Implementation of the NSSED

# Period 2002-2004

# Governance

According to the NSSED, the success of institutional and legal reforms is considered an indispensable condition in achieving mid-term growth and poverty reduction objectives. Economic growth requires continuous improvements in the performance of public institutions, while poverty reduction needs an open and comprehensive decision-making process for all social groups, the poor, vulnerable and unprotected in particular.

The institutional reforms in general aim at: (i) further improving the balance between different levels of powers; (ii) increasing programming capacities of institutions; (iii) increasing their efficiency in implementing policies and legislation; (iv) increasing fiscal efficiency; (v) strengthening accountability and improving public services; (vi) democratisation, increased transparency and reduction of corruption.

Strengthening of the rule of law is a key factor of stability and economic growth, as well as of success of reforms. The mid-term priority of the government has been to increase the efficiency of public institutions: (i) establishing/strengthening responsible institutions specialised in drafting, implementing and monitoring policies and laws; (ii) strengthening institutional interaction; (iv) strengthening public accountability of functionaries and institutions; (v) adopting instruments to motivate public functionaries; and (vi) improving available means and technology.

The priority directions of institutional and legal reform in the framework of NSSED are: (i) strengthen public order and fight against organised crime; (ii) fight against corruption at all levels of administration; (iii) reform the judicial system; (iv) deepen the reform in public administration; (v) radically improve fiscal management; and (vi) deepen the reform of government decentralisation.

The foreign policy priorities are: (i) intensification of political and diplomatic action toward European and Euro-Atlantic integration; (ii) encouragement and strengthening of bilateral and multilateral co-operation at European and international level; (iii) development of regional moderating role and intensification of relations of all-round cooperation with all countries in the region; (iv) development of dynamic diplomatic action to generate an increasing positive image of the country and extension of the country’s presence and role in international forums and organisations; (v) development of legal framework of bilateral and multilateral co-operation; (vi) further strengthening of diplomatic action to facilitate free movement of people; and (vii) increased interest about Albanian diaspora.

In spite of positive progress in institutional and legal reforms, in recent years in particular, the ability of institutions to effectively implement the law needs to be further improved.

## Justice

The judicial reform represents one of most important directions of institutional reforms. According to the NSSED, the directions of judicial reform are: (i) improvement of the quality of judicial/legislative process through developing the quality of normative acts; (ii) improvement of professional level of judges, attorneys, advocates, court administrators and the mechanisms of their motivation; (iii) strengthening and institutional improvement of the justice system (self-organisation and self-control of the judiciary), rationalisation of organisational / territorial / functional structure and strengthening of other institutions related to the judiciary, such as the Ministry of Justice, Office of the Attorney General, Bailiff’s Office, and judicial police.

**Increase transparency and improve management of judicial proceedings** In 2004 a management system of court cases has been established, which automated the process of case administration in three pilot courts. The system will be established in other courts during 2005. Decisions of the High Court were published for the first time, while the publication of decisions of regional appeal courts is pending.

The statistics sector in the Ministry of Justice collects unified procedural, administrative, investigative and judicial data from first instance courts, courts of appeal, the High Court, the Office of Attorney General, the General Directorate of Prisons and the Bailiff’s Office.

**Increase implementation rate of judicial decisions** The Internal Regulation of the Execution Service and the Evaluation System of Judicial Bailiffs were approved in 2004 to ensure success in carrying out executive titles, opening thus the way to professional categorisation of any judicial executor. A guiding commentary ‘On unified modules of procedural activity of judicial execution service’ was prepared, which will unify judgement in performing execution actions and at the same time will prevent ill-treatment or misinterpretation of actions by judicial bailiffs.

During 2004 the High Court has reviewed 58% of 3033 submitted cases (3747 in 2003), against 54.5% of cases in 2003. shows that Bailiff’s Offices have increased the speed of carrying out cases and executive titles to 61% of registered cases in 2004 in comparison to 33% in 2003 and 20% in 2002.

Execution of cases by Bailiff’s Offices



In spite of work done, the legal framework of the Judicial Execution Service is incomplete. This prevents completing execution titles, especially in cases when debtor or creditor is the state. In 2004, the Bailiff’s Office executed 3355 cases where creditor/debtor is the state, out of 6870 registered, compared to 579 cases executed in 2003, out of 6500 registered.

**Improve prison and detention system** A number of investments have been made in 2004 to improve conditions in the detention system under the authority of the Ministry of Justice. About 760 persons are detained in these institutions, or less than half of the total number of detained persons, while the other part is held in police station premises under the authority of the Ministry of Public Order.

Investments are made in the prison system to increase capacities and reduce overpopulation of existing prisons by adding 610 places in 2004. Investments have been made also to improve the heating and sanitation systems. The issue of overpopulation of prisons is expected to be solved definitively in 2006 due to planned investments, which will add 700 more places according to EU standards.

## Public order

The government priorities in 2004 were: (i) institutional reform; (ii) prevention and fight against crime; (iii) prevention and reduction of conflicts and illegitimate actions; (iv) increased security for citizens in exercising guaranteed rights and freedoms.

**Internal structural reorganisation to increase police efficiency** In 2004: (i) there was a marked separation of the political from the technical level, as the police managed its own budget; (ii) the Border and Migration Department was established; and (iii) the Department of Coordination and Control of Territory was established.

**Fight against trafficking and criminal activities** The main directions of activity have been: (i) improving legal and organic structures; (ii) identifying the geographic extent and criminal nature of illegal trafficking; (iii) increasing the level of cooperation and the coordination of actions with other bodies of public administration, at the central and local levels; (iv) strengthening continuously the cooperation with the Serious Crimes Attorney’s Office, in particular the task force for information exchange and joint operations; (v) drafting the Action Plan of Anti-trafficking for the National Strategy for Children to be approved by the government.

**Fight against drug trafficking** In 2004, the National Strategy Against Drugs (2004-2010) and the Action Plan were drafted. The responsible structures have focused their work on identifying actions and persons involved in drug trafficking and on cooperating and coordinating activities of public institutions in reducing supply and demand.

Fight against drugs

|  |  |  |
| --- | --- | --- |
|  | 2003 | 2004 |
| Number of cultivated and eliminated plants (roots) | 186,000 | 77,000 |
| Heroin seized (kg) | 114.7 | 240.6 |
| Prosecuted | 281 | 395 |
| Arrested | 247 | 297 |
| Tried | 9 | 39 |
| Escaped | 29 | 59 |

Source: Ministry of Public Order

**Fight against economic and financial crime** In 2004, 1339 offences were identified and 1323 of them were revealed, involving 31 criminal groups with 114 members, out of which 80 were arrested. Activities have focused on: (i) Reorganisation of structures in the fight against money from criminal activities; (ii) Investigation and intensification of work to identify movable and immovable properties that are products of criminal activity; (iii) Approval of the Action Plan on ‘Prevention and fight against corruption 2003-2004’.

**Fight against terrorism** The main objective has been to prevent, expose and strike against crimes related to terrorism and against life and property. In 2004, 5117 penal offences were identified, or 1452 more than in 2003, and 3352 or 69% of them were revealed. The service has been strengthened and measures were taken to cooperate with the police regarding the control in diplomatic missions of Western countries, in the framework of preventive measures against eventual terrorist acts.

**Police ranks** Nominations in various functions of the State Police are made according to the rank of officers. In the framework of clearing the police from corrupt elements, a number of disciplinary measures have been taken. In 2004, 323 critical reports were sent to the Attorney’s Office related to 307 police subjects, out of which 24 of high ranks, 88 of middle ranks and 211 of basic ranks. Of them 52 were arrested.

**Border control and regional cooperation** Strengthening of border security has been seen in the context of facilitating the legal passage of citizens and vehicles. A law ‘On entry, stay and treatment of foreign citizens in the Republic of Albania’ was approved. About 456 foreign subjects were refused entry in Albania because they lacked necessary documents, as against 425 refusals in 2003. The regulation ‘On administration, maintenance, and use of services of floating and radio locative means’ has been drafted and approved. The regulation on organisation of work in airports and ports has been revised.

**Road safety** In 2004, there were 734 road accidents that caused the death of 282 citizens and the injury of 186 others. Compared to 2003, there was an increase in the number of accidents, which is explained by the fact that light accidents were also included. Controls of documents, vehicles and driving schools have been intensified. A study on road safety conditions, the level of accidents, and problems related to the improvement of road infrastructure was prepared to plan measures to prevent accidents. About 440,176 fines amounting to Lek 414,782,568 were issued. About 91% of the total volume and 87% of the total value of these fines was collected. Another achievement was the procurement of speed and alcohol measuring instruments throughout the country.

**Radio-communication system** The objective is full computerisation of the State Police and electronic management of information. A functioning data transmission network in the Border Police Departments is completed, ensuring high-speed connection with border posts. A National System of Communication in HF frequency has been established for Regional Police Departments. Mini systems of radio-communication in UHF have also been established. Automatic systems of surveillance and recording are built in border posts.

## Public administration

According to the NSSED, the deepening of the public administration reform aims at: (i) clearly determining the responsibilities, authority and accountability of public institutions and functionaries; and (ii) strengthening the separation of political and civil service levels and ensuring sustainability of the civil administration. The main directions of the reform are: (i) complete the reform of institutional structures; (ii) reform internal control; (iii) fully implement the status of civil servant and re-draft the status of political employee; and (iv) improve public information.

The total number of positions in the civil service was 1697 or 0.8% more compared to 2003. In 2004, 330 new civil servants were appointed, against 277 appointed in 2003, which reduced the number of vacant positions by 10.7%. The Civil Service Commission annulled 2.1% of competitions in 2004 for not observing the rules. The average number of applicants for a procedure was 10 candidates, against 8 candidates in 2003 and 5 in 2001.

**Institutional restructuring** The Ministry of European Integration was created in 2004 to achieve the commitments of the government in the Stabilisation and Association process. The Ministry of Justice, the Ministry of Territorial Adjustment and Tourism, and the Ministry of Education have undergone radical changes in their functional structure. In compliance with the law on internal control, the structure of internal auditing units in line ministries has been changed. In order to implement the National Strategy of Information and Communication Technology, small IT units have been established and strengthened in institutions. The terms of reference and classification of supporting structures in line ministries, such as the juridical, economic, and human resources management departments, have been unified in 2004.

During 2004, the Department of Public Administration established the inventory of all Council of Ministers dependent institutions, the line ministries and independent institutions (including data on the establishment of the institution, the legal basis for functioning, organisation, structure, wages of employees, services offered etc.), which opened the way for a functional and structural review in 2005.

**Civil service** The law on civil servants began to apply in 2004 also for employees of the Public Procurement Agency, the tax, customs and other authorities. Civil service training focused on capacity building in institutional management, European integration issues and human resource management. Attendance increased to 2090 persons in 2004, up from 1215 in 2003.

**Wage reform** The categories of ‘specialist’ and ‘head of division’ were established in line ministries in 2004 (except for the Ministry of Youth, Culture and Sports in which they will be introduced in 2005) and in ten Council of Ministers dependent institutions and ministries. A separate fund for wage reform has been included in the Medium Term Budget Programme.

## Decentralisation

Following on from the National Strategy for Decentralisation and Local Autonomy (1999) the NSSED highlighted the importance of decentralisation for growth and poverty reduction. The strategy was to proceed cautiously step by step recognising both that decentralisation is a crosscutting strategy and therefore an integrated part of a number of sectors and that there needed to be readiness to take on responsibilities on the part of local government. In addition it was important to ensure the appropriate legislative framework was in place. The NSSED laid out 3 objectives to be attained by 2004 with support in implementation from the Local Government Law (2000). In summary, these were:

* The decentralisation of exclusive, shared and delegated functions to local government with the appropriate legislation. The aim was to give local government increased decision making rights in setting priorities, use of resources and monitoring of service performance.
* The provision of increased opportunities for resourcing of local government including improved distribution of national financial resources and the transfer of immovable property.
* The application of the same principles by local and central government in governance, administrative and financial reform (in particular, the status of civil servants, financial management, inclusion of community in governance and extension of anti-corruption measures).

|  |
| --- |
| Functions of local government The Law on Functioning and Organisation of Local Governments distinguishes between 3 types of functions to be performed by local governments.   * **Exclusive functions** Local governments exercise full administrative, service, investment and regulatory authority over them. They are financed primarily from the general budget of the local government. They relate mainly to the provision of: (i) local infrastructure (local roads, street lighting and public services, urban planning, urban transport, waste collection and disposal, water supply); (ii) social, cultural and sporting activities; (iii) local economic development activities (public markets, SME support, information and infrastructure etc.). * **Shared functions** They are undertaken jointly by central government and local governments. Where these functions are performed according to nationally set standards they can be expected to be financed by conditional transfers from the central government budget. Shared functions include pre-tertiary education, primary health services, social assistance, public order and environmental protection. In each of these areas the precise administrative and financing arrangements involved in sharing have yet to be defined. * **Delegated functions** Local governments perform these as agents of the central government, for example in operating a particular service or facility. These functions are wholly financed by transfers from the central government budget. |

The NSSED Progress Reports of 2002 and 2003 documented the progress of decentralisation particularly in water supply, health, education and financial management. In August 2004, the study ‘Albania: Decentralisation in Transition’ was published by the World Bank. This study provides an independent assessment of the decentralisation process. It concludes that:

“Although Albania is far from completing the design of political, administrative and fiscal decentralisation that would be able to satisfactorily improve service delivery, governance and accountability, it has to be acknowledged that considerable progress has been made in establishing the basic institutions and legal framework, as well as in implementing policies towards decentralisation”.

Decentralisation is, as was envisaged, a slow process of change but steady steps are being taken and the government remains fully committed. A summary of the progress in 2004 is presented below.

**Local government fragmentation** An ad-hoc Parliamentary Commission has been set up to facilitate change in the territorial divisions prior to the 2006 local elections. The fragmented nature of local government with 309 communes and 65 municipalities belonging to 12 regions presents a challenge to social and economic development. This is exacerbated by internal migration which reduces the functioning of small units.

**Local government property** So far twelve local government units have completed the inventory of all public properties and lands and have had those designated as local government premises transferred.

**Legal framework** The highest priority identified in the National Strategy for Decentralisation was to prepare a package of laws that would enable decentralisation to local government to be implemented. In 2000 the new legal framework was established with the passing of 2 organic laws ‘On the organisation and functioning of local governments’ (8652/2000) and the ‘On the administrative-territorial division’ (8653/2000). Since then several laws and regulations have been passed. In 2004 there was an amendment to Law 8652. The prime purpose was to increase competencies of village heads in the Commune Councils.

