relevant institutions (in particular labour inspectorates and social partners), as well as co-operation between agencies, need to be strengthened. Progress has been made to strengthen work-based learning in the education and training system and to detect employers' skills needs, but progress in upskilling low-skilled adults and in encouraging continuous training of adults is limited. Progress has been made to modernise public employment services (PES), as well as in the evidence-based design of active labour market programmes, although financial resources remain too low given the scale of labour market challenges. There have been limited improvements in tackling informal employment and overall average wages remain low.

Table 20.12 shows Albania's scores for the employment policy dimension and each of the four sub-dimensions, comparing them to the WB6 average. Albania scores higher than the WB6 average in all four sub-dimensions, thus achieving an above-average score overall. Albania's score is particularly high in the job quality sub-dimension, making it top in the region for this sub-dimension.

**Table 20.12. Albania's scores for employment policy**

Dimension	Sub-dimension	Score	WB6 average
Employment policy dimension	Sub-dimension 8.1: Labour market governance	2.8	2.6
	Sub-dimension 8.2: Skills	2.8	2.2
	Sub-dimension 8.3: Job quality	2.8	2.4
	Sub-dimension 8.4: Activation policies	3.0	2.9
Albania's overall score		<b>2.8</b>	<b>2.6</b>

### State of play and key developments

The activity rate of the population aged 15-64 in Albania has increased by 5.4 percentage points since 2015, to reach 69.6% in 2019. This rate is higher than the WB6 average, but still below the EU average (Table 20.13).<sup>72</sup> Real GDP and employment have grown over the assessment period. The employment rate of the 15-64 age group increased by 8.3 percentage points since 2015 reaching 61.2% in 2019 (INSTAT, 2020<sub>[102]</sub>). Jobs have mostly been created in the service sector and in industry. The activity and employment rates have also increased among those aged 65 and above<sup>73</sup> (INSTAT, 2020<sub>[102]</sub>) (WIIW and World Bank, 2020<sub>[103]</sub>). The employment rate increased from 55.5% in 2015 to 68.3% in 2019 among young adults aged 25-29 (INSTAT, 2020<sub>[102]</sub>) (WIIW and World Bank, 2020<sub>[103]</sub>). The unemployment rate (15-64) has decreased continuously from 2015 to 2019, falling to 12%. This is one of the lowest rates in the region, though still markedly above the EU unemployment rate and the 4.1% average for Bulgaria, Romania, Hungary, Slovenia and Croatia (WIIW and World Bank, 2020<sub>[103]</sub>; INSTAT, 2020<sub>[102]</sub>; Eurostat, n.d.<sub>[104]</sub>).

**Table 20.13. Key labour market indicators for Albania (2015 and 2019)**

	Albania		WB6 average	EU average
	2015	2019	2019	2019
Activity rate (15-64)	64.2%	69.6%	61.0%	74.1%
Employment rate (15-64)	52.9%	61.2%	51.5%	69.3%
Unemployment rate (15-64)	17.5%	12.0%	16.3%	6.4%

Note: WB6 average rates are based on author's own calculations using simple averages.

Source: (INSTAT, n.d.<sub>[105]</sub>), *Statistical Database*, <http://databaza.instat.gov.al/pxweb/en/DST/?rxid=caba46dc-9b6f-4a2a-bf84-02693c7b3076>; (Eurostat, n.d.<sub>[104]</sub>), *Labour Force Survey Database*, <https://ec.europa.eu/eurostat/web/main/data/database>.

As a result of the COVID-19 pandemic, registered unemployment rose by 30% between March and September 2020, with both men and women equally hit. About 32% of registered jobseekers applied for unemployment benefit (formal employment) over this time period. The average monthly number of unemployment benefit recipients during the first nine months of 2020 was 50% higher than in 2019 and the number of unemployed jobseekers that were employed during the period January-October 2020 declined by 22% compared to the same period in 2019. The unemployment risk was significantly higher for the low-skilled; those performing trade, services and elementary occupations; as well as the informally employed. This led to a 19% increase in the number of financial aid recipients between March and September 2020. Linked to their low skills level and presence in the informal economy, the Roma were the most hit by unemployment (+34%), according to administrative data.

During the pandemic the Agency of Employment and Skills handled the registration of new jobseekers as usual and PES offices remained open. However, the agency does not have the capacity to rapidly implement the newly introduced employment incentive measures targeted at dismissed workers and informal workers who lost their jobs due to the pandemic (in this case the formalisation of employment relationship is supported). This points to the urgent need to increase the capacity of the Agency for Employment and Skills. Measures targeted at specific vulnerable groups include transportation subsidies, financial support to single parents for childcare, a 12-month subsidy for employing people with disabilities as well as subsidies for workplace adaptation.

#### *Sub-dimension 8.1: Labour market governance*

In 2017, the Albanian Government took the drastic decision to reduce the number of ministries in the cabinet. After 25 years of existence, the government shut down the Ministry of Labour and Social Welfare without prior consultation with social partners and distributed its work on labour and professional education to the Ministry of Finance and Economy and the social welfare component to the Ministry of Health. This reflects a reduced political commitment to employment and social issues. Capacities for employment policies have been reduced and the need for co-ordination between the two different line ministries lengthens decision-making processes.<sup>74</sup> The National Employment Service was renamed the National Agency for Employment and Skills in 2019 (Council of Ministers, 2019<sub>[106]</sub>). It offers opportunities and aims to fulfill the rights of citizens to gain profitable employment, receive professional counselling and qualifications for any such employment and also receive financial income support through its network of employment offices around the country.

As regards the **regulatory framework**, the Employment and Skills Strategy 2019-2022 is the key policy document for labour market governance. It intends to align the relevant Albanian legislation with the relevant EU Directives. An assessment of legal and institutional gaps is still underway. Most progress so far has been made in aligning occupational health and safety (OHS) regulations.

Improving working conditions is a key challenge. A working conditions survey by Eurofound conducted in 2015 showed that 44% of Albanians were not very or not at all satisfied with their working conditions, while this was the case for only 12% of respondents in the EU (Eurofound, n.d.<sub>[107]</sub>). The results of the working conditions survey conducted in 2020 will shed light on progress on working conditions. Working time is one important element of working conditions. In 2019, half (56.6%) of those employed worked between 40 and 48 hours a week, while 20.4% worked for more than 49 hours a week (INSTAT, 2020<sub>[102]</sub>).<sup>75</sup> In 2018, most occupational accidents occurred in the mining (23%), manufacturing (23%) and construction (15%) sectors. While self-reporting of companies on accidents at work has improved recently – an online reporting and a system of e-inspections was introduced – data are still too poor to get an overview of improvements in working conditions. For example, the reduction of fatal accidents at work could be recorded. Linked to the reduced economic activity in the context of the COVID-19 pandemic, the number of fatal accidents fell by 26% between January and August 2020 compared to the previous year. It remained rather constant between 2016 and 2019.

Self-employment is one of the causes of in-work poverty (Jorgoni, 2019<sup>[108]</sup>). The share of self-employed among the employed increased substantially between 2015 and 2016, but decreased slightly thereafter. In 2018, 34% of all employed were self-employed (32.3% in 2019) – substantially above the WB6 average (23.1% in 2019).<sup>76</sup> Many self-employed people work in the agricultural sector, often in a context of subsistence.<sup>77</sup> There is no evidence of clear regulation of labour rights or social protection of gig workers.

The Employment Promotion Law of 1995 introduced quotas and levies for public and private employers of people with disabilities, while the new Employment Promotion Law adopted in December 2018 regulates the setting-up of an employment fund for the employment and skills development of people with disabilities. However, the levies have never been enforced, and the envisaged national employment fund has not been established. The law should be implemented effectively to use the fund for vocational rehabilitation. Some progress has been achieved by using the management information system for disabled beneficiaries, which is still in the pilot phase (European Commission, 2019<sup>[79]</sup>).

Child labour remains a concern. It is assessed that in 2018, 4.6% of children aged 5-14 were working (mainly in agriculture, as well as “street children”, especially those from Roma communities). Previous data based on a 2010 survey conducted by the International Labour Organization (ILO) and CRCA (Child Rights Centre Albania) show that 7% of children up to 14 years of age were working (ILO and INSTAT, 2012<sup>[109]</sup>). As the two sources are not comparable, it is not possible to state that child labour has been reduced. A legislative framework<sup>78</sup> sets 16 as the minimum working age, and changes were introduced in 2017.<sup>79</sup> In 2020, a new practical guide was issued to help labour inspectors identify and control forms of child labour and respond appropriately. The guide was drafted by the Organisation for Security and Co-operation in Europe Presence in Albania, in close co-operation with the State Inspectorate of Labour and Social Services, the State Agency for the Rights and Protection of the Child and the Office of the National Anti-Trafficking Co-ordinator at the Ministry of Interior.<sup>80</sup> The pandemic situation in Albania has affected orientations and planning, but nevertheless training of labour inspectors to use this guide has been a priority. Although the number of Child Protection Units increased recently, co-operation with the State Labour Inspectorate and Social Services could be improved (US Department of Labor, 2018<sup>[110]</sup>). There is also a need to strengthen the system for monitoring child labour (European Commission, 2019<sup>[79]</sup>).

Only small improvements have been made in recent years to increase the institutional capacity of **labour inspectorates** to make sure OHS regulations are implemented, informal employment reduced and child labour detected. Only 7% of companies are inspected annually and labour inspectors have difficulty accessing all sites where there are potentially poor working conditions (e.g. mining). Labour inspectorates lack the financial resources to travel to all inspection locations, and equipment is out of date.<sup>81</sup> The number of labour inspectors has remained nearly constant since 2014 (the number of staff was 154 in 2019, 98 of whom worked as inspectors). The average caseload for each inspector is around 12 600. By way of comparison, in Germany inspectors concerned only with the detection of informal and illegal employment have an average caseload of around 6 000, and in addition there are dedicated inspectorates dealing with OHS issues (ZOLL, 2020<sup>[111]</sup>). Deficiencies in implementing the regulations are also linked to the lack of clear rules and guidelines. There is no curriculum or specific training for acquiring the skills needed to be a labour inspector and there is also no legally defined certification procedure. However, ILO is providing regular training.<sup>82</sup>

There are plans to improve and refine the risk assessment for planning the activities of the inspectorates based on improved data on the sector and previous non-compliance by companies. During the summer months inspections are also done in co-operation with tax authorities to detect informal employment in the trade and service industries. More efforts are needed to intensify this co-operation between entities throughout the year. The share of fined companies and workers is low given the number of inspections, pointing to the low capacity of labour inspectorates and potentially highlighting corruption.<sup>83</sup> A new procedure has been introduced recently to contain corruption. It introduces the principle of imposing the same fines for the same type of companies.<sup>84</sup> These rules are necessary as the law does not specify any rates for fines.

Transparency has been improved through more detailed reporting. The platform MATRICA has been launched on the State Labour Inspectorate website which aims to ensure the transparency of labour inspectors' decision making and allows companies to self-correct by issuing warnings. This service is designed for setting standards in business relations. By the end of November 2019, the platform contained 26 000 registered inspections including all the details of the visit, findings, evidence and decisions for every case. Of this number, 6 000 were re-inspections. The site revealed that about 3 000 legal provisions had never been implemented by the inspectors (Seferaj, 2019<sup>[112]</sup>). This platform should be assessed regularly for the quality of monitoring activities of State Labour Inspectorates, progress should be monitored regularly and policy conclusions drawn.

The implementation of OHS regulations in companies also appears to be weak. The Labour Code was adopted in July 2015 and has since been amended. Experts note that it is not fully implemented, with implications for the labour market and the enforcement of the OHS directives and capabilities (according to stakeholder statements collected by the independent expert). Only roughly one-fifth of companies have OHS councils in place. In some cases, though they exist formally they are not active and do not meet three times a year as foreseen by law, especially in SMEs. In particular, the setting up and effective operation of OHS in SMEs is problematic. There are deficiencies in the implementation of inter-subject (or cross-sectoral) advice on safety and health at work for small enterprises.<sup>85</sup> While the State Labour Inspectorate participates in OHS meetings to provide information, it has not been contacted if health and safety issues arise. The Employment and Skills Strategy 2019-2022 sets out ambitious plans to strengthen the capacities of all key actors in labour market governance, including inspectorates, line ministries and regional actors. The effective implementation of these plans remains to be seen. The ILO will support the government by tackling these implementation issues when drafting the new OHS strategy in 2021.<sup>86</sup>

A **social dialogue** framework exists; however, social partners in particular trade unions have rather weak capacities, despite capacity-building efforts by international donors (Dragoshi and Pappa, 2015<sup>[113]</sup>). In 2019, the Confederation of Trade Unions (KSSH) reported having 110 000 members and the Union of the Independent Trade Unions of Albania (BSPSH) counts 84 000 members. Together this corresponds to a trade union density of roughly 20%,<sup>87</sup> which is low compared to Austria (28%), but similar to or even higher than some other transition economies (e.g. Lithuania, Hungary) (OECD, 2019<sup>[114]</sup>). Currently, there is an initiative to draft a law on the trade unions in Albania, but preparations are still in the preliminary stages. There are only two paragraphs in the current Labour Code on how trade unions should function, but not much on their duties, responsibilities or representation in decision-making process.<sup>88</sup>

Collective bargaining at sector level is almost non-existent. Collective agreements are mainly concluded at company level, as with some private sector companies, e.g. in the construction and energy sectors (Dragoshi and Pappa, 2015<sup>[113]</sup>). In 2017, the overall coverage of collective bargaining in Albania was 25.1%, significantly lower than in Austria (Eurofound, 2019<sup>[115]</sup>). Although newer monitoring data are not available, there are no signs that the situation has improved. Most collective bargaining agreements are concluded in the public sector, often without fixing higher labour standards than those fixed by law.<sup>89</sup> Workplace representatives are limited to health and safety councils and these are often not active (see above). Dispute conflict regulation and the implementation of mediation offices needs to be improved.

The National Labour Council is an institution for **tripartite** dialogue, and there are other tripartite institutions. Significant efforts are still needed, however, to transform the National Labour Council into an effective social dialogue forum at both national and regional levels and to implement the tripartite action plan (European Commission, 2019<sup>[79]</sup>; ABC News Albania, 2020<sup>[116]</sup>). Some decisions are still taken without prior consultation of all National Labour Council members (e.g. for the latest increase of minimum wage in 2020).

### *Sub-dimension 8.2: Skills*

Albania still employs the highest share of low-educated people in the Western Balkans (56.9% in 2018) (WIIW and World Bank, 2020<sup>[103]</sup>); this low level of skills is associated with poor employment conditions and in-work poverty (Jorgoni, 2019<sup>[108]</sup>). Another key challenge is the persistently high share of young people aged 15-24 who are not employed or in education or training (NEET) (25.5% in 2018 and 26.5% in 2019, compared with the EU NEET rate of 10.1% in 2019) (INSTAT, n.d.<sup>[117]</sup>) (Eurostat, n.d.<sup>[104]</sup>).

Results from a STEP employer survey conducted in 2017 indicate that more than half of companies faced difficulties recruiting both routine and non-routine workers, pointing to skills shortages, although companies in other economies in the region encountered even larger recruitment difficulties. In particular, innovative firms, larger firms (100+ employees) and foreign-owned companies faced problems in finding non-routine workers in Albania (WIIW and World Bank, 2020<sup>[103]</sup>). This points to the need to modernise curricula, as well as to equip adult workers with the skills needed in the labour market in order to reduce the **skills mismatch**.

In recent years employment growth has been highest among the highly skilled (World Bank and WIIW, 2020). Employment has also grown amongst the low-skilled, although at a slower pace. The slight decrease of employment of medium-skilled workers may be partly linked to raising enrolment rates of young people in tertiary education over the past decade. In the school year 2019/20, 18 200 students were enrolled in VET (out of a population of 197 333 in the 15-19 age group), while 130 300 were enrolled in tertiary education (out of 226 400 people in the 20-24 age group) (INSTAT, 2020<sup>[118]</sup>). The ratio of VET to tertiary students slightly deteriorated between 2015 and 2019. Albania marked considerable progress between 2010 and 2015, with 22% of adults aged 30-34 having completed tertiary education (university level), a growth of 10 percentage points. In 2018, 34.7% of women had completed higher education compared to 23.3% of men (INSTAT, 2020<sup>[102]</sup>).

The number of VET students is lower than other WB6 economies. VET is the least attractive option at upper secondary education level (Government of Albania, 2019<sup>[119]</sup>). The National Employment and Skills Strategy aims to modernise VET and to promote work-based learning, laws have been adapted accordingly and there is an action plan and a budget attached to promote work-based learning, which is welcome. However, other challenges and weaknesses of the VET system need to be addressed as well, such as skills mismatches, poor-quality or irrelevant training, unequal access, and weak linkages to the private sector (Jorgoni, 2019<sup>[108]</sup>); see also Sub-dimension 7.3: Vocational education and training. Workplace-based professional practice modules recently introduced in curricula in VET and tertiary education cannot always be completed, as it is not possible to find enough companies willing to offer work-based training opportunities.

Since 2017, the employability of all VET graduates (both secondary education VET students and trainees) has been traced through an annual tracer study conducted by the National Agency for Employment and Skills (NAES). The results indicate that in 2019, 52% of 2018 graduates were employed and 12% were concurrently working and studying, giving a total employment rate of 64% (Jorgoni, 2019<sup>[108]</sup>). The NAES is responsible for the administration of VET providers. Tripartite bodies co-ordinate stakeholders, such as the National VET Council and Steering Committee of NAES. Although the NAES periodically conducts a skills needs analysis to steer training offers, skills mismatches persist, and more efforts could be made to use skills needs assessments to improve the quality of training offers.

There is a system in place for validating and certifying **adult learning**. As experience from other countries shows (e.g. Portugal), linking upskilling measures to validation and recognition of prior learning increases its effectiveness (Düll et al., 2018<sup>[120]</sup>). Improvements have been made to address skills mismatches at the local level. Since August 2019, the Skills for Work project has started supporting key providers of education and training (vocational and university, public and non-public) to set up a structured dialogue platform for collaborative skills development with companies and employers in the WB6 region.

One of the findings of the skills needs survey of 2017 was the lack of digital skills and soft skills (Rama and Cabiri, 2018<sup>[121]</sup>). Therefore the Start Smart package was launched in 2018 by the PES to develop basic job search skills and social skills of long-term unemployed jobseekers and provide training exercises. Exercises are of a practical nature and involve trainees in the training process. At the end of the two-week training, work-related social skills are assessed and communicated to the PES. The scheme has been piloted in five districts, and was planned to be extended across Albania in 2019 to provide training to over 20 000 unemployed jobseekers (which would represent 12% of the unemployed and 28% of registered unemployed according to Labour Force Survey data) (Prime Minister's Office, 2019<sup>[122]</sup>). Facilities and IT equipment have been provided and staff trained. In 2019, NAES started to implement the Start Smart package in all Vocational Training Centres with GIZ support. In 2019, 12 327 unemployed jobseekers, mainly young people, participated in Start Smart courses, a strong increase from 2018 but below the announced objective.<sup>90</sup>

Participation in continuous training for work-related or non-work related issues stood at 10% in 2016, well below the EU average of 30% (Eurofound, 2019<sup>[123]</sup>).<sup>91</sup> While 32% of highly-skilled people participated in such training, only 2% of the low-skilled did (INSTAT, n.d.<sup>[124]</sup>). Participation rates in formal and non-formal training are highest among the 25-34 age group. More efforts could be made to upskill the low-skilled and to increase continuous training among prime age and older workers.

### *Sub-dimension 8.3: Job quality*

In terms of **quality earnings**, the Ministry of Finance and Economy is responsible for setting the minimum wage nationwide for full-time workers; social partners are only consulted, whereas in EU countries, social partners are generally equal partners (Country Economy, 2021<sup>[125]</sup>). The minimum wage was ALL 26 000 per month or EUR 213 in 2019, which was 50% of the average wage, up from 46% in 2015 (INSTAT, n.d.<sup>[126]</sup>). The minimum wage is increased only sporadically, but increases are significant each time. In 2019, the real minimum wage was increased by 8.3% (WIIW, World Bank, 2020<sup>[127]</sup>). In 2019, Albania and Serbia had the highest ratio of minimum wage to average wage in the region.<sup>92</sup> It would be advisable to carry out a study of the potential impact of the minimum wage on informality, and on its potential to prevent poverty in low wage sectors – such as manufacturing, construction, trade and agriculture (where the minimum wage represents between 58% to 70% of the sector's average wage) – and occupations, such as plant and machine operators, crafts workers, elementary occupations, service and sales workers, and skilled agricultural workers (the minimum wage represents between 79% and 87% of wages earned in these occupations).<sup>93</sup> The percentage of workers earning a gross monthly wage 60% below the average gross income in Albania was 44.7% in 2017 (Jorgoni, 2019<sup>[108]</sup>). Labour inspections carried out in 2018 indicate that 26% of employees are declared as being paid the minimum wage, which is a relatively high level. Albania relies on administrative tax data on wages. Although the Labour Force Survey (LFS) does contain questions on wages, INSTAT does not publish any wage data based on the LFS or make them widely available except for empirical research. INSTAT does not show rural and urban disparities either (Jorgoni, 2019<sup>[108]</sup>; European Commission, 2019<sup>[79]</sup>).

Despite the high minimum-to-average wage ratio, wages can be considered to be low and Albania risks getting trapped in a low wage-low productivity cycle (EBRD, 2020<sup>[128]</sup>). A key challenge is to increase productivity further. Low wages are also a factor contributing to in-work poverty. While in-work poverty declined between 2012 and 2018, it is still high at 38.7% in 2018 (Jorgoni, 2019<sup>[108]</sup>). Data indicate that individuals with low educational attainment, those in informal or part-time employment, those residing in large households with young children, and those in low-wage jobs face a significantly higher risk of in-work poverty (Borgen Project, 2020<sup>[129]</sup>; Macrotrends, 2021<sup>[130]</sup>).

In terms of **policies to promote female employment**, Albania has made substantial progress in increasing women's activity and employment rates over the past decade. The employment rate of women aged 15-64 years increased from 45.5% in 2015 to 54.4% in 2019 (INSTAT, 2020<sup>[102]</sup>), which is 11.9



percentage points above the WB6 average, though still 8.9 percentage points below the EU average. While in 2019 women's activity rate was the highest in the region (10 percentage points above the WB6 average), it was still 7 percentage points below the EU average and 3.7 percentage points below the average of the five south-eastern EU countries which may serve as a reference for Albania (Bulgaria, Croatia, Hungary, Romania and Slovenia).

In 2019, the employment rates were highest for highly skilled (69.0%) and low-skilled women (52.9%), pointing to labour market segmentation for female employment as well (WIIW and World Bank, 2020<sup>[103]</sup>; INSTAT, 2020<sup>[102]</sup>). Despite the high unemployment rate of highly educated women (13.6% in 2019), their employment prospects are better than for medium educated women (15.5%) (INSTAT, n.d.<sup>[131]</sup>). Nevertheless, the unemployment risk for female graduates from tertiary education is a major concern, in particular in the light of reported skills shortages.

The employment gap, measured as the difference between the male and female employment rate, decreased between 2015 and 2019 from 15 to 13.8 percentage points. The Ministry of Health and Social Protection and Institute of Statistics of the Republic of Albania have prepared a gender equality index, a measure for monitoring progress in gender equality, following the European Institute for Gender Equality (EIGE) methodology (EIGE, 2017<sup>[132]</sup>). **Albania scored 60.4 points in the gender equality index, which is below the score for North Macedonia (62), but above the scores for Montenegro (55) and Serbia (55.8).** The 2019 EU average is 67.4 (MoHSP, 2020<sup>[133]</sup>).

In 2019, Albania's gender wage gap was 10.1%, and thus below the EU average (14.1% in 2018).<sup>94</sup> A study of women's position in the construction industry, a largely male-dominated industry, shows that women typically work either in elementary occupations or as professionals, while men typically work as skilled crafts workers.<sup>95</sup> The share of women with tertiary education in the industry was much higher than for men. Despite the higher educational level of women within the construction sector, in 2018 the gender pay gap was 10.6% (INSTAT, 2020<sup>[134]</sup>). One possible explanation for this above average wage gap is the fact that a high share of men are self-employed, while women tend to be employees. Another explanation is that women tend to be overqualified in elementary occupations. A higher share of women than men are employed in the agricultural sector, many of whom work as unpaid family members. Poor working conditions for women in the textile and footwear industries, where they lack proper labour protection and social protection, is an issue (90% of those employed in this industry are women) (European Commission, 2018<sup>[135]</sup>).

In order to guarantee the implementation of labour legislation with a special focus on women, the State Inspectorate of Labour and Social Services signed a memorandum of co-operation with the Public Procurement Agency on 14 June 2019. It aimed to guarantee the implementation of the Labour Code, respect for gender equality in employment, women's rights in labour relations and awareness by economic operators who submit bids in the public procurement process.

The main policy area to promote women's employment is the active labour market policy implemented by the PES. Progress has been made to train staff of labour offices in gender equality issues.<sup>96</sup> Half of the registered unemployed are women, as well as 62% of participants in active labour market programmes. The National Agency for Employment and Skills also implements one targeted programme, the employment promotion programme for single mothers with dependent children and child-mothers (MoHSP, n.d.<sup>[136]</sup>). Civil society organisations specialised in providing services to specific groups of women play an important role in improving women's role in employment and paid work.<sup>97</sup> For example, they facilitate information provision, and provide vocational training courses in the workplace as well as employment mediation.<sup>98</sup> Here, co-ordination with government institutions has improved. A key remaining challenge is the lack of childcare facilities. Recent changes to the Labour Code aim to support work-life balance for working parents but there is no monitoring of the implementation of these changes (European Commission, 2019<sup>[79]</sup>).

Legislative amendments have been adopted to improve the employment and workplace environment for women, defining and reversing the burden of proof in cases of sexual harassment (European Commission, 2019<sup>[79]</sup>). However, implementation of the law remains questionable. Few cases of sexual harassment are reported and there is a lack of knowledge and awareness about harassment, a lack of trust in institutions, and a lack of training for employers and managers of institutions (People's Advocate, 2017<sup>[137]</sup>).

An advisory group for co-ordinating and monitoring the implementation of the Action Plan for Women Entrepreneurs (2014-2020) was mandated to bring together and co-ordinate women's entrepreneurship actions among public, private and non-government institutions. In practice, however, the advisory group – which consists of seven ministries, the Institute of Statistics and the Bank of Albania – has convened only four times and has not met since the lead ministry, the Ministry of Economic Development, Tourism, Trade and Entrepreneurship was dissolved in September 2017. Only small-scale programmes have been implemented in recent years to promote women's entrepreneurship (OECD, n.d.<sup>[64]</sup>).

#### *Sub-dimension 8.4: Activation policies*

The modernisation of the **public employment services (PES)** and a reorganisation of services provided at local and regional level is underway, as set out in the Employment and Skills Strategy 2019-2022. According to the strategy, the new system of employment services will begin operating in the course of 2021. The objectives of the strategic document are in line with international good practice, although important details need to be defined, such as key performance indicators, the concrete design of the performance management and human resources development plans, and concrete plans for the provision of services through various channels. A new information system for job matching is under construction based on skills related to the profession (European Skills/Competences, qualifications and Occupations ESCO), and a manual for jobseekers and employers on how to use related tools is being drafted. Work has started to design and implement a statistical profiling tool of the unemployed (taking into account factors such as age, gender, educational level, job qualification, literacy skills, etc.). The intensity of counselling will be based on segmenting the unemployed by their difficulty of being placed (with interviews varying between 25 and 60 minutes) and potentially lead to drawing up individual action plans. These are important steps in moving towards a more advanced **active labour market programme (ALMP)**. The number of registered job vacancies increased between 2017 and 2018 but declined between 2018 and 2019 (according to registered data provided by the PES).

While efficiency gains can be expected through a new IT system, individualised counselling and follow-up of the unemployed – who often face severe and multiple employment barriers – requires sufficient staff capacities, as do services provided to employers. As the number of registered unemployed has fallen significantly, caseloads for employment counsellors have improved since 2013. However, the caseload of nearly 300 registered unemployed people per counsellor is still high, given that roughly two-thirds of the unemployed are long-term unemployed (64.3% in 2019 according to LFS data – although only 48% of registered unemployed were long-term unemployed in August 2019).<sup>99</sup> Recent improvements have been made, more than doubling the number of staff at the central level in 2020. Staff capacities need to be increased at local level as well, and staff trained in the skills needed for comprehensive guidance and follow-up for jobseekers with employment barriers, for conducting skills assessment (which is for now largely based on occupational categories) and for providing employer related services.

The strategy envisages dedicated employer services being set up. It would be important for these employer services to be proactive and offer not only placement services but also a range of counselling services to employers, e.g. to reduce their staff fluctuation, identify skills needs and support SMEs that lack human resource management skills. The reforms should be implemented rapidly and progress assessed regularly in order to improve service delivery.

Target groups for active labour market programmes are in principle well defined. There is a strong focus on youth, vulnerable groups and groups on the margin of the labour market (including Roma and Egyptian

communities), which is relevant given the high level of poverty and exclusion of vulnerable groups in Albania. It seems that progress in the implementation of vocational rehabilitation is being made with a more comprehensive approach, although the number of participants is low. ALMPs have been continuously introduced, but only a limited percentage of the unemployed participate in these schemes (5.5% in 2017) and funding has remained low and has not increased since 2015 (ILO, n.d.<sup>[138]</sup>). Objectives of training programmes include developing the basic skills (reading and writing) of unemployed jobseekers with low qualifications. Progress in implementing training for low-skilled adults should be regularly monitored and the scale and scope of the programmes assessed.

A number of ALMPs are targeted at young people, including employment incentives such as 12-month social security exemption for converting an informal employment relationship into a formal employment contract, and 6-month wage subsidies for helping young graduates to enter the labour market; a new public works programme (“community employment”, paying half the minimum wage); on-the-job training programmes and apprenticeships; and a new training programme for self-employment. The outcomes of these new programmes should be thoroughly monitored.

An unemployment benefit scheme is in place, but only 1.6% of the unemployed receive benefits (WIIW and World Bank, 2020<sup>[103]</sup>). The duration of unemployment benefit depends on previous contribution history, with a maximum of 12 months for those having contributed for 10 years or more and for the older unemployed. The unemployment benefit level is however not linked to previous earnings – instead a lump sum is set at 50% of the minimum wage and supplements are paid for families with children. The unemployment benefit level is low compared to the OECD average of 66% of previous in-work income (OECD, 2020<sup>[139]</sup>). This limits the effectiveness of unemployment benefits in rendering formal employment attractive, and could in principle make “envelope wages”<sup>100</sup> appear attractive. Most registered unemployed receive income support, including coverage by health insurance, which is another incentive to register with the PES.

The number of jobseekers registered at the PES receiving either unemployment benefit (around 10%) or social assistance (economic aid, 90%) more than halved between 2015 and August 2019 (from 65 456 to 24 401), according to administrative data provided by the government. Yet the number of unemployed decreased only by 25% over the same period (from 224 000 in 2015 to 165 000 in 2019 according to Labour Force Survey data). The reasons for the stronger fall in the number of registered unemployed should be analysed, and could be linked to improved placement, increased sanctioning, or increased underemployment. In 2019, 64.3% of the unemployed were long-term unemployed and this situation had not changed much since 2017; in previous years decreases in the numbers of long-term unemployed were more significant (WIIW and World Bank, 2020<sup>[103]</sup>) and (INSTAT, n.d.<sup>[140]</sup>).

Among the registered jobseekers who were placed into employment in 2018, only roughly 10% were, or had been, beneficiaries of the economic aid schemes. Some progress has been made in placing jobseekers from the Roma and Egyptian communities into ALMPs and into jobs, but more progress is needed overall. Although placing vulnerable groups is not an easy task, this outcome indicates that activation efforts for economic aid beneficiaries need to be improved. Integrating vulnerable groups into the labour market requires a comprehensive approach and close co-operation between employment and social services, as good practice from EU countries shows (Konle-Seidl, 2020<sup>[141]</sup>; Duell et al., 2018<sup>[142]</sup>). The co-ordination between social welfare agencies and local PES is poorly developed and would need to be improved. Most importantly, social care services remain insufficient and underdeveloped.

Supported by the World Bank, a reform of social assistance (economic aid) was rolled out economy-wide at the beginning of 2018, introducing in-work benefits by extending social assistance eligibility to people in low-paid employment, those receiving a modest income from household agricultural activity in rural areas, or those receiving other forms of social protection benefits (such as pensions or disability benefits) (Jorgoni, 2019<sup>[108]</sup>). While the introduction of in-work benefits reflects international good practice (Immervoll and Scarpetta, 2012<sup>[143]</sup>; Jimeno et al., 2012<sup>[144]</sup>), the level of social assistance, currently at less than one-third

of the minimum wage, remains low. It is recommended to evaluate the impact of this reform. A recent act foresees welfare benefits for the self-employed who lost their jobs due to the COVID-19 pandemic, in line with praxis of some EU Member States (Duell, 2020<sup>[145]</sup>).

The employment promotion programmes (EPPs) implemented in 2015-16 were evaluated in 2018, highlighting the need to revise EPPs and change how they are implemented. A working group has been set up to improve ALMP design. Future evaluations should also pay attention to the quality of employment in order to design strategies for sustainable labour market integration. For instance, linking the level of wage subsidies to the minimum wage may see jobseekers placed mainly in low-wage jobs (Jorgoni, 2019<sup>[108]</sup>).

### *Cross-cutting sub-dimension: Informality*

The share of informal employment among the 15-64 age group was 37.5% in 2019 (including specific forms of solo self-employment or self-employment in micro-enterprises) (INSTAT, 2020<sup>[134]</sup>).<sup>101</sup> While informal employment had decreased between 2015 and 2018, the incidence of informal employment increased by 1.5 percentage points between the second quarters of 2018 and 2019 (WIIW and World Bank, 2020<sup>[103]</sup>). Albania is the only economy in the WB6 region to have seen such an increase in informal employment during this period. Labour inspectorates only identified about 3 000 cases of informal employment. There has been no proper campaign since 2017 to fight informality. The whistle-blower directive for informality in the private sector that was announced by the government in 2017 was heavily criticised by all stakeholders, and was also raised as an issue by employers in the National Labour Council as it creates a conflictual situation between employers and employees.<sup>102</sup>

In 2014, the pension system was reformed to strengthen the contribution-based pension element. This should increase the incentives to be formally employed. A new active labour market programme has been introduced recently to set incentives to convert informal employment contracts into formal ones (providing exemption from social security contributions for 12 months – see above). However, it is too early to assess the impact of this measure. Salaries below ALL 30 000 are exempt from income tax.<sup>103</sup> This should in principle lower the incentive for workers to take up informal employment, yet informal employment is still widespread.

### *Cross-cutting sub-dimension: Brain drain*

Within the WB6 region, the outflow of populations is highest in Albania, with 2.2% (62,000 people) of the economy's overall population migrating mainly to the EU, mostly to Italy and Greece (WIIW and World Bank, 2020<sup>[103]</sup>). Between 2015 and 2019, the number of emigrants increased by 6%.<sup>104</sup> In 2018, 38 703 people emigrated (INSTAT, 2021<sup>[11]</sup>). Emigration rates for both high-skilled and low-skilled people are high, and above the average for the region (Herbert, Capuano and Marfouk, 2013<sup>[146]</sup>). A survey of the emigration potential of young people indicates that Albania has the highest rate of the WB6: 43% of young people responded that they would like to move to another country within the next six months (Lavric, 2021<sup>[147]</sup>). Employment opportunities and higher earnings are by far the main reasons for young people to emigrate.

The World Bank LinkedIn Digital Data for Development show that Albania has mainly lost technical skills through migration in the area of computer networking, web development, data storage technologies and telecommunications, affecting not only the ICT sector but also banking, higher education and international affairs. Within the region, Albania is the economy that has experienced the largest losses of business management, people management and problem-solving skills (WIIW and World Bank, 2020<sup>[103]</sup>). These skill sets are vital for running modern businesses. Brain drain is currently reported to be an issue also for the healthcare occupations (doctors, nurses, physiotherapists).<sup>105</sup>

Albania implemented the Brain Gain Programme from 2006-2011, which aimed to integrate the highly skilled and scientific diaspora into Albania's socio-economic development through their involvement in the

transformation of public administration, higher education, science, and the business sector, as well as to instigate the return of diaspora professionals (Predojević-Despić, 2021<sup>[148]</sup>). However, the impact of that programme was limited (Gëdeshi and King, 2018<sup>[149]</sup>; UNDP Albania, n.d.<sup>[150]</sup>). Experience from India shows that it may take quite some time for the links to the diaspora to result in brain circulation and brain gain (ILO, 2019<sup>[151]</sup>). Currently, the only policy in place is to include return migrants as a target group for ALMPs, but this mainly relates to the low-skilled.

In 2018, remittances contributed to nearly 10% of GDP. As a consequence of the COVID-19 pandemic, remittances are likely to diminish due to travel restrictions preventing the return of migrants (World Bank, 2020<sup>[152]</sup>; OECD, 2020<sup>[153]</sup>; World Bank, 2019<sup>[154]</sup>).

