



REPUBLIC OF ALBANIA
COUNCIL OF MINISTERS

National Strategy
for Development and Integration
2007-2013

March 2008

Preface

I have the pleasure and the honour to present the National Strategy for Development and Integration (NSDI) 2007-2013 which combines the principal agendas of the Government of Albania. For the first time the perspectives for sustainable economic and social development, integration into the European Union and NATO structures, as well as achievement of Millennium Challenges Goals are harmonised in a single strategic document.

The NSDI crystallises the medium- to long-term vision of the development of the country based on an open and transparent process, which guarantees the broad inclusion of the civil society, local government, the business community, the academic and scientific world, the Albanian political spectrum and other groups of interest.

The NSDI has also been consulted at length and with particular attention with our international partners who support Albania in its reforms towards development and integration and the achievement of the Millennium Development Goals. These objectives will be realised through cooperation with the entire political and social spectrum. In the course of these seven years, we will strengthen our democratic institutions and we will ensure that the rule of law is respected. The market mechanisms in place will allow businesses to better utilise the new opportunities. The rapid improvement of the country's infrastructure will be our key priority. Social justice will serve as a basis for reforms so that the entire population benefits from sustainable economic growth.

Considering this document as a major output of a large number of institutions, I would like to express appreciation for the particular dedication and work of the Department of Strategy and Donor Coordination at the Council of Ministers, as well as of all the line ministries and other public institutions that took part in this process.

I would also like to express my appreciation for all the donors who supported us, and in particular the United Kingdom Department for International Development for technical and financial assistance provided for the preparation of this document.

I would like to invite everybody to take part in the realisation of these joint goals in the service of further progress of Albania and the increase of the welfare of the citizens of our country.

The Prime Minister

Sali Berisha



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Introduction

In November 2005, the Government of Albania adopted the Integrated Planning System (IPS), a set of operating principles to ensure that government policy planning and implementation take place in a coherent, efficient and integrated manner. Two processes are the cornerstones of the IPS:

- A medium- to long-term *strategic planning* process, the **National Strategy for Development and Integration** (NSDI) (2007-2013), which establishes national strategic priorities and goals.
- A medium-term *budgeting* process, the **Medium-Term Budget Programme** (MTBP), which requires each ministry to develop between March and June a three-year plan within a specified expenditure ceiling to achieve policy objectives as intermediate steps to the achievement of the NSDI goals. The ceilings for the first year are allocated in further detail during the annual budget process, which takes place between July and October.

The National Strategy for Development and Integration and the Medium-Term Budget Programme accommodate fully the following parallel planning processes:

- The **Government Programme** which was presented to Parliament in September 2005, in agreement with the constitutional obligation.
- **Integration into the European Union**, in particular the implementation of the Stabilisation and Association Agreement (SAA), and **integration into NATO**, through the achievement of membership standards, in five fields: political, economic, legal, military, financial and information security.
- **Public investment management**, which - under a new set of procedures implemented for the first time in 2007 - will become an integral part of the MTBP.
- **External assistance**, in particular the government efforts to optimise the use of foreign aid in agreement with the commitments of the Paris Declaration on aid effectiveness, which was signed in March 2005.

In March 2006, the Strategic Planning Committee, the highest decision-making body in the IPS, took the following decisions on the NSDI:

- It will embody all the objectives and measures included in the SAA and the NATO Membership Action Plan and will aim to fulfil the standards and criteria of these agreements. The demands of these agreements are fully reflected in the national vision, the processes of design and implementation of the sector and crosscutting strategies and in budget planning.
- It will offer a medium-term time horizon for policy planning as well as a long-term vision for national development.
- It will define high-level indicators to gauge progress in achieving national goals.
- It will synthesise medium- to long-term sector and crosscutting strategies and reflect their indicative costing.
- Public investment management and the document for the orientation of external assistance will be based on sector priorities.

The National Strategy for Development and Integration is succeeding the National Strategy for Socio-Economic Development (NSSED), which until 2006 was the main government strategic document. The changes that are being introduced with the NSDI aim to address some limitations of the NSSED process:

- The NSSED had been based on a limited number of sector documents that were developed ad hoc and not as part of a regular planning process in the respective ministries.
- The European integration and NATO membership goals were not fully taken into consideration.
- The NSSED process was both disconnected from and overlapping with the MTBP process. By contrast:

- Sector strategies will be the reference documents of the MTBP. In fact, the preparation and updating of sector strategies is the central feature of the NSDI process.
- The NSDI will not be based on a three-year rolling framework, as this is the purview of the MTBP. Instead it will be medium- to long-term document with a planning horizon covering the period 2007-2013, which coincides with the financial framework of the European Union and of the Instrument for Pre-accession Assistance in particular. It will inform the MTBP process by providing a long-term direction for the allocation of resource across sectors.

In June 2006, the NSDI preparation instruction was issued which defined:

- the sector strategies to be developed as foundations of the NSDI
- the standards according to which they would be reviewed
- the crosscutting strategies to be developed in order to coordinate some key policy priorities that were not the responsibility of a single ministry

Line ministries began the preparation of sector and crosscutting strategies under the guidance of their respective Strategy, Budget and Integration Working Groups in June 2006. Draft strategies were submitted in mid-October 2006 to the Council of Ministers. The Department of Strategy and Donor Coordination at the Council of Ministers coordinated the preparation of the NSDI on the basis of received draft sector and crosscutting draft strategy documents. These drafts were reviewed extensively in cooperation with the Ministry of Finance, the Ministry of European Integration and INSTAT. Subsequent drafts of sector and crosscutting strategies were then consulted with non-government policy stakeholders during the first half of 2007.

Not all of the underlying sector and crosscutting strategies were approved by the time this document was prepared although agreement had been reached on the key strategic directions. The NSDI document captures the state of this dynamic process at this point in time. While sector strategies are expected to be updated whenever there is a significant shift in policy, the NSDI is not expected to be updated. However, a review of the state of the implementation of the NSDI will take place on an annual basis at the beginning of the MTBP planning cycle to inform the preparation of initial sector ceilings. An annual progress report will be published. However, its main purpose will not be as a planning document but to serve as a monitoring document to build accountability.

The NSDI document consists of five chapters. Chapter 1 provides a summary overview of the key challenges facing the country (*where are we now*). Chapter 2 presents a brief statement of the national vision and identifies the strategic priorities and articulates the strategic goals to be achieved (*where do we want to be*). Chapter 3 summarises the key points of each of the underlying strategies by strategic priority (*how do we get there*). Chapter 4 sets the macroeconomic framework and discusses the main changes in the distribution of resources across broad sectors that will be needed in the period 2007-2013 (*how much will it cost*). Finally, Chapter 5 emphasises the need for transparency and describes the consultation process during the preparation process of the document, which will continue during the implementation period, and the indicators through which the implementation of the strategy will be assessed (*how do we measure our progress*).

1. Latest developments

During the 15 years of democracy, Albania has experienced large political, institutional and socio-economic changes. From a deeply isolated country of constitutionally denied freedoms and rights and imposed atheism, it transformed into a country of political pluralism that has been already consolidated. Albania is today a country where the freedoms and rights of individuals and minorities are respected and guaranteed, a country of free media and full religious freedom. The Albanian economy is already based on free initiative, as more than 80% of the domestic product comes from the private sector, and per capita incomes today are twenty times higher than they were in 1992.

Albania has become an important factor of security, peace and stability in the region. Its foreign policy has so far been realised through active participation in and support to regional and international organisations; trust building through dialogue and good neighbourly relations; support and active participation in regional and international programmes aimed to build trust; honesty and sincerity in regional and international transactions. The aim of this policy is the integration of Albania into the North Atlantic Treaty Organisation (NATO) and the European Union (EU), the continuation of the process of strengthening economic institutions and regional security, and the Euro-Atlantic cooperation in the economic and security fields.

The association with the Euro-Atlantic countries and institutions has helped Albania to strengthen its democratic processes and structures and implement its domestic reforms, which are necessary for a strong and functioning democracy.

EU integration. On 12 June 2006, Albania signed in Luxembourg the *Stabilisation and Association Agreement* and the *Interim Agreement* with the EU. As of 1 December 2006, the *Interim Agreement* for trade and related issues has come into force. According to the European Commission, the implementation of the Interim Agreement has been successful. The Government of Albania has prepared and is implementing the National Plan for the Implementation of the Stabilisation and Association Agreement as the main monitoring instrument of the political, economic, legal and institutional reforms and is considered an integral part of the National Strategy for Development and Integration. The European Commission made the following assessment of progress against the accession criteria¹:

- On *political criteria*, the progress that Albania has made in the field of democracy and the rule of law, the fight against corruption and the maintenance of a constructive policy towards the region is appreciated.
- On *economic criteria*, the achievement of macroeconomic stability, which constitutes progress towards establishing a functioning market economy, is appreciated.
- On fulfilling the *European standards* and establishing administrative and institutional structures to guarantee the implementation of the *acquis communautaire*, the creation of new structures to co-ordinate the substance of EU reforms and manage the resources to implement them is appreciated.

NATO integration. All political parties support integration into the NATO and the EU are dedicated to reforms and necessary changes in order to realise them. The recent establishment of an ad hoc bipartisan parliamentary commission on the integration of Albania into NATO has assisted the process of approving reforms for NATO integration.

On 22 August 2007, the Office of the National Coordinator for NATO was established in the Council of Ministers. The National Coordinator coordinates the work of different institutions in the executive, thus facilitating the cooperation between executive, the Parliament, the President of the Republic and other independent institutions, with the aim to deliver the reforms envisaged in the Membership Action Plan (MAP).

¹ Enlargement strategy and main challenges 2006-2007, Annex 2, November 2006

Political criteria

Democracy. Albania is already a functioning democracy. During the past 30 months it has passed with success *three important political tests*. The parliamentary elections that took place on 3 July 2005 achieved a democratic rotation of power; the local elections that took place on 18 February 2007, apart from weaknesses of technical character, were accepted by all political forces and were considered as free and fair by the leaders of the opposition; in July 2007 the President of the Republic was selected through a parliamentary procedure in full accordance with the laws and the Constitution, a fact that is supported by all political forces and is hailed by international partners.

Electoral reform. In May 2007, the Parliament established an ad hoc bipartisan commission on electoral reform, jointly chaired by the government and the opposition, which works on reforms taking into account the recommendations of the Final Report of the Election Observation Mission of the Organisation for Security and Cooperation in Europe / Office for Democratic Institutions and Human Rights (OSCE/ODIHR) on the local elections. Work has begun to establish the electronic civil registry, which is expected to be completed in July 2008, in order to find a final solution to the technical problems in the elections. In February 2008, there will be an international tender to select the company that will produce identity cards and digital passports.

In January 2008, the Parliament approved a resolution through which it expressed the preparedness of all political forces to establish an excellent climate of cooperation on all necessary reforms for the integration of Albania, which require broad consensus.

Rule of law. Albania has made real progress in consolidating the independence of the judicial system, as a definitive condition for the functioning of the rule of law. Today the rate of execution of judicial decisions is high and comparable with that achieved by many NATO member countries. In its 2007 Progress Report, the European Commission praised the steps made towards establishing a political consensus and completing the law on judicial reform, which provides for transparency in the decisions of administrative courts and improves the career structure and disciplinary procedures of judges. The Parliament approved on 18 February 2008 the draft law on the organisation of the judicial power, which was based on an initiative of the Council of Ministers and was reworked by the parliamentary Commission on Legal Affairs, Public Administration and Human Rights, assisted by a group of judicial experts. The draft law was approved by the Commission with the consensus of all political parties represented in it, in consultation with interested stakeholders and organisations. This legal act defines and structures in a clear way the recruitment of judges, their career, disciplinary measures, rights, duties and status, pay system, guarantees in the exercise of duty, independence in the exercise of their profession, responsibility etc. At the same time, the big political parties in the Parliament have begun discussions on a reform pact in justice, which has been suggested by the opposition. An early draft of this pact has been presented to all parliamentary parties for comments. After political consultations on this document, the Parliament will give its juridical assessment. The pact consists of a broad vision of the justice system and its reform and defines the modalities to realise it through a plan of concrete short- and medium-term measures.

In the area of **human rights and the protection of minorities**, Albania is a country where the freedoms and rights of individuals and minorities are respected and guaranteed, the media are free, and there is full freedom and pluralism for religious faiths, ethnic and religious tolerance.

Police. The new law on the State Police which was approved by Parliament has enabled the establishment of new professional standards, has decentralised its budget and has introduced the concept of community policing. The results of the past year in the fight against trafficking show well the progress of the reform in this area. About 36 criminal groups have been struck and 149 individuals involved in drug trafficking criminal activities have been prosecuted. As a result, security has increased noticeably in the country, a fact that is also verified by the police statistics of Albania and of neighbouring countries as well as by international reports.

Fight against crime and corruption. The Government of Albania has continued the fight with zero tolerance against crime and corruption. A free line has been established to denounce acts of corruption, while the implementation of reforms such as the electronic registry of businesses, and electronic procurement, tax and customs procedures, which reduce the exposure of the public administration to corruptive influences, has begun. As a result it was possible to bring to justice 51 persons accused of corruption in 2007, among them high officials. With the assistance of the FBI and

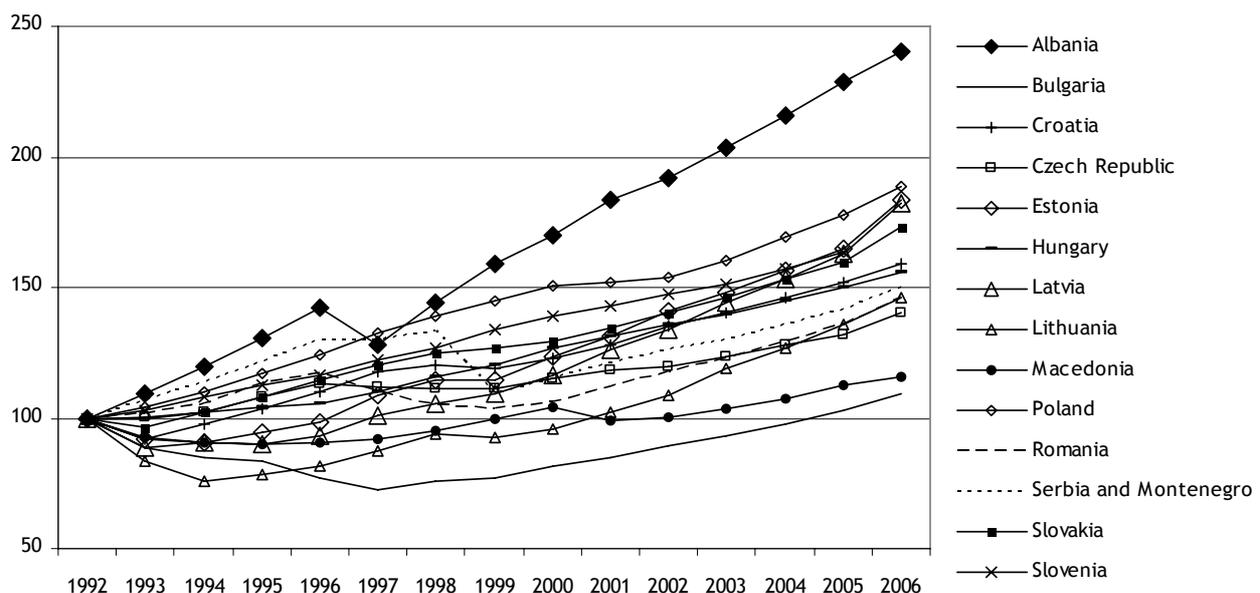
the European Commission a task force for the investigation of economic and financial crime has been established, which has also led to results.

Twice as many criminal groups were hit in 2007 compared to 2005. In total, during the last two years, 206 groups have been hit and 851 persons have been brought to justice. Strong measures have been taken to increase control and security in border points, including the installation of an information management system in the main border crossing points, which will be extended to all points. Important measures have been taken to close the drug trafficking transit routes and strong results have been achieved in the fight against human trafficking. The high-level arrests of criminal groups in recent years show the serious engagement in the fighting these phenomena, which had damaged the image of the country. The Parliament has approved a series of laws to strengthen the fight against organised crime, such as the law banning speedboats and the law that assigns responsibility to local government officials, when drug plantations are found in the territory of their communes.

Economic criteria

Functioning market economy. Albania has outperformed in terms of GDP growth all Central and Eastern Europe countries since 1992, including those countries that have become European Union members in recent years. As Figure 1.1 shows, in purchasing-power-parity terms, the gross domestic product per capita has increased from \$1809 in 1992 to \$5727 in 2006 according to World Economic Outlook data and the macroeconomic situation has been sustainable.

Figure 1.1 Growth in Central and Eastern European countries since 1992



Note: 1992=100

Source: World Economic Outlook database, International Monetary Fund

Economic growth has been sustained at about 6% and in the years 2009-2011 it will maintain a high growth rate of 6-7%. Gross domestic product in nominal terms was estimated at about Lek 979 billion at the end of 2007 compared to Lek 892 billion at the end of 2006, an increase of about 9%.

Gross domestic product per capita in 2007 was Lek 309611 or about 9.1% higher than in 2006. The growth of the gross domestic product per capita has had a positive effect on one of the components of the **Human Development Index**, which is calculated by the UNDP and compares the health, education and living standards level across countries. Albania has entered the group of countries with a high level of this indicator in 2008.

Inflation. The annual inflation rate has been maintained within the levels targeted by the Bank of Albania at about 3% (± 1 %), through a cautious monetary policy that is consistent with fiscal policy. The national currency has been sustainable in 2007 and money supply (M3) grew by 7%.

The general **balance of payments** was €173 million in 2007 and foreign currency reserves were €1.5 billion. *Exports* grew by 27% in 2007, particularly in services and active processing (*façon*). *Imports* grew by 26% in 2007, especially those of capital goods, goods used in the processing of production, energy and food. The *trade deficit* at about 25% of GDP is similar to that of other countries in the region. The main mechanism that supports the balance of payments is the increasing amount of *remittances*, which is one of the highest in the world as a share of GDP.

The level of **unemployment** fell to 13.2% in 2007 compared to 13.9% in 2006, according to official statistics. The sectors with the largest increase in the number of employees in 2007 were industry, transport, telecommunications, trade, hotels and restaurants. The public sector pay policy in 2006 and 2007 has been oriented towards the doubling of salaries in the health and education sectors.

Fiscal policy. Despite the drastic reduction of taxes, *public revenues* have increased considerably. In 2007 they were 27% of GDP compared to 25.5 % in 2006 and 24.8% in 2005. Despite the fact that the implementation of a single 10% tax rate on income began in July 2007, there was an increase in budget revenues primarily as a result of improved tax collection efforts. In January 2008, a flat 10% rate on profit tax came into effect, which constituted a halving from the previous rate. In addition, the small business tax has been reduced by 50%, the social insurance contributions by 30% and the price of electricity for businesses by 33%. Public revenues will continue to grow as a result of economic growth, increasing business confidence, business promotion through the reduction of institutional barriers, increasing public investments, increasing domestic and foreign private investment, technological improvements and human resource capacities, and the corresponding development of the financial system. *Public expenditure* (31.6% of GDP) was higher in 2007 compared to 2006 (28.8%). Expenditure policy is characterised by the increase in capital investment (primarily in infrastructure) from 5.7% of GDP in 2006 to about 7.2% in 2007 and the reduction of operational expenditure from 2.6% of GDP in 2006 to 2.5% in 2007. Capital expenditure will be high also in 2008 (9.8%) but subsequently they will be maintained at the level of 6.3%, while operational expenditure will increase after 2008 to about 2.9%. The *budget deficit* in 2007 grew to 4.6% of GDP compared to 3.3% in 2006, primarily as a result of the growth in public investment.

Foreign direct investment increased by 84% in 2007 (at a level three times higher than the average of the past 10 years) as a result of government reforms to continuously improve the business climate, the privatisation process of some public enterprises, the extension of public private partnerships, and the implementation of the 'Albania 1 Euro' initiative. The interest of foreign investors has risen primarily in the areas of energy, mining, banking, tourism and infrastructure.

Index of economic freedom. A report published recently by the Heritage Foundation on the freedom of the economic system ranked Albania at the 56th out of 157 countries compared to the 81st position in 2004 and the 121st position in 2000, which classified it among the 'generally free' economies. Fiscal freedom and financial freedom are at a higher than average level, while property rights and freedom from corruption are at a lower level.

The reform in the area of **property rights** have taken important steps forward. The Agency of Restitution and Compensation of Property continues the process of restitution and compensation and is already in the final stage of compiling the land value map, on the basis of which compensation will be made. In the mean time, the Agency for Legalisation, Urbanisation and Integration of Illegal Construction Zones is completing the digital map for the entire country. These two agencies have also signed a cooperation agreement to coordinate the two processes and to accelerate reform.

In the area of **infrastructure**, the government commitment is reflected in the major construction project of the Durres-Kukes-Morine motorway, the modernisation and expansion of the ports of Durres, Vlora and Shëngjin, and the concession agreement for the Mother Theresa Airport. The construction of the Vlora thermal power station began in 2007 as part of the strategy to diversify the electrical energy system away from its almost total dependence on water sources.

Privatisation of strategic sectors. The privatisation of Albtelekom has been completed, the separation of the electrical energy distribution division of KESH has been approved and its privatisation is being prepared, and the process of restructuring and privatising the state companies in the oil sector continues.

European standards

Albania has made progress in the process of approximating its legislation and policies to the acquis communautaire. In terms of measures to promote the **internal market**, Albania has moved fast to free the movement of goods, align its customs and taxation policy, and establish free competition. New, modern public procurement procedures promote equal treatment, transparency, and value for money.

Business registration has been transformed from a competency of the court to a competency of the National Centre of Registration, a fact that has reduced the time needed for registration from 42 days to one day, based on the practice of the 'one-stop shop'. This initiative is part of the reforms to reduce the informal sector.

In order to support **rural and agricultural development** farmer support programmes and fiscal measures are being implemented, such as value-added tax reimbursement up to 6%. The consolidation of the farm land and the passage from fragmentation to joint initiatives will guarantee the development of agricultural production, agro-business and regional partnerships.

In the field of **environment**, Albania has a very low impact on global pollution, as a result of the small quantity of greenhouse gases it produces. Work has begun to reduce the level of air pollution from vehicles in urban centres, to manage solid waste, to guarantee the quality and continuity of water supply, and to preserve the high ranking in the Environmental Performance Index that has been accorded to Albania.

The new law on **public procurement** has been approved, which envisages the establishment of the institution of the Procurement Advocate, who will protect the rights and legal interests of candidates, bidders or winners. The establishment of the infrastructure for electronic procurement will reduce even further the general cost of procurements in the country.

In order to coordinate the policies in the field of **information and communication technology**, the Agency of Information Society has been established with a leading role in projects such as the informatisation of schools, e-services like e-taxes and e-customs, the electronic civil registry and address system, identity cards, electronic signature and the modernisation of land registration. The establishment of the National Academic Network has begun, while the existing Gov-Net is being improved and extended.

The Financial Supervision Authority, which has been established in order to manage **financial risk**, focuses on the identification, measurement, prevention and early elimination of the main risks that threaten market performance. Progress has been made in the supervision of the insurance market, without neglecting private pensions and securities. However, it is necessary to improve and develop the information technology infrastructure to establish a platform of reporting and supervising the insurance and private pension markets. An Advisory Group of Financial Stability has also been established which aims to coordinate all activities in this area.

Public administration and services are at the centre of attention of government policies. The rigorous implementation of competitions for recruitment has raised the professionalism of the public administration and has lowered political influences. The law on the conflict of interest has been amended in order to extract the administration out of conflicts of interest. The aim is to achieve more in the area of qualifications and training for employees in order to establish a public administration that is able to implement the sector reforms.

2. Vision, strategic priorities and goals

Vision

Albania has entered a new phase of development with a clear perspective towards integration into the Euro-Atlantic structures. The signing of the Stabilisation-Association Agreement with the European Union, as well as its member states, constitutes a historic moment towards the realisation of this major goal. At the same time, achieving the status of a middle-income country is a result of the reforms of the last 15 years, which need to be consolidated in accordance with the new challenges that are present at the current level of development.

Albania has a great development potential, deriving its comparative advantages from its geographical position, human resources and physical endowments. Proximity to European markets and favourable climate conditions are positive factors for the agricultural sector. Becoming part of international transport corridors will raise the importance of the country in the development of regional trade. Albania is also an attractive tourist destination as a result of its natural beauty and rich cultural heritage.

Based on the achievements so far and the growth potential of the country, the National Strategy for Development and Integration defines the following vision for the upcoming seven years:

A country with high living standards, which is integrated in the European and Euro-Atlantic structures, is democratic and guarantees the fundamental human rights and liberties.

The period of transition was characterised, among others, by a migration phenomenon of a vast scale, as a result of the social and economic difficulties of the country. The progress achieved in the establishment of a democratic state and a functioning market economy encouraged social development, improved security conditions in the country, and created the premises for the revitalisation of the Albanian society and the private initiative.

Corruption and organised crime have been negative phenomena that accompanied the years of transition that condemned Albania at the bottom of international tables on issues of good governance and transparency. The Albanian state, through equal implementation of the law and respect for the fundamental principles of a democratic country, will be a protector of the rights, freedoms and interests of its citizens, men and women. This will be guaranteed through good, just and impartial governance, which becomes a natural defence against corruption and organised crime.

The consolidation of national institutions will guarantee the implementation of the rule of law, according to an economic model based on market principles, which will increase opportunities for the development of business and the attraction of foreign investment.

In free, developed and democratic societies, property is considered a fundamental human right. The resolution of property issues will guarantee the restoration of past injustices, respecting this right of every Albanian individual and family.

The deepening of the decentralisation process, the modernisation of the address and civil registry system, and the provision of identity documents to all citizens according to European standards are decisive steps for consolidating democracy and proceeding along the road of modernisation.

The lack of implementation of the laws becomes an obstacle for the functioning of society and opens the road for the development of informality. Over the past 15 years, informality has taken on various forms in Albania, such as arbitrary occupation of land, buildings without permit, unregistered activities, and tax evasion. The fight against these phenomena is a decisive condition for the functioning of the rule of law, for guaranteeing a free market, and for equal opportunities.

The weaknesses in public expenditure management, which bring about depreciation and delays in the implementation of investment, call for increases in efficiency and the creation of an appropriate environment based on market principles and public-private partnerships. Investments to ensure continuous water supply, to cover the needs for electric energy, and to develop the national road

network will lower the cost of doing business and will increase the potential for a balanced economic and social development.

The delivery of good quality social services is another important aspect of living standards and ensures social cohesion. In the health sector, the problem of financing the service will be solved to ensure quality. In the education sector, the school enrolment indicators and the quality of teaching will improve. Social policies will be oriented towards the respect of human rights, equality and non-discrimination.

The improvement of the quality and efficiency of the public administration to deliver these services and its commitment to the implementation of this strategy is the key to successfully meet the challenge of European integration and of joining the world's largest security alliance.

The realisation of this vision, which expresses the national aspirations, is a responsibility of all Albanians.