**Assignment of responsibilities and expenditure allocation** The assignment of responsibilities along with increased expenditures progressed in 2004, albeit slowly. According to the MTBP (2004-2006), local government expenditures, excluding those financed by conditional transfers from line ministry budgets, were projected to increase from 1.9% of GDP in 2002 to 2.1% of GDP in 2006. This increase was to reflect the government’s commitment to the expansion of local government as providers of services and to ensure these services were more adequately financed. In 2004, local government expenditure was 2**%** of GDP. A breakdown of expenditure by source of revenue is provided in .

Local government spending, in Lek million

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
| Local government grant | 5134 | 4595 | 4943 | 90731 | 6627 | 6622 |
| Local revenues | 885 | 1315 | 2038 | 2676 | 4979 | 5553 |
| Small business tax | 1188 | 1641 | 1974 | 2548 | 2944 | 4060 |

Source: Ministry of Finance

1 In 2002 the decision was taken to allocate health operation and maintenance expenditure as an unconditional grant to local government. Due to eventually limited allocations made by local government to that purpose, the grant was converted back into a conditional transfer in 2003.

**Exclusive functions** The following places took place in 2004:

* Water supply and sanitation In 2002, the decentralisation policy for water supply and sewerage was approved by the Council of Ministers. All assets and water systems were to have been transferred by 2004 (see the discussion on water and sanitation in a later section). However, while the inventory of water supply systems was completed only 8 water utilities inclusive of 131 systems were transferred to municipalities and communes. Despite the legal and administrative challenges it is planned to complete this process in 2005 although not all local governments are enthusiastic about the transfer under current arrangements.
* Urban public transportation and traffic regulation Public transport licensing is since 2003 a competency of local government. The majority of competencies have been delegated to municipalities and communes, while the regional councils have the authority to licence public and goods transport between municipalities and communes within the region, according to the standards of the Ministry of Transport and Telecommunications.
* Urban planning and land management While this is an exclusive function, the current legal framework does not allow for local government to take full responsibility for urban planning. In 2005/06 a new law on urban planning will be drafted to clarify the competencies of local government and central government.
* Housing In 2004 the law ‘On social programmes for housing of city dwellers’ was passed. Financing for this policy will be through central government contribution and municipalities from their taxes on immovable property (see the discussion on urban development in Section ).

**Shared and delegated functions** The delineation of specific competencies is still in the process of development. While few functions have been shared or delegated to local government, policy papers approved in 2004 in health, education and social services should lay the basis for future decentralisation of functions. Following on from the success of the Community Jobs pilot scheme (see the discussion on social assistance in Section ) local government in 2005 will have the competence to administrate social assistance funds either as cash payments or as payment for work on public labour schemes and community services. Currently local government has little decision making power in education or health. A number of ministries are developing their regional structures to enable greater delegation of decision making power.

Local government will also be transferred the property rights over health clinics and schools with the proviso that the building remains used for its original purpose.

**Revenue autonomy** Increased revenue autonomy is essential for the development of local government. The local government’s revenues consist of (i) local revenues, and (ii) revenues generated from national revenue sharing. These include (i) unconditional transfers, (ii) conditional transfers, and (iii) shared taxes. Conditional transfers are proportionally a lot larger than unconditional transfers. This means that revenue autonomy is still relatively limited. Block grants (given since 1999) for operation and maintenance for pre-tertiary education facilities, primary health facilities and for payment of salaries and economic aid transfers continue. Local revenue collection has improved significantly since the adoption of the fiscal package in December 2002. In 2004 own local government revenues were Lek 9.6 billion up from Lek 7.9 billion in 2003 (see ). The proportion of revenues from the state budget (local government grant) has decreased over the past 5 years.

Proportion of unconditional local government grant, revenues and small business tax to total spending 1999-2004



Smaller municipalities and rural areas are having more difficulty in gaining local revenue. The revenues of the small business tax are concentrated in Tirana, Durres, Elbasan and Korçe. To help reduce disparities the government is reforming the system of unconditional transfers. The information database on local governments that is used for determining fiscal equalisation was improved. In 2004, there were special fiscal equalisation measures taken for 156 mountain communes and 37 municipalities and in 2005 this will be extended to a quarter of mountain communes and 45 municipalities. For 80 of the poorest communes there is extra compensation. In 2005, the responsibility for investment funds in pre-tertiary education and primary health care will be transferred as a block grant. The decentralisation strategy proposed the sharing of 15% of personal income tax to communes and municipalities and of 5% of company profit tax to communes, municipalities and regions.

**Role of Regional Councils** The role envisaged for Regional Councils in the decentralisation strategy was one of taking responsibility for coordinating and harmonising policies among communes/municipalities consistent with the regional policies of the central government. The region is permitted to deliver public goods and services as decided by the Regional Council and within the limits of the law. The regional councils remain motivated to define and develop their role within local government. There are pilot projects that expand the role of the council. For example, in 4 regions there are regional committees for planning community services. The delegation for managing capital investment and for urban planning from smaller local government units will expand their activities. Regional development strategies are being developed but the regions do not have the responsibility or financial means to implement these strategies or the clout to influence the sectors on the development and coordination of their decentralisation policies.

The sources of Regional Council revenues are the unconditional block grant from the state budget (Lek 941 million in 2004 or 15% of the total unconditional block grant to local government) and a transfer from municipalities and communes of 4% of their revenue collection (though this amount is not being enforced). Regional Councils do not have the competency to raise own-revenue.

**Institutional strengthening** There is concern that local government does not have the capacity to respond to an increase in the rate of decentralisation. Pilot projects decentralising responsibilities to local governments that meet particular criteria are one mechanism used to test how decentralisation might work in practice. For example, the transfer of capital expenditure budgets mentioned above followed on from a successful pilot in Tirana municipality.

Encouragement of citizen participation in local government, which will ultimately strengthen accountability, is occurring in projects throughout the country. At least eleven municipalities held citizen perception surveys in 2004. A citizen survey conducted in Tirana Municipality in 2003 influenced the priorities in the 2004/05 budget. Pilot projects in participatory budgeting, conducted in 2 communes and 2 cities in 2004, are designed to increase the accountability of local government through engaging citizens, building trust and improving service delivery. These projects can be linked to the work of the Albanian Development Fund, as they provide a method for prioritising investment projects. The second phase of Community Works Project began in 2004.

Local level capacity building, essential ultimately for accountability and transparency is beginning to occur and qualitative feedback suggests that participants in local level forums are more articulate than 4 years ago. Unfortunately, while a strategy was approved in 2004, the Training Agency for Local Government is not yet funded sufficiently to be functional. Some progress has been made on capacity building of local administrations through human resource development centres operating in Fier, Kukes and Gjirokaster, supported by UNDP. With local government acquiring greater responsibility, it is important that modern standards of monitoring service delivery and accounting for expenditures are adopted. The line ministries still have weak monitoring capacity and the draft law on internal audit, planned for 2004, for local government has not yet been completed.

**Donor coordination** In order to improve donor support, a Thematic Group on Decentralisation was established in 2004 with an online database for donor programmes in local government. The aim is to increase the cooperation and harmonisation of donor interventions.

Despite considerable achievements, the original 3-year objectives of the NSSED have yet to be fully achieved. The vision of decentralisation remains in place, however the complexity of the challenges has led to a slower pace than originally envisaged. There is a need now to update the decentralisation strategy of 1999, based on achievements to date, and to ensure integration with sector strategies. The revised strategy will need to focus on the fragmentation of local government, further assignment of responsibilities, strengthening of local government institutions (including the regions), building capacity for implementation and monitoring at central and local government level, ensuring local revenue autonomy and improving the transfer/grant system. A medium term work plan has already been drafted by the National Committee for Decentralisation and presented to the Council of Europe.

## Anti-corruption

Prevention and fight against corruption remains one of the priorities of the government. The anti-corruption strategy focuses on three key elements: (i) strengthening of the rule of law; (ii) prevention; and (iii) education and public participation. The monitoring of the Action Plan is based on performance indicators. In the period 2003-2004, out of 119 planned measures, 105 or 90% of the total were accomplished.

**Strengthening of structures** The High Court of Serious Crimes, as well as respective local courts and attorney’s offices, were established in 2004. A task force to investigate penal offences in the field of organised crime and a department for the fight against organised crime and the protection of witnesses were set up in the General Department of State Police. The National Committee of Coordination for the Prevention of Money Laundering was created.

**Legal reform** The legal framework for public procurement, declaration of wealth, financial obligations of elected persons and some civil servants, competition, rules of ethics in public administration, procedures for external activities of civil servants and donations, and conflict of interest were improved in 2004.

In the penal field, the code of penal procedures on special investigation means in the Republic of Albania has been improved. In addition, it is worth mentioning the law on the protection of witnesses and collaborators of justice, the law organisation and functioning of courts dealing with serious crimes, the ratification of the additional protocol to the penal convention on corruption, measures against financing of terrorism, the implementation of the European Penal Convention on Corruption, the law on prevention and fighting organised crime etc.

Selected performance indicators of the anti-corruption action plan

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2003 | 2004 |  | 2003 | 2004 |
| Disciplinary actions against judges |  |  | Sanctions against police authorities |  |  |
| Dismissed | 4 | 4 | Disciplinary measures | 1715 | 2334 |
| Disciplinary measures | 8 | 4 | Administrative measures | 326 | 729 |
| Sanctions by the High State Control |  |  | Convictions | 138 | 323 |
| Disciplinary measures | 344 | 196 | Offences in exercise of public duties |  |  |
| Administrative measures | 142 | 73 | Accused | 224 | 258 |
| Convictions | 11 | 25 | Prosecuted | 111 | 159 |
| Sanctions by General Department of Audit |  |  | Convicted | 76 | 47 |
| Disciplinary measures | 696 | 1713 | Offences related to customs and tariffs |  |  |
| Administrative measures | 2012 | 2309 | Accused | 145 | 123 |
| Convictions | 37 | 36 | Prosecuted | 185 | 291 |
|  |  |  | Convicted | 141 | 233 |

## European integration

During 2004, substantial progress has been made in the negotiations of the Stabilisation and Association Agreement (SAA). There were 6 rounds of negotiation were concluded, of which 2 were political and 4 technical. Albania is close to finalising the SAA negotiation with the European Union. The first reading of the Agreement has been finalised. In respective articles of the agreement, transition periods proposed by the Albanian side have been accepted; in view of finalising the text, some complaints and protocols contained in the agreement remain to be reviewed. The main achievements of these rounds are the following:

* A first reading of 135 articles of the SAA was completed
* Issues of trade in primary and agro-processing products were negotiated, as agricultural sector liberalisation is expected to progress over the next 5 years
* The financial effects in the Albanian economy, as a result of implementing the liberalisation of custom tariffs, were calculated
* The treatment of Title 8 ‘Cooperation policies’, which contains 25 articles, including bilateral co-operation in all areas of the acquis communautaire
* The quality of technical negotiations to support the official government proposals for the formulation of articles and their transition period was improved.

Discussions in the framework of the Consultative Task Force between the EU and Albania and the Technical Working Groups have focused on assessing progress in the preparation of the 2005 parliamentary elections, the fight against organised crime, migration and related issues, respect of human rights and minorities, freedom of expression and media as well as compensation and restitution of property. These meetings serve as a technical monitoring tool through which information is exchanged and legal and institutional problems are identified.

Since November 2004, the Stabilisation and Association process (SAp) countries have been included under the umbrella of Directorate General Enlargement, a very significant move that expresses the support of the EU.

The European Partnership agreement will assist greatly in identifying short and medium-term priorities to come closer to EU membership. The government prepared the Action Plan for the Implementation of European Partnership Priorities which was approved by Council of Ministers Decision 634 in August 2004. This plan represents the effort of the Albanian institutions to identify the structural measures needed to achieve priority objectives of the SAp in the short (1-2 years) and medium term (3-4 years). Its implementation will strengthen institutions and public administration, approximate EU legislation, and increase effectiveness to implement reforms.

The government has also embarked on the design of the Action Plan for the Approximation of Legislation. This will be the basic tool for planning, prioritising and monitoring the European integration process. A draft plan has been finalised and has been sent for comments and approval to the Council of Ministers.

This plan is expected to be approved in the first half of 2005. It is divided in two phases: (i) definition of objectives and description of the present situation; the key element is to understand and compare national commitments in the SAp in light of the gradual approximation of legislation and build administrative capacities for its implementation; (ii) identification of appropriate measures for the accomplishment of the objectives. The plan covers a ten-year period, divided in short-term and medium-term periods. A task force is established to monitor it, as provided by the Council of Ministers Decision no. 634. The plan will be constantly updated in terms of administrative capacity, the calculation of financial costs to coincide with the period of drafting of the annual budget, and the review of implementation staff.

In the framework of intensifying collaboration and sharing experiences with other countries involved in the SAA as well as new member countries of the EU, collaboration protocols were signed with Croatia, Macedonia, Poland and Hungary. These protocols aim at promoting the development of relationships in order to accelerate membership.

### EU support for implementation of European integration process priorities

* The CARDS programme remains a very important financial tool for fulfilling the objectives of the European integration process. Financial support through the CARDS programme over the period 2001-2006 will reach €278.4 million concentrated in 5 main directions: justice and home affairs - €119.1 million (42.7%); economic and social development - €90.1 million (32.4%); strengthening of administrative capacity - €37.5 million (13.5%); environment and natural resources - €18.5 million (6.7%); democratic stabilisation - €9 million (3.2%); and other - €4.2 million (1.5%). The European Commission has developed its financial assistance strategy for third countries over the period 2007-2013. The CARDS Programme will be substituted by the Pre-Accession Instrument, which will cover not only the candidate countries but also potential candidates, like Albania.
* The European Union Council decided in April 2004 to offer additional assistance of €25 million of direct budget support to Albania, which consists of a €16 million grant component and a €9 million credit component.
* The Regional CARDS programme finances regional projects in which 2 or more Western Balkan countries participate. Albania will continue to be part of the Regional CARDS programme in 2005-2006.
* Funds from the Neighbourhood Programmes will enable coordination with other programmes that are implemented by border regions in Italy and Greece to increase cross-border cooperation.
* Albania can participate in 25 Community Programmes which until now they have only been open to member counties. These are sector programmes that offer project-based assistance.
* It is now also possible to participate in the TAIEX Programme to adapt the national legislation to the acquis communautaire.