### ***The way forward for employment policy***

Key efforts needed to advance in the employment dimension relate mainly to strengthening the institutional capacities of a variety of government and other actors at both the national and local level to implement regulations effectively, to increase transparency in monitoring of working conditions and wages and to deepen labour market analysis. In particular:

- **Do more to strengthen social partners' role in tripartite social dialogue, including on setting the minimum wage.** This would also include making a regular assessment of labour inspectorates' capacity to detect remuneration below the minimum wage and informal employment. An assessment of the impact of the minimum wage on informal employment and on poverty reduction should be conducted.
- **Increase the capacity of labour inspectorates to detect informal employment and child labour and tackle poor working conditions.** This includes training labour inspectorate staff, issuing clear guidelines, increasing the number of labour inspectors, increasing resources for making on-site visits across the territory, modernising equipment, making use of monitoring results to steer activities and improving methods of risk assessment. Labour inspectorates should also expand their implementation of preventive measures. The activities foreseen in the employment and skills strategy related to labour inspectorates should be implemented. A comprehensive and publicly available monitoring system is needed of working conditions, including child labour, the results of which can feed into policy. Improved co-operation between relevant stakeholders is also key for detecting poor working conditions (Box 20.11).
- **Evaluate the implementation of the cross-sectoral Strategic Document for Occupational Safety and Health 2016-2020 and its action plan, which aim to strengthen institutional capacities.** Draw conclusions on measures that were effective and those which were not, as well as on challenges and gaps remaining.
- **Launch awareness-raising activities targeted at employees and employers to pursue continuing training and to set adequate financial incentives for continuing education and upskilling of the medium and lower skilled.** This would involve offering adequate financial incentives and targeting low-skilled, prime age and older workers as well as SMEs for participation in adult learning. Other OECD countries have introduced individual learning accounts (OECD, 2019<sup>[155]</sup>), have set in place an infrastructure for guiding adults in their upskilling pathway (see e.g. Qualifica centres in Portugal), and implemented programmes to upskill low-skilled adults and supported companies to do so (OECD, 2019<sup>[156]</sup>). In order to increase the employment of women, more efforts are needed to implement flexible working time schemes to reconcile work with family lives and to expand quality child care facilities. Efforts to co-ordinate activities with civil society organisations should be continued.
- **Continue efforts to improve local social services for vulnerable groups and to develop close co-operation between social and employment services.**

- **Do more to understand the drivers of informality among workers (differentiated by men and women) and employers in order to design adequate policy responses.**
- **Co-ordinate policies to encourage the return of medium and high-skilled people to Albania**, to promote start-ups and open up business branches, and to encourage ties with the highly skilled abroad, e.g. through co-operation in research. At the same time, it is necessary to offer employment opportunities, in particular to higher educated young people and to improve the quality of jobs. Encourage investments into the economy using remittances. Help skilled workers who have gained experience abroad to find good living and working conditions when coming back.

### Box 20.11. Strategies for combating undeclared work

In Norway, co-operation among relevant agencies has been formalised to detect and combat undeclared work. An internal database to facilitate information exchange between joint offices was created in December 2016. In addition, a National Interagency Centre for Analysis and Intelligence was set up to undertake national threat assessments for joint strategic measures against economic crime, for example by delivering intelligence reports, which should help decision makers to analyse cross-national trends.

In the Netherlands, the “chain approach” tackles labour exploitation in the cleaning sector. It involves a two-fold strategy, including raising awareness among businesses who hire cleaning companies, and a prevention strategy focused on changing attitudes to undeclared work in the sector. It has resulted in a decline of cleaning companies working undeclared in the Netherlands.

Note: Economic crime, also known as financial crime, refers to illegal acts committed by an individual or a group of individuals to obtain a financial or professional advantage. The principal motive in such crimes is economic gain **Invalid source specified.**

Source: (European Commission, 2020<sup>[157]</sup>), *What Works when Tackling Undeclared Work? Realities in Member States*, <https://ec.europa.eu/social/main.jsp?langId=en&catId=1298&furtherNews=yes&newsId=9740>.

## Science, technology and innovation (Dimension 9)

### Introduction

Albania has made substantial progress in this dimension since the previous assessment (Figure 20.1). With an average score of 1.8 (Table 20.14), it performs somewhat better than some regional peers, such as Bosnia and Herzegovina and Kosovo, but scores below the Western Balkan six average, falling significantly behind the regional innovation leaders. Improvements have been made in particular with regards to the overall STI system, but further efforts are needed to consolidate recent policy changes and generate real long-term impact.

**Table 20.14. Albania's scores for science, technology and innovation**

Dimension	Sub-dimension	Score	WB6 average
Science, technology and innovation dimension	Sub-dimension 9.1: STI system	2.2	2.4
	Sub-dimension 9.2: Public research system	1.9	2.0
	Sub-dimension 9.3: Business-academia collaboration	1.1	1.6
Albania's overall score		<b>1.8</b>	<b>2.1</b>

### State of play and key developments

Overall, science, technology and innovation in Albania could benefit from significant improvements. The Government of Albania has taken several steps to improve the overall performance of the sector in recent years. However, despite some increases, the overall investment in research and development (R&D) remains systemically low, at 0.06% of GDP. Lack of reliable and systematically collected statistics on STI outputs makes it challenging to assess the progress and impact of policy measures.

#### *Sub-dimension 9.1: STI system*

Albania has a well-developed **STI strategy**. The National Strategy for Scientific Research, Technology and Innovation (2017-2022) is well designed and meets international best practice, setting policy objectives for improving the regulatory and institutional framework for STI, supporting business-academia collaboration and enhancing international co-operation. A Smart Specialisation Strategy (S3) is in the process of being defined. The roadmap for the S3 process was drafted and the mapping phase is ongoing with EU support, with the quantitative phase almost completed and the qualitative one to be launched soon. However, there is little evidence that much progress has been made in achieving the objectives of the national STI strategy as a number of structural, financial and staffing issues identified during the previous assessment cycle remain unaddressed.

The **institutional framework** to oversee and implement STI policy remains a key obstacle to effective policy implementation. Following major restructuring in 2017, the National Agency for Scientific Research and Innovation (NASRI) was established, which is mainly responsible for implementing STI policies jointly with the Albanian Investment Development Agency (AIDA), Albanian SME Agency, and Innovation Fund. Focus and collaboration between the two implementation agencies, NASRI and AIDA, remain somewhat uncoordinated. In addition, three ministries are responsible for overseeing various aspects of the STI framework, but without a formal co-ordinating mechanism in place. This has resulted in overlapping responsibilities, inefficient budgeting and a lack of clear ownership of the implementation of STI policies and goals.

STI policy is embedded in a comprehensive **regulatory framework**. Legislation to regulate intellectual property (IP) was developed with EU assistance, and additional reforms to strengthen IP legislation are expected to enter into force at the end of 2020. While there is evidence that the regulatory framework is being implemented, a number of key commitments have not been met. For example, although the



intellectual property strategy includes commitments to establish technology transfer centres and a legal framework governing business-academia collaboration, neither have been achieved. Similarly, administrative activities and programmes still lack adequate funding to achieve their objectives within the policy framework, limiting the capacity of government officials to fulfil their duties in an effective and co-ordinated way. Therefore, enforcement of STI legislation, and IP in particular, remains questionable.

Promoting **international collaboration** is a key aspect addressed in the STI framework, which actively encourages participation in international research facilities and other initiatives. However, there is little evidence of concrete actions supporting these objectives or of significant progress in this policy area since the previous assessment cycle. While Albania has participated in the Horizon 2020<sup>106</sup> framework since its founding, very few Albanian firms (including just one SME) have participated in the programme successfully. Indeed, applicants from Albania have the lowest success rate (8.72%) of any economy participating in Horizon 2020, though there has been a more positive trend in recent years (European Commission, 2020<sup>[158]</sup>). Although Albania is not a full member of Eureka,<sup>107</sup> it participates in the network through a national information point (NIP) and appears to be making progress in formalising its membership in the programme. Finally, Albania's continued participation in the Western Balkans Enterprise Development and Innovation Facility (WBEDIF) has helped to further efforts to support international technology acquisition among Albanian firms. However, further efforts are needed to strengthen the knowledge economy to support uptake of more sophisticated international innovation financing products.

Albania has identified **alignment with EU STI policy** and the EU *acquis communautaire* as strategic priorities and incorporated them into its relevant STI strategies. The economy has formally adopted the European Research Area<sup>108</sup> (ERA) roadmap and is making efforts to achieve ERA priorities, such as gender equality in scientific research and innovation, among others. Although Albania participates in EURAXESS<sup>109</sup> and has an operational country page, national job listings are not currently published on the platform and only one higher education institution (University of Vlore) has adopted the EURAXESS charter and code. Albania is already actively engaged in European Cooperation in Science and Technology (COST),<sup>110</sup> however, further efforts could be made to improve networking with European partners to facilitate international collaboration. Albania does not participate in the European Innovation Scoreboard due to the limited availability of STI-related statistics, and initiatives to actively promote open science are limited.

### *Sub-dimension 9.2: Public research system*

The public research system in Albania has seen moderate gains since the previous assessment, and the STI policy framework explicitly promotes scientific excellence. Specifically, the **institutional structure of the public research system** has benefitted from stronger institutional co-ordination and oversight. A new Law on the Academy of Sciences was adopted in September 2019, aiming to increase the integrity of the scientific research system. However, it has not yet been decreed by the President of Albania. Similarly, a new Law on Scientific Research and Innovation has been finalised but is still pending adoption. The establishment of a new Quality Assurance Agency for Higher Education (ASCAL) in 2017 has strengthened quality assurance at higher education institutes (HEIs) and research and development institutes (RDIs), which undergo regular self-assessment based on a harmonised methodology and a new Quality Code. There is solid institutional co-ordination between ASCAL and sub-national government bodies to ensure the consistent application of public research regulations and initiatives. However, the economy reports that ASCAL and other relevant government agencies lack sufficient funding and resources to achieve their objectives and execute their responsibilities. Likewise, despite an initiative to conduct an initial mapping of Albania's research infrastructure in 2018, the economy has not yet developed a roadmap to develop a research infrastructure.

The STI framework includes the explicit goal to increase investments in scientific research and development to 1% of GDP by 2022, compared to just 0.06% of GDP in 2018. Despite a significant three-

fold increase in **public research funding** between 2018 and 2020 (to reach approximately EUR 1.8 million), the public research system remains systemically underfunded and Albania still lacks a clear methodology for funding for research, development and innovation. Albania does not currently collect data on gross domestic expenditure on research and development (GERD), although the system is funded from a combination of institutional and performance-based sources. A new Financing Model of Public Institutions of Higher Education and Scientific Research, approved in 2018, introduced an updated but incomplete funding system for HEIs and RDIs. According to the system, institutional funding is allocated based on an institution's national ranking and through competitive grants, with the latter being distributed through NASRI in line with international best practice. However, insufficient evidence was provided to demonstrate that they are fully operational (this would require estimates of the number of competitive grants, the percentage of successful applications for competitive grants and other key indicators).

Albania is increasingly affected by brain drain. Since the previous assessment cycle, the government has implemented measures to foster **human resources for research and innovation**. Nevertheless, the actions taken remain scattered and insufficient to overcome major shortcomings in the development of human resource capacity in research and innovation. A range of programmes has been established since the previous assessment cycle to develop researchers' skills, including on proposal writing, applying for research programmes, and project management, which is an important step in recognising and addressing shortcomings in this policy area. Notably, efforts to leverage the Albanian research diaspora are increasing and initial work is underway to create a platform for brain circulation. In addition, in 2020, the decision was made to re-accredit doctoral programmes, which had previously been suspended for five years due to their poor academic quality and widespread plagiarism. There is currently no initiative in place to make research careers more attractive, yet programmes supporting young researchers that facilitate participation in international research are seeing growing uptake, leading NASRI to develop increasingly ambitious targets for the desired number of researchers and institutions benefitting from such programmes. In contrast, there is little support for domestic researcher mobility, either within academia or between research institutions and the business sector, and Albania's participation in the Marie Skłodowska-Curie Actions (MSCA)<sup>11</sup> continues to be limited, with only three Albanian research organisations having benefitted to date.

### *Sub-dimension 9.3: Business-academia collaboration*

The promotion of business-academia collaboration is incorporated in Albania's National Strategy for Scientific Research, Technology and Innovation (2017-2022), yet little progress has been made to date to implement this. Financial incentives remain limited, with no innovation vouchers or competitive grants available to spur business-academia collaboration. Likewise, human resource policies in HEIs provide no incentives for researchers to participate in collaborative initiatives with the business sector. There is little evidence that the economy has acted to change the incentive structure to encourage business-academia collaboration since the previous assessment cycle.

The overall **collaboration promotion framework** is weak, most notably due to the absence of clear or measurable objectives for co-operation between the business community and academia, as well as substantial budgetary limitations. However, a collaboration-promotion framework is currently being developed, with policy makers consulting stakeholders and conducting a pilot programme. This is expected to be complemented by a Law for Scientific Research and Innovation, scheduled to come into effect in 2021. In addition, there have been some efforts to improve communication and raise awareness of available tools and opportunities among relevant stakeholders in business and academia, particularly with regards to opportunities under Horizon 2020 and on intellectual property. However, the impact of these measures is yet to be shown. Albania has also participated in regional networking events to establish a technology transfer office.

Overall, incentives for business-academia collaboration remain underdeveloped and ineffective due to inadequate funding and demand from relevant stakeholders. Although national STI strategies, particularly

the OECD-led Triple Helix Action Plan, contain well-designed provisions to strengthen **financial incentives for collaboration**, the vast majority of these provisions have not been implemented since the previous assessment cycle. The voucher scheme was suspended in 2016 due to a lack of funding. Furthermore, while the introduction of innovation vouchers was envisaged under the Triple Helix plan, the initiative was again abandoned amid lack of buy-in from local stakeholders. AIDA, which hosts Albania's Innovation Fund, has operated a voucher scheme assisting SMEs to innovate since 2018. However, the scheme does not explicitly focus on business-academia collaboration. Likewise, there are no competitive co-operative grants available, and a focus on research is not prioritised within Albania's public procurement process. Some HEIs recognised as innovation support organisations have benefited from donor funding for innovative or collaborative projects, such as business incubators, although such financial incentives remain limited.

Similarly, **non-financial incentives for collaboration** remain largely nascent, and there is no clear governance framework in place to develop any policies or measures. Despite mobility schemes being included in the 2017-2021 Action plan to support the development of innovative policies based on the Triple Helix approach, efforts to develop targeted mobility schemes to increase exchanges between academia and businesses are still needed. Likewise, there are no incentives for researchers to collaborate with businesses during research activities, as performance is purely based on conventional assessment criteria such as the number of publications and citations. While the General Directorate of Industrial Property (GDIP) provides services that support patent counselling and commercialisation of intellectual property, and discussions with the European Patent Office to facilitate patent applications by Albanian SMEs are ongoing, there is no support available for patenting or commercialisation through research-industry co-operation. Commitments to draft a legal framework specifying the rights and obligations of actors participating in business-academia collaboration have previously been made. However, no evidence of such a framework was provided by the economy. Despite these shortcomings, Albania has increased efforts since the previous assessment cycle to support communication and awareness raising of business-academia collaboration. Educational and networking events are reportedly organised regularly for a broad range of stakeholders from across society.

There have been no major changes to **institutional support for business-academia collaboration** since the previous cycle, when Albania reported having no key action plans or policy frameworks in place. There is little evidence that the economy has taken concrete action to develop such a policy framework. Since the previous assessment cycle there have also been no activities to monitor or expand the physical or institutional infrastructure to support business-academia collaboration, though Albania is in the initial stages of developing a first Technology Transfer Office with EU support. Currently, there are no other facilities in place to bring about greater business-academia collaboration. Previous research suggests that there are currently five technology transfer services operating in the agricultural sector, and one technology institution operating in Tirana.

### ***The way forward for science, technology and innovation***

Albania is striving to improve its national STI system and has taken important steps forward. However, ambitious plans must be informed by reliable data and supported by cohesive cross-government co-ordination and funding. Measures to further enhance STI policy implementation may include the following:

- **Prioritise implementation of the existing STI policy framework.** Albania has a well-designed STI strategy and action plan informed by international best practice that target important policy objectives. However, little progress has been made to implement these ambitious goals. Streamlining the governance of the STI framework and defining roles and responsibilities of implementation bodies could help achieve meaningful progress towards meeting its STI policy objectives.

- **Finalise the development of the Smart Specialisation Strategy.** If designed well and linked to a targeted action plan and funding, the S3 strategy would be an important tool to complement and accelerate implementation of the existing STI framework.
- **Increase investment in public sector research.** In line with its own goal to increase investments in research to 1% of GDP, Albania should consider expanding the range of financial incentives for business-academia collaboration. Investments in the scientific research system would make the profession more attractive, leading to higher quality of research outputs in the medium to long term.
- **Expand data collection to support evidence-based STI policies.** Current statistical collection practices leave key gaps in STI-related data that limit the extent to which policy implementation can be monitored effectively. This prevents Albania from participating in key international initiatives such as the European Innovation Scoreboard. Participation in the OECD's STIP Compass database would be an important opportunity to develop statistical data collection through expert guidance to meet international best practice.
- **Improve the incentive structure to encourage academia and businesses to seek co-operation with each other.** Organising more events to bring the various communities together and raise awareness is an important step. Likewise, the economy could re-introduce innovation vouchers to create financial incentives for innovation.

## Digital society (Dimension 10)

### Introduction

As shown in Table 20.15, Albania scores slightly above the Western Balkan average for digital society indicators. With increased efforts to develop broadband infrastructure and a solid regulatory framework, the economy has achieved an above-average score for the access sub-dimension. It also ranks third among the WB economies for use, and second for the society sub-dimension. However, Albania has an average score for the trust sub-dimension, and scores below average for jobs.

**Table 20.15. Albania's scores for digital society**

Dimension	Sub-dimension	Score	WB6 average
Digital society dimension	Sub-dimension 10.1: Access	3.2	2.9
	Sub-dimension 10.2: Use	2.5	2.4
	Sub-dimension 10.3: Jobs	2.0	2.3
	Sub-dimension 10.4: Society	2.5	2.1
	Sub-dimension 10.5: Trust	2.2	2.2
Albania's overall score		<b>2.5</b>	<b>2.4</b>

### State of play and key developments

In 2018 the ICT industry's contribution to GDP was 2.9%, which increased further during 2019.<sup>112</sup> However, the industry faces a deficit of highly skilled ICT professionals, which is linked to the gap between the skills developed by the education system in Albania and those needed by the labour market. In 2017, the Ministry of Innovation and Public Administration, which had covered the entire spectrum of IT development and information society services in Albania, ceased to exist and its responsibilities were transferred to the National Agency for the Information Society (NAIS) for digitalising the public administration, and to the Ministry of Infrastructure and Energy for broadband development. Since then, the NAIS has been transformed into the focal point for e-government development in Albania, directly managing and supporting all IT staff across the public sector. The implementation of the Digital Agenda 2015-2020 has demonstrated positive results, particularly in terms of public administration digitalisation and proliferation of e-services on the e-Albania portal. A revised Digital Agenda action plan for the next period was approved by the Council of Ministers in December 2020. The government's interoperability platform supports 53 public institutions to deliver e-services and exchange data. In 2019, the platform registered a 35% activity increase, a trend that was boosted by the COVID-19 pandemic, resulting in a 100% increase in 2020. While current use rates of e-Albania services are increasing, low computer literacy amongst the over 60s and the fact that 40% of the population resides in rural areas where Internet penetration is still very low, create a digital divide that needs to be urgently addressed.

#### *Sub-dimension 10.1: Access*

**Broadband infrastructure** has been significantly improved through the implementation of the National Broadband Plan (NBP) for 2013-2020, although the fixed broadband penetration rate in 2019 was still low at 15.6% of the population and 58% of households, as compared to more than 35% of population in the EU (ITU, 2019<sup>[159]</sup>). While the number of fixed broadband subscribers increased by 20% from 2018 to 2019, a significant urban-rural divide exists (penetration is 36% in Tirana but only 7% in rural Shkodra) (AKEP, 2019<sup>[160]</sup>). Broadband speeds can now reach 1 Gigabit per second (Gbps), but the majority of subscribers (55%) have speeds of 4-10 Megabits per second (Mbps). On the other hand, the NBP 2013-2020 promoted 4G investment in mobile network infrastructure, leading to a 56% increase in investment to reach the record figure of about ALL 6.35 billion (approx. EUR 51 million) in 2019. This demonstrates that policy implementation over the last few years has improved the relevant legal and regulatory framework, creating

an enabling environment for private sector investments. The new NBP for 2020-2025 was approved in June 2020 to continue the economy's work towards its ambitious broadband connectivity targets. The NBP 2025 foresees strengthening the capacities of the institutions responsible for developing broadband at the central and local (municipality) level. It aims to close the digital divide in Albania, not only through broadband infrastructure development, but also through ensured affordability and proliferation of e-services. It also promotes the establishment and operation of a Broadband Competence Office (BCO), taking into consideration that a Thematic Group on Telecommunications and Broadband was created in February 2019 to provide horizontal co-ordination among public bodies and relevant external stakeholders.

The NBP 2025 was based on a feasibility study and cost-benefit analysis (CBA) performed by the Ministry of Infrastructure and Energy, with the support of an EU and Western Balkans Investment Framework (WBIF) technical assistance programme, the Regional Broadband Infrastructure Development project,<sup>113</sup> which was completed in July 2020.<sup>114</sup> The study illustrates the needs, options, and financing structure for rural network development in Albania. Based on the feasibility study, the government will secure a EUR 24 million loan from the European Investment Bank (EIB) for implementing the NBP, which includes further regulatory and organisational reforms to improve the existing framework for broadband infrastructure development. The Ministry of Finance and Economy has already adopted the guidance for state aid for broadband infrastructure development, in accordance with the EU framework, during Q4 of 2019. The broadband ATLAS was created by the national regulator, the Electronic and Postal Communications Authority (AKEP), and is continuously updated to ensure an extensive and realistic visual mapping of the existing backbone infrastructure and backhaul, including existing ducts and other passive elements. The ATLAS supports the implementation of the right of way in electronic communications, facilitating broadband infrastructure investments, promoting the co-ordination of civil works and sharing existing infrastructure of (other) utilities to reduce the cost of broadband deployment. The Ministry of Infrastructure and Energy is also implementing a second project, the Digital Balkan Highway, which is supported by the World Bank and aims to investigate whether it is possible to improve regional interconnectivity in the Western Balkans through infrastructure sharing of the optical fibre ground-wire installed over the years by local energy utilities (World Bank, 2017<sup>[161]</sup>). The ministry has also developed a draft 5G Roadmap and Strategy for Albania (the Expert Report: 5G Strategy for Albania).

Albania has fully aligned its **ICT regulatory policy framework** with the EU 2009 regulatory framework. The regulator AKEP is fully staffed and has the resources to perform its responsibilities, which is reflected in the active improvement of the regulatory framework through adjustments that support private sector investments in communications infrastructure development. For example, the Law on the Development of High-Speed Electronic Communication Network of 2016 promotes shared use of existing physical infrastructure and a more efficient development of new physical infrastructure (other utility networks included). The Regulation on the Implementation of the General Authorization Regime of 2017 promotes competition, encourages investment in networks and services for electronic communications, and enables the protection of subscribers' and users' rights. Albania also signed the Regional Roaming Agreement in April 2019, progressively reducing roaming charges among WB economies by July 2019 and eventually leading to the elimination of roaming charges by July 2021 (European Commission, 2020<sup>[162]</sup>). AKEP regularly monitors the market, publishes reports with data and relevant indicators, and implements regulatory impact assessments of each proposed regulation.

Albania developed a policy framework for **data accessibility** in 2015, but since then implementation has proceeded at a relatively slow pace. The Policy Document for the Implementation of Public Open Data and the Creation of the Open Data Portal, adopted in 2015, promotes data openness and re-use of public sector data, as well as basic legislation on creating open data portals. However, the Law on Open Data and the Re-use of Public Sector Information, which transposes Directive (EU) 2019/1024, is still pending adoption.<sup>115</sup> The National Agency for Information Society (NAIS) has created the government open access portal - the Open Government Data Portal of Albania<sup>116</sup>, where data sets are being published by public institutions, as well as the Partnership for Open Government Initiative (PQH/OGP) portal.<sup>117</sup> On a positive

note, the number of datasets available in the former have increased from 17 in 2018 to 101 in 2020. The NAIS provides co-ordination and technical for support interoperability, which is delivered via the so-called Government Gateway that enables data exchange among all public institutions. Albania has been actively implementing the Open Government Partnership<sup>118</sup> (OGP) action plans, but the dissolution of the Ministry of State for Innovation and Public Administration in September 2017 greatly affected continuity of implementation of the 2016-2018 action plan (Vurmo, 2019<sup>[163]</sup>). (Vurmo, 2019<sup>[163]</sup>) also observed that public participation in the implementation of the OGP action plans was weak or even completely absent, while the multi-stakeholder forum, OpenAlb, that facilitated civil society participation in the 2016-2018 OGP action plan, has been inactive since December 2016. However, a new OGP Action Plan 2020-2022 has been developed through a consultative process co-ordinated by the Deputy Prime Minister and the Development and Good Governance Unit within the Office of the Prime Minister. A regulatory impact assessment (RIA) “light system” was adopted in 2018 with a formal requirement for implementation for every legislative proposal, but its implementation has been progressing slowly (European Commission, 2019<sup>[79]</sup>). Some practical implementations are now appearing, such as the RIA prepared for the new law on open data, which was reviewed by independent experts. However, there was no realistic participation by citizens and businesses in the process.

### *Sub-dimension 10.2: Use*

Albania embarked on **digital government** development in 2013 and has demonstrated strong commitment to transforming public administration through digitalisation and other significant reforms. Aiming to reduce the enormous bureaucracy of the state, the government pledged not only to digitalise its services, but also to reduce the number of associated documents required to complete any citizen’s application by re-engineering government processes. It now ranks 59<sup>th</sup> out of 193 countries monitored by the UN in the e-Government Survey 2020 (United Nations, 2020<sup>[164]</sup>). To underpin this transformation, the government re-organised the National Agency for Information Society (NAIS) in 2017 (Box 20.12). With NAIS spearheading its digital government transformation, the e-Albania portal was created and connected to the Government Interoperability Platform which allows interaction between 53 public institutions’ electronic systems. An action plan for 2020 was agreed with these institutions, aiming to eliminate over-the-counter public services, replacing them with complete online-only public services with a single application point on e-Albania.

The e-Signed Documents Circulation System was also set up for document exchange between public institutions (more than 139 institutions were interconnected in 2020). As of December 2020, 1 021 online public service applications were working (out of around 1 400 services in total). All documents required to complete these services, except personal declarations and private sector documents, are gathered in e-sealed format by the institutions themselves. Although the government planned to provide more than 90% of all public services online on the e-Albania portal by the end of 2020, achieving this promise will require further work during 2021 (United Nations, 2020<sup>[164]</sup>). While 373 e-services currently enable the entire administrative procedure to be completed online, 648 only enable application submission, while the actual document or licence needs to be picked up by the citizen or business over the counter. As of December 2020, the e-Albania platform counted more than 1.7 million registered users, of which almost 760 000 were new users added during the COVID-19 pandemic.

### Box 20.12. Co-ordinating a whole-of-government digital transformation

The National Agency for Information Society (NAIS) is the core institution in Albania for the digitalising the government and its services to citizens, businesses and public sector employees. It is responsible for co-ordinating government work in the information and communication technology (ICT) area and the e-services government portal (e-Albania.al). NAIS promotes new technologies, connecting systems to the Governmental Interoperability Platform, and drafts strategies and policy implementation plans for e-Government and the information society. It is the co-ordinating regulatory authority responsible for the state databases and electronic signature services in Albania.

Since 2017, based on the Decision on the Reorganization of the National Agency for Information Society (NAIS), the information technology (IT) staff of line ministries and institutions are under the organisational chart of NAIS, although they are physically employed in the premises of those institutions. Their role is to support the employees of the respective institutions in their daily IT activities, namely in using the IT systems and tools for public administration and managing the e-services provided by their institution. This close co-ordination mechanism that directly connects centralised NAIS staff to all decentralised IT staff across the economy, has enabled service standardisation and boosted e-service quality.

NAIS is primarily state funded and employs more than 330 people, more than 90% of whom are highly skilled technical staff. The main challenge that they face is modernising the legal and regulatory framework and changing public officials' mindsets while they attempt to redesign and reform public administration processes through ICTs. The top-level government and high-ranking public officials have been strong supporters of online services and digitalisation. In 2018, NAIS prioritised the list of ICT projects needed to improve the e-government infrastructure in Albania and during 2019, approximately 30 systems were either created or upgraded in collaboration with the respective institutions.

Source: National Agency for Information Society (NAIS).

NAIS has performed extensive capacity building for public sector officials, primarily to change mindsets towards the new digital government system. It has trained 2 000 civil servants working over the counter on how to use the new systems and how to assist citizens on the e-Albania portal. NAIS maintains all information systems and digital government portals, and evaluates and acts on anonymised surveys conducted by external stakeholders on the quality of services on the e-Albania portal. It has also implemented the Public Consultations Portal,<sup>119</sup> where all draft legal acts are published for open consultations; and the co-governance platform Albania We Want,<sup>120</sup> which assists and supports citizens stuck in the bureaucratic labyrinth. This has proved to be an effective tool for combating the lack of transparency and accountability in public administration. Reports are published on individual institutions' websites, and NAIS provides centralised reports on the progress of digital government development.

Programmes to support **private sector ICT adoption** have not been prioritised, although policy documents like the Digital Agenda and the National Strategy for Development in principle promote SMEs' adoption of ICTs. Some indirect support for buying ICT equipment has been provided through the Innovation Fund. Under the scope of the fund's main objective to foster innovation and support innovative start-ups, it co-finances technology audits, purchase of software and hardware, and capacity building in ICT. However, the impact of this type of support, and other innovation funding programmes, is limited by the small number of beneficiary companies (e.g. only 62 companies are Innovation Fund beneficiaries). There are no programmes promoting e-commerce or e-business in Albania to boost ICT adoption by companies. According to a 2020 survey by the Albanian Institute of Statistics, although 28% of enterprises employ an ICT specialist, which is higher than the EU average (19% in 2019), only 45% of enterprises had a website (the EU average was 77% in 2019) and the majority (89%) used it mainly to publish product catalogues or price lists (INSTAT, 2021<sup>[165]</sup>). Also, 12.8% of enterprises were involved in e-commerce activities in 2020.



As the EU average in 2018 was 20%, this indicates that the e-commerce environment is still underdeveloped (INSTAT, 2021<sup>[165]</sup>).

### *Sub-dimension 10.3: Jobs*

Basic **digital skills for students** are developed in the primary and secondary education system, in line with relevant objectives in the Digital Agenda 2015-2020 policy framework. The National Pre-University Curriculum Framework, developed by the Institute of Educational Development, identifies digital competence as one of seven key competencies to be developed in general education and vocational programmes. The Institute for the Development of Education is the main government body for developing ICT curricula for schools, as well as teacher training and qualification testing on ICT curricula and competencies. Indicators of digital skills for students are not systematically monitored or reported. Although a minimum level of digital skills is required to pass to the next level in secondary education, the main hindering factor is the low level of broadband Internet connections in schools and the lack of computers for students. According to Regional Cooperation Council (RCC) data, availability of Internet connections in schools was as low as 4.8% of schools in 2017 in Albania, although recent efforts have improved the situation (RCC, 2020<sup>[166]</sup>). In 2020, 1 255 schools (approximately 25%) have Internet connections at speeds slightly above 10Mbps.

The lack of digital skills in the economy negatively affects both the demand and supply of digital products. It also undermines the potential of digitalisation to create employment and generate positive spillovers to other sectors of the economy, in particular services such as tourism. The development of **digital skills for adults** is not yet fully integrated into VET systems or lifelong learning programmes. Although the Digital Agenda makes specific reference to digital skills, and the National Employment and Skills Strategy 2019-2022 emphasises the development of skills that match labour market needs in its specific objectives, there is still a wide gap between youth skills and market needs. The National Agency for Education, Vocational Training and Qualifications (NAVETQ) is responsible for promoting the Electronic Platform for Adult Learning in Europe (EPALE) as well as matters related to the National Qualifications Framework and VET information management system. The donor-funded Skills Development for Employment (SD4E) Programme (UNDP, 2020<sup>[167]</sup>) has implemented a complete skills' needs analysis (including 2 560 enterprises covering all sectors of the economy) and supported the Ministry of Finance and Economy on the new VET Law and related regulatory framework in an effort to improve the overall quality of VET services and the development of skills for employment. A decision on the criteria and procedures for inclusion of lifelong learning qualifications in the levels of the Albanian Qualifications Framework was adopted in 2019. During the COVID-19 pandemic, VET schools were instructed to conduct online distance learning through various commercial or free platforms and guidelines were developed to support administrative issues for the online teaching process and tips on distance learning and student assessment.

Albania has not allocated sufficient resources to **ICT sector promotion**, particularly for the IT sub-sector, despite its recognised growth potential. Although policy documents like the Digital Agenda 2015-2020 and the National Strategy for Development and Integration 2014-2020 focus on re-using open public data, developing electronic services and digitalising public administration, no specific focus is placed on strengthening the domestic IT industry, even though it could support the effective implementation of these strategies. On the other hand, the growth of the communications sub-sector is realistically supported through the National Broadband Plan and the improved legal and regulatory framework that facilitates private sector investments in network infrastructure development. The ICT industry can benefit from government-funded programmes common to all sectors of the industry, like the Competitiveness Fund, the Innovation Fund, other programmes for innovation start-ups (e.g. TechSpace<sup>121</sup>) and R&D grants provided by the National Agency for Scientific Research and Innovation. However, aside from financial support programmes, ICT industry stakeholders report that finding or training highly skilled ICT professionals is difficult and retaining them is even harder, since brain drain heavily impacts this industry. On the upside,

ICT sector companies benefit from a reduced profit tax rate (5% instead of a 20% nominal tax for all other sectors). The ICT industry suggests that tax incentives and social security reliefs would also be beneficial for retaining talent.

#### *Sub-dimension 10.4: Society*

Although there is no specific policy document that provides a **digital inclusion framework**, some aspects are addressed by the Digital Agenda 2020 and the new National Broadband Plan for 2020-2025, which includes a strategic objective to reduce the digital divide through rural broadband infrastructure projects. On top of increasing broadband penetration, the digital transformation of the public administration and e-government services development also provide a realistic opportunity for increasing digital inclusion. Provisions have been made for citizens who are unable to apply online for e-services to get support from trained employees at local post offices or ADISA<sup>122</sup> counters. Moreover, the Strategy for Social Protection 2015-2020 included a target for developing an integrated information system for financial aid and social services for people with disabilities.

Obligations for web presentation of public sector bodies based on e-accessibility standards were enacted in 2019 and evidence suggests that progress has been made with its practical implementation (e.g. functionalities based on World Wide Web Consortium standards for e-accessibility are now embedded in ministries' websites). However, the framework doesn't adequately promote certification schemes based on accessibility requirements and standards for ICT product and services. On the positive side, several multi-user information systems (MISs) have been created for social services during the last few years, such as the MIS for Economic Aid (application and eligibility process for the economic aid and disability payment), the National Register for Persons with Disabilities, the Integrated MIS for Social Services (application and eligibility process for social service payment), the Rome Alb (the database system which includes inter-sectorial data for the Roma people) and the Revalb (electronic system operated at the local level which records domestic violence). The implementation of most of these MISs was supported by donors. A database for digital inclusion indicators has not been created, but some data on Internet use by age, gender and location are monitored by the Institute of Statistics, while broadband penetration indicators are monitored by the Electronic and Postal Communications Authority (AKEP).

#### *Sub-dimension 10.5: Trust*

The framework for digital **privacy protections** is not completely aligned with the current EU framework. The existing Law on Personal Data Protection (PDP) was originally adopted in 2008, and the preparation of a new law that transposes the EU General Data Protection Regulation (EU 2016/679) started in October 2020 through an IPA-funded project.<sup>123</sup> The new law, which will also transpose the Police Directive (EU 2016/680), will be ready for adoption in the last quarter of 2021. The Law on Electronic Communications also includes a chapter on e-privacy based on the Privacy and Electronic Communications Directive (2002/58/EC). The existing framework includes several by-laws and regulations for online privacy protections, including the most recent Instruction on certification of information security management systems, personal data and their protection, which was adopted in 2018. The Information and Data Protection Commissioner (IDP Commissioner) has prepared a draft law on ratifying the 2018 Protocol amending the Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data, which is not yet adopted. Moreover, the draft act on amendments to the Law on the Right to Information, including the European Commission's recommendations to transform the Commissioner's decision to an executive title, obliging its execution by all public administration officials, has been prepared but is still to be submitted to parliament. While the IDP Commissioner's office publishes annual reports on data protection activities on their website (including data on PDP, complaints, inspections and objections), they have insufficient resources for public awareness raising and professional training and depend on donor support for such activities. On a positive note, in November 2020, the Commissioner's Office was approved to employ 7 new staff members, raising the total number to 44.<sup>124</sup> In its annual report for 2019,

the Commissioner confirms that public authorities are becoming more transparent (voluntary data disclosure), even though more work is required in terms of information content and quality.

The Commissioner's office has organised the Privacy App competition to design a smart phone application that enables individuals to file a complaint from their smart phones in case of any violation or misuse of personal data. The IDP Application (for Android OS) is already available. The Commissioner's Office also continued implementing various awareness-raising activities on the right to information and data protection in 2020. In the context of measures to address the COVID-19 pandemic, the IDP Commissioner has strengthened the personal data protection framework by adopting three guidelines in 2020:

1. Guidelines on the protection of personal data in the context of measures taken against COVID-19 (20.03.2020).
2. Guidelines on the processing of personal data in specific sectors within the measures against COVID-19 (06.04.2020).
3. Guidelines on the processing of personal data in accordance with the COVID-19 Hygiene and Sanitary Protocols (04.05.2020).