Strategic priorities and goals

To realise the above vision, the following priorities and goals are defined for 2013:

- Integrate the country into the European Union and NATO.
 - The conditions to receive the invitation for becoming a member of NATO will be met and all objectives and duties that stem from membership will be fulfilled
 - The granting of candidate status for membership of the European Union will be made possible within a two-year period
 - The standards of European Union membership will be fulfilled
- Develop and consolidate the democratic state, based on the fundamental liberties and rights of individuals. Exercise good governance, fight corruption and other negative phenomena that obstruct the development and integration of the country, and guarantee the functioning of the rule of law.
 - The **electoral reform** will be completed with the aim that local and national elections will take place in a free and fair manner in accordance with European standards.
 - The **justice system** will function in an independent, transparent, responsive and efficient way:
 - In the medium-term (2007-2010), the law on judicial reform will be implemented with the aim to assess judges and prosecutors professionally and objectively, strengthen their status and divide their workload on the basis of the number of cases and of their performance; the electronic case management system will be implemented; and the judicial information technology system will be improved along with cross-border cooperation in order to manage information in an integrated way in the fight against organised crime.
 - In the long-term (2011-2013), all organic laws of the justice system will be harmonised; the cooperation mechanisms between the different institutions of the judiciary will be consolidated; legal improvements related to guaranteeing the financial and human resources of the School of Magistrates will support the provision of training to judges and prosecutors; and specialised, administrative and commercial courts will be established.

By 2013, Albania will reach the same level as the Central and Eastern European countries on the year they became members of the European Union, according to the 'Rule of law' indicator of the World Bank, which measures "the quality of contract enforcement, the police and courts, as well as the likelihood of crime and violence".

- The **property rights** reform will transform the land market from an obstacle to an engine of economic development:
 - In the medium-term (2007-2010), the preparation of the land value map and the registration of state properties will be completed; informal zones and constructions will

be legalised; the initial registration will focus on urban zones and priority areas for development; and data will be digitalised in a number of registration offices.

- In the long-term (2011-2013), the process of property restitution and compensation will enter the course of final resolution; the legalised informal zones and constructions will be integrated; registration will continue with forests and pastures; and the digitalisation of registration offices will be completed.
- **Corruption** will be reduced in a gradual and sustainable manner, the integrity of institutions will be strengthened and the values of good governance will be promoted. The establishment of an anti-corruption culture in government, politics and society remains a major aim:
 - In the medium-term (2007-2010), the recommendations made in the 2005 evaluation report by the Council of Europe Group of States Against Corruption will be followed up; legislation will be approximated with all the standards enshrined in the conventions against corruption of the Council of Europe and the United Nations convention against corruption; administrative barriers will be gradually reduced; and the power to discover and punish corruption cases will be strengthened.
 - In the long-term (2011-2013), the effectiveness of the justice system will be reformed and strengthened; effective and transparent systems will be introduced in public services such as health provision; effective practices and systems will be consolidated in the tax and customs administrations and in procurement.

By 2013, Albania will reach the same level as the Central and Eastern European countries on the year they became members of the European Union, according to the 'Corruption Perceptions Index', which is prepared by the non-government organisation 'Transparency International'.

- **Public order** will be strengthened, through community-based policing, which is recognised as most appropriate for a democratic state, and the fight against organised crime will continue. By 2013, Albania will attain 'Tier 1' country status according to the 'Trafficking in Persons Report' of the State Department of the United States, which is awarded to a government that fully complies with the minimum standards for the elimination of trafficking. Albania will have security standards similar to those in EU countries as evidenced by the reduction in crime, the increase in public trust to the police, and the strengthening of law enforcement.
 - The **public administration** will be able to confront the challenges of developing and integrating the country, based on meritocracy and professionalism: there will be full compliance with the Civil Service Law.
 - In the process of **decentralisation**, there will be full compliance with the principles of the European Charter of Local Self-Government.
 - Each citizen from the age of 16 years will be issued with an identity card based on the **National Civil Status Registry**.
 - Achieve rapid, balanced and sustainable economic, social and human development.
 - The **transport** infrastructure, in particular road transport, will be improved and will enable the creation of an integrated economic space:
 - In the medium-term (2007-2010), the Durres-Morine corridor will be completed; the support to the maintenance of national roads will grow and the process of its privatisation will continue; the passenger terminal in the port of Durres will be constructed and the privatisation of commercial services will be completed to increase autonomy.
 - In the long-term (2011-2013), the investments in the North-South and East-West national road axes will be completed; the east quay and facilities for handling cargoes in the port of Durres will be reconstructed.
- In addition, about 6000 km of rural roads will be rehabilitated, by 2013.
- The **energy** system will be developed based on market principles, the domestic market will open and will be liberalised and will be integrated with the regional and European energy

market. The capacity to produce energy will increase with the aim to cover the aggregate demand for energy at a minimal social and environmental cost:

- In the medium-term (2007-2010), the Vlora thermal power station will be constructed; the Fier thermal power station will be rehabilitated; the Kalivaç hydro power station will be constructed; the 400 kV Podgorica-Elbasan line will be constructed; a 400 kV sub-station will be built in Tirana; works will begin for the construction of hydro power stations in the cascades of the rivers Devoll and Drin; a new Dispatching Centre will be constructed; the electricity distribution function will be privatised; and the state companies in the oil sector will be restructured and privatised.
- In the long-term (2011-2013), the hydro power stations in the cascades of the rivers Devoll and Drin will begin operating; the efficient use of energy will be encouraged through various programmes, notably in the residential sector; the legal and institutional framework will be improved to promote the use of renewable energy, notably solar panels; and Albania will be linked to the regional network of oil and gas pipelines.

By 2013, more than 8500 GWh of electric energy will be generated domestically per year.

- The **water supply and sanitation** sector will be developed according to European Union standards, to improve living conditions, conserve the environment, and develop the economy in a sustainable manner:
 - In the medium-term (2007-2010), the use of meters will be extended to improve the management of water demand; the water service will be transferred to local government; service agreements (contracts) will be concluded between local governments and water utilities; and capital expenditure will be increased by 30%.
 - In the long-term (2011-2013), advanced forms of private sector participation will be facilitated; a study will be completed on the regionalisation process, which would merge water utilities to achieve economies of scale; subsidies will only be provided to utilities which meet service quality, financial performance and environmental protection targets but do not cover their cost; and a medium-term capital investment programme will be prepared based on a national master plan.

By 2013, the share of the population covered by the following services will be: (a) 95% for water supply; (b) 83% for sewerage; and (c) 45% for wastewater treatment.

- The **environment** will be protected from pollution and degradation:
 - In the medium-term (2007-2010), all road vehicles will start using fuels that meet European standards and effective compulsory emissions testing will be introduced; five regional landfills will be constructed; project dossiers for all hot spots will be completed.
 - In the long-term (2011-2013), a national air quality monitoring system will be implemented in compliance with European standards; sanitary landfill sites for the disposal of municipal waste will be established throughout the country; existing landfills of urban solid waste will be closed and the contaminated land of identified hot spots will be rehabilitated.

By 2013, the average air quality in Tirana and major cities will meet the European Union standards.

- An average **economic growth** rate of more than 6% per annum will be maintained and will tend to reach 7%.
- **Macroeconomic stability** will be maintained through fiscal consolidation, continuous reduction of domestic debt, improvement of the current balance and fiscal policy design in agreement with monetary policy.
- The main tax rates will be lowered while maintaining public revenue collection rate at 27-28% of GDP, through the reduction of informality and the good management of the **fiscal** system.
- A favourable **business climate** will be created for the dynamic development of private enterprise and the attraction of foreign investment:

- In the medium-term (2007-2010), the capacities of the National Registration Centre will be enhanced to consolidate the business registration process; the reform of the licensing system will achieve the OECD guiding principles for regulatory quality; an export guarantee agency will be set up; investment projects will be initiated in application of the concession law; and the first industrial park will be established.
- In the long-term (2011-2013), the fight against informality will ensure fair competition; the implementation of the European Charter for Small and Medium-Sized Enterprises will continue; public and private institutions that assess and certify the quality of products and services will be set up; and export processing centres will be established.

By 2013, Albania will reach the same level as the Central and Eastern European countries on the year they became members of the European Union, according to the 'Doing Business' indicator, which is prepared by the World Bank.

- The operation of the **labour market** will be facilitated through improvements in the employment service, the implementation of active and passive programmes and vocational education and training; the unemployment rate will be below 10% by 2013 according to the Labour Force Survey, which is conducted by INSTAT.
- The headcount **poverty** rate will fall below 10% by 2013 according to the Living Standards Measurement Survey, which is conducted by INSTAT.
- A full **social policy** legal framework will be designed, which will ensure the social protection of all citizens. The inclusion of poor individuals and households in the ndihma ekonomike and other social programmes will be guaranteed and these programmes will better cover the needs of the beneficiaries of these programmes.
- **Equal opportunities** will be established for men and women in the economic, political and social life and domestic violence will be prevented: by 2013, the labour force participation rate of women will grow.
- The current public **pension** system will be restructured and reformed and will move gradually towards a multi-pillar pension system.
- The public **health** system will offer a basic, good quality and effective service for all through managerial improvements and encouragement of the private initiative:
 - In the medium-term (2007-2010), conditions will be created to encourage the provision of health services by the private sector; there will be a set of services that people will be entitled to receive for free; and a single strategic purchaser will concentrate on balancing all public resource allocation decisions.
 - In the long-term (2011-2013), the management of health service delivery institutions and clinical pathways will be improved; and a clearer regulatory framework will be established to ensure responsiveness to citizens.

By 2013, the infant mortality rate will be reduced to 5 per 1000 live births.

- A good quality, inclusive, flexible **education** system will respond to the demands of the market economy:
 - In the medium-term (2007-2010), the policy of doubling the salaries of education personnel compared to their 2005 levels will be completed; the transfer of responsibilities and decision-making authority from the central to the local government will be strengthened; a new policy of vocational education and training will be developed in accordance with the demands of the labour market; and student assessment will be improved through the reform of matura shteterore and graduation examinations.
 - In the long-term (2011-2013), a preparatory year before primary school will be added; the school financing formula will be improved to reflect the number of students in order to eliminate inequalities and promote access; and the process of granting autonomy to higher education institutions will be completed through strengthening external accountability mechanisms and increasing the transparency of internal management processes.

By 2013, the secondary education net enrolment rate will increase to 76% while the transfer rate from compulsory to secondary education is expected to be 86%.

- A new, comprehensive and integrated model of **spatial planning** will be implemented, which will guarantee management and control over the territory in the service of sustainable development and tourism promotion
- An integrated and coherent policy will be implemented aiming to achieve balanced **regional development** and to reduce inequalities between regions
- The public programmes that support **agricultural and rural development** will be consolidated in accordance with EU practices, with the aim to support sustainable development in this area, and the Payments Agency will be established in the long term. Modern systems of food safety will be introduced gradually and the institutions that guarantee its standards will be consolidated.

3. Policies

This chapter lists the NSDI policies by strategic priority. Each sub-section corresponds to a sector or crosscutting strategy sanctioned by the Strategic Planning Committee, as summarised below.

Sector strategy	Institutional responsibility
Defence (Long-term development plan of Armed Forces)	Ministry of Defence
Foreign affairs	Ministry of Foreign Affairs
Justice	Ministry of Justice
Public order (7-year strategic plan of State Police)	Ministry of Interior
Civil registry	Ministry of Interior
Transport	Ministry of Public Works, Transport and Telecommunications
Energy	Ministry of Economy, Trade and Energy
Water supply and sanitation	Ministry of Public Works, Transport and Telecommunications
Public finance	Ministry of Finance
Economy (Business and investment development strategy)	Ministry of Economy, Trade and Energy
Employment	Ministry of Labour, Social Affairs and Equal Opportunities
Sport	Ministry of Tourism, Culture, Youth and Sport
Social protection	Ministry of Labour, Social Affairs and Equal Opportunities
Social insurance	Ministry of Finance
Health	Ministry of Health
Basic education	Ministry of Education and Science
Higher education	Ministry of Education and Science
Spatial planning	Ministry of Public Works, Transport and Telecommunications
Agriculture and food	Ministry of Agriculture, Food, and Consumer Protection
Tourism (Tourism development strategy)	Ministry of Tourism, Culture, Youth and Sport
Culture	Ministry of Tourism, Culture, Youth and Sport
Statistics (5-year national programme of official statistics)	INSTAT
Crosscutting strategy	
Property rights	Ministry of Justice
Anti-corruption and transparent governance	Council of Ministers
Integrated border management	Ministry of Interior
Migration	Ministry of Labour, Social Affairs and Equal Opportunities
Fight against organised crime, terrorism and trafficking	Ministry of Interior
Public administration	Ministry of Interior
Decentralisation	Ministry of Interior
Environment	Ministry of Environment, Forests, and Water Administration
Consumer protection and market surveillance	Ministry of Economy, Trade and Energy
Information and communication technology	Ministry of Public Works, Transport and Telecommunications
Youth	Ministry of Tourism, Culture, Youth and Sport
Gender equality and prevention of domestic violence	Ministry of Labour, Social Affairs and Equal Opportunities
Social inclusion	Ministry of Labour, Social Affairs and Equal Opportunities
Regional development	Ministry of Economy, Trade and Energy
Rural development	Ministry of Agriculture, Food, and Consumer Protection

3.1 EUROPEAN UNION AND NATO INTEGRATION

The process of membership of the European Union and NATO requires concerted action across government institutions and all the policies outlined in this chapter serve directly or indirectly to achieve this twin strategic goal. In this section, the main goals related to the accession process are described.

European Union integration

The Stabilisation and Association Agreement is the instrument which will enable gradual integration of Albania into the European Union. The Agreement creates the necessary framework for strengthening the rule of law, increase its effectiveness, and assist institutional and economic reforms with the aim to raise the standards of living for all citizens. Through this Agreement, Albania aims to attain the standards that will guarantee its status as a candidate state and subsequently association with the European Union. The Stabilisation and Association Agreement familiarises Albania and its citizens with the following duties and rights:

- **Respect of democracy and the rule of law, of human and minority rights, and the free market economy:** Respect of democratic principles and human rights, of the rule of law and economic freedoms will be the basis of the policies of the Albanian state. This duty is considered as a fundamental clause of the Agreement, whose violation can justify measures that may lead to the suspension or cancellation of the Agreement.
- **Regional cooperation to promote stability and economic development:** Regional cooperation consists of strengthening political and economic relations through bilateral agreements with the countries of the region in all the fields covered by the Agreement. This instrument will strengthen economic development in the region through the implementation of European rules of open markets and free competition.
- **Creation of a free trade zone between Albania and the European Union:** The free movement of goods jointly with the provisions for free movement of persons, services, and capital, approximation of Albanian with European legislation, and cooperation in certain priority fields for economic and social development open the road toward the creation of a common market between Albania and the European Union.
 - *Free trade zone between Albania and the EU:* In order to establish gradually a free trade zone where goods move freely, the two sides on the basis of the SAA commit to eliminate custom duties, quantitative restrictions and measures with the same effects, to avoid the adoption of new trade barriers and to respect the principle of non-discrimination among goods of the contracting parties in the fiscal area.
 - *Free movement of persons, services and capital:* On the basis of the agreement, an Albanian citizen will be able to move freely in the European territory in case he or she exercises the right of worker movement or the right of establishment in one of the EU member states and vice versa.
 - (a) *Free movement of workers.* The SAA envisages the principle of national treatment, according to which an Albanian worker, legally employed in the territory of an EU member state, must be treated equally to the citizens of this EU member state with respect to working conditions, remuneration or dismissal. Further, the spouse and children of a legally employed worker in the territory of an EU member state, when they reside legally in this state, have the right to education and labour market access in this member state during the period of that worker's authorised stay of employment. However, access to employment for Albanian workers in the European market is limited because they remain at the willingness of the EU member states, which recognise free movement of worker through bilateral agreements, which they sign with Albania.
 - (b) *Right of establishment.* The right of establishment, which is linked directly with foreign investment, is realised through the exercise of long-term professional activity by an Albanian citizen in an EU member state as self-employed or through establishing or directing an enterprise. The dispositions of the SAA recognise the right of establishment for companies

through their foundation or through the setting up of their subsidiaries and branches in the European or the Albanian territory.

(c) *Freedom of supply of services.* Freedom of supply of services is a possibility recognised to every Albanian citizen in an interim way in the European territory on in his or her own territory to EU citizens. It also implies facilitating and enabling the supply of services by companies or physical persons from the European Community affording them a treatment no less favourable than that afforded to domestic ones.

(d) *Capital and payments.* Albania and the EU need to ensure the free movement of capital linked with direct investment, general investments and credit linked with trade transactions. Similarly in this framework, the Albanian side has undertaken the commitment to begin procedures for guaranteeing the right of citizens of EU member states to buy immovable property in Albania, within five years from the moment the SAA is entering into force.

- **Adoption of *acquis communautaire*:** The Stabilisation and Association Agreement, and in particular Article 70, foresees the adoption of the *acquis communautaire* in the domestic juridical system of Albania. The approximation of legislation is the establishment of a legal and institutional framework which will allow the Albanian market to integrate with the internal European market with the primary aim to benefit and defend the interests of Albanian citizens. The approximation of legislation is expected to take place in two five-year phases according to a detailed programme, which is updated taking into account the realisation of objectives as well as changes in Community law itself. The most recent is the National Plan for the Implementation of the Stabilisation and Association Agreement, which was approved in September 2007.
- **Cooperation in justice and home affairs and other sectoral policies:** Cooperation in justice and home affairs aims to implement and guarantee the Copenhagen criteria as regards freedom, security and justice. This cooperation calls for Albania to strengthen institutions at all levels, but especially those that deal with the implementation of law and the administration of justice. The key points of this cooperation focus on the visa regime, asylum and migration, and the fight against organised crime and corruption. The free movement of Albanian citizens in Europe is linked closely with progress in this field. Cooperation in other sectoral policies of an economic and social nature has as its objective the protection and development of the associated state and the strengthening of existing economic relations between parties.
- **Financial cooperation:** The Stabilisation and Association Agreement provides for the allocation of financial assistance to Albania with the aim to support the achievement of the objectives of the Agreement. Financial cooperation can support related economic and institutional reforms in accordance with the requirements of the Stabilisation and Association process.

The conditions for accession go well beyond the programme of work implied by the Stabilisation and Association Agreement. Albania will use the experience of the European Union enlargement to the countries of Central and Eastern Europe to organise its negotiating position regarding potential transitional periods for certain areas of the *acquis communautaire*. This will require in-depth assessments regarding the impact of adopting certain areas of the *acquis communautaire* in order to prioritise requests for transitional periods. A recent study identified agriculture, free movement of capital and workers, justice, freedom and security, food safety, veterinary and phyto-sanitary policy and the environment as the areas that other countries have found most difficult to negotiate². This negotiation is part of the 'screening' process, which will begin after obtaining the status of candidate country for membership.

The Ministry of European Integration is the responsible institution for orienting, coordinating and monitoring the measures for the implementation of the requirements of the Stabilisation and Association Agreement and the Instrument for Pre-Accession Assistance.

² Enlargement of the European Union: an analysis of the negotiations for the countries of the Western Balkans, SIGMA paper no.37, February 2007

NATO integration

NATO integration is one of the main goals of the country's foreign policy, its national security strategy, its military strategy and its long-term plan for the development of the Armed Forces (defence sector strategy). This goal constitutes a major national project that enjoys support from all political forces as well as more than 90% of the public. Albania will not spare any efforts to meet all criteria for receiving the invitation for membership in the future summit of the Alliance scheduled for spring 2008 and for being a member with full rights by 2010.

The implementation of the National Annual Programmes in the framework of the Membership Action Plan, as well as after the granting of the invitation for membership in the framework of the corresponding reforms, is a priority for all initiatives that the government will undertake in the sectors included in the Plan. Election reform, consolidation of institutions, democracy and the rule of law, especially the fight against organised crime and corruption, will be in the focus of government reforms, as they have a direct effect on the membership process. Integration into NATO will serve as a guarantee to attract foreign investment and it will promote sustainable economic development with high rates, thus creating favourable conditions for the corresponding membership of EU. This strategy considers membership as a challenge that needs to be met with success both from its human capacity point of view as well as its economic aspect, particularly infrastructure.

With respect to defence reforms, the Armed Forces have embarked on a series of deep and important transformations. The government will provide maximum political, financial and other support needed for these reforms in the Armed Forces. The government is meeting the commitment for the defence budget to reach 2% of GDP in 2008 and will retain this level in the coming years.

Albania increased its contribution to the International Security Assistance Force (ISAF) mission that is directed by NATO in Afghanistan with an additional company in the middle of 2007 and will continue its contribution to the joint medical team mission in ISAF in the framework of the Adriatic Charter. It will also continue its contribution to the 'Iraqi Freedom' mission, the European Union ALTHEA mission in Bosnia with an explosive ordnance disposal (EOD) team, and as an observer in the United Nations Observation Mission in Georgia (UNOMIG). Albania will take part in the operation 'Active Endeavour' in the Mediterranean. The participation in NATO missions and operations will be based in the development of the National Support Element and Host Nation Support.

Defence

Challenges

In accordance with the Constitution, the national security strategy is the fundamental document that reflects the state policies for the security of citizens against external and internal risks and threats.

The military strategy determines how the military components act to support the national security strategy and how they accomplish their designated missions.

The long-term plan for the development of the Armed Forces provides the main directions of their transformation in the coming years, defines objectives and orients the development of necessary operational capacities for the fulfilment of national missions and NATO integration requirements.

The challenges in the defence sector are related to further deepening the reform, consolidating the new structure and implementing the new 'joint' concept, fully professionalising the Armed Forces, modernising the Armed Forces and increasing interoperability with NATO, and taking part in NATO and other missions while maintaining the National Support Element and Host Nation Support capacities, and increasing regional cooperation efficiency towards concrete joint projects.

Sector vision

The Armed Forces are under civil democratic control and committed to fulfil their constitutional role: guarantee the independence, sovereignty and territorial integrity of the country; defend and support the nation in times of peace, crisis and war; and contribute to peace and security in the region and beyond. The fulfilment of this mission will be the core of the transformation of the Armed Forces, which will be realised in the framework of collective defence.

Strategic priorities and policies

The Armed Forces have the following three strategic priorities:

- to continue the transformation of the Armed Forces into a **fully professional force** by 2010, to increase their operational capacities and to modernise them so that they can fulfil with quality the main duties of their mission
- the transformation of the Armed Forces into a **numerically smaller but more effective military force**, well-equipped and well-trained, with interoperability capacities relative to the Armed Forces of partners and allies, and with niche capacities, in order to be more highly valued in peace missions led by NATO, the EU and the United Nations or other possible coalitions; in particular, 8% of units of the land forces component of the Joint Force Command would be able to participate in international operations at any time, and 40% of the land forces component would have the capacity for such participation
- the consolidation of structures for the fulfilment of all **Partnership Objectives** and the increase of the real contribution to NATO

The government, under the long-term plan for the development of the Armed Forces, will:

- develop and support staff, through consolidating the modern system of personnel management to improve recruitment, training, career structures, and the treatment of the military and civil personnel in the Armed Forces
- improve training to increase professionalism and the level of preparedness
- modernise equipment systems, such as a sea and air space surveillance system; command, control, communications, computers and intelligence (C4I) system; helicopters; patrol boats; individual equipment; training infrastructure; simulation centres; vehicles; and other equipment that are interoperable with NATO
- modernise the integrated logistical system to support the Armed Forces
- ensure protection not only of the military forces but also of the civilian population
- aim for increased inter-operability with NATO through an increase in the operational levels of priority units and forces at the disposal of NATO
- cooperate with NATO and the countries of the region in air space management and continue the project of maritime space management
- assess the military units as contribution to NATO according to the Operational Capacities Concept
- prepare the personnel to fill in posts offered by the Alliance in its staffs and ensure their good quality performance in these staffs following membership
- develop capacities to support the integration of the country in the EU through the development of the concept of a unique set of forces
- invest in infrastructure, notably facilities of the principal camps and garrisons, and in the logistical management of services and maintenance
- engage in military cooperation with all countries of the Alliance, in the interest of the transformation of the Armed Forces and on the basis of partnership

Foreign affairs

Challenges

The Ministry of Foreign Affairs formulates, elaborates and implements the foreign policy of the Albanian state according to the Government Programme. In dialogue and close relationship with all international partners, the Ministry of Foreign Affairs reflects developments in Albania, represents and defends the national interests and works to represent and defend the interests of Albanian citizens wherever they are, in terms of their freedom, security and welfare. Albanian foreign policy is oriented towards the following main objectives of the Albanian state:

- granting of the invitation for NATO membership in spring 2008 and full membership of the country in this organisation

- acceleration of the European integration process through the ratification of the SAA by all member states
- complete support to the process of determining the status of Kosovo and the achievement of its independence, within the framework of fully strengthening bilateral and multilateral relations in the region, at the service of regional peace, security and stability
- continuous improvement of the country's image with the purpose of increasing economic relations with other countries and having an impact to the volume of foreign direct investment
- reform of the Foreign Service system and improvement of the public service of the Ministry of Foreign Affairs

Sector vision

The vision consists of:

- NATO membership, which achieves our objectives for national and regional security, constitutes a strong stimulus for development and consolidation of the reform of the Armed Forces as well as other positive developments in the political, economic and military fields and strengthens the role of Albania as a direct contributor in the area of international security
- successful continuation and acceleration of the country's integration process in the EU
- support of Kosovo's independence, strengthening of Albanian factor in the region and implementation with continuity of a regional policy of good neighbourly relations
- strengthening of the capacities of the Foreign Service and the public administration in the area of external relations

Strategic priorities and policies

The strategic priorities for the administration are:

- **NATO membership**
 - continue the implementation of the plan of measures specially approved for this purpose, which has at its centre the maintenance of continuous intensive contacts, at all levels, with all principal actors, presenting progress across all developments in the country and particularly on those aspects in which our partners are interested
 - the Ministry of Foreign Affairs will continue to coordinate state activity in this respect and, at the same time, will be transferring the messages and positions of our partners, proposing the corresponding necessary measures
- **Integration into the EU**
 - continue the intensive efforts with all European governments for the completion of the SAA ratification process by all EU member states during the first semester of 2008
 - engage in an intensive dialogue with the EU for the liberalisation of movement which will open in 2008 and will comprise the necessary efforts to put it in place as soon as possible
 - extend the framework of economic and commercial cooperation with EU countries, with the particular aim to increase direct foreign investment in Albania
 - extend the presence in EU countries where the country is not being represented and where there are immediate and medium-term political and economic interests, with the aim to increase the visibility of Albania and the Albanians in the EU, to improve the image and to directly represent the values and interests of the country and our citizens
- **Regional policy:**
 - fully support the process of determining the final status of Kosovo and realising its independence and mobilise international support for the future state of Kosovo
 - support all initiatives or developments serving regional peace, security and stability

- build and sustain close cooperation relations with all countries in the region, especially with the state of Kosovo, including via the provision of direct assistance where this is necessary
- support the Albanian factor in countries where they live, in order to protect their legitimate rights and interests
- sign a Treaty of Good-Neighbourly Relations and Cooperation with all countries in the region
- **Capacity building:**
 - approve the new law on the Foreign Service, which aims to improve: the quality of Foreign Service structures; the recruitment, training, and diplomatic career procedures; and the more accurate definition of the rights of Foreign Service staff
 - extend the presence in countries in the region where the country is not being represented and where there are immediate and medium-term political and economic interests, with the aim to increase the visibility of Albania and the Albanians, to improve the image and to directly represent the values and interests of the country and our citizens
 - open centres of Albanian culture as an important mechanism for getting to know the country, the culture and the heritage of Albanian society
 - improve accordingly the quality of consular services for Albanian citizens abroad, while also increasing the quality of information for Albanian citizens who are travelling abroad
 - support and strengthen the Albanian diaspora, including the organisation of the diaspora congress and support to the opening of schools for supplementary teaching of the Albanian language

SAA implementation

The Ministry of Foreign Affairs has a primary role in ensuring that our policies are implemented in full accordance with the principle of peace and stability, cooperation and good neighbourly relations. In addition, it is the focal point in government for the development of political dialogue (Title II).