In the framework of increasing transparency and accountability, one of the main objectives of the Ministry of European Integration has been to raise public awareness of the integration process. A Strategy of Information and Communication with the Public was drafted and approved in December 2004, which is designed to offer mechanisms providing deeper knowledge on the process of European integration, on commitments and obligations toward such a process, and on the rights and benefits for all Albanian citizens.

## NATO membership and regional cooperation

In the framework of NATO membership, the Mid-term Strategy of NATO Membership, aiming at coordination and planning of activities to achieve membership has been completed. In the framework of regional cooperation, the development of political dialogue has been intensified and 49 high and very high level visits were conducted. Seven rounds of diplomatic consultations took place and 23 different documents related to bilateral relations were signed. Three sessions of joint commissions of border, economy and free trade issues were convened. Applying the spirit of dialogue and understanding with all regional factors, the Albanian diplomacy has managed to promote the image of Albania as a factor of stability and peace in the region.

Important progress is noticed in relation to international responsibilities and commitments of Albania during 2004. For the first time, Albania has become a member of the United Nations Economic and Social Council for the period 2005-2007, which represents a success of the Albanian diplomacy at a crucial moment for the image of the country, which has encouraged its institutional capacities to play a more active role internationally. Another achievement has been the completion of national reports on implementation of six major conventions of the United Nations on human rights. A new package of measures to facilitate free movement of Albanian citizens has been drafted and approved in the framework of the Action Plan to Facilitate Movement of Citizens, aiming at improving services and protecting Albanian citizens abroad. This is already reflected in the issuing of passports for Albanians in other countries

Another direction of the activity of the Ministry of Foreign Affairs is the completion of the matrix of draft-acts. About 71 agreements, 25 draft decisions and 54 draft laws have been signed and sent to the Council of Ministers for approval. These data show that the Ministry of Foreign Affairs has has exceeded planned objectives, applying a systematic monitoring of implementation of its duties. During 2004, in co-operation with other central institutions, the Ministry of Foreign Affairs completed procedures to make Albania a party in a number of international instruments.

## Statistics

Statistical information plays a key role in the decision making process by improving the quality of statistics in time and space. Transforming information into a public good requires not only transparency and impartiality but also a system to monitor performance. After the approval of the Statistical Law in 2004, INSTAT designed a 5-year programme for official statistics to ensure sustainable progress and to fulfil its mission. The programme was submitted to the Council of Ministers and will be approved by Parliament in 2005. It is the first programme designed by INSTAT since its foundation as an independent institution in 1993 and aims to:

* Build and empower the system’s identity and the image of official statistics.
* Develop the statistical culture in the country and to promote the use of statistical methods with data coming from the public administration.
* Disseminate the statistical culture and stimulate the need for statistical information.
* Integrate and harmonise the methods used in producing the statistical information, in accordance with the European and international requirements and recommendations.
* Ensure statistical cooperation between all statistical agencies.
* Improve the dissemination of statistics
* Improve the statistical structures

**Economic statistics** In 2004, INSTAT carried out a structural survey of economic enterprises whose results have been published in 2005. In order to allow the preliminary estimation of GDP with shorter lags, INSTAT introduced improvements in the methodology of calculating macroeconomic aggregate data and national accounts following the European System of Accounts 1995. It also started piloting quarterly estimation of GDP to better assist decision makers. This will be based on econometric methods, annual GDP data, and data from the sales index, applying relevant deflators. The full implementation of the methodology will be completed in 2006.

**Social statistics** INSTAT carried out the third wave of the LSMS in 2004 and began preparations for a full-scale LSMS in 2005. Even though some progress was achieved in the collaboration with the data users group that improved the design of the questionnaire to address public policies, participation in the group remains poor. Line ministries began using LSMS data to analyse the impact of their policies. In 2004, two line ministries carried out policy impact analyses using LSMS data combined with administrative data.

**Collaboration with other institutions** In order to maximise the use of administrative statistics and improve the quality of data, INSTAT has worked with the General Directorates of Taxation and Customs, the Ministry of Agriculture and Food, and the Bank of Albania. Memoranda of understanding will allow INSTAT access to primary data and will ensure the use of microdata and further collaboration on necessary improvements to the collection of statistical information.

Even after the approval by Parliament of the Statistical Law and the statistical programme, the government funds for its implementation (LSMS, household budget survey, labour force survey) are not guaranteed. This plan of surveys is intended to complete the collection of individual and household data that allow an in-depth analysis of social and economic conditions as well as to provide the decision and policy makers with the analytical instruments.

# Private sector

## Development of small and medium-sized enterprises

During 2004 over 7500 new businesses were created and it is expected that up to 8,000-9,000 businesses will do so in the coming years. The implementation of the European Charter for small and medium-sized enterprises represents one of the most important agreements on the agenda of the European Commission for Western Balkans. Its principles include improvement of legislation and regulatory framework of SME, improvement of tariff and fiscal systems, reduction of initial costs of setting up a new business, development of training system for entrepreneurship, improvement of electronic communication of businesses, and increase of efficiency of representation of interests of business. Such principles make the axis of the Albanian government policy in the development of SME.

Attention was paid during 2004 to extend schemes of micro-credits in urban and rural areas. The volume of credit for SME increased, the portfolios of micro-credits were improved and institutions of micro-credit were strengthened by transferring funds to Foundation BESA and the Rural Development Fund. The banking network was enlarged, the number of private banks increased, and they were spreading throughout the country.

A Fund for Guaranteeing Credits to SME is expected to be set up in 2005 with the support of an Italian government €30 million loan to be used as follows: (i) €25 million soft credit to build up a credit line; (ii) €2.5 million soft credit to establish a Guarantee Fund; and (iii) €2.5 million grant, as technical assistance for creation of the Fund.

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| Albanian Development Fund Since 1993, the Albanian Development Fund has been carrying out projects aiming to improve local infrastructure and to promote private sector development, especially among the poor. In 2004, activities were based on agreements with the Islamic Development Bank (rural infrastructure), the CARDS programme (local community development), KfW (social investment), the World Bank (community works), and the Council of Europe Bank. More than 150 investment sub-projects worth Lek 1.8 billion were contracted. The majority of resources were allocated to road (57%) and water supply (11%) projects.  In terms of operation, the manual of procedures was updated to reflect changes made in strategy and structure, including the commitment to align priorities with the NSSED. About 300 local infrastructure priorities were re-evaluated by specialised social inspectors in collaboration with local government units. A participatory methodology for sub-project preparation, implementation and evaluation was developed. In addition, the Fund has begun organising tenders in communes/municipalities (rather than at the headquarters) to increase the responsibility and general capacity of local representatives.  The main problems that affected operations in 2004 were: the late disbursements of funds by some donors; the delays in the signing of the contract for the community works project due to the new manual of procedures that changed the bidder eligibility criteria; the failure of local units to plan expenditure for sub-projects in their 2004 budget (up to 10% of the total), and the negative role of some commune representatives in procurement and maintenance. The Fund wants to ensure that projects are not only embedded in a longer-term vision of community development, but also contains a robust community-based monitoring and evaluation component, as well. |

## Foreign direct investment

Foreign direct investments in 2004 amounted to $341 million, the highest figure in the last five years, as against $178 million in 2003. This growth is the result of privatisation of strategic sectors and concessionary contracts. In 2004 there operated in Albania 1755 foreign companies, which have employed 4408 persons.

According to a recent evaluation made by SACE, Albania has a smaller business risk now, having moved from level 7 to level 6.

The Albanian government approved the study of FIAS in August 2003 and started implementing it in 2004. The areas where the Action Plan achieved most progress are: the tax and tariff sector, enlarging the basis of taxpayers and simplifying of custom procedures, precipitating clearance and facilitating physical infrastructure of land and construction procedures regarding approval of legal acts on property and restitution and legalisation of immovable property.

The main difficulties in the implementation of Action Plan occur in the field of administrative appeals because certain legal aspects are not being implemented and the respective structures have not been established. Further progress is hampered by the lack of urban regulatory plans throughout the country; the National Strategy of Urban Development will be accomplished with the assistance of the World Bank.

Another general difficulty concerning implementation of the Action Plan has been timely reporting, which did not reach information the Prime Minister’s cabinet and the international institutions concerned in time.

## Trade liberalisation and export promotion

Eight free trade agreements were ratified in March 2004, which adds to the 29 agreements concluded in the region. Their full implementation started in December 2004.

Exports of Albania to South East Europe countries of free trade reached €32.5 million in 2004 as against €16.7 million in 2003. Trade with countries of the region increased 6.7%. The import-export ratio was 1.9 as against 8.8 in 2003. The most successful exports have been those with Bulgaria and Kosovo, with a quite positive balance. Imports from countries of the region reached €116.4 million in 2004 as against €98.6 million in 2003; in percentage terms growth was 5.7% as compared to 6.1% the previous year.

The use of quotas in agricultural production in 2004 was very low, both in exports and imports. In trade with Bulgaria, 85% of the vigna mungo beans quota was used, while in other products the use of quotas was very low; with Kosovo, 50% of the beer quota was used; with Croatia 74% of plants and fruit trees quota was used; with Macedonia 50% of the quota for products such as tomato, cucumber, and fruits was used; almost no quotas were used in trade with Romania, and Serbia and Montenegro.

Since the free trade agreement with Macedonia came into force in July 2002, Albanian exports doubled with 24 new products in 2003 and 30 new products in 2004. Exports to Macedonia increased by 149% in 2004 relative to 2003, reaching €624 thousand. While imports increased 16% in 2003, 49% of the increase was for food articles. The export-import ratio improved from 1:22 in 2002 to 1:9 in 2003. The only product whose exports fell was medicinal plants.

Exports to Romania increased and imports decreased by 26% in 2004, improving the trade deficit for the first time since 1997. The trade deficit with Bosnia also fell by 23% compared to 2003. Kosovo and Macedonia represent the largest market for Albanian exports. Exports to Kosovo increased to €12 million, while imports reached €8.4 million or six times more than a year ago. While exports with Croatia reached €300 thousand in 2004, or six times more than in 2003, imports increased by 23.5% reaching €2 million.

The main sources of data for monitoring free trade agreements are the General Directorate of Customs, INSTAT, the Trade Bulletin, the WTO Secretariat, the Department of Promotion of Business, the Ministry of Economy, and the Albanian Centre for International Trade (which publishes periodical reports on foreign trade). The improvement of the system of monitoring progress of free trade agreements is linked with the establishment of the ASYCUDA system. The system was installed in most of the branches of customs in main cities in 2004, which opens the way for deeper analyses of quotas and the implementation of negotiated parameters of open agricultural trade in 2005.

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| Facilitation of customs procedures This study by the Albanian Centre for International Trade was published in 2004. Its findings draw partly on a survey of 250 companies involved in import and export activities, customs and transportation agencies. Some of the main conclusions of the research paper follow:   * Custom clearance time has been reduced by more than half compared to the 5.3 days recorded in an Administrative and Regulatory Cost Survey by the Foreign Investment Advisory Service (FIAS) in 2002. This is mainly credited to the introduction of new information processing technologies such as the ASYCUDA system. However, the study suggests that there is scope for further reduction, through simplification of documentation requirements, improvement of information systems and adoption of the best international practices. * Businesses continue to incur higher operation costs by approximately 5% because of what they perceive as discretion in the application of customs legislation, especially with respect to reference prices. According to the study’s estimates, about 70% of the total import volume is cleared through reference prices, which is against GATT Article VII. Poor communication practices and lack of transparency regarding information are also important concerns from the business point of view. * The Albanian customs legislation has been adapted to the EU legislation. However, further trade facilitation measures, notably investments on the physical and human infrastructure network of institutions involved with trade policy implementation and especially the customs administration, could potentially achieve benefits amounting up to $200 million.   Source: S Xhepa, N Begaj and A Gugu, Facilitation of customs’ procedures and business relations with the customs’ administration, November 2004, Albanian Centre for International Trade |

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| Banking system activity and supervision Lending activities by banks have entered a stable expansion phase. Data from the Central Bank of Albania show that the ratio of credit to GDP has increased from 6% in 2002 to 9% in 2004 (or Lek 70 billion). This development is the result of the banks’ growing management experience, improvements in general socioeconomic conditions, and regulatory legislation. There has also been a change in the composition towards longer-term credit during the same period. Credit is being re-directed away from commercial activities, as shown in the figure below1, although it is not entirely clear whether production activities have been receiving more credit instead; the sector whose share has grown most since 2002 is that of unclassified, miscellaneous activities.    The independent supervision of the financial system is a responsibility of the Bank of Albania, which publishes an annual report on the banking system. The latest report2 made three observations. First, the level of credit risk may be increasing following the strengthening of competition after the privatisation of the Savings Bank, the large number of potential new clients, and the fact that lending is mainly done in foreign currency at a time of continuing appreciation of the Lek. Among other, this calls for portfolio diversification by economic sector. Second, the report raised the possibility of banking market saturation in terms of the number of operating banks. Third, attention should focus on the risk control and monitoring arrangements.  Sources: 1 Bank of Albania, Monetary Policy Report, March 2005; 2 Bank of Albania, Banking Supervision Annual Report 2003, July 2004 |

## State aid

State aid is considered as one of priority areas in the framework of the European integration process. Its obligations are determined in articles 70 and 71 of the Stabilisation and Association Agreement where it is clearly stated that there is a need to prepare the legal framework, harmonised with the acquis communautaire, and establish an independent structure that will monitor financial schemes of state aid and individual assistance implemented in Albania. In this framework, the Department of State Aid has been established in the Ministry of Economy and the Law no. 9374 ‘On state aid’ was approved.

## Tourism

In 2004 the Tourism Development Strategy and Action Plan were approved. The most important development for this year was the approval of the project on ‘Integrated coastal zone management and cleanup’. Objectives include zoning strategies, environmental analysis, planning for tourism development, design of regulations, investment strategies for infrastructure and application of geographic information systems. The implementation of this strategy will open the way to stable tourism development in Albania.

In 2004 a number of measures and policies were implemented to promote the country and its tourism potential and attract tourists from international markets, mainly from Western Europe as well as the region. Particular attention focused on Albanians from Kosovo and Macedonia. To A Pavilion of Albanian Tourism was organised in Prishtina to present the tourist options in Albania to the Kosovo market, along with a tour of tourist agency representatives from Kosovo in Albania, organised by the Ministry of Territorial Adjustment and Tourism in co-operation with the municipalities of Durres and Vlora.