These contain important guidance for employers on complying with the principles and legal criteria for processing personal data in the context of emergency measures taken against the spread of the coronavirus that require continuous monitoring of employees' health conditions. These instructions aimed to regulate employees' personal health data processing in quantity and qualities that – reasonably – exceed the usual processing of data during normal working conditions. Processing includes not only collecting and storing processed health data, but also transmitting it to law enforcement bodies tasked with combatting the pandemic, including bodies authorised by law to conduct epidemiological surveillance. The IDP Commissioner stipulated that the processing of personal data of the respective data subjects may last only as long as the purpose of the processing exists. Consequently, with the disappearance of the coronavirus pandemic, any controller (including employers and law enforcement bodies) is obliged to delete or destroy the personal data processed in this framework. Personal data controllers must remain aware of the importance of respecting the principles of proportionality and data minimisation when processing personal data. In the case at hand, this means that information processed should be adequate, relevant and limited to what is necessary to achieve the specific purpose of preventing or mitigating the spread of the virus.

Despite the guidelines and efforts of the IDP Commissioner, there have been complaints that the media has repeatedly breached privacy rules on citizens' personal health data during this period, including releasing names of deceased persons and pictures from the morgue of Tirana during late 2020. Such actions have often been the subject of debate and discussion on social media platforms. The Office of the IDP Commissioner has examined 315 complaints since the pandemic began, namely between March 2020 and February 2021.

Insufficient legislation on **consumer protection in e-commerce** and its lack of promotion by the government hinder the development of e-commerce in Albania. Internet purchases are not popular among the population, either due to the low use of credit cards, low purchasing power or the high cost of shipping. Additionally, many online merchants do not ship to Albania. The ICT survey by the Institute of Statistics indicated that only 10.1% of individuals ordered or bought products and services online during 2019, compared to an EU average of 60% (INSTAT, 2019<sup>[168]</sup>). In 2016, the government lowered the duty-free amount from EUR 150 to 22, which significantly reduced cross-border online shopping. Recently, efforts have been made to prepare the transposition of the EU regulation on cross-border parcel delivery services (2018/644/EU), which is expected around June 2021. The basic framework for consumer protection in e-commerce consists of a number of laws and regulations that require improvement, including the law on e-commerce and the law on consumer protection, which is aligned to the EU Directive on consumer rights (2011/83/EU). The inter-sectoral Strategy on Consumer Protection and Market Surveillance 2020 contains some elements regarding e-commerce. The Consumer Protection Commission (CPC) is the competent

authority for law enforcement in e-commerce, but according to their reports, very few complaints about e-commerce have been filed. There are no indicators on consumer protection in e-commerce that are regularly monitored by a state body. Some e-commerce indicators are collected within ICT use surveys by the Institute of Statistics, but they do not address consumer protection. The implementation of the framework is weak in offering opportunities to consumers to access consumer education information and advice, as well as how to file complaints related to e-commerce. The draft Action Plan for Development of Electronic Commerce 2021-2024, still to be adopted by the Council of Ministers, is expected to address some of the current issues in the field of e-commerce, including consumer protection.

The **digital security risk management** framework is based on the Digital Agenda and the National Strategy for Cybersecurity 2020-2025, adopted in December 2020; as well as the Law on Electronic Signatures (2008); the Law for Electronic Identification and Trusted Services (2015), which partly transposes the eIDAS Regulation (EU 910/2014);<sup>125</sup> and the law on Cybersecurity (2017), which partly transposes the NIS Directive (EU 2016/1148). The Authority for Electronic Certification and Cybersecurity (AKCESK) supervises the implementation of the legal framework. The AKCESK has been the national computer emergency response team (CERT) since 2017, and maintains the central registry of cybersecurity incidents and the list of Critical Information Infrastructure (CII). It also incorporates the former National Authority for Electronic Certificates, performing supervision and control of the provision of e-signatures services, meaning that it registers, accredits and supervises the Certificate Service Providers. It is currently in the process of becoming a Full Member of the global Forum of Incident Response and Security Teams (FIRST) and has acquired accredited member status in Trusted Introducer. It has already signed MoUs for co-operation with other CERTs in the Western Balkans. AKCESK is also responsible for monitoring and collecting data on cybersecurity. However, AKCESK is challenged by a lack of human, technical and financial resources, which has kept the national CERT, AL-CSIRT, from becoming fully operational and has only marginally allowed for capacity building and cybersecurity exercises to be conducted. On a positive note, the new structural organisation of AKCESK was approved in January 2020, which formally established the AI-CSIRT and opened the way for hiring seven new staff members, two of whom were hired by the end of 2020. Another welcome development was a wide Internet safety awareness campaign<sup>126</sup> during 2018 and 2019 in 15 schools in 7 regions, in which 312 children were trained as peer educators and an additional 15 000 children took part. This activity falls under the adopted National Action Plan of Child Online Safety 2017-2020.

### ***The way forward for digital society***

Despite some important steps to improve the digital society policy framework, the government of Albania should pay more attention to the following aspects:

- **Accelerate the adoption of open data and data re-use legislation and strengthen the demand for open data innovation through inclusive co-creation processes.** Although the policy framework and open data platforms are in place, proliferation of published datasets is slow, the general public has not been widely engaged and the level of informed public debate on data-driven issues remains low. The government would need to raise public awareness, build capacities of public officials and develop public-private partnerships on open data innovation for the creation of e-services and applications for citizens and businesses.
- **Improve the legal framework on e-commerce and e-business and promote private sector ICT adoption through financial support programmes.** Design targeted programmes for SMEs to enable digitalisation of a large number of companies from all industry sectors. Chambers of Commerce could help assess the type of support needed and select appropriate financial schemes (such as subsidies or tax relief) for purchasing software/hardware and staff IT training, while promoting business process transformation through e-commerce and e-business development.

- **Provide adequate public investment for developing the digital skills of students and adults, in parallel to increasing Internet connectivity and ICTs for schools.** Access to broadband communication services, functioning computers and digital education aids need to be ensured for every school and every student in the economy. IT curricula, progressing from basic to advanced digital skills, need to be designed with support from the ICT industry. VET education and IT curricula also need to be updated to improve quality and improve students' digital skills for employment. Employment services could work with the ICT industry to design training programmes that address the needs of the labour market. Public capacity-building programmes at municipality level should also be implemented to empower citizens, so that they can fully enjoy the benefits of digitalisation in public administration.
- **Adopt accessibility requirements in public procurement of ICT products and services and create corresponding certification schemes.** Digital inclusion policies need to ensure that an ICT product or service is considered accessible when it can be used by all its intended users, given that a person's ability to use technology may be impaired by various physical, sensory, emotional or cognitive disabilities. Related policies need to ensure accessible ICTs as a powerful enabler of people's ability to participate in every aspect of modern life.
- **Design a programme for consumer protection in e-commerce that realistically promotes consumers' education or guidance and builds trust in e-commerce.** Consider conducting widespread awareness campaigns that educate the public on their rights and how to exercise them in e-commerce transactions. Provide online guides for consumers and e-traders and build consumer trust in e-commerce. The programme would also need to address legal and regulatory shortcomings (e.g. regarding e-payments, taxation and banking sector practices), improve protection against fraudulent or misleading practices and privacy abuse issues, and introduce dispute resolution and redress mechanisms in e-commerce. The programme would also need to prescribe regular monitoring of e-commerce and consumer protection indicators.

## Transport policy (Dimension 11)

### Introduction

Since the last Competitiveness Outlook (CO) assessment (2018), the main transport policy improvements made by Albania concern transport vision and transport project selection. Only moderate efforts have been observed in road safety, even though Albania declared 2020 as the Year of Road Safety. Policy progress in the railway sector has stagnated. Albania's performance in the transport dimension is the second best in the region and above the Western Balkan six (WB6) regional average (Table 20.16), but further efforts are still needed to achieve the EU average. Sub-dimension 11.1 on planning scores above the WB6 average, and Albania has the most developed transport project selection system of all economies in the WB region. Sub-dimension 11.2 on governance and regulation is in line with the WB6 average, while sub-dimension 11.3 on sustainability has a low score both for Albania and the other WB6 economies, which is explained by the low scoring for the road safety strategy, environmental sustainability and combined transport strategy indicators.

**Table 20.16. Albania's scores for transport policy**

Dimension	Sub-dimension	Score	WB6 average
Transport policy dimension	Sub-dimension 11.1: Planning	3.3	2.3
	Sub-dimension 11.2: Governance and regulation	2.5	2.6
	Sub-dimension 11.3: Sustainability	1.5	1.3
Albania's overall score		<b>2.5</b>	<b>2.0</b>

### State of play and key developments

#### *Sub-dimension 11.1: Planning*

Since the last CO assessment, Albania has continued to follow its **transport vision** in the Sectorial Strategy for Transport (SST) and its action plan for 2016-2020. It takes a holistic policy-making approach that considers the transport model, multimodality and tourism policy. Various consultations with public institutions, implementation agencies and NGOs were held during the strategy development process. Roles and responsibilities are clearly allocated amongst institutions. The SST is aligned with the National Development and Integration Strategy 2015-2020, which has also identified priority transport projects. In total 43 priority actions were identified in the SST across all transport modes for the five-year period, including 144 tasks, with implementation plans and allocated budgets, covering a balance between soft measures and investments, and meeting the criteria of relevance, effectiveness, efficiency, consistence, coherence, utility, sustainability, and monitoring defined within the SST. Implementation is proceeding well. According to the SST's latest monitoring report (MIE, 2019<sup>[169]</sup>) and additional data provided by the government, over 80.5% of the tasks have been completed, 10.7% have not been completed and the remaining 8.8% have not started yet.

In February 2019 the Technical Secretariat and Thematic Groups on transport, energy, telecommunication and broadband were established; their human and financial capacities are sufficient to execute their tasks to identify, select and prioritise projects for the development of the transport strategy. This accomplishes one of the very important tasks defined within the SST action plan. They are responsible for implementing the SST and its action plan, as well as renewing the Single Project Pipeline (SPP).<sup>127</sup> The Technical Secretariat is made up exclusively of Ministry of Infrastructure and Energy (MIE) representatives, which is not an ideal setup when the SST covers so many different fields (environmental, social, tourism, budgeting, etc.). It is recommended that representatives from the other relevant ministries be involved in this secretariat too. Meanwhile, some other high-level decision groups (Integrated Policy Management Group, formed in 2015, and the inter-institutional working group for monitoring the implementation of the SST) do

include representatives from different ministries (Ministry of Finance and Economy, and other implementation agencies depending on the agenda). Until 2019, transport-related strategic documents were always aligned with the European Commission Staff Working Document (CSWD) on EU Enlargement Policy. With a new CSWD issued in October 2020 (European Commission, 2020<sup>[19]</sup>), it is expected that the new SST (as the existing strategy expired in 2020) will have to also be fully aligned with the latest CSWD. The MIE has secured the necessary financial support from the EU Delegation in Tirana to develop the SST and its action plan for the period 2021-26, which is expected to be finalised by mid-2021.

The Albanian National Transport Plan (ANTP) serves as a transport master plan, and was adopted by the government in 2017 (MIE, 2017<sup>[170]</sup>). It is updated every four years. The second revision of the ANTP, i.e. the 3<sup>rd</sup> ANTP covering the period 2019-2023 (MIE, 2020<sup>[171]</sup>), was approved in 2020, prioritising the projects from the SST (i.e. SPP) using the transport model. The new SST for the period 2021-2026 should be aligned with all the latest strategies and plans (e.g. ANTP3, and the Strategy for Application of Intelligent Systems in the Road Transport adopted in June 2020 – a new multimodal strategy that is expected to be finalised in 2021, etc.). The new national transport strategy should incorporate lessons learned from the monitoring of the previous SST implementation and ensure all activities are implemented. However, it remains to be seen to what extent such lessons will be used to inform future strategy updates.

A new governance tool developed in 2020 to support integrated policy, strategy implementation and monitoring,<sup>128</sup> should be implemented in each spending department of the institutions funded by the state budget, such as financing and economy, procurement, information technology (IT), etc. Its current implementation level is not entirely known, however. Some legislation has been adopted as a result of the strategy (as presented for each of the transport modes below), but it is not clear to what degree it is harmonised with the EU's Transport Community Treaty (TCT) (EUR-Lex, 2017<sup>[172]</sup>) since the data are not available for all required fields. The exception is the trans-European Transport Network (TEN-T) development (50% transposed and implemented, and 50% partially transposed and implemented).<sup>129</sup>

There has been co-operation with other WB economies (Greece, Kosovo, Montenegro and North Macedonia) to exchange experiences on transport planning, as per the previous CO's recommendations, especially through cross-border co-operation programmes for transport facilitation, tourism promotion in border areas, employment, etc. Co-operation also occurred during the development and review of the ANTP (with Croatia, Greece, Italy and Slovenia). The exchange of good practice included joint planning through the Transport Community Permanent Secretariat's (TCPS's) Technical Committees. All these activities need to be expanded to other WB economies on a regular bilateral basis and intensified, as the proper development of transport vision and planning leading to a single and competitive regional transport market can only be ensured through regular regional discussion involving the implementation agencies.

Since the last CO assessment, Albania has significantly progressed in developing the legislation needed to improve **transport project selection** and project implementation, supported by the financial management information system. New guidelines for procedures, preparation, presentation and reporting of annual financial content in general government units have been adopted. In addition, a Decision for procedures for public investment management has been adopted; the methodology sets out comprehensive, weighted criteria for project selection. The brand-new horizontal governance tool, described above, is expected to improve institutional co-ordination across ministries and implementing agencies, with the main purpose of following up implementation of the SST, and monitoring expenditure. Within the project selection process, each project in the SPP process has to be developed based on the EU Guide to Cost-Benefit Analysis of Infrastructure Projects (European Commission, 2013<sup>[173]</sup>), including assessing the environmental and social impacts and safety. A prioritisation process is applied to all projects in the SPP process. The government claims that affordability is taken into account within the prioritisation framework, but clear explanations with good practice examples of transportation affordability were not available. A straightforward methodology is needed for assessing whether projects are affordable to the wider population and to Albania's economy.

*Ex post* monitoring is conducted annually by the technical assistance services contracted by the Delegation of the European Union in Albania within the last five years, and the prioritisation framework is updated based on this monitoring. According to the government, *ex post* monitoring by local institutions is also planned, but there were no reports available at the time of writing. Results of monitoring and evaluation analysis inform policy framework design and implementation updates as per OECD good practice, and the methodology based on the OECD Development Assistance Committee (DAC) Rio Markers for Climate Handbook<sup>130</sup> has been applied.

Since the last CO assessment, the Law on Public Procurement (2018) has been upgraded, with some amendments to tackle corruption,<sup>131</sup> and is partially aligned with the EU Directive for improving the effectiveness of review procedures concerning the award of public contracts (Directive 2007/66/EC). The amendments to the Law on Concessions (2019) prescribe the unification of award procedures for road concessions/PPPs with all other concession/PPP procedures. The procurement process is applied to all transport projects funded through the state budget. Both **implementation and procurement** processes are followed through the financial management information system. *Ex post* evaluation of the implementation and procurement processes is done for projects funded from both national and international funds, and the lessons learnt have been incorporated into amended legislation mentioned above. The amendments cover flexibility, self-initiated tariff raising by the concessionaire for container terminals, and withdrawal of the procurement procedure due to unfair and discriminatory processes for road construction and airport concession processes. These help to create a favourable legal framework to attract foreign investors.

The roles and responsibilities of the government bodies involved in procurement and implementation procedures are well-defined, and human and financial capacities are adequate for the tasks assigned to the institutions and implementing agencies carrying out the activities. National bodies (e.g. national audit offices) oversee the procurement and monitoring of PPPs. The MoF and the ATRAKO are responsible for concession/PPP projects. Co-operation with other WB economies is established in project implementation and procurement, and good practices are being shared and applied where possible (e.g. the development of one-stop shops<sup>132</sup> at the railway border crossing point with Montenegro, and at the road border crossing points with Montenegro and Kosovo). Implementation strategies for all transport modes exist and are followed according to the mid-term budget programme. If the project is funded through international financial institution (IFI) funds, IFI procurement procedures are applied. The procurement procedures are consistently monitored.

Albania still has much to achieve in developing an **asset management system** (OECD, 2001<sup>[174]</sup>),<sup>133</sup> though very good progress has been noted in the road sector since the last CO assessment (see below). An asset management system does not exist for every transport mode. Some efforts have been made to establish an asset management system as described in the Preparation of Maintenance Plans 2018-2022 for Road/Rail TEN-T indicative extensions to WB6 (CONNECTA, 2018<sup>[175]</sup>), which represents the strategic framework for roads and railways. However, the asset management system has not been successful (e.g. the GIS and database were not being updated regularly). This Maintenance Plan has been adopted in 2020 and represents the strategic framework for roads and railways.

A successful action for the asset management system was to develop the road database (RDB) in 2000-02, which was populated with inventory data collected through visual surveys and GPS co-ordinates (for the roads' axes).<sup>134</sup> However, this was only updated until 2009 and again in 2016, so it cannot be used as the main reference to assess the areas where the return on investment will be the greatest. The World Bank Project Results-based Road Maintenance and Safety Project (World Bank, 2017<sup>[176]</sup>) has entered into its third year of implementation. The project covers routine and periodic maintenance of about 1 333 kms of Albania's main roads through Output and Performance-based Maintenance and Rehabilitation (OPRCs). Once the assignment is complete Albania will have established a road asset management system (RAMS\_ portal), road database, reference system, pavement management system (PMS), bridge management system (BMS), and road maintenance management system (RMMS). It will also have



prepared an annual network roughness and surface distress data collection plan, determined average vehicle fleet characteristics, and evaluated current features of the road database related to the management and evaluation of recurrent maintenance activities and proposed improvements. When complete, it will equip Albania with all the necessary tools to plan road asset management comprehensively. Once the system is developed, national financial sources for the sustainability of the system should be secured.

Railway infrastructure asset (RIA) inventory data should be collected by the Infrastructure Manager, but they are either non-existent, not stored in a digital format or often outdated. The RIA inventory should include periodic monitoring of the conditions of infrastructure assets. An ongoing project funded by the EBRD to develop the railway asset management system was launched in February 2020.

The asset values have been incorporated into the new Albanian Financial Management Information System (AFMIS), which is quite innovative as it is the only single information system in the region that will contain all asset values.

Traffic flow data are not regularly monitored. An IFI-funded survey in 2006-10 used 1 000 traffic counters. These data are related only to the primary road network.

### *Sub-dimension 11.2: Governance and regulation*

Since the last CO assessment, regulatory reforms have continued at a steady pace in the field of **aviation regulation**. The Single European Sky (SES) I package has been fully transposed and implemented, though SES II regulations have not been fully transposed yet. Albania is an associated member of the BLUEMED Functional Airspace Block (FAB), which aims to avoid national fragmentation as it affects safety, limits capacity, and above all, adds to cost. The Airport Charges Directive is an important piece of EU legislation guiding the way charges should be set and monitored. They should be based on non-discrimination and transparency principles set by the EU, and quality standards related to the service-level agreements for services provided at the airport. The Airport Charges Directive has been transposed and implemented in Albania.<sup>135</sup> The market is monitored regularly by the Albanian Civil Aviation Authority (ACAA), but information on the monitoring scope, depth and frequency is not available. An air traffic management plan has been developed and monitored regularly through the Local Single Sky Implementation Monitoring (LSSIP) (EUROCONTROL, 2019<sup>[177]</sup>).<sup>136</sup> Safety culture,<sup>137</sup> covering safety risk assessment and safety assurance, has been adopted.

Air traffic is growing in Albania. The total number of passengers transported from all airports increased in the period 2017-19 by approximately 27%, amounting to 3.34 million passengers. This is a very good achievement in comparison with the global and EU averages, which increased respectively by 11.7% (IATA, 2020<sup>[178]</sup>) and 4% (EUR-Lex, 2014<sup>[179]</sup>) over the same period. Given the significant growth of this transport mode and its projected importance for the economy, it is important that Albania continues regulatory reforms and brings the governance of the aviation sector closer to European standards and international best practices. The Albanian Government is ready to promote higher tourism growth, and its impact will be assessed in the new national transport strategy for the period 2021-2026. The Sustainable Tourism Strategy (2019), promoting stronger economic growth and easier access to accommodation infrastructure, was recently adopted. Therefore, a positive trend in air passenger transport is expected due to potential tourism growth.

Some positive alignment efforts have been noticed in the **railway regulation** sector in Albania since the last CO assessment, but significantly more efforts are needed to align legislation with the TCT. The Law on the Railway Code has initiated rail reforms in accordance with the TCT. Structural reforms have been adopted, as well as proposals to establish national bodies, such as the Railway Regulatory Agency, National Safety Agency (NSA), National Accident and Incident Investigation Authority (NAIIA), Railway Licencing Agency (RLA), and an independent Infrastructure Manager (IM) from Railway Undertakings (RU), the entity in charge of maintaining rail vehicles. The RLA has been in existence since 2018, but its

funds are limited. The proposed NSA will take over the operations of the Railway Inspection Directorate. The budget for this transformation already exists. Rail reforms are monitored on a quarterly basis and monitoring reports are published annually. The latest available is for 2019, and covers network inspection, legal framework, controls for the infrastructure manager and railway undertakings, inspector monitoring, rail safety, as well as administrative and financial fields. The new NAIIA is proposed to jointly cover the rail and sea sectors. It was proposed in 2019 to unbundle operations from the IM but is yet to happen. Draft legislation for the access reforms was prepared but not yet adopted by the government due to institutional and financial issues (budgets for the new institutions are not approved through the medium-term budget plan).

The SST defines the framework for rail freight corridors but Regulation (EU) 913/2010 on Rail Freight Corridors has not yet been transposed. Regulation (EU) 1371/2007 on Rail Passenger's Rights and Obligations has been partially transposed through the new Railway Code. There is a new regional Rail Action Plan (TCPS, 2020<sup>[180]</sup>), endorsed by the Ministerial Council of the TCPS in October 2020, covering the period 2020-23. However, the actions related to rail market opening, passenger rights, border/common crossing operations, interoperability, governance and modernisation are not yet available. An overview of the results achieved on alignment is expected soon. A Network Statement (NS) was issued for 2019, but only for infrastructure – not for service facilities. Directive (EU) 2012/34 on establishing a single European railway area states that operators of service facilities that are not controlled by the infrastructure manager must supply information on charges for gaining access to the facility and for providing services. Interoperability Directive EU 2016/797 (EUR-Lex, 2016<sup>[181]</sup>) is partially transposed into the Law on Railway Code. Albania has already advanced bilateral co-operation in the railway sector by signing a border crossing agreement with Montenegro for an OSS at the Tuzi border crossing point (BCP); this is working well. This is the only railway BCP so there are no similar activities with other WB economies.

The National Register of Railway Vehicles was established in 2020, which is very positive. It will consist of a single database of all used vehicles, owners, entities in charge of vehicle maintenance and vehicle technical information, as well as limitations on vehicle use. However, by 2024 this new national vehicle register will be transformed into a centralised registry for European Vehicle Register (EVR) vehicles in line with Commission Implementing Decision 2018/1614. The Railway Inspection Directorate regularly inspects the rail network and legal framework, and publishes annual reports which set out maintenance planning.

A significant downward trend has been noticed in passenger railway transport, and fleet utilisation is low compared to the EU average (Table 20.17). There are many steps to be taken to revive railway passenger transport. On the other hand, the high modal share of railway fleet utilisation shows that the market is progressing in the right direction. The only railway connection from Albania to Europe is through Montenegro and Serbia via railway Route 2 and Route 4 (European Commission, 2015<sup>[182]</sup>). Given the current rehabilitation and modernisation of railway Route 4 between Bar (Montenegro) and Belgrade (Serbia), the railway share is likely to increase in the coming years, and especially in the coming decade when the rehabilitation of 210 kms of railway is completed between the Montenegro/Serbia border and Belgrade. At the same time, construction and reconstruction works need to be continued in Albania as planned in the national transport strategy and the action plan. In addition to this, positive movements have been noticed in the funds allocated for railway infrastructure since the last CO assessment, with investment increasing approximately five-fold, amounting to EUR 0.55 million in 2019. However, this is still below the average for the last decade and several times lower than the EU average.

**Table 20.17. Trends in rail transport in Albania (2017-19)**

Rail network utilisation	Change over 2017-19 (%)	2019 (million)	Share of the EU-28 average (2017) (%)
Passengers (passengers*km/km of track)	+71.8	0.008	2.8
Freight (tonnes*km/km of track)	+14.3	0.055	6.6
Rail fleet utilisation	Change over 2017-19 (%)	2019	Share of the EU-28 average (2017) (%)
Passengers (passengers*km/train*km)	-58.1	9.6	7.1%
Freight (tonnes*km/train*km)	+151	696	124%
Mode share	Change over 2017-19 (%)	Share of total transport (%)	Share of the EU-28 average (2017) (%)
Passenger transport (passengers*km)	-16	2.06	6.8%
Freight transport (tonnes*km)	+70	42.94	18.3%

Source: Inputs provided by the government as part of the quantitative questionnaire (CO2021); (Eurostat, 2021<sup>[183]</sup>), Victims in road accidents by NUTS 2 regions, [https://ec.europa.eu/eurostat/databrowser/view/tran\\_r\\_acci/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/tran_r_acci/default/table?lang=en); (INSTAT, n.d.<sup>[184]</sup>), Albanian Institute for Statistics, <http://www.instat.gov.al/>.

Some progress has been made in **road market regulation**, with significant efforts undertaken since the last CO assessment to harmonise legislation with the TCT. Specifically, legislation has been further aligned with Regulations 1071/2009/EC on preparing policy for an integrated intermodal transport system, harmonising passenger and freight transport legislation and strengthening regional co-operation by integrating the national core network into the TEN-T. Albania continues to participate in the European Conference of Ministers of Transport (ECMT) multilateral quota system (ITF/IRU, 2014<sup>[185]</sup>), which enables hauliers to undertake an unlimited number of multilateral freight operations in the 43 European member countries participating in the system. However, road network performance is only assessed occasionally and only for some indicators.<sup>138</sup> There is still scope to significantly improve measurement of other indicators<sup>139</sup> to monitor the road market sector.

The COVID-19 outbreak is affecting the entire transport and mobility market across the world, and the WB economies are no exception. In the second quarter of 2020 Albania introduced measures at border and customs control to enable the provision of essential goods and medical equipment. These consist of “green lane” measures on its major corridors for transporting emergency goods. Passing through these green lane border crossings should not exceed 15 minutes (including any checks and screenings), and so procedures should be minimised and streamlined, etc. The implementation of these measures could have a direct impact on how the border crossing is treated in the future. These include installing measures which minimise crossing times, such as the OSS at the Preševo/Tabanovce road BCP between Serbia and North Macedonia (which is similar but more advanced than the one at the Sukobin/Muriqan road BCP between Albania and Montenegro); automating customs procedures; and traffic management measures which convert physical queues into virtual queues, such as through the electronic queuing management system (e-QMS) installed in Baltic countries. These are currently being developed by the CONNCETA team along the Corridor X through Hungary, Croatia, Serbia, North Macedonia, and Greece, etc.).<sup>140</sup>

The existing legislation for **inland waterways (IWW) and maritime market regulation** is either fully transposed (e.g. flag state, port state control, international safety management code, ship-generated waste, minimum safety and health requirements on boat fishing vessels, enhancing ship and port facility security, and enhancing maritime port security) or needs to be amended or replaced to be aligned with international conventions and agreements and with the EU *acquis* and TCT (e.g. access to the market, international relations, international agreements, vessel traffic monitoring and information systems, etc.). The IWW sector is limited to two lakes (Skadar Lake shared with Montenegro and Ohrid Lake shared with North Macedonia), both regulated by bilateral agreements. According to the Maritime Code of the Republic of Albania, transport related tariffs are defined by the Ministry of Infrastructure and Energy and the Ministry of Finance. The project Enhancing the Development of Albanian Maritime Sector through Technical

Assistance and Increased Partnership (UNDP Albania, 2018<sup>[186]</sup>) is funded by the IFIs and started in 2018. It aims to provide a baseline assessment of the institutional and financial setup in the maritime transport sector, as well as to develop the institutional and legal framework to support maritime sector development, all based on the Norwegian experience (one of the leading maritime countries worldwide). It is expected to be finalised at the end of 2021. There are no specific incentives prescribed for shifting to the use of maritime transport. Indicators to measure performance of maritime transport have not been established yet. Statistical data are collected periodically and published every year in the Statistics Bulletin of the Statistic Institute of Albania. The total tonnes transported using maritime transport in Albania increased by 10.7% in the period 2017-19 and amounted to 4.5 million tonnes in 2019. The total number of passengers transported increased by 4.4% in the same period, amounting to 1.57 million passengers in 2019.

Indicators to assess the performance of all transport modes are either non-existent or not properly established (missing indicators include average user costs, travel time satisfaction level-reliability, value of assets, market research and customer feedback, quality of user information, audit programmes, etc.). Data surveys are not conducted regularly or planned soundly (planning should include a clear purpose, the level of data needed, and budgets need to be allocated); they tend only to be conducted for the purposes of the specific projects. Therefore, there is no basis for a quality assessment of transport network performance.

### *Sub-dimension 11.3: Sustainability*

Further efforts are required to improve **road safety** in Albania (Table 20.18). The National Road Safety Strategy<sup>141</sup> (NRSS) 2011-2020 has ended and was not in line with the relevant EU legislation (European Commission, 2019<sup>[187]</sup>; EUR-Lex, n.d.<sup>[188]</sup>; EUR-Lex, 2018<sup>[189]</sup>; Road Safety Sweden, 2020<sup>[190]</sup>; United Nations, 2020<sup>[191]</sup>). Areas not aligned include road infrastructure safety management, the safe system approach, and "forgiving" roads, etc.). Alignment is expected only after 2021 as the new strategy needs to be adopted but the government is still trying to find sources to finance it. The main law resulting from the NRSS is the amended Road Code of the Republic of Albania (2015), covering many new regulations.<sup>142</sup> The speed management plan, establishing a traffic management centre, and public awareness campaigns have not been implemented yet due to insufficient human and financial capacity within the ministry and respective implementing agencies. An important area not well developed so far in the road safety sector is an update of the strategy and legislation based on the monitoring report. The monitoring report for 2016 is more detailed than the one from 2019 due to a lack of human resources. An impact assessment of the NRSS has not been conducted.

Based on the Road Code and its sub laws, the Road Crash Database is administered by the Traffic Police in co-operation with other institutions.<sup>143</sup> The actual road accident data system is updated every month and the data are available from the traffic police. The database seems very limited in its expansion capacity.<sup>144</sup> The current technical assistance project for maintenance and road safety is expected to recommend a new road accident information system.<sup>145</sup> The Draft Road Safety Regional Action Plan, developed by the TCPS in 2019, was approved in April 2020, and the regional Road Safety Action Plan (TCPS, 2020<sup>[192]</sup>) was endorsed by the TCPS Council of Ministers in October 2020. Albania needs to align the national plans to achieve the goals set within this plan.

**Table 20.18. Road safety trends in Albania (2010-20)**

	2010-20 (%)	2017-20 (%)	2020
Change in the number of fatalities (Albania)	-48.6	-18.5	181
Change in the number of fatalities (EU-27)	-23*	-2.5*	-
Number of fatalities per million inhabitants (Albania)	-	-	63.3
Number of fatalities per million inhabitants (EU-27)	-	-	51**

\* Covering the period 2010-2019.

\*\* 2019.

Source: (European Commission, 2020<sup>[193]</sup>), 2019 Road Safety Statistics: What is behind the figures?, [https://ec.europa.eu/commission/presscorner/detail/en/qanda\\_20\\_1004](https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_1004); (INSTAT, n.d.<sup>[184]</sup>), Albanian Institute for Statistics, <http://www.instat.gov.al/>.

The goal of the EU Policy Orientation on Road Safety 2011-2020 (European Commission, 2010<sup>[194]</sup>) is to reduce road fatalities by 50% between 2010 and 2020 as part of the Decade of Action for Road Safety 2011–2020 officially proclaimed by the UN General Assembly in March 2010. Albania's NRSS is aligned with the EU document and this goal has been almost achieved as Albania decreased the number of fatalities in the period 2010-2020 by 48.6% (Table 20.18). However, it will need to make additional efforts to reach the new goal in the European "Vision Zero" Strategy for 2050 of a 50% further decrease in road fatalities in the decade 2021-2030. As there is no strategy yet developed for the new decade, then expectations should not be high. Since the last CO assessment, stagnation has been noticed in the road safety strategy indicator in comparison with the previous part of the decade. The reasons for this are unknown. The indicators presented above show some positive signs, and Albania has declared 2020 as a Road Safety Year, but much more effort is needed not only to harmonise the legislation with the TCT, but also in the areas of education, awareness campaigns, enforcement, etc.

Albania does not have an environmental sustainability strategy for the transport sector. **Environmental sustainability** is partially covered in the SST and its Action Plan for the period 2016-2020, which is linked to the Sustainable Transport Plan (STP) prepared in 2015 with the assistance of the EBRD and accepted by the Albanian Ministry of Transport and Infrastructure. The STP is a key document to meet the energy savings targets for the transport sector through 1) the quantitative assessment of past, existing and projected levels of energy use and greenhouse gas (GHG) emissions by transport mode; 2) increased use of more sustainable materials to reduce GHG emissions; 3) climate change adaptation; 4) reduction of other harmful emissions; and 5) improvements in transport's impact on biodiversity, the local environment, etc. In addition to this, the SST sets objectives for environmental protection. A shift from road to other transport modes, as well as incentives for e-mobility, are considered through the ANTP3.

The legal and regulatory framework to support **combined transport**<sup>146</sup> is not yet defined even though the national transport strategy set some priority actions. Co-modality is proposed through the ANTP3, approved in 2020, and the Intermodal Transport Strategy was finalised in January 2021, setting out strategic actions<sup>147</sup> for the development of intermodal transport in Albania.

The World Bank's Logistics Performance Index (LPI) (Düll et al., 2018<sup>[120]</sup>) is a multi-dimensional assessment and international benchmarking tool focused on trade facilitation. In the latest ranking (2018), Albania is 88<sup>th</sup> of 160 ranked countries, with an LPI score of 2.66. This is slightly below the world average (2.85) and far below the EU average (3.52). Albania's best score is for the timeliness indicator<sup>148</sup> (ranked 73) while the worst score is for infrastructure<sup>149</sup> (ranked 110).

Data collection is key for assessing the performance of all sustainability areas. A strategy for data collection needs to be established as a basis for the assessment of the transport sector, as it will directly influence the prioritisation processes within the transport policy in general.

## ***The way forward for transport policy***

Albania has taken some important steps forward to develop a competitive transport sector, as presented above, but special attention should be paid to the following challenges:

- **Enhance implementation, monitoring and readjustment of the approved policy framework.** The transport policy framework is only periodically revised based on monitoring reports. Adapting the policy framework based on regular monitoring is key to keeping it up to date, relevant and effective. Monitoring reports need to be developed for each strategy and other strategic documents, and should also be publicly available.
- **Develop national cost-benefit analysis (CBA) guidelines and tailor them specifically to Albania, ensuring they cover all transport modes.** It is very important for each economy to develop its own CBA guidelines with accompanying national technical instructions. The guidance needs to be updated often, at least every two years. A good example is the United Kingdom's Transport Analysis Guidance (UK Government, 2019<sup>[195]</sup>), which provides information on the role of transport modelling and transport project appraisal tailored to the UK market. To ensure consistency amongst the discount rates used for similar projects in the same economy, it is necessary to develop an economy-specific benchmark for all technical and economic parameters, including the financial and economic discount rate in the national guidance documents, and then to apply it consistently in project appraisal at the national level. Empirical research needs to be conducted at the national level to generate input data for calculating externalities.
- **Continue rail reforms.** The basic reforms have started (e.g. structural reforms have already been adopted by the central government and commenced, access reforms are drafted but not yet approved, and the SST has set one of the priority actions for freight corridor reforms). These reforms should be continued, especially those to promote competition, and access reforms which will allow for an efficient system with better performance. Freight corridor management reforms are needed as a prerequisite for the next steps related to high-quality capacity and a competitive modal shift to rail. Passengers' rights and obligation reforms should be directed to meeting passenger expectations so as to promote rail travel. Interoperability reforms should be done gradually as they take time and funds, but they are very important for developing international railway transport.
- **Prioritise road safety.** The monitoring results of the existing road safety strategy, including lessons learnt, should be used to develop the new strategy. Further efforts are required to align national legislation with the TCT and EU *acquis*. All actions proposed in the new strategy need to include the implementing agency responsible, the timeline for implementation, the budget, and monitoring indicators. An impact assessment of the new strategy also has to be carried out. A road safety agency needs to be established with the appropriate staffing and funding resources, to undertake activities (e.g. education, awareness campaigns, development of road safety coordination bodies in local communities) to follow-up the implementation of the strategy and increase safety on Albanian roads. Box 20.13 contains an idea from Montenegro that could act as inspiration.
- **Maintain transport facilitation as a key priority.** More OSSs are needed, and other measures in the newly endorsed regional Action Plan for Transport Facilitation (Transport Community, 2020<sup>[196]</sup>). Measures include improving and upgrading existing information and communication technology infrastructure, constructing or modernising infrastructure to remove physical and technical barriers and increasing existing capacities, capacity building to improve performance efficiency, etc. Implementing these measures will be a key trigger for increasing the competitiveness and connectivity of the WB region, and driving its deeper integration in the European market. Very good examples could be emulated from the region – North Macedonia and Serbia have recently introduced a well-developed OSS system and are currently in the initial stages of implementing a pilot project for an electronic queuing management system.

- **Develop an Integrated Environmental and Transport Action plan.** This plan needs to integrate the existing indicators and to include any missing ones in a framework for environmental sustainability in the transport sector. A good example was developed by the European Environmental Agency in the form of the Transport and Environment Reporting Mechanism (European Environment Agency, 2020<sup>[197]</sup>), which prescribes indicators for tracking transport and environmental performance in the EU.<sup>150</sup>

#### Box 20.13. Innovative ideas in road safety: Road safety social impact bonds in Montenegro

In 2018, the UNDP in Montenegro, in co-operation with the key national players in road safety, developed a new idea related to road safety social impact bonds. These are an innovative alternative performance-based public financial instrument, which shifts the policy framework from inputs and outputs to outcomes and value for money. The idea is to involve the private sector in investing in road safety improvements with the main aim of strengthening sustainability jointly with the public sector. The public partner commits to paying outcome payments to the investor if and only if the predefined and measurable social goals are met. This idea has great potential for other economies in the region (and beyond) to replicate and scale up the model.