3.2 DEMOCRATISATION AND RULE OF LAW

Progress in establishing democracy has come as a result of the commitment of Albanian citizens as well as the constructive support of international partners. However, numerous cases of violation of individual rights have caused citizens to lose confidence in the state institutions. The government aims to restore transparency and offer a comprehensive programme of institutional reforms oriented towards European standards to consolidate the democratic system and the observance of fundamental human rights and freedoms.

Free and fair elections will be the real source of legitimacy of democratic institutions. Restoring public trust in elections is an absolute priority. For this purpose, the electoral reform will be completed in cooperation and mutual understanding with all political forces, as well as with the support and advice of international partners and all other social stakeholders.

Great importance will be assigned to guaranteeing the freedom of expression and the media, aiming to guarantee the freedom of the press; protect the press in the exercise of its function to inform the public; regulate relations between the press, the public, and state authorities; and regulate relations between journalists and the directing bodies of written media. The active participation of non-government and other civil society organisations in the decision-making process will be further encouraged.

In addition, the government is committed to implement and reach high standards in the respect and realisation of the rights of all minorities that live in Albania. All steps and initiatives to be undertaken will aim towards fully implementing and fulfilling the 'European Convention on Human Rights' and the 'Framework Convention for the Protection of National Minorities' of the Council of Europe, which have been ratified by Albania.

Justice and home affairs

Justice

Challenges

During the period of transition, Albania adopted new concepts of judicial power and implemented modern legislation that was very different to the one it replaced. Despite these changes, the justice system has not been free from external, particularly political, influences. Even though justice was proclaimed independent from politics, political interventions have been numerous. The justice system is the least controlled and is considered as the sector with the highest level of corruption, taking into account that no judge or prosecutor has ever been put in prison unlike what has happened in other sectors. The reform of the justice system is a necessity that is stressed repeatedly even by external observers, notably the European Commission, which in the short-term priorities of the European Partnership³, emphasises the need to "finalise, adopt and implement the draft law on judicial reform". Similarly, through its periodic reports, the European Commission suggests that necessary improvements in the justice system should focus on:

- the relationship with independent judicial institutions, including the clarification of the respective competences of the judicial inspectorates of the Ministry of Justice and the High Council of Justice
- the reorganisation of courts to improve the efficiency and transparency of decisions and the provision of adequate space, equipment and computer networks
- the strengthening of status, independence and constitutional protection of judges and prosecutors and progress in their training, recruitment, case assignment and evaluation
- the transparency of the civil and criminal justice processes through the publication of court decisions and the results of checks on violation of the procedural code

³ Council Decision on the principles, priorities and conditions contained in the European Partnership with Albania and repealing Decision 2006/54/EC, November 2007

- the execution of court decisions, which remains low, particularly in cases where the state is obliged to compensate citizens
- the penitentiary system, the prison facilities, and the pre-trial detention centres are all considered to be below European standards

Sector vision

The vision is the functioning of a justice system that is independent, transparent, responsive and efficient which will restore citizens' trust to the fairness and equity of the judicial decision. The ultimate goal for the justice system is that it performs according to the parameters and at a similar level of quality as in the European Union countries.

Strategic priorities and policies

The reform in the justice system includes the reorganisation of institutions and the reform of mentalities, with the aim to correct current weaknesses and increase the efficiency of the system. These objectives demand continuous financial and human efforts for the system to function properly, guarantee the independence of the judiciary, increase its responsiveness to society, implement the *acquis communautaire* and European Union standards, as well as to change the way of thinking. More specifically, aiming to reach a broad political consensus for the preparation of the legislative basis and the implementation of justice reform, the strategic priorities in which the work of the government will focus are:

- Fully guarantee the **separation and balance between powers to increase independence** through strengthening the accountability of the judiciary in delivering justice:
 - in cooperation with the Parliament and international partner organisations, review the constitutional dispositions regarding the 'check and balance' principle and ensure that it is applied fairly
 - review the functions of the judiciary and the Ministry of Justice as well as the legal and constitutional relations between the two, with the aim to have a fair and balanced division of responsibilities and competences
 - intensify the inter-institutional dialogue and cooperation between the Ministry of Justice, the judiciary, the prosecution, the Ministry of Interior, the State Police and all other actors contributing to the area of justice, with the aim to build and consolidate trust and the necessary consensus among parliamentary political forces for justice reform, and improve the performance of the judicial system
 - reform the prosecution institution in all its dimensions (including also possible constitutional changes) to increase effectiveness and prevent corruption, raise the accountability of prosecutors in the exercise of their legal duties, and enable the implementation of the fight against organised crime; this includes a law on prosecution ethics, a regulation on an assessment system of the workload, and regulations for the implementation of the case administration system
 - review and harmonise all organic laws in the justice system
 - improve the mechanisms and legal procedures which prevent and fight corruption and protect human rights in the system
 - orient the judiciary and its administration towards the best European practices
 - overhaul the judicial budget planning and management system
 - strengthen judiciary institutions of self-control
 - limit the immunity of judges and other high state officials with the aim to ease the penal procedures for acts of corruption
 - implement annual inspection programmes in the prosecution and the judicial administration as well as joint inspections of the Inspectorate of the High Council of Justice and the Department of Inspection at the Ministry of Justice - and publish the control reports
 - train inspectors on the new methods of control and the systems of European Union countries

- Orient the **court system** towards the best European practices:
 - invest in court renovation or extension
 - complete a national network on the basis of the CCMIS system, computerise the processing of judicial files in all courts (civil and penal), assign cases by electronic draw, and provide every court with an internet page
- Strengthen the **status of judges and prosecutors**:
 - Implement objective procedures in the appointment of judges through competitive examinations
 - set and implement objective and transparent rules for case division between judges
 - improve the conditions, means, and work environments for the judiciary
 - provide continuous and appropriate training of judges and prosecutors, in issues such as human rights, ethics, commercial and other issues linked to the SAA
 - develop courses by the School of Magistrates in various fields, such as civil law, civil procedures law, penal law, penal procedures law, constitutional law, European law and human rights, private international law, international judicial cooperation in the civil and penal areas, presentation of the *acquis communautaire*, public procurement, bankruptcy law, intellectual property, gender equality, personal data protection etc
- Increase the **efficiency and transparency of criminal and civil processes**, while respecting the protection of personal data and improving the performance of the judicial administration, as a valuable assistant in the process of awarding justice:
 - implement the new system of assessing the performance of judges on the basis of objective criteria
 - establish an annual programme of court controls, regarding their relations with the public, in terms of citizen access to courts and their knowledge of court decisions
 - control the implementation of the case management system at all phases
 - promote and popularise the system of pre-trial settlement as arbitration or mediation, aiming to create and professionalise a class of arbitrators and mediators
 - review the status and qualifications of the judicial administration through their gradual inclusion in the civil service
 - improve the system of processing, analysing and publishing statistics
 - publish the extracts of judicial decisions and consolidated versions of laws
 - promote judicial cooperation
 - create the national office for legal aid
- Achieve a sustainable increase in the level of **execution of court decisions** and executive titles towards the standards of European Union countries and an improvement in the performance of the bailiff service through legal initiatives (e.g. in the Civil Procedures Code) as well as implementing actions such as:
 - improving the infrastructure of the bailiff service offices
 - providing training on changes to the Civil Procedures Code and related legislation
 - introducing a new control system, assessing progress and effectiveness in the execution of decisions by the local bailiff offices
 - establishing an intranet for communications between all bailiff service offices
- Improve the **prison and pre-detention systems** in the framework of guaranteeing the fundamental individual rights, establish necessary conditions for rigorous implementation of the obligations that stem from the existing legal framework while ensuring that all law implementing

bodies treat humanely those in pre-detention, and transform the penalty into a possibility for re-education through:

- respect of international conventions for the establishment and management of penitentiary institutions and the treatment of prisoners or those waiting to be tried
- training of staff in prisons on issues of human rights and strengthening of the Training Centre of the General Department of Prisons
- implementation of master plan to improve conditions for prisoners and solve the problem of overpopulation of prisons according to recommendations of the Council of Europe: completion of infrastructure interventions in the Burrel, Lezha, Lushnja, Peqin, 313, 302 and Vlora prisons and construction of the Durres, Vlora and Elbasan pre-detention centres
- greater inclusion of prisoners in activities that support their re-integration after release
- introduction of a structure for the application of alternative sentences
- distribution of the convicted to institutions near their places of residence
- reform of the prison system for minors, improvement of the environment of the Institute of Re-education for minors, necessary interventions in the building and the equipment, and training of the personnel of the Institute
- modernisation of the prison statistical system

In addition:

- Promote **international judicial cooperation**, by taking part in programmes undertaken with regional and international partners in accordance also with obligations that stem from the implementation of the SAA. Agreements with neighbouring countries will be approved and their effective implementation will be ensured.
- Improve the **legislative preparation process**, including the increase of capacities and their professional consolidation, increased attention to the *acquis communautaire* with the aim to prepare good quality legal texts, and acceleration of the approximation of legislation process, among others through:
 - implementation of the manual on legislative process and legal writings and training of the juridical structures
 - more intensive consultations at the early phase of the legislative process
 - analyses of policy options prior to the proposal of new laws
 - exchange of experiences with experts for the adoption of community standards and practices
 - improvement of translations
- Harmonise rights and duties of **lawyers** with international and commonly accepted standards and improve the **notary** function, as a public service that forms an integral part of the justice system, with the aim to strengthen legal security and ease the workload of courts.

SAA implementation

The Ministry of Justice has a key role in ensuring that the rule of law, one of the primary aims of the Association (Articles 1 and 2), is guaranteed. In addition, it is responsible for overseeing the implementation of Title VII on justice, freedom and security, with special reference to Articles 78 and 79.

Property rights

Challenges

Uncertainty over property rights can seriously harm economic growth. During the transition period there have been major land and property reforms, including the privatisation of land, housing, and other properties, the recognition of property rights for land confiscated by the state after 1945, and the creation of an Immovable Property Registry System to support the land market. There have been

attempts to divide the rights of use of public property between central and local government. However, there is still a lot to be done to raise awareness among central and local government to implement correctly the law on the transfer of immovable property. The state immovable property inventory and the final transfer of the property rights to the central and local governments will be completed in almost the entire country. Despite these efforts, there are still problems:

- The restitution of property for original owners whose land was taken or confiscated in an unfair manner after 1945 is obstructed by frequent conflicts of claims with current occupants. There are important unresolved issues as part of the implementation of the amended law on the restitution and compensation of property, such as: the implementation in practice of the land valuation methodology, the compensation that will be offered if restitution is not possible, and the overall budgetary implications of compensation, which could be significant. In any case, this remains a complicated process by the mere fact that properties have incurred changes or have been transferred to other people.
- The first registration of property has not been completed and as a result the country is not wholly included in the registration system, a fact that creates a lot of difficulties especially in these zones where property has high value and where the land market is dynamic. As a consequence of the parallel operation of an old (hipoteka) and a new system, the Immoveable Property Registration Office is not yet in the position to fulfil its function to maintain and guarantee a registry of legal interests. This brings about uncertainty and mistrust among citizens, who - faced with complicated procedures and lacking necessary knowledge - do not always appear at the Immoveable Property Registration Office to register their property, making it impossible to update the information and causing overlapping risks.
- Internal migration put extreme pressure for the creation of new settlements in peri-urban areas on land that was illegally occupied and built upon. While the quantity and quality of housing improved dramatically in these years, many of these houses do not have access to basic infrastructure and social services. The implementation of the law on the legalisation, urbanisation and integration of illegal settlements is necessary for properties to be included in urban plans and to benefit from investment in infrastructure.

Vision

The vision of the property rights reform is the normalisation of the land market, which will therefore become an enabling factor for economic growth.

Strategic priorities and policies

The government will complete the first registration and legalisation of property titles, as well as the restitution and compensation of properties. Areas around the main cities will receive priority as they are the most active in the land market, have higher value, and a relatively higher concentration of claims of former owners over properties to be legalised. In addition, the 'de jure' rather than 'de facto' property rights of local and central government will be regulated.

The law envisages that **property claims will be compensated** in kind or in cash based on the market value. The primary objective in that process remains the creation of the land value map and the specification of the physical and financial compensation funds. The importance of completing the land value map rests in the fact that it represents the decisive and final step enabling the resolution of the property problems. This map will facilitate the government to develop concrete estimates for the funds that will be required for compensating expropriated subjects, will serve as a reference point for the value of land in cases of contracts, and will provide an overview of the land market in Albania. The archives of the Agency of Restitution and Compensation of Property will be computerised to assist the calculation of compensation needs and evaluate complaints about decisions taken from the regional offices of the Agency.

New legislation will be enacted to establish an immovable property tax based on market value. Property tax will be a critical source of revenues for local government. Currently, in its absence, population increase is not translated into an expanded financial basis and many local governments lack the resources to fund infrastructure development.

The **legalisation** process is determined by the law on legalisation, urbanisation and integration of illegal constructions and the related action plan. The first step was the process of self-declaration of illegal properties. Currently, orthophoto maps are being produced and the information system is

being established. Local government unit staff will identify the information in self-declarations and process the forms according to a set of instructions. The Agency for Legalisation, Urbanisation and Integration of Illegal Construction Zones (ALUIZNI) is responsible for the coordination. In order to maximise the efficiency and cost effectiveness of the legalisation process, it will be directly linked to the first registration process.

The operation of the Immovable Property Registration Office will be improved to build trust among all potential participants in the land market. The government will improve the quality of service and rationalise user fees for **property registration**. It will also change the law on property registration to transform the Office into an autonomous and self-financing office, with the Chief Registrar reporting to a Board of Directors. The changes will be specified in a business plan. Data will be shared with other land market institutions to improve the accuracy and completeness of the registry data and service standards will be monitored. Overall, the goal is to maximise the utilisation of the first registration data, which will be the source of property rights. In an effective and efficient property registration system, the kartelas will:

In the field of immovable property registration, citizens and institutions will receive the social and economic benefits that stem from an effective system where records ('kartela') contain clear and precise information on the ownership of all immovable properties in the country and other interests on them; records reflect the legal situation with respect to ownership of the immovable property, in accordance with indicative maps of registration that are regularly updated; the entire information on records and maps is ready and available for the public; and the registration of transactions on land and immovable property is quick. The main mechanisms towards achieving the above objectives are:

- improving the service provided and reducing the rates charged
- establishing and monitoring service standards
- ensuring the self-financing of the system
- ensuring that the agency has autonomous juridical status
- coordinating and cooperating with other institutions, which deal with property issues

From the above strategic priorities the following objectives and implementing activities emerge:

- completion of first registration
- modernisation of the Immovable Property Registration Office, including: design of computer programmes and procedures for information updating; updating of digital data; and establishment of standards for data exchange
- development of the regulatory framework
- building of the administrative capacities

In order to achieve these objectives, the Immovable Property Registration Office has prepared a package of documents, including a business plan, for the implementation of the Land Administration and Management Project, which represents the main activity in the coming years.

Improving the property registration system to make it efficient and transparent and completing the initial registration will be implemented in phases. During the period 2007-2010, the focus will be initially in urban and peri-urban areas, simultaneously with the legalisation process, and on the computerisation of the ten biggest offices of the country. During the period 2010-2013, the focus will be on the registration of forests and pastures.

SAA implementation

Article 61 demands the clarification of the situation with immovable properties as part of the commitment to guarantee the free movement of capital.

Anti-corruption

Challenges

The increase of corruption to a very dangerous degree, the surrendering of markets to monopolies, the weak and distorted implementation of the law, as well as delays in the introduction of reforms,

have resulted in the loss of trust among Albanians in state institutions. Previous governments have brought about a dramatic withdrawal of the forces of the state from law implementation everywhere not only because of their inability to introduce reforms but particularly because of their lack of will and conflicts of interest at all levels.

Various international reports, studies and surveys as well as statements of various government and non-government actors have stressed, among others:

- the weak implementation of the existing legal framework against corruption
- the weak implementation of administrative instruments to prevent corruption (public administration, weak transparency, malfunctioning of systems of control etc)
- the inadequate cooperation between control/audit structures and prosecution which play a role in the fight against corruption
- the malfunctioning of institutions with legal responsibility in the fight against corruption

In the case of the justice system, some of the disturbing problems are linked with the low transparency in the penal and civil processes, which have brought about low levels of public trust in the judicial system; the lack of transparency and subjective procedures in appointing judges and prosecutors; deficiencies in the status, independence and special protection that is accorded to judges; infrastructure deficiencies in courts, prosecutor offices, prisons, pre-detention centres etc; the low status and pay of administrative staff in courts; and the unsatisfactory level of execution of court decisions.

The system of public procurement has often not served the purpose of efficiency in the use of public funds. Evaluation of bids was deemed to be weak and supervision inadequate. The proportion of contracts awarded through uncompetitive methods was high. The new procurement law lays down the key principles, such as respect to the process, access to information and transparency.

Vision

The general vision is the gradual and sustainable reduction of corruption, the strengthening of the integrity of institutions and the promotion of values in government.

Strategic priorities and policies

The fundamental priorities of the strategy focus on the following areas:

- Prevention, transparency, all-inclusiveness and education
 - Strengthening of the political system and of the ethics of public functionaries, including the financing of political parties and election campaigns, the reform of the election system, the regulation of lobbying activities and the review of self-regulating mechanisms
 - Modernisation and consolidation of procedures, including reform of licensing regulations and public services
 - Sector reforms (control, business climate, civil service, public procurement, education, health, public finance, justice, local government etc); for example, the new legislation on public procurement, with the assistance of the Public Procurement Agency, will significantly improve the transparency of procedures by requiring open tenders
 - Consolidation of transparency and integrity in public administration through free and full access to data on the activities of public institutions and realisation of e-government at the level of central government
 - Approximation of legislation, especially correspondence of the legal framework with the penal and civil conventions against corruption of the Council of Europe and the implementation of the obligations of the United Nations convention against corruption
 - Information campaigns and sustainable educational measures
- Investigation and punishment of corruption
 - Ensure efficient prosecution and higher speed in passing judgements
 - Increase integrity and resistance against corruption in the system of justice

- Strengthen administrative measures in the fight against corruption
- Invite the public to participate in denouncing corruption
- Consolidation of domestic and international cooperation and coordination
 - Consolidation of cooperation mechanisms through law enforcement agencies
 - Consolidation of sustainable mechanisms for regular exchange of information
 - Effective application of regional and international anti-corruption instruments

SAA implementation

Requirements for anti-corruption policy are covered under Article 74 on public procurement, Article 82 on money laundering, and Article 85 on cooperation.

Integrated border management

Challenges

The Border and Migration Police has been credited by the European Commission with improved border control and surveillance, which have contributed markedly to the fight against organised crime, illegal trafficking and prevention of migration flows, as well as to improved quality of service to citizens, while cooperating well with its counterparts in neighbouring countries. Recent innovations, such as mobile surveillance units, the installation of the Total Information Management System in the main border crossing points, the modernisation of border control and surveillance equipment, the continuous training of the officers of the Border and Migration Police and the signing of agreements and protocols of border cooperation with neighbouring countries have contributed to increased effectiveness. However, in line with integrated border management initiatives across the Western Balkans, there needs to be further investment to bring border management at some ports up to international standards. An outstanding issue is the demilitarisation of the Coast Guard for the patrol of the maritime border, as the continuation of military involvement in border control is inconsistent with European standards, NATO partnership goals and the commitments to the Ohrid process on border security and management. Border management together with customs management will also be important for the control of corruption.

Vision

Ensure coordination and cooperation among all relevant authorities and national agencies involved in border control and surveillance and facilitate trade exchanges, free movement of people and regional border cooperation in order to create effective integrated border management systems to achieve the common goal of open, controlled and secure borders.

Strategic priorities and policies

The integrated border management crosscutting strategy is fully in line with the 'Guidelines for Integrated Border Management in the Western Balkans', which is the working document of the European Commission. It focuses on four agencies: Border and Migration Police; Customs Service; Phytosanitary Service; and Veterinary Service. Crucial to coordination are a clear division of responsibilities, active communication, and a well-organised flow of information. The integrated border management concept rests on three pillars:

- intra-service cooperation: vertical (coherence through the chain of command) and horizontal (between the different administrative levels from the state body to the units working at the borders)
- inter-agency cooperation: coordinated processing at border crossing points, joint operations at the green and blue border with division of responsibility, central integrated information technology systems, awareness building, and joint use of infrastructure
- international cooperation: local cooperation between officials on both sides of the border; bilateral cooperation between neighbouring states; and multilateral cooperation, to prepare countries for possible accession into various EU systems (e.g. Schengen Visa and Customs Information Systems) on the basis of two essential legal documents, bilateral cooperation agreements and readmission agreements

Each of these pillars covers the following topics: legal and regulatory framework; management and organisation; procedures; training and human resources; communication, information exchange and information technology; infrastructure and equipment. The following are the strategic priorities:

- change the respective **legislation** (for the three pillars) to guarantee that border agencies organise themselves and function as required by the EU
- proceed with **organisational and restructuring reforms**, as a result of the changes in the regulatory legal framework, to guarantee the necessary line of direction, control and management of human, material and financial resources
- define all **procedures** of border agencies with respect to personnel, training, and financing in internal regulations following joint consultations with each other
- implement appropriate and transparent **personnel selection and appointment procedures** with the aim to raise the quality and professionalism of border agencies
- improve the communication, exchange and distribution of information between border agencies and establish a general **information management system**
- obtain appropriate **infrastructure and equipment** to support the agencies' efforts to provide a professional service to citizens and other beneficiaries

SAA implementation

Integrated border management requirements are covered under Article 80.

Migration

Challenges

About 20% of the population has been living abroad for more than a decade, rendering Albania one of the countries with the highest migration flows in the world. Migration also constitutes an important aspect of Albania's relations with the European Union member states which are the destination of the majority of Albanian migrants. The fight against illegal migration is considered a priority in Albania, as is also emphasised by the EU. The visa facilitation agreement between the European Community and Albania was signed in September 2007 as a step towards full liberalisation of free movement.

Vision

The vision of this strategy is to ensure a full policy on migration, moving from a policy that primarily has reacted to fight illegal flows toward a policy based on the establishment and functioning of a national system of migration management.

Strategic priorities and policies

The strategic priorities of the migration crosscutting strategy are the following:

- **To fight illegal migration** through measures such as the implementation of the Readmission Agreement and the creation of a total management information system (TIMS) to record the flow of third country citizens who return to Albania or reside there for employment purposes
- To create favourable legal and institutional mechanisms which will **ensure that migration assists the development of Albania** including:
 - directing migrant remittances toward business investment
 - improving the image of Albanian immigrants abroad
 - improving Albanian consular and diplomatic services in host countries
 - protecting the rights of Albanian immigrants where they live, demanding an equal treatment according to international standards in the area
 - mobilising and organising Albanian communities abroad
- **To manage recurrent migration flows** through measures such as promoting bilateral labour agreements between Albania and European Union member states

- **To fight the brain drain phenomenon** through cooperation with international institutions to develop programmes that attract students and to enable the employment of qualified migrants who return in the country
- **To ensure equal treatment of citizens of other countries** who legally reside in the Albanian territory through approximation of legislation and attainment of European standards
- **To improve the legal framework for migration**, in particular the law on consular services, the law on migration for employment purposes, the penal code, the electoral code and the law on foreigners
- **To create an appropriate institutional structure to manage migration policies** linked with integrated services; the design and implementation of joint employment programmes with private businesses; the provision of services and information on regulated emigration; and the assessment of supply and demand for qualified persons in the labour market

SAA implementation

Migration issues are addressed in Articles 80 and 81.

Organised crime, terrorism and trafficking

Challenges

Control of speedboat movements and prosecutions and convictions of traffickers have continued, although criminal actions related to trafficking in human beings, such as assisting illegal border crossing, people smuggling, exploitation for prostitution and maltreatment of minors remain a problem. Services to re-integrate victims are still lacking, for which competent bodies have started to take the necessary steps. The cooperation agreement for the creation of a national referral mechanism to improve the identification and assistance to victims of human trafficking is a valuable instrument for the better coordination of actions for referral, assistance and rehabilitation.

The European Commission⁴ has noted progress on implementing the Specific Action-Oriented Measures against organised crime. However, these sources also outline the scope for increasing the rate, number and quality of prosecutions for organised crime offences and the seizure and confiscation of the proceeds of crime. This is calling for the more intensive use of intelligence and for improved information flows between public agencies but also with foreign law enforcement institutions. Cooperation of the judiciary with the State Police could further improve results. The Financial Intelligence Unit (General Directorate for the Prevention of Money Laundering) and its legislative framework need to be further strengthened to prevent money laundering activities.

While the adoption of the community-based policing principle is a critical precondition, the conditions that enable organised crime to flourish are multiple and range from the socio-economic (such as the pervasive character of the cash economy), to the institutional (such as the independence of institutions), the technological (such as weaknesses in intelligence gathering) and the political (such as the insufficient checks and balances in the public administration and the political system).

Vision

The vision of the strategy is a society without threats from organised crime, at peace and working to continuously improve the quality of life of its citizens, projecting an image of a peaceful country with high security standards.

Strategic priorities and policies

The crosscutting strategy on the fight against organised crime, terrorism and trafficking has the following strategic priorities:

- Conduct **investigations**, with the aim to fully dismantle criminal networks, criminal organisations or structured groups, for all forms of crime
- **Increase the professional capacity** of the Organised Crime Department through recruitment in specialised positions and continuous training

⁴ Enlargement Strategy and Main Challenges 2006-2007, European Commission, November 2006

- **Improve infrastructure for special operations**, through contemporary technology means, improvement of legal and sub-legal acts that regulate this activity, training of the relevant staff, and more intensive work based on intelligence information and its analysis, particularly the completion of the Total Information Management System (TIMS), the Risk Management Information System (RMIS), the State Police communication network (Datacom) and the criminal information analysis system (Memex)
- **Cooperate with international partners** in the fields of exchange of criminal information and participation in joint operations
- **Strengthen the protection of witnesses** and people who collaborate with justice before, during, and following the judicial process through: rigorous application of the law on the protection of witnesses and people who collaborate with justice; improvement of the cooperation between the relevant institutions, whether state, independent or international organisations; and increase in citizen trust towards the forces of law implementation and the judiciary
- **Raise the awareness** of citizens with relation to the effects of organised crime on destabilising the national economy and society
- Further extend the capacity of the money laundering fighting authorities and the ability of the customs administration to **fight smuggling** through training and exchange of information
- Implement the national action plan for the **fight against drugs** and, in that respect, build investigative capacities and improve the management of sequestered drugs
- Use special investigation methods to **fight arms trafficking**
- Implement the obligations from bilateral and multilateral agreements in the **fight against human trafficking**, improve cooperation between state institutions and with international organisations, and
- Create an efficient system of **assessing risks from terrorism** and take measures to prevent terrorism through a clear division of responsibility between active state structures in this field

SAA implementation

The SAA covers organised crime issues in Articles 81 (trafficking), 82 (money laundering and terrorism financing), 83 (drugs), 84 (prevention and fight against organised crime and other illegal activities) and 85 (cooperation). The importance accorded to this challenge is defined clearly also in the introductory paragraphs of the Stabilisation and Association Agreement, where the commitment to fight organised crime and the strengthening of cooperation in the fight against terrorism are emphasised on the basis of the European Conference Declaration on 20 October 2001.

Public order

Challenges

The transition period is associated with the establishment of police structures to suit a democratic state and the need to respect human rights. The State Police has had to respond to entirely new challenges with respect to both the level and the type of crime. New challenges, such as the implementation of community-based policing, which aims to prevent illegal activities, and changing demographic patterns, call for close cooperation with local communities.