All actors have widely supported the promotion of tourism in 2004 and financial support doubled since 2003. The 2004 tourist season ran well because of cooperation between central and local institutions, providing regular water and energy, waste cleaning, transport safety, health service and intensive information by media. The Ministry of Territorial Adjustment and Tourism has financed the provision of cleaning equipment to assist local government in cleaning beaches. There was marked growth in the number of tourists and tourism revenues in 2004.

Number of tourists and revenue from tourism, 2002-2004



# Infrastructure

## Energy and mining

The National Strategy of Energy was approved in July 2003, with the aim to: (i) rehabilitate and strengthen existing power stations; (ii) rehabilitate and strengthen the Fier thermo power plant; (iii) enable conditions for construction of new generating sources; (iv) give concession in cashing electrical energy invoices as a measure to improve liquidity; (v) prepare privatisation / concession of distribution.

In 2004, investments in the energy sector reached Lek 12.7 billion. The loss in network declined to 36.6% compared to 39.3% in 2003 and 53.5% in 2000. The production of electrical energy in 2004 continued to rely on hydro power in 98% compared to 2% on thermo energy production.

Structure of energy consumption



**Legal and institutional reform**. The tariff reform has been ongoing for three years, achieving a gradual increase in the price of electric energy with the intention to cover costs. Regarding the reform of the legal framework, it must be emphasised that the law on the sector of electrical energy grants full competencies to the Regulatory Agency of Electrical Energy, divests the state of rights in the electrical energy sector and in particular of the previous right in determining prices and tariffs, creating thus a more effective and completely transparent process.

**Division of Albanian Power Corporation (KESH) in legally separate units**. In order to achieve this objective and attract lowest-cost necessary investments, the preparation of market in the electrical energy sector is taken forward through restructuring and separation of functions of production, transmission and distribution.

**Hydrocarbons**. The design of a strategy for the hydrocarbons sector started in 2004 and will be completed in two phases. The main objective of this strategy is to define key steps for the development of this sector in Albania, in compliance with the National Strategy for Energy. The privatisation of public oil companies is already one of the major directions of the strategy and policy of the Albanian government. During 2004 the work focused on the following directions: a tender for Servcom in Fier was announced, the auction for Transnafta in Patos was prepared (to take place during 2005) and the process of privatising Mechanical Oil Plant in Kuçovë, Mechanical Plant in Patos, and the shares of ARMO and Albpetrol by competition began.

## Transport and telecommunications

Ensuring the ‘construction of a roads network ensuring speed and safety, increase of operational capacities in sea transport, ensuring a stable position and a dynamic increase in the air transport market and encouraging combined transport options and developing an information society’ has been a government priority. The transport and telecommunications sector made up 10% of GDP in 2003 and 10.4% in 2004.

The National Transport Master Plan is currently with the Council of Ministers for approval. This plan, along with the transport sector strategy, will provide the umbrella for future actions. Commercialisation of transport services is a clear government strategy.

**Road transport** In the past year, 100 km of national roads were constructed, 373 km were rehabilitated and 730 km maintained. The priorities for road transport are the rehabilitation and construction of the national roads network, the development of a maintenance system for road infrastructure and improvements in traffic safety. The implementation of a functional maintenance system began in 2004, which will reduce accidents and travel costs. A $30 million World Bank loan (2002-2007) is being used for the maintenance of 1000 km of national roads (a responsibility of the central government) and 1000 km of rural roads (a responsibility of local governments). During 2004, 24 contracts for national roads and 18 contracts for rural roads worth $21 million were signed with private contractors for routine and winter maintenance.

**Railway transport** Following an agreement with the Government of Montenegro to open the rail link between the 2 countries, around 57,400 tonnes of goods were transported in 2004 up from 16,900 tonnes in 2003. The total cost for the rehabilitation of the 36 km long rail line to Montenegro was Lek 383 million and was completed in 2004. A feasibility study has shown that a rail link to Macedonia, initially for transporting goods, should prove economically viable. 3km of railway will need to be constructed to complete the link at an estimated cost of €5-6 million to be co-financed by the governments of Italy and Albania. This conclusion is not in agreement with the National Transport Master Plan, which recommends closing the line between Lin and Pogradec.

**Maritime transport** The priority has been to rehabilitate and increase the operating capacity of sea ports and to increase the commercial nature of activities and services provided.

Maritime transport indicators

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Port | Number of ships processed | | Processing capacity  (in thousand tonnes) | | Volume loaded and unloaded (in thousand tonnes) | |
|  | 2002 | 2004 | 2002 | 2004 | 2002 | 2004 |
| Durres | 1098 | 1274 | 3320 | 3500 | 2181 | 2960 |
| Vlora | 365 | 240 | 500 | 500 | 504 | 301 |
| Saranda | 46 | 81 | 60 | 108 | 82 | 73 |
| Shengjin | 223 | 192 | 350 | 400 | 347 | 293 |
| Total | 1732 | 1787 | 4230 | 4508 | 3114 | 3627 |

The most positive development was the completion of the rehabilitation of the port of Durres, after a $23 million project that led to increased capacity and security. Studies for the improvement of the port of Vlora have been completed. A reason for the reduction in the use of the port of Vlora was the reduced need to import construction materials. There was continued implementation of the 1999 plan for the ports of Saranda and Shengjin. The privatisation of the Durres Port Authority has led to improved services and volumes. Operations that have been privatised include loading and unloading, piloting, shipping agents services and cleaning.

The Maritime Code has been approved by the Council of Ministers and the parliamentary commissions. There has been progress in aligning Albanian legislation with a wide range of international conventions and laws. This will facilitate international movement of Albanian owned ships. The Albanian Maritime Authority, which will ensure better management of port infrastructure, has not yet been established. This is planned for 2006

**Air transport** The government priority has been the rehabilitation and increase in the operating capacity of the national airport and the modernisation of air traffic control. In 2004 there has been an increase in passengers, flights, and flyovers.

Air transport indicators

|  |  |  |
| --- | --- | --- |
|  | 2004 | Growth relative to 2003 (%) |
| Passengers | 649,750 | 15.7 |
| Flights | 6,757 | 16.3 |
| Flyovers | 90,655 | 11.5 |

Security standards have improved at Mother Theresa Airport. The National Air Traffic Agency has completed the first phase of a 4-year project for improvement of air traffic control. In November 2004 the concession for Mother Theresa Airport in Tirana was signed with the German-American consortium ‘Tirana Airport Partners’, which grants exclusive transport rights for international goods and passengers into Albania. The consortium will provide an investment of €82 million over 20 years, which will be the basis for service improvements and increased security. These will include construction of the new passenger terminal with a capacity up to 3 million passengers per year, enlargement of the landing/take-off runway, completion of the perimetric fencing, provision of operating equipment and increased capacity for security.

The Air Traffic Master Plan prepared by the Directorate of Civil Aviation has been completed and is waiting approval from the Council of Ministers. Its recommendations include an increase in the number of airports for passengers and air freight. These recommendations are not in agreement with the draft National Transport Master Plan, which concluded that, because distances are very short, internal air transport in Albania is a non-economic option (except that the private sector might have an interest in developing some services e.g. charter services, helicopter services). In 2004 $18 million was spent on the construction of Kukes Airport. This will be completed in 2005.

**Telecommunications** The government strategy has been to introduce competition into the telecommunications sector and to implement the European Union framework for electronic communications. In 2004 there was an increase in subscribers and geographical coverage. The mobile phone network now covers 74% of Albania and 87% of the population. 39% of the population have mobile phones (up from 32% in 2003) compared to 7.5% with fixed line telephones (no real change since 2003). There are over 55 operators providing services including internet access, prepaid cards, and data transmission. The number of internet users now exceeds 40,000 (up from 30,000 in 2003).

Telecommunications sector indicators

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| --- | --- | --- |
|  | 2004 | Growth relative to 2003 (%) |
| Fixed line subscribers | 265,000 | 7 |
| Public telephones | 320,000 | 15 |
| Mobile line subscribers | 1,283,000 | 16 |

In 2004 the National Telecommunications Regulator ruled that the interconnection agreements between Albtelecom and the 2 mobile telephone operators AMC and Vodafone Albania are partly invalid. As a result, in line with government strategy of liberalisation, the government removed Albtelekom’s exclusivity in offering international calls. However the current regulatory framework prevents the licensing of additional operators to provide national and international phone services and the licensing of agents to provide fixed line services in urban areas. Terms of reference have been drawn up for consultancy support in preparing policies and a regulatory framework for the telecommunication sector in line with the European Union directives of 2002.

The Regulator also declared that AMC and Vodafone are very powerful operators in the market. Greater market choice was provided by the approval of the license for a third mobile phone operator, Eagle Mobile, which is owned 100% by Albtelekom.

**Postal services** The number of post offices increased from 565 in 2003 to 613 in 2004. There are now 11 licensed postal operators, 2 more than last year. The volume of mail delivered went up from 5 million to 5.9 million pieces. The objective is to achieve full liberalisation of the postal service by 2009. In 2004 the government passed an amendment to the law ‘On postal services in the Republic of Albania’. However, while a decision was taken in August 2003 to establish a Postal Regulatory Authority, this has not yet happened.

## Water and sanitation

The Water Supply and Wastewater Strategy (2003) set out to tackle 2 problems: intermittent water supply and poor water quality. ‘Inadequate maintenance and repair, and lack of metering and operational control, have resulted in excessive water losses, estimated to be greater than 43% of water production in all cities’ (p.9). Decentralisation and the development of private sector management should ultimately improve the technical and financial situation. In 2004, the average piped water supply to the population was 14 hours a day, an increase of 3 hours from 2003. The number of clients for piped water reached 24,000 in 2004 up from 11,000 in 2003.

**Network infrastructure and management** In 2003, 90% of the water utilities were being subsidised by the government mainly through arrears with government institutions and state enterprises. In 2004, the budget provided Lek 1.7 billion of operational subsidies and donor and government combined provision of investment grants and loans to water utilities were worth $48 million. Transparency has been improved with implementation of criteria for eligibility for support to water utilities. The goal is to phase out state subsidies for operation and maintenance in the 4 cities in the Municipal Water and Wastewater Project by 2007. There is ongoing development of management and technical capacity for staff in water utilities and in the 2 ministries which needs to continue.

Households which are listed for social assistance qualify for water allowance, once a meter has been installed. Water utilities are provided with lists by local government. In the 4 districts participating in the pilot project this allowance has been set at 20 litres per capita. Water meters are being installed (supported by donor funds). In 2004, 1600 were installed in private enterprises, 500 in public institutions and 12,500 in households. There is 90% coverage in Korca, Kucove and Kruja districts and 60% coverage in a range of cities including Tirana, Kavaja, Saranda, Vlora, Fier, and Burrel. At the same time computerized billing systems are being introduced. Water metering accompanied by public information campaigns helps to increase payments.

To date only one private concession contract for water and sanitation has been awarded (in Elbasan). This contract includes special tariffs for 1300 households that receive social assistance. In 2003, 2 management contracts have been let to private operators, the first for Kavaja and the second for 4 cities (Durres, Fier, Lezha and Saranda).

**Water quality** While Albania has adopted international standards for water quality, these are proving very difficult to attain given the aging infrastructure, lack of wastewater treatment facilities, and lack of technical expertise and equipment. Inspection of water quality through the Sanitation Inspectorate is a responsibility of the Ministry of Health. Offices throughout the country are responsible for monitoring water quality and they report to local authorities. The Ministry of Environment is responsible for the quality of wastewater and sewerage.

**Decentralisation** In 2004 the Council of Ministers approved guidelines on the transfer of water and sewerage system property to local government. Of the 54 water utilities, 8 were transferred to local government, inclusive of 131 systems of water supply. In order for transfers to occur, water utility obligations (mainly to KESH) need to be settled by central government. It is too early to identify benefits from these transfers. The governance arrangements of the water utilities will not change for 2 years; then the local government can determine whether privatisation occurs and what form it takes. To speed up the process of transfer of water utilities, an action plan has been prepared between the Ministry Territorial Adjustment and Tourism, the Ministry of Economy and the Ministry of Finance.

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| Decentralisation and water sector reforms: a poverty and social impact analysis Based on the decentralisation law and the water supply and wastewater strategy, the government has initiated reforms, which involve:   * Transferring powers from the central to the local government, including responsibilities for investment, operational decision-making and tariff-setting; and * Clarifying the financial situation of each water utility to facilitate their transformation into corporations that will ensure their financial sustainability.   There remain key constraints for the transfer of utilities to local government, such as their debts to KESH, the limited ability of local government to generate investment funds from sources other than the block grant, and weak administrative and technical capacities.  The Municipal Water and Wastewater Project is helping to accelerate the pace of reform in 4 towns by financing the costs of a management contract awarded to a private operator to improve incentives for service delivery and serve as a positive example. In these 4 target towns, local government authorities have been supported by institutional changes and an investment fund. The towns are characterised by high rates of internal migration and large unplanned settlements that put additional pressure on already poorly maintained supply networks: the number of illegal connections has increased with the result that the quality of service, in terms of duration of supply, quality and pressure, has deteriorated.    The World Bank and the United Nations Development Programme sponsored an analysis of the likely poverty and social impact of this reform. The study aimed to compare the 4 target towns with 4 other towns that follow the traditional model of public management. The survey team interviewed key informants in central and local government, organised focus group discussions with representative groups of customers and surveyed about 700 households during 2002-2003. The study had 3 objectives:  1. Set baselines to assess consumer perceptions of water service delivery and measure the distributional impacts of reform on the well being of the urban poor with respect to access to water and wastewater services and likely tariff increases.  2. Identify the main institutional issues of the reform.  3. Provide recommendations for sustaining the pace of reform, while mitigating negative impacts on vulnerable social groups.  Some of the key findings are the following:   * Poor households, which have settled in city fringes and new settlements, are less likely to be paying for water services. They face shorter water supply by up to 4 days per month compared to non-poor households. They are also more likely to establish illegal connections, travel to get water and dig wells in their yards. At the same time, they are less likely to use some of the other coping mechanisms, such as purchasing water tanks, water pumps, or water from vendors. Instead they use buckets or basins to store water. * A proposed solution is the introduction of a lifeline service that will provide 20 litres per person every day for free. Although respondents have been broadly supportive, they are also aware of 2 drawbacks:  1. The measure depends on meter installation but its cost is prohibitive for poor families; 2. Existing mechanisms to identify poor households are not well developed * On the other hand, the current flat rate billing system needs to be discontinued if water abuses are to be controlled and operational and management costs to be covered. * Insufficient provision of information accounts for ambiguities and tensions among stakeholders. Despite the presence of several institutional tools, local government authorities are not yet exercising the new rights and competencies assigned by law.   Source: Decentralization and water sector privatization in Albania, World Bank and UNDP, December 2004 |

**Rural water strategy** In 2004 the Rural Water and Sanitation Agency was established as a part of the General Directorate of Water and Sanitation to support the formation of community water associations for water supply. In future this agency will become independent though retaining a close liaison with the Directorate. It will establish 6 branches which will examine applications from community water associations for funds and assistance.