Source: (UNDP Montenegro, 2014<sup>[198]</sup>), *Rethinking road safety in Montenegro*, <https://www.me.undp.org/content/montenegro/en/home/projects/RoadSafety.html>.

## Energy policy (Dimension 12)

### Introduction

Albania has made significant progress since the last Competitiveness Outlook. Together with North Macedonia, Albania is a regional leader in all most all sub-dimensions and indicators for the energy dimension. Its score has risen from 2.0 to 3.2 (Table 20.19). While it has made significant progress in all sub-dimensions, its most important advances are in regard to the regulator, deployment of a power exchange, working towards establishing a natural gas market, and unbundling.

**Table 20.19. Albania's scores for energy policy**

Dimension	Sub-dimension	Score	WB6 average
Energy policy dimension	Sub-dimension 12.1: Governance and regulation	3.5	3.1
	Sub-dimension 12.2: Security of energy supply	2.9	2.9
	Sub-dimension 12.3: Energy markets	3.3	3.0
Albania's overall score		<b>3.2</b>	<b>3.0</b>

### State of play and key developments

#### *Sub-dimension 12.1: Governance and regulation*

The energy sector is guided by a comprehensive **energy policy, legal and institutional framework**. This framework is closely aligned to the EU Third Energy Package, which can be seen as a benchmark for good practice to be applied in the Western Balkans (Box 20.14). However, there is a divergence in opinion over the extent to which the Albanian framework reflects the Third Energy Package. The government states that transposition and implementation ranges from 58% to 85% across the various sub-sectors. Meanwhile, the Energy Community rates transposition to be at 47%, with an additional 44% needing improvement and 8% being completely untransposed, while implementation ranges between 28% and 77% across the various sub-sectors (Energy Community Secretariat, 2020<sup>[199]</sup>). Despite the differences in the range, it should be stressed that Albania has made strides since the last assessment (Energy Community Secretariat, 2019<sup>[200]</sup>). Moreover, Albania is amongst a select few WB6 economies to have transposed some, and possibly all, of the network codes—including all codes on network connections. Moreover, the government has stated that Albania is also working to transpose the first elements of the EU's Clean Energy Package (Box 20.14).<sup>151</sup> Meanwhile, the sector is guided by an extensive set of policies, with up to 50% of the policies having been implemented so far. The sector has state entities with specific and clearly defined roles. Finally, a variety of indicators and data are collected and published at regular intervals, supporting a comprehensive approach to monitoring and to policy design for the sector.

Furthermore, Albania has extensive legislation that assures comprehensive consideration of externalities such as greenhouse gases and air quality within the energy sector. For example, the sector is guided and governed by UN targets known as the National Determined Contributions (formalised in the Decision of the Council of Ministers No. 762 from 16.9.2015), which provide the energy sector with a carbon dioxide emissions reduction target of 11.5% between 2016 and 2030. This is equivalent to reducing annual carbon dioxide emissions by 708 000 tonnes by 2030, or a reduction of 2 tonnes of annual emissions per capita by 2030. Furthermore, the new drafts of the Law on Climate Change contain articles that should allow a European Union-style emission trading scheme to be implemented in Albania in the future.<sup>152</sup>



### Box 20.14. The EU's Third Energy Package

In 2007, the European Commission proposed a new legislative package, the Third Energy Package, in an effort to further enhance and harmonise the EU's Energy Union and internal energy market. This package entered into force in September 2009 and consisted of several important directives and regulations.<sup>1</sup>

The Third Energy Package largely rests on four pillars: 1) transparency; 2) non-discrimination; 3) a strong, independent national regulator; and 4) sustainability.

Together, these pillars represent EU best practice and aim to establish a fair and level-playing field for competitive energy markets that seek to optimise scarce resources. For example, the first two pillars drive the need for unbundling the transmission and distribution system, combined with guaranteed, non-discriminatory and open access to those networks to all users backed by transparent rules and prices. Without such unbundling requirements and third-party access, it is very possible that the system operators, which are natural monopolies, could prohibit market entry and lead to sub-economic market outcomes.

In addition to these pillars, the Third Energy Package also seeks to enhance international co-operation within the EU by establishing an international regulatory agency (the Agency for the Co-operation of Energy Regulators – ACER) and promoting regional integration. Regulation (EC) No 714/2009 contains clauses that open and allow for further regulation to be drafted to enhance harmonisation in the form of network codes.

In 2019, the EU introduced the Clean Energy Package, which supplements and in part replaces the Third Energy Package. That is, while the Clean Energy Package retains the key legislative aspects of the Third Energy Package, it expands measures for sustainability and green energy growth, as well as consumer rights and protections. Despite this, the Third Energy Package remains a good starting point for all of WB economies as many of its key pillars have so far not been introduced or implemented in their entirety in the region. Aligning with it is also a requirement for the WB economies, as members of the Energy Community, whose *acquis* reflects most of the Third Energy Package. Moreover, with many WB economies aspiring to become EU members, the transposition and implementation of the Third Energy Package and subsequent Clean Energy Package are part of the accession requirements.

To conclude, the Third Energy Package provides for the implementation of good international best practice for competitive markets, and is also a firm requirement for the Western Balkan economies.

1: Directive 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC; Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC; Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003; Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005; Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators.

However, there are some shortcomings that need to be overcome in order to truly state that the energy market is compliant with international good practices. For example, while the establishment of the power exchange is a positive development, it is not expected to start operation until sometime in 2021. Moreover, while market liberalisation has moved forward for customers on the 35 kV (and up) lines, customers in the retail market are still tied to the universal suppliers with regulated prices. This is supplemented by a policy through which supply side liquidity from the wholesale market is diverted through an agreement between Korporata Elektroenergjitike Shqiptare (the largest generator in Albania) and the universal supplier and distribution system operator to provide them with priority supply. Similarly, there has been progress in unbundling Operatori i Shpërndarjes së Energjisë Elektrike SH.A (the former distribution system operator);

however, the operational unbundling is still outstanding—for more details please see Sub-dimension 12.3: Energy markets.

Meanwhile, **the energy regulator**, the Energy Regulatory Entity (ERE), is established as an independent regulator in line with international good practice. This independence is reflected in its autonomous decision making on its work activity, human resources management – including salaries – and financial activity. Moreover, ERE follows international good practice for monitoring and the accountability of its work package. Nonetheless, there are some minor shortcomings. First and foremost, the legislation governing ERE lacks some requirements, including a rotation scheme for board members, a requirement for reporting on compliance of supply prices with public service obligation limits, a requirement for ERE to design and implement steps to promote competition and liquidity, as well as a requirement for ERE to request transmission and distribution system operators to change their terms and conditions.<sup>153</sup>

Finally, the Energy Community Secretariat has raised some concerns regarding the fines that ERE can impose (Energy Community Secretariat, 2020<sup>[201]</sup>; Energy Community Secretariat, 2019<sup>[200]</sup>). More precisely, Article 107 of the Albanian Energy Law limits fines to between 0.1% and 3% of annual revenue. Meanwhile, Article 37 of EU Directive 2007/72/EC and Article 41 of EU Directive 2009/73/EC stipulate that regulators should be able to “impose effective, proportionate and dissuasive penalties on electricity undertakings not complying with their obligations under this Directive or any relevant legally binding decisions of the regulatory authority” and limits this to 10%. In other words, while Albania’s provision is compliant with EU directives, the Energy Community Secretariat is concerned that the Albanian upper limit of 3% is well below the 10% set out in the EU directives. Nonetheless, the Energy Community Secretariat ranks ERE to be amongst the top three regulators in the Western Balkans (Energy Community Secretariat, 2020<sup>[199]</sup>).

Regarding the **management of energy infrastructure**, Albania has an advanced and comprehensive infrastructure management policy in place, of which at least 75% has been implemented. However, Albania’s performance is being held back by having only partially transposed the EU Regulation 347/2013 on guidelines for trans-European energy infrastructure. The Energy Community Secretariat notes that the following key aspects of the European Union Regulation have not been transposed (Energy Community Secretariat, 2019<sup>[200]</sup>; Energy Community Secretariat, 2020<sup>[201]</sup>):

1. A methodology and criteria used to evaluate investments in infrastructure projects, particularly for high-risk infrastructure.
2. Publication of a procedures manual for granting permits to projects of Energy Community interest.

Moreover, while roles and responsibilities are clear, the overshadowing aspect of unbundling muddies the waters a little. Nonetheless, the system entails a clear strategy and guidance for enhancing Albania’s infrastructure and regional integration. This is further backed by a comprehensive system for collecting indicators and monitoring, as well as an asset registry and management system.

### *Sub-dimension 12.2: Security of energy supply*

While Albania does not have a natural gas market at the moment, it is seeking to establish a **natural gas supply framework**. Since the end of 2020, Albania is connected to and receiving natural gas extracted from Azerbaijan via the Trans Adriatic Pipeline.

As it stands today, the Albanian natural gas sector is governed by an extensive legislative and policy framework, including emergency plans. Nonetheless, while the transposition of the Energy Community *acquis* with regard to natural gas is complete,<sup>154</sup> implementation is rated at 42%. This low score reflects two aspects. The first is that the natural gas market in Albania is very nascent and currently lacks a wholesale market. The second is that there are serious issues with unbundling and a lack of natural gas

market rules (see unbundling section in Sub-dimension 12.3: Energy markets). On a positive note, the gas network codes, supply rules and customer protection laws have been adopted.

Meanwhile, the policy framework provides for comprehensive guidance to the sector, including on a supply framework and increasing the penetration of natural gas in the Albanian energy mix. To this end, the National Sectorial Plan for the Albanian Gas Sector (commonly referred to as the Albanian Gas Master Plan) identifies key infrastructure investment projects to be implemented over the short, medium and long term (Table 20.20).

**Table 20.20. Key infrastructure investment projects**

Short term	
Development of the TAP pipeline, Vlora TPP development of the gas distribution system in the city of Vlora	Development of transmission system to supply customers in Fier and Ballsh and the development of local gas distribution systems in the areas of Fier and Ballsh
Medium term	
Development of transmission system to supply industrial areas in Elbasan, and the development of gas storage areas in Dumre	Development of transmission system for the supply of industrial and commercial customers in the area of Durrës and Tirana
Long term	
Development of gas transmission system near Korça, to supply the planned Korça TPP, and further in Pogradec	Development of the transmission system from Ballshi to Tepelena and Gjirokastra
Development of Alkogap project	Development of the transmission system from Pogradec to Prenjas and further to North Macedonia
Development of the transmission system in Shkodra	Development of transmission system for TPP planned in Kuçova

Albania is actively participating in expanding the regional natural gas pipeline network, such as the Trans-Adriatic natural gas Pipeline (TAP) project,<sup>155</sup> Ionian Adriatic natural gas Pipeline (IAP) project,<sup>156</sup> and the Albania-Kosovo natural gas interconnection. However, there is no comprehensive monitoring system as the absence of a natural gas market means there are limited opportunities to measure, collect, and analyse indicators and information.

The **electricity supply framework** is governed by a comprehensive legislative and policy framework including possible supply distribution, which is governed by Article 90 of the Law on the Power Sector. The electricity supply framework is guided by state entities with clearly defined roles and is monitored based on extensive data and indicators that are collected and published at varying frequencies.

**Renewable energy** accounts for a significant share of Albania's energy mix—approximately 35% of its domestic energy supply (Eurostat, 2020<sup>[202]</sup>; Eurostat, 2020<sup>[203]</sup>). However, it should be noted that most, but not all, of renewable energy in Albania is derived from hydro generation and subject to significant annual fluctuations due to hydrological changes. That is, of the 2 162 megawatts (MW) of total renewable installed capacity in 2019, 14 MW was from non-hydro sources—up from 1 MW in 2018 and 2017 (Eurostat, 2020<sup>[204]</sup>). Therefore, an urgent task facing Albania both from an optimisation and risk minimisation perspective is to increase and diversify the renewable energy mix. While Albania is well advanced and well placed for non-hydro renewable energy growth, implementation is not finalised and is patchy in some areas. Albania's annual renewable generation potential is 10 733 gigawatt hours (GWh) (by 2030), and it generated around 8 000 GWh of renewable energy in 2018—or around 80% (Eurostat, 2020<sup>[203]</sup>). By virtue of having extensively developed its hydro power generation, Albania still holds significant potential for wind and solar generation. (IRENA, 2019<sup>[205]</sup>) estimates Albania's technical total potential at 3.7 terawatt hours (TWh) for solar and 13.7 TWh for wind.

Overall, the renewable energy sector is guided by extensive policy, contained in the updated National Renewable Energy Action Plan, although this guidance extends only till the end of 2020; as well as the National Consolidated Renewable Energy Action Plan (NCREAP 2019-2020), and the Law on the Promotion of the Use of Energy from Renewable Sources. According to information provided by the government, around 50% of the Law on Renewable Energy and more than 75% of the NCREAP have been implemented. The main outstanding tasks to implement the law fully are the adoption of secondary

acts in order to enable a conducive investment framework for investors in renewable energy. In particular, the stability and predictability of the renewable energy framework, as well as its transparency and non-discrimination for investors, still need to be enhanced.

Project allocation is assigned in theory via competitive auctions with the use of feed-in premiums or contract-for-difference (instead of feed-in tariffs). However, despite this theoretically positive position, Albania has postponed the auction and use of feed-in premiums/contract-for-difference until 2021. The delay in the switch to feed-in premiums is also reflected in the execution of a recent solar project which will partially employ feed-in tariff support—although the contract has not been finalised. Continuing this theme of partial implementation, while the law recognises the principles and concepts of guaranteed integration/connection to the grid and priority dispatching of renewable energy, when it comes to implementation the associated secondary legislation and the rules setting the cost of connection are absent. Moreover, the balancing responsibility of renewable energy generators is enshrined in the law, but this has been suspended until 2022—although transitory non-discriminatory balancing rules are being introduced. Another positive step to note is that the law recognises the role of distributed small-scale self-consumption producers (prosumers) in combination with net metering—although some taxation questions are still to be resolved.

As already mentioned, one current issue at hand is the continued dominance of feed-in tariffs, a subsidisation approach no longer favoured in most of Europe due to the disconnect it creates between incentive-driven renewable energy generation behaviour and market realities (Box 20.15). However, for now it appears as if feed-in tariffs will remain the dominant subsidisation approach in Albania.<sup>157</sup>

Another negative aspect to be noted is that the cost associated with renewable support subsidies is being levied only on consumers connected to the distribution grid and not on consumers directly connected to the transmission grid, such as large industrial consumers.

**Energy efficiency** in Albania is still in its early stages. Although it has an extensive primary legislative framework for energy efficiency,<sup>158</sup> the transposition of the EU Third Energy Package is not complete, including the adoption of bylaws and secondary acts (Energy Community Secretariat, 2020<sup>[201]</sup>). As a result, the Energy Community Secretariat rates Albania's implementation at 56%<sup>159</sup> (Energy Community Secretariat, 2019<sup>[200]</sup>) which also agrees with the government's perception of implementation of 58%. However, it should be noted that Albania is actively working on increasing the transposition. A new version of the Energy Efficiency Law has been finalised and awaits adoption. Moreover, the legislation for energy certification of building systems is being drafted and at the time of writing was expected to be adopted and deployed sometime towards the end of 2020.

In addition to the legislative framework, the sector is guided by an energy efficiency policy in the form of the Third National Energy Efficiency Action Plan (DCM No. 709 dated 01.12.2017), of which around 50% has been implemented. While the plan provides targets to 2020, it does not contain targets beyond 2020 apart from expected developments. It is therefore important that new policy guidance with a vision beyond 2020 is released soon. To this end, Albania is drafting the National Energy and Climate Plan which will contain new targets to 2030 (Energy Community Secretariat, 2021<sup>[206]</sup>; Energy Community Secretariat, 2021<sup>[207]</sup>). There is no dedicated energy efficiency strategy for industry, although the first considerations have been made.

The sector is guided by two state entities: the Ministry of Infrastructure and Energy and the Energy Efficiency Agency. The latter was established in 2018 and is in the process of being fully staffed. In other words, there is currently a shortage of human resources in public entities. There is no dedicated government-funded energy efficiency fund—although energy efficiency investment opportunities are realised as part of a project funded by the international financial institutions or commercial banks. Additionally, the government has initiated various projects to refurbish government buildings (and dormitories).

Albania does have a system in place for data collection and monitoring of energy efficiency. It collects information in the context of its responsibility as an Energy Community member and has published four progress reports between 2018 and 2020.<sup>160</sup> One indicator collected is the energy intensity of the economy. This was 0.22 thousand tonnes oil equivalent per million Euros in 2014 and is expected to drop to 0.21 in 2020 (a 0.7% decline per annum) and to 0.18 in 2030 (a 1.4% decline per annum). However, there are some issues with regard to data collection. The data are based on top-down estimates and are supposed to be collected by the Energy Efficiency Agency. However, the following four issues prevent the Energy Efficiency Agency from collecting accurate/actual data:

1. the absence of energy auditors to provide data
2. shortcomings in the Law on Energy Efficiency (absence of an identification mechanism for large energy consumers)
3. delayed secondary legislation (governing areas such as minimum energy performance requirements, national calculation methodology, and energy performance certification)
4. the absence of a bottom-up methodology for data collection (currently being development with IFI assistance).<sup>161</sup>

### *Sub-dimension 12.3: Energy markets*

Albania has also made significant progress in introducing competitive **market operations**. However, as Albania does not have a natural gas market, this section will almost exclusively focus on the power sector.

Albania's energy market is guided by an extensive set of legislation and policy. One positive aspect is that Albania has finalised the shareholder structure of the new power exchange together with Kosovo, and has formally formed the power exchange, ALPEX. It is expected that the power exchange will be operational sometime in 2021. Furthermore, a dry run for the balancing market has begun, with the balancing market expected to start operating sometime in 2021. This is a significant step towards a competitiveness-driven balancing market in which imbalances are paid for and compensation paid to balancing service providers.

However, some key issues remain, especially until the power exchange becomes active. First and foremost, the universal supplier of electricity, FSHU, and the distribution system operator for electricity, OSSH, continue to receive electricity for the supply of customers under universal supply and distribution losses on a preferential regulated price basis from the largest generator, Korporata Elektroenergjitike Shqiptare. Korporata Elektroenergjitike Shqiptare also has to compensate FSHU and OSSH for any electricity that had to be purchased at unregulated prices from the wholesale market (bilateral market)—or at least the difference between the contract/regulated and unregulated price. Connected to this issue is that all consumers in the retail market and wholesale consumers connected to lines below 35 kV are still tied to the universal suppliers and are thus paying regulated prices. Moreover, European Union Regulation No 1227/2011 on the wholesale energy market integrity and transparency is currently not transposed or adopted. This does not mean that market manipulation is rampant, but suggests that Albanian regulation does not reflect good practice and the price outcome of the future power exchange platform could misrepresent the economic situation.

The state of **unbundling** in Albania, much like market operation, is on the right track to align with best practices, but it is not quite there yet. Starting with natural gas, the two transmission system operators have been unbundled and certified. Nonetheless, their certification was conditional on the Trans Adriatic Pipeline and Albgaz (which is also the distribution system operator) implementing certain steps. However, in both cases, not all conditions have been met so far. In the case of Albgaz, the outstanding issue relates to Albgaz not being in a position to make its own investment decisions. This power currently still rests with the Ministry of Infrastructure and Energy. Nonetheless, both companies have adopted their network codes which grant third party access, in line with the primary legislative environment for third parties and following

the practices set out the EU's Third Energy Package. Moreover, the codes set out the standard entry-exit tariff approach in line with the Third Energy Package.

In the case of electricity, the transmission system operator, Operatori i Sistemit të Transmetimit, has been unbundled and certified as such. The unbundling of the distribution system operator is in progress. More precisely, Operatori i Shpërndarjes së Energjisë Elektrike SH.A has been restructured into a holding company with three subsidiaries: the distribution system operator OSSH, the universal service supplier FSHU and the electricity market supplier/trader FTL. However, the functional unbundling, or in other words the operational independence of the OSSH, is still in progress. The functional unbundling encompasses various areas: the unbundling of accounts; the separation of assets; the separation of management; finalising relevant service-level-agreements between the Operatori i Shpërndarjes së Energjisë Elektrike SH.A companies; independent communication and branding of the restructured companies to avoid any potential confusion; adoption of a compliance programme; and giving independent and effective decision-making rights to OSSH. While some of these have been completed, the majority have not. Therefore, the Energy Community Secretariat has not yet issued a positive opinion on the state of unbundling of OSSH (Energy Community Secretariat, 2019<sup>[200]</sup>; Energy Community Secretariat, 2020<sup>[201]</sup>).

**Third-party access** is enshrined in the legislation. Nonetheless, the Energy Community Secretariat notes that third-party access to the new electricity interconnector between Albania and Kosovo is still not ensured (Energy Community Secretariat, 2020<sup>[201]</sup>).

The power sector's **regional integration** is guided by extensive policy and legislation that aim to establish a competitive power market and expand the interconnections with neighbours. The government notes that more than 50% of the policy for regional integration has been implemented.<sup>162</sup> A positive development is that the capacity for Albania's interconnectors is assigned using joint auctions via the Coordinated Auction Office in South East Europe. The exception to this approach is the use of split auctions with Serbia's JSC Elektromreža Srbije. Albania has adopted all three network connection network codes, as well as the capacity allocation and congestion management and the rule for the nominated electricity market operator.

Finally, although today Albania has no market coupling, one of its key hurdles, the lack of a power exchange, has been overcome. While the exchange is not yet in operation, the expectation is that it will be soon. Significant progress is expected as a result. Moreover, with KOSTT SH.A. and Operatori i Sistemit të Transmetimit (OST) joining forces to establish the power exchange, they have signed an agreement to establish a new load frequency control (LFC) block, Albania-Kosovo (AK).<sup>163</sup> Implementation will commence once the KOSTT system is established as a separate control area. This is expected to be the first step towards Albania's broader integration with organised regional electricity markets (Energy Community Secretariat, 2020<sup>[201]</sup>). However, market integration could be improved, especially with regard to natural gas, and to a lesser extent electricity.

### *Cross-cutting dimension: Energy incentives – direct and indirect subsidies in the energy sector*

The issue of subsidisation is, as in other Western Balkans economies, a key topic and is present in Albania in various forms.

First and foremost, as detailed in the energy market section above, the continued use of Korporata Elektroenergjitike Shqiptare as a source of electricity (or payment) for various activities – including universal supply – is not only a form of subsidisation but also undermines competitive price formation as it withholds some of the lowest marginal cost energy generation from the market.<sup>164</sup> This also holds true for the issue raised above regarding consumers being bound to regulated prices and one supplier. Unlike with Korporata Elektroenergjitike Shqiptare, which is about supply side liquidity, the lack of retail liberalisation and price deregulation means that significant demand side liquidity is withheld from the market.<sup>165</sup>

Another form of subsidisation in Albania's energy market is the existence of outstanding payments among energy stakeholders and between energy stakeholders and the government. Firstly, there is a significant volume of arrears owing between key entities which remain unsettled as some entities refuse to accept the retroactive imbalance cost associated with their activities. All in all, the arrears between Operatori i Shpërndarjes së Energjisë Elektrike SH.A (former distribution system operator), Operatori i Sistemit të Transmetimit, and Korporata Elektroenergjitike Shqiptare (transmission system operators) amount to around ALL 18 billion. Meanwhile, Korporata Elektroenergjitike Shqiptare (the state and largest generator) and Operatori i Shpërndarjes së Energjisë Elektrike SH.A (former distribution system operator) owe ALL 5.47 billion in taxes to the government—down from ALL 8.36 billion in 2018. These outstanding payments are a form of subsidisation as the result is that these entities had lower operational costs than other non-state entities.

Finally, a similar form of subsidisation is the existence of a different payment ethic on the part of public entities, including water supply companies, towards Operatori i Shpërndarjes së Energjisë Elektrike SH.A (former distribution system operator). In 2020, the total debts of all state-owned entities – including water supply companies, all the other state-owned companies, the budgetary and non-budgetary entities – amounted to ALL 27.3 billion, of which ALL 16.2 billion was racked up by water supply companies.

While Albania is working on tackling these issues, including paying arrears, these subsidisations need to cease and be settled as they push the market away from competitiveness-driven equilibrium and the associated optimised distribution of scarce resources to the highest value-added consumers.

### ***The way forward for energy policy***

Overall, it can be concluded that Albania has made strides in deploying a competitive energy market based on international good practice and that a strong foundation is in place. Nonetheless, there are some outstanding steps to be taken before Albania is truly there:

- **Complete the transposition and implementation of the EU Third Energy Package.** Its full transposition and implementation would help Albania lay the foundations of an energy market based on international good practice (Box 20.15). Moreover, Albania should now consider transposing and implementing the EU's Clean Energy Package, which reflects the latest lessons learned by the European Union with regard to legislation and policy for a sustainable and low-carbon energy sector (see Box 20.14).
- **Finalise the power exchange and unbundling of the distribution system operator.** Both factors will contribute to the transparent and non-discriminatory operation of the market, which should attract participants and lead to a competitive market in which prices are optimised and economic rent distributed efficiently. In other words, resources would be more efficiently allocated using economic forces and in line with international good practice. Moreover, these steps should be coupled with the **liberalisation and regulation of the retail market** to further enhance the competitive market forces.
- **Finalise and implement the non-hydro renewable energy support scheme.** Renewable energy projects should be allocated via competitive auctions and the support scheme should be switched to feed-in premiums to promote renewable energy generation. By attracting investors, these measures should support a liquid market with generation at a lower marginal variable cost in the long run. For good practice on support schemes see Box 20.15.
- **Terminate the preferential contract between Korporata Elektroenergjitike Shqiptare and other public service/universal suppliers.** The current approach is withdrawing important liquidity from the market that would otherwise have led to stronger price pressure and thus to a more competitive energy market and overall economy.
- **Support the development of energy efficiency** to harness its competitive benefit for Albania's economy. Together with the expansion of renewable energy, energy efficiency minimises the cost of



energy to the economy while creating a sustainable and climate-resilient energy market in which energy demand is more muted both with respect to future growth and variability over time.

- **Aggressively pursue regional integration and market coupling.** International trade is a great source of market pressure that will support a fair, transparent, and non-discriminatory market and thus lead to economic gains for both the energy market and wider economy.
- **Design and implement a greenhouse gas pricing mechanism that eventually transforms into a greenhouse gas certificate market/trading scheme** in line with international good practice and as stipulated in the new draft of the Law on Climate Change. This step should support efforts to achieve a sustainable and climate-resilient energy market that is efficiently decarbonised in a competitive and efficient manner using economic market forces.

### Box 20.15. A new approach to subsidising renewable energy

Feed-in tariffs were the dominant form of financial support for renewables within the EU at the beginning of the 21<sup>st</sup> century. In this system, power plant operators receive a fixed payment for each unit of electricity generated independent of the electricity market price (Banja et al., 2017, p. 15<sub>[208]</sub>).

Feed-in tariff schemes offer several advantages, but mainly they insulate new market entrants from market price risks, which lowers their capital costs and enables private investment. The simplicity of feed-in tariffs makes them suitable for markets with a large number of non-commercial participants such as households or local community-based initiatives (CEER, 2018, p. 12<sub>[209]</sub>).

However, feed-in tariff schemes exclude producers from actively participating in the market, which hinders efforts to develop large, flexible and liquid electricity markets as the share of renewable energy grows. This limits growth to certain technologies and sizes of installations, and creates difficulties in setting and adjusting appropriate tariff levels (European Commission, 2013, pp. 12-13<sub>[173]</sub>). The latter has been a problem especially as costs of renewable generators have fallen rapidly in recent years.

The European Commission suggests switching from feed-in tariff to feed-in premium schemes (European Commission, 2013<sub>[173]</sub>). In these, plant operators sell the electricity generated directly on the electricity market and earn an additional payment on top of the electricity market price. This is received as a fixed payment or one adapted to changing market prices, thereby limiting price risks for plant operators, as well as the risks of providing windfall profits (Banja et al. 2018). Feed-in premium schemes are beneficial because they force renewable energy producers to find a seller on the market. They also ensure that renewable energy operators are exposed to market signals. A well-designed premium scheme can limit costs and drive innovation by using a competitive process to allocate support. Such schemes also include automatic and predictable adjustments to cost calculations, which give investors the information and confidence necessary to invest (European Commission, 2013, p. 8<sub>[173]</sub>).

The European Commission suggests using a feed-in premium scheme in combination with the following good practice recommendations (European Commission, 2013<sub>[173]</sub>):

- Do not pay premiums for production in hours where the system price is negative or above the level of remuneration deemed necessary.
- Assign renewable project and associated premiums using competitive allocation mechanisms such as auctions.
- Make planned volume-based premium reductions for new installations dependent on when they are approved, connected or commissioned.
- Conduct regular, planned and inclusive reviews of premiums for new installations.



However, the Council of European Energy Regulators reports that in 2016/17, 17 of the 27 European Union member countries still used some form of feed-in tariff, although mainly for small projects, while around 16 used feed-in premiums, including to complement feed-in tariffs (European Commission, 2014<sup>[210]</sup>).

For further and more detailed exploration of renewable energy subsidies and best practice please see the sources below. Meanwhile, for more information on the different renewable support schemes employed across Europe please see <http://www.res-legal.eu/home/> and for an overview of auctions and outcomes (including databases on auctions) see <http://aures2project.eu/>.

Source: (Banja et al., 2017<sup>[208]</sup>), “Renewables in the EU”, <https://e3p.jrc.ec.europa.eu/sites/default/files/documents/publications/kjna29100enn.pdf>; (CEER, 2018<sup>[209]</sup>), *Status Review of Renewable Support Schemes in Europe for 2016 and 2017*, <https://www.ceer.eu/documents/104400/-/-/80ff3127-8328-52c3-4d01-0acbdb2d3bed>; (European Commission, 2013<sup>[173]</sup>), European Commission guidance for the design of renewable support schemes, [https://ec.europa.eu/energy/sites/ener/files/com\\_2013\\_public\\_intervention\\_swd04\\_en.pdf](https://ec.europa.eu/energy/sites/ener/files/com_2013_public_intervention_swd04_en.pdf); (EUR-Lex, 2014<sup>[179]</sup>), *Guidelines on State Aid for Environmental Protection and Energy 2014-2020*, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0628%2801%29>.

## Environment policy (Dimension 13)

### Introduction

Albania has only slightly improved its performance in the environmental policy dimension (Figure 20.1). Its overall score has improved from 1.8 in the 2018 Competitiveness Outlook to 1.9 in the 2021 assessment, with some progress noted in the natural asset base sub-dimension. Albania's scores in the resource productivity and environmental quality of life sub-dimensions, as well as its average score, are lower than the regional averages (Table 20.21). Albania ranks fifth of the six Western Balkan (WB6) economies for environmental policy.

**Table 20.21. Albania's scores for environment policy**

Dimension	Sub-dimension	Score	WB6 average
Environment policy dimension	Sub-dimension 13.1: Resource productivity	1.8	2.0
	Sub-dimension 13.2: Natural asset base	2.2	2.1
	Sub-dimension 13.3: Environmental quality of life	1.8	2.3
Albania's overall score		<b>1.9</b>	<b>2.1</b>

### State of play and key developments

#### *Sub-dimension 13.1: Resource productivity*

As a Non-Annex-I signatory to the United Nations Framework Convention on Climate Change (UNFCCC) and its Paris Agreement, and as a party to the Kyoto Protocol, Albania has committed to an 11.5% reduction of carbon dioxide (CO<sub>2</sub>) emissions compared to the baseline for the period 2016 to 2030, and to limit global warming. A GHG emissions inventory exists online and emission reduction targets have been set, but the target of a 38% share of renewable energy sources in gross final energy consumption by 2020 has not been attained.

**Climate change mitigation and adaptation policies** have nevertheless advanced in Albania since the last assessment. Most notably, the Law on Climate Change was adopted in January 2021 and establishes the institutional framework and rules for monitoring, reporting and verifying greenhouse gas emissions, in line with EU regulations and *acquis*. It provides, among others, a legal basis for adopting a National Energy and Climate Plan (NECP) for 2021-2030. Moreover, a Strategy on Climate Change, and related Action Plans on Mitigation and Adaptation (2019-2030), were adopted in 2019, and represent a general cross-cutting strategy with policy objectives and concrete actions to: 1) reduce GHG emissions; and 2) make Albania resilient to climate change. The strategy focuses on energy, transport, agriculture, land use and forestry, with a revised 32% renewable energy target by 2030 (European Commission, 2020<sup>[19]</sup>). As nearly two-thirds of Albania's total CO<sub>2</sub> emissions come from transport (60% in 2014), with road transport by far the main contributor, Albania has made efforts to decrease the sector's environmental footprint through the Sustainable Transport Plan (2016-2020),<sup>166</sup> adopted to help meet the targets of reducing energy consumption and improving overall sustainability. Other sectoral strategies aimed at mitigating climate change include the Inter-sectoral Strategy for Agriculture and Rural Development (2014-2020), which is expected to help tackle climate change by promoting resource efficiency through investments in energy-saving physical assets in agriculture. In addition to climate change mitigation measures, this strategy aims to reinforce adaptation to climate change (e.g. through measures on landscape restoration and reforestation).

Albania has started updating its Nationally Determined Contributions (NDCs) for the period after 2020, for which it received technical expertise and capacity building from the NDC Partnership and its Climate Action Enhancement Package, which Albania joined in 2019. In parallel to this, the economy has started

developing its National Energy and Climate Change Plan (to be finalised in the first trimester of 2021), which will be aligned with the updated NDCs, the Strategy for Climate Change Mitigation and Adaptation and the new law on Climate Change. Measures to align the legislative framework with the EU *acquis* on establishing monitoring and reporting mechanisms for GHG emissions have been undertaken (mostly through the new Law on Climate Change). Harmonisation measures covering GHG emission reductions, especially the EU Emissions Trading System (ETS), are planned under the new law but have not yet been undertaken. As an UNFCCC signatory, Albania has submitted three National Communications (in 2002, 2009 and 2016) and was preparing the Fourth National Communication and the First Biennial Update Report at the time of drafting; these are the only monitoring mechanisms existing in this field.

As far as climate change adaptation is concerned, some improvements have been noted since 2017. Although major climate change-related risks have not been identified further since the Third National Communication, a Disaster Risk Reduction strategy was being prepared in 2021. Albania has put efforts into raising awareness and increasing capacity at central and local levels to adapt to climate change. Several projects are currently being implemented, such as a school programme that teaches environmental issues, recycling, climate change, renewable energy and similar; and a reforestation project (Clean and Green), which aims at planting 20.2 million seedlings by the end of 2020. Actions have also been taken to establish early warning systems for water-related disasters.<sup>167</sup> However, other natural hazards, such as earthquakes,<sup>168</sup> have not yet been taken into consideration.

**Circular economy** legislative and policy frameworks are still non-existent in Albania, although some positive developments on recycling have been recorded over the last couple of years. The recycling rate for municipal waste has grown slightly, from 17.2% in 2016 to 18.5% in 2018 (INSTAT, 2020<sup>[211]</sup>), which is the highest in the Western Balkans region. However, 76.4% of waste is landfilled. The new National Waste Management Strategy and its Action Plan (2020-2035) envisage a gradual transition from a linear to a circular economy by encouraging waste diversion through waste reuse and recycling. The government also plans to revise the legislative framework in this area, such as through the new Law on Extended Producer Responsibility, which is planned to be adopted during 2021 and which will promote a circular economy, in particular through establishing markets for secondary materials. In addition, Albania was planning to ban the production, import and use of plastic bags by the end of 2020. COVID-19 has delayed this but it is expected to be finalised in 2021.

**Municipal waste management** is generally underdeveloped in Albania. Municipal waste generation per capita (462 kg) is still lower than in the EU (492 kg per capita in 2018). It is collected in most cities and towns, but rarely in rural areas (Eurostat, 2020<sup>[212]</sup>; EEA, 2018<sup>[213]</sup>). In addition, waste is primarily deposited at disposal sites that do not comply with any sanitary standards, and are sometimes alongside rivers (UNECE, 2018<sup>[214]</sup>). Even when the waste is disposed of at one of the three existing sanitary landfills, it is rarely treated first.

Albania's legislative framework covers all types of waste, whereas the Decisions of Council of Ministers (DCMs) cover specific waste streams. No major changes have been recorded to the legislative framework since 2017. Two main strategy documents have been adopted since the last assessment, in 2019 and 2020 respectively: the aforementioned Waste Management Strategy (WMS) with related Waste Management Plan (WMP) (2020-2035) and the National Sectorial Plan for Solid Waste Management (NSPSWM) (2019-2035). The WMS is a result of the revised National Waste Management Strategy and National Waste Management Plan (2010-2025), whose main measures and targets have largely not been implemented or achieved. The reason lies in its ambitious goals (e.g. increase the amount of waste collected by local authorities that is recycled or mixed to 55% by 2020, starting from a very low base and with underdeveloped separation-at-source infrastructure) and the overall lack of staff and financial sources to ensure fuller enforcement. The main objectives of the WMS are to bring the legal framework into line with EU directives, increase government capacities at national and local level and mobilise finance to achieve the targets – mainly through public-private partnerships (PPP). Its action plan specifies measures, timelines and budget, and monitoring and evaluation are set to be conducted annually. The NSPSWM is

a detailed investment plan for local and regional solid waste management infrastructure (waste collection and transport, reduction and recycling of waste, treatment and disposal facilities) for the period 2019-2032.