The recent changes to the organisational structure of the State Police aim to restore institutional stability. The management of human resources and infrastructure needs to improve. It is increasingly perceived that the effectiveness of the police is improving, as evidenced by some successful large scale operations. However, the lack of good quality statistics prevents clear trends from emerging. Improvements in this area will increase transparency and can assist to further improve the image of the institution.

Sector vision

The public order strategy is based on the community-based policing approach, which is recognised as the most appropriate for a democratic state. This approach views the police as a service and not as a force and therefore considers it accountable to the public and open to the community. The police and the community are expected to work together. This calls for a heightened degree of

professionalism from the side of the police so that it can engage with the community groups and understand local contexts. The approach therefore requires changes in mentality so that the staff can focus on the quality of service provided and manage the organisation with the intent to improve results. The police aim to create a better image for itself and build confidence in the community.

Strategic priorities and policies

To achieve the above, the strategy is setting the following priorities:

- **Fight organised crime, trafficking and terrorism**, and ensure the **integrated border management** (both priorities are treated in detail in the two previous sections)
- **Build partnerships and confidence**, which involves staff training, research on citizen perceptions and their demands, improvement of the infrastructure and establishment of communication lines between partner agencies and institutions engaged in the implementation of the law
- **Increase the quality of service**, which includes capacity building in communication, the preparation of manuals of standard procedures, the application of self-evaluation models, and the determination of performance indicators
- **Use intelligence-based policing**, which includes the development of a national intelligence model, the creation of intelligence units, and training to orient staff to use intelligence
- **Improve police organisation**, through the establishment of a process map, the decentralisation of competencies, the dissemination of best practices, as well as management training
- **Reduce the rate of crime and anti-social behaviour**
- **Improve road safety**
- **Develop human resources**, including appropriate recruitment and assessment procedures; a development plan for all employees; specification of competencies for each role and each function; transparency and communication; unification of training provided; and capacity building in the Police College
- **Improve logistical management**, through improved policy planning, higher quality of provided services, improved legal basis, special training on logistics, adaptation of firearms to the police mission, improved auto-mechanic structures and devolution of the State Police budget
- **Develop infrastructure**, based on a master plan and the standardisation of buildings

Areas where the community policing approach is expected to bear results range from anti-social behaviour to domestic violence and from road safety to ordinary crime.

SAA implementation

The State Police is a key actor on the implementation of the Articles under Title VIII on justice, freedom and security, particularly Articles 80-85.

Modernisation of administration

Public administration

Challenges

A country preparing for accession to the European Union must bring its institutions, management capacity and administrative systems up to the standards that will ensure the effective implementation of the *acquis communautaire*. According to advisory guidelines prepared by the Directorate General for Enlargement of the European Commission⁵, “this requires a well-functioning and stable public administration built on an efficient and impartial civil service”. A systematic assessment of the candidate countries’ administrative capacity is an integral part of accession negotiations in each individual chapter of the *acquis communautaire*. It presupposes a clear view of the main administrative structures that are required to implement the various chapters of the *acquis*

⁵ Guide to the main administrative structures required for implementing the *acquis*, European Commission, May 2005

communautaire, of the main functions that each of these structures must fulfil, and of the basic characteristics these structures must have.

The Department of Public Administration has observed⁶ that “the inability to realise different objectives, the lack of respect for deadlines set to fulfil these objectives, the lack of realism in planning to achieve these objectives” are clear evidence of the urgency for reform. Unless these conditions improve, it will be increasingly difficult to attract, retain and motivate the personnel needed for an effective public administration.

The European Partnership identified as priorities the introduction of results-oriented management and the implementation of a salary structure to motivate career development to promote the professionalism of the public administration, as well as the training of employees of those sectors of the public administration that are responsible for implementing the SAA commitments and those involved in the financial assistance operations of the European Union.

The strengthening of the public administration will assist improvements in the legislative process. The law drafting agenda in the coming years, which will include the approximation of legislation with the *acquis communautaire* and the adjustment of ratified international conventions into the domestic legal framework, will be enormous.

Vision

The vision is to establish an administration that is professional, based on merit, impartial and able to address the comprehensive challenges of integration and of improved service provision to the public.

Strategic priorities and policies

To fulfil its vision, the government has foreseen as its main strategic priorities:

- **the establishment and strengthening of effective structures for all public institutions:** all public institutions must be organised in a way that will ensure the realisation of all functions over which they have responsibility, will prevent functional overlap and will improve the services offered to the public; similarly, all functions that could be privatised or do not fit with the work objectives of the public administration will be re-assessed
- **the deepening of civil service reform and the extension of the coverage of the relevant legislation:** this will be realised through corresponding changes to the civil service legislation to allow increased objectivity in the recruitment procedures and the selection of the most able candidates from the professional point of view; similarly, the same set of rights and duties as for civil servants will be offered to all public sector workers
- **the improvement of the performance management system:** the aim is to establish an objective system of defining institutional objectives, linked with individual employee objectives, and evaluate their realisation at the end of the year; similarly, it is aimed to have a direct link between individual performance, the remuneration system and career development
- **the establishment and implementation of remuneration schemes for civil servants:** the aim is to differentiate public sector workers according to their qualifications in order to attract and keep in the administration the most able from a professional point of view; for this reason, the pay structure will change, envisaging additional compensation for employees who have completed postgraduate studies (master, doctorate)
- **the provision of training as a strategic means for the development of the capacities of civil servants:** the fulfilment of the requirements of the SAA and of the financial support programmes of the EU requires the building of capacities of civil servants through training on the job obligations; the strategy will be implemented by the Training Institute of the Public Administration
- **the establishment of a modern human resource management system:** a central database for public sector workers will be introduced, which will serve as an information base for projections related to staffing and different pay reform scenarios; similarly, a link to the treasury system will allow electronic payments for public sector employees

⁶ Raport vjetor 2005, Department of Public Administration

SAA implementation

The area of public administration is covered by Article 111. In addition, the European Partnership recommends guaranteeing the implementation of civil service status legislation to formalise in this way the institutional memory and the functioning of a career structure.

Decentralisation

Challenges

The decentralisation process will continue to be considered as an instrument and clear evidence of the will of the Albanian society, important actors in the political and administrative life, especially of the government: (i) build a democratic system; (ii) ensure good and effective governance for citizens; (iii) exercise power and deliver services at a level close to citizens; (iv) attract and ensure citizen participation in decision making; and (v) contribute in an active way in the process of integration into the Euro-Atlantic structures through cross-border, inter-communal, and inter-regional cooperation. The decentralisation process in Albania is based on the principal European documents on local and regional democracy, the European Charter of Local Self-Government of the Council of Europe, framework conventions for cross-border cooperation, the Constitution of the Republic of Albania, and the entire legal framework for local government.

For an effective consolidation of local government, decentralisation is considered as: (i) political decentralisation, aiming to give citizens and their elected representatives more power in the process public decision making; (ii) administrative decentralisation, calling for redistribution of authority, responsibility and ability to ensure public services through different levels of government; and (iii) fiscal decentralisation, whereby local government units have adequate revenues in order to realise their decentralised functions, either own or transferred from central government, and the authority to take decisions on spending.

Vision

The vision for local government conforms to the provisions of the Constitution, the principles of the European Charter of Local Self-Government, and the objectives in the framework of the SAA.

Strategic priorities and policies

Following the achievements in the implementation of the national strategy of decentralisation and local autonomy over the past seven years, the Ministry of Interior has reviewed the main policy problems and has outlined the following strategic priorities:

- **Strengthening of the first level of local government through:**
 - Institutional strengthening of municipalities and communes. This includes improvement of their administrative structures; clarification and specification of the relations between councils, chairmen and the corresponding administrations; simplification and transparency in the corresponding structures; and increasing the quality of the local government employees through extension of the coverage of the civil service law, including those in the commune administrations. A short-term objective is also the preparation and approval of a strategy to train employees and elected officers, which is closely linked with public participation, good governance, and the fight against corruption.
 - Financial strengthening. This will be achieved through the merging of two components of the small business tax (local tax and simplified profit tax) into a single tax; and the transfer of full rights for the collection and administration of small business taxes to local government. It may also include approval and effective implementation of the law for local government borrowing and the approval of the integral law for local financing. The main goal is the improvement of effectiveness, predictability, fairness in resource allocation between local government units, transparency and accountability. Similarly, this could enable a possible division of the joint base of fiscal revenues from the income and profit taxes between central and local government. The improvement of the legal framework and the building of capacities for internal and external auditing must also be seen as priority conditions for a more dynamic interaction between different levels of government. With respect to accountability, the statistical system and the methods of reporting and information exchange between central and local government will be formalised.

- Rapid transfer of properties to local government. The full transfer of local government property will be completed, according to the dispositions of the law and the procedures for the registration of state property. The transfer, court registration and consolidation of the water utilities, in accordance with decisions of the Council of Ministers will be completed in the short term. The transfer of forests and pastures that are owned by local government during the first six months of 2008 is considered with equal priority.
- Improvement of relations for shared competences. In relation to the fulfilment of duties in the area of education and health, a special regulation in accordance with the dispositions of the Charter and the organic law of local government must define with clarity the responsibilities of each actor and the method of coordination between them.
- Improvement of the administrative-territorial division. Current realities, the use of more effective instruments, such as cooperation between communes or the complementarity of public services between municipalities and communes on one hand and regional councils on the other, point to the need for a more rational and effective administrative division. This division will be an output of broad consultations with the locally elected officers, with local councils and with citizens.
- Strengthening of the **second level of local government**. Currently there are weaknesses in the composition and selection of the regional council representative bodies, the competences that have been assigned to them by law, and their independent financial sources. In view of that, a new legal framework is needed, which will realise in a new way the composition and selection of regional councils, will add to and extend their competences, will determine independent sources of financing, and will combine these with a review of the size of regions in accordance with European standards.

SAA implementation

Article 111 on public administration also covers local government.

Civil registry and identity cards

Challenges

Albania must develop an accurate system of civil registration which citizens can trust. This is a pressing problem with consequences far beyond the lack of accurate voter registers. A civil registry is an essential tool for government planning in taxation, health, social security, education, postal service, military service and free movement of people.

A major shortcoming of the Albanian civil registry system is the lack of an administrative address system. The former system of addresses collapsed in the post-communist era as a result of inconsistent policies, insufficient municipal management and urban planning, unregulated migration flows and illegal constructions. The legal framework obliges local government units to assign names to existing unnamed avenues, roads, streets, squares and parks and to provide internal and external addresses to existing objects but it does not provide for all needed steps to implement and manage the whole process. A harmonised and unified mapping certification process is currently being prepared. The responsible units for the establishment, maintenance and administration of the address system are: at the central level, the General Directorate of Civil Status, through the Department of Documentation and Procedures, will be responsible for the address system, the national registry of addresses and its administration; at the local level, based on the current legal framework, local government units are responsible for administering the address system.

Civil status acts (birth, marriage and death) are registered at local level at Civil Status Offices and later registered in the Fundamental Register, which is a summary of all components of civil status for each family. Based on the Fundamental Register, certificates are issued to citizens. These certificates also serve as identification documents, since the latter do not exist in Albania.

The data protection law is not fully consistent with the Council of Europe Convention 108 and its Additional Protocol, which Albania ratified in 2005. Requirements of these international legal instruments include the establishment of an independent data protection supervisory authority. Furthermore, current legislation only covers public authorities and not private legal persons.

Sector vision

Establish and develop a modern civil registration and address system to use as a basis for a secure and unique personal identity document in full accordance with international standards.

Strategic priorities and policies

The strategic priorities of this sector are:

- Establish and administer a **modern address system** to improve the quality of public services
 - Improve the existing legal framework
 - Establish suitable coordination mechanisms to support implementation at the local level
 - Draft manuals for implementation of the new address system
 - Establish a central authority which will act as coordinator for mapping
 - Conduct a public information campaign
 - Install name signs of avenues, roads, streets, squares and parks and number signs for all buildings across the country
- Establish a **modern civil registration system**
 - Computerise the fundamental registers and link them to the new address system
 - Review the legal framework to make it fit with the new service
 - Increase the capacity of the General Directorate of Civil Status and adapt its status in the framework of the significant changes anticipated
 - Improve cooperation and coordination with local authorities
 - Raise public awareness of new developments in the civil registration service
 - Decide on the optimal number and location of Civil Status Offices, as well as their functions
- Establish **synergy** between the civil registry and identity card systems for sustainable results
 - Link the civil registry and identity cards in an overall system design: use the civil registry to generate and issue a personal identity number; establish a network infrastructure for data transfer; prevent the establishment of two separate databases of personal identity data, i.e. one for the civil registry and one for identity cards
 - Enable the use of the civil registry by other government or non-government users on the basis of the principle “one registration of the citizen - multiple use of data”
- Introduce **identity cards** and electronic passports, a system which will:
 - be built at two levels: (1) at the central level: a Centre for Data Processing and Control; and a Centre of Producing Identity Documents and Electronic Passports; (2) at the local level: offices for the submission of applications for identity documents and electronic passports; and offices of verification of identity documents (Police, Civil Status Offices etc) and electronic passports (at border crossing points)
 - have a biometric data control module, which will guarantee uniqueness of identity and avoidance of attempts to take and use multiple identities
 - be able to adopt changes in the field of cards with microchips and biometric data or additional identification data; ensure verification of biometric identity at all times; guarantee confidentiality of biometric and demographic data once these are in the database; protect confidentiality and integrity of data in transit between systems
- **Protect personal data** and implement the recommendations of the 2007 European Partnership document by clearly specifying institutional responsibilities through:
 - amendments in primary and secondary legislation

National Strategy for Development and Integration

- establishment of necessary structure and procedures for the effective functioning of an independent data protection authority
- awareness raising on data protection issues and standards

SAA implementation

Article 79 covers personal data protection and Article 81 covers the provision of appropriate identity documents.

3.3 ECONOMIC AND SOCIAL DEVELOPMENT

The National Strategy for Development and Integration shares with the European Union and its member states the goal of a balanced, harmonious and sustainable development and the Lisbon agenda of growth and jobs. It aims to build or rehabilitate basic infrastructure, to set up a proper business support framework, and to increase access to employment that will serve the purpose of social inclusion.

Infrastructure

A weak infrastructure has slowed down the rate of economic growth and poverty reduction⁷:

- The development of the national transport network infrastructure will facilitate the movement of people and goods, will bring markets closer and as a result will promote business, will increase access to important basic services, such as health and education with a direct impact on the citizens' living standards, while the development of the national road network, cross-border roads, port facilities and airports will help achieve greater integration with the region and the European single market;
- Investments with an environmental dimension will help sustain economic growth, reduce significant costs to the economy (for example, on public health) and meet EU standards;
- Electrical energy generation will increase, and the quality of transmission and distribution will improve to ensure security of supply within the framework of commitments to open the domestic energy market and participate in the regional energy market.

Transport

Challenges

Despite considerable investments (rehabilitation and new construction in many segments), the road network is constrained in both coverage and quality in comparison with other countries in the region and its condition is currently unsatisfactory due to the lack of an efficient system of maintenance. The unequal development of the road network is one of the main reasons for the unequal development of the different regions of the country. There is a proportional relation between the level of poverty and the level of the quality of the road infrastructure.

The National Transport Plan, which was approved in May 2006, argues that "countries of the size of Albania can only afford one main general cargo sea port". It is therefore being recommended that the Albanian ports be developed according to their comparative advantage with Durres in particular further developing its container, general cargo and main ferry terminal facilities. The specialisation of ports is intended to eliminate the duplication of large investments. The decision to concede the operation of ports to the private sector raises issues regarding the timing and sharing of rehabilitation and capacity-increasing investments. The maintenance of equipment, facilities, structures, and dredging in Durres has been so inadequate that port and cargo handling equipment should be replaced.

The physical infrastructure of the railways is poor. As a consequence of the insufficient allocation of resources and the lack of a mechanism for maintenance works, the technical standards of the railway are low and do not guarantee safe movement. The average speed of trains is at the level of 30-40 km/h. The signalling system on the lines and the interconnection system in some train crossing stations are not functional. There are many level crossings, which are often a cause of accidents with road vehicles. The quantity of freight transported is small and the average haul is extremely short, while the number of employees is relatively high. As a result there is a financial deficit and becomes an obstacle for interventions to improve the state of railway infrastructure and superstructure. In these conditions, railway transport is not attractive by comparison to road transport.

⁷ Sustaining growth beyond the transition: A World Bank Country Economic Memorandum, December 2004

Sector vision

The vision is of transport systems, structures and infrastructure serving the establishment of a single economic space within the national territory and beyond, with the region and Europe.

Strategic priorities and policies

The following are the strategic priorities by transport sub-sector.

1. Transport policy

Transport policy is derived from the National Transport Plan, which must be regularly updated. The main **institutional measures** to serve the coordination of transport policy making include the reform of the transport system and particularly of regulatory agencies. The Plan envisages the establishment of a National Transport Resource Centre; a transport infrastructure research institute; and an Environmental Coordination Unit at the Ministry of Public Works, Transport and Telecommunications.

2. Road transport

- Establish a **unified legal framework**, consistent with the *acquis communautaire*, adopt directives and become member of conventions that will help Albanian operators to participate in markets
- Cooperate with international partners to **remove barriers** that obstruct the international provision of Albanian transport services
- Complete major investments on the national road network (which is almost entirely included in the regional Core Network), including:
 - **North-South corridor**, notably the road segments Lushnja-Fier-Tepelena-Gjirokastra and Shkodra-Han i Hotit
 - **East-West corridor (Corridor VIII)**, in particular the road segments Fier-Vlora and Durres-Rrogozhine
 - **Durres-Morine corridor**, which will be completed in three stages
 - **Tourism roads**, notably the Dhermi-Saranda road but also access roads to Velipoja, Dardha, Butrint, Divjaka, Patok, Lalezi and Spille
 - **Border crossing points roads**, in particular the Saranda-Konispol road, the Leskovik-Tre Urat segment, the Liqenas road, the Has-Qaf Prush road, and the Arber road
- Plan and undertake a major investment programme on the **local and rural road network** in cooperation with the local government
- Encourage the building of roads with **concession**
- **Reorganise the General Roads Directorate** and strengthen the design and implementation capacities of infrastructure projects with approval of standards of roads design
- Improve the **maintenance** of the national road network through a road asset management system (including bridges), total privatisation of the service, and doubling of maintenance expenditure
- Construct the intercity and international **bus terminals** in Tirana in cooperation with local government and, subsequently, establish bus terminals of buses even in other important cities such as in Durres, Shkodra and Vlora
- Promote **road safety** measures, in particular approximation of legislation with the main focus on preventing accidents and reducing environmental pollution from vehicles (standards for gas emissions and noise levels from heavy vehicles), improvement of road safety conditions in the infrastructure (e.g. improvement of road signs), vehicle technical control, road auditing procedures, improvements in the quality of teaching and test procedures of candidates for driving licences

3. Maritime transport

- **Develop the Maritime Administration**, with all necessary policy-making, implementation and control institutions and structures, according to international standards, including the restructuring of the Albanian maritime register and of the port authorities

- **Develop ports** on the basis of master plans, which will consist of specialisation and harmonised development, by rehabilitating and extending the port infrastructure and superstructure, completing the privatisation of services, providing contemporary technologies with concession, increasing commercial autonomy and orienting them towards the market economy:
 - Durres, as the main port, will be developed on the basis of the new master plan, currently being prepared, as a landlord port with commercial autonomy
 - The Vlora, Shëngjin and Saranda ports will be developed on the basis of master plans to be funded by external assistance and the state budget
 - Prepare a study on increasing commercial port capacities to promote economic development
- **Develop maritime transport** by increasing the technical standards of ships, the level of their management, and the accordance with the export and import goods structure.
- **Improve life safety** at sea, safety in ships and port facilities in accordance with the provisions of the Safety of Life at Sea (SOLAS 1974) conventions and the amendments of the International Ship and Port Facilities Security Code (ISPS) code.
- **Protect the maritime environment** in accordance with the provisions of the International Convention for the Prevention of Pollution from Ships (MARPOL 73/78) through implementation of the project with the Regional Marine Pollution Emergency Response Centre for the Mediterranean Sea (REMPEC) in Malta.
- **Educate and train seafarers** in accordance with the provisions of the Standards of Training, Certification and Watch-keeping (STCW 1995) Code (STCW 1995) convention for the standards of training, certification and services of seafarers.

4. Railway transport

- **Restructure Albanian Railways** to improve the management, marketing and financial situation of the company on the basis of the five-year Business Plan
- **Approximate** the legal framework with European legislation.
- **Integrate into the regional railway network**, notably through the construction of the rail connection to Macedonia.
- **Modernise the railway infrastructure** particularly along the core trunk network.
- **Modernise the rolling stock** with passenger trains as a priority.

5. Air transport

- **Prepare the Air Code** and approve it in the Parliament in accordance with international obligations and the *acquis communautaire*
- **Ensure membership** with full rights in international structures and the fulfilment of obligations which stem from the commitments for the establishment of European Common Aviation Area (ECAA), the Single Europe Sky (SES) and the functional blocks of airspace
- **Improve regulatory system**, make institutional changes and create new authorities in accordance with the *acquis communautaire* in the field of air transport
- Complete a study on domestic air transport, which will present the perspective for introducing and **developing domestic air transport**

SAA implementation

Issues related to the transport sector are covered in Articles 52, 59 and 106. In addition, Protocol 5 addresses land transport.

Energy

Challenges

The energy sector is a priority sector of government policies bearing in mind that its development is not at a sustainable level as evidenced by the electricity crises of 2002 and 2007. The main sub-sectors are: hydrocarbons (oil and gas), which amount to 61-63% of the energy resource balance; electrical energy, which amounts to about 25-27% of the energy resource balance; and other sources (renewable), which amount to 11-13% of the energy resource balance. The problems that the energy sector has faced in recent years are the following:

- The production capacity is insufficient to meet current domestic demand. As a result, the supply of consumers with electrical energy is accompanied by continuing cuts and rationing.
- The absence of thermal sources for energy production and the total dependence on hydrological conditions is another factor causing difficulties in the supply of consumers with electrical energy.
- The capacity to import electrical energy is constrained by the inadequate capacity of its existing interconnection lines with neighbouring countries and the transmission lines in the region.
- The country is not linked with the regional and European oil and gas pipelines to secure its supply with hydrocarbons.
- There is no natural gas commercial sector whereas the gas market does not function well.
- Non-technical losses remain relatively high as a result of several factors but mainly because of illegal connections and tampering with the electricity meters.
- High technical losses in transmission and distribution are the result of the depreciated and inadequate network.
- The level of electricity consumption for heating and cooling is high, as electricity is used for heating and cooling homes as well as for cooking. This is another reason for the inability of the electrical energy system to guarantee the regular supply for other services.
- The price of electricity is not liberalised, while the use of other materials is not attractive for heating and cooking purposes.
- The infrastructure for the import and export of oil, gas and their by-products by sea or rail is underdeveloped and inadequate.
- The use of fuel is not fully in accordance with European standards, while the relatively old average age of transport vehicles in circulation reduces efficiency and increases the pollution.
- The privatisation of the public petroleum industry has not been completed, particularly in terms of the refining and services sectors, and the applied technology has not been modernised in accordance with international standards.
- The use of electricity and other energy sources is inefficient as a result of poor house insulation and use of low efficiency equipment.

In order to resolve these problems, clear policies and objectives have been defined and reflected in a series of documents. Since 2001 an Action Plan for the Electrical Energy Sector is being implemented and updated each year.

Sector vision

The vision is the reform of the sector in order to ensure the development of an energy system that is based on market economy principles, open up and further liberalise the internal market and integrate it into the regional and European market.

Strategic priorities and policies

In order to realise this vision, the strategic priorities and policies are:

- To reform and restructure the electrical energy sector based on market economy principles and on a modern energy policies, in order to establish an **effective institutional and regulatory framework** of public energy companies, aiming at their privatisation. The reform will focus primarily on the restructuring of the electrical energy sector, passing from the integrated vertical structure of the Albanian Power Corporation (KESH) into companies divided by function

(production, transmission, distribution and supply) aiming to privatise them and liberalise the sector. This aim will be served by the Albanian Model of the Electrical Energy Market, which has been approved by the government. This will be accompanied by improvements in the legal and sub-legal framework to promote private investment in electrical energy production (such as the new concession law), electrical energy distribution (accompanied by the reorganisation of KESH), the hydrocarbons sector (privatisation of existing public enterprises) and the production of energy from renewable sources.

- To encourage the **efficient use of energy** both in the exploitation of energy sources and the reduction of electricity consumption through: corresponding efficiency programmes for various sectors; strengthening of the legal framework for the efficient use of energy; improvements in the implementation of the law on energy efficiency (as emphasised also in the 2007 European Partnership); reduction of the consumption of energy in the residential sector (changes in the tariff structure, promotion of the use of efficient electricity bulbs, use of thermal insulation etc); promotion of the use of modern technologies in the industrial, service and agricultural sectors for efficient energy supply; promotion of better management and higher efficiency in the transport sector, which has the highest share of energy consumption etc.
- To increase **energy supply** based on the concepts of least cost planning and lowest environmental impact. In this context, investments are projected along the following lines:

1. Production

- **Increase installed capacities for the production of electrical energy** and at the same time ensure their diversification. For this purpose, it is envisaged that approximately 1,000 MW additional capacity must be installed, of which about 500 MW will come from hydro power stations and about 500 MW from thermal power stations. In addition, the initiation of a preparatory process for the production of electricity from nuclear energy will be materialised through a specific project.

During the period 2007-2013 the following hydroelectric plants will be constructed:

- Kalivaç on the river Vjosa (currently being constructed) with capacity of 93 MW
- plants on the river Devoll with capacity of about 350 MW
- Ashta with capacity of 40-70 MW
- small and medium plants (with concession) with total capacity of about 200 MW

The following are at the discussion stage:

- the hydroelectric power station at Skavica with capacity of about 350 MW
- hydroelectric power stations on the river Vjosa with total capacity of about 400 MW

During the period 2007-2013 the following thermal power stations will be constructed:

- Vlora with capacity of 97 MW;
- Fier with capacity of up to 200 MW (rehabilitation)

The following are at the discussion stage:

- Other thermal power stations with private initiative, among which the following can be mentioned: a plant near Seman in Fier with several blocks of about 400 MW each, and a plant in Porto Romano near Durres (with capacity of 800-1600 MW)
- Co-financing for the construction of thermal power stations with lignite in Kosovo
- Increase the effectiveness of strategic investments for the **discovery of new deposits of oil and gas** and **increase the production of oil from existing deposits** in the framework of hydrocarbon agreements with foreign companies, to better fulfil market demand for oil by-products, based on the domestic production.

- Deals to explore and discover oil and gas in blocks located in water (Durrës Block and Ionian-5 Block) and on land (Blocks A-B and D-E)
- Deals to develop production in existing deposits (Patos-Marine, Kuçova, Cakran-Mollaj, Ballsh-Hekal, Gorisht-Kocul, and the Delvina Block).