**Water reserves** The National Strategy for Water Resources was updated in 2004. This resolved conflicts inherent in the earlier strategy (1996) and clarified competencies for different levels of government and different government agencies.

## Urban development

Sustainability in urban development is the long term objective of the government. In the medium term, the main priorities are halting the process of urban degradation, reducing urban poverty and creating conditions for long term urban development.

**High-growth urban areas** In 2004 urban planning activities intensified. City limits were expanded to include areas settled informally by internal migrants. In 2002 an order was passed enforcing the 14 largest cities to prepare urban plans. By the end of 2004, 4 plans have been completed, and 12 cities have completed a plan for their inner-city area. In 2004 the law ‘On legitimisation of informal areas’ was passed and an agency established for its implementation. This law enables these areas to be treated as urban zones for provision of infrastructure and services.

**Urban land management** The resolution of land ownership continues to be a high priority and a difficult issue. Urban land development is stalled through conflicts over compensation for owners from pre-communist times. Registration of public properties is not completed, whereas registration of private property in accordance with the standards set by the Immovable Property Registration Project has been completed in 90% of rural areas but only 10-15% of urban areas.

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| Immovable Property Registration System The NSSED plan to achieve growth relies on enhancing the country’s market institutions. Increased property right security, especially related to land, was considered a priority measure. This was an issue that was brought up during the original consultations by the Business Consultative Council. Since the mid-1990s, Albania has opted for a modern Immovable Property Registration System to resolve ambiguities over land ownership rights and establish a functional land market. However, despite the fact that almost 90% of properties in rural areas have been registered, the respective proportion in urban areas is only 10-15%. There appears to be an increasing trend for land transactions to be conducted outside the Registration Offices.  A recent report by an expert involved in setting up the Immovable Property Registration System has reviewed the reasons for the limited effectiveness of the system. The staff in Registration Offices has not been trained sufficiently to develop a professional attitude in their interactions with citizens. The procedures for using and updating the digital database are largely ignored. The costs for individuals to register their property, which includes but is not limited to the transaction tax, are too high. Some of the key principles upon which the system is based are no longer manifest. The kartelas (property registers) are not reliable sources of information about ownership and interested individuals need to take extra steps for verification.  If the confidence of the public has been eroded, radical steps may be necessary. These would involve transferring the responsibility for the registration functions to institutions with an intrinsic interest in the preservation of the system. Local government officials or private registration offices are mentioned as examples to be considered.  Source: J. David Stanfield, The creation of an Immovable Property Registration System in Albania, Symposium on land administration in post conflict areas, Commission 7 of the International Federation of Surveyors and UN-Habitat, April 2004 |

**Urban waste** The plans to establish 3 landfills in Lezha, Durres and Tirana have not yet been completed. The landfill in Lezha, started in August 2000 with Italian funds, ran into technical difficulties requiring additional funding. These have not yet been resolved with the donor. The negotiations for concessionary agreements in Durres and Tirana, which began in 1997, have not been finalised by the government due to lack of direct funds and a sustainable funding arrangement. A feasibility study is being conducted in Korca and Vlora for landfills. An agreement has been signed with the Government of Italy for the management of urban waste in Tirana. The idea to impose taxes for managing urban waste is proving difficult due to economic and social conditions. The Government of Albania is committed to a progressive integration of environmental policies to European standards and to adopting the principle ‘who pollutes pays’.

**Housing** The National Housing Strategy (2001) proposes legal, financial and administrative measures to address the following priorities:

* Support the poor to ensure access to adequate housing through housing programmes. In 2004 the law ‘On social programmes for the housing of city dwellers’ was passed. These programmes include: controlled social rental housing programmes and – in special cases – rent subsidies, low cost housing programme (through cost control and credit), and sales of land with necessary infrastructure to municipalities for the implementation of social housing programmes.
* Develop financial mechanisms (credit for low-income families, private and institutional savings mobilisation, community savings schemes, credit mechanisms for joint ownership associations etc.) and public-private partnerships to expand access to housing. No credit line has yet been established, although the foundations were set for a pilot project that will be implemented in 2005 to test alternatives to policy implementation without drawing down on central or local government budget by using credit lines with banks.
* Support urban renewal and building maintenance

# Human resources

## Education

The NSSED gives priority to reforms and increased financing for the education sector. The strategy aims to (i) increase the participation of the population in education, particularly the poor and those living in remote areas; (ii) improve quality; and (iii) adjust the education system to the labour market’s requirements. In 2003, public expenditure in education sector was Lek 21.237 billion, equivalent to 10% of total budget or 2.9% of GDP. In 2004, education expenditure increased to Lek 25.281 billion in 2004, equivalent to 10.7% of total budget or 2.8% of GDP.

Average cost per student in 2004, in Lek

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| --- | --- | --- | --- | --- |
|  | Primary education | General secondary education | Vocational secondary education | Tertiary education |
| Cost per student | 28000 | 25000 | 54000 | 81000 |

For 2005, the budget per general secondary school student is Lek 29,000, while for vocational education the budget is Lek 69,000 per student, excluding the technical equipment and furniture required provided by donor investment and the publishing costs of new textbooks.

**Administrative and financial reform** The Ministry of Education and Science is strengthening its organisational structure at the regional and district level. In 2004, 12 Regional Education Departments were established by the Ministry of Education with the responsibility to monitor education standards and inspect schools. A new inspection system was introduced to allow for quality assessment. The EMIS system is being used for improved communication with the districts and specifications for data inputs have been designed. The policy paper for decentralisation of functions in education was approved by the Council of Ministers. Capital expenditure for pre-tertiary education was given as an unconditional grant to the Tirana Municipality in 2004. This is being extended to all local government in 2005. Printing of school textbooks went to competitive tender in 2004. All education salaries were increased by 3.4%. Pre-tertiary teachers received an additional 8% and university staff received additional increases of between 30-70% which has widened the gap in salary levels. The Institute of Pedagogical Studies was divided into 2 semi autonomous agencies to improve their functioning: the Institute of Curricula and Standards and the Centre for Training and Qualification in Education. In the framework of the Bologna Declaration, a new curriculum framework to bring about the gradual integration of the national education system with education systems in Europe and the region was launched in 2004.

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| Distribution of resources across schools Schools are not financially autonomous. They have neither a budget nor any money to fund even minor expenses. Instead, they receive resources in the following way:   * Salaries are funded out of the Ministry of Education and Science budget and transferred to the municipalities and communes through Regional Education Departments (conditional grant); * Supplies and teaching materials are funded by the Ministry of Education and Science budget and transferred to Regional Education Departments. Inputs are distributed in kind to schools based on their demands at the beginning of and during the school year (conditional grant); * Operation and maintenance expenses, as well as small repairs are directly funded by municipalities and communes (unconditional block grant – plus local resources, if any); * Investments (construction, rehabilitation and equipment) are funded by the Ministry of Education and Science budget. The procurement is carried out by the District Education Office if the amount is less than Lek 10 million; otherwise it is done by the Ministry.   A study by the Ministry of Education and Science assessed the level of resources that are available to schools. It found that there were 2 types of inequality in the distribution.  First, there are disparities in the distribution of supplies and teaching materials across basic schools. While schools in the bottom fifth received on average Lek 20 per pupil per year, schools in the top fifth received more than Lek 5,000. The pattern was the same in 2002 and 2003.  Second, there are differences in the share of the unconditional grant allocated to education. The unconditional grant is not earmarked for education and municipalities and communes are expected to finance other public services from it as well. While municipalities and communes received roughly the same average amount in terms of block grant per capita, municipalities spent a much higher share of the grant for education (23%) compared to communes (13%).  While this is partly expected given the higher numbers of enrolled students in urban areas, it is interesting that there are big differences in terms of the share of the block grant allocated to education within municipalities and within communes. The bottom fifth of local government units spent as low as 5% of its grant on education, while the top fifth spent 31%. It is difficult to explain why such differences are observed. However, one finding was that the level of block grant per student in municipalities explains partly the share of the block grant allocated to education. This suggests that education expenditure is partly determined by the available resources, not only by need.  The study concludes that, while decentralisation is certainly needed, it should be accompanied by funding mechanisms promoting equity and efficiency. The study also recognises that improving the efficiency and equity of the financing mechanisms requires quick progress in the Education Management Information System. Information on personnel, salaries, as well as operation and maintenance expenses should be reported to the Ministry in order for it to be able to assess the financing mechanisms and guarantee equity.  Source: Ministry of Education and Science, Public expenditure tracking survey, October 2004 |

**Pre-tertiary education** The National Education Strategy for Pre-Tertiary Education was developed in 2004 with the recognition that reforming the education system was central to the achievement of economic and social growth. The strategy identifies 4 priority areas for the development of pre-tertiary education: governance and management of education, quality of teaching and learning, financing of education and capacity development. The strategy includes an action plan which will be integrated into the medium-term budget plan.

Currently, the average Albanian child is expected to spend 7.5 years less in school than the OECD average. Multiple factors account for children leaving or not enrolling in school including: poverty (families needing children to work), lack of public security, blood-feuds, poor teaching quality, low quality of school buildings, lack of value placed on education and lack of enforcement by local authorities. A broad range of initiatives are being taken to improve the quality of services and to increase enrolment rates for minority and socially excluded groups. Compulsory education was extended from 8 to 9 years for new enrolments in 2004. Some smaller schools have been merged with larger schools. Across the country free textbooks were provided to primary schools (and to the secondary schools of 80 poor communes) and additional scholarships were awarded. The Regional Education Departments and District Education Offices are required to report every 6 months on efforts to attract Roma students to school. A psychological service has been initiated by the Ministry of Education for school age children, whether or not they are attending school. Late in 2004, the project ‘Second Chance’ was initiated, which focuses on re-enrolling students who have dropped out. However, despite best efforts, enforcement of sanctions for non-attendance at schools is proving difficult.

**Teacher training** Out of 36,000 teachers in pre-tertiary education, there are 8,000 teachers without tertiary education qualification. Of these, 5,246 are employed in compulsory education. Since 2002-03, a part-time year-long training programme was held for 1,470 of these teachers in 10 districts. Of these, 980 received a certificate, making them eligible for permanent appointment and giving them entry level 2 in 2003-04. Unfortunately, the reorganisation of the Regional Education Departments and District Education Offices caused suspension of the programme. The plan is to continue it in future. An improvement in teaching standards and motivation has been observed of those teachers on the programme.

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| Effects of qualifications on school performance According to the NSSED, the high share of teachers without university qualifications in basic education is a concern. The Institute of Pedagogical Studies has been designing training programmes that focus on unqualified teachers. The assumption is usually made that teachers without university education will have a negative impact on student learning achievement.  A study by the Ministry of Education and Science 1 has examined whether this assumption is correct combining 3 sources of information. First, school performance data were available from the results of the Grade 8 national assessment in mathematics and language, which was coordinated in 2003 by the Centre for Educational Assessment and Examinations. Second, administrative data from the Ministry of Education and Science were used to obtain a measure of the average teacher qualifications in each school. The table below shows that a large proportion of teachers do not possess the desired academic qualification. This is particularly true in rural areas, where migration has caused a shortage of qualified teachers. Third, data from the Census and the poverty mapping exercise by INSTAT 2 were collected to capture basic socioeconomic characteristics from the areas where the schools were located.   |  |  |  | | --- | --- | --- | |  | Urban | Rural | | School performance |  |  | | Average Grade 8 exam score in language [maximum = 100] | 58.1 | 48.8 | | Average Grade 8 exam score in mathematics [maximum = 50] | 26.5 | 23.4 | | Teacher education |  |  | | Proportion of teachers with secondary school education (%) | 6.2 | 11.0 | | Proportion of teachers with pedagogical secondary school education (%) | 17.7 | 33.3 | | Proportion of teachers with university education (%) | 76.1 | 55.7 | | Teacher age |  |  | | Average age of teachers (years) | 42.1 | 40.4 | | Socio-economic conditions |  |  | | Proportion of poor households in municipality / commune (%) | 18.6 | 37.5 | | Education conditions |  |  | | School years attained by women aged 30-55 in municipality / commune | 10.9 | 8.5 |   The results showed that school performance in Grade 8 examinations was negatively related to the proportion of teachers in the school that only possessed secondary education qualifications. This result was stronger in the language subject and in rural areas. On the contrary, the proportion of teachers with pedagogical secondary education qualifications did not affect school performance negatively. In the case of mathematics results in rural areas, the effect was even positive. This suggests that, among teachers without a university degree, training activities should focus on those teachers who do not have a pedagogical secondary education certificate.  At the outset, the study intended to evaluate the effect of the teacher training programme on school performance. However, the Ministry does not record the teachers who receive training. One of the study’s recommendations is to keep a database at the central level that will allow an evaluation of the programme. In addition, the study recommends that the Ministry and INSTAT agree on a common identification number for schools to facilitate merging existing data sets.  Sources: 1 Ministry of Education and Science, Policy impact analysis: Impact of teachers’ qualifications on student performance; 2 INSTAT (2004) Poverty and inequality mapping in Albania |

**Secondary vocational education** During 2004 there was growing student motivation to enrol in vocational education. The number of students enrolled grew from 20,333 in 2002-03 to 21,909 in 2004. The vocational schools sometimes operate in excess of full capacity. The vocational education budget for capital investments has been increased in 2005. The labour market is increasingly demanding students coming from vocational schools (mainly plumbers, mechanics and tourism professions). The Ministry of Education have delegated the budget to a number of vocation schools. The practice has shown that these schools are more effective than ones managed by the local government. The most important development was the decision to establish the Vocational Education Agency in 2005 to increase the system’s responsiveness to labour market needs. This will establish a framework of professions, improve curricula, and provide equipment and furniture for 4 schools and 4 centres for vocational training. The main constraints for decentralisation are the lack of capacity to support vocational education.