The government estimates that about 200 large uncontrolled dumpsites and various small sites were in operation in 2020 in Albania. The WMP plans to replace these with 10 regional controlled landfill sites by 2028.<sup>169</sup> According to the NSPSWM, Albania was constructing the landfill of Maliq/Korca at the time of drafting. Like the other WB economies, investment in waste collection and treatment infrastructure has largely been donor-supported. One incinerator plant with energy recovery has been built in Elbasan since the last assessment, and two incinerators with energy recovery were being built in Fier and Tirana (to be finalised by mid-2021), financed through public-private partnerships. However, the construction of new incinerators poses concerns in terms of compliance with the EU waste *acquis*, including the waste hierarchy principle and the recycling targets<sup>170</sup> (European Commission, 2020<sup>[19]</sup>). The government's shift in prioritisation towards a waste incineration strategy has weakened the recycling industry (only one of the five recently established recycling plants is currently operational) and is seen by local stakeholders as a way to develop a more lucrative waste management industry.<sup>171</sup> Measures are taken to combat unregulated burning and illegal dumping of waste and inspections are normally carried out following a plan approved at the beginning of the year. However, the inspectorate is being reorganised and this mechanism no longer seems to work.

Waste collection and treatment services are funded from waste collection fees, but their amount remains low and insufficient for this purpose. A DCM on the methodology to calculate waste management costs from 2018 specified that each municipality can calculate and change the tariffs and costs. As a result, waste tariffs have increased in certain municipalities, leading to an improved waste service. However, the most vulnerable social groups have not received any kind of special treatment in terms of fees. Waste separation at source is almost non-existent in Albania,<sup>172</sup> despite a legal obligation to do it. The 2014 DCM on the separate collection of waste at source states that local authorities must organise this using a three-bin system (UNECE, 2018<sup>[214]</sup>). The new WMS (2020-2035) envisages its systematic introduction in the medium to long term.

### *Sub-dimension 13.2: Natural asset base*

Albania is a relatively water-rich country, harbouring far larger per-capita quantities of renewable internal freshwater resources than its WB peers (9 362 m<sup>3</sup> of water annually) (World Bank, 2017<sup>[215]</sup>). Major water demand comes from agriculture – mainly for irrigation (64% in 2017), followed by households (20%) and industry (16%) (Düll et al., 2018<sup>[120]</sup>). Almost all of Albania's nationally produced electricity comes from hydropower. In addition to the big hydropower plants (HPPs) situated within the Drin, Mati and Vjosa river basins, there are around 70 small HPPs, 38 of which have been operational since 2018 (UNECE, 2018<sup>[214]</sup>). It is important to highlight that water is not consumed in the process of hydropower generation (i.e. water is extracted but it returns to its source) and the overall water balance remains unchanged.

The legislative framework for **freshwater management** was amended in 2018. Amendments to the basic legal act in this field – the Law on Water Resources Integrated Management – delegated new responsibilities to the Water Resource Management Agency (established under the Prime Minister's Office), which previously served as the technical secretariat of the National Water Council. The provisions of this law apply to all surface and groundwater, prevention of pollution at source, emissions control and water quality standards, as well as the prevention of and protection against flood risks. However, mapping of hazards and flood risks is still at an early stage. Moreover, the recently approved DCM in December 2020 on the Content, Development and Implementation of the National Strategy of Water Resources Management, Water Basin Management Plans and Flood Risk Management Plans improved the transposition of EU directives on water policy, chemical analysis and monitoring of water status, the protection of groundwater and management of flood risks.<sup>173</sup> Obtaining licences for constructing hydropower plants is regulated by the law as well, which requires detailed environmental impact

assessments and strategic impact assessments to be conducted. However, it seems that this procedure has been largely circumvented: no cumulative impact assessment of HPPs in protected areas has been made and there are also cases in which licences for HPPs were given before an EIA report was issued, or of the EIA report not being taken into account when issuing a licence (UNECE, 2018<sup>[214]</sup>).

As for the policy framework, Albania adopted the new National Strategy for Integrated Water Resources Management (NSIWRM) (2018–2027) in 2018, which serves as the overarching framework document for water management. NSIWRM covers five pillars: 1) improving water quality; 2) enhancing water quantity; 3) managing water risks; 4) building an information system on water; and 5) efficient and effective water management. The strategy is however not aligned with the sectoral strategies, such as agriculture or irrigation. Activities to raise awareness of water-related risks are also envisaged in the NSIWRM. Implementation began in 2019 through a three-year action plan. However, many of the activities foreseen in the plan lack financial support and their timelines are unrealistic. A number of bodies<sup>174</sup> are responsible for water management in Albania and vertical and horizontal co-ordination works well. Nevertheless, they all lack the financial and human resources to conduct their roles, and capacity-building is not organised regularly.

Some progress has been made on river basin management plans. A river basin management system is in development and there is co-operation with neighbouring economies, although this co-operation should be renewed. The Special Commission on Transboundary Water Management, chaired by the Deputy Minister of the Ministry of Foreign Affairs was established in December 2019. In February 2020, the National Water Council endorsed the Drini-Buna and Seman river basin management plans and started the procedure for their adoption by the Council of Ministers.

Even though some data and projections are collected on water demand from agriculture, industry (including energy) and households, there are still no modelling tools for the realistic projection of water demand, especially in climate change scenarios. Therefore, these are not guiding decisions on handling competing uses now and in the future. Water information systems and databases have been created but are not regularly updated. Data on water risk management seem not to be collected, even though there is an obligation to publish them in the Water Cadastre – however, technical issues impede its appropriate functioning.

Albania's **biodiversity and forest management framework** has been slightly modified since the last assessment, with the adoption of the Forest Policy Document (2019-2030) being a major change (discussed below). The Law on Protected Areas was amended in 2018 to put greater emphasis on the planning and development of these areas, and the Law on Biodiversity was amended in 2020 to increase alignment with the EU Regulation on compliance with the Nagoya Protocol.<sup>175</sup> The Biodiversity Strategy is valid until 2020 and a new one, covering the period 2021-2030, was being developed at the time of drafting. There is no implementation report as such, but Albania's Sixth National Report to the Convention on Biological Diversity (CBD) assesses the implementation of the biodiversity strategy up until mid-2019, including progress towards the Aichi targets (Box 20.16). Programme outputs are monitored at the end of each year, in line with the medium-term budget process co-ordinated by the Ministry of Finance and Economy. Moreover, a DCM created a special fund for protected areas in January 2021.

The biodiversity strategy is evaluated annually in the framework of the implementation of the National Sustainable Development Goals. Systematic monitoring of biodiversity takes place, led by the National Environment Agency (as defined by the 2009 DCM on environmental monitoring). Since the last assessment, the government has developed a national platform for biodiversity (BioNNA), which is currently the largest aggregator of primary biodiversity data in Albania and is planned to grow further by aggregating new datasets. A national database on wild fauna species data (WIMS) has also been created in 2018.

### Box 20.16. The status of the Aichi 2020 biodiversity targets in Albania

The CBD's Strategic Plan for Biodiversity 2011-2020, including the Aichi Biodiversity Targets, provided an overarching framework on biodiversity – not only for the biodiversity-related conventions, but for the entire United Nations system and all other partners engaged in biodiversity management and policy development. Parties agreed to translate this overarching international framework into revised and updated national biodiversity strategies and action plans within two years, which are intended to define the current status of biodiversity, the threats leading to its degradation and the strategies and priority actions to ensure its conservation and sustainable use within the framework of the socio-economic development of the country. There are 20 Aichi biodiversity targets grouped around 5 strategic goals: A: Address the underlying causes of biodiversity loss by mainstreaming biodiversity across government and society; B: Reduce the direct pressures on biodiversity and promote sustainable use; C: Improve the status of biodiversity by safeguarding ecosystems, species and genetic diversity; D: Enhance the benefits to all from biodiversity and ecosystem services; and E: Enhance implementation through participatory planning, knowledge management and capacity building.

Albania's Sixth National Report to the CBD notes several areas of progress in implementing the Biodiversity Strategy. Most notably, the status of Aichi 2020 biodiversity targets in Albania, in line with the national targets, is as follows:

- Protected area coverage: Albania has already exceeded the Aichi target of 17% of its terrestrial area being protected, as the coverage has reached 18.5%. More limited progress has been made on marine and coastal protected areas (3%), with the target being 6% by 2020.
- A national legal framework for the Nagoya Protocol on access and benefit sharing of genetic resources has been approved.
- Management plans for protected areas have been approved and implemented.
- An endangered species action plan has been adopted.

Source: (CBD, 2020<sup>[216]</sup>), *Aichi Biodiversity Targets*, <https://www.cbd.int/sp/targets>; (Ministry of Tourism and Environment of Albania, 2019<sup>[217]</sup>), *Sixth National Report to the Convention on Biological Diversity of the Republic of Albania*, <https://www.cbd.int/doc/nr/nr-06/al-nr-06-en.pdf>.

Although forests make up a smaller share of the total land area of Albania (28%) than its regional peers (42%), the Ministry of Tourism and Environment estimated that almost one-third of forests (8.2%) were of high nature value<sup>176</sup> in 2018 (Düll et al., 2018<sup>[120]</sup>). The new Law on Forests was adopted in 2020 and established the organisation and functioning of the National Forest Agency. Moreover, the new Forest Policy Document (2019-2030) aims to make forest management more effective, mainly through improving the institutional framework. This is particularly important as municipalities have been responsible for sustainable management of forests since 2016, but they receive little assistance from the government, which impedes their effectiveness. Monitoring of the forest document's results is set to be conducted annually and conclusions should be shared with the relevant stakeholders – however, no reports had been produced at the time of drafting.

The national forest inventory system was finalised in 2021 and a national forest programme was being established at the time of drafting. There is no system in place for systematic monitoring of the condition of forests – this is conducted only indirectly through the climate change adaptation and mitigation actions. The National Real Estate Register has been established through the Immovable Property Registration Offices. This means it is now possible to register forests on the unified data system (forests in the southern part of Albania are currently being registered). The Law on Forests regulates and oversees forest fire prevention measures and sets clear penalties for illegal logging.

**Land-use legal and policy frameworks** remain underdeveloped in Albania and have not advanced since 2017. The main strategic document is still the National Strategy for Land Consolidation (2016), but no comprehensive land-use planning policy has been developed to date.

Various national and local bodies are responsible for land-use management, but they all lack qualified staff and financial resources. So far, horizontal and vertical institutional co-operation seem to be functioning well, although there are no permanent co-ordination bodies for spatial planning. No capacity building or training have been conducted for the responsible bodies.

Some of the major land-use issues in Albania relate to outdated building codes and illegal construction. This is a problem across the entire territory, but particularly the coastal areas. Tackling these challenges is especially important in light of the economy's proneness to geophysical hazards, such as earthquakes. In addition, the legislation on strategic investment raises concerns for the protection of biodiversity, as it may allow large tourism and industrial investments in protected areas, e.g. the proposed airport in the Vjosa-Narta area<sup>177</sup> (European Commission, 2020<sup>[19]</sup>). On a positive note, the Agency for Territorial Planning and Development developed local plans in 2018 together with local municipalities. These aim for the sustainable development of the territory and the rational use of land. Priority was given to the preservation of the agricultural land fund and only a small area of agricultural land was planned for the construction of agricultural facilities.

Key indicators related to land-use management are not frequently collected nor are they available online. In addition, they are not georeferenced or harmonised across government bodies like property tax and forest management.

### *Sub-dimension 13.3: Environmental quality of life*

**Air quality** in Albania has improved over the last decade and is the best in the WB6. Albania's mean annual exposure to PM<sub>2.5</sub> of 18.2 µg/m<sup>3</sup> is the lowest in the WB region,<sup>178</sup> which averaged 25.77 µg/m<sup>3</sup> in 2016. However, it is still higher than the EU and OECD averages (13.1 µg/m<sup>3</sup> and 12.5 µg/m<sup>3</sup> respectively in 2017) (EEA, 2020<sup>[29]</sup>) (World Bank, 2017<sup>[30]</sup>). Air pollution is still a concern, especially the high concentrations of PM and carbon monoxide (CO) in winter months, largely stemming from the predominant type of residential heating (i.e. wood and coal). Moreover, levels of nitrogen oxides (NO<sub>x</sub>) exceed recommended limits as a result of vehicle emissions, especially in the capital city and other urban areas. Local experts report that emissions from incomplete combustion by vehicles is an important concern, exacerbated by the large share of old or malfunctioning engines and missing catalytic systems, mostly caused by illegitimate vehicle check-up procedures.

Some changes have been made to the legislative and policy framework in Albania since the last assessment. The main Law on Protection of Ambient Air Quality entered into force in July 2018, harmonising further the national legislation with the EU *acquis*. A new DCM on emissions from mobile sources has also been adopted, aiming to strengthen air pollution measures and reduce emissions from motor vehicles. In 2019, the government approved the National Plan on Air Quality Management (NPAQM) (2019-2026), which along with the National Strategy on Ambient Air Quality (NSAAQ) (2014-2024), represent major strategic documents in this area.

The NPAQM aims to restore air quality in areas which exceed limit values of air pollutants or where there is a high risk of exceeding them. It focuses mainly on measures to contain and reduce emissions from traffic and industry. It does so by dividing the territory into three air quality zones and outlining specific measures for each of them:

- Zone A (focusing on traffic pollution): the agglomerations of Tirana and Elbasan, where air quality is endangered, and it is necessary to ensure compliance with the daily and annual limit values for particulate matter (PM<sub>10</sub> and PM<sub>2.5</sub>) and nitrogen dioxide (NO<sub>2</sub>).<sup>179</sup>



- Zone B (focusing on industrial pollution): the municipal units of Fieri, Durrësi, Vlora, Shkodra, Korça, Patosi and Ballshi, where air quality standards for at least one pollutant are already exceeded, or there is a high risk of exceeding them due to industrial pollution and traffic.
- Zone C: the rest of the country, where air quality standards are unlikely to be exceeded (91.8% of the Albanian territory and 65% of the total population).

However, the NPAQM mostly focuses on transport measures. It does not provide for improving the monitoring system or making it fully and continuously functional (European Commission, 2020<sup>[19]</sup>). Both the NPAQM and NSAAQ envisage preparing local air quality plans and short-term action plans, but not until 2021. When it comes to monitoring implementation, this is not conducted regularly and it is not clear how frequently it will be done.

There are several institutions<sup>180</sup> dealing with air quality, but they all suffer from limited administrative and technical capacity and financial resources, primarily for monitoring and inspections. There is also a lack of relevant legal acts regulating co-ordination, implementation and immediate action if air pollution safe thresholds are exceeded. Thus immediate action is not ensured. Urban air quality is monitored by the National Environment Agency (NEA), mostly through a network of six fixed automatic stations, in addition to one mobile station in Tirana. However, lack of funding means that air monitoring equipment is not being maintained or calibrated, and all stations have been turned off (European Commission, 2020<sup>[19]</sup>). Furthermore, the monitoring process does not cover air quality assessment in rural or rural background locations. Current ambient air quality monitoring practices, including data collection and reporting, are not fully in line with the EU requirements. A national air emission inventory is prepared each year and the data compiled into annual reports as part of the State of the Environment Report, published on the NEA's official website.

Management of the **water supply and sanitation system** remains undeveloped in Albania. Although some improvement has been made in the water supply coverage of population in urban and rural areas since the last assessment, the situation is still far from satisfactory. The overall sewerage coverage remained about 51% in 2018, with a significant discrepancy between urban (79.8%) and rural areas (only 15%) (UNECE, 2018<sup>[214]</sup>). Wastewater treatment plants cater for only about 15% of the population, and face key concerns such as lack of licensing and tariffing for wastewater treatment, insufficient operation and maintenance and negative environment impact due to underdeveloped networks and connections (European Commission, 2020<sup>[19]</sup>). Despite the construction of new urban wastewater treatment plants (eight were built in 2016 and three were being built at the time of drafting), lack of funding and limited technical capacities mean three are idle, and their long-term operational arrangements are unclear. Changing investment priorities as a result of the COVID-19 pandemic might reduce funding further, especially as the main sources of funds for infrastructure are the state budget (which is largely insufficient as underlined by the government) and donor support, though to a much lesser extent. The current water service fees are inadequate to cover or complement infrastructure investments as well as water supply and services, although these are partly being funded by transfers from the municipalities and taxes.

The legislative and policy framework was being developed at the time of drafting: a Law on Water Supply and Sewerage Sector and the new Sectoral Strategy for Water Supply and Sewerage Services (SSWSSS) (2020-2030). The latter aims to improve the quality of water supply and sewerage data; improve access to water supply and sewerage (WSS) services for the population; strengthen the financial sustainability and affordability of WSS services; build WSS workforce capacities; and improve the governance and regulatory framework of the sector. Although the legislative and policy framework are not fully aligned with the EU *acquis* in the area of wastewater management, monitoring mechanisms are envisaged by the MIE and the Monitoring and Benchmarking unit and concrete objectives, budget, measures and timelines have been set.

No major changes to the **industrial waste management** legislative framework have been made since the last assessment. However, the newly adopted Waste Management Strategy (2020-2035) tackles industrial



waste management as well (see Sub-dimension 13.1: Resource productivity). Alignment with the EU legislation on industrial pollution and risk management is still at an early stage (European Commission, 2020<sup>[19]</sup>).

By law, any chemicals produced in or imported to Albania need to be registered on an electronic chemical register. However, the national chemicals register has not been established yet as the responsible institution – the Chemicals Office – only became operational in July 2020 and the secondary legislation defining the procedures for establishing and maintaining the register is not yet in place. A Pollutant Release and Transfer Register (PRTR) system has been functioning since 2015 and is maintained by the NEA. As regards managing and controlling industrial risks and accidents, the Seveso-III Directive (Directive 2012/18/EU) has not been fully transposed yet.

There is no policy or legislative basis for soil protection, or the identification and management of contaminated sites in Albania and very little has been done to identify and clean up contaminated sites since the last assessment. There are plans for cleaning up the old PVC plant in Vlora and improving the capacities for storage and treatment of the Centre of Dangerous Chemicals Collection and Treatment in Elbasan, but their realisation might be impeded by budgetary constraints.

### ***The way forward for environment policy***

Definite progress has been made in Albania since the last assessment, especially in the legal and policy framework for climate change, biodiversity and air pollution. However, performance on a number of dimensions needs to be improved further and planned activities need to be fully implemented. Some of the priorities are as follows:

- **Direct more investment into improving wastewater systems and treating more wastewater.** Although Albania has taken some action to renovate and update its water supply and sanitation system, the activities are limited in scope and decisions on where to invest have not always been supported with concrete data. It is therefore important to conduct a clear mapping of the situation and identify key investment priorities. The government should try to finance these projects as much as possible from the domestic budget and higher water tariffs (at rates that take into account the needs of poor and vulnerable groups in the population). Where donor support is provided, the government should make sure these finances flow regularly to ensure the sustainable maintenance of the water supply and sanitation system.
- **Develop adequate capacities to forecast, monitor, warn and inform the population of the risks from multiple hazards and ensure suitable and timely responses to hazardous events.** Albania is one of the most at-risk economies in Europe from multiple hazards. The 2019 earthquake revealed the weaknesses of its systems, hence its resilience to hydro-meteorological and geophysical hazards urgently needs to be improved (Reliefweb, 2017<sup>[218]</sup>). Albania should invest in modern equipment, focus on guidance and clear procedures as well as on building skilled human resources to efficiently and effectively respond to hazards. Box 20.17 gives examples from Turkey and Australia.
- **Develop a comprehensive land-use policy framework to ensure effective land-use planning, preserve land and foster resilience to natural hazards, such as earthquakes.** The government of Albania lacks an all-inclusive land-use policy framework to provide a clear direction in this area. It should focus on modernising the building codes, updating seismic hazard maps and combatting unregulated and illegal building activities. As for the latter, measures such as creating a register of buildings without permits and conducting legalisation procedures (where possible) might be taken into consideration.

### Box 20.17. Managing natural disasters: Case studies from Turkey and Australia

The Marmara Earthquake in 1999 shed light on **Turkey's** challenges in dealing with natural disasters. With the establishment of the Disaster and Emergency Management Authority (AFAD) in 2009, Turkey has shifted its disaster management approach from crisis management to risk management. AFAD is in charge of preventing disasters and reducing disaster-related damage in Turkey. It plans and co-ordinates post-disaster response and promotes co-operation among various government agencies. It operates through a central agency and its 81 provincial branches, which manage local emergency action. AFAD also has 11 regional special search and rescue brigades and 23 regional logistics warehouses. AFAD's budget comes from the central government and special international emergency and humanitarian funds. AFAD's Strategic Plan acknowledges the growing risks posed by climate change. Disaster risk management and climate change adaptation complement one another. Therefore, they have been integrated into different levels of governance and across sectors. As part of building capacity for managing climate-related natural hazards, AFAD is identifying best practices around the world and also working to learn lessons learned from recent floods in Turkey.

With the goal of building local capacity and capability, the state of **South Australia** has formed 11 metropolitan and regional Zone Emergency Management Committees responsible for strategic emergency management planning within their zone. Each of these committees is chaired by local government and includes additional local government representation as well as representatives from the South Australian Police, State Emergency Service and a dedicated Zone Recovery Planner.

A key activity undertaken in each of the zones is to develop all-hazard risk studies (one per zone) with a comprehensive assessment of risks. These follow a standardised zone emergency management planning framework, based on the International Standard for Risk Management and National Emergency Risk Assessment Guidelines. As part of these all-hazards risk studies, a number of risk assessment workshops were conducted involving stakeholders such as state government agencies, key experts and civil society organisations from the respective zones) This ensures that accurate and relevant information is collected and partnerships among local stakeholders are created, further reinforcing community resilience.

The zone emergency management planning framework and its assessment tools are linked with the state emergency risk assessment processes and registers, as well as those of local government. This consistent measurement of risks helps in information and data sharing, contributing to better informed communities.

Source: (OECD, 2019<sup>[219]</sup>), *Environment Performance Review; Turkey*, [https://www.oecd-ilibrary.org/environment/oecd-environmental-performance-reviews-turkey-2019/climate-change\\_9789264309753-11-en](https://www.oecd-ilibrary.org/environment/oecd-environmental-performance-reviews-turkey-2019/climate-change_9789264309753-11-en); (Parliament of Australia, 2020<sup>[220]</sup>), *National Emergency And Disaster Response Arrangements in Australia: A quick guide*, [https://www.apf.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/pubs/rp/rp1920/Quick\\_Guides/NationalEmergencyDisasterManagement](https://www.apf.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1920/Quick_Guides/NationalEmergencyDisasterManagement).

## Agriculture policy (Dimension 14)

### Introduction

Albania has slightly improved its performance in the agriculture dimension. The economy's score has increased to 2.8 in the 2021 assessment (Figure 20.1), with the most progress made in agro-food system capacity (Table 20.22). However, Albania still scores lower than the other Western Balkan economies averages in Sub-dimension 14.4: Agricultural innovation system.

**Table 20.22. Albania's scores for agriculture policy**

Dimension	Sub-dimension	Score	WB6 average
Agriculture policy dimension	Sub-dimension 14.1: Agro-food system capacity	3.2	2.8
	Sub-dimension 14.2: Agro-food system regulation	3.0	2.9
	Sub-dimension 14.3: Agriculture support system	2.8	2.7
	Sub-dimension 14.4: Agricultural innovation system	2.0	2.6
Albania's overall score		2.8	2.7

### State of play and key developments

Agriculture in Albania is an important economic industry, accounting for 20.3% of total GDP (Figure 20.15) and almost 41% of employment (INSTAT, 2020<sup>[134]</sup>). The sector remains the largest provider of employment for women, with 51.3% of employed women working in agriculture compared to 35.2% of men. The production of fruit and vegetables represents 20% of agriculture production value; however, it represents 36%<sup>181</sup> of total agricultural exports and has been consistently increasing over the past decade (INSTAT, 2020<sup>[221]</sup>).

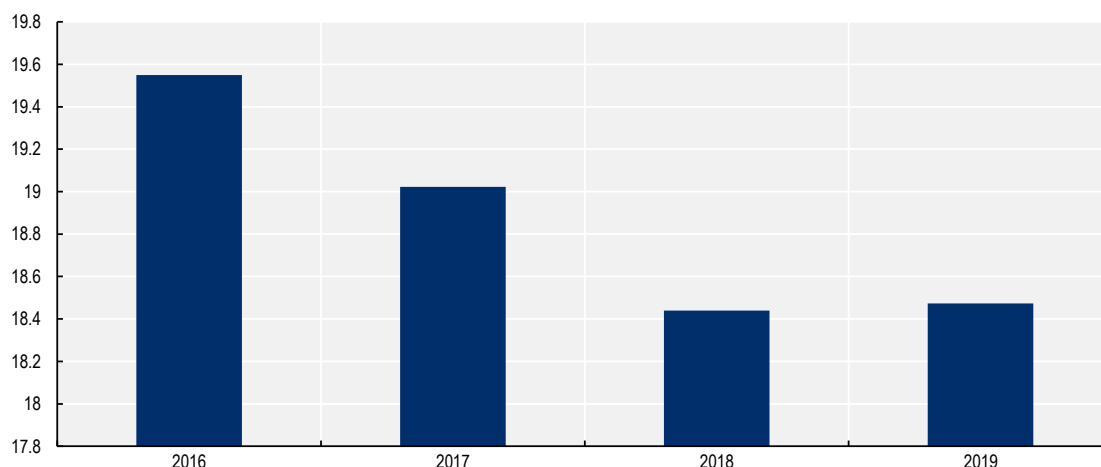
Favourable climatic conditions and continuous improvement to regulatory standardisation means that Albania's agricultural products are becoming more competitive in regional markets. Fresh vegetable production in 2019 was 832 732 tonnes, up by 7.9% from 2018. Vegetable production in greenhouses represented 21.3% of total vegetable production in 2019, up 5.5% from 2018.

Olive production was heavily subsidised by the state in the period 2009-15, and consists of around nine million trees. This made Albania the leading olive oil producer in the Western Balkans, though its current production still represents only 0.6% of EU production levels.

Small ruminants are another important sub-sector in Albania. The annual milk production from sheep and goats amounts to about 87 000 tonnes for each category, although with some differences in productivity per head. Most meat and milk are destined for the local and national market. The main products, other than processed milk, are cheese, cottage curd and butter.<sup>182</sup>

Fishery and aquaculture production has increased in the period 2014-19, with the total quantity of fish increasing from 11 022 tonnes to 15 011 tonnes. Sea fishing production has remained stable, but aquaculture production increased from 1 500 tonnes to 5 229 tonnes.

**Figure 20.15. Agriculture's contribution to GDP in Albania (2016-19)**  
(in %)



Source: (INSTAT, 2020<sup>[221]</sup>), *Agriculture Statistics 2019*, <http://www.instat.gov.al/media/7202/press-release-agriculture-statistics-2019.pdf>.

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#### *Sub-dimension 14.1: Agro-food system capacity*

Albania's **rural infrastructure policy framework** involves several comprehensive programmes. Its National Regional Development and Cohesion Programme was harmonised with EU standards in 2019 and continues to address the needs of the sector and its producers. Its approach includes policies and strategies at the national level, planning at the regional level, and implementation of a seven-year programme. The current Rural Development Programme 2014-2020 was updated in 2019 to harmonise with EU standards.

The Albanian Development Fund (ADF) continues to implement large-scale rural infrastructure programmes. The Local and Regional Infrastructure Programme (2019-2021) aims to promote socio-economic development through regional infrastructure projects focusing on improving tourism, accessibility between communities, access to basic services, and encouraging co-operation among local government units. Meanwhile, the Local Roads Connectivity Project (2018-2022) is improving access to select agricultural and tourism centres and strengthening municipalities' capacity to manage their road assets, in turn allowing farmers better access to markets and agriculture processing centres. The funding of regional projects managed by ADF, apart from the national budget, is heavily supported by a number of financial institutions through loans and donations, namely the World Bank, Instrument for Pre-Accession Assistance, Central European Bank, International Bank for Reconstruction and Development, and the European Investment Bank.

The ADF has developed a strong administrative capacity for planning, implementation and monitoring of programmes and provides regular and timely annual reports on programme monitoring which are submitted to all national institutions. However, access to information for farmers, such as market developments, technical options and weather remains limited. Thus information sharing capacity needs improvement.

Irrigation infrastructure in Albania is disorganised and inefficient due to a decentralised system with an unclear division of responsibilities. By the end of 2019, irrigation capacity had only reached 245 000 hectares (ha) of a target 360 000 ha by 2029. This represents an improvement of around 20 000 ha since the end of 2017 when irrigation capacity was at 225 000 ha.

However, modernising irrigation infrastructure has been recognised as one of the top priorities of the Government of Albania. In 2018, the Strategy for Irrigation and Drainage in Albania (2019-2031) was prepared by the Ministry of Agriculture and Rural Development (MARD) in consultation with stakeholders

and with technical assistance from the Water Resources and Irrigation Project (WRIP) financed by the World Bank. The strategy identifies the main strengths, weaknesses, opportunities and threats to irrigation, drainage, dams and reservoirs, and flood protection. It includes an action plan that lists the activities, implementation responsibilities, implementation timeframe, expected results, and performance against strategic objectives and costs.

In terms of **the irrigation policy framework**, the management of irrigation and drainage systems, including building capacity, was transferred from national to municipal control in 2016. The Water Users Organisations (WUOs) that were responsible before 2016 for the operation and management of secondary and tertiary canals under the national administration are now inactive as they were unable to manage the water systems effectively due to a lack of knowledge, technical skills and financing. The Law on Administration of Irrigation and Drainage has therefore only deemed WUOs as optional structures for delivering irrigation services if the municipalities decide their involvement is necessary. If WUOs demonstrate that they can function satisfactorily, both by technical and financial standards, then municipalities can transfer management responsibilities to them. For the period 2016-20, municipalities were supported with around EUR 42 million, 84% of which was allocated for rehabilitating irrigation infrastructure. The other 16% provided each of the 61 municipalities with an excavator to help them maintain irrigation and drainage channels.

Irrigation infrastructure is monitored quarterly by the MARD and the results have a large impact on policy making and its improvement. For example, the decision to transfer part of the irrigation and drainage responsibilities to municipalities was made based on these assessments.

The current **agricultural education system** in Albania remains underfinanced and the number of agriculture students continues to decrease due to a lack of reach and quality of vocational training programmes. The education policy framework is based on the National Strategy for Employment and Skills 2014-2020. The strategy describes the current challenges, strategic areas and proposed measures for creating a skilled workforce that can respond to market demand (including in agriculture). While the strategy foresees a number of measures to address agricultural development bottlenecks, no specific measures have been dedicated to improving agriculture education and training.

Currently, there are very few agricultural vocational schools and the number of agricultural vocational high school graduates is decreasing (Table 20.23). The Agricultural University of Tirana and the Faculty of Agriculture at the University of Korça are the only higher education agricultural institutions in Albania. While the majority of university graduates still work in agricultural and related sectors, the number of students continues to decrease. In 2019, the number of students enrolled in the first year of agriculture studies was 30% less than in 2017 (Figure 20.16).

**Table 20.23. Agricultural vocational training institutions in Albania**

Vocational training focus	Number of schools
Crop production	8
Agri-business	5
Veterinary science	3
Agricultural machinery	2
Animal production	1
Silviculture, forestry and furniture production	1

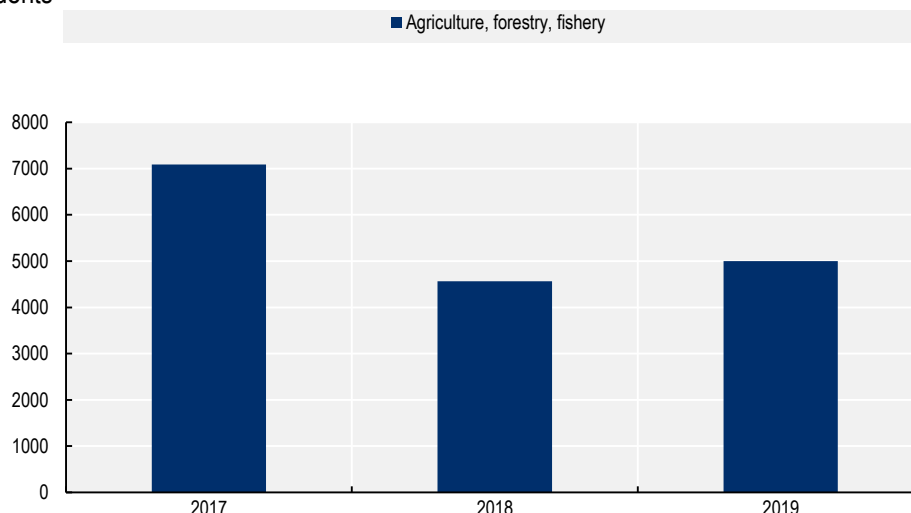
Source: (INSTAT, 2020<sup>[221]</sup>), *Agriculture Statistics 2019*, <http://www.instat.gov.al/media/7202/press-release-agriculture-statistics-2019.pdf>.

The integration between vocational education and training systems is still weak and the curricula offer little scope for practising the skills learned, a crucial component of agricultural work. The education and training system remains underfinanced, offering limited incentives for businesses in offering training places. Although the agriculture sector largely employs the working poor and low-skilled workers, the vocational

education and training services do not reach rural areas, where education levels are generally lower than urban areas and where most of the Albanian population currently resides.

**Figure 20.16. Enrolments in the first year of agriculture degrees (2017-19)**

Number of students



Source: (INSTAT, 2020<sup>[221]</sup>), *Agriculture Statistics 2019*, <http://www.instat.gov.al/media/7202/press-release-agriculture-statistics-2019.pdf>.

StatLink  <https://doi.org/10.1787/888934255437>

#### *Sub-dimension 14.2: Agro-food system regulation*

While human and financial resources for **regulating natural resources** are adequate, monitoring of policy objectives and public investment has not reached its full potential. National water sector reforms in Albania are still being implemented. There are several regulations and strategies for natural resources, governing access to and use of water and the environmental impact of agro-food activities. The National Strategy for Integrated Water Resources Management 2018-2027 (NSIWRM) sets the framework for the development of policies in spatial planning, environmental protection, biological and landscape diversity, agriculture, forestry, fishing, transport and tourism (for details see Sub-dimension 13.2: Natural asset base).

The governance of water resources in Albania is highly centralised. The main decision-making authority is the National Water Council (NWC), composed of several ministers and chaired by the Prime Minister. However, in 2018 the Technical Secretariat of the NWC was transformed into the Agency of Water Resource Management,<sup>183</sup> which is now under the direct responsibility of the Prime Minister rather than the Ministry of Agriculture and Rural Development. It is responsible for the administration and management of water resources, including water management in inter-regional and national plans and projects in agriculture, urban planning and industrial and territorial development.

The national water cadastre has increased information sharing and integration with the various institutions concerned with water management and use in Albania.<sup>174</sup> Since 2016, river basin management plans are being prepared for all rivers that are important for agricultural productivity, covering water quantity for irrigation, structural works for irrigation and drainage, wastewater purification, environmental protection, water quality etc.

The **regulations on seeds and propagation** material in Albania are strongly harmonised with EU directives and protocols, including consistent monitoring and evaluation on a quarterly basis following EU guidelines. The regulations on seeds and propagation material cover agricultural production, environmental protection and consumer health. There is institutional co-ordination among government agencies with clear divisions of responsibilities and mandates.

The legislation on registration of plant varieties in the National Catalogue and their maintenance is aligned with EU protocols. The new Law on Fertiliser Products was approved in 2020 and harmonises the rules for production, registration, trade, import, export, use, quality control, traceability, information, advertising and inspection of activities related to fertiliser products, as well as the organisation and operation of relevant structures.

### *Sub-dimension 14.3: Agricultural support system*

Albania's **agricultural policy framework** is harmonised with EU policies and implementation is monitored regularly by the Ministry of Agriculture and Rural Development. Agriculture policy is covered by the Law on Agriculture and Rural Development and complemented by the Inter-Sectoral Strategy on the Development of Agriculture and Rural Development 2014-2020 (ISARD).<sup>184</sup>

The ISARD outlines the strategic interventions needed for Albanian agriculture and rural areas to meet the challenges of the EU single market and to adapt Albanian agricultural and rural development policies to the Common Agricultural Policy (CAP). The ISARD is harmonised with the main principles of the EU policies, the CAP and the Instrument for Pre-accession Assistance for Rural Development policies (IPARD), and focuses on addressing the specific problems in Albanian agriculture and rural areas. While institutional responsibilities for agricultural support policies and IPARD implementation are clearly and effectively divided among national and regional government agencies,<sup>185</sup> the national programme has only used 25% of the IPARD budget, hindering further development.

Ambitious indicators were set in the 2014-2020 ISARD to measure policy implementation. These indicators include real economic growth of the agriculture sector, an increase in labour productivity in agriculture and processing, full compliance by formal agriculture holdings with EU standards, an increase in the average farm size, an increase in the export-to-import ratio, and creation of new jobs, new micro-enterprises, and new producer groups. However, the targets set within these indicators for the period 2014-20 are rather high, so will most likely not be met. For example, real economic growth of the agriculture sector was targeted at 5% per year until 2020, whereas the real average by the end of 2019 was 2.4%, (Albanian Institute of Statistics, 2020<sup>[222]</sup>). Additionally, the export-to-import ratio was set at 1:3 for 2020, while the actual ratio is far from this objective (around 1:2), proving that planning needs to be more realistic and annual reviews of the indicators are necessary.

MARD publishes an annual report that provides information on its monitoring activities at two levels for producer support spending, as well as challenges and recommendations for future implementation. Financial monitoring includes evaluating the procedures in place, whether the procedures were followed and criteria respected, the number of beneficiaries, the annual budget and annual spending. The physical monitoring system conducts random checks with producers on how support from the ministry was implemented.