2. Transmission

- **Increase the electrical energy transmission capacities** to turn the country into an electricity transmission hub in the region, both in the north-south and the east-west directions, with the aim to secure not only the import of necessary electrical energy but also to enable effective trading of energy. The most important works to be realised in this sector over this period are:
 - construction of the 400 kV Podgorica-Elbasan inter-connection line
 - construction of the 400 kV Tirana-Prishtina inter-connection line
 - construction of the new 400 kV sub-station at Kashar near Tirana
 - construction of the new National Dispatching Centre;
 - construction of the inter-system 400 kV line between Macedonia, Albania and Italy
 - rehabilitation and strengthening of all 220 kV and 400 kV sub-stations in the system
- Link the country with **regional networks of oil and gas**, through the preparation of projects presented by foreign strategic investors that are also included in the regional projects such as the 'Energy Community Gas Ring'. The following principal project ideas can be mentioned:
 - The east-west gas pipeline project 'Trans Adriatic Pipeline' (TAP) proposed by the Swiss company EGL and the Norwegian company StatoilHydro as equal partners
 - The gas pipeline project 'Ionian Adriatic Pipeline' (IAP) to link with the gas pipeline network in the direction Croatia-Montenegro-Albania
 - The project for the construction of the liquefied natural gas terminal combined with the construction of a thermal power station with capacity of 1200MW in the area of Seman by the Swiss company ASG
 - The project for the construction of the liquefied natural gas terminal by the coast of Fier (north of the river Vjosa estuary) by the Dutch-Italian company Trans European Energy BV
 - The following up of procedures for the implementation of approved laws for the construction of the trans-Balkan AMBO oil pipeline, through increasing and improving the cooperation between the countries included in the project

3. Distribution

- During 2008 it is envisaged that **the electrical energy distribution sector will be privatised**, following a process which began in 2007. To support the success of this major objective, there will be efforts to increase the performance of KESH and improve its technical loss and billing indicators, through the placement of meters, the elimination of illegal connections, the construction of 110/20 kV lines and subterranean cables for major urban areas, and the rehabilitation of the rural network (including the construction of 6800 standardised transformation points).

4. Hydrocarbons

- **Diversify the sources of supply** of the market with hydrocarbon energy products based on the development of a modern and effective infrastructure for the import and export of oil, gas and their by-products through concession contracts for the construction of coast terminals for the import and export of oil by-products at Porto Romano, Durrës and the area of the former soda PVC plant in the bay of Vlora
- **Complete the process of privatisation** of the processing and trading public corporation ARMO
- **Develop integrated projects** in the energy sector, such as the Energy and Industrial Zone at Porto Romano, Durrës, in which there will be included works for the transport, deposit,

processing and trading of hydrocarbon products, works for the production of electrical energy, and a developed system for the transport of energy

- **Increase accordingly the regulatory role of the state** in the market for hydrocarbon products to ensure the safe and guaranteed supply of the market, respecting the requirements of the EU for the maintenance and management of a security reserve for oil, gas and their by-products, to improve the safety and quality of service and marketed products to achieve the EU standards
- Work to familiarise with rules and procedures that will enable in the future the development of **nuclear energy**, always in accordance with the international treaties and agreements
- To increase the use of **renewable energy sources**. In particular, the aim is to:
 - Prepare a special law for renewable energy, based on the EU Directive 2001/77, which will define clearly the authorisation procedures for constructing facilities and will attract foreign investors, particularly for wind farms, for which there is a great deal of interest
 - Improve the sub-legal and regulatory framework to promote the use of solar panels, especially for the heating of water for residential and industrial purposes
 - Work towards improving and completing the entire legal and regulatory framework in the framework of the new law on concessions which opens up major opportunities to attract private investment for the construction of small hydroelectric power stations
 - Through the approval of Law no. 9876, dt. 14.2.2008 “On the production, transporting and trading of biofuels and other renewable fuels for transport”, in response to obligations stemming from the Treaty Establishing the Energy Community for the implementation of the Directive 2003/30/EC of the European Parliament and European Council on 8 May 2003 for the promotion of use of biofuels (organic fuels) or other renewable fuels for transport, the completion of the corresponding legal framework and methods creates the necessary space for the development of activities for the production and use of biofuels in Albania, as an activity with direct impact in a number of economy sectors (energy, transport, agriculture).
- To open the domestic market of electrical energy and to participate actively in the **regional energy market** in accordance with the European Union requirements for the reform of the electrical energy sector (Directive 54/2003) and the obligations in the framework of the South Eastern Europe Energy Community treaty.
 - In addition to the break-up of the production, transmission and distribution sections of KESH and the privatisation of the distribution component, the reforms aim to prepare the **necessary legal and sub-legal framework** for the operation of the market. So far, the Albanian Model of the Electrical Energy Market has been prepared and approved, the amendments to Law no. 9072, dt. 22.5.2003 “On the electrical energy sector” are in the process of approval, and the regulatory framework is being prepared with the aim to accompany the privatisation process of the distribution sector with a complete framework for market operation.
 - **Develop the market for natural gas** through the creation of opportunities for the supply of the country with natural gas, as an energy product which guarantees the supply of a source that is friendly to the environment. The legal, technical and institutional regulatory framework will be completed in accordance with the standards of the countries in the region and the directives of the EU (Directive 2003/55/EC of the European Parliament and the European Council of 26 June 2003, concerning common rules for the internal market in natural gas) as well as in response to the obligations stemming from the Treaty Establishing the Energy Community (ratified by Parliament through Law no. 9501, dt. 3.4.2006).

SAA implementation

Issues specifically related to the energy sector are covered in Article 107.

Water supply and sanitation

Challenges

In the context of the commitment to meet the relevant EU directives linked with the water supply and sanitation service, the country faces a particularly complex set of issues. The main problems are:

- Albania compares unfavourably with other European countries in terms of access to water supply, particularly in rural areas.
- The inability to maintain the network under constant pressure as a result of interrupted supply and the lack of water disinfection contain potential health risks for the population.
- Poor management in general, low efficiency in the utilisation of human resources, and the inability to manage water demand as a result of the lack of meters have resulted in a large proportion of non-billed water and a difficult financial situation for the water utilities.
- Low tariffs and billing that is not based on water consumption do not encourage saving of water.
- The low level of financial performance of water utilities necessitates the provision of subsidies from central government to cover about 34% of the operational cost.
- Water, sanitation and wastewater treatment investments are have not been oriented towards growing areas and areas with potential for tourism development.
- The maintenance of the network is not always viewed with special attention.

Sector vision

The long-term vision for this vital sector is its continuous development to ensure basic conditions of hygiene according to European standards, while also stimulating sustainable economic growth, protection of the environment and higher living standards. The ultimate aim is the uninterrupted and safe supply of water and the disposal and treatment of wastewater.

Strategic priorities and policies

The government has identified the following goals:

- gradual increase of the coverage from 73% to 98% for the water supply service and from 43% to 80% for the sewerage service by 2015;
- gradual increase of the coverage to 50% of the population for the wastewater treatment service by 2015;
- improve the quality of water by eliminating cases of pollution in the system and achieving the chloride residual target norms from 48% to 100% of all samples by 2015;
- improve the quality of the service by increasing the average number of hours of water supply from 9.7 to 18 hours per day across the country by 2015;
- improve the management and increase revenues to cover the total cost of the service while guaranteeing an affordable service also for social groups in need by 2015;
- gradually eliminate subventions for operational expenditure in the medium term with an annual average reduction of subventions not less than 10% of the 2008 level;
- improve the quality of monitoring and evaluating the system; all results will be made public and will be used to orient investments in a direction that will have a positive impact on performance;
- consolidate and commercialise the water utilities, including the increase of private sector participation; and improve financial performance through the liberalisation of tariffs and demand management

The principal policies in the medium- to long-term are as follows.

In the area of **management** reform:

- Introduce metering for production and distribution and a computer-based billing and collection system for all water utilities
- Establish an incentive-based supervision scheme for meter reading and collection

- Prepare and implement a national programme of staff training
- Strengthen the monitoring of water utilities by the Ministry of Public Works, Transport and Telecommunications and the Water Regulatory Authority
- Begin public awareness and community education programmes on potable water consumption
- In the long term: make universal metering mandatory; continue comparative monitoring and evaluation and publicise the corresponding information; create a self-financed vocational training centre for staff and local authorities; continue the staff training system in specialised centres and in advanced countries; make business plan mandatory for each water utility; manage the hydraulic systems of water supply and sanitation based on computer models; and support public awareness and community education programmes in environmental protection and water resources management

In the area of **institutional** reform:

- Singature of services agreements between local government units and water utilities companies;
- Complete five-year business plans for all water utilities'
- Undertake a study for the regionalisation of water utilities across the country and begin the regionalisation process'
- In the long term: prepare regulations to facilitate advanced forms of private sector participation; complete the regionalisation process and achieve economies of scale

In the area of **financial** reform:

- Design and implement collection ratio improvement program with quarterly defined targets
- Set water and sewerage tariffs towards gradual recovery of operations and maintenance costs within a four-year period and eliminate subventions
- Introduce the cost of the sewerage and treatment plant services into the tariff of all utilities
- Introduce differentiated water consumption tariffs if approved norms are exceeded
- Introduce cost centre accounting in the utilities
- In the long term: provide subsidies only to utilities which meet service quality, financial performance and environmental protection targets but do not cover their cost; raise tariffs to cover the full cost of water supply as well as a part of the cost of wastewater treatment plants, including depreciation and debt service

In the area of **social** reform:

- Implement the plan to cover vital needs with free minimum water supply
- Subsidise the water bills of the poorest families that receive ndihma ekonomike
- Include provisions for serving the poor in all new contracts, including those involving private sector participation
- In the long term: introduce subsidy scheme of poor families through the ndihma ekonomike scheme and guarantee the minimum water quantity for a limited period for non-payers

In the area of **technical** reform:

- Establish new technical norms and design standards
- Prepare a national master plan for systems of water supply, collection and treatment of wastewater based on a Geographical Information System
- Prepare a prioritised medium-term capital investment programme
- Prepare a long-term capital investment programme based on the national master plan
- In the long term: update technical norms and design standards in accordance with affordability and EU accession; update the prioritised medium-term capital investment programme

Environment

Challenges

The current situation in relation to fulfilling the EU standards for environment is as follows:

- The air quality in the main urban centres verifies clearly that some air quality standards, whether European or local, are not being met. In particular, the levels of dust and vehicle emissions exceed the standards defined in the national and European legislation.
- The level of quality of the bathing water in coastal areas is medium to low. In 60 out of 70 monitoring stations, the targets recommended by the World Health Organisation are being met. In 10 monitoring stations, the values of the microbiological parameters exceed the approved norms during the summer season.
- Noise is a common urban problem. Its main sources are transport, generators, construction, industry and some commercial activities. A new law for the measurement and management of noise in the environment has been approved for this purpose according to a model based on the relevant EU directive, while limit values have also been approved for specific environments.
- Total urban waste production in Albania exceeds 722 000 tons per year. The average volume of waste production is 250 kg per capita per year in urban areas and 170 kg in rural areas. Waste management in Albania is at a low level and presents problems for the collection near urban centres and especially waste processing in specified points.
- Land erosion is an important problem and is caused by the mismanagement of agricultural land and forests. The levels of chemical pollution of land are relatively low. However, in Albania there are still some hot spots of pollution inherited from the industries of the past.
- About 10.4% of the national territory or about 303 000 ha enjoy the status of a protected area. However, this national network is still too small to have a long-term impact on the protection of biodiversity.
- Forests and pastures cover today about 1.5 million ha or 52% of the total area of Albania. On the basis of cadastral data from 2005, forests constitute 1 million ha or 37% of the total area of Albania. Statistics show that this area has been relatively stable in recent years.
- The position of the fisheries sector in the Albanian economy is still small. The consumption of fish is about 3.3 kg per capita per year compared to 15.1 kg in other countries of the Mediterranean.

Vision

The vision is the sustainable development of the country while protecting as much as possible our natural resources from pollution and degradation and promoting environmental values.

Strategic priorities and policies

The environment crosscutting strategy has identified the following strategic priorities:

- **Adopt European Community legal standards.** This is a requirement of the accession process and the actions required to achieve this have been specified in the National Plan for the Implementation of SAA. New legislation will set interim targets, on the basis of a compliance cost assessment, to create a staged approach to achieving the standards.
- **Enforce environmental legislation** through strengthening of the Regional Environment Agencies and inspectorates, improvements in the permitting system, and highly visible enforcement against the worst offenders.
- **Invest in environmental protection** with a view to ensure that European Community standards can be achieved within the next 20 years in the following areas:
 - Wastewater treatment
 - Solid waste management and construction of landfills controlled according to EU standards
 - Closing the existing landfills in urban areas;
 - Rehabilitation of contaminated land and sources of pollution
 - Technological improvement of state owned industries

The cost of such a programme will be large. Although the commercialisation of services has been achieved in some zones, it is still at an initial phase. Current tariffs for services are relatively low and cannot ensure sufficient revenues for a commercial operator to make successful investments. Current levels of public spending for elements of this programme are insufficient to achieve the above results over a period of 20 years. In order to promote environmental investment, the government will establish an Environment Fund to ensure initial financing for environmental investment projects.

- **Manage environmental resources** through a clear command and control legal framework implemented through a well monitored and enforced permit system. Areas to be targeted are mineral resources, protected zones, soil, flora and fauna protection, water resources and water rights (notably a planning system and the strengthening of river basin authorities).
- **Protect forests.** This priority includes: encouraging forest and pasture management in the direction of natural conservation, maintenance of biodiversity and development of eco-tourism; rehabilitating degraded forests, to return them to an optimal state; continuing the transfer of forests and pastures to local government units; taking measures against illegal logging.
- **Manage fishery resources.** This priority includes: increasing the number of new vessels; expanding and improving the fishing port infrastructure with facilities for repairs of boats in all four ports; developing aquaculture; increasing the processing of domestic fish production; strengthening the administrative capacities and coordination at central and local level.
- **Improve communication and awareness.** The current level of environmental awareness is low, therefore resulting in damaging behaviour by citizens. Attention will be given to measures which provide information for the public, enhance awareness of legal requirements, and promote environmentally friendly behaviour.
- **Improve monitoring system.** Specifying goals requires monitoring data on emissions and on the state of the environment, which for many issues are not available in Albania. The targets of the strategy focus primarily on achieving reductions in environmental pressures in order to achieve compliance with emission limit standards.

Compliance with the environmental quality objectives will only be achieved at a later stage; nevertheless, environmental improvement objectives are proposed.

- **Air quality:** Halve the cases of non-compliance with objectives and eradicate breaches of standards which are more than twice the standard by 2009, through:
 - Use of EC standard fuels in all road vehicles and effective compulsory emissions testing for all road vehicles to EC standards by end of 2008
 - Reduction of emissions for all major industrial installations by 2009; introduction of Integrated Pollution Prevention Criteria (IPPC) permitting system in 2009
 - Introduction of construction industry code of practice in 2008 and environmental management requirements for all new public works contracts in 2010
 - Implementation of a system of national air quality monitoring in compliance with European Community requirements by 2014 with the following intermediate steps: EC compliant environmental monitoring in 6 cities in 2008; national air emissions inventory in 2008; monitoring in all urban centres by 2011; and EC compliant emissions monitoring at all permitted fixed point sources installations in 2011
- **Solid waste:** Manage waste, prevent dumping of waste at unauthorised and not approved by local authorities locations by 2008, achieve safe disposal of 75% of hazardous waste production by 2009, and dispose 50% of non-hazardous solid waste to engineered landfills by 2013, through:
 - guidance documents for local authorities on the planning and operation of waste collection and disposal, transportation and treatment
 - preparing studies and priority projects for waste management to ensure the establishment of five regional landfills by 2009 and engineered sanitary landfill sites for disposal of municipal waste throughout the country by 2013

- establishment of hazardous waste landfill site by 2009
- Waste water: Ensure an urban sewerage connection rate of 75% in 2010 and 85% in 2014 and appropriate treatment for at least 25% of all collected wastewater in 2010 and 50% in 2014.
- Surface water:
 - reduce point source pollution from non-urban sources, including industrial and agricultural processing units
 - reduce diffuse source pollution through the introduction and promotion of codes of good agricultural and forestry practices
- Ground water: Implement groundwater protection zones by 2009
- Soil: Increase the level of forest cover in worst affected areas and by 5% overall by 2010, cease all unlicensed extractions of river gravels and impose strict constraints on licensed extractions
- Biodiversity: Increase the areas designated as protected to 15% of the territory by 2014 (to ensure that all ecosystem types are represented in the protected area network, that elements of the Paneuropean Ecological Network are implemented, and that the objectives of the species action plans are supported); prepare draft management plans for existing protected zones by 2011
- Environmental damage: Complete feasibility studies and project dossiers for all hot spots and achieve rehabilitation of the worst 35% of contaminated land by 2010

SAA implementation

Environment issues are addressed in Article 108.

Market economy

The establishment of institutions and regulatory frameworks that ensure a functioning market economy has proved a key determinant of growth in Central and Eastern European countries that joined the European Union in 2004⁸. In order to utilise entrepreneurial skills and foster growth, it is necessary to offer a level playing field to firms and reduce unnecessary costs on business. In addition, small and medium enterprises need to be provided with supporting services and access to information and communication technologies.

Public finance

Challenges

Over the next seven years the public finance sector will pursue the attainment of EU standards. Fiscal policy and the administration of public finance will continue to be oriented towards the adoption of the principles and standards of European legislation and increasing the capacities of the Ministry of Finance for their implementation.

Sector vision

The vision of the public finance sector is the mobilisation and the efficient, effective, transparent and trustworthy use of the country's financial sources, in accordance with the policy and the priorities of the Government Programme and the National Strategy for Development and Integration.

Strategic priorities and policies

The strategic priorities are:

Improve the public financial management according to international standards, which will take place in the following areas:

- the macroeconomic and fiscal forecasts will be improved

⁸ Growth in the Central and Eastern European Countries of the European Union, IMF Occasional Paper 252, 2006

- the annual and medium-term budget programming will strongly support the allocation of resources in areas of national priority while strengthening fiscal discipline, increasing efficiency and effectiveness of public expenditure, and based on a real costing of policies
- the planning and management of public investment will be improved, by increasing the average size of projects and decreasing their number, and on the basis of a new set of investment management procedures
- the transparency and objectivity in resource allocation to local government units will increase, while improving the timeliness of information on the distribution of local budget funds and implementing the right for local borrowing
- the fiscal framework for local government will improve, in the direction of increasing the rate of fiscal autonomy and the local capacities for collecting revenues and realising financial plans
- the quality of reporting will be improved, and there will be transparency in budget execution and better management of public funds in the treasury via implementation of a computerised system
- international accounting standards will be formulated and applied and an effective and independent audit and internal control system will be developed across the public sector
- the fight against illegal transactions will be improved based on: deepening and extending the fight against money laundering and terrorism financing, through the preparation of national preventing policies; improving cooperation between domestic institutional and with foreign counterparts; building an information technology infrastructure platform and human capacities

Broaden the tax base and align fiscal policies with national priorities. Tax policy will maintain a balance between providing the necessary revenue for public expenditures, while improving the private domestic and foreign investment climate and maintaining social equality. The main pillar of reaching this goal will be the maintenance of a low tax level accompanied in parallel by the reduction of fiscal evasion, the broadening of the taxable base and the fair distribution of the tax burden without distortions. The main mechanisms for the implementation of this policy will be:

- the implementation of the flat tax;
- the review of the tax system with particular emphasis on the shortening of the list of taxes applied in Albania and the transformation of some national taxes into local taxes;
- the gradual adjustment of the policy on indirect taxes to European standards;
- the simplification of legal and sub-legal taxation acts, administrative improvements with the aim to reduce bureaucratic obstacles, the elimination direct contacts between tax payers and tax inspectors, and a move towards e-filing

Strengthen the performance and credibility of customs and tax administrations. Policies related to this strategic goal aim to modernise the two administrations, increase operational effectiveness, and will promote voluntary compliance. These policies are:

- analysis of tax payer risk in order to identify and reduce the main sources of tax evasion; strengthening of controls and monitoring of registration, declaration, and payment of obligations; simplification of the tax declaration procedures; and improvements in collecting and analysing information
- upgrade of the quality and trustworthiness of the service for taxpayers, improving in this way the business climate
- strengthening of performance, management control and internal audit in the tax and customs administrations through independent investigations and complaint procedures
- improvement of human resource management in the tax and customs administrations
- full computerisation of the two administrations

Modernise the management of public debt. Public debt activity supports the strategy through the development of the domestic financial market and participation in the international capital market. Key components of the policy are:

- the management of the risk and the cost of domestic borrowing while extending the maturity period of domestic borrowing and increasing the share of long maturity debt
- the establishment of a better balance between domestic and foreign debt, increasing the share of foreign debt through the participation in the Eurobond market
- the establishment of an integrated debt management system and the strengthening of the professional and technological capacity of the General Department of Debt to conduct analyses of risk and sustainability

SAA implementation

The Ministry of Finance is responsible for ensuring the implementation of aspects of Title IV on the free movement of goods, Chapter II of Title V on the freedom of establishment, and Title IX on financial cooperation. In addition, it is responsible for Article 82 on money laundering, Article 85 on cooperation against organised crime, Article 87 on cooperation in economic policy, Article 89 on the financial services, Article 90 on audit and financial control, and Articles 97-98 on the tax and customs administration.

Economy

Challenges

There are many principal challenges that are facing this sector among which the following can be mentioned: improving the business climate, simplifying and lowering the cost of business registration and licensing, reducing informality and ensuring fair competition, educating and training human resources through the application of standards that promote learning, innovation and creativity in business. Increasing the opportunities of the Albanian economy, in order to adapt to the logic of internationalisation and integration into the world markets, requires diversification of existing products and services and production of output with high added value. There is a need for policies in this sector to be better coordinated across institutions and concrete measures to be better prioritised, in order to guarantee their efficient implementation.

The image of Albania as an investment destination is still poor, according to highly publicised international rankings, such as the World Competitiveness Index of the World Economic Forum or the World Bank Doing Business survey. According to the 2006 figures, Albania is faring better relative to its neighbouring countries in areas such as access to credit but worse in areas such as contract enforcement.

Sector vision

The vision is one of sustainable economic growth, productivity and high competitiveness through the dynamic development of enterprises, the encouragement of investments, and the more efficient use of natural, human and financial resources.

Strategic priorities and policies

In terms of improving the business climate, the Government has been undertaking a **regulatory reform** under the guidance of a Task Force established in October 2005 which is supported by a platform approved by the Council of Ministers. An action plan determines the main areas: (1) development and management of regulatory reform; (2) improvement of existing legal framework through removal of unnecessary barriers in the fields of licensing, customs, tax, land and construction, inspection, and administrative appeals; (3) monitoring and evaluation of the impact of the reform, including the establishment of a system of regulatory impact assessment. This reform will provide the basis for a sustainable and predictable regulatory environment to increase business competitiveness.

The National Registration Centre, which was established in September 2007, is an independent agency whose mission is to ensure business registration in a short time through a 'one-stop-shop' on the basis of a Commercial Register that will serve as a unified electronic database. The National Registration Centre will ensure the simultaneous registration for fiscal, employment, social and health insurance purposes and will be operational in 29 municipality offices. In the first years of its activity the priority will be to build capacities and to consolidate the registration process.

The reform in the *licensing* system aims to lower the amount of documentation and to shorten the time needed to complete it by implementing the OECD guiding principles for regulatory quality. It applies new principles such as: (1) switch from ex ante to ex post control and continuous control; (2) provide silent approval in cases where the responsible institutions do not respond in time and impose sanctions to those institutions (responsibility of administration); (3) drop all excess requirements for licensing in particular area. During the first years of implementation of this reform, the priority will be to monitor the degree to which these proposals to improve the licensing system for all licenses provided by central institutions are being implemented.

The government will accelerate its efforts to guarantee free interplay of market forces and eliminate anti-competitive practices in line with the relevant articles of the Stabilisation and Association Agreement. Public enterprises will also be subject to the same rules. The Competition Authority will be strengthened and will publish regularly a report on the state of **competition**. The priorities will be to strengthen the state aid control structures (Directorate and Commission of State Aid), and to guarantee transparency in the implementation of basic state aid principles. The regional map of state aid will be prepared. Similarly, the government will respect the internal market commitments that emanate from the Stabilisation and Association Agreement, such as the free movements of goods (in particular, issues related to standardisation and certification, accreditation, and metrology).

In the area of **small and medium-sized enterprises**, the policy follows the Stabilisation and Association Agreement and the European Charter for Small and Medium-Sized Enterprises. Principal objectives include the following:

- harmonisation with sector strategies that have an impact on this sector, development of an entrepreneurship culture through introducing enterprise in the core curriculum at all educational levels (but particularly in vocational schools) and implementing training courses for young people who seek to establish a business
- support to business development through one-stop shops for registration, the unification of certification criteria and procedures at the central and local government levels, the development of a regulatory impact assessment framework, and improvements in the quality of business services, including making firms acquainted with quality systems and facilitating technology transfer
- the improvement of financial support through support to micro-credit institutions, a credit guarantee fund, and the use of other financial instruments such as factoring and leasing
- ensuring the transparency of decisions, acts and measures that have an impact on the business climate, fair competition and support of the integration of small and medium-sized enterprises in the international market

In terms of exports, the goal is to maintain the annual export growth rate of goods above 13-15% in the first years, increase the share of the export sector in the GDP reaching 14% in 2013, and improve the trade balance, through export growth and import substitution, so that the ratio of exports to imports is 1:2 by 2013. The **export promotion** policy consists of:

- legislative measures, notably the harmonisation of laws and rules related to the financing, production, and sale of goods made in Albania according to European Union and World Trade Organisation standards
- institutional measures, such as: establishment of a competitiveness fund; creation of an export guarantee fund; creation of a public service for innovation and technology transfer; establishment and consolidation of public and private institutions that assess and certify the quality of products and services, such as raw materials, production conditions, and treatment until storage and consumption (metrology and calibration, standardisation, conformity, accreditation, laboratory and microbiological analyses, codification)
- other measures, such as establishment of collection centres (for processing, standardisation, packaging and market distribution) to support agro-industrial activity, encourage producer association, and add value to agricultural production, and construction of export processing centres
- promotion of competitive advantages; increase of production capacity of export sectors, such as expansion of the range of sectors and goods for export, particularly in the direction of new

minerals, agricultural and agro-processing goods; encouragement of establishment of active processing (façon) production towards areas with high unemployment and limited development opportunities

Trade policy, in general, will continue to be determined by adherence to the World Trade Organisation principles and the Interim Agreement commitments. In December 2006, Albania jointly with the countries in the region the countries replaced their bilateral agreements with a unique agreement on free trade through amendments and an extension of the Central European Free Trade Agreement, which will introduce further trade liberalisation.

The **foreign direct investment promotion** policy is linked with the overall image of Albania to potential investors that owes as much to promotion activities as to policies on business climate. The following measures will be undertaken to increase foreign direct investment:

- the implementation of the law on concessions and of the 'Albania one euro' initiative, which is provided for in that law and includes a package of assets and services that the state offers to foreign investors at a symbolic price; development of investment projects in partnership with the private sector and application of concession schemes
- improvement of the business climate, physical infrastructure, utilities and regulatory framework which have direct impact in reducing the cost of investment; establishment of competitive conditions and elimination of informality; guaranteeing of property rights and resolution of past conflicts; liberalisation of market entry procedures
- stimulation of the establishment of industrial parks and zones; establishment of new industries through domestic investment which will attract foreign capital
- development of information technology in urban centres and subsequently in rural areas and distribution of telecommunication and internet services across all regions
- the acceleration of the privatisation process, especially in strategic sectors, such as electrical energy, oil and gas, and transport
- promotion of foreign direct investment in specific sectors such as clothes and shoes, service industry, and construction materials

Industrial policy will consist of: technology investment; competitiveness, modernisation, diversification and specialisation in open markets; obtaining the necessary information to utilise the sources of raw materials and industrial development; development of information services and incentives for industrial sectors (guarantee fund, development fund for advanced technologies) and preparation of a restructuring programme, as required by the Stabilisation-Association Agreement.