**Higher education and scientific research** The strategy aims to increase the autonomy of universities, improve the quality of teaching, align qualifications with European standards and increase the level of research. The budget for universities is 17.6% of the total education budget (0.6% for research). In 2004 there was an increase in financial autonomy for universities. However, this is restricted by the current organic budget law. A new funding formula was introduced to reduce disparities in funding between universities based on the disciplines offered and the professional qualifications that can be obtained. The research budget was allocated based on research projects being conducted by universities. The curricula for new entrants in 2005 have been revised.

## Health

In the NSSED health has been identified as a priority sector since 2001. The target was for public expenditure in health to increase from 3% of GDP in 2001 to 3.2% by 2004. In 2003, public expenditure in the health sector was Lek 15.699 billion, equivalent to 7.8% of total budget or 2.11% of GDP. In 2004, public expenditure in the health sector increased to Lek 19.507 billion, equivalent to 8.67% of total budget or 2.31% of GDP.

The key plans and strategies for the sector are the Mental Health Policy (2003), the Strategy for Public Health Promotion (2003), the National Strategy for Integrated Management of Childhood Diseases (2003), the National Strategy for Prevention and Fight against HIV-AIDS (2004), the Long Term Strategy for the Development of the Albanian Health System (2004), and the Health Insurance Institute Plan (2004).

The Law ‘On health services financing through health insurance’ has been submitted for approval to the Council of Ministers and should be passed in 2005. Its objectives include: (i) the increase in effectiveness and efficiency in the use of resources; (ii) the increase in the access to and equality in health services nationwide; and (iii) the improvement of health indicators through interventions in specific areas.

**Planning, resource distribution and monitoring** A criticism made of health service budgets is that allocations of resources have not been linked to need or to outputs. In 2004 the Ministry of Health developed a medium term budget plan for 2005-2007, which was then used to prepare the annual budget. A national health information system for human resources was established in 2004 which has already been used for appointments and as part of a training needs analysis. Studies are being completed in primary health care units and hospitals, which will provide information for future budgeting. The Ministry of Health centralised procurement of goods and services in 2004 which resulted in lower costs and greater efficiency.

**Governance** Informal fees to health service providers reinforce inequality and reduce access to health care. With poor working conditions including low pay, the health sector has lost a large number of personnel. The informal charging of fees by health service providers is supported by

patients desperate to receive a service and in some cases wanting access to medicines that are not available on the national drugs list. A number of measures have been implemented, which should reduce corruption. In the past year the Ministry has increased health service provider salaries by 12% and is giving 70% of additional revenues collected (from non-insured patients) to health personnel in the form of bonuses or direct remuneration. The remaining 30% is retained by the institution (equally split for capital investment and operational services).

**Private sector regulation** The private sector has expanded rapidly. shows new licenses issued between 2001-2004 for medical clinics, doctors, pharmacists and dentists. Regulation to ensure consumer protection is now being developed. A joint order was issued in 2004 by the Ministry of Health and the Ministry of Finance obliging private practitioners to produce their licence when registering for tax purposes. New rules and regulations have been written for diagnostic laboratories, which govern their function and set service standards. A new law ‘On medicines and pharmaceutical services’ requires pharmacists to gain a license which will last 5-10 years. The Ministry of Health is responsible for inspections.

Licenses provided to private sector health providers



**Access to health services** Primary health care is delivered through an extensive network of urban and rural health centres, which provide basic health care including preventative programmes. Infrastructural development in 2004 witnessed the completion of the construction of the network of health centres. In total, approximately 640 health centres give total coverage. While 171 new outpatient clinics were built, the network (which now has approximately 900 outpatient clinics) is only 50% completed.

New and reconstructed health centres and outpatient clinics

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|  | Number of facilities | Cost in million Lek |
| New health centres | 21 | 66.4 |
| New outpatient clinics | 171 | 217.2 |
| Reconstructed health centres and outpatient clinics | 45 | 63.2 |
| Total | 237 | 346.8 |

There has been an increase in the number of patient contacts with the doctor at the health clinic and outpatient clinics. Information on whether this is proving a substitute for a visit to a hospital, which patients have historically preferred to visit, is collected by the Living Standard Measurement Survey.

A needs’ assessment followed by relocation or hiring of general practitioners has led the number of communes not covered by doctors to be reduced from 16 to 9 and an increase of general practitioners contracted to the Ministry of Health from 1567 in 2003 to 1593 in 2004. Incentives for working in remote and rural areas are being applied.

Albania has a ratio of 3.1 beds per 1000 inhabitants, one of the lowest in Europe. Bed occupancy in 2002 was 50.5% (the European average is 77%). Many Albanians who can afford to do so seek treatment abroad. Of the total health budget, 60% was spent on hospitals in 2004, down from 65% in 2003. With the objective of improving hospital performance, 6 hospitals are measuring performance indicators as part of a pilot project initiated by the World Health Organisation in 2002. This project will be evaluated at the end of 2005 and if successful, extended nationwide. For the 6 pilot hospitals, treatment protocols have been drafted which are aimed at improving treatment and hospital management.

**Pharmaceuticals** The national pharmaceutical policy is to provide safe and effective drugs at affordable prices. Pharmaceutical services are privatised and supply the market with a variety of drugs. However, there are problems with quality control, medicines labelled in foreign languages, abuse of drug pricing, lack of qualified pharmacists. In 2004, the law ‘On medicines and pharmaceutical services’ was passed in line with EU standards. It specifies that all pharmacies must be licensed and medicines provided by a technical manager or qualified pharmacist. To reduce the level of contraband medicines and improve safety, medicines will from 2005 have to be labelled in Albanian with the retail price indicated.

The National Centre for Pharmaceutical Control was reorganised with 2 new divisions, a division that distributes information on medicine through the pharmaceutical network (for example, whether they are imported, locally produced, registered or not) and a division responsible for registration of the effects and side effects of available medicines. The centralisation of procurement has allowed greater control over purchasing contracts and distribution.

**Improving health indicators through specific interventions** The Long Term Strategy for the Development of the Albanian Health System identifies the public health challenges as: cardiovascular diseases and cancer; traffic accidents; social and domestic violence; mental illness; and communicable diseases. The NSSED objective is to achieve 90-100% immunisation rates for vaccine preventable diseases in children and to ensure safe drinking water and foodstuffs. Contagious diseases are a concern, especially for poor and marginalised groups.

The government has achieved 95% immunisation rates for basic EPI antigens. The total cost of the immunisation programme is $4.6 million with 90% funded by the government and 10% by UNICEF and GAVI. The National Programme for Tuberculosis control continues to implement the DOTS programme. The incidence for TB since 2000 has been 20-22 for 100,000 inhabitants. Plans for surveillance of meningitis and German measles are being introduced. Challenges in achieving coverage include difficulties in managing the supply chain at the local level and keeping track of a migrating population.

The National Strategy for Prevention and Fight against HIV-AIDS and its action plan was approved by the government in 2004. Antiretroviral medicines were supplied for the first time with the support of UNICEF. The Institute of Public Health now has diagnostic capacity and an action plan for establishing counselling centres and for promoting voluntary testing. An awareness campaign was conducted in schools. Sentinel surveillance is being used to identify problems among high-risk and marginalised groups.

Albania has a surveillance system for communicable disease (ALERT). Reported incidence of diarrhoeal diseases fell in 2004 from 1875 to 1722 per 100,000 inhabitants. Incidence

appears to be correlated with areas that have potable water. While surveillance can be further improved, causal factors need to be addressed.

**Infant mortality** In 2003 the National Strategy for Integrated Management of Childhood Diseases was developed. In 2004 pilot projects were initiated in 8 districts. Early evaluation of the pilot projects indicates improvement in diagnosing, treating and following up children by medical personnel as well as improved home care by parents. This suggests that a strategy for reducing infant mortality will follow a multi-pronged approach including training of health personnel, referral, health and nutrition education for families and the wider community. There are difficulties achieving coordination amongst the various stakeholders in the field.

**Drugs, alcohol and tobacco** While there is a shortage of quantitative data, it appears that smoking, drug and alcohol abuse are increasing in Albania especially among young people. In June 2004 the government signed the Convention on Tobacco Control. Draft anti-smoking legislation has been prepared and is with the Council of Ministers. The institutional structure for prevention and treatment of drug addiction is weak. A national strategy against drugs was launched in 2004. The SOROS foundation is financing a community level programme for methadone treatment, which is not currently provided by the government.

**Mental health** With the objective of providing access to mental health services of an international standard across Albania, a national Mental Health Policy was developed in 2003. In 2004 an action plan for implementation of the policy was drafted. It will be important to create the institutional framework for delivery of this plan, as action plans currently being prepared for psychiatric hospitals include objectives for deinstitutionalisation of patients who will need community based mental health care. The 6 pilot mental health centres in 5 cities which use a multi-sectoral approach are being evaluated. Around 60 general practitioners have been trained in these cities. Monitoring to date suggests that there is a need to increase the number of community services, staff them appropriately, increase the number of reimbursable medicines for psychiatric illnesses and provide long term accommodation in sheltered care.

**Health insurance** The Health Insurance Institute covers just over 80% of the population. In 2004, 14% of the population is direct contributor and 69% is insured by the state. From 2003, the Health Insurance Institute is responsible for the employment of general practitioners. The Ministry of Health determines vacancies and carries out quality control, while the Regional Health Authorities are included on the selection panel. In 2004, the Health Insurance Institute began funding a selection of medical interventions in the 4 tertiary hospitals. There are 2 draft laws in the pipeline: ‘On financing health services through the health insurance system’ and ‘On funding health insurance’ which will allow the Health Insurance Institute to have contracts with health providers for delivering services to insured people. In 2003 the Health Insurance Institute started a voluntary contribution scheme targeted at Albanians who work abroad and come back into the country for short periods of time and at uninsured Albanians not covered by the state; 2000 people are contributing to this scheme.

## Social policy

### Labour market policy

The development of the labour market and the promotion of employment is a key component of the NSSED because unemployment is one of the main components of poverty. In the long term, employment levels should rise as a result of economic growth and development of the private sector. While unemployment continues to fall, this tends to be associated with the reduction in total workforce. In 2004, the long term unemployed made up 66% of the total compared to 68% in 2003. Unemployment is 17.5% among women and 12.4% among men. Unemployment is higher in urban areas; however under-employment in rural areas is reflected in

the high number of farming households receiving partial economic assistance from the state (71,882 in 2003 and 71,354 in 2004).

**Vocational training** An important objective of current social policy is to encourage increased employment through vocational training and professional development in line with market needs, improved employment services and taking measures to formalise the labour market as per the National Strategy on Employment and Vocational Training (2002).

Objectives have been set to target vocational training to the registered unemployed and minority groups. Vocational training is also offered to employed people where necessary to adapt to the changing labour market. In Albania, there is a shortage of institutions for vocational training. As part of the planned geographic expansion, 2 new centres for vocational training were constructed in Elbasan and Fier in 2004, co-financed by the public budget and the CARDS programme. A nationwide needs assessment for professional skills was conducted (in addition to information routinely collected at the local level) and work has started on improving the curricula for professional development and setting of standards for professional qualifications that will be accepted internationally.

### Economic assistance

The provision of economic assistance continues to be essential for the poor in Albania. With the aim of increasing social protection and reducing social exclusion and inequality, the policy on economic assistance is being continuously updated to improve coverage, level of assistance and effectiveness. The total payments in 2004 remained at the same level as in 2003 (Lek 4 billion). The recommendations from the ‘Assessment of the criteria and indicators for the distribution of economic assistance” have yet to be implemented. Abuse of economic assistance has been declining and targeting of the poor has been improving. In 2002, 133,000 families were recipients of economic assistance. The number of recipient families decreased to 125,000 in 2004 with 60% receiving partial assistance. Although beneficiaries mainly come from rural areas, recipients of full assistance tend to be the unemployed in urban areas. Half of all beneficiaries are found in the regions of Shkoder, Kukes, Diber and Elbasan. These regions between them receive 45% of the total resources. A draft law ‘On assistance and social services’ was prepared in 2004. This law supports poverty reduction by expanding the categories of people eligible for benefits or the size of the benefit for some groups who are already eligible, for example people with disabilities. As part of a pilot scheme aimed at assisting recipients of economic aid to return to employment, 16 public works projects were implemented in 3 municipalities and 2 communes where full time employment was provided at minimum salary to beneficiaries.

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| The distribution of economic assistance block grants to local government units According to the NSSED, reassessing the mechanism for distributing economic assistance to improve targeting is a priority. Assistance is allocated in 2 stages. First, the central government allocates block grants to municipalities and communes. Second, these local government units distribute economic assistance to deserving families. A study by the Ministry of Labour and Social Affairs1 has examined how well the first stage allocation is targeted.  In theory, the allocation of block grant funds is determined by a Council of Ministers decision dating from 1999 and is based on 8 indicators possibly related to local poverty conditions. However, no explicit formula links the indicators with the level of the grants. In addition, due to deficient data, the Council of Ministers decision is not implemented. In practice, the block grant calculation is based on requests and is therefore influenced strongly by previous allocations.  Since 2001, the government has been implementing a programme to collect socioeconomic data. Its cornerstones are the 2001 Census and the Living Standards Measurement Survey (LSMS). In 2004, INSTAT published a study2 which ranks local government units by the extent of poverty. The INSTAT study first developed a model that predicted the level of household consumption using information from the 2002 LSMS. Then it projected the model on all the households in the country using the Census data. Although the INSTAT ranking is not definitive, it uses the richest sources of information and analyses them using an internationally accepted methodology.  The figure below compares the level of poverty by local government unit according to the State Social Services and the INSTAT poverty mapping study. Each municipality and commune is represented by a point. The poverty index used by the State Social Services is measured on the vertical axis, while the INSTAT index is measured on the horizontal axis. Although the 2 sources are positively related, there are many cases where the 2 measures diverge.    The study concludes that there is scope for a revision of the methodology used to calculate the level of block grants for economic assistance. The study also reveals that after large investments in the national statistical system, the use of data for policy should be improved.  Sources: 1 Ministry of Labour and Social Affairs, Policy impact analysis: Distribution of economic assistance block grants; 2 INSTAT (2004) Poverty and inequality mapping in Albania |

### Social services

According to the NSSED, a key to improving quality is the harmonisation of the services providing economic assistance with other social services. The NSSED has suggested that (i) residential care pass gradually onto community-based and mobile services; (ii) the range and location of services expand by need; (iii) participation of local government and civil society in the planning, funding and provision of social services increase; (iv) the sustainability, continuity and quality of services increase; and (v) participation of social business in financing and service provision be promoted.