**Domestic support instruments** in Albania are in line with IPARD support and financing measures and have made substantial progress on introducing preventative measures for natural disaster mitigation. The instruments for agriculture producers include investments for modernising and standardising agricultural production. In 2020, the measures included support for breeding animals, bee-keeping, replacing plastic sheeting in greenhouses, organic production, implementation of standards and certification (Global GAP) and support for establishing or reconstructing rural tourism capacities.

The current support measures are divided into National Support Schemes and IPARD II Programme (2014-2020) support. The national support schemes for 2019 were granted to 4 009 beneficiaries for a total amount of EUR 6.5 million. While the budget of the IPARD programme for the period 2014-20 is EUR 71 million, by the end of 2019 only EUR 16 million had been used due to the IPARD agency's limited capacities for full implementation of the measures, as well as overly demanding criteria for applicants. Domestic support instruments complement the IPARD programme and there is no overlap of support measures or



financing. While there are no agri-environmental measures similar to those under CAP agri-environmental scheme in place yet, these measures are being formulated.

The Law on Civil Protection was updated in 2019 and introduced new national and local strategies, harmonised urban planning at local and national level, and regional strategies for risk assessment. According to the new law, the state is responsible for the damage caused by natural disasters. As each ministry is responsible for allocating a portion of its annual budget to reducing the risk of disasters and civil protection, the MARD allocates around 2% to 4% of its total annual budget to natural disaster mitigation.

Albania has a liberal **trade regime** and has followed guidelines set by the EU and the World Trade Organization (WTO) since 2000. Customs procedures reflect the Customs Tariff Nomenclature that is based on the Harmonized Commodity Description and Coding System (HS). Legislation for agricultural trade relies on the Customs Code of the Republic of Albania, the Nomenclature of Goods and Free Trade Agreements.

Albania implements preferential tariffs on agriculture products originating from member countries of the EU, CEFTA, EFTA and Turkey. There are import tariffs and tariff-rate quotas for agricultural commodities (crops and livestock) and inputs (fertiliser and pesticides). The base tariff rates are defined in the Combined Nomenclature of Goods 2020. Preferential tariff rates and tariff-rate quotas for agricultural commodities are also based on free trade agreements. Albania does not apply export credit support, export duties and/or export prohibitions for agricultural commodities (crops and livestock). As the United Kingdom has left the EU, Albania and the United Kingdom have negotiated a Trade Partnership Agreement which foresees tariff-rate quotas and preferential tariff rates, but this agreement has not yet been signed.

The **taxation system** for the agriculture sector remains unified and imposes few taxes on farmers. Tax on agricultural land is paid by hectare, with the exclusion of farms planted with orchards and vineyards, for the first three years from the moment of planting. The taxes are paid to the municipal budget according to the location of the land. A profit tax is obligatory for all legal entities that conduct economic activities according to law. In agriculture its rate is 5%. For entities that carry out certified agro-tourism activities, according to the legislation in force in the field of tourism, the profit tax rate is 5%. This rate applies for a period of 10 years for legal entities that benefit from certified agro-tourism status obtained before December 31, 2021.

VAT exemptions in agriculture include the supply of agricultural inputs, such as chemical fertilisers, pesticides, seeds and seedlings, except for hormones; as well as supply of veterinary services, with the exception of veterinary services for pets. A compensation scheme applies to agricultural producers at a rate of 6%: agricultural producers benefit from the right to compensation if their annual turnover does not exceed the minimum registration limit for VAT, or if the producer supplies goods or services originating from their work in one of the activities defined.

Albania's **sanitary and phytosanitary (SPS) framework** is partially compliant with international standards and EU requirements, but both the food safety and veterinary services fields continue to face capacity limitations in terms of technical support, training and policy. While Albania is a member of the FAO-WHO Food Code, WTO SPS Agreement, World Organization for Animal Health (OIE), International Plant Protection Convention (IPPC), and European and Mediterranean Plant Protection (EPPO) and has established functional national contact points for each organisation, little progress has been made in bringing the national SPS framework in line with international guidelines.

A reference laboratory for food safety, phytosanitary and veterinary network exists but as the law does not oblige accreditation of tests, only a limited number of specific tests on food safety are recognised by international certificates, preventing the recognition of the procedures abroad. In the phytosanitary field, tests are partly recognised and there is an ongoing process for their recognition amongst CEFTA members. The preparation of secondary legislation for food safety rules has continued, with the exemption of small food operators from applying HACCP procedures;<sup>186</sup> however, the area continues to face capacity



limitations such as lack of technical support and expertise, scarce resources and specific training, as well as a lack of written procedures on quality assessment, limiting compliance with international standards.

While the National Food Authority carries out regular controls under a risk-based plan approved at the beginning of the year, the standard operating procedures to ensure compliance with the legislation have yet to be approved and there is little effort to bring the practices in line with international guidelines. Duplicate inspections continue at the farm level by inspectors of the Regional Veterinary Service and Plant Protection Agencies and the National Food Authority due to unclear divisions of responsibilities and mandates. While inspections and their financing are based on a risk approach, there is no clear legislative plan for risk approach procedures.

As regards veterinary policy, the Regional Veterinary Service and Plant Protection Agencies (RVSP) were established in 2018/19. A reform of the veterinary service was started in 2018 but has not yet been completed and the sector faces problems with staffing, animal waste management and farm biosecurity and fishery products (European Commission, 2019<sup>[79]</sup>).

#### *Sub-dimension 14.4: Agricultural innovation system*

The **research and development framework** is based on the National Strategy for Scientific Research, Technology and Innovation for 2017-2022, along with the Action Plan for the Support of Development of Innovative Policies. The action plan aims to improve links between academic, industry and government institutions. Although the research strategy aims to increase investments for scientific research, technology and innovation to up to 1% of GDP by 2022, the share of public spending on scientific research in 2018 only reached 0.06% of GDP. The research strategy aims to increase practical projects involving research institutes and farmers, improving production technology and the competitiveness of Albanian producers. While under review as of 2020, the strategy also aims to continue working with the EU Horizon 2020 programmes that support Albania's research institutes in developing new methodologies and techniques in agricultural research.

There are numerous institutions involved in Albania's agriculture research and development sector,<sup>187</sup> but it remains underfunded and poorly organised in its division of responsibilities and administrative capacities. Albania has become increasingly aware of gaps in agricultural research and has begun prioritising and targeting the exact areas where more research and innovation support is needed for further harmonisation with EU processes. The National Inter-Sectoral Strategy for Agriculture and Rural Development (NISARD) 2014-2020 action plan aims to further develop the agricultural innovation system. But progress has been slow and there is little co-ordination or information sharing among the academic institutions and regional agencies responsible for agriculture research and development.

Albania's **agriculture extension services** have made progress on intra-institutional co-operation but lack administrative and human capital capacities. There are five regional Agricultural Technology Transfer Centres (ATTC) in Albania, with the role of enabling the smooth transfer of agricultural technology according to the needs and regional priorities within the ATTC's jurisdiction. The ATTC has 153 employees offering training and educational material to farmers and agribusinesses. These National Extension Agency Services are partly or fully free of charge for all farmers, and each regional office adapts to the needs of farmers in the most prominent agricultural sectors in the area. The ATTCs are widely used by farmers and producers. However, their programme frameworks could improve by including services that farmers request and adapting to emerging market needs and requirements.

Access to information for farmers, such as market developments, technical options and weather, remains limited, and is only provided through a personal phone call with the representative of the extension service office. Moreover, the administrative and human capital capacities of Albania's extension services do not meet the needs of agricultural producers. The level of information sharing primarily depends on how active the advisors are within the regional extension service offices, which differs from region to region.

### ***The way forward for agriculture policy***

The following suggestions for future efforts and priorities of the Albanian Government could help improve agriculture policy:

- **Enhance rural infrastructure policy capacity by replicating Albanian Development Fund (ADF) good practices in planning and management of large-scale projects.** The experiences of ADF should be transformed into operational mechanisms and practices that can be used in implementing the next Agriculture and Rural Development Programme (2021-2027). From 2019, the needs of the sector have been addressed in the framework of the regional development and cohesion programme in harmonisation with the EU approach, which is why replication of good practices and further building of the administrative capacity is necessary.
- **Complete the monitoring and evaluation system for irrigation water management.** This will allow the MARD to follow up on the progress of developing and managing irrigation systems across the territory. The M&E system will be an important tool for municipalities to undertake self-assessments of their annual progress on irrigation and drainage activities.
- **Increase the capacity of the IPARD agency.** Efforts are necessary to ensure the agency's administrative capacity is adequate to fully implement available IPARD II funding. Staff need to be further trained and prepared for allocating the remaining measures under the IPARD II programme as well as forthcoming ones.
- **Improve the performance of the agricultural education system.** Institutions and businesses should increase networking, as well as the practice and training hours for students. Financial remuneration or other rewards should be used to motivate businesses to offer students practice hours.
- **Upgrade the SPS system and fully harmonise it with EU requirements.** Restructuring the veterinary sector and building the necessary technical and administrative capacity in the field of food safety and phytosanitary services is necessary. The food safety standardisation and accreditation of laboratories should be considered a priority.
- **Increase the funding and enforce the implementation of the National Strategy for Scientific Research.** There is a need to increase investment in research, in line with market demand, stimulate the links between producers and researchers and support innovation projects in targeted agriculture sub-sectors. Extension services need to be further supported by increasing the expertise of advisors through continuous training.

## Tourism policy (Dimension 15)

### Introduction

Table 20.24 shows Albania's scores for the five tourism sub-dimensions and compares them to the WB6 average. Albania has the third highest score in the tourism dimension (after Montenegro and Serbia). Albania scores above the WB6 average in four sub-dimensions, scoring highest in the tourism branding and marketing sub-dimension. Albania scores below the WB6 average in sustainable and competitive tourism, which is mainly due to its low score in promoting sustainable development and operations within the tourism sector. Since 2018, Albania has mainly progressed in improving partnerships with stakeholders (part of Sub-dimension 15.1), accessibility and accommodation capacity (Sub-dimension 15.2), quality assurance and VET frameworks (Sub-dimension 15.3), and tourism branding and marketing (Sub-dimension 15.5).

**Table 20.24. Albania's scores for tourism policy**

Dimension	Sub-dimension	Score	WB6 average
Tourism policy dimension	Sub-dimension 15.1: Governance and co-operation	2.4	2.3
	Sub-dimension 15.2: Destination accessibility and tourism infrastructure	2.5	2.2
	Sub-dimension 15.3: Availability of a qualified workforce	1.8	1.8
	Sub-dimension 15.4: Sustainable and competitive tourism	1.3	1.6
	Sub-dimension 15.5: Tourism branding and marketing	2.8	1.6
Albania's overall score		2.1	2.0

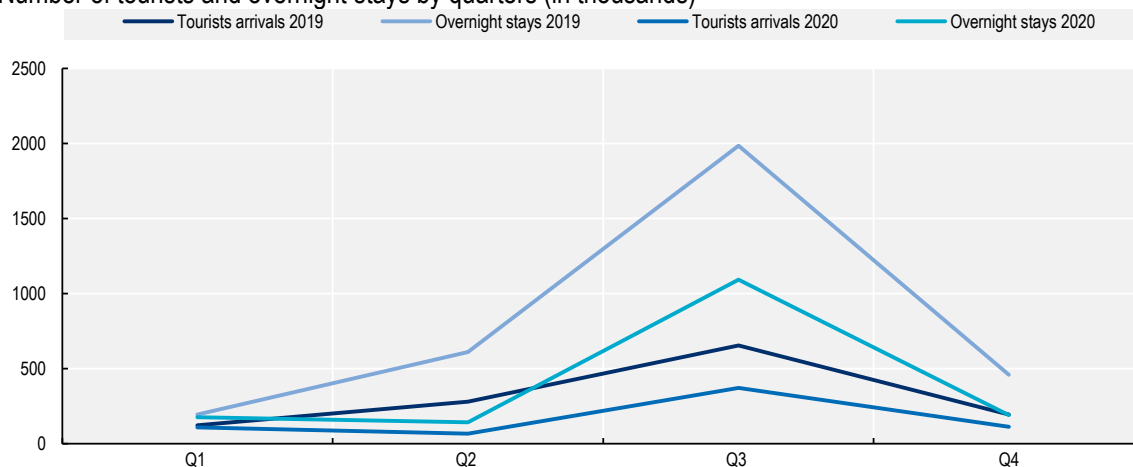
### State of play and key developments

Tourism has become one of Albania's most important economic sectors. In 2019, international tourist arrivals reached 6.4 million, which is higher than the WB6 average (INSTAT, 2020<sup>[223]</sup>). Average annual tourist arrivals in the last 10 years have increased by 13%, which is the second highest growth in the region, just behind Kosovo (14%). This fast increase in international tourist arrivals has contributed to tourism's growing share in GDP and employment. In 2019, the total (direct and indirect) contribution of tourism to GDP was 21.2% (USD 3.26 million and an 8.3% increase on 2017) (WB6-CIF, 2020<sup>[224]</sup>), while the direct contribution of tourism to GDP was 8.8%. Its total contribution to employment was 22.2% or 254 300 jobs, while its direct contribution was 8% or 91 500 jobs (WEF, 2019<sup>[225]</sup>). Moreover, tourism in Albania contributes 38% of total exports, which is again the second highest share among the Western Balkan economies. The growth of tourism is partly driven by the overall growth in investments, as well as the improvement in promotion and marketing on international markets. This significant improvement is reflected in Albania's improved ranking in the World Economic Forum's Competitiveness Index. It has risen by 24 places (ranking 48<sup>th</sup>) in the effectiveness of marketing and branding to attract tourists indicator, and by 71 places (ranking 35<sup>th</sup>) in the country brand strategy indicator. Although Albania has improved its overall position by 12 places, its ranking at 86<sup>th</sup> place indicates that further efforts should be made to improve its competitiveness (WEF, 2019<sup>[225]</sup>).

Despite these remarkable improvements, some challenges still hamper Albania's tourism sector. The key challenges are strong seasonality (with the peak season in July and August) (Figure 20.17), the concentration of tourism in the coastal areas, the large informal economy and the low average receipts per arrival (only USD 390, the lowest in the WB region). These challenges are enhanced by the lack of high-quality tourist products and services, limited human resource capacity and the lack of effectiveness and efficiency of governance at national and local levels.

**Figure 20.17. Seasonality of Albanian tourism (2019-20)**

Number of tourists and overnight stays by quarters (in thousands)



Source: (INSTAT, 2020<sup>[223]</sup>), *Movement of People*, <http://www.instat.gov.al/en/themes/industry-trade-and-services/tourism/>; (INSTAT, 2021<sup>[226]</sup>), *Movement of People*, <http://www.instat.gov.al/en/themes/industry-trade-and-services/tourism/>.

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In order to address these challenges, Albania has set out strategic goals and policy measures in its new National Strategy for Sustainable Tourism Development (2019-2023).<sup>188</sup> The strategy aims to diversify the tourism offer (coastal, natural and thematic tourist products); increase the added value of tourism for the economic and social development of the economy; develop new, high-quality tourist products and services; and improve the economy's image through local products. However, some key challenges are not sufficiently considered in the new strategy. These include poor governance at national and local levels and the lack of sustainable tourism promotion.

The biggest current challenge is the COVID-19 pandemic, which put the development of the tourism industry on hold in 2020. Tourism was one of the sectors most affected by the pandemic. In order to mitigate the impact of the virus, Albania closed its borders in March 2020 (with a few exceptions, mainly transport of goods and diplomatic corps). Tirana International Airport closed to air traffic except for state, military, medical and emergency flights. As a result, in the third quarter of the year 2020, the number of tourists arrivals decreased by 43.3% compared to the same period in 2019 (INSTAT, 2020<sup>[223]</sup>), and by 47% on annual level compared to 2019. In terms of accommodation occupancy, the number of nights spent in the third quarter of 2020 decreased by 45% in comparison to the third quarter of 2019 and by 50,7% on annual level compared to 2019 (INSTAT, 2021<sup>[226]</sup>) (Figure 20.17).

The Albanian Government has established the national tourism recovery programme, which includes incentives to local businesses, establishing partnerships with airlines, promoting blue tourism, online promotion of Albania as a safe tourist destination, organising events and reorienting public investments.

A Decision of the Council of Ministers (in April 2020) introduced a financial assistance package corresponding to ALL 7.04 billion for the period April-June 2020 to employees of entities (physical/juridical persons) in the accommodation sector. In addition, 176 000 workers, 10 000 of whom were employees in the tourism sector benefited from a monthly USD 400 payment in April 2020 (WB6-CIF, 2020<sup>[224]</sup>).

Constant dialogue has been established between the Ministry of Tourism and Environment (MTE) and the stakeholders of the tourism industry in order to assess the situation and the ongoing challenges. This co-operation has helped to develop recommendations to address the current crisis in the best and most efficient way in order to minimise the impact of COVID-19 on Albanian tourism, protect travellers and restore trust. The MTE, in collaboration with the Sustainable Rural Development (SRD) programme,<sup>189</sup> has developed a questionnaire to identify the issues currently faced by accommodation structures in order to target support. In collaboration with the Ministry of Health and Social Protection the MTE has drafted a

protocol for anti-COVID-19 measures for the 2020 tourism season. This document aims to guide and regulate the necessary preconditions for tourism enterprises to guarantee the successful continuation of their activity while avoiding spreading the virus inside and outside accommodation structures. This draft proposal will be implemented once the government relaxes some measures (WB6-CIF, 2020<sup>[224]</sup>).

### *Sub-dimension 15.1: Governance and co-operation*

Albania's tourism **governance and institutional set up** is defined by the Law on Tourism, adopted in 2015. The Law on Tourism (2015) establishes the responsibilities of central and local governments and outlines the institutions involved in the tourism sector both at national and local levels. Tourism development is overseen by the Ministry of Tourism and Environment, which is responsible for the development, management, co-ordination and implementation of the tourism strategy. The National Tourist Agency of Albania is the central organisation responsible for tourism branding and marketing. The new Strategy for the Sustainable Development of Tourism (2019-2023) clearly defines the strategic objectives, policy measures and actions to be implemented by different ministries, the budget allocation and the implementation timeframe. Due to the crosscutting nature of the tourism sector, it is included in other national strategies (Table 20.25). In December 2019, the Thematic Group on Tourism and Culture Development and the Prefectures of the Regions was established, headed by the Deputy Minister of the Ministry of Tourism and Environment, in order to ensure joint policy, cross-sectoral co-operation and decision making at the highest level.<sup>190</sup> The thematic group consists of representatives from the MTE, the Ministry of Culture and subordinate institutions, according to the area of responsibility. The work of the Thematic Group is included in the annual progress reports on Competitiveness and Investments. However, there is still no formal government body which also includes other ministries and public institutions to co-ordination of tourism development at the government level.

**Table 20.25. Albania's cross-cutting tourism strategies**

Title	Key focus area
The General National Territorial Plan 2015-2030	Sustainable tourism based on natural resources
Integrated Cross-Sectoral Plan for the Coast 2015-2030	Coastal as well as urban tourism
Sectorial Strategy of Transport and Action Plan 2016-2020	Focus on connectivity and accessibility
Cross-Cutting Strategy Digital Agenda of Albania 2015-2020	Development of connected tourism/ e-tourism
Cross-Sectoral Strategy for Rural and Agricultural Development 2014-2020	Development of rural tourism as well as tourism related to culture, nature, mountains, etc

A 2019 progress report on the implementation of the tourism strategy has been published and the 2020 report is being drafted, which are positive steps. Since implementation of the six previous tourism strategies<sup>191</sup> was weakened by inefficient governance and patchy implementation due to government changes (Ciro A., 2019<sup>[227]</sup>), special attention is needed to strengthen implementation. This is even more important in a context of weak inter-ministerial co-operation, which is evident in the conflicting sectoral development priorities (such as promoting the construction of small hydropower plants in natural protected areas rather than sustainable tourism and development of nature/adventure tourism). Additionally, the government reports that lack of knowledge and capacities of public officials are key challenges for effective and efficient governance of the tourism development in the economy.

**Partnerships with stakeholders** are established through the Private Sector Advisory Committee of Tourism (KKSPT). This advisory body is chaired by the Minister of Tourism and includes representatives of national enterprise associations, higher education institutions, chambers of commerce, associations and NGOs operating in the field of tourism, as well as representatives of international institutions/donors. The main tasks of KKSPT are to advise the Minister of Tourism by designing tourism development strategies, legislation and regulations to report on the progress of the private sector and propose policy measures for issues related to tourism. However, the efficiency of this body is rather weak, and private tourism stakeholders report that their recommendations are often not taken into account. The Investment Council

platform was set up in 2015 by the Albanian authorities with support from the EBRD to intensify the dialogue between the government and the private sector, improve the business climate and promote good governance. The Investment Council is composed of high-level government officials, representatives from business associations and multilateral agencies. The government regularly takes into account the council's recommendations, particularly since the November 2019 earthquake and the COVID-19 pandemic.<sup>192</sup>

Regional Committees for Tourism Development are established in each prefecture to co-ordinate the work of central institutions and local government units (**vertical co-operation**). These committees include representatives of local government units, district representatives, representatives of local associations in the field of tourism, educational and training institutions for tourism, and representatives of the MTE. Territorial tourism branches have been established as administrative structures of the MTE to co-ordinate the implementation of tourism product development policies and tourist destination management. At the local level they are responsible – among other things – for inventorying the main tourism resources and businesses, supporting the infrastructure and activities in the tourism sector, and ensuring compliance by local businesses with the Law on Tourism and relevant policies. However, the efficacy of local level governance remains a key challenge. Most municipalities are not able to fulfil all the responsibilities defined in the Law on Tourism (for example, the certification of accommodation facilities), due to the shortage of competent public officials (in many cases tourism is only an additional task for local officials), and the lack of financial resources for tourism development. Besides, there is not yet any regular monitoring or evaluation of policy measures implemented at the local level.

Albania's **tourism data collection and sharing system** is still at an early stage of development. Only limited progress has been achieved since 2017, including new tourism data and surveys published since 2018. A tourism data collection and sharing framework is formally in place and the Law on Official Statistics was adopted in 2018. The National Statistics Institute (INSTAT) is the leading institution for data collection and sharing. Moreover, a tourism statistical working group brings together all the main institutions that can provide reliable tourism data (i.e. INSTAT, Central Bank, Customs Office, and General Directory of State Police). Some improvements should be seen with the implementation of the newly adopted mandatory categorisation of accommodation facilities. However, the reliability of statistical data is very low due to the large informal economy in tourism (Ciro A., 2019<sup>[227]</sup>). Overall, Albania lacks a comprehensive data collection framework that would provide a clear methodology for data collection and analysis.

### *Sub-dimension 15.2: Destination accessibility and tourism infrastructure*

As mentioned in the previous assessment, Albania's Sector Strategy for Transport and action plan 2016-2020 take tourism and **connectivity** into consideration by including measures to improve connectivity, safety and security at border crossing points. Since 2017, Albania has improved its destination accessibility for tourists by reducing visa requirements. In addition, electronic visas are now available for entering Albania and an e-Visa Internet portal was launched in November 2020.<sup>193</sup> The development of bilateral agreements with all WB economies, allowing travellers to cross borders with only an identity card or passport and with only one customs point (entrance), has also facilitated border crossing.

An **accommodation capacity and quality assurance framework**, which increases the availability and quality of accommodation, is in place and several policy measures have been implemented. However, most of the policy measures, such as a reduction of VAT and income tax for accommodation facilities, were already adopted before 2017. The promotion of private and public investment in tourism remains a priority policy goal in the new National Strategy for Sustainable Tourism Development 2019-2023. It includes measures for promoting private strategic investment and attracting well-known international brands in the hotel industry, defining priority areas for tourism development, and orienting private and public investments to improve basic public infrastructure first. This is a positive approach to ensure the efficient use of limited financial resources. However, for this approach to be fruitful, Albania needs to focus on putting in place high-level inter-ministerial co-operation and adopting a public infrastructure investment



programme or action plan to ensure compliance with overall public infrastructure development goals (see also Sub-dimension 15.4: Sustainable and competitive tourism). Moreover, the lack of clearly defined property rights along with other cross-cutting challenges in the business environment further hamper investment in tourism. Although policy measures have been implemented, no information on their effectiveness in terms of impact on accommodation facilities is available.

In 2016, Albania started to set up more comprehensive quality assurance by adopting a consistent accommodation quality standard framework. In 2019, the MTE started the process of categorising accommodation structures<sup>194</sup> and established a register of accommodation facilities. All types of accommodation must be registered, apart for private apartments and rooms. The legal basis for including these two accommodation types in the mandatory categorisation is currently going through the approval process<sup>195</sup>. The main remaining challenge is to empower the Tourism Inspectorate to undertake regular inspections.

**The tourist information system** provides information on tourist destinations, accommodation, attractiveness and tourist services. Information is provided via websites, road signs and at tourist information centres. It is available in multiple foreign languages and is regularly updated by the National Tourist Agency. However, a tourist information system framework that connects the current tourist information system to a comprehensive national information database is still lacking, thus impeding further improvement in this field.

#### *Sub-dimension 15.3: Availability of a qualified workforce*

A qualified workforce is an important element in developing tourism in Albania further. In 2019, Albania made progress in its **skills supply framework**, improving its position on the WEF Competitiveness Index human resources and labour market indicator by 8 places (ranking 31<sup>st</sup>). It improved even more in the ease of finding skilled employees indicator, moving up 17 places. However, its 78<sup>th</sup> place overall in the ranking in this indicator shows that further actions are still required (WEF, 2019<sup>[225]</sup>). The National Tourism Development Strategy envisages establishing a Regulatory and Institutional Framework for the development of vocational education and qualifications in tourism, as well as training of human resources engaged in the sector. Assessing skills gaps and training needs is also planned.

Albania's overall **VET framework** is well advanced, with good co-operation with private stakeholders and the National Agency for Vocational Education, Training and Qualification being established, well equipped and with a sufficient budget and staff for implementing its activities. A monitoring system has been set up under the National Employment and Skills Strategy 2019-2022 (NESS) and the budget for VET programmes has been rising continuously over the last four years. In 2019 it was four times higher than in 2015. It seems that this progress is the result of donor projects in the economy and across the region. However, Albania still needs a sector-specific human resources strategy, including clear measures to fill the gap between supply and demand by adapting the curricula to the needs of the market.

Although there is no **higher education framework**, Albania has developed the so-called dual programme for catering/tourism management, which is a three-year educational programme prepared and implemented in close co-operation between universities and private sector stakeholders. Established in 2006, 50% of the programme consists of practical training in companies.

#### *Sub-dimension 15.4: Sustainable and competitive tourism*

A **comprehensive natural and cultural heritage enhancement framework** is being developed, though progress has been limited in this field since 2017. Natural and cultural heritage is included in the National Strategy for Sustainable Tourism Development 2019-2023 and is characterised as a resource for the development of nature-related and thematic cultural tourism products. In 2019, the National Strategy for Culture 2019-2025 was adopted by the government and includes the main policies and specific objectives

for cultural heritage. However, modest progress has been made in managing natural heritage. Despite being included in the Policy Document on Biodiversity and Law on Protected Areas,<sup>196</sup> a more comprehensive framework is needed for drawing on natural heritage for tourism. Although co-operation among the responsible ministries has been established to co-ordinate policy measures and activities in the field of natural and cultural heritage, the policy measures are defined in several policy documents, and are not brought together in a separate tourism policy that would allow for regular monitoring and evaluation.

The principles of **sustainable tourism development** are defined in the National Tourism Development Strategy and in the Law on Tourism. However, specific measures for the actual promotion of sustainable tourism development are not defined. A policy framework is needed to promote sustainable tourism and operations within the tourism sector that includes clear measures to help tourism stakeholders develop sustainably. In 2019, the European Union and the European Bank for Regional Development launched a EUR 40 million Programme for Sustainable Tourism in Albania to improve the contribution of quality sustainable tourism to economic growth and the competitiveness of Albanian regions. This is an opportunity for Albania to make progress in sustainable tourism development.

Albania has made some progress in establishing a comprehensive **tourism investment policy framework**, though a **tourism innovation policy framework** is not yet in place. Policy measures for promoting investment in the tourism sector are included in the action plan of the National Strategy on Sustainable Tourism Development 2019-2023. The strategy supports the implementation of three specific objectives: 1) promoting private strategic investments to attract well-known international brands in the hotel industry; 2) defining priority areas for tourism development and orienting private investment towards them; and 3) orienting public investment towards improving basic infrastructure. The promotion of investment in tourism infrastructure is also included in the Strategic Investment Manual, issued by the Albanian Investment Development Agency and dealing with facilitating and supporting direct investments in Albania. In addition, several measures in the form of fiscal incentives (see Box 20.18) and tourism investment incentives are available.

Despite these clear indications that the promotion of investment in tourism is a priority for Albania, the effectiveness of these policy measures could not be assessed as there is no monitoring or evaluation conducted. While the first monitoring was planned to be implemented in 2020, no evaluation framework is planned to be developed.

#### Box 20.18. Fiscal incentives to boost the tourism industry in Albania

In order to boost the tourism industry, Albania has created several fiscal incentives:

- 6% VAT for accommodation structures (bed + breakfast)
- 6% VAT on any supply within “hotel/resort 5\*, special status” structures (brand name)
- exemption from building tax and impact tax on infrastructure
- hotel/resort 5\*, special status (brand name), support by administrative procedures
- exemption from profit tax for 10 years for “hotel/resort 4 \* and 5\*, special status” eligible for special status until December 2024
- 6% VAT for certified entities in agro-tourism (sleeping + restaurant but not drinking)
- infrastructure impact tax exemption for agro-tour operators who invest in this area
- income tax decreased from 15% to 5% for certified entities in agro-tourism from January 1, 2018.

Source: (Invest in Albania, n.d.<sup>[228]</sup>), *Invest in Albania*, <https://invest-in-albania.org>.



### *Sub-dimension 15.5: Tourism branding and marketing*

According to the Travel & Tourism Competitiveness Index 2019, Albania has improved its ranking in the effectiveness of marketing and branding to attract tourists indicator, moving from 72<sup>nd</sup> to 48<sup>th</sup> place (WEF, 2019<sup>[225]</sup>). The National Tourist Agency of Albania is the central national organisation responsible for **tourism branding and marketing**. Since 2015, the National Tourism Agency has managed the promotion brand of Albanian tourism "Albania go your own way". In 2019, the development of a new marketing brand was begun, but the process has been slowed down by the COVID-19 crisis. There is no monitoring or evaluation of the brand image and no marketing strategy. Key public and private stakeholders are involved in implementing the marketing plan, although a formal marketing co-ordination body is not established yet. The budget allocated for tourism promotion and marketing for 2019 is rather low (EUR 700 000), and is nearly 43% lower than in 2015, which could have a negative impact on future tourism development.

A **digital tourism marketing framework** is not yet formally established. However, some digital marketing activities are included in the overall tourism marketing strategy and were implemented in 2019. Moreover, a few digital marketing activities – such as the Marketing of Albanian Tourism campaign through sponsored advertisements on Google Ads and social networks – have been implemented. This approach includes regular monitoring of the progress of digital marketing campaigns, which is a positive development for an efficient digital marketing framework. Currently, the main weakness in this area is the lack of policy measures for building the capacity of tourism stakeholders, including providing incentives for them to implement digital marketing strategies and tools.

### ***The way forward for tourism policy***

To ensure further successful development of tourism, policy makers should:

- **Strengthen the governance structure at the central level by establishing efficient inter-ministerial co-operation.** This is essential to harmonise tourism policy priorities with other national sectoral policies priorities.
- **Involve private sector stakeholders more actively** in decision making to better address their needs and support them in implementing their development projects.
- **Introduce regular monitoring and independent evaluation** of implemented policy measures.
- **Move away from developing more mass tourism in coastal areas**, and start developing new, high-quality and personalised tourist experiences based around natural and cultural sites. Bookings should be available on short notice. Albania should also prepare a new marketing strategy and related action plan, with an objective to attract more domestic tourists in the context of COVID-19 – an area which has been relatively neglected so far but could help to disperse tourist arrivals over the year.
- **Develop a comprehensive training programme for public officials at national, regional and local levels** to impart the relevant skills and competencies to manage tourism development effectively.
- **Enable municipalities to implement their legally assigned tasks for tourism development.** Prepare an in-depth analysis of the main constraints and bottlenecks to implementing their assigned responsibilities. Define a special programme of policy measures and other actions to improve their ability to cope with tourism development efficiently.
- **Develop a comprehensive framework for promoting sustainable development within the tourism sector.** It should include the mandatory consideration of sustainability criteria in all investments in tourism infrastructure. It should also be supported by public incentives, awareness raising and training for tourism stakeholders and use best practice from other countries.<sup>197</sup>

- **Do more to improve tourism data collection and sharing** by introducing digital collection of data (see Box 20.19), and by developing Tourism Satellite Accounts to empower policy makers with reliable information when designing policy measures.
- **Conduct a comprehensive analysis of the informal economy in tourism and prepare a programme** with clearly defined measures for its systematic reduction.

#### Box 20.19. Croatia's eVisitor initiative

The Croatian National Tourist Board, together with local tourist boards and other stakeholders, have developed the eVisitor check-in and check-out initiative as a unique information system connecting all tourism offices in the country. The system also includes about 60 000 accommodation providers.

As of 2016, all domestic tourism boards have access to all the data on accommodation providers and their facilities, as well as the tourist arrivals and departures in their area. This system simplifies the process of checking in and out, helps to control tourist tax payments, and provides a unified national platform for the collection and processing of data on accommodation providers and their facilities. It also enables all accommodation providers (natural and legal persons) to independently and at any time check their guests in and out and calculate their current tourist tax obligations. Importantly, the collected data allow tourist movements to be analysed and categorised according to multiple criteria, such as length of visit, location, gender, age, country or place of residence. This is expected to significantly improve data collection and facilitate tourism marketing and promotion activities.

The system also fosters co-operation with other public authorities, such as the customs administration, the Ministry of the Interior and the State Attorney's Office, to access and use the collected data via remote access to the database.

Source: (eVisitor, 2020<sup>[229]</sup>), *eVisitor Croatia*, <https://www.evisitor.hr/Info/hr-HR/>.

## Anti-corruption policy (Dimension 16)

### Introduction

Table 20.26 shows Albania's scores for the Anti-corruption policy dimension and compares them to the Western Balkan (WB) average. Albania has the highest score (along with Montenegro) of the WB6 economies for the anti-corruption public awareness and education indicator. The other indicators are below the WB6 average, although there is a potential of swift progress regarding anti-corruption law enforcement bodies considering the implementation of institutional reforms at the time of this assessment. Albania has an elaborate legal framework in several areas of prevention of corruption. Compared to the previous Competitiveness Outlook, Albania has intensified its anti-corruption awareness-raising activities. A track record for the investigation, prosecution and adjudication of high-level corruption cases has been established, but the effectiveness of specialised anti-corruption bodies still needs to be fully developed.

**Table 20.26. Albania's scores for anti-corruption policy**

Dimension	Sub-dimension	Score	WB6 average
<b>Anti-corruption policy dimension</b>	Sub-dimension 16.1: Anti-corruption policy framework	1.0	2.1
	Sub-dimension 16.2: Prevention of corruption	4.0	3.3
	Sub-dimension 16.3: Independence of the judiciary	n.a.	n.a.
	Sub-dimension 16.4: Business integrity and corporate liability	n.a.	n.a.
	Sub-dimension 16.5: Investigation and prosecution	2.5	2.8
<b>Albania's overall score</b>		<b>2.1</b>	<b>2.5</b>

Note: For comparability with the previous assessment, the two new sub-dimensions (16.3 and 16.4) have not been scored but are discussed in the text below.

### State of play and key developments

#### *Sub-dimension 16.1: Anti-corruption policy framework*

The Inter-Sectoral Anti-Corruption Strategy (ISACS) 2015-2020 (extended until 2023) provides the anti-corruption policy framework and its **policy documents, co-ordination and implementation** includes the classic components of anti-corruption policies: prevention, repression and awareness raising. The Inter-Sectoral Reform Strategy in Public Administration 2015-2020 and the Mid-Term Strategy 2018-2020 of the Public Prosecutor's Office also envisaged anti-corruption activities.

Anti-corruption policy planning includes funding needs. The latest action plan (2020-2023) defines funding amounts for most activities. In terms of monitoring, responsible institutions have been asked to report the amounts of financial disbursements for the activities performed. According to the government, in 2017-19, the annual financial disbursement for these activities fluctuated around ALL 200-350 million. The share of international donor funding in this amount varied from approximately one-third in 2017/18 to around one-fifth in 2019. International support remains significant in 2020 and is expected to continue.

The Minister of Justice fulfils the role of the National Co-ordinator Against Corruption (NCAC). Albania has developed an advanced system of performance monitoring. The ISACS itself includes general and specific performance indicators, and the action plan contains so-called passports of indicators. The monitoring is organised into two stages, whereby each implementing institution reports the level of implementation of its activities, the budget allocated, problems encountered, etc. while the NCAC reports on overall progress. In quantitative terms, by the end of 2019, 11 objectives had been achieved, with implementation of 6 objectives in progress. Only one objective had not been realised (improving the legal framework for the prosecution of economic and financial crimes and, in particular, the establishment of the asset recovery office) (NCAC, 2020<sup>[230]</sup>). In terms of monitoring by civil society, the Institute for Democracy and Mediation

conducts an annual survey. This continually reveals sceptical public opinion; for example, in the 2019 survey, 71% of respondents indicated having no confidence in the prosecution of grand corruption cases, with no substantial change on previous years (Vrugtman and Bino, 2020<sup>[231]</sup>).