The objectives for the **mining** industry are to assess the mineral potential of the country, to ensure that traditional and new minerals are effectively produced and promoted, and to increase the range of minerals produced ensuring that they are exploited fully and efficiently.

SAA implementation

The Ministry of Economy, Trade and Energy has the leading responsibility for ensuring the implementation on the Articles under Title IV on the free movement of goods. In addition, it is responsible for Articles 49-51 on the freedom of establishment, Article 56 on special industries, Articles 57-58 on the supply of services, Articles 71-72 on competition (jointly with the Competition Authority), Article 73 on industrial and commercial property, Article 75 on conformity with technical regulations, Article 87 on cooperation in economic and trade policy, and Articles 91-93 on the promotion of investment, industrial development, and small- and medium-enterprises. In addition, the Ministry has a considerable role in the implementation of the provisions of the Interim Agreement and the protocols that are an integral part of the agreement, including Protocol 1 on iron and steel.

Consumer protection and market surveillance

Challenges

Although developments in recent years have brought positive changes in the field of consumer protection, especially related to legislation, more remains to be done in the future. There is a need for additional protecting rules, particularly in the field of product safety. Consumer information and

education need to be strengthened. The representation of consumer interests in civil society needs to grow. Special priority needs to be accorded to the implementation of consumer protection legislation: effective mechanisms of compensation need to be developed and an appropriate system of market surveillance needs to be established.

Vision

In line with European Union consumer policy, the vision is the attainment of a high level of consumer protection, effective enforcement of legal obligations that stem from consumer protection rules, and involvement of consumer organisations in policy making.

Strategic priorities and policies

Reforms in consumer protection and market surveillance are among the key requirements of the Stabilisation and Association Agreement. The Government will strengthen coordination between public agencies, market control structures, consumer protection associations and business associations. In particular, the strategic priorities have as follows:

- **to empower consumers for a real choice** based on accurate information, for self-determination and confidence that comes from effective protection, which presupposes the development of an information and advisory system for consumers:
 - promote consumer education in schools, including concepts of consumer protection in the curriculum, teacher training, joint action of schools with local communities and consumer associations
 - treat consumer complaints in a cheap and fast way, before cases reach courts, in order to raise consumer confidence
 - raise awareness of consumers for their rights and duties and inform economic operators of their responsibilities in the market and towards consumers
- **to protect the economic interests of consumers** on issues of price, choice, quality, diversity, affordability and safety, through:
 - ensuring and encouraging the participation of not-for-profit organisations in the process of consumer protection policy design and implementation
 - establishing a national consumer advisory network, including consumer associations or other central and local actors
- **to provide consumers with modern and transparent market surveillance**, establishing the foundations for the development of safe markets through:
 - consolidating the legal framework by approving and implementing new laws on market surveillance and consumer protection, food safety, and pharmaceuticals, as well as sub-legal acts for specific products in line with the *acquis communautaire*
 - establishing an appropriate and functional institutional system for market surveillance and consumer protection, including the creation of the Consumer Protection Commission, an Advisory Council for consumers and strengthening the capacities of existing structures
- **to protect consumers in an effective way from risks and threats** which they cannot confront and resolve individually, particularly:
 - establishing mechanisms early tracking of risks, which presupposes collecting data about unsafe products circulating in the market, while also guaranteeing a future link with the European systems of information exchange, such as the Rapid Alert System for Non-Food Products (RAPEX) and the Rapid Alert System for Safety of Food and Feed (RASFF)
 - institutional strengthening of state inspectorates, establishing the Food Authority and the pharmacovigilance structure

SAA implementation

Article 76 deals with consumer protection.

Information and communication technology

Challenges

The telecommunications sector has been characterised by the rapid expansion of mobile telephony. Reforms in fixed telephony, which had stalled, are now expected following the privatisation of Albtelecom. The European Bank for Reconstruction and Development stated in its country strategy in April 2006 that “appropriate mechanisms for interconnection and tariffing are notably absent” and that the capacity of the Telecommunications Regulatory Entity “is constrained by absence of necessary secondary legislation”. According to the European Commission, the regulatory framework is not yet in line with the *acquis communautaire*.

Based on statistics such as access to voice communications and access to high-speed or broadband internet services, the World Economic Forum produces the Networked Readiness Index as part of the annual Global Information Technology Report. Albania ranked in the 106th position among the 115 countries compared in 2006. There is a need to concentrate government information and communication technology services and to continue with the establishment of a common high-speed network.

The cooperation between the government and different donors has enabled the establishment of an inter-ministerial network and the provision of a series of computerised services, such as electronic procurement, electronic taxes and the National Centre of Registration. However, there are still a lot of services that need to be modernised with the aim to provide them online in order to increase transparency and strengthen the fight against corruption.

Vision

The vision is of a society where all citizens can benefit from information and communication technology with the aim to increase knowledge, raise effectiveness and make public administration transparent.

Strategic priorities and policies

The priorities of the strategy in the field of telecommunications, covered by the Ministry of Public Works, Transport and Telecommunications and the Regulatory Authority of Telecommunications, are:

- the approval and implementation of the **law on electronic communications** in accordance with the *acquis communautaire*
- the **preparation of the regulatory framework** in implementation of the law on electronic communications by the Regulatory Authority of Telecommunications
- the strengthening of the role and capacities of the Department of Post and Telecommunication Policies at the Ministry of Public Works, Transport and Telecommunications and the Regulatory Authority of Telecommunications
- **Promote competition in the telecommunications market** for new services: since technologies are converging fully, it is important to exploit all opportunities to offer services with added value such as Internet Protocol Television (IP-TV) or Digital Video Broadcasting Handheld (DVBH)

The priorities of the strategy in the field of public service provision, coordinated by the National Agency of Information Society, are:

- **Adjustment of the legal framework** in accordance with the *acquis communautaire* with respect to electronic signatures, electronic commerce, electronic documents, cybernetic crime and personal data protection. These laws need to be accompanied by public oversight bodies.
- Coordinate all initiatives with the aim to maximise the benefits, standardisation and **provision of online services to citizens** in an integrated information framework. These include: identity cards, electronic passports, vehicle registration, applications for health insurance benefits, unemployment registration, social insurance payments, property registration, applications for construction permits, customs declarations, transparency of court decisions, all of which would be done with the use of electronic signatures.
- Utilise the **inter-ministerial computer network** in order to offer a series of services not only to government but also to citizens.

- Utilise information and communication technologies in the education system through investments and the contracting of private companies and establish the education management information system. The use of computers and internet in each school, the training of teachers and in instruction techniques through the use of information and communication technologies and the modernisation of the curricula will be achieved.
- Integrate information and communication technologies in culture, through virtual libraries and museums and the digitalisation of cultural heritage.
- Implement the recommendations of the eSEE and bSEE initiatives of the Stability Pact.
- Adapt the EUROSTAT methodology for statistics and prepare annual reports on information and communication technology indicators.

SAA implementation

Article 103 addresses the information society and the interoperability of networks and services and Article 104 covers electronic communications networks and services.

Social policy

Raising the rate of employment is a prerequisite for continuous growth. In order to maximise the level of employment generated through infrastructure and business development investments, complementary investments in human capital are needed. The strategy shares the goal of the Lisbon agenda to attract and retain more people in employment as a vital means “to sustain economic growth, promote socially inclusive societies and combat poverty”⁹. This includes:

- an employment service that can respond to rapid economic and social changes and the need to transform undeclared work into regular employment
- a social protection system that targets better those in need and a pension system that has minimal impact on the budget, preserves the financial security of the aged and maintains the incentive for individuals to contribute
- initiatives to increase female participation in the labour market and all levels of economic and social life
- a health system that responds to the new pattern of risks, in view of the rapidly changing demographic structure, and improves the health of the population but also addresses inequality in health care service provision
- an education and training system that responds to new challenges but also ensures that no child is left behind

Employment

Challenges

The challenges presented by transition lie in responding effectively to the loss of labour force and reduction in female employment during the past decade and a half. While economic growth and diversification will create new job opportunities, the government must ensure that the Albanian labour force has the necessary skills and knowledge to be able to take advantage of these opportunities. The most significant challenge is therefore to play an effective intermediary role between the labour market and the labour force. This will include the need to deliver appropriate vocational education and training. There is an additional challenge for the government to supplement this intermediary role by creating direct employment opportunities and special employment programmes for vulnerable groups, especially young people aged 18-25 years, women, persons with disabilities and Roma. The challenge posed by the huge numbers of informal workers is to gradually bring them into the formal sector while maintaining the dynamism that characterises the informal labour market.

⁹ Communication from the Commission, Cohesion Policy in Support of Growth and Jobs: Community Strategic Guidelines 2007-2013, COM(2005) 0299

Sector vision

The vision of the employment and vocational training strategy, which is based on the Lisbon agenda, is improved quality of services provided to job-seeking and job-offering clients through the improvement of the employment service, the more effective implementation of active and passive labour market programmes, and the achievement of acceptable levels for rapid regional and European integration.

Strategic priorities and policies

Job creation is the result of the complex interplay of macroeconomic conditions, the business climate, education and social policy. The role of the Ministry of Labour, Social Affairs and Equal Opportunities is to facilitate the functioning of the labour market through improvements in the employment service and the continuation of active and passive employment programmes, particularly in the direction of opportunities for vocational education and training.

The *National Employment Service* offers job seeker registration services; job intermediation; orientation and counselling of job seekers; preparation of documentation for unemployment benefits; orientation and placement in professional training courses; information on the labour market; and implements employment promotion programmes. In addition, services are offered to immigrants and emigrants. The main policy directions to **improve the public employment service**, in line with the recommendations of the Country Review of Employment Policy, prepared by the International Labour Office and the Council of Europe, are the following:

- Consolidation of the employment service across the country through the improvement and unification of working methods, including the upgrading of the skills of staff in regional offices; the review of the capacities and the distribution of employment offices; an increase in the share of specialists who deal with clients; and the monitoring and evaluation of services
- Improvement of contacts with enterprises, development of partnerships, and improvement in the conditions of private agencies with adoption of an ethical code and the exchange of experiences
- Use of information technology to improve the quality of service

The Ministry will improve its active and passive employment programmes:

- *Employment promotion* programmes will continue and will be strengthened by increased supervision to control abuses; identify priority areas; and introduce programme evaluation
- Support programmes for *vulnerable groups* will continue, notably the disabled, women in need, and the Roma, primarily in the direction of opportunities for professional training
- The State Inspectorate of Labour will develop legislation on *health and safety* at the workplace in line with European Union policy to define the respective responsibilities of employers and employees
- Measures to reduce the *informal labour market* will include increased cooperation between the State Inspectorate of Labour, tax and customs administration, the police, and the National Employment Service; and extension of the control zones beyond urban areas
- *Social dialogue*, led by the National Employment Council, will be strengthened through completion of the legal framework to reflect international conventions and improvements in the functioning of consultative councils at the regional level

Finally, in collaboration with the Ministry of Education and Science, **improve the vocational education and training system** in the following directions:

- Increased mobility: through the establishment of a national framework for professional qualifications and the subsequent restructuring of vocational education and training levels
- Curriculum modernisation to meet labour market needs: through a two-tier curriculum structure (partly determined at the centre and partly reflecting regional labour market and training centre conditions) and the gradual modularisation of the curriculum
- Institutional development: strengthening the National Council of Vocational Education and Training as a three-party consultative body (representing government, firms and workers), establishing the National Agency of Vocational Education and Training, strengthening the boards

of schools and their links with social partners, and creating a national mechanism for career counselling

- Development of the competencies of instructors
- Completion of legal framework to support reforms: in the areas of the national framework for professional qualifications, non-public vocational education and training provision, and school engagement in economic activities
- Improvements in the quality of facilities and extended provision of teaching materials: with emphasis on access for the disabled, cooperation with local businesses to use infrastructure effectively, and communication links with the employment centres

SAA implementation

The Ministry of Labour, Social Affairs and Equal Opportunities is responsible for the implementation of Articles 46-47 on the movement of workers, Article 55 under the Chapter on the freedom of establishment, Article 77 on legislation regarding health and safety at work, Article 99 on cooperation in employment policy, and Article 100 on raising the level of vocational education and training.

Youth

Challenges

Representation and youth participation are very important and their absence has resulted in their exclusion from public life. The young are able to adapt and integrate in the labour market but internal migration and the lack of appropriate policies for employment promotion have created an unfavourable situation. Young people in Albania are faced with the same challenges as in other countries in terms of health and primary care. However, limited knowledge has an impact on their protection from drugs, alcohol, tobacco and HIV/AIDS. There is a lot to be done in the direction of stronger cooperation with young people in other countries and in cultural exchanges.

Vision

The vision is the establishment of a favourable environment for citizen engagement, economic empowerment, social protection and cultural development of Albanian youth, giving them direct responsibility for current developments in the country.

Strategic priorities and policies

The goal is to optimise the resources available to young people through the coordination of the work of public institutions at the central and local level as well as the establishment of synergies through multilateral cooperation between the government, civil society, international organisations and the business community. The following are the strategic priorities:

- **Inter-sectoral coordination and common engagement**, including the establishment of a National Youth Agency, as a specialised structure for the implementation of youth programmes
- **Youth representation and participation**, in particular promotion of youth participation in public life, capacity building of youth organisations, support to youth non-government organisations for participation in regional and international activities, and youth participation in the elections
- **Economic strengthening of the youth**, through promotion of youth employment and training for the acquisition of necessary qualifications, use of the intellectual energies of young Albanians who live and study abroad, provision of opportunities for young people who want to open a business, and education of young people as responsible consumers
- **Health and social protection**, encouraging young people to lead a healthy life through their inclusion in education activities for the prevention of negative phenomena and risky behaviour
- **Promotion of European principles**, preparing young people through education and youth exchange programmes on democratic citizenship, human rights and volunteering culture

Sport

Challenges

Among the challenges in the sport sector are: the low level of coordination between the centre, the base and non-state institutions; the lack of institutional structures in the area of sport for all; the lack of transparency; the weak quality in the management of public funds; the lack of infrastructure; the lack of qualifications; the lack of scientific research; and the reduction in revenues from the sport lottery for the National Fund for the Development of Sport.

Sector vision

Acknowledging the fact that sport is a social and cultural activity, based on voluntary choice, which encourages contacts between people from different levels and a fundamental element of social cohesion, the vision for sport will be built in an all-inclusive manner promoting participation, raising sport performance, and improving sport infrastructure.

Strategic priorities and policies

The strategic priorities in the field of sport are the following:

- **Improve the functioning and coordination of the sport system** through: reorganisation of sport with an institutional structure that has national representation; establishment of inter-institutional commissions; establishment of structures at the local government level that will be responsive to today's demands for quality sport and sport for all; and establishment of a coordinating non-government institution for sport (sport confederation, federation of sport for all, federation of school and university sport)
- **Improve the functioning of local and national sport organisations, federations and clubs** through the drafting of their statutes that are supported by basic democratic principles in accordance with the European Charter and the legal documents of international sport organisations; the establishment of a sector on transparency, statistics and information; socialisation of sport clubs
- **Support sport quality and improve sport infrastructure** through the establishment of the National Centre for the Preparation and Support of National and Olympic Teams at the premises of the Dinamo sport club; establishment of the University Sport Centre at the premises of the Studenti sport club; reconstruction of existing and construction of new sport facilities; establishment of 5 sport centres by 2013 (Shkodra, Korca, Vlora, Durrës and Elbasan); and improvement of the law on gambling, casinos and horse racing to increase the contribution of sport lotteries National Fund for the Development of Sport
- **Raise the financial autonomy** of national sport organisations and stimulate the inclusion of business in sport through improvements to the law on sponsoring

Gender equality and prevention of domestic violence

Challenges

The deep social and economic transformation brought noticeable changes to the economic structure and the violation of gender equilibrium in society. However, during the transition, Albania has taken important positive steps towards building a democratic society, the freedoms and rights that have been gained have not had an equal impact on women/girls and men/boys. The Constitution proclaims equality between men and women; however in practice women do not enjoy the same rights. Inequities in the respect of women and girls' rights stem also from the low level of their representation in the decision making process as well as the inadequate attention of society to the education on the issues, norms and values related to gender inequality both inside the family and in social life. Traditionally, women bear the main burden of family welfare while they have fewer possibilities than men to use the necessary sources and means to fulfil the respective responsibilities. Female participation in the labour market fell markedly during the years of transition as a result of many problems encountered in entering the labour market.

Similarly, the Constitution sanctions the protection of the individual rights and freedoms and prohibits discrimination but in practice various studies show that domestic violence is broadly

acceptable in Albanian society and that women are the victims in most cases. The phenomenon of domestic violence is amplified by general social attitudes which view it as a private issue, which attracts little or no attention for the society's need to prevent it. The escalation of domestic violence results even in the killing of family members or suicide which affects children, women, and the elderly.

Vision

The vision is gender equality through the integration of gender perspectives in all aspects of policy design and implementation. This means equal participation of men/boys and women/girls in the social, economic and political life of the country and equal access to public services, ensuring equal results for the two sexes, in a way that they enjoy their full rights and individual potentials can be put to the service of society. The vision also consists of ensuring the treatment of victims of domestic violence, access to information for protection through criminal and civil legislation, health counselling and social support, treatment and prevention of early signs of violence, and ensuring that perpetrators of violence are answerable to the law for their actions.

Strategic priorities and policies

The strategic priorities of the strategy are the following:

- **Improve and enforce the legal and institutional framework** that guarantees gender equality through amendments to the gender equality and social security legislation; create a database on domestic violence, establish an appeals institution in the role of a commissioner for cases of gender discrimination; establish new inter-ministerial structures, which will ensure interaction of this strategy with other sector strategies, especially employment, social insurance, health and education
- **Increase the representation of women and girls in decision making processes** through changes in the electoral law and increased awareness of the Albanian society for an active participation of women in political and executive structures
- **Strengthen the economic position of women** through an increased number of women entrepreneurs - by offering more opportunities for access to property, capital and credit, especially in rural areas - and special programmes to promote female employment
- **Eliminate gender gaps in education** through equal access for girls and women in quality education and improvement of teaching programmes and textbooks to promote gender equality
- **Support vulnerable women and girls** through the strengthening of public structures that treat victims of violence and trafficking, particularly in rural areas, and of programmes aimed to reintegrate them
- **Improve the response of the health system** and increase awareness in the population related to health needs of women/girls and men/boys; promote measures that will address health risks at an early stage
- **Prevent domestic violence** through: educating the children, the youth and the general public to appreciate good family relationships and to consider that domestic violence is an unacceptable crime; improving teaching curricula, school and non-school textbooks; training health, social and education service professionals to be able to identify victims of abuse early and provide support
- **Protect and offer justice to the victims** through: the provision of security to all those affected by domestic violence; inclusion of victims in witness protection procedures; application of commensurate penalties and sanctions; awareness raising for the law on domestic violence; maximum protection for all victims so that cases of domestic violence are not repeated; training to employees in the judiciary and the police on domestic violence and existing special measures for victims
- **Offer social support to the victims** through: building shelters; providing social services for victims and perpetrators; special health services at the local level, and other opportunities for rebuilding their lives; establishing a 24-hour line at local government units where victims can report to and receive quick and necessary support from; creation of a coordination system to establish a good practice between institutions/organisations working against domestic violence

SAA implementation

Gender equality is treated in Articles 77 and 99 on equal opportunities in working conditions and the required legislation.

Social protection

Challenges

Allocations to the main social assistance programme, *ndihma ekonomike*, fell from 0.8% to 0.4% of GDP between 2000 and 2005. *Ndihma ekonomike* payments reach households in need following a procedure that takes place in two stages. First, the central government allocates block grants to municipalities and communes. A poverty map based on the disaggregated data of the 2001 Census and the 2002 LSMS identified a large number of local government units receiving grants that were not proportionate to the estimated extent of poverty. Second, these local governments distribute economic assistance to deserving families according to a complex set of criteria, which often appear designed to exclude applicants rather than to assess their need. However, the overall targeting inefficiency is not substantially greater than in comparable countries. The main problem of the programme is that coverage and the level of benefits are low, with the result that its impact on poverty is very small. The average benefit is equal to less than 15% of the poverty line; therefore beneficiaries need to find additional sources of support.

Other vulnerable groups are being assisted by the social care system, which provides residential and day care services. These institutions serve orphans, the disabled, victims of trafficking and persons with social problems, including psychiatric problems and drug abuse. The government has embarked on a reform aimed at developing services at the community level, in other words near the beneficiaries and their families. This is in order to support individuals to operate on their own, to be self-sustaining and to have the same rights as other members of society. Standards are being introduced for these services. The reform is in full accord with the process of decentralisation of competences and responsibilities to local government. However, a financing strategy to enable the gradual transfer of ownership of institutions to local government authorities is still missing.

Sector vision

Albania will have a system in place by 2013 that provides adequate social protection to its citizens. The scope of social protection policies will converge to the concepts currently being adopted by European Union member states.

Strategic priorities and policies

1. Social assistance

The main strategic goal is the reduction of the absolute poverty headcount rate to 10% by 2013 according to the results of household surveys. This will require efficiency gains in the management of the main cash benefit programmes. In particular:

- Improve the **targeting of the *ndihma ekonomike*** scheme. The share of poor households reached increased from 24.6% in 2002 to 32.5% in 2005 but remains low. Moreover, the share of non-poor households who received benefits increased from 57% in 2002 to 64% in 2005, especially in mountain and coastal areas. This calls for:
 - Use of improved information. The number of poor families and the appropriate *ndihma ekonomike* block grant funds for every local government unit will be determined through a poverty map based on the Census and household surveys.
 - Expansion of resources available to the *ndihma ekonomike* programme. By 2013, the *ndihma ekonomike* benefit will approximate the poverty line as long as it does not exceed the level of the minimum pension at national level. The value of the monthly benefit will still be calculated based on the household structure, differentiated for each family member, depending also on the poverty characteristics.
 - Improved assessment of applicant households. The proposed simplifications and improvements will ease the documentation requirements and the volume of labour for applicants.

- Expand the use of **work conditions** for ndihma ekonomike to the entire territory. The goal is to increase transparency in the use of funds, reduce the number of households and individuals that abuse the programme, and increase the income for households engaged in community works.
- Improve the administration of the **electricity subsidy**.

2. Social care

The policy on social care will encourage the provision of services to persons in need within their families and communities instead of admitting them into residential centres. The following are the strategic priorities of the reform:

- **Decentralise social services.** Decisions related to planning, provision and delivery of services should be taken at the local level (municipalities and communes) where the beneficiaries live. The Ministry of Labour, Social Affairs and Equal Opportunities will set the rules of service provision and, through a new inspectorate, will monitor quality and efficiency. Two directions will be followed to complete the decentralisation of social care services:
 - Residential service centres will be transferred to the competence of local government units. In the interim period, the State Social Services will continue to coordinate the process of distributing persons in need across regions according to availability.
 - New social services will be established in the community according to needs identified by local government units.
- **Institutionalise the relationship with non-government organisations** as providers of social services and as defenders of the rights and interests of groups in need. All organisations that offer social services will be licensed. In addition, the necessary legal environment will be created to enable local government units to procure social services.
- **Gradually transform residential services into mobile and community based services.** This deinstitutionalisation is part of the process from social residential services to community services. Unnecessary admissions in residential institutions will be prevented. Alternatives for accommodation, treatment, education and rehabilitation of individuals who do not require residential services will be provided, particularly for children. The treatment available to those in residential institutions will be improved.
- **Ensure that local government units with limited revenues will be supported** through the central budget while they develop new social services.
- **All services will have to guarantee a minimum quality** according to standards developed by the Ministry of Labour, Social Affairs and Equal Opportunities. The standards will define in a transparent and measurable way the criteria that a service should fulfil. They will constitute a public document and will serve as a basis for monitoring. The monitoring system will be based on regulatory mechanisms such as licensing and inspection. Inspection will initially have an advisory character to ensure familiarity with the standards but will subsequently be compulsory for all service providers.

Social inclusion

Challenges

Beyond the provision of social services, vulnerable groups need opportunities to participate equally in development:

- **Children:** While Albania has an obligatory vaccination scheme which maintains child immunisation rates at a high level, children from some minority groups are not vaccinated to the level of the majority of the population. Less than 50 percent of children are enrolled in early childhood institutions, public and private. No measures are taken against parents who abandon their children or do not send them to school. It is common for children from poor families to work, mainly in the informal market selling cigarettes, washing cars or begging. Finally, legislation does not contain a unified legal instrument to provide for the treatment of children who fall victim to exploitation, abuse, or violence.

- Roma: Roma children spend, on average, less than half the time of children from majority households in the educational system. As a result, one in four of Roma surveyed is illiterate. Around 20% of Roma children (up to age 14) are reportedly not vaccinated compared to around 3% of the majority¹⁰. Inadequate information or appropriate medical identification is often responsible for incomplete vaccination coverage. Frequent change of dwellings, early marriage, and ignorance of the law mean that the Roma are often not registered. As a result, they are not able to apply for benefits to which they are entitled under the law.
- Disabled: There has been a rapid expansion of the number of recipients of the disability allowance in recent years with real expenditure almost doubling between 2000 and 2005. However, there has not been an integrated or sustained approach aimed at rehabilitation.

Vision

Greater prosperity based on sustainable development will lift people out of poverty. Social development will enable participation by all in our society. Every child will have the best possible start in life. There will be opportunities to work for all those who are able to do so and for those who are unable to work there will be sufficient provision to enable a decent quality of life. No one will be excluded or left behind.

Strategic priorities and policies

The crosscutting strategy of social inclusion focuses on poverty risks that remain even after the onset of economic growth. It summarises the underlying sector strategies that aim to assist vulnerable individuals, families and groups in the community so that they are able to operate on their own, to be self-sustaining and to have the same rights as other members of society.

The strategic goals include key Millennium Development Goals related to poverty reduction, infant mortality, and access to water and sanitation. The monitoring framework is modelled on the European Union system and relies on the continuing implementation of the Living Standards Measurement Survey every three years. The social inclusion crosscutting strategy is modelled on the National Action Plans for Social Inclusion that European Union member states are expected to submit. Its strategic priorities are:

- to raise the income generation opportunities of individuals
- to facilitate access to services
- to assist vulnerable groups

Regarding the third priority, the social inclusion crosscutting strategy is as an umbrella document for a set of strategic texts on vulnerable groups.

Children. The national child strategy covers all aspects of children's lives with special attention on actions against child poverty. Apart from the reform of child services, other measures include:

- In the field of justice, the separation of children from adults in the examination of penal cases and improved procedures for minors; improved conditions in prisons for children; extended use of social workers; targeted services by courts; and establishment of a Delinquency Correction Institute
- In the field of health, integrated outpatient management, including examination, treatment and combined counselling, for the main childhood diseases
- In the field of education, the establishment of multi-professional units at local government level to ensure the integration, development and equality of children at schools
- Enforcement of compulsory education and creation of opportunities for vocational training to prevent child labour
- Establishment of structures for the protection and respect of children rights at the local level

Roma. The government will work with the Roma to improve the status of the Roma community through the institutionalisation of policies and programmes to reduce poverty, overcome

¹⁰ At risk: The social vulnerability of Roma in Albania, United Nations Development Programme, August 2006

discrimination and achieve integration. The national strategy to improve the living conditions of the Roma minority covers the following areas:

- registration to ensure protection of rights and access to services
- incentives to attend primary schools, support for children to learn Albanian, provision of teachers who can speak Roma and adult literacy programmes
- preservation of cultural heritage and family values including preservation of traditions and empowerment of women and girls
- improved access to benefits including ndihma ekonomike
- health services in Roma communities and promotion of family planning, immunisation coverage, ante- and post-natal care
- building modest houses and road access to Roma sites
- improving access to public order through recruiting Roma as police officers

People with disabilities. The government will mainstream policies and measures which promote the full inclusion of people with disabilities in all fields of life. The national strategy for people with disabilities focuses on the ability and competence of the individual rather than on their impairment and covers the following areas:

- ensure accessibility through the removal of barriers in public infrastructure and buildings
- introduce programmes of early identification or prevention of disability, coordinate health and social services, in line with the policy to decentralise social care, and integrate education curricula and teaching processes
- improve the conditions for the employability of people with disabilities through job protection and inclusion in vocational training programmes
- build the capacity of state structures that deal with policy on people with disabilities
- improve the legislation and the awareness of legislation, including simplified procedures

Social insurance

Challenges

Pensions are part of a contributive system which aims to protect individuals in old age. Demographic projections and the analysis of the social insurance system indicators show that this system will face major challenges in the future for a number of reasons:

- the number of people employed in the formal labour market is small;
- contribution rates are high compared to the received benefits;
- the administration needs to improve the collection of contributions to reduce evasion;
- the pension and ndihma ekonomike schemes are mixed up in some special cases

A recent review of the social insurance system¹¹ has argued in favour of restructuring the system in order to ensure its long-term sustainability in view of the proportion of the population that will not be covered in the future and the fact that the replacement rate, in other words the value of the pension in comparison to the average wage, will continue to decline.