The reform of the provision of social services continued in 2004 with the approval of the Law ‘On assistance and social services’ which provides for the decentralisation and modernisation of particular social services. These include: transferring residential care to local government; establishing new social services as determined by local government in properties transferred from the central government; and moving from residential care to community service or where not feasible, improving residential care. The establishment of a Social Fund will provide funding to support the decentralisation of social services. The development and application of general service standards is being piloted in 4 regional councils including specific standards for residential services for children for services for people with disabilities. The development of service standards will lead to the improvement of licensing of private providers.

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| Gender There are 3 major areas of concern on the situation of women in Albania.  **Equality** One of the main achievements during last year was the approval of the law on ‘Gender equality in the society’ in July 2004, which sets the framework for equal rights of women and men. The law covers employment, education, decision-making processes, discrimination and sexual harassment. Staff from the Ministry of Education and the Ministry of Labour and Social Affairs has undergone gender mainstreaming training to increase the level of gender analysis in policy formulation.  **Trafficking** Combining data from a variety of sources, a recent report 1 suggests that trafficking of women, mainly for sexual exploitation, continues. To improve the fight against trafficking, a law on ‘Witness protection’ was adopted by the government in March 2004. This law will contribute to the indictment and punishment of traffickers and will complement the existing body of legislation. In December 2004, the United Nations Development Fund for Women (UNIFEM), the Gender Alliance for Development Centre, and INSTAT initiated the project ‘Creating economic opportunities for women in Albania: A strategy for prevention of trafficking’, which will analyse the situation of women in Albania in relation to their economic rights and labour market status with an ultimate goal to create economic opportunities as a way to prevent trafficking. However, it is recognised 2 that there are continuing weaknesses in preventing trafficking, enforcing legislation and rehabilitating victims.  **Domestic violence** In October 2004, different Albanian non-profit organisations formed an alliance to promote the Albanian legal framework against domestic violence. This initiative is focused on developing a draft law, organising public discussions and making representations to the decision-making institutions.  Sources: 1 International Catholic Migration Commission, First Annual Report on Victims of Trafficking in South Eastern Europe, Country Report Albania, September 2003; 2 National Human Development Report 2005 |

### Social insurance

The strategy for social insurance continues to (i) aim for sustainability (reduce the dependency ratio from 1.04 beneficiaries per contributor in 2000 to 0.82 in 2020) (ii)increase the real level of benefits, (iii) increase contribution from people living in rural areas (iv) extend social insurance to cover people employed outside the country (v) reduce evasion.

In 2004 in order to reduce the evasion of social insurance contributions, responsibility for collection of contributions was partially transferred to the General Directorate of Taxation and this will be completed in 2005.

During 2004, the revenues from the voluntary social insurance scheme were 70% of those forecasted. In 2005, all necessary organisational measures will be taken for the publication and inclusion in the voluntary insurance scheme of all persons that are not included in the compulsory insurance scheme.

The level of contributions has continued to increase: there has been a 36% increase from 2002 to 2004. The biggest increase was from those self-employed in agriculture. Further improvements will be achieved through public awareness campaigns and targeting by the Social Insurance Institute. Employment promotion policies and increased control over the informal labour market have also increased the number of contributors. The ratio of the social insurance scheme deficit to GDP reduced from 0.28% in 2003 to 0.26% in 2004.

In order to increase the number of contributors, the government reduced the contribution rate of businesses from 42.5% to 38.5%. The implementation of the Law ‘On exoneration of penalties for delays to social insurance’ which was passed in 2003 led to a reduction in debts to the social insurance scheme from Lek 1.8 billion in 2003 to Lek 0.4 billion.

Revenues from contributions increased 10.2% in 2004 (Lek 3 billion) compared with 2003, which improved the dependency coefficient for the urban pension scheme. However, this was below target due to teething problems in the transfer for collection responsibility to the General Directorate of Taxation.

Number of compulsory and voluntary contributors to social insurance

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2002 | 2003 | 2004 |
| Urban | 342,438 | 342,374 | 358,295 |
| Rural | 126,559 | 261,462 | 280,500 |
| Total | 468,997 | 603,836 | 638,795 |

The subsidy from the public budget to the pension fund in 2004 was Lek 964 million, a decrease of 52.3% compared to 2003.

Increased expenditure in 2004 included: an increase in the number of pensioners by 1700; funding the policy to increase and equalise urban and rural pension with an 8% increase for urban pensioners and a 15% increase for rural pensioners and equalisation measures for those that are operating under different laws dependent on year of retirement.

# Natural resources

The government priorities are: sustainable management of natural resources, through rebuilding and enhancing local government structures for environmental management, control of illegal harvesting operations, transferring of forest and pasture areas to the communes either in ownership or utility title; completion of legal framework on management, and finding ways for common state-community management of forest and pasture areas, especially for long-term lease of pastures; land protection from erosion through trees planting and mountain barrages; enforcement and extension of national and regional environmental and fishing organisations.

**Strengthening of natural resource management at local level** The registration process of forest and pasture areas at local government units was finalised in 2004. The valleys of Mat, Dibra, and the Liqenas commune in Korca, have been transferred under the authority of local government, and a big interest of the community on forests and their protection has been noticed, resulting in a better development of forest area during recent years. The Strategy of Forest and Pasture Areas Development and Institutional Reform and the law ‘On forests’ were approved in 2004.

**Enhancement of structures of natural resources management** In order to reduce land erosion, 180 ha of land, mainly in degraded area most affected from erosion, have been forested in 2004: 50 ha in Gramsh, 20 ha in Korça, 15 ha in Puka, in total 460,000 saplings. About 800 metres of mountain dams were constructed by DPPK, as a primary action to prevent erosion. About 820 ha of forest areas were improved (felling, rarefactions etc), there were projects on forest protection from fire in 50 ha, building of water mucks (30 pieces), and pastures improvement over 90 ha.

## Environment

According to the NSSED, the priorities of the Albanian government for the environment sector are the prevention of the environmental degradation process, the creation of conditions for rehabilitation of polluted areas within basic safety standards and the increase in the sustainability of the use of natural resources in the mid-term period. Achievement of these objectives in mid-term period will ensure gradual achievement of environment standards in accordance with Albania’s commitments under the EU association process.

The institutional enhancement of the Ministry of Environment, the Environment Inspectorate, the monitoring network and Institute of Environment, raising awareness and including local communities, civil society and business into consultative and decision-making structures, at local, regional and national level, were the focus of Ministry of Environment’s activity.

The implementation of Inspectorate’s Manual was piloted into three Regional Environment Agencies in 2004. The Environment Inspectorate has strengthened its control to ensure the implementation of the law; all results of control and undertaken measures by the inspectors have been announced in media.

Activities of the Environment Inspectorate in 2004

|  |  |  |  |
| --- | --- | --- | --- |
| Total number of inspections conducted | 2495 | Orders to suspend activities | 72 |
| Total of number of settled penalties | 36 | For failure to pay penalties in 2003 | 34 |
| Total value of settled penalties (Lek million) | 9.65 | For failure to pay penalties in 2004 | 18 |
| Total number of collected penalties | 9 | For not providing the Environment License | 20 |
| Total value of collected penalties (Lek million) | 0.74 | For other reasons | 10 |
| Percentage of penalties collected (%) | 11.2 | Orders to close activities | 3 |

In order to facilitate the implementation of the legal framework for the environment, the Ministry of Environment prepared in 2004 a package of internal orders, guidelines and rules for defining the standards of control, public participation, environmental permissions, licensing regulation, monitoring, and protection of air quality and vehicle discharge levels. Rules and procedures that need to be applied by Regional Environmental Agencies have been defined.

The process of approximation of environmental legislation, procedures and policies to the acquis communautaire began in 2004. Albania has started reporting priority data to the European Environmental Agency; performance for 2004 was estimated at 17%. Reporting includes CDDA and stocktaking of greenhouse gases. The establishment of the Environmental Monitoring Centre, which will ensure the necessary information for policy makers according to the standards of the European Environmental Agency, is expected to occur in 2005.

One of the priorities of Ministry of Environment is to increase public awareness on the importance of environmental protection and their inclusion in the decision-making process. The comprehensive sensibility campaign through electronic and written media has continued during 2004. In close collaboration with Council of Ministers’ representatives, many meetings were organised with the participation of the public on licensing procedures for activities that have a great impact on environment, such as the construction of the Bushati Hydroelectric station, the construction of the Vlora TES, the authorisation for KURUM Company to import scrap, and the preparation of the strategy for implementing the Aarhus Convention.

**Reduction of the existing pollution** The most urgent rehabilitating interventions are: (a) intervention in hot spot areas; (b) elimination of toxic materials; (c) reduction of industrial pollution; and (d) reduction of dust in the air in some urban areas.

The nitrogen factory in Fier installed the plant for arsenic treatment in 2004, and as a result 1000 m3 of arsenic by River Seman have been concentrated. A range of feasibility studies were conducted in 2004 for the rehabilitation of the hot spot area in Porto Romano in Durres. The encapsulation of polluted area, a pre-investment study for rehabilitation of the hot areas of Vlora, a plan for rehabilitation of the PVC plant and a plan for urban waste management are anticipated to begin in 2005. The feasibility study and the project implementation for the hazard waste landfill have identified ten appropriate zones for its construction. The legal framework for phasing out the use of ozone depleting substances has been improved. The quantity of ozone depleting materials for the year 2002 has been reported.

In order to increase the capacity of staff included in environmental conservation, a range of training courses were organised during 2004 with the participation of environment technicians and customs officials on best practices to reduce ozone depleting materials used in refrigerators and air conditioning, on increasing the capacity of the General Directorate of Customs to control imports and exports of ozone depleting substances or equipments that comprise or use them, and on monitoring of ozone depleting substances.

**Sustainable use of resources** A high priority has been accorded in the NSSED to measures for: (a) determining and ensuring the rights of ownership and utilisation, including the transfer of ownership rights at regional level concerning forests, pastures etc; (b) re-classifying and expanding protected areas and establishing structures for their protection; and (c) investing and intervening for the rehabilitation of degraded areas.

**Protection of Lake Oher** The legal framework on the protection of cross-border lakes has been improved. All Illegal activities undertaken around Lake Oher have been identified and closed. Lake Oher is monitored by the laboratory that provides data for the preparation of the report on environmental situation. The data of this report for the period 2003-2004 verify that the situation of the main parameters of water quality remains stationary.

**Protection of coastal and lagoon eco-systems in the Mediterranean region** Under a comprehensive process a range of activities were undertaken such as management plans, mapping of land usage, habitats and homes, as well as various analyses through GIS. A series of studies undertaken in 2004, to estimate chemical pollution in the Gulf of Vlora, to assess alternatives for the sustainable management of medicinal plants, to analyse stakeholders and governance problems, to provide a logical framework for monitoring a programme of lagoon eco-systems to evaluate the environmental situation, will facilitate interventions on environment improvement.

**Bio-security** This project, which started in June 2004, has evaluated existing legislation that affects the use of modern technology, in terms of national, bilateral, and multilateral collaboration, in order to strengthen the capacities and application of bio-technology. An impact evaluation on permitting genetically modified organisms as marketable products was conducted, and a database on biotechnology, bio-security and other area of management and evaluation of risks were established. The final results of this project are expected to come up in 2005.

## Agriculture and rural development

The NSSED and the Food and Agriculture Strategy constitute the strategic framework of agriculture and food sector, aiming at integrated rural development for poverty reduction through ensuring: (i) sustainable increase of the production and yields from agriculture, livestock and agro-processing; (ii) improved use of natural resources; (iii) increased access to and quality of rural services (education, health, social protection), potable water supply and sanitation, as well as rural transport infrastructure; and (iv) diversification of rural economy and increasing the employment and the revenues from non-agriculture activities in rural areas.

In 2004, the agriculture sector contribution to GDP was 24% and the annual growth rate was 3.1%. Annual growth of the agriculture sector including agro-processing and fishing was 4.4%. Exports of agricultural and livestock products increased by 14.7%, and imports by 2.1%.

There still remain some key constraints in accomplishing objectives such as the fragmentation of individual farms, the return and compensation of former owners, insufficient credit for the agricultural sector, advertising and finding market opportunities, and the lack of land ownership certificate.

### Increase agricultural production

**Development of land market and farm consolidation** The main priority has been the realisation of land ownership reform, elementary registration, and enforcement of legislation in terms of eliminating the constraints that prevent land market and institutions enforcement. As a result of land reform, 450,000 farms with an average size of 1.2-1.3 ha, have been established. About 300 agricultural companies covering in total 3421.7 ha with an average size that varies between 2.5-400 ha have been established. Until December 2004, 98.9% of the total planned surface for land distribution was privatised, and in 97.6% of cases a land certificate was provided. In 2004, 277 cadastral zones completed the first registration, increasing the level of registration of rural cadastral zones at 2437 or 83.2 % of the total (82.4% of total cadastral zones).

In order to stimulate the land market, the tax on land transfers was reduced in November 2004 from 2.5% to 0.5% of land price. The number of private farms that expanded from their original size by 5-400 ha through buying, leasing or compensation has increased. In 2003, 3500 land transactions were realised and the forecasted figure for 2004 is 4000 transactions.

Land commissions have been working mainly on solving the disagreements created as the result of commissions’ errors during the compilation of legal documentation and the preparation of the documentation for the registration system. Each region has established land management and protection departments, each commune/municipality has established a land management office, each district has established real estate registration offices and 7 communes and 1 municipality have digitalised land information.

**Investments in irrigation/drainage systems** The following are the defined priorities: rehabilitation of irrigation and drainage systems; restructuring of water enterprises and strengthening of Water Users Associations; transferring of responsibilities to Draining Boards; support to farmers undertaking irrigation scheme management. Management responsibility was transferred under 15 Draining Boards that had been created by the end of 2004. About 20.000 ha in irrigation and 25.000 ha in drainage were Improved and rehabilitated; 5.000 ha have been protected from flood; hydrography protection capacities have been increased by 10% and ten barriers of reservoirs were rehabilitated. In 2004, 18 Water Users Association have been established which brought their total number to 580. In the framework of strengthening farmer participation, 4500 ha have been transferred under the authority of Water Users Association in 2004, which increased the total surface to 180.000 ha. Improvement in the irrigation and drainage infrastructure has gradually increased agricultural and livestock production, has improved its quality, and is increasing sector competitiveness to enter the regional market. Water Users Associations lack self-management and self-financing capacities. The state budget and foreign financing still provide financial and technical assistance.