In view of the decision to draft a new action plan for 2020-2023, the Ministry of Justice requested the Organisation for Security and Co-operation in Europe (OSCE) Presence in Albania to conduct an external mid-term review of the ISACS for the period 2015-2018. The review report does not seem to be published online, but according to the government, one of the general conclusions of the review was that sanctions for corruption were not yet delivering results.

The NCAC engages in regular consultations with civil society. It submits draft monitoring reports of the ISACS for public review and solicits comments through online calls for consultation. According to the government, relevant comments and suggestions are reflected in the drafts before approval. Repeated online consultations and in-person discussions took place regarding drafts of the 2020-2023 action plan. While drafts and adopted planning documents, as well as monitoring reports, are regularly published on the Ministry of Justice website,<sup>198</sup> in the past the NCAC did not publish overviews of any received, accepted, or rejected proposals. While such feedback may have been provided in a less formal manner, it was reportedly not provided systematically (European Commission, 2020<sup>[19]</sup>). However, recently Albania has started the practice of publishing reports of consultations on the ISACS monitoring reports.

There is no obligation for public agencies to carry out **corruption risk assessments** and no systematic engagement in this activity yet. However, the Action Plan 2020-2023 for the ISACS envisages the development of integrity plans (including risk assessment) by all ministries and subordinate institutions. Several public entities have already identified and assessed risks and drafted consolidated risk registers. In 2020, the Ministry of Justice published the Integrity Risk Assessment Methodology for Institutions of Central Government (Sulstarova, Met'hasani Cani and Bezhani, 2020<sup>[232]</sup>), carried out a risk assessment and published the integrity plan for the ministry. Eight subordinate institutions of the Ministry of Justice have started risk-assessment processes. Several municipalities have also approved integrity plans.

Laws do not envisage **corruption proofing of legislation**. According to the government, a document on corruption proofing has been drafted but it is not yet publicly available. In the past, Albania has engaged the Institute for Development Research and Alternatives (IDRA) think tank to establish a system of corruption proofing but there is no evidence that this co-operation has continued.

### *Sub-dimension 16.2: Prevention of corruption*

Albania's institutional structure contains several **corruption prevention bodies** and arrangements.

The Directorate of Programs and Projects in the Anti-Corruption Field in the Ministry of Justice and the Network of Anti-Corruption Co-ordinators play the key role in policy planning, co-ordination and monitoring. Established in 2019, the directorate co-ordinates activities with the implementing institutions, drafts policy documents and monitoring reports, proposes activities, etc. The network comprises 17 co-ordinators across the public sector and serves to collect, analyse and co-ordinate information on corruption incidents and anti-corruption activities.

Two institutions play a central role in inspections and administrative investigations. Established in 2018 and headed by the NCAC, the Inter-Institutional Anti-Corruption Task Force is responsible for inter-institutional inspections and, as of early 2020, had recommended 118 dismissals and produced 38 criminal referrals (European Commission, 2020<sup>[233]</sup>). The Special Anti-Corruption and Anti-Evasion Unit (SACAEU), established by the Council of Ministers in February 2020 under the Prime Minister, is responsible for supervising inspection activity; co-ordinating the initiation of administrative investigations and audits; carrying out verifications, controls, and inspections in ministries, central institutions, prefect administrations, and companies with state capital; and following up and implementing tasks set by the National Committee against Corruption and Evasion headed by the Prime Minister, etc. At the time of

preparing this Competitiveness Outlook assessment, no data were available on the performance of the SACAEU.

These bodies are placed under direct or indirect control of the political leadership and have no special safeguards for their independence. The Minister of Justice, in his/her role as the NCAC, directly heads the Network of Anti-Corruption Co-ordinators and the Inter-Institutional Anti-Corruption Task Force. The Directorate of the Ministry of Justice is headed by a director – a civil servant selected and appointed under the general civil service rules. The Prime Minister appoints the Director General of the SACAEU, who has no fixed term in office. In terms of staff, these anti-corruption bodies are small institutions. As of June 2020, the directorate had six staff members and five vacancies (three vacancies on 3 March 2021). The SACAEU had 7 employees, as well as 12 full-time and 5 part-time employees attached to other institutions.

The High Inspectorate for the Declaration and Audit of Assets and Conflicts of Interest (HIDAACI) is a legally independent institution, established in 2003 and headed by the Inspector General. Parliament appoints the Inspector General and oversees the body. To safeguard the independence of the HIDAACI, support from three-fifths of all Members of Parliament is required to appoint the Inspector General. However, only a simple majority is necessary if the first vote fails (SELDI, 2019<sup>[234]</sup>). The HIDAACI is a growing institution. From 2003-19, its employees increased from 35 to 70 (including inspectors, whose number increased from 12 to 28).

The HIDAACI is the central authority responsible for implementing and enforcing the Law on Prevention of **Conflict of Interest** in the Exercise of Public Functions (adopted in 2005). The law defines actual, potential and apparent conflicts of interest as well as different kinds of pecuniary and non-pecuniary private interests. The rules apply in a comprehensive manner to officials and employees of central and local state institutions, including enterprises and organisations controlled by the state. The key obligation in the system for managing conflicts of interest is a case-by-case self-declaration where a public official him/herself assesses whether his/her private interests may lead to a conflict of interest. The superior official or superior institution may also request such a declaration. The law prescribes in detail the measures that officials and their superiors may take to prevent and resolve conflicts of interest.

As the central institution for managing conflicts of interest, the HIDAACI advises officials and their superiors on specific cases of suspected conflicts of interests and questions of ethics. It also carries out verifications of and administrative investigations into conflicts of interest and checks compliance with prohibitions and restrictions of private interests (such as restrictions on entering contracts with public institutions). It applies administrative sanctions, initiates legal actions with the competent public institutions to declare invalidity and regulates the consequences of acts and contracts issued under conflict of interest circumstances. Units responsible for implementing the law on prevention of conflict of interest in public institutions are required to report annually to the HIDAACI on activities carried out, including cases of conflict of interests, actions taken to prevent or process them, and outcomes. Based on the reports, the Inspector General prepares evaluations and recommendations. The HIDAACI has published several guides on preventing conflicts of interest.<sup>199</sup> According to the government, the HIDAACI is engaged in developing further legal changes in the area of conflict of interest.

Official statistics on administrative fines applied by the HIDAACI merge several types of violation into a single category (non-declaration of private interests, conflict of interest, and violations of the law on whistleblowing). There has been a decrease in the number of fines issued – from 436 in 2017 to 54 in 2019. The information provided does not reveal the causes of this declining trend. The HIDAACI does not make public its reasoned decisions in these cases.

Albania has a track record of effectively enforcing **asset and interest disclosure** based on declarations submitted upon taking office, on annual basis thereafter, and after leaving the office. The Law on the Declaration and Audit of Assets, Financial Obligations of the Elected Persons and Certain Public Officials (adopted in 2003) applies to a generally comprehensive circle of high/mid-level officials. A few categories are missing which could be considered for inclusion in the future, such as members of regional councils

(currently only heads of councils are covered by the declaration) and executives of all state-owned enterprises (currently only administrators of joint-stock companies with over 50% participation of state capital and more than 50 workers are covered). In terms of data relevant for monitoring the economic situation and interests of officials, the contents of the declarations do not cover unpaid outside activities (however, officials must disclose them within the institutions where they are employed); beneficial ownership unless visible through declared profit; trusts (only the trustee should be declared as a related person); or virtual assets such as cryptocurrencies. Data on spouses, cohabitants and adult children must also be declared but not for other individuals residing in the same household as the official. The Inspector General may also request declarations from other people considered to be related to a declarant.

The HIDAACI administers the declaration system and carries out auditing. A complete audit of the declared data must be carried out every two, three, four or five years for specified categories of officials, in cases when data from legitimate sources lead to questioning the authenticity and accuracy of the declared information, and in cases when arithmetic and logical checks reveal discrepancies. According to government data, the number of cases referred to law enforcement based on the verification of the declarations has been increasing (32 in 2017, 53 in 2018, 115 in 2019). There is a sustained track record of referring cases of high-level public officials for prosecution (27 cases in 2018, 7 cases in 2019) (European Commission, 2020<sup>[233]</sup>). The cases referred for prosecution in 2018 resulted in six convictions and seven dismissals; among those referred in 2019, one resulted in a conviction and a dismissal (European Commission, 2020<sup>[19]</sup>). However, there is evidence that a significant share of the cases forwarded by HIDAACI are not followed up adequately (GRECO, 2020<sup>[235]</sup>).

The HIDAACI is working towards launching an electronic system for declarations in 2021. Public access to the declarations has been based on requests for information. The electronic system is expected to ensure publication by default. Currently, the website Open Spending Albania provides access to searchable data on the declarations.<sup>200</sup>

The Law on Whistle-blowing and Whistle-blower Protection (adopted in 2016), and several auxiliary documents, provide **whistle-blower protection**. The law protects whistle-blowers in both the public and private sectors with the presumption of good faith in the whistle-blower unless the contrary is proven. The whistle-blower is entitled to confidentiality (including about his/her information sources) and protection from any retaliation measures, including but not limited to those listed in the law. The law invalidates any rules or private agreements which exclude or limit the rights of a whistle-blower.

The law deviates in several ways from EU Directive 2019/1937 on the protection of persons who report breaches of European Union law. Only corruption can be the subject of whistleblowing under the Albanian law. Whistleblowing can be internal and external (to the HIDAACI), but external whistleblowing is subject to conditions such as well-grounded reasons to be sceptical about the integrity and impartiality of the responsible unit within the organisation, etc. These conditions for external whistleblowing may act as a deterrent and are more restrictive than those envisaged in the EU Directive. The law is restrictive regarding public whistleblowing and strips the whistle-blower of the right to protection once he/she announces publicly the alleged act or practice of corruption. This is an important deviation from the directive, which envisages protection for a person who makes a public disclosure if certain conditions are fulfilled. According to the Albanian law, a whistle-blower may choose to remain anonymous, but he/she must justify reasons for the anonymity.

There are several means of protecting whistle-blowers, such as the invalidity of retaliatory measures and the possibility to seek compensation for harm. However, the law envisages no protection for people connected to the whistle-blower and no right to protection due to the mistaken identity of a whistle-blower. There are also no specific provisions for free legal aid for whistle-blowers. The whistle-blower alleging that he/she is the subject of an act of retaliation submits a request for protection to the responsible unit within the organisation. If the responsible unit exceeds the deadline for taking measures, the request is submitted to the HIDAACI, which must investigate the allegations. There is no explicit mention of the possibility of

applying for protection immediately to the HIDAACI or of provisional protection before the administrative investigation is completed. No evidence is available on how effective the protection measures are in practice.

As the central authority for whistle-blower protection, the HIDAACI has ensured the establishment of responsible units within public authorities with more than 80 employees (168 responsible units in total) and within private sector entities with more than 100 employees (444 responsible units in total). Nevertheless, whistle-blowing activity has been relatively low. According to the government, the HIDAACI received 8 whistle-blowing reports in 2017, 16 reports in 2018, 14 reports in 2019 and 9 reports in 2020. Over 2017-20, the HIDAACI received 5 requests for protection. In all these instances, no direct or indirect acts of retaliation were found. The number of internal whistle-blowing reports was 7 in 2017, 3 in 2018, and 3 in 2019. No evidence is available on the number of criminal cases started as result of whistle-blower reports.

Despite awareness-raising activities, monitoring by the Albanian Helsinki Committee found that lack of information about the law and reporting mechanisms among potential whistle-blowers and responsible units is one of the main causes of the small number of whistleblowing reports in Albanian ministries. Other reasons are lack of confidence that the reports will be received and treated with professionalism, impartiality and independence; in some cases, fear of revenge; preference for other reporting channels; and negative experiences of reporting in the past (Komiteti Shqiptar i Helsinkit, 2019<sup>[236]</sup>).

Albania highly prioritises public **awareness raising and education** on corruption-related matters. The ISACS envisages a range of awareness-raising campaigns and trainings. Moreover, the Ministry of Justice has its own communication plans for anti-corruption-related activities.

Public outreach activities organised by the authorities include “runs against corruption” around the lake of Tirana in 2018 and 2020, anti-corruption film festivals, and the Integrity Weeks in February and December 2020. These and other activities have involved international and domestic partners such as the Delegation of the EU to Albania, embassies of partner countries, the International Chamber of Commerce in Albania, etc. In 2018-19, five consultative forums took place on topics such as the implementation of whistle-blower protection, internal audit, freedom of information, and conflicts of interest among high-ranking officials. In February 2020, the NCAC launched the forum of civil society organisations on anti-corruption, which formally strengthens partnerships with civil society. It is envisaged that every government anticorruption initiative should be discussed in this forum.

Extensive and varied training activities have taken place, including training of the trainers of the School of Public Administration. In 2018, the HIDAACI held several training sessions for responsible authorities on prevention of conflict of interest (about 350 participants). In 2019, 14 training sessions were provided for the responsible units of the public sector on their duties and responsibilities under the Law on Whistle-blowing and Whistle-blower Protection (217 participants). Other institutions (the Ministry of Justice, the School of Public Administration) have also provided training on anti-corruption topics. Moreover, a variety of guidance materials have been prepared. The national budget has been the source of funding for multiple activities.

### *Sub-dimension 16.3: Independence of the judiciary*

The High Judicial Council (HJC) appoints judges for life. The Constitution and the Law on the Status of Judges and Prosecutors in the Republic of Albania determine criteria for admission to the initial training of candidates, the procedure for application and preliminary assessment, asset and background checks, ranking of graduating candidates, appointment of candidates, and assignment of the appointed magistrates to positions. Judges are selected and promoted through competitive procedures. The HJC and the School of Magistrates ensure transparency by announcing vacancies for judges on their websites.<sup>201</sup> According to the government, the School of Magistrates publishes the dates of all stages of competitions for the

recruitment of magistrates, candidates who will participate in the competitions, and the winners of each stage.

The HJC appoints court chairpersons following the promotion process. The mandate of court presidents lasts three years with the right to one re-appointment. When a chairperson resigns or an application for re-appointment is rejected, the HJC publishes a vacancy announcement. The procedure is described in detail, including the ranking of candidates, and the HJC publishes information on the appointment process online.

The HJC has been operational since December 2018 and comprises 11 members. The general assembly of judges elects 6 members, and parliament elects 5 members who are representatives of civil society, academia and the bar association. The HJC appoints, evaluates, promotes and transfers judges of all levels; decides on disciplinary measures for judges of all levels; proposes to the President of Republic candidates to the High Court; approves the rules of judicial ethics and monitors their observation, etc. CSOs have been monitoring the performance of the HJC. The Institute for Political Studies found that the HJC displayed many more elements of transparency than the previous High Council of Justice (ISP, 2020), though an earlier report by the Albanian Helsinki Committee found less consistent practice in terms of transparency (Komiteti Shqiptar i Helsinkit, 2019<sup>[236]</sup>).

The Law on the Status of Judges and Prosecutors in the Republic of Albania determines the disciplinary liability of judges. The recently created office of High Justice Inspector is responsible for initiating disciplinary proceedings. Guarantees of due process include the rights of the magistrate subject to the proceedings to submit a written defence, attend any hearing, call witnesses, present documents, take other measures for providing evidence, be represented under the provisions of the Code of Administrative Procedures, and recover his/her legal costs where no disciplinary measure is imposed. The magistrate has the right to appeal a decision imposing a disciplinary measure.

Albania has been undergoing a fundamental justice reform since 2016. A vetting process started in 2016 for all judges and prosecutors as a single extraordinary measure overseen by the International Monitoring Operation. The vetting process is stipulated in the Constitution of Albania as amended in 2016 and detailed in the Law on the Transitional Re-evaluation of Judges and Prosecutors in the Republic of Albania. More than 286 dossiers were processed, resulting in 62% being dismissed (mostly due to matters concerning unjustified assets) or resigning (European Commission, 2020<sup>[19]</sup>). As a result of the judicial reforms, judges' salaries have been increased significantly. However, the vetting process has also placed a strain on the judiciary from an increase in vacancies. For a certain period, the High Court and the Constitutional Court became practically dysfunctional (Venice Commission, 2020<sup>[237]</sup>).

According to the government, the allocation of court cases is done by lot electronically, and the High Inspector of Justice must regularly inspect the division of cases. Once anonymised, judicial decisions delivered in open proceedings are reportedly available on the court websites.

#### *Sub-dimension 16.4: Business integrity and corporate liability*

The non-binding Corporate Governance Code defines the responsibility of company boards for risk oversight and the creation of a sound system of internal control to safeguard the company's interests and shareholders' investments (Principle 6). Little evidence is available on the implementation of the code, other concrete **business integrity** practices, or incentives for companies to improve the integrity of their operations. Albania participates in the Extractive Industries Transparency Initiative (EITI), which represents a global standard of transparency and accountability in the management of natural resources, and the economy is considered to have achieved meaningful progress towards meeting the EITI Standard.<sup>202</sup>

In July 2020, Albania adopted the Law on the Register of Beneficial Owners. The register should be established in 2021. The law implements the 5th Anti-Money Laundering Directive (2018/843), requiring that access be provided to any member of the general public to data on beneficial owners. The definition of a beneficial owner in the law reflects the definition in the anti-money laundering directives. According to



the Law on Prevention of Money Laundering and Financing of Terrorism, those subject to the law, including designated non-financial businesses and professions, must identify beneficiary owners and take measures to verify their identities before and during the establishment of business relationships.

According to information provided by the Minister of State for Protection of Entrepreneurship (MSPE), in a dialogue between the private entrepreneurship and the governmental institutions, the MSPE addresses complaints from an administrative perspective, including those on corruption. The MSPE handles individual complaints and deals with them either through meetings with the relevant parties or through written communication with the respective institutions.

Albania has established the **liability of legal persons** for all criminal offences. According to the Penal Code and the Law on Penal Liability of Legal Persons (adopted in 2007), a legal person will be held accountable for criminal offences that have been committed in its name or for its benefit, by its bodies and representatives, by a person who is under the authority of the person representing, directing and administering the legal person, or due to the lack of control or supervision by the person who directs, represents and administers the legal person. The law does not explicitly state that the corporate liability is autonomous, i.e. can be applied independently of the liability of the perpetrator – physical person.

The law envisages the main penalties to be fines and the termination of the legal entity. The upper limit of fines for offences, which carry the maximum prison sentence of seven years (as for all active corruption offences), is approximately EUR 45 000, which is extremely low given the possible scale of large corruption transactions. Together with the main sentence, one or more additional penalties can be handed down, including closing one or more of the legal entity's activities or structures; placing the legal entity in controlled administration; a ban on participating in procurement funded by public funds; revoking the right to obtain or use licences, authorisations, concessions or subsidies; a ban on publicly seeking funds and financial resources; removing the right to exercise one or more activities or operations; and an obligation to publish the court decision. The law recognises compliance as a mitigating circumstance, i.e. the elimination of the organisational shortcomings which resulted in the criminal offence by applying organisational models suitable for preventing the criminal offence.

There have been few convictions of legal persons for corruption offences. According to the government, one sanction was applied in 2016, two in 2017, and two in 2018. The implementation of the legal framework for corporate liability would benefit from guidance on anti-corruption compliance (prevention measures) that legal entities should ensure in order not to be accused of failure to exercise due control or supervision.

#### *Sub-dimension 16.5: Investigation and prosecution*

The level of **investigation activity regarding high-level corruption** has by far exceeded the levels of indictment and conviction. While 102 cases against high-level officials were sent for prosecution in 2018, and 90 cases in 2019, the numbers of indicted persons were respectively 7 and 5 (European Commission, 2019<sup>[79]</sup>; European Commission, 2020<sup>[233]</sup>). The statistics provided by the government indicate five convictions for high-level corruption in 2017 and three convictions in 2018. According to information provided by the government, as of October 2020, prominent cases handled by the institutional anti-corruption structure (abbreviated as SPAK; see below) included an investigation launched into the former Prosecutor General, as well as proceedings against 10 former judges in the High Court and the Constitutional Court.

Courts have reached convictions in a few prominent cases, such as the conviction for passive bribery of a judge of the Appeals Court by the Serious Crime Court of first instance in 2018 (confirmed by the instance of appeal in 2019). He was sentenced to imprisonment of 2.5 years, and the prosecution has requested confiscation of his assets EUR 144 810, USD 1 000, and ALL 9.3 million (Exit News, 2020<sup>[238]</sup>). Other high-profile convictions in 2019 concerned a former Minister of Interior, three judges of the Durres Appeals Court, and a judge of the High Court (European Commission, 2019<sup>[79]</sup>; European Commission, 2020<sup>[233]</sup>).

In terms of **specialised anti-corruption investigative and prosecutorial bodies**, the Constitution and the Law on Organisation and Functioning of Institutions to Fight Corruption and Organised Crime (adopted in 2016) have created the Special Anti-Corruption Structure (in Albanian: Struktura e Posaçme Anti-Korrupsion, SPAK). The SPAK consists of the Special Prosecutor's Office (SPO), which is independent from the Prosecutor General, and the National Bureau of Investigation (NBI), subordinate to the SPO.

The SPO was established in 2019, and it presents indictments in the anti-corruption and organised crime courts of first instance and appeal as well as in the High Court. In the period 9 March 2020-30 April 2020, 42 criminal proceedings were registered and 37 completed by the SPO.<sup>203</sup> The NBI is to become fully operational in 2021.

The legal framework contains safeguards for the independence of the SPO and the NBI. Based on competitive procedures, the High Prosecutorial Council (HPC) elects the Chief Special Prosecutor for a three-year term without the right to reappointment, and the Director of the NBI for a five-year term with the right to reappointment once. The Chief Special Prosecutor of the SPO should be elected from the ranks of the prosecutors of the SPO. Based on pre-defined rules of ranking, the HPC should appoint the best-ranked candidate. After an open and transparent recruitment process, a committee consisting of the Chief Special Prosecutor and the two special prosecutors with the most years of service should recommend a candidate for the position of the Director of the NBI to be appointed by the HPC. The HPC may dismiss the Chief Special Prosecutor and the Director of the NBI in cases established by law. The SPO carries out its functions independently, and the higher prosecutor may not instruct a special prosecutor on the merits of an investigation or case. Special prosecutors supervise the NBI and give directions to its investigators.

The SPAK has an independent budget as a separate item in the state budget. The Head of the SPO prepares the draft budget. When the Council of Ministers proposes a different budget proposal, the Head of the SPO has the right to participate in parliamentary proceedings to defend his/her own proposal.

In terms of staffing, as of July 2020, the SPO had 13 prosecutors (the minimum number according to the Constitution is 10 prosecutors). According to the law, the SPO is supported by several administrative units such as the Expertise Sector, the Financial Investigation Sector, and the Sector for International Co-operation and Liaison for Joint Investigations. However, according to information provided by the authorities in consultations in October 2020, the administrative staff of the SPO had not been fully recruited yet. In July 2020, the HPC appointed the Director of the NBI. Investigators of the NBI were selected based on competition, and the staffing was reportedly close to completion as of January 2021. According to law, the NBI will receive support from a commission of criminal justice experts appointed by the missions of the European Union and the US Government.

The Constitution envisages specialised courts with the competence to adjudicate corruption and organised crime as well as criminal offences committed by current and former high-level officials as defined by the Constitution and law. These specialised courts have been in operation since the end of 2019.

### ***The way forward for anti-corruption policy***

To strengthen the anti-corruption policy framework and its implementation, policy makers should:

- **Establish legal obligations to carry out corruption risk assessments, develop integrity plans and implement corruption proofing of legislation.** The practice of risk assessment should be monitored and analysed to ensure that public institutions carry it out with sufficient thoroughness. Corruption risk assessment allows vulnerabilities to corruption to be detected even before corrupt acts happen. If carried out with commitment, due resources and skill, risk assessment is one of the most potent prevention tools. In Albania several public institutions have carried out risk assessments and used them to develop risk registers. Albania should make efforts to ensure that this practice becomes universal in the entire public sector. Including the relevant obligation in the law, providing necessary methodological support, and ensuring centralised monitoring of the quality of the assessments would

ensure an effective approach. Establishing the legal basis for systematic corruption proofing of legislation would be a key step to limit corruption risks arising from deficiencies in the legal framework.

- **Ensure effective operation of the new electronic system for declarations of public officials** to allow for automatic analysis, exchange of data and public disclosure. The Western Balkan Recommendation on Disclosure of Finances and Interests by Public Officials recognises monitoring by the general public as one of the most effective tools, and recommends making income and asset declarations available online. According to the recommendation, a useful public database of declarations requires electronic and free access, and data in searchable, machine-readable format (EIN, 2014<sup>[239]</sup>).
- **Further develop legislation to protect whistle-blowers**, including by providing protection for public disclosure and for persons connected with the whistle-blower, removing conditions for external reporting to the HIDAACI, and establishing the right to protection due to the mistaken identity of a whistle-blower. According to the relevant EU directive, a person who makes a public disclosure qualifies for protection if, inter alia, the person has reasonable grounds to believe that the breach may constitute an imminent or manifest danger to the public interest or, in the case of external reporting, there is a risk of retaliation or there is a low prospect of the breach being effectively addressed. The directive also envisages mandatory and optional measures of support for whistle-blowers, such as comprehensive and independent information and advice, which is easily accessible to the public and free of charge, on procedures and remedies available, on protection against retaliation, and on the rights of the person concerned; effective assistance from competent authorities before any relevant authority involved in their protection against retaliation; legal aid, counselling or other legal assistance; financial assistance and support measures, including psychological support, for reporting persons in the framework of legal proceedings.
- **Strengthen corporate liability for corruption offences** by significantly increasing the maximum applicable fines. International standards do not define what sufficient sanctions look like, but the OECD Working Group on Bribery in International Business Transactions recommends that monetary sanctions should be sufficiently severe to affect large multinational corporations. In certain economies, statutory sanction ceilings of a few million euros have even been found to be insufficient (OECD ACN, 2015<sup>[240]</sup>). While such high levels of fines may not appear relevant given the limited size of many companies in Albania, the law should provide the option of applying adequate sanctions in the event of a large business player engaging in corruption.
- **Monitor and analyse the investigation, prosecution and adjudication of high-level corruption cases** to identify and mitigate the factors behind the discrepancy between the large number of investigations and the small number of convictions. Several factors may lead to the failure of the majority of investigations to result in prosecutions and convictions, including inadequate qualifications or numbers of investigators and/or public prosecutors, inefficiencies stemming from procedural and/or substantive law, obstacles in international legal co-operation, weak case management and poor prioritisation of work, or even deliberate obstruction by some enforcement or prosecutorial officials, etc. The scope of this analysis does not allow specific conclusions to be drawn on the impact of these or other factors on combatting high-level corruption in Albania. However, a fair and transparent assessment of the obstacles is essential for raising the efficiency of the fight against corruption in the future. Box 20.20 gives some examples from other countries.

### Box 20.20. Performance monitoring and measuring of public prosecution bodies

In Portugal, statistical indicators are used to assess the quantity and quality of the work performed by public prosecutors. Regarding criminal investigation, data are available on the number of cases lodged, the number of cases closed, the number of cases leading to accusation or to dismissal, and cases where one of the simplified and consensual forms of proceedings, as laid down in the Criminal Procedure Code, has been used. There is also an overall control of all criminal inquiries highlighting those where a criminal investigation took longer than eight months. It is possible to ascertain the number of lodged and closed cases according to the complexity and type of crime and how many of them were against unknown perpetrators.

In Finland, the government has a performance guidance system. This means that the parliament grants a common operating budget appropriation to certain operations, e.g. the prosecution service, and sets general targets that the operations should achieve. Both qualitative and quantitative targets are set for the prosecution service. The most important quantitative targets are related to the time it takes to consider charges. Charges should be considered quickly and no case should remain under consideration for more than six months or a year. Qualitative targets relate to co-operation between the prosecutor and pre-trial investigation authority during pre-trial investigations, increasing the level of knowledge on certain criminal phenomena.

In Sweden, information management in the judicial system involves 11 authorities. The government uses several indicators to assess the performance of the authorities, presented in the annual Budget Bill. Indicators for crime investigation and prosecution directly concerning the prosecution services are:

- the number and percentage of suspected crimes resulting in prosecution (or summary imposition of a fine)
- the number and percentage of suspects being prosecuted (or receiving a summary imposition of a fine)
- case handling time.

Source: Abridged from OECD (2021), *Performance of the Prosecution Services in Latvia: A Comparative Study*, OECD Publishing, Paris, <https://doi.org/10.1787/c0113907-en>.

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## Notes

<sup>1</sup> A person from the Ministry of Finance and Economy who co-ordinates the whole assessment in Albania.

<sup>2</sup> Staff from the Institute of Statistics of Albania (INSTAT) who co-ordinate the statistical data collection.

<sup>3</sup> Key legislation regulating businesses include the Entrepreneurs and Commercial Companies Law, the Bankruptcy Law, the Environmental Law, Law on Corporate and Municipal Bonds, Transport Law, Maritime Code, Secured Transactions Law, Taxation Procedures Law, Banking Law, Insurance and Reinsurance Law, Mining Law, Energy Law, etc.

<sup>4</sup> Article 9 of the Foreign Investment Law.

<sup>5</sup> The Law on Expropriation introduces the concept of temporary use of private property for works and services in the function of the public interest, as well as for coping with needs and emergencies in events of force majeure, state of emergency or war. As with expropriation, the temporary use of private property must be respected and compensated for in value by third parties.]

<sup>6</sup> Albania has signed 45 international investment agreements (IIAs).

<sup>7</sup> The law is aligned with Directive 2008/52/EC "On certain aspects of mediation in civil and commercial matters".

<sup>8</sup> Albania ranks 53<sup>rd</sup> on the starting a business dimension of the World Bank's Doing Business Index, while ranking 82<sup>nd</sup> out of 190 economies overall.

<sup>9</sup> A state-funded central body operating under the auspices of the Prime Minister.

<sup>10</sup> National Plan for Trade Policy Coordination and Trade Facilitation (2017-2020).

<sup>11</sup> Goods and services tax is the broad category, which includes VAT and excise taxes.

<sup>12</sup> Unlike some other WB6 economies that were more integrated into global value chains, which have had to cope with supply shortages due to broken supply chains.

<sup>13</sup> Economic Reform Program 2018-2020 and Economic Reform Program 2020-2022.

<sup>14</sup> These principles include avoiding quantitative restrictions on imports and exports, export subsidies, and all kinds of export taxes and export bans.

<sup>15</sup> Prime Minister's Order No.25, dated February 2<sup>nd</sup> 2018 "On the establishment of the inter-institutional group for coordination of trade policy and trade facilitation".

<sup>16</sup> The committee's main objectives as outlined in the law are to act as a forum for improving trade policies and their implementation, facilitating trade, and defining the main directions of trade facilitation. It is organised and functions based on the following principles: The principle of transparency by publishing on the committee's website any decision of the committee or any recommendation addressed to the Prime Minister or special ministers; The principle of conflict-of-interest prevention in any decision by the committee according to the provisions of Law no. 9367 dated April 7<sup>th</sup> 2005 "On the prevention of conflict of interest in the exercise of public functions"; The principle of protecting the public interest and business rights, encouraging involvement and enabling the business voice to be heard by decision-making and executive bodies in the country; The principle of proportionality and non-discrimination, by treating equally the interest and demands of the business community.

<sup>17</sup> Prime Minister's Order No.25.

<sup>18</sup> The Working Group has monthly meetings on trade policy. Its members include the Ministry of Europe and Foreign Affairs, Ministry of Agriculture and Rural Development, Ministry of Energy and Industry, General Directorate of Customs, Ministry of Defence and the Institute of Statistics.

<sup>19</sup> Law No. 146/2014.

<sup>20</sup> The public has access to draft and final trade documents. The law states that 1) institutions must publish all draft legal acts on the ministry's website; and 2) every draft legal act affecting the business community can be consulted 60 days prior to its approval in formal meetings. The time, place and manner in which the interested parties can submit recommendations are specified in the notice of commencement of the public consultation process.

<sup>21</sup> <https://www.konsultimipublik.gov.al/>

<sup>22</sup> Article 20 of Law no. 146/2014.

<sup>23</sup> Law no. 146/2014 "On public notification and consultation"; law no. 119/2014 "On the right to information"; and the Regulation of the Council of Ministers approved by decision no. 584, dated August 28<sup>th</sup> 2003 of the Council of Ministers.

<sup>24</sup> OECD Member states and partner economies: Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand.

<sup>25</sup> The full set of OECD STRI indices and comparison tools as well as policy simulators for OECD member states and partners states that have undertaken the OECD STRI are available on the dedicated OECD website <https://www.oecd.org/trade/topics/services-trade>.

<sup>26</sup> The complete list of measures sector by sector is available on the OECD STRI website <http://www.oecd.org/trade/topics/services-trade>.

<sup>27</sup> Ligj nr. 46/2015 "On Postal Services in the Republic of Albania".

<sup>28</sup> Ligj nr.7980, datë 27.07.1995, "Për shitblerjen e trojeve", Official gazette 1995/18, last updated 26.11.1997, articles 5,6.

<sup>29</sup> Ligji Nr. 9901, datë 14.04.2008, « Për tregtarët dhe shoqëritë tregtare », Official gazette 2008/60, last updated 02.10.2014. Articles 115, 118.

<sup>30</sup> Law 108/2013 "On foreigners", Article 85 d). The entry of foreign nationals into the labour market in the economy is subject to a labour market test. Foreign nationals transferred within the enterprise according to letter d) of article 85 of law 108/2013 "On foreigners", as amended, are exempt from this obligation.

<sup>31</sup> Ligj Nr.108/2013 « Për të huaj », Official gazette 2013/48, last updated 30.03.2020, articles 22.

<sup>32</sup> Ligj Nr. 9643, datë 20.11.2006, « Për prokurimin publik », Official gazette 2006/133, last updated 13.12.2018.

<sup>33</sup> Currently, the thresholds are established by the Council of Ministers' decision on the application of rules of public procurement, nr. 914, of 29.12.2014 « Per miratimin e rregullave te prokurimit publik », official gazette 2014/208.

<sup>34</sup> In general, foreign investments are subject to the same regulations as domestic investments. There are no thresholds in place. However, Law no. 55/2015 "On Strategic Investment in the Republic of Albania" (Article 8) establishes the criteria that must be met for investments to be considered strategic. The Strategic Investment Law, as amended by Law No. 102/2018 2018 "On some additions to law no. 55/2015 "On Strategic Investments in the Republic of Albania ", added additional prudential conditions, none of which are discriminatory towards foreign suppliers and all follow good prudential practice.

<sup>35</sup> In order to facilitate comparison with OECD Member States that have undergone the Services Trade Restrictiveness Index exercise, the paragraphs below have been drafted in accordance with the methodology of the STRI project publications. The OECD Member's Country Notes, as well as the Sector Notes, are available on the STRI web page: <https://www.oecd.org/trade/topics/services-trade/>

<sup>36</sup> Directive 2000/31/EC on electronic commerce.

<sup>37</sup> Only 40% of upper-middle class households have a bank account in Albania. This figure drops to 28% for the poorest households.

### **Notes: Access to finance (Dimension 3)**

<sup>38</sup> Basel II is an international business standard developed prior to the 2008/09 crisis by the Basel Committee on Banking Supervision. It requires financial institutions to maintain enough cash reserves to cover risks incurred by operations.

<sup>39</sup> Basel III is a set of measures developed by the Basel Committee on Banking Supervision in response to the 2008/09 crisis. It has been agreed internationally and aims for a more resilient banking system. It underpins the regulatory and supervisory framework and strengthens banks' risk management.

<sup>40</sup> Article 127 of the Banking Law of Albania from 2006 – the article stipulates that "The Bank of Albania maintains the Credit Registry".

<sup>41</sup> At the time of drafting, the AASF was in the process of becoming the Agro-Tourism Facility, awaiting ratification from the parliament. To increase the uptake it is foreseen that the EU will provide for the EBRD an investment incentive grants for a total EUR 3 million to cover 10% reimbursement of investment values in agri-tourism related businesses.

<sup>42</sup> For details see <http://euforinnovation.al/>.

<sup>43</sup> A white paper is created by the founders and/or developers to guide investors with charts and technically focused information on how to address and solve issues that might be encountered in the chain.

<sup>44</sup> Law no. 62/2020 on Capital Markets.

<sup>45</sup> The OECD Database on General Competition Statistics (OECD CompStats) contains general statistics about competition agencies, including data on enforcement and information on advocacy initiatives. In 2020, it included data from competition agencies in 56 jurisdictions, including 37 OECD countries (36 OECD countries and the European Union), i.e. Argentina, Canada, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Mexico, Peru, United States (Americas); Australia, Brazil, Chinese Taipei, India, Indonesia, Japan, Korea, New Zealand (Asia-Pacific); Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Romania, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom (Europe); Egypt, Israel, Kazakhstan, Russian Federation, South Africa, Turkey, Ukraine (Other). See (OECD, 2020<sup>[407]</sup>).

<sup>46</sup> The SOE figures included in this profile are based on data provided by the Albanian authorities for this assessment. The figures were gathered by a working group comprising representatives of the Albanian Institute of Statistics (INSTAT), the Ministry of Finance and Economy and the Bank of Albania. The national authorities included in their reporting all public entities classified, in national nomenclature and in line with the European System of Accounts, as extra-budgetary units, public non-financial corporations and public financial corporations. Several entities reported by the authorities as SOEs have been excluded from this profile's figures because they are only minority-owned by the central or municipal governments, and thus not considered SOEs according to OECD definitions.

<sup>47</sup> The English names for SOEs in Albania are unofficial translations employed to facilitate an understanding of the types of companies that are state-owned.

<sup>48</sup> This estimate is based on a reported total number of SOE employees in 2020 of 19 667 and a total employed population in 2018 of 1 230 000 as reported in INSTAT (2018), <http://www.instat.gov.al/en/Home.aspx>

<sup>49</sup> SOEs' estimated share of total national employment in Albania for SOEs at all levels of government is as illustrated in (IMF, 2019<sup>[80]</sup>), page 8 "Figure 4. Evolution of SOE Footprint (2005-2016)".