Sector vision

The vision is the restructuring of the public pension system. Fulfilling this vision will secure a good pension for those who pay contributions and, especially, will link pensions more closely with paid contributions. At the same time, it will offer incentives to join the contribution scheme for those currently not paying contributions and will create a favourable environment for the development of

¹¹ Albania Social Insurance Review, World Bank, October 2006

financial markets, without threatening the entitlements of pensioners and employees who have contributed to the current scheme.

Strategic priorities and policies

Realising the above goals will require: restructuring and reforming the existing single tier pay-as-you-go system; passing, with measured steps and in a climate of political consensus, to a multi-pillar social insurance system; and creating a favourable environment for the development of the third pillar. The following are among the most important measures:

- create a favourable environment for private companies with high capacities and reputation in the financial market to be licensed to exercise insurance activity
- increase public trust in private pension schemes and encourage a larger share of the population to be directed to capitalised pension schemes
- strengthen control and regulation of the activity of licensed investment companies to ensure that investments are secure and protected from risk
- apply stringent controls to the use of funds invested by the licensed investment companies, while ensuring that the level of capital adequacy is in line with the Basel II framework
- regularly monitor the financial position of the licensed investment companies to ensure that funds are secure, returns are fair and investors' rights are protected

The preparation toward a multi-pillar system will be done through:

- **Measures to enforce the payment of social insurance contributions**
 - improve methods to detect, inspect and correct non-compliance
 - apply the respective penalties in cases of evasion
- **Reform of the current system**
 - improve the links between contributions and pensions
 - establish a clear pension scheme based on and balanced with contributions
 - improve the administration of the scheme by strengthening controls on social insurance payments and change the image of social insurance as a whole raising awareness in the implementation of the laws that regulate the system
- **Design of legal framework for the controlled and good functioning of the multi-pillar system**
 - a technical working group, which will comprise experts representing the government, opposition political parties and non-government organisations, will prepare the strategy for the reform of the current system and the precise form that the multi-pillar system will take (contribution rate, cut-off age, year of introduction of the second pillar)
 - prepare the law and normative acts for the licensing and standards of the multi-pillar system
 - license competent and secure institutions to invest pension funds
 - establish and strengthen a modern supervisory system to monitor the performance of pension fund investment institutions
- **Strengthening of the existing, private and optional third pillar**
 - create a multi-pillar diversified system alongside the strengthening and improvement of the environment for voluntary insurance: harmonise the development of the pillars of the system by implementing the two principles
- **Preservation of the rights of workers who have contributed to the current system**
 - maintain existing pensions
 - protect and improve the public pillar for middle- and old-aged workers who have contributed to the scheme

- recognise the rights earned by young workers who have contributed to the scheme
- **Planning and management of the transition to the new multi-pillar system**
 - prepare the legal framework for establishment, operation and supervision of the second pillar
 - prepare a financing plan of the cost of transferring a part of contributions to the second pillar
 - inform the public on the new pension system and its operation
 - make the necessary institutional changes and develop capacities
 - prepare and implement an action plan for the transition to the new system in a climate of political consensus

The Financial Supervision Authority will support the new system in the following directions:

- strengthen the institutional capacities of the Financial Supervision Authority
- strengthen the credibility of the Motor Third Party Liability claims administration and restructure the Albanian Insurance Bureau
- assess risk retention policies and introduce institutional arrangements for reinsurance

SAA implementation

Social insurance issues are captured in Article 48 on the movement of labour and Article 99 on cooperation.

Health

Challenges

The health care system is facing new challenges, as the epidemiological profile of the population is changing¹². Non-communicable diseases, mainly cardiovascular diseases and cancer, are becoming the leading cause of death. Among new health risk factors are the high tobacco consumption and changing diets. Therefore, the health care system needs to adjust to the lengthy and costly treatments associated with these diseases and shift to preventive health care and public health campaigns.

The health financing system has been fragmented. This issue is beginning to be addressed through the transfer of the financing of primary health care to the Health Insurance Institute (HII) as of 2007. Payroll tax-based health insurance results in further inequity in access to health care. Only a small part of the population contributes in the absence of a formal labour market, administrative capacity, and oversight structures.

Sector vision

The health system will offer a basic health service for all, of acceptable quality and efficiency. This requires changing the basic mechanism of organisation, management, financing and modalities to encourage private initiative in order to achieve the overarching vision, which is to preserve and improve the health of the population continuously.

Strategic priorities and policies

The strategic priorities of the health sector are the following:

- **Increase the capacity to manage services and facilities in an effective way:**
 - Introduce a new public-private mix and innovative organisational schemes. A new concept will be introduced to reorganise public and private structures, as complementary to each other, aiming to privatise primary health care services and public specialties without beds.
 - Improve facility and clinical management at all levels. Improving efficiency calls for better and more effective management of service delivery facilities and of the clinical pathways used to address patients' treatments.

¹² Albania Health Sector Note, World Bank, February 2006

- Continuously improve health system quality and safety. Perfection of service provision quality is needed, based on the continuous education system, accreditation of the institutions providing health services on the basis of standards approved and published in advance.
- Improve health services management. Training and continuous education efforts are needed to improve the managerial skills and competencies of decision makers and to strengthen capacities among the staff in key positions of the health system.
- **Increase the possibility to receive effective health services:**
 - Reduce financial, geographic, cultural and professional barriers. There will be a set of services that people clearly perceive as being entitled to receive for free and which are affordable for the country. A geographically and population-wise balanced distribution of services will also be deployed throughout Albania. The right of employees for health protection, information and care at the public and private work environment will be promoted.
 - Articulate a network of services able to ensure continuity of care. A sustainable primary health care system should act as the gatekeeper of the health system on the basis of an efficient service delivery of good quality.
 - Provide widespread free essential public health services.
 - Provide solid pharmaceutical coverage. Drugs play an important role in any health care delivery scheme.
- **Improve the system of health financing:**
 - Increase pre-paid coverage. Funds-pooling is the only way to protect the weakest sectors of the population, regardless of their ability to pay.
 - Reduce informal money flows. The above priority must go in parallel with a strong reduction of informal payments including through the introduction of the co-payment mechanism.
 - Improve resource allocation by a single strategic purchaser. A single purchaser will effectively concentrate on balancing all public resource allocation decisions.
- **Improve the governance of the health system:**
 - Strengthen the capacity of the Ministry of Health to develop policies, strategies and planning at national level. It will improve its capacity to provide policy leadership, leaving direct health service provision activities for others.
 - Regulate better. A clearer and more enforceable regulatory framework is needed to guarantee that the rights of all stakeholders are respected when addressing issues such as responsiveness to citizens, entitlement to specific services, privatization, the role of professional organisations, labour legislation for health professionals etc.
 - Improve transparency and accountability. A critical element in the governance of the health system is the capacity to monitor and evaluate its performance.
 - Establish a health information system. The establishment of a special centre will be promoted, which - on the basis of research and available scientific evidence - will be able to provide responses on the alternative cost-effective solutions in the health sector.

Pre-university education

Challenges

Albania has the lowest secondary school enrolment rate among the countries in the region. Public spending on education were falling during the transition period (reaching 3.1% of GDP in 2004), when the average among EU countries is 4.9%. As a reflection of the priority that the government has assigned to education, public spending rose to 3.4% of GDP in 2006. Schools in general inherited insufficient teaching-learning materials and laboratory equipment and were poorly maintained. Over a two-year period, the government managed to establish information technology laboratories in all

secondary schools and it is expected that they will be provided with internet by the end of 2008. Schools in cities and suburban areas operate above their capacity. By contrast, some rural areas have very low student-teacher ratios but poor transport infrastructure does not allow the consolidation of schools. Increasing secondary education enrolment rate, especially in rural areas and particularly among girls, is a priority in the framework of the European Partnership. The coverage and quality of vocational education do not respond to market needs and continue to have weak links with the labour market and social partners.

Sector vision

Guarantee a modern national education system, which will stimulate sustainable economic growth, will raise competitiveness in the region and beyond, and will help consolidate citizen consciousness.

Strategic priorities and policies

The strategic priorities of the pre-university education sector are the following:

Reform and strengthen the policy making, management and decision taking capacity, which is also one of the medium-term priorities in the framework of the European Partnership:

- *At the central level:* Restructure the Ministry of Education and Science and its dependent institutions, establishing a clear management scheme based on performance.
- *At the regional level:* Restructure the Regional Education Departments and the Educational Offices with the aim to increase their capacities to help schools.
- *In the framework of decentralisation:* Decentralise and transfer responsibilities and decision-making authority from the central level to local government.
- *At the school level:* Implement school autonomy in the areas of curriculum, financing, personnel and management at the school level and above on the basis of completing the legal basis and the corresponding implementing bodies.
- *Policy development and decision making at the central, local and school level on the basis of research and driven by data:* Put into operation the education management information system.

Improve the quality of the teaching and learning process in the following directions:

- *Curriculum modernisation in classes 1-12:* Restructure secondary education and prepare a new curriculum framework for a quality education service that is both national and European.
- *Teacher professional development:* Implement a thorough reform of professional development for teachers and school directors based on credits.
- *School textbook improvement:* Complete the liberalisation reform of textbook publishing.
- *Improvement of student assessment:* Consolidate *matura shteterore*, reform graduation examinations and increase transparency and public trust into educational institutions.
- *Expansion of the private education service market* combined with a supervision of the quality of these services.

Improve the efficiency of education financing in the following directions:

- *Increase the level of financial support to basic education* from central and local government
- *Improve the financing formula on the basis of the number of students*, gradually reduce or eliminate inherited education-related economic and social discrimination between regions, and rationalise school distribution based on changing demographic trends.
- *Ensure increasing funding for education* through tax exemptions for private spending on investments in educational infrastructure.

Build capacity and develop human resources in the following areas:

- *Professionalisation of teaching and learning:* Develop standards for teachers and the status of their profession; develop student achievement standards and objectives based on performance.
- *Inspection and assistance:* Change the role of inspectors from a control and reprimand to a support mechanism and include them in intensive professional development.

- *Teacher motivation*: Double teacher salaries by 2009 (currently in implementation) and ensure competences for teaching-learning.

Develop vocational education including:

- *A new policy of vocational education and training* (prepared in cooperation with the Ministry of Labour, Social Affairs and Equal Opportunities: its aspects are treated in detail in the employment section) and establishment of the Albanian Framework of Qualifications, in accordance with market demand.
- *Strengthening and expansion of vocational education* by building the necessary infrastructure.

Expand the provision of pre-school education including:

- *Addition of a preparatory year before primary school*, which aims to increase school capabilities, and delivery of services for little children from vulnerable groups, especially (but not only) from north-eastern Albania and the Roma community.
- *Modernisation of pre-school education*: Prepare teachers-educators, build kindergartens and establish kindergartens at public and private institutions.

Table 3.1 presents a selective list of the strategy's goals, as agreed in the Education Excellence and Equity Project document.

Table 3.1 Selective basic education system performance targets

Performance indicator	2006	2012	EU 2004
School expectancy for five-year olds (years)	11.1	14	17.4
Average annual total compulsory instruction time for 7-8 year olds (hours)	570	660	750
Net enrolment rate in secondary education (%)	55	75	85
Percentage of females aged 15-24 years in education and training (%)	33	50	66
Total public expenditure on education as share of total public expenditure (%)	10.7	12.0	10.8
Share of total education expenditure allocated to recurrent non-salary purposes (%)	10.0	13.0	19.9
Average number of 15-year old students per computer in public sector schools	900	100	10
Mean performance of students aged 15 years on PISA mathematics literacy scale	381	425	495

Source: Annex 3 - Results framework and monitoring, Project Appraisal Document, Education Excellence and Equity Project, World Bank, May 2006

SAA implementation

Article 100 requires education opportunities to be provided to all at all levels without discrimination.

Higher education

Challenges

The new law on higher education opens up opportunities for important developments. In particular, universities have academic and organisational freedom as well as financial autonomy. An attempt is currently taking place to complete the legal framework with sub-legal acts that derive from the new law. A follow-up group has been established to lead the work for the implementation of the Bologna process. Within this framework, the following achievements have been realised:

- Restructuring of the system of studies in public higher education institutions in three cycles and lifelong learning.
- Curriculum reform in first cycle study programmes: 70% of the content has been aligned by now in related programmes in higher education institutions across the country

- Establishment of an internal quality assessment system in public higher education institutions and accreditation of some full-time study programmes in public and private higher education institutions.
- Near completion of the National Framework of Qualifications in higher education.
- Implementation of the 'European Credit Transfer and Accumulation System' (ECTS) and the Diploma Supplement.
- Easing of procedures for the recognition of diplomas obtained abroad.
- Review of workload for academic staff of higher education institutions.
- Increased mobility of students and staff within and outside the country.

It is recognised that different universities need to have different missions. Regional universities in particular do not play a strong role in local development. Higher education is increasingly being oriented toward training with more specialisations. During these years study programmes have been divided into specialisations to respond to labour market demand. Although the new law on higher education gives autonomy to universities, higher education institutions have to make this autonomy work in practice. They have neither an internal governance framework nor an external accountability mechanism. There are no regulations for managing university performance. Quality control needs to be extended also to part-time courses. Teaching methods in universities have not changed. In terms of content, courses are often narrow and traditional and do not have modules that would give students some flexibility for subjects that they need to follow. Little attention has been given to pedagogical training of the teaching staff.

Teaching (in universities) and research (in research institutes) have been separate from each other. The system of scientific research is currently being reformed. The research institutes of the Academy of Sciences and those dependent to line ministries have been attached to universities, primarily in Tirana, a fact that provides a new direction to the development of research.

Despite recent investments, the quality of the infrastructure needs to be further improved as some buildings, equipment and libraries do not meet international standards. There is little transparency in the use of university revenues. The mechanism supporting students with low income (bursaries) is not well targeted.

Sector vision

The higher education and research system will create, develop and transmit knowledge through teaching, relevant research and service provision. It will assist economic development and will contribute to higher standards of democracy and citizenship.

Strategic priorities and policies

The following are the strategic priorities:

Increase the percentage of the age group of students in higher education. In 2007 97.3% of those who applied succeeded in getting a place in a higher education institution for the academic year 2007-2008. The goal is to increase the number of student admissions, to respond to the growing rate of students who complete successfully secondary education, to reduce dropout, and to increase the number of students who complete their studies in the normal time frame. The extra students and the aim to reduce the student/academic staff ratio would require an increase in staff numbers in higher education institutions. A part of these needs may be covered by the integration of research institutes into universities. In addition, the extension and improvement of university premises, laboratory infrastructure, and a more efficient utilisation of existing premises will help cope with the increase in the number of students. The Ministry of Education and Science will also improve the scheme of admission and assignment of students to higher education institutions. A part of the increase will be covered by two-year programmes that will not be of university level. The regional universities are the most appropriate places for an increase in enrolments, offering training courses to help their local economies. A remaining important obligation of higher education institutions remains the increase in collaboration with secondary schools to orient final year students towards their university careers.

Restructure effectively the missions of university training in different cycles of study. The objectives for the *first cycle* are increasing admissions in higher education institutions to enable the absorption of a bigger inflow of secondary school graduates, improving quality, and ensuring

effective instruments so that students can gain necessary knowledge and competences for their work and profession. The objectives for the *second cycle* are increasing the training level of students to guarantee a better acquisition of knowledge and practices linked to work and profession, together with a specialisation in knowledge and competences, which represents a wider range than the training in the first cycle. It is necessary to have specific curricula dedicated to training in research which aim to increase the competences and abilities of students for scientific research. The objective for the *third cycle* is a re-conceptualisation of the doctorate and long-term specialisations. Part-time study will be reformed towards lifelong learning with the aim that degrees obtained through this system have the same quality as those from full-time study.

Ensure an effective system of quality assurance and accreditation. The Public Agency of Higher Education Accreditation was established in 1999 to license, accredit and quality assure universities. It will introduce external quality control, making its reports public. Priority will be given to internal quality assurance by higher education institutions themselves. Part-time courses, two-year diploma programmes, and teaching style and methods will also be under its remit.

Increase the level of institutional autonomy. Academic, structural, administrative, and financial autonomy, which is granted by the higher education law, should be included in a university's statutes and regulations. However, autonomy needs to be balanced by stronger external accountability and more transparent internal management processes. With respect to *external* accountability, Administrative Councils will be established with members from the academic staff, students, and interest groups representing the community. The Councils will supervise and control the administrative, financial, and property management activities of the higher education institution according to a regulation specially approved for this purpose. Each university will also publish an annual report with the achieved results on specified performance indicators as well as results from the external quality assurance process. With respect to *internal* management requirements, universities will design and propose governance processes and structures for their decision making, following guidelines in order to achieve more transparency in decision making and better internal accountability for decisions, from the Rector downwards. Once agreed, these will be incorporated in the university's statutes.

Better integrate teaching and research. A Research Strategy Group has been established to develop priorities (e.g. Albanian studies, agriculture and food, natural resources etc.). Academic research will be funded on a project basis in the areas of priority, as a result of competition. Most academic research will be undertaken within the three main Tirana universities, which include several of the research institutes, and the Centre of Albanian Studies. Even regional universities would be able to bid for an academic research project. However, their main focus is expected to be on professional education and in fact they will be the main beneficiaries of development funds for this purpose. In addition, there will be incentives as well as simplification of contract approval procedures for regional universities to develop stronger links with their local communities, offering consultancy, applied research and other services. The investment in the establishment of scientific laboratories in universities is serving this purpose and will also continue in the future given the needs to renovate and enrich the scientific infrastructure.

Improve teaching. The philosophy of higher education reform aims to equip graduates with transferable and generic skills, such as those of analysis, thinking, reasoning, presenting and communicating. In order to promote the use of interactive and student-centred teaching methods, universities will be provided with special investment funds. Universities will develop a system of performance and career development for academic staff that will place emphasis on teaching quality. The teaching content will also be updated in line with the Bologna process. Faculties and universities will be encouraged to provide broader, cross-disciplinary programmes of study as a result of joint work.

Improve financing. Higher education institutions do not have a strong financial outlook; the state will remain their main source of financing. General public funding for each university will reflect performance and will be based on a funding formula that weights student numbers by subject and level of study. Investment funds will be allocated on a project basis, accompanied by a costed proposal prepared by each university. The efficiency in building utilisation will be improved. Two other sources of revenue to supplement the public provision will be considered. First, universities will sell services, including research studies for the benefit of third parties or in-service teacher training. Second, student fees, which currently cover about 22% of the full cost, will gradually increase (25-30%). Each university will be allowed to retain the funds that it earned. The current

support scheme to poor students will be replaced by a new bursary system to improve targeting and promote high educational achievement.

SAA implementation

Higher education and research issues are addressed in Article 54 on the mutual recognition of qualifications, Article 100 on the need to meet the requirements of the Bologna Declaration, and Article 109 on cooperation in research.

Urban, rural and regional development

The National Strategy for Development and Integration aims to prevent uneven development from becoming an obstacle to growth. In spatial planning, the starting point is a new legal framework that will focus on the development of participative regulatory plans to tackle in a coherent way the problems of those areas that have witnessed some of the highest growth rates in Europe in recent years. In regional and rural development, it proposes new policy making and implementation structures that prepare the administration for the efficient use of financial instruments that will become available in the next seven years. In rural areas, the policy is driven by the need to ensure a minimum level of access to services that will sustain economic activity and promote economic diversification. The dependence of many rural regions on tourism is expected to increase and this calls for an integrated approach to ensure sustainability, including the preservation of cultural heritage.

Spatial planning

Challenges

Informality is one of the major challenges facing territorial and spatial development is currently facing in Albania. Other important challenges in territorial and spatial development are:

- Demographic movement and rapid urbanisation: These phenomena are associated with the lack of urban planning and often with the unsystematic application of construction rules. In the absence of regulatory plans, urban development mainly takes place without taking into account the effect that the plan has on the existing infrastructure and the environment.
- Unclear division of responsibilities between the central and the local level: Many management functions in urban areas have been gradually transferred to local government units, while local authorities often do not have the necessary resources to exercise these functions effectively.
- Low professional capacities in the area of planning.
- High corruption in the administration.

Sector vision

The spatial planning policy will promote and support sustainable territorial development to enable a rational use of land and natural resources, protect the environment and cultural heritage, and create proper conditions for housing, economic and social activity for all social groups across the country.

Strategic priorities and policies

The strategic priorities for spatial planning are:

- To restructure the **legal framework** of territorial planning to respond better to the dynamic challenges of the country's socio-economic development. This includes:
 - the introduction of uniform development controls, such as building codes, land use regulations, land subdivision regulations, development freezes, public easements, or public land reservations; these involve a legal restriction supported by a procedure to demonstrate compliance with the rules and a threat of sanction or a fine for failure to comply
 - the streamlining of development and building permit processes, which will be transformed into a simple administrative act, subject to the Code of Administrative Procedures
 - changes to the levels of planning and control according to the functional competences assigned by the law

- stronger controls on the territory to ensure its development in accordance with existing legislation
- To promote the establishment of mechanisms facilitating the **active engagement and participation of the public** and all interested parties. This participation, especially of communities and citizens at the local level, in spatial planning decision making, will guarantee the transparency of the process.
- To strengthen the **coordinating mechanisms and institutions**, ensuring horizontal cooperation through those authorities responsible for spatial and sector policies at each administrative level, as well as vertical cooperation between the central and local level. This will serve to guarantee an efficient structure of spatial planning and management.

Regulatory plans will be approved by the commune and municipality councils. This system will respect the principle of subsidiarity in the division of powers, by decentralising decision-making powers in order to take advantage of local development perspectives and reduce the cost to the private sector. Financial and technical support will be provided to the preparation of regulatory plans for selective cities.

In brief, the new legal framework will ensure that new development is in compliance with regulatory plans designed and approved in a transparent and participatory process. Together with training provided to local governments, as well as the new law for building inspection, these measures will significantly influence the implementation of regulatory plans and will shorten and simplify procedures for issuing building permits, reducing the possibilities of corruption for officials. The government will ensure that the dynamic of change expected from the completion of the restitution, registration and legalisation processes will be put to good use through this revised framework for spatial planning.

In the field of **housing**, poorer groups will be reached more efficiently and effectively, the rental sector will be supported, and the stock of buildings will be improved. In particular:

- social housing available for rent will be at least 1% of the total housing stock
- about 5% of the total housing stock will consist of low cost buildings through partnership schemes
- access to mortgages will grow by 20-30%
- about 1% of the stock of privatised buildings will be rehabilitated
- about 50% of the residences of the Roma community will be rehabilitated

Regional development

Challenges

Albania does experience significant problems of regional disparity. The Government has identified the need for an integrated, coherent regional policy based on its growing concern over the widening gaps in socio-economic performance between different parts of the country. There is an imperative to ensure that all areas of the country are capable of competing in the EU single market. The Government also recognises the importance of applying the Partnership Principle, as one of the key principles adopted in the programming of EU funds and will undertake the relevant consultation with stakeholders at the national, regional, and local level.

Vision

The vision is a balanced and sustainable socio-economic growth among the regions of Albania, in general, and of mountainous and remote areas in particular, aimed at supporting the rapid development of the entire country.

Strategic priorities and policies

Recognising the requirements for the implementation of regional development policy and its approximation to the policies of EU member states, the role of the Ministry of Economy, Trade and Energy will be strengthened. The vision will be realised through two strategic objectives:

- All parks/counties will be enabled to contribute to sustainable development and competitiveness. This objective will be realised through two priorities:
 - Strengthening of the capacities of all counties to use and manage their development potential. A **National Programme for the Development of Counties** will serve as a policy instrument, which will facilitate the establishment of a single planning and management system and will introduce new elements into regional policy:
 - (1) A single policy framework for the socio-economic development of counties, taking into account their specific development needs;
 - (2) A new partnership between stakeholders at the national, regional and local level;
 - (3) A single socio-economic development programming document for the county, the *County Development Strategy*, and a local agency to coordinate its implementation, the *County Development Agency*;
 - (4) The concept of *County Development Agreement*, an agreed financial and operational plan, which sets out central government support for development priorities in each county;
 - (5) An effective monitoring, evaluation and reporting system
 - Support of disadvantaged areas to enable them to contribute to sustainable national development and competitiveness. A **Disadvantaged Areas Development Programme** will serve a policy instrument, which will envisage the development and realisation of a Plan for the Development of Disadvantaged Areas and will set aside a special budget line in order to support their development.
- An efficient regional development management framework, a unified legal framework, and effective and coordinate institutional structures will be put in place. This objective will be realised through two priorities:
 - Establishment of the legal framework for the effective management of regional policy. A proposed **law on regional development** and corresponding sub-legal acts will serve as policy instruments.
 - Introduction of the necessary **institutional framework** to coordinate, administer and manage regional policy effectively at all levels. Two structure types will serve as policy instruments:
 - (1) Advisory structures
 - (i) A National Partnership Council will monitor the effectiveness of the implementation of regional development policy and whether consensus has been reached;
 - (ii) County Partnership Councils will plan the county development strategy and will monitor the effectiveness of its implementation as well as whether consensus has been reached.
 - (2) Implementing structures
 - (i) At the national level, in order to manage regional development policy effectively and to implement, in the future, the EU regional policy through adopting Chapter 22 of the *acquis communautaire*;
 - (ii) At the county level, the County Development Agency will assist the County Partnership Council.

SAA implementation

Article 110 addresses issues of cooperation in regional development policy. In addition, Article 71 foresees the alignment of state aid rules and the definition of zonal divisions and interpreting instruments to be used by the Community institutions.

Rural development

Challenges

Living standards in rural areas are significantly lower than those in urban areas. The main dimensions of rural poverty are low income levels per capita, relatively higher incidence of health risks and undeveloped medical services, limited opportunities for good schooling, and insufficient public services. Poverty is higher among those groups for which agriculture is the main source of income.

Poverty reduction is closely linked with agricultural production growth, as a main source of income, but also with non-farm employment. Therefore farm modernisation and diversification into activities that generate income in rural areas (development of agro-processing, services, trade and artisanship)

will be the main directions. Rural poverty reduction also depends on farm product quality and the promotion of products with high added value (fruit and vegetables) which will make farms more competitive, their products more demanded, and will lead to a growth in farm incomes.

There is sufficient potential in rural areas. This includes favourable natural conditions and geographical position, relatively educated population, still including many young people, traditional farming skills, a strong local culture, optimistic perspectives for improvements in energy supply, and serious commitment to improve rural physical infrastructure (roads and water systems).