**Agriculture mechanisation and use of modern methods** The priorities are the introduction of new technologies in production, support to the private sector, restructuring and strengthening of control institutions, and certification of seeds and saplings.

The most positive development during 2004 has been orienting policy to benefit farmers, increasing the quality of product processing by 10%, and increasing farmer income through grants. In 2004, 651 tractors (30-100KF), 1200 agriculture engines and 7 combine harvesters (100KF) have been sold through interest credits. About 220 persons benefited from 10 grants that were delivered through competition for technological items valued at $146,627.

The petrol excise tax in the agricultural sector was cancelled in April 2004 which decreased petrol price by 45.26% and overall costs by 25-30%. The volume of mechanisation activities increased by 15%. The land area under cash crops increased by 15-20% and 43,500 farmers profited from the implementation of this policy. The quantity of petrol attracted has been 1700 tons, of which 65 owners of greenhouses with a surface of 28.9 ha have used 750 thousand litres. Nine new farms started to apply new technologies in milking cows, contemporary housing systems, and mechanisation of fodder producing; the total number of farms that apply this technology increased therefore to 38.

During 2004, 21 new stations in cattle, 2 in X and 1 in pigs, were opened. About 43% of the cow population was artificially inseminated; artificial hybridisation was applied to 32% of the inseminated population, which increased meat production by 10%. With the aim of improving the feeding technology, the fodder patterns have shifted to corn (as energy source) and alfalfa (as protein source). Processed feed makes up 50% of food consumed by the livestock. Four factories for livestock, 66 food processing centres, and 246 sale points of foods are operating, where around 85 million gross tons of foods are being prepared. Nine regional laboratories, 4 auto-control factory laboratories and one reference laboratory in IKZ are also operating. During 2004, greenhouse area increased by 107 ha with a Lek 1.6 billion investment.

**Supporting agriculture and livestock services** The government priorities in this area have been the rehabilitation and strengthening of agricultural research institutions and the establishment of a national centre of scientific research and agricultural advice, the inclusion of beneficiaries in the formulation process of research priorities, the expansion of the extension service in all districts and the improvement of laboratory infrastructure and their financing.

In 2004, regional agriculture and food directorates were established, and the structures of the extension services were reorganised; these were used by 110,000 farmers or a third of the total. In 2004, 23 information centres were set up, which were used by 59,770 farmers, and 17 of them were equipped. Public extension and agriculture advisory structures have conducted: 999 demonstrations with the participation of 9,636 farmers; 694 field days with the participation of 5,193 participants. 227 days of training with the participation of 1,689 individuals, of which 534 from private sector, and 867 days of training with the participation of 10,296 farmers.

Surveys conducted in different communes of the country for monitoring the level of adoption of research recommendations pointed out the around 60% of interviewed farmers have increased their capacities and extended their skills and 23% of them have applied them. In Dibra, Tirana and Durres, 77.9% of framers were aware of extension, each specialist trained on average 63 farmers in a year, and 58.6% of farmers adopted the recommended practices in 2004; the proportion of productivity increase after the advice was given was 11%, production grew by 11.2%, and revenues increased by 11.8%. In Shkodra, Lezha and Kukes the productivity increase was 8.5% and the growth of production was 8.2% and revenues increased by 6.9%.

During 2004, 35 research projects were implemented; 31 research projects were conducted in several farms based on direct needs of farms. The State Institute of Seeds and Plants, the variety testing laboratory and the in-vitro laboratory of the genetic bank were restructured and provided with necessary equipment. Three regional laboratories on seeds testing were set up.

In order to control animal diseases and maintain the epidemiological situation clear from infection and zootechnical diseases, 100% of animals were vaccinated against anthrax (over 800.000 heads); 100% were tested for brucelosis (over 700.000 heads), while 5000 heads were found to be infected, were eliminated, and farmers compensated; 100% of tuberculosis search were completed (over 37.000 heads); the veterinary legal framework was improved and approximated with the EU standards.

**Management of fishing and aquaculture activities** The priorities are: enforcement and expansion of national and regional fishing associations, and enhancement of legal and institutional framework for monitoring and controlling fish resources.

In 2004, 9 Fishing Management Organisation were established in full structure, which started to direct coastal aquaculture production toward wrape and bass and inland water aquaculture toward the production of trout and shrimps. These organisations distributed 1.2 million spawns in 2004 compared to 1.03 million spawns distributed in 2003.

**Forest and pasture management** The most important development has been the preparation and approval of the Strategy of Forest and Pasture Area Development and Institutional Reform. The approved law ‘On forests’ will serve as the main way to enhance structures of forest and pasture management. During 2004, in close collaboration with the Ministry of Local Government and Decentralisation, the registration of forest and pastures in all local government units was completed. The most problematic issue is the application of Law no.8744 ‘On transferring the public real estates under the authority of Local Governmental Units’. In the framework of the fight against land erosion, 180 ha foresting and 800m3 mountain barriers were completed.

**Increase access to financial services** The government priorities are: promoting the bank system to provide these services in rural areas, including and developing sustainable intermediates, as a considerable part of financial sector, and establishing sustainable private networks of saving-credit associations in rural areas, based on credit funds.

The Albanian Saving-Credit Union, which supports technically and financially the saving-credit associations, during the 12 year of the rural credit programme has distributed over 30,000 credits for rural area inhabitants. Actually the Albanian Saving-Credit Union offers financial services for 41% of the villages in 8 districts (Tirana, Elbasan, Durres, Kavaja, Lushnja, Fier, Vlora, Gramsh).

Access to financial services in rural areas

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2000 | 2002 | 2004 |
| Number of Saving-Credit Associations | 21 | 88 | 89 |
| Number of members of Saving-Credit Associations | 506 | 5,285 | 10,430 |
| Number villages covered by Saving-Credit Associations | 21 | 160 | 372 |

The credit committee of the Albanian Saving-Credit Union approved 226 applications for re-financing, presented by Saving-Credit Associations of a total value of Lek 238 million in 2004. The credit portfolio was increased as the result of three factors: increased volume of credit given to Saving-Credit Associations, decrease of credit portfolio in FKF and increase of deposits.

Activities of Saving-Credit Associations

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2000 | 2001 | 2002 | 2003 | 2004 |
| Union portfolio in Saving-Credit Associations (thousand) | 421 | 1837 | 5060 | 7980 | 9314 |
| Total number of active credits | 4423 | 5277 | 6380 | 7621 | 7400 |
| Average credit | 605 | 698 | 851 | 1012 | 1258 |
| Portfolio of Saving-Credit Associations networks (thousand) |  |  |  | 9413 | 1227 |
| Individual funds in Saving-Credit Associations networks (thousand) |  | 168 | 468 | 1078 | 1645 |
| Portfolio of deposits in network (thousand) |  | 9 | 121 | 374 | 1030 |
| Portfolio in risk (over 30 days)\*  Delay Credit (30 days) / Total of Credit | 3.64% | 2.41% | 1.10% | 0.85% | 0.70% |

During 2004, the associations have provided about Lek 1.3 million of financial resources. The financial results of these institutions are quite positive: at about Lek 1.2 million. During 2004, new low-cost financial resource agreements were signed with the Albanian Government, Swiss and Spanish Cooperation, UMCOR, RABOBANK and CEFA.

In 2004, MADA has restructured its central staff in order to increase the operational efficacy and cost effectiveness in processing activity.

### Increase agro-processing activities

Ensuring support for agro-processing activities is a strategic decision for increasing the productivity of the agricultural sector. In 2004, the output of the agro-processing industry grew by 11.7% where the contribution of bread was 15.3%, of soft drinks 11.7%, and of cheese by 8.8%. Compared to 2003, the production of soft drinks increased by 41.4%, the production of beer by 92.2%, and the production of olive oil by 120.7%. The production of conserved fish, fruits and vegetables, and milk grew as well. In 2004, Lek 2 billion have been invested in agro-processing industry to install new lines with advanced technology for olive oil production, milk processing, refining of vegetable oil, fruit and vegetable processing etc.

### Support marketing of agricultural food production

**Strengthen internal structure of marketing** The construction of the Lushnja and Korca markets in June 2003 had an impact in raising domestic production and reducing prices by 5%. During 2004, these markets traded 500 tons of agriculture products. In 2004, 10 collection centres were established which reduced transport costs by 20%. The preparation phase for construction of markets in Vlora and Shkodra has been finalised.

In the framework of promoting domestic production, two main fairs were organised in 2004: Agribusiness 2004 in Tirana and the International Fair in Bari. The excise tax for alcoholic drinks was reduced, a discriminating price for fuels was applied for fishing and agriculture, and lower VAT rates were applied on some agricultural and livestock articles that are extensively used in the food industry (milk, wheat, grapes, olive etc)

**Legislation, food quality control, and consumer protection** The legislation on quality, timeframe and trade conditions and the harmonisation of legislation on agriculture products with the EU have been improved. The Food Inspectorate has been restructured to enforce food controls, improve the network of food laboratories at the district level, the Food Control Regional Laboratory in Durres and the Analysis Department in IKU have been certified with ISO 9001, and technical assistance for the staff of the Food Control Regional Laboratory on HPLC for gas chromatograph and spectrophotometer and for atomic absorbent was provided. During 2004 the number of conducted analysis increased by about 9%.

Food quality controls, 2003-2004

|  |  |  |
| --- | --- | --- |
|  | 2003 | 2004 |
| Number of conducted analysis in food laboratories | 37928 | 41800 |
| Number of controls | 18150 | 19509 |
| Number of violations | 165 | 168 |
| Blocked and eliminated goods (kv) | 3810 | 6255 |
| Total revenues (Lek million) | 7.382 | 44.913 |
| Assessing the policies for the development of mountain areas The National Forum for the Development of Mountain Areas was established in 2003 with the support of the International Fund for Agricultural Development and the Mountain Areas Development Agency (MADA) and the technical assistance of the Institute of Contemporary Studies and the Centre for Rural Studies. The objective of this Forum is to contribute to the formulation of a new vision for the development of these areas, to carry out various lobbying activities with decision makers, as well as to contribute to the process of defining priorities, to identify, design and implement social and economic development projects.  Work is continuing to set up and strengthen forums in 7 pilot districts (Kukes, Diber, Mirdite, Librazhd, Berat, Korça, Permet), to expand this initiative to other mountainous districts and to integrate them in one national Forum until the end of 2005. Meanwhile, the lobby of parliament members for the development of mountain areas established in 2003 has contributed to the creation of district groups and has had the first impacts on government policies in favour of mountain areas. Some examples of successful lobbying during 2003-2004 are the following:   * Strengthening of MADA and the Mountain Areas Finance Fund (MAFF); * Adoption of fiscal equality rules in unconditional transfers to local government in mountain areas; * Public investment on infrastructure and priority services in these areas; * Attraction of attention of other donors to initiate development programmes in these areas.   The objectives at national level for 2005 are to:   * Develop a vision for mountain areas in the NSSED; * Influence the MTBP and the draft 2006 budget in favour of mountain areas; * Influence strategic documents and action plans to shift focus from relief to development; * Improve the information provided to business and donors on development opportunities for mountain areas, on existing capacities, and on the potential for partnerships.   Representatives of the Forum for the Development of Mountain Areas in Permet, with the support of the Centre for Rural Studies and the Catholic Relief Services, carried out an impact assessment of the NSSED policies in Permet during 2004. The table below gives a summary of the main results from the assessment.   |  |  |  | | --- | --- | --- | | Satisfactory | Moderate | Not satisfactory | | Veterinary prophylaxis  Rehabilitation of national roads  Electrical power supply  Urban planning / administration  Start-up of investments in agriculture, especially irrigation  Reconstruction of schools and hospitals in urban and peri-urban zones of mountain areas | Viniculture and arboriculture  Training health care providers, especially at auxiliary level  Short-term training of teachers  Infrastructure of health centres  Promotion of cultural works  Facilitation of administrative procedures for business  Farming production  Road network for communes  Decentralisation | Rehabilitation of rural and tourist roads  Teaching materials in rural schools  Ambulances in rural areas  Support to agro-industry and marketing  Mechanisation and introduction of new agricultural technologies  Protection of land from erosion  Provision of health care and ambulatory centres with necessary equipment  Access of farmers and business to credit  Local government capacities  Restoration of cultural monuments  Prevention of forest and pasture degradation | | | | |

|  |
| --- |
| The results were presented in a meeting of the Forum in Tirana in April 2005.  Mountain areas constitute more than 2/3 of the country and comprise more than 35% of the population. They have important natural and human resources to be developed, strong tradition in handicrafts, and high opportunities for the development of tourism (agro-tourism, natural tourism, historical and cultural tourism). However, the Forum notices that:   * Albania still lacks a specific policy on the development of mountain areas; * Mountain areas do not feature in socioeconomic or environmental analyses made in the context of defining policies on mid-term and long-term economic and social development; * Sensitisation of Parliament, government, political parties, public and international institutions, and civil society with regard to mountain area problems is very low; * The population of mountain areas feels it lacks appropriate support by the government and international partners and is pessimistic with regard to future opportunities.   The Forum has requested the following actions:   * Policies, initiatives and specific projects to improve the life and working conditions of the population of these areas, in general, and of women, in particular; * Investment, credit and projects to ensure sustainable links between production and land, favour indigenous development and protect the diversity of products and services; * Greater cohesion among policies of agriculture development, integrated rural development, environment and infrastructure development, to ensure an integrated development; * Deepening of the ‘subsidiary’ principle in function of local government; * Encouragement to the development of agro-tourism and handicrafts; * Appropriate social services (schools, health care centres and hospitals, cultural centres, telecommunication, transport and postal services etc.); * Institutional acknowledgment of the special interest for the development of mountain areas and incorporation into the development and integration agendas and policies; * Support to partnerships among local/regional authorities geographically near to mountain areas of the Eastern European countries and member countries of the EU.   Finally, the Forum has made the following recommendations:   * Improve road infrastructure, especially rural and tourist roads; * Accelerate pace of rehabilitation in the national and regional road axis: the priority is the Durrës-Kukës-Morinë road and the Arbëri road; * Increase investment in education and health, especially to improve teaching infrastructure, train teachers in rural areas and improve quality of teaching; * Increase support to private sector in mountain areas, in agriculture, processing, and trade; * Increase support to develop cultural, mountain and ecological tourism in these areas; * Increase access of farmers and businesses to credit and market; * Increase financing for the protection of environment and natural resources (protect forests and pastures and reduce erosion); * Accelerate the decentralisation process and increase capacities of local government staff |