<sup>50</sup> For example, media reports in 2019 highlighted that three individuals with close personal connections to the mayor of Tirana had been accorded positions on the boards of SOEs. His spouse was serving on the board of OSSHE (the Public Operator for the Distribution of Energy) and two journalists with alleged close personal connections to the mayor were serving on the board of Tirana Water Supply Directorate.

<sup>51</sup> According to the law regulating audit and accounting practices in Albania, an external audit of financial statements must be performed for companies which exceed two of the following indicators for two consecutive years: balance sheet assets of ALL 50 million (~EUR 400 000); income of ALL 100 million (~EUR 800 000); or an average of 30 employees during the accounting period.

<sup>52</sup> The information concerning audit practices in several large SOEs is based on the independent assessment conducted for the 2018 edition of the *Competitiveness Outlook* (OECD, 2018<sup>[60]</sup>).

<sup>53</sup> The privately-owned Albanian Stock Exchange is operational, but only sells government securities.

<sup>54</sup> A fourth SOE, the *Fruit Market of Shkodër* is 67.21%-owned by the central government, but the remaining shares are owned by the municipality, so the enterprise is considered 100% state-owned.

<sup>55</sup> See, for example, (US Department of State, 2019<sup>[408]</sup>).

<sup>56</sup> The Consultation and Transparency Committee is established by the Minister of Finance and Economy and comprises the following representatives of departments within the ministry: the Deputy Minister of Finance and Economy (who serves as Chairman of the Committee); one representative of the General Directorate of Regulation and Compliance; two representatives of the General Directorate of Economy Affairs and Support Services and a representative of the Audit Directorate.

<sup>57</sup> The information on impediments to competition in the energy is drawn largely from a European Commission staff document dated 29 May 2019 (European Commission, 2019).

<sup>58</sup> The new curriculum includes programmes for children aged 3-4, 4-5 and 5-6 years old.

<sup>59</sup> For the purpose of this profile, instruction system refers to teaching and learning processes that takes place in school education. It generally consists of curriculum, standards for schools and student learning, assessment and evaluation frameworks and other elements that support instruction.

<sup>60</sup> The policy priorities in the Albanian Pre-University Education Development Strategy 2014-2020 are: improving leadership and management capacities of pre-university education system resources; quality and inclusive learning; quality assurance based on comparable standards with EU countries; and modern teacher training and development.

<sup>61</sup> Introduced in 2015-16, the VANAF serves as Albania's national assessment instrument and is taken each year by all Grade 5 students.

<sup>62</sup> The Ministry of Education, Sport and Youth established the Centre for School Leadership in 2018, with the support of the Albanian-American Development Foundation.

<sup>63</sup> The Teachers for Albania portal. <https://mesuespershqiperine.al/>

<sup>64</sup> In 2017, the pass rate for all tests of the National Basic Education Examination was 99.2%, which indicates that the National Basic Education Examination is not a barrier for entry into upper secondary education

<sup>65</sup> According to data provided for this assessment, the number of private universities in Albania grew rapidly in the early 2000s, reaching a peak of around 45 institutions in 2012. Today, Albania has 26 private and 14 public universities. Only around 18% of tertiary students are enrolled in private institutions – a share that is slightly lower than the Western Balkan average (UIS, 2020<sup>[83]</sup>).

<sup>66</sup> Law No. 80/2015, On Higher Education and Scientific Research in Higher Education Institutions in the Republic of Albania.

<sup>67</sup> Selection into higher education requires successful completion of upper-secondary education, a minimum grade point average and score on the State Matra examination. Specific requirements are set by individual higher education institutions.

<sup>68</sup> Financial aid to students in Albania is based on academic merit, students who plan to study in areas of national priority and students from disadvantaged social groups (as defined by the Council of Ministers).



<sup>69</sup> Examples of disaggregated data include enrolment and completion by age, gender and socio-economic background.

<sup>70</sup> Academic Senates within higher education institutions are comprised mainly of faculty members and students, although other representatives may participate if allowed for by the institutions statute, which determines the number of members, modes of operation and representation (Government of Albania, 2015<sup>[335]</sup>).

<sup>71</sup> The 2019 evaluation of Albania's pre-university education strategy was supported by UNICEF. While there are no comprehensive annual reports on the performance of the education system, there is a statistical yearbook on education, sports and youth and technical agencies prepare annual reports based on their respective programmes of work. Albania also produces thematic reviews and evaluations of specific policies.

<sup>72</sup> (WIIW, World Bank, 2020<sup>[127]</sup>) (INSTAT, n.d.<sup>[105]</sup>) and (Eurostat, n.d.<sup>[104]</sup>). Activity rate was 71.2% on average in Bulgaria, Croatia, Hungary, Romania and Slovenia.

<sup>73</sup> The activity rate of those aged 65+ was 11.7% for women and 19.8% for men in 2019.

<sup>74</sup> Stakeholder assessment collected by the independent expert.

<sup>75</sup> Updates provided by Instat.

<sup>76</sup> Updates provided by the Government of Albania.

<sup>77</sup> Information provided by external expert.

<sup>78</sup> Law nr.7961 dated 12.07.1995 "Labor Code of the Republic of Albania".

<sup>79</sup> DCM No.108, dated 15.2.2017 "On the approval of the regulation on the protection of children at work".

<sup>80</sup> The framework of the project "Measures to Protect Children from Trafficking, Exploitation for Work and Unsafe Migration" is funded by the governments of Italy, Germany and France.

<sup>81</sup> Government answer to questionnaire.

<sup>82</sup> Information provided by independent expert.

<sup>83</sup> During 2019, the Labour Inspectorate undertook more than 14 000 labour inspections; 357 inspected entities were fined and 160 main administrative fines were imposed. This means that less than 5% of labour inspections resulted into fines in 2019. As a comparison in Austria irregularities have been detected in nearly half of all inspections. See <https://www.arbeitsinspektion.gv.at/Service/Taetigkeitsberichte-Unfallberichte/Taetigkeitsberichte.html>

<sup>84</sup> The State Labour Inspectorate is evaluating the historical data of inspections, the frequency of inspections per entity, the type of economic activity that the entity carries out, the reasons for previous inspections, etc. By assessing the coefficients for data from the inspection it aims to generate the "Penalty matrix", the level of risk for each subject (information provided by the government).

<sup>85</sup> With less than 50 employees.

<sup>86</sup> Information provided by independent expert.

<sup>87</sup> According to our calculations.

<sup>88</sup> According to stakeholders' assessment.

<sup>89</sup> Government response to the questionnaire.

<sup>90</sup> Information received by Albania.

<sup>91</sup> Similarly, the Adult Skills Survey of 2017 shows a participation in formal and non-formal learning of 9.2%.

<sup>92</sup> World Bank and WIIW, 2020: Jobs Gateway Database, based on data provided by national statistical offices and Eurostat, WIIW (own calculations).

<sup>93</sup> Highest wages are earned in the information and communication sector and in the financial services. Wages in public administration and defence; compulsory social security; education; human health and social work activities are 6% higher than wages in real estate activities; professional, scientific and technical activities; administrative and support service activities. (INSTAT, n.d.<sup>[126]</sup>)

<sup>94</sup> Instat and Eurostat (unadjusted gender pay gap). There are no data available for the EU gender pay gap in 2019.

<sup>95</sup> According to administrative data from the tax office, women's employment in the construction sector is 14% whilst the Labour Force Survey reports only 3%. The very low figure identified by the LFS might be due to under-reporting in the survey as a result of either technical survey issues or women's self-perception. A large share of women employed in the construction sector work as accountants, economists, HR specialists, or lawyers, and therefore might not identify with the notion of being engaged in "construction" as such.

<sup>96</sup> Government's response to questionnaire.

<sup>97</sup> For example, the organisation Different and Equal helps integrate the victims of human trafficking into the labour market, the Centre for Human Rights in Democracy promotes victims of domestic violence in the labour market, as well as Women's Center Light Steps, etc.

<sup>98</sup> An important role here is played also by the Community Development Center "Today for the Future", through its projects it has supported 1 391 beneficiaries in the districts of Shkodra, Lezha and Korça, starting from 2014; 67% of them are integrated and re-integrated into the formal labor market (through employment and self-employment.); 139 women and girls on the Durrës region are supported with formalisation of work, especially in the field of services and manufacturing enterprises, where a focus was given to the provision of salaries, especially in cases where informal payments were provided to them below the minimum wage and the coverage of social insurance, making them moving from informal work and payment under the minimum wage (Information provided by Albania).

<sup>99</sup> In France and Germany, for comparison, the average caseload of hard-to-place jobseekers is around 70 jobseekers per employment counsellor, though the caseload may vary in these countries between 100 and 350, depending on how many jobseekers need individual guidance and their autonomy in using self-help guidance tools (OECD, 2015<sup>[342]</sup>; Manoudi et al., 2014<sup>[343]</sup>; Pôle emploi, n.d.<sup>[344]</sup>).

<sup>100</sup> Envelope wages occur when an employee receives an official declared salary based on a formal written contract and an additional undeclared (“envelope”) wage. This envelope wage is based on an unwritten verbal contract, which supersedes the formal written contract.

<sup>101</sup> Instat uses the following definition of informal employment: The informal employment is the sum of employed in agriculture and non-agricultural sector. Informal employment in non-agricultural sector include: employees who do not benefit from paid annual leave; employees who benefit from paid annual leave but do not benefit from paid sick leave in case of illness; employees who benefit from paid annual leave and paid sick leave, but their employers do not pay social security contributions for them; contributing family workers; self-employed persons who work in small enterprises with five or less persons employed (including employer), their workplace is alternatively their own home, the client's/employer's home, a structure attached to their home, a fixed stall in the market or on the street, or a changing location. Informal employment in agricultural sector includes contributing family workers.

<sup>102</sup> Information provided by independent expert.

<sup>103</sup> Government's response to the questionnaire.

<sup>104</sup> INSTAT estimates the number of emigrants and immigrants based on the integrated migration module in the Labour Force Survey since 2015. [http://databaza.instat.gov.al/pxweb/sq/DST/START\\_MM/EM\\_01/?rxid=dddc8d19-1d0a-4cc4-aa83-2674b798872e](http://databaza.instat.gov.al/pxweb/sq/DST/START_MM/EM_01/?rxid=dddc8d19-1d0a-4cc4-aa83-2674b798872e).

<sup>105</sup> Government's answers to questionnaire.

<sup>106</sup> Horizon 2020 is the European Union's biggest framework programme for research and innovation. It provides funding for multi-national collaboration projects as well as for individual researchers, and supports SMEs with a special funding instrument. (<https://ec.europa.eu/programmes/horizon2020/en/what-horizon-2020>; <https://www.euneighbours.eu/en/east/stay-informed/projects/horizon-2020>).

<sup>107</sup> Eureka is the largest intergovernmental network for co-operation in R&D and innovation in the world. It is present in over 45 economies, where it provides access to public funding, promotes collaboration and innovation and offers advice through various programmes (such as EUREKA Clusters, Globalstars, InvestHorizon) (<https://www.eurekanetwork.org/>).

<sup>108</sup> The European Research Area (ERA) reflects an ambition to create a unified research area open to the world, based on the EU Internal Market, that enables free circulation of researchers, scientific knowledge and technology ([https://ec.europa.eu/info/research-and-innovation/strategy/era\\_en](https://ec.europa.eu/info/research-and-innovation/strategy/era_en)).

<sup>109</sup> EURAXESS - Researchers in Motion is a pan-European initiative delivering information and support services to professional researchers, backed by the EU Member States and associated countries. It supports researcher mobility and career development and enhances scientific collaboration (<https://euraxess.ec.europa.eu/>).

<sup>110</sup> European Cooperation in Science and Technology (COST) is a is an EU-funded, intergovernmental framework, currently comprising 38 Members and 1 Cooperating Member. It is a funding organisation for the creation of research networks (COST Actions), which offer an open space for collaboration among scientists across economies. COST funding is intended for collaboration activities and complements national research funds (<https://www.cost.eu/who-we-are/about-cost/>).

<sup>111</sup> Marie Skłodowska-Curie Actions (MSCA) is an EU programme which provides grants to support research careers and encourages transnational, intersectoral and interdisciplinary mobility. (<https://ec.europa.eu/programmes/horizon2020/en/h2020-section/marie-sklodowska-curie-actions>; [https://ec.europa.eu/research/mariecurieactions/msca-actions\\_en](https://ec.europa.eu/research/mariecurieactions/msca-actions_en)).

<sup>112</sup> Only quarterly data for 2019 and 2020 have been released by the Albanian Institute of Statistics at the time of writing this text (26/01/2021).

<sup>113</sup> The project includes an initial grant of EUR 520 000 followed by a potential investment loan of more than EUR 18 million from WBIF and another EUR 24 million from the European Investment Bank (EIB) (<https://wbif.eu/project/PRJ-ALB-DII-001>).

<sup>114</sup> The results of the Feasibility Study and CBA were presented during the closing workshop of the project on 28 July 2020 ([https://eeas.europa.eu/delegations/albania/83464/regional-broadband-infrastructure-development-albania-closing-workshop\\_en](https://eeas.europa.eu/delegations/albania/83464/regional-broadband-infrastructure-development-albania-closing-workshop_en)).

<sup>115</sup> The draft Law on Open Data was prepared by the Ministry of Infrastructure and Energy in co-operation with the Commissioner for the Right to Information and Protection of Personal Data. The legal package includes the draft law, an explanatory report, a compliance chart and a Regulatory Impact Assessment. The draft law has already passed through the consultation process and has been approved by the Council of Ministers. At the time of writing, it had been passed to the National Assembly for adoption (October 2020) and will come into force two years after its adoption. Regulations delineating how the law will be implemented are planned for after its adoption.

<sup>116</sup> The Open Government Data Portal of Albania (<http://opendata.gov.al/>).

<sup>117</sup> Portal of the Partnership for Open Government Initiative (PQH/OGP) (<http://ogp.gov.al/>).

<sup>118</sup> Open Government Partnership (OGP) is an international agreement aiming to increase transparency, civic participation and the use of new technologies in achieving a more open, effective and accountable government. Currently, 78 governments are members of the partnership (<https://www.opengovpartnership.org/about/approach/>).

<sup>119</sup> The Electronic Register of Public Notifications and Consultations (<https://konsultimipublik.gov.al/>)

<sup>120</sup> See <https://www.shqiperiageduam.al/>.

<sup>121</sup> TechSpace was launched in February 2019 and by mid-2020 it had more than 1100 registered young people and more than 100 startup-business ideas in the field of ICT (<https://techspace.al/>).

<sup>122</sup> The Agency for the Delivery of Integrated Services Albania (ADISA) is an agency of the Albanian Government under the supervision of the Prime Minister's Office. ADISA was created to provide Albanian citizens with efficient, high-quality and transparent public services (<https://adisa.gov.al/>).

<sup>123</sup> European IPA Twinning project “Institution-building for alignment with the EU acquis and enhanced ability to meet economic criteria”. Twinning activity will be performed with the Italian Personal Data Protection Authority, in co-operation with the “Institute of Human Rights” Austria and the “Consorzio per il Sistema Informativo”, Italy. The beneficiary is the Office of the Commissioner for Right of Information and Data Protection (IDP). The project started implementation on 1st October 2020.

<sup>124</sup> Pursuant to the Law No. 137, dated 16.11.2020 "On 2021 budget", with the Decision of the Parliament of the Republic of Albania no. 84/2020 "On some addenda and amendments to Decision no. 86/2018 "On the approval of the structure, organization and classification of salaries of the Information and Data Protection Commissioner" the amended structure and organization of the Office of the Commissioner was approved and became effective on 1 January 2021. Out of 11 new staff members requested by the Commissioner's Office since 2016, only 4 were approved until 2020.

<sup>125</sup> Full transposition of the eIDAS Regulation (EU 910/2014) is planned for 2022.

<sup>126</sup> The Internet Safety Awareness Campaign for children was conducted by AKCESK and the Ministry of Education, Sports & Youth in co-operation with UNICEF (<https://www.unicef.org/albania/press-releases/children-albania-lead-internet-safety-awareness-campaign>).

<sup>127</sup> A single project pipeline (SPP) is a list of projects developed based on a strategic tool for project planning to avoid an ad-hoc approach to planning preparation and implementation of investment projects. The SPP helps to ensure strong project prioritisation, to enable systematic and timely planning of resources, to provide a reliable basis for defining the proper sequencing of the priority axis and actions per sector, and to help link investment planning and programme budgeting.

<sup>128</sup> This information system consists of the following components: the Albanian Financial Management Information System (AFMIS), the Financial Information system of the Government (SIFQ), the Electronic Notice Register and Public Consultations (RENNKP), the Archive System of the Centre of Official Publication (BQZ System), and the Database of Statistical Data.

<sup>129</sup> The government has provided the following information on 46% of the legislation needed to be harmonised with the TCT: 7% is fully transposed and implemented, 13% is partially transposed and implemented, 25% has not been transposed and implemented yet, and 1% is currently not applicable to the Government of Albania. The government has not provided responses for the remaining 64% of legislation. At the same time, responses have been fully provided for TEN-T development (50% transposed and implemented, and 50% partially transposed and implemented), and for railway transport (0% fully transposed and implemented, 14% partially transposed and implemented and 86% not transposed yet).

<sup>130</sup> The Rio markers were originally designed to help members prepare their National Communications or National Reports to the Rio Conventions, by identifying activities that mainstream the Conventions' objectives into development co-operation. For more information, please see: [https://www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook\\_FINAL.pdf](https://www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook_FINAL.pdf).

<sup>131</sup> It covers disqualification or conviction by a final court decision for any of the following criminal offences: a) participation in a structured criminal group, criminal organisation, armed gang, terrorist organisation; b) corruption; c) fraud; c) money laundering or terrorist financing; d) acts with terrorist intent or criminal offenses related to terrorist activities; dh) organization, direction or financing of the activity of production and sale of narcotics, as well as of the activity of narcotics trafficking; e) forging; e) Exploitation of the work of minors and other forms of trafficking in human beings. Conflict of interest, confidential information and bid security have been also amended in 2017 to the Law.

<sup>132</sup> A one-stop shop (OSS) is a business or office where multiple services are offered; i.e., customers can get all they need in just "one stop." The term originated in the United States in the late 1920s or early 1930s to describe a business model offering customers the convenience of having multiple needs met in one location, instead of having to "drive all over town" to attain related services at different stores. A one-stop shop is a way of facilitating trade.

<sup>133</sup> An appropriate definition of “asset management” for the roads sector is that proposed by the OECD in 2001: “A systematic process of maintaining, upgrading and operating assets, combining engineering principles with sound business practice and economic rationale, and providing tools to facilitate a more organized and flexible approach to making the decisions necessary to achieve the public’s expectations”. (OECD, 2001<sup>[357]</sup>).

<sup>134</sup> The first survey took place only in the regions of Tirana and Korçe and covered a network of about 780 kms. The second survey (2008-09) covered about 1 570 kms in various regions. In total, the two inventory surveys covered about 2 350 km (of a total of about 3 700 km of national roads). The inventory included 11 road features such as: carriageway, shoulder, road markings (lines), protection walls etc. as well as road characteristics such as horizontal curvature, surrounding area etc.

<sup>135</sup> Through implementation of the Guideline of the Minister No. 1362, dated 2016, on rules for setting airport charges in accordance with relevant provisions of the Concession Agreement signed between the Council of Ministers of the Republic of Albania and the concessionaire “Tirana Airport Partners”.

<sup>136</sup> The Local Single Sky Implementation (LSSIP) documents are the yearly expression of commitment of civil and military national organisations (regulators and national supervisory authorities), service providers and airport operators, towards the implementation of the European ATM Master Plan.

<sup>137</sup> Safety culture is a civil aviation safety programme. The State Safety Program (SSP) is an integrated set of regulations and activities aiming to improve safety (e.g. safety risk management, safety assurance).

<sup>138</sup> Some of the indicators include traffic flows, IRI coefficient for heavy goods vehicles (daily traffic divided by axis/axle weight), and data for populating the new asset management system being developed for the road sector.

<sup>139</sup> Additional indicators that would be useful to measure road network performance include average user costs, travel time satisfaction level i.e. reliability, value of assets, market research and customer feedback, forecasted value of assets, audit programme, quality of user information, allocation of resources, long-term programmes for investment, maintenance and operations, lowering of overhead percentage, etc.

<sup>140</sup> For more details see (Transport Community / CEFTA, 2020<sup>[358]</sup>), (Transport Community, 2020<sup>[196]</sup>), (Government of Serbia, 2019<sup>[359]</sup>), (Estonia Border, n.d.<sup>[360]</sup>), and the border queue management system in Baltic countries (example from Estonia) at <https://www.estonianborder.eu/yphis/index.action>.

<sup>141</sup> Adopted by the Decree of the Council of Ministers No. 125, dated 23 February 2011.

<sup>142</sup> Regulations resulting from the strategy are related to driving licences, tunnel safety, crash data system, tachographs, blood alcohol concentration, usage of narcotics, seatbelts, helmets for motorcycles and pedestrians including children, etc.

<sup>143</sup> The main sources of information on road accidents in Albania are the Albanian Traffic Police (data collection in the field) and the Ministry of Health (collection of information on injured persons).

<sup>144</sup> It consists of a standalone, Microsoft Office Access database. It also lacks a data linking capability with other databases in Albania, such as those of the Ministry of Health, Road Authorities, etc.

<sup>145</sup> The form to be used by Traffic Police will especially be compliant with the minimum set of standardized data elements of the Common Accident Data Set (CADaS) recommended by the European Commission.

<sup>146</sup> Combined transport refers to the transport of goods between Member States where the lorry, trailer, semi-trailer (with or without tractor unit, swap body or container of 20 feet or more) uses the road on the initial or final leg of the journey and rail or inland waterway or maritime services on the other leg, where this section exceeds 100 km as the crow flies (Combined Transport Directive 92/106EC, amended by the Directive 2013/22/EU).

<sup>147</sup> These include: 1) establishing a National Intermodal Centre in Tirana and two affiliated interoperation centres; 2) a strategic project in the Albanian Port of Saranda; 3) Integration of APD2 programme at Romano port area; 4) an intermodal project for linking the ports of Durres to the port of Piraeus with CB Railways; 5) deployment of the pilot intelligent transport system; 6) a railway and combined transport project linking Ports of Vlora s.a. and Petrolifera to the Energetic park at Romano port, through a logistic Interport project; 7) digitalisation of master plans for Shengjini port; 8) an integrated master plan for the AL landlord ports; 9) promotion of IWW and Railway in TEN-T MED through the Shkoder and Prespa and Ohrid lakes; 10) promoting a MOU on Milot-Kosovo railways (PPP); 11) a National R & I Railways Strategy for Albania; 12) Digitalisation rail and maritime training centre; 13) a sustainable smart mobility strategy for Albania, including the municipalities and line ministries; 14) a smart specialisation strategy for railways as in the SST; 15) an integrated storm awareness system and railways and maritime joint investigation body; and 16) 20 priority actions for competitiveness.

<sup>148</sup> Timeliness of shipments in reaching destination within the scheduled or expected delivery time.

<sup>149</sup> Quality of trade and transport related infrastructure (e.g. ports, railways, road, information technologies).

<sup>151</sup> This is based on a government response to an enquiry to question 1.1.4 within the Competitiveness Outlook assessment questionnaire.

<sup>152</sup> At this stage it is too soon to state when this emission market will be in place. The deployment of such a market is complex as it will require an extensive monitoring, verification and reporting system as well as training for stakeholders.

<sup>153</sup> Furthermore, ERE has not been able to unbundle Operatori i Shpërndarjes së Energjisë Elektrike SH.A (see the unbundling section), which would suggest an inability to use its independence to implement legislation and regulation in line with international best practice.

<sup>154</sup> Apart from the area governing the wholesale market, which is currently absent (Energy Community Secretariat, 2020<sup>[199]</sup>; Energy Community Secretariat, 2020<sup>[201]</sup>).

<sup>155</sup> The TAP pipeline is a natural gas pipeline running from the Turkish border, through Greece and Albania and eventually ending in Italy. For more information, please see <https://www.tap-ag.com/about-tap>.

<sup>156</sup> The IAP pipeline is a project intended to connect Croatia and Montenegro via Albania with the TAP pipeline, opening these countries to international supply of natural gas. For more information, please see <https://www.energy-community.org/regionalinitiatives/infrastructure/PLIMA/Gas16.html>.

<sup>157</sup> The current tariffs are: EUR 50.35 per MWh for hydropower (for plants with a capacity of up to 15 MW), EUR 100 per MWh for solar (with capacity of up to 2MW), and EUR 76 per MWh for wind (with capacity of up to 2 MW).

<sup>158</sup> For a list of laws on energy efficiency please see <https://www.infrastruktura.gov.al/ligje/>.



<sup>159</sup> This score reflects sustainability, which encompasses energy efficiency. Since this assessment was made by the Energy Community Secretariat, Albania has made progress by adopting several important regulations. Moreover, it is expected that this year Albania will adopt the Rules on the approval of Minimum Energy Performance Requirements on buildings and its elements, the Rules on the approval of the National Calculation Methodology for energy performance in building, and the Rules on the approval of the procedures and conditions for energy performance certification of buildings, as well as creating a database on building stock and energy performance.

<sup>160</sup> For the reports, please see <https://www.energy-community.org/implementation/Albania/reporting.html>.

<sup>161</sup> A regional project funded by the GIZ-ORF fund for South East Europe aims to support the deployment of a Monitoring and Verification Platform. For more details, please see <https://www.giz.de/en/worldwide/31746.html>.

<sup>162</sup> It is too early to assess the state of regional integration for the natural gas market as without a natural gas market, integration can only progress so far. Nonetheless, there is positive development with regard to regional pipeline network (as part of the TAP, IAP; and Albania-1244 interconnector) in which Albania is a central stakeholder.

<sup>163</sup> “A CONTROL BLOCK comprises one or more CONTROL AREAS, working together in the SECONDARY CONTROL function, with respect to the other CONTROL BLOCKS of the SYNCHRONOUS AREA it belongs to” (ENTSOE, 2004<sup>[409]</sup>). An alternative explanation can be found under Emission-EUETS (Emissions-EUETS, 2019<sup>[410]</sup>).

<sup>164</sup> Lowest cost refers to that Korporata Elektroenergjitike Shqiptare operates a hydro power generation fleet that has been depreciated substantially and that hydro power generation does not have variable fuel cost associated with the generation of electricity.

<sup>165</sup> Whereby consumers would look for and sign contracts with supply companies that can obtain electricity from the wholesale market.

<sup>166</sup> The plan includes nine measures, some of which focus on reducing energy consumption and developing environmentally-friendly transport modes. Some measures have direct on energy savings and pollutant reduction (e.g. renewal of the car fleet stimulated by efficiency-based fees and incentives).

<sup>167</sup> These measures comprise: identification and implementation of adaptation response measures in the Drin-Mati river deltas; strengthening local communities living nearby the Kune-Vain Lagoon System to adapt to the adverse effects of climate change using ecosystem-based adaptation approaches; water and irrigation reserve project aimed at preparing the National Strategy for Integrated Water Resources Management; vulnerability assessment and adaptation plan for the city of Tirana, which sets the basis for mainstreaming climate change adaptation into the city planning processes; and Flood Risk Management Plan for Shkodra Region.

<sup>168</sup> In November 2019 Albania was hit by one of the most devastating earthquakes in the last several decades with a magnitude of 6.3 on the Richter scale at a depth of 38 km. The earthquake affected a total of 202 291 people, with 17 000 citizens displaced due to the loss of their homes, and caused EUR 985.1 million damage, equivalent to 6.4% of the 2018 GDP in damage and to 1.1% of GDP in losses (EU, UN and World Bank, n.d.<sup>[372]</sup>). The extent of the damage demonstrated the main issues related to the preparedness for natural hazards, such as the lack of modern and homogenous equipment for the operational forces, the lack of skilled human resources, as well as the insufficient training in emergency co-ordination (Ibid.).

<sup>169</sup> The Government of Albania approved a Master Plan in January 2020 that outlined the creation of 10 waste areas, created as a result of closing most of the illegal dumpsites, rehabilitating other sites (where there is only one site in the municipality it must be rehabilitated) and building new landfills.

<sup>170</sup> More information on EU waste policy and legislation at [https://ec.europa.eu/environment/legal/law/6/pdf/02\\_aile\\_eU\\_waste\\_legal\\_framework\\_speakers\\_notes.pdf](https://ec.europa.eu/environment/legal/law/6/pdf/02_aile_eU_waste_legal_framework_speakers_notes.pdf).

<sup>171</sup> In August 2020, Nisma Thurje, a civil society organisation, filed a report with the Special Anti-Corruption Prosecutor's Office (SPAK) against the Fier waste incinerator, concerning allegations that the "principle of equality in public procurements" had been breached in the deals. <https://balkaninsight.com/2020/09/28/the-incinerator-how-a-politically-connected-albanian-built-an-empire-on-waste/>

<sup>172</sup> Separate collection has only been introduced to date within the frame of several pilot projects funded by intergovernmental and non-governmental organisations (UNECE, 2018<sup>[214]</sup>).

<sup>173</sup> The DMC transposes the following EU directives: Directive 2000/60/ EC of the European Parliament and of the Council of 23 October 2000 "Establishing a legal framework for community action in the field of water policy", as amended by Decision 2455/2001 / EC, Directive 2008/32 / EC and Directive 2008/105 / EC; Directive 2009/90/ EC laying down, pursuant to Directive 2000/60/EC of the European Parliament and of the Council, technical specifications for chemical analysis and monitoring of water status; Directive 2006/118/ EC "On the Protection of Groundwater against Pollution and Deterioration"; and Directive 2007/60 / EC "On the Assessment and Management of Flood Risks".

<sup>174</sup> The Water Resources Management Agency is responsible for designing and implementing policies, strategies, plans, programmes and projects aimed at the integrated management of water resources, quantitative and qualitative conservation, as well as their further consolidation. The Ministry of Agriculture and Rural Development is in charge of managing irrigation and drainage activities. The Ministry of Infrastructure and Energy (MIE) prepares policies and strategies for the water supply sector and for the collection and treatment of wastewater. The National Water Supply and Sewerage Agency is an institution that reports to MIE, and specialises in drinking water supply, collection and treatment of wastewater. The Ministry of Health is also responsible for co-designing and implementing quality policies and strategies related to drinking water supply. The Ministry of Defence oversees the Agency of Civil Emergencies, which implements the National Plan for Civil Emergencies. The National Environmental Agency (NEA), under the

auspices of the Ministry of Tourism and Environment, is responsible for quality and quantitative monitoring of water resources. Finally, the Albanian Geological Survey, National Regulatory Authority for Water Supply and Wastewater Treatment, National Agency for Protected Areas, River Basin Administration Offices, and local municipalities are all also in charge of water-related matters.

<sup>175</sup> EU Regulation (EU) 511/2014 "On compliance measures for users of the Nagoya Protocol on access to genetic resources and fair and equitable sharing of derived benefits from their use in the EU ", which provides the provisions for the implementation of the Nagoya Protocol in the European Union.

<sup>176</sup> High nature value (HNV) forestry is a comparatively new term used to describe some of the oldest and most biodiversity rich forestry systems in Europe, many of which are now under threat. On this HNV land, for hundreds or even thousands of years, semi-natural habitats and wild species have been interdependent with low-intensity management by local communities (Düll et al., 2018<sup>[120]</sup>).

<sup>177</sup> Vjosa-Narta is a protected landscape area in southwestern Albania. Vjosa is considered to be Europe's last wild river. The International Union for Conservation of Nature (IUCN) has listed the park as Category VI. It is also listed as an important Bird and Plant Area, because it supports significant bird and plant species (Düll et al., 2018<sup>[120]</sup>).

<sup>178</sup> Fine particulate matter (PM<sub>2.5</sub>) is the air pollutant that poses the greatest risk to health globally, affecting more people than any other pollutant. This becomes of even greater concern in the context of the COVID-19 pandemic knowing that exposure to ambient and indoor air pollution increases the risk of cardiovascular, respiratory and developmental diseases, as well as premature death, thus making individuals even more vulnerable to COVID-19 (OECD, 2020<sup>[74]</sup>).

<sup>179</sup> Although data quality could be improved on various levels, the NPAQM states that "there is no doubt that traffic is by far the most important source of air pollution in Tirana" and recommends that the measures to improve air quality in Zone A should concentrate on traffic.

<sup>180</sup> Key government bodies include the Ministry of Tourism and Environment, line ministries responsible for infrastructure and energy, urban development, transport and industry (MIE), agriculture and rural development, health and social protection (MHSP), finance and economy, the National Environment Agency and its regional agencies of environment in 12 districts, the State Inspectorate of Environment.

<sup>181</sup> Vegetables constitute about 21% of all agri-food exports, marking a significant increase on 2005 when it was less than 3%. However, low prices for vegetable products remain a crucial issue for producers. One of the main reasons is that Albanian products are not standardised and are rarely certified (e.g. with Global GAP certification is made up of interlinking mechanisms that ensure the proper development, implementation, improvement, integrity, transparency and harmonisation of our certificates).

<sup>182</sup> Safety, hygienic and quality standards are lacking in most of the livestock producers. Cooperation between the actors of the value chain and other stakeholders is limited and weak. Product diversification and introduction of new products, together with marketing, labelling and other marketing tools are lacking or are very sporadic, which have inhibited the growth of the sector.

<sup>183</sup> The responsibilities of the Agency of Water Resource Management are 1) the implementation of international agreements and conventions on national water resources and transboundary waters to which the Republic of Albania is a party and 2) the coordination and control of local water management bodies.

<sup>184</sup> Together they cover 1) rural development interventions; 2) national interventions related to income support to farmers, development of rural infrastructure and ensuring equal opportunities; and 3) institutional development, regulation and enforcement.

<sup>185</sup> The responsibilities for the agricultural support policy are divided among the: 1) MARD, responsible for drafting and implementing policies for the sustainable growth of agricultural and livestock production; 2) Managing Authority responsible for preparing and implementing the IPARD programme; 3) Agricultural and Rural Development Agency/IPARD Agency responsible for implementing (including financial disbursement) agricultural policies and rural development; and 4) Regional Agricultural Extension Agencies responsible for providing information and assisting farmers to benefit from national support schemes, IPARD and other projects in the field of agriculture and rural development.

<sup>186</sup> HACCP is a United States-based system that identifies, assesses and controls significant biological, chemical and physical hazards with regard to food safety and determines critical points for their control.

<sup>187</sup> The key players in the agriculture innovation system are the: 1) Academy of Sciences, which contributes and promotes the achievements of scientific research and proposes new scientific and study fields in line with the economy's development priorities; 2) Agricultural University of Tirana, whose research institute conducts basic and applied scientific research in agriculture; 3) Agriculture Faculty of Korca that offers teaching and some applied research projects in management and marketing of agricultural and livestock products; and the 4) Agricultural Technology Transfer Centres (ATTC), responsible for farm level research and testing for problems raised by farmers in the region.

<sup>188</sup> Available at: <https://turizmi.gov.al/wp-content/uploads/2019/12/National-Tourism-Strategy-2019-2023-EN.pdf>.

<sup>189</sup> SRD is a programme implemented by GIZ, funded by BMZ (German Federal Ministry of Economic Cooperation and Development), which aims to diversify the rural economy, especially sustainable tourism development and growth of competition in the agricultural sector. The programme identifies issues faced by businesses and companies in the tourism industry related to the COVID-19 pandemic and emergency situation in Albania.

<sup>190</sup> The Thematic Group was established by the Order of the Prime Minister, dated 22.10.2018.

<sup>191</sup> The first tourism development strategy was prepared in 1992.

<sup>192</sup> More information at <https://www.investment.com.al/investment-council/>.

<sup>193</sup> The Republic of Albania launched electronic visas on 2 November 2020. Electronic visa are now functional in addition to the stamp visa currently in use. The e-Visa can be accessed through <https://e-visa.al/> portal.

<sup>194</sup> Pursuant to Order no. 267, dated 24.07.2019 "On the approval of the regulation on the manner, criteria, and procedures for categorization of accommodation structures", as amended.

<sup>195</sup> Under the Economic Reform Program 2019-2021, Albania committed itself towards standardisation of tourism services, including registration of all types of accommodation (including private apartments and rooms).

<sup>196</sup> Document of Strategic Policies for the Protection of Biodiversity in Albania – DCM no. 31, date 20.1.2016, Law 81/2017 "On Protected Areas".

<sup>197</sup> For example: see Slovenia's Green Scheme: <https://www.slovenia.info/en/business/green-scheme-of-slovenian-tourism>.

<sup>198</sup> Website of the Ministry of Justice: <https://drejtesia.gov.al/strategjia-ndersektorale-kunder-korrupsionit/>

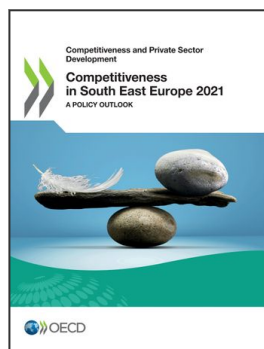
<sup>199</sup> Website of the HIDAACI: <http://www.ildkpi.al/guida-dhe-manuale/>

<sup>200</sup> Website Open Spending Albania: <http://spending.data.al/en/moneypower/list>

<sup>201</sup> Website of the High Judicial Council: <http://klgj.al/vende-vakante-ne-pushtetin-gjyqesor/>

<sup>202</sup> Website of the Extractive Industries Transparency Initiative: <https://eiti.org/countries>

<sup>203</sup> Website of the SPAK: <https://spak.al/2020/04/30/mbi-aktivitetin-e-prokurorise-se-posacme-ne-periudhen-09-03-2020-deri-30-04-2020/>



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