Vision

The vision of the strategy is to contribute to the equal development of all rural zones, to improve the quality of life in rural zones, and to reduce rural poverty population in a sustainable manner.

Strategic priorities and policies

The strategic priorities of the rural development crosscutting strategy are:

- to increase the **competitiveness** of the agricultural and agro-processing sector through farm modernisation measures and support for restructuring and value adding activities
- to protect and enhance the **environment** through the sustainable management of natural resources in rural areas
- to improve the **quality of life** and promote diversification of economic activities in rural areas to create new jobs
- to develop the **capacities of local institutions** to effectively manage rural development programmes

The purpose of the rural development crosscutting strategy is to provide a nationally agreed basis, consistent with government policy, for the development and subsequent implementation of the operational programmes for rural development which will be prepared according to the needs of regions. The strategy is based on the EU Rural Development Regulation and its Strategic Guidelines for Rural Development in the period 2007-2013. A rural development operational programme will be prepared in 2008-2009 on the basis of the strategy. The rural development crosscutting strategy contains nine policies organised into four axes, which correspond to a selection of the measures contained in the EU Rural Development Regulation.

- Axis 1. Competitiveness of agriculture, agribusiness and forestry
 - Modernise and restructure agriculture, primarily through modernising agricultural holdings and helping farmers to adapt to the standards of EU legislation
 - Increase value-added and quality in production and processing, primarily through support to farmers who participate in food quality schemes and to producer groups for information and promotion activities for products under food quality schemes
 - Manage forests in a sustainable and efficient way, primarily through investments to improve the economic value of forests and support to forestry producer groups
 - Increase skill levels and employment, as inherent part of the approximation process to EU standards which aim to develop the human potential, create farm management skills and support active farmers in rural communities
- Axis 2. Preservation of landscape and environmental protection
 - Preserve landscape in less favoured areas through the development of agricultural methods in agreement with environmental protection, compensation of mountain area producers to preserve land in good conditions, and preservation of important cultural landscapes
 - Preserve traditional agricultural practices and maintain genetic potential, introducing controlled and organic production and preventing nutrient leaching into the soil
- Axis 3. Quality of life in rural areas and promotion of diversification in the rural economy
 - Creation of employment opportunities in rural areas, through increasing the potential of businesses from the point of view of diversification into non-agricultural activities and

promoting the creation and development of family and small enterprises based on competitive advantages of rural areas

- Improve the quality of life in rural areas, for example through village renewal and development (local roads, water and sanitation) and support the conservation of the rural heritage

- **Axis 4. Participatory rural development**

- Introduce the LEADER approach, one of the EU initiatives in support of rural communities, as an instrument for decentralised governance, building on existing experience from the Mountain Areas Development Agency and the Albanian Development Fund, to ensure that all rural development funding has a community-based dimension, for example through the establishment of local action groups

Agriculture

Challenges

The agricultural sector suffers from the small size of farms and the fragmentation of farm land, which is a barrier to production and marketing. This could be addressed through the development of a system of collection points and wholesale markets. Product competitiveness is low, as the cost is relatively high and output quality is low, which is caused primarily by the inadequate level of technologies and agricultural knowledge but also by the low level of farmer organisation, the relative lack of market information and the underdeveloped commercial infrastructure.

Currently, export opportunities for agricultural and agro-industrial products are very constrained as a result of the low level of agricultural and agro-processing industrial production; the lack of trade facilitations; the low food safety standards; and the weak competitiveness. Meeting the veterinary, phytosanitary and food security conditions of the SAA and Interim Agreement will be a difficult challenge. The standards to be achieved relate to a very broad area covering production, marketing, safety and quality certificate conditions for goods and services, processing, and inspection and control services.

Sector vision

Ensure high productivity and competitiveness of the agricultural and agro-processing sectors both domestically and abroad. Higher competitiveness, as a result of lower costs and higher quality, food safety and standards, will strengthen the position of farmers in the market, will raise their income and will introduce safer products in the market for farmers.

Strategic priorities and policies

The agricultural policy of the government has the following strategic priorities:

- **Increase financial support** to farms, agricultural and agro-industrial businesses with special emphasis on fruit trees, vineyards, vegetables and animal farming, as well as on the industrial processing of fruit, grapes, vegetables, milk and meat, on the basis of the advantages in different areas of the country. The main policy instruments will be:
 - direct support with state funds or with European funds linked with the attainment by Albania of candidate status for EU membership
 - credit schemes with light term, with the aim to modernise farms and businesses and increase product competitiveness, through support to rural banks and credit guarantees
 - the expansion of the banking system to rural areas through fiscal incentives and savings mobilisation through support to effective savings-credit schemes
- **Improve the management, irrigation and drainage of land**, in two phases:
 - During the period 2007-2009: rehabilitate over 120,000 ha of drainage infrastructure; widen river beds and regulate mountain streams (through afforestation of their banks) to minimise land erosion; rehabilitated over 120,000 ha of irrigation infrastructure and transfer their management to water user associations; rehabilitate 35 damaged dams; increase the role of

local government units in managing irrigation and drainage schemes; and enhance the role of private sector in constructing and managing small irrigation and drainage schemes

- During the period 2010-2013: further improve sustainability of irrigation, drainage and land protection management to ensure that 360,000 ha will be irrigated with 3500-5000 m³/ha (with the support of water user associations) and 280,000 ha will be drained (with the support of drainage boards that will be partly self-financed)
- **Improve the marketing of agricultural and agro-processing products** to increase the competitiveness of domestic agriculture, with emphasis on:
 - increasing the efficiency of existing wholesale markets, through supporting instruments and mechanisms to improve their management
 - establishing new markets
 - strengthening the public structures of market monitoring and analysis
 - supporting collection points, standardisation and packaging
 - improving market information for farmers and other operators in the agricultural and agro-industrial goods market
- **Improve the level and quality of technologies, information and knowledge applied by farmers and agro-processing businesses** through support to Agricultural Information Centres and Agricultural Technology Transfer Centres. The main policy instruments will be:
 - institutional strengthening and technical and financial support to these centres
 - training and collection of experiences domestically and abroad
 - preparation of dissemination and technology packages for main cultivations and animals
 - encouragement of contract agreements with farmers
 - strengthening of new extension methods, such as Farmer Schools and Technology Development with Participation, and restructuring of research to fit better farmer needs
- **Increase the quality and safety of agricultural and agro-processing products**
 - improvement of the legal framework for the conducting of official control of domestic and imported food products according to EU quality and food safety standards
 - support to improve and develop infrastructure for the effective conducting of food product control, follow-up of various problems (related to falsification, packaging, trading and importing of food products) and exchange of information across regions
 - implementation of international systems of safety and quality such as Hazard Analysis Critical Control Points (HACCP) and those of the International Organisation for Standardisation (ISO)
 - enforcement of application of systems of safety and quality by food producers
 - promotion of the use of good other agricultural practices that are friendly to the environment
 - development of appropriate policies to stimulate the production of organic products

SAA implementation

Chapter II of Title III (and the relevant annexes) on the free movement of goods covers agricultural goods. In addition, Article 95 deals with cooperation in agricultural issues.

Tourism

Challenges

The total number of visitors by November 2007 had reached 2.1 million, including emigrants who are not resident in Albania, according to the definitions of the World Tourism Organisation, which would make this the most successful season in the last ten years. The number of foreign visitors reached 1.1 million. There was an increase of 19% in the number of foreign visitors between 2006 and 2007, while

the largest increases were observed in January (31%), March (30%), June (27%) and October (31%), which shows a trend for the tourist season not to be limited to the summer months.

Over the last seven years, the tourism sector has been playing a very important role in the country's exports, corresponding to 77% of the total on average. Income from tourism has been increasing palpably. On the basis of quarterly sample surveys conducted at border points, the total number of visitors more than doubled between 2000 and 2005 and increased further by 23% between 2005 and 2006. According to the Bank of Albania, the average daily expenditure of each visitor has been rising. Total revenues from tourism were estimated at €805 million in 2006 and are projected to reach €1000 million in 2007. About 60% of foreign visitors to Albania come from Kosovo and Macedonia.

A recent achievement has been the approval of the new law on tourism in May 2007. The new legal framework aims to establish a sector with international standards and to help concretely the development of the tourism industry in accordance with strategic directions. In the period 2006-07, the government allocated investment funds for tourist signs and tourist information offices in some cities, helping to achieve two of the priority objectives for tourism development in Albania.

The country offers the potential for various tourist activities in multiple destinations. It is precisely the combination of activities and destinations that offers good prospects for establishing a successful tourism sector. What makes Albania unique is the large variety of attractions in a special cultural context and the relative proximity of these attractions. For the first time in tourism information campaigns, a spot will appear in 2008 on CNN, the renowned television network. This is part of the major challenge to consolidate the position of Albania in the European tourism market and beyond.

Despite its large potential, the development of the tourism sector is conditioned by weak infrastructure in some areas, the lack of efficient systems of solid waste treatment, the lack of strict controls over informal construction, low funding for the protection and maintenance of zones with environmental and cultural interest, insufficiently trained human resources in both the public and the private sector, ill-defined property rights and lack of enforcement of the legal framework as a whole and construction regulations in particular, lack of cooperation between the public and private sectors and lack of a single private sector umbrella organisation.

Sector vision

The vision of the tourism strategy is for Albania to be recognised as a safe tourism destination of high value, which is characterised by a unique variety of natural and cultural beauties of world class, in a small geographical space, managed in a responsible environmental and social way, easily reached from the European tourism markets.

Strategic priorities and policies

Specialised tourism products need to be developed under a general framework, which integrates the following types of tourism, while attempting to reach a geographical balance in the distribution of tourist activities in the entire county:

- Sun and beach tourism, in the long term
- Special interest tourism (such as ecotourism, rural tourism, environmental tourism, adventure tourism, cultural tourism and mountain tourism), in the short- to medium term
- Business and conference tourism, in the short- to medium term

In the past two years, special interest tourism has been increasing by 15-20% and represents 25% of the market, while sun and beach tourism still comprises the largest part of international tourism and is growing by 2-4% per year.

The sector's strategic priorities are:

- **Awareness and marketing** will be achieved through work at multiple levels to develop domestic tourism; consolidate a unifying theme to link the country's tourism product with international markets; and create a convincing image on the country's assets for market opinion leaders through specialised travel companies, local tourism companies, the internet, active participation in international tourism trade fairs, as well as invitations to foreign media to visit Albania.
- **Product development and diversification** will concentrate on the discovery of Albania through its nature and culture. This depends on the ability of local areas to effectively organise themselves to convert their natural and cultural assets into a viable tourism product, complete

with recommended sites and activities, information and interpretation, lodging, food, guide services and a variety of other features that determine the value of a destination. New tourist itineraries passing through rural areas that are rich in natural and cultural assets will diversify the product on offer.

- **Investments in nature areas and culture** will be realised particularly through the establishment of long-term financial mechanisms and the development and approval of tourism plans which encourage investors providing them with the major development directions and applying an incentive policy for potential tourism investments.
- **Human resource management**, including the establishment of an elite group of tourist guides, training of managers of tourism spots, training of hospitality professionals and staff, and building of language skills, will be enabled through the enrichment of teaching programmes with professional subjects on tourism, especially in higher education.
- **Business climate**: Business sectors grow more successfully with a regulatory framework that is clear and ensures that all actors are playing by the same set of rules. This will be achieved through a close partnership with the public sector, calibrating to international tourism standards, and establishing a common platform for the development of tourism.
- **Data and information management** is fundamental for tourism planning, marketing and monitoring. The district Tourism Information Offices will assist this effort, while a centre will be established for data collection, processing and dissemination.
- **Territorial planning** will support the development of tourism through regulatory plans and urban studies as well as through infrastructure investments in port facilities or waste management. This approach is currently being implemented through the integrated coastal zone management project in the south of Albania and through the approval of the law on territorial planning.

The tourism development strategy aims that by 2013:

- the total number of visitors will reach 3.5 million
- non-ethnic Albanian visitors will comprise 60% of the total number of visitors
- gross revenue from tourism will reach €2.5 billion
- average revenue per visitor will be 35-40% higher than in 2006

SAA implementation

Article 94 addresses issues of cooperation in tourism.

Culture

Challenges

Culture is one of the areas with a strong impact on the democratic development of the country and on the reaffirmation of the Albanian cultural identity in the region and as an integral part of the European cultural identity. In particular, cultural heritage is the most important part of Albanian art, culture, and traditions. In its two forms, material and spiritual, it also establishes the fact that this identity belongs to the European heritage.

Sector vision

The vision for culture is to improve the standards of management and treatment of cultural heritage and to approximate these standards of European countries based in the community policy of “united in diversity”.

Strategic priorities and policies

The strategic priorities in the field of culture are the following:

- **Support the creativity of Albanian artists.** This implies:
 - establishment of a supportive climate; expansion of creative industries and introduction of fiscal incentives for cultural products; higher aesthetic and professional quality of artistic outputs; and improvement of the social status and conditions of creators

- facilitation of promotion of representative values of Albanian culture in European countries and beyond through the publication of written works from the most famous representatives of traditional and modern literature in different languages and cultures
- organisation of international symposiums in support of cross-cultural dialogue
- participation of writers, publishers, artists, and artistic, cultural and film producers in international festivals, exhibitions and fairs where they can present the best achievements of modern Albanian art
- **Protect cultural heritage and promote cultural tourism:** protect, catalogue and present the cultural values of Albania emphasising its cultural diversity; ease public access the cultural assets of Albania; establish a modern cultural heritage management system; incorporate the restoration and conservation of monuments in urban and environmental plans; present a package of fiscal incentives for physical or legal persons who invest in cultural heritage; rehabilitate the centres of museum-cities and continuously improve their infrastructure to transform them into open centres for local and foreign visitors; strengthen the role of institutions that preserve cultural memory (libraries, archives, museums etc); create database with the possessions of these institutions, digitalise them and prepare specific printed and electronic publications; and include these institutions in specific programmes, with the aim to exchange information with counterpart institutions in the region, Europe and beyond, through the signing of cooperation agreements with the respective countries.
- **Increase the role of culture in social life** and the improvement of the quality of life, including wide public participation in cultural life; interventions in the education system; and increased public awareness of the benefits of cultural projects in improving their lives
- **Integrate Albanian into the European and international culture.** This requires promotion of international relations to increase the level of familiarity with and distribution of Albanian culture, as one of the most important factors in identity, communication, and integration with Europe. Cooperation with the counterpart structures in the countries of the region and beyond is a key priority. In particular, this includes policy and cultural activity coordination with the cultural institutions in Kosovo and other countries in the region. Bearing in mind the EU objectives in the field of culture, Albania is committed to fulfil three strategic goals in the area of cultural integration: strengthen democratic and human right values, strengthen mutual trust and respect, and promote awareness of the European cultural community and its diversity.
- **Protect intellectual property** through, among others, the strengthening and consolidation of the Office of Author Rights

SAA implementation

The Ministry of Tourism, Culture, Youth and Sport is responsible for Article 73 on intellectual property rights, Article 101 on cultural cooperation, and Article 102 on cooperation in the audio-visual field.

4. Macroeconomic and fiscal perspectives

Developments in the Albanian economy show that it is progressing within the defined medium-term development objectives of the country. In general, there has been satisfactory progress with respect to achieving the targeted economic growth rate, consolidating macroeconomic stability and continuing the structural reforms in the economy. The macroeconomic analysis is based on a macroeconomic framework, which guarantees a logical link between the main macroeconomic indicators for both their historical and projected values. The analysis explains the macroeconomic policies both to the Albanian taxpayers and the international community. However, it must be stressed that the analysis is conditioned by the lack of full economic data.

Economic growth

The experience of other countries similar to Albania shows that few countries have sustained a growth rate of 6% for more than five years. However, the implementation of the policies outlined in the previous chapter will enable the Albanian economy to grow at an even faster rate in the medium-term compared to previous years. The reforms that have been undertaken by the government demonstrate clearly the orientation of economic growth toward the philosophy of supply in the economy. In this context, alongside technological progress and structural reform, capital accumulation is also expected to be a source of sustainable growth in the long-term. The characteristics of the main factors with a positive impact on economic growth are as follows:

- *Business confidence* increases continuously as a result of macroeconomic stability and progress towards integration into the European Union. The government is making forward steps towards abolishing *institutional barriers*, in the business regulatory and fiscal systems, which enable investment growth and development of key economic sectors.
- *Public investments* have grown in recent years and will continue to increase in coming years, focusing on the improvement of road transport infrastructure, education and health services, and electricity production. Private investments have also reached high levels in recent years, focusing on construction for production processes, services and housing.
- The quality of management and the efficiency of *public expenditure* have increased so that the public sector supports general economic activity in the country and a stronger link between public and private investment with policy priorities is realised.
- Investment in machinery, equipment, training, as well as supporting fiscal policies that promote investment and technological development will raise the *productivity* of the labour force.
- The increase in producing and competitive capacities of the Albanian economy based on the implementation of a series of supporting policies for various sectors, such as agriculture and energy, and the increasing utilisation of comparative advantages in accordance with the potential that the domestic economy is offering, will gradually increase the volume of *exports* and reduce the growth rate of imports that has resulted from trade liberalisation.
- The *privatisation* of strategic sectors, such as those of electric energy distribution, telecommunications, oil extraction and processing, will assist the improvement of the business climate and the increase of production efficiency.
- The bank and non-bank *financial system* is expanding, improving and developing accordingly to reach international standards based on sufficient liquidity that is made available to business; improved access to property rights; improved working relations between financial institutions and a wider range of clients which is leading to an increase in transactions; fast growth of credit to the private sector both from the banking sector as well as from non-bank financial institutions, such as micro-credit, credit-saving companies; the introduction of leasing services.
- The expanding measures of supervision of the quality of lending by the bank and non-bank financial system and the continuation of the financial intermediation process through: (i) improvements in the quality of payment systems; (ii) maintenance of positive real interest rates;

- (iii) improvement in the quality of the credit portfolio from the bank and non-bank market; and
- (iv) increased proportion of money in circulation through the banking system.

Taking the above factors into account, the annual growth rate is expected to reach 7% (Table 4.1).

Table 4.1 Economic growth projections

	2006	2007	2008	2009	2010	2011	2012	2013
Real GDP growth (%)	5.5	6.0	6.0	6.5	7.0	7.0	7.0	7.0
Investment (%GDP)	25.1	26.5	26.9	27.8	28.7	28.8	29.0	29.6

Source: Ministry of Finance, International Monetary Fund and INSTAT (for year 2006)

Balance of payments

The prospects for the balance of payments are positive, with strong inflows from transfers and capital being sufficient to fund the trade deficit. Similarly, the export growth rate is expected to be larger than the import growth rate.

Remittances have been expanding steadily over the last five years, reflecting an increased level of activity of Albanians working in the EU and other countries. This trend will continue since the implementation of a series of measures in the framework of European integration will ease and formalise the movement of people. This may also help change the nature of the activities of Albanians abroad from visiting workers to business activities with trading links to Albania and more formal investment in Albania.

Although grants have declined in recent years, it is expected that they could increase as EU membership comes closer. Official loans have been declining while repayments have been growing and are expected to be higher in the future. As a result of the increasing consolidation of macroeconomic stability and of a series of promotion policies that are being undertaken, the inflow of foreign direct investment will increase.

Beyond 2010, the balance of payments is expected to improve further. Exports, which will benefit from private investment, low labour costs, growing labour productivity, deepening trading links and increased use of financial services, will continue to increase and the trade deficit will narrow.

Table 4.2 Balance of payments projections

	2006	2007	2008	2009	2010	2011	2012	2013
Exchange rate (Lek/€)	123	122	122	122	122	122	122	122
Trade balance (€million)	-1,685	-1,888	-1,965	-2,062	-2,167	-2,227	-2,309	-2,387
Remittances (€million)	966	1,059	1,133	1,212	1,300	1,394	1,494	1,602
Overall balance (€ million)	207	129	115	96	148	178	229	279

Source: Bank of Albania and International Monetary Fund

Monetary sector

The medium-term policy of the Bank of Albania on inflation targeting will continue to keep this indicator under control. The monetary policy objectives of the Bank of Albania will consist of keeping inflation at the level of 3% with the possibility of a variation of ± 1 percentage point around this central value, a fact which will allow continuing macroeconomic stability and economic growth rate.

The level of currency outside banks will decline, but this will be more than offset by an increase in private deposits in banks, resulting in an increase in money supply, expressed as a proportion of GDP, from 74.1% in 2006 to 94.1% in 2013.

Table 4.3 Monetary sector projections

	2006	2007	2008	2009	2010	2011	2012	2013
Inflation (%)	2.4	2.9	3.0	3.0	3.0	3.0	3.0	3.0
Private sector credit (%GDP)	21.2	27.9	34.1	40.0	44.9	48.4	51.3	52.0
Money supply (%GDP)	74.1	78.9	83.3	87.3	90.6	92.4	93.9	94.1

Source: Ministry of Finance, International Monetary Fund and INSTAT (for inflation in years 2006 and 2007)

Given the stable position of net foreign assets and of government borrowing, the increase in money supply will result in further expansion of credit to the private sector that will reach 44.9% in 2010. This will be the result of the rapid growth of creditworthiness in private enterprises, driven by high levels of private investment and improvements in asset legalisation. Improvements in banking supervision and the growing confidence of banks and borrowers will ensure that financial services extend to a wider variety of clients, including smaller enterprises, without undermining the quality of the credit portfolio. Beyond 2010, it is expected that credit to the private sector will continue to grow, although at a lower rate. This reflects the expectation the ratio of money supply to GDP will stabilise, as currency outside banks and private deposits reach more normal levels. The slower growth in private credit will be made possible by the limits to government borrowing to achieve public debt targets.

Public finance

Table 4.4 summarises public finance projections, which are explained in the sections below.

Table 4.4 Public finance projections

	As a share of GDP (%)						In Lek billion		
	2006	2007	2008	2009	2010	2013	2007	2010	2013
Revenue									
Taxes	17.2	18.3	18.2	18.5	18.7	19.1	180	241	329
Local government	1.2	1.4	1.5	1.6	1.6	1.7	13	21	29
Social insurance	4.4	4.4	4.8	5.1	5.3	5.3	43	68	91
Non-tax	1.8	2.5	1.5	1.5	1.5	1.4	24	19	24
Grants	0.9	0.4	0.4	0.4	0.5	0.5	4	6	9
Total	25.5	26.9	26.4	27.1	27.6	28.0	264	356	482
Expenditure									
Wages	6.3	6.3	6.4	6.3	6.3	6.2	62	81	107
Operations and maintenance	2.5	2.5	2.6	2.7	2.9	3.1	25	37	53
Interest	2.8	2.9	3.1	3.1	3.0	2.9	28	39	50
Subsidies	0.4	0.8	0.2	0.2	0.2	0.2	8	3	3
Social	8.2	8.7	8.5	8.5	8.5	8.5	85	110	146
Other	2.5	3.1	3.8	3.8	3.9	4.0	31	50	69
Capital	5.7	7.1	9.8	6.4	6.4	6.1	70	83	105
Total	28.8	31.5	34.3	31.0	31.2	31.0	309	403	534
Balance	-3.3	-4.6	-7.9	-3.9	-3.6	-3.0	-45	-46	-52
Financing									
Privatisation	0.2	1.5	0.4	0.1	0.1	0.1	15	1	2
Domestic borrowing	2.3	1.8	2.4	2.3	2.3	2.0	17	30	34
Net foreign borrowing	0.6	1.3	5.2	1.5	1.2	0.9	13	15	16

Source: Actual data for 2006; estimates and projections of the Ministry of Finance for years 2007-2013

Revenue projections

Budget revenues are projected on the basis of the macroeconomic framework presented above while considering the following.

VAT. In the next few years the VAT rate will remain at 20%. VAT revenue projections are based on the economic growth and inflation rate assumptions. Based on these indicators, and improvements in the administration as well as the changing structure of the GDP in favour of sectors that pay VAT, the VAT tax basis will grow. Similarly it is projected that during 2008 the level of public investment will increase considerably with a corresponding positive impact on VAT revenues.

Profit tax. Starting from January 2008, the profit tax rate will be halved from the current level of 20% to 10%. Despite the fact that the halving of the profit tax rate will have a negative direct impact on the state budget, this fiscal measure is expected to have a positive impact on the national economy, since it will raise the tax basis, businesses will be encouraged to declare the real figures of their accounts, and the climate will be more attractive for investment, especially foreign direct and indirect investment. The revenue projections from profit tax over the following three years are based on the growth of the tax base (total business profit) as a result of economic growth and structural and administrative improvements (GDP growth will be oriented by sectors that pay profit tax).

Excise tax. The projected revenues from excise tax are based on new rates for certain goods, which were approved in 2007 and which bring them closer to the level of countries in the region. The increase in revenues from excise will also be a result of the growth in imports, the domestic production of these goods, and of improvement in customs administration.

Personal income tax. Starting from the second semester of 2007, a 10% flat tax rate has been applied on the personal income tax. The application of the flat tax with reduced rates is expected to have a positive impact, especially on the category of employees with high incomes, particularly in the private sector who, after the application of this fiscal measure, are expected to be fully motivated to declare their real income. With this measure, progressive taxation is eliminated and the procedures of declaring and calculating this tax are simplified. Projected revenues from personal income tax will continue to increase, taking into account the growth in the number of registered employees and wage growth.

National and other taxes. Projections are based on historical trends. They also take into account the growth in the tax rate on imported second hand cars as well as other changes introduced in 2007, which are the reduction of the port tax and the foreign-registered vehicle tax.

Customs. Projections on customs revenue are based on the improvement of customs administration and assessment and the negative effects from the reduction of custom tariff rates, as a result of WTO membership, the free trade agreement with Turkey, and the SAA. Tariffs for new cars and used cars have been eliminated; for the latter the import (environment) tax will be applied. The trend of custom revenues is expected to be negative, as a result of the reduction of custom tariff rates.

Local government. Projections are based on the growth of the tax base as a result of economic growth and historical trends. A positive impact on revenues will result from increases in the local tax on owned or used buildings in villages in tourist areas, which came into force in 2007; changes and improvements to be undertaken in the framework of fiscal decentralisation which will turn some national into local taxes; immovable property tax; mineral rent tax; the conversion of many of these taxes into service tariffs; and the review of the impact tax on the infrastructure of new buildings.

Social and health insurance contributions. The projected growth in revenues from contributions will be a consequence of economic growth, the formalisation of the labour market, through increased registration that will result from the provision of identity cards, and gradual reduction of the ratio between the contribution rate paid by employers and the rate paid by employees, in order to reach the level of other countries. These projections are subject to amendments as a result of possible changes and reforms of the current pension scheme.

Non-tax. Projections are based on the assumption that the transfer of the profits of the Bank of Albania over the next three years will remain constant. Revenues from budget institutions will grow reflecting inflation as well as the growth of public services, while revenue from dividends will be reviewed in the light of the privatisation process of government shares in public enterprises.

Aid and grants. Projections are based on the 2008-2010 MTBP and expected grants from the EU.

Privatisation. Revenues are projected at modest levels, as the privatisation of strategic sectors is not taken into account. Revenues from the privatisation of strategic sectors will be incorporated in the budget and will be used for capital expenditure and to reduce the public debt.

Domestic borrowing. Domestic borrowing levels are expected to be about 2% of GDP, on the basis of the goal for a general budget deficit level in the order of 3% of GDP in 2013.

Foreign borrowing. Foreign borrowing levels are projected on the basis of agreements and contracts made with international financial institutions and foreign governments and those expected to be made in the future.

Expenditure projections by economic classification

Budget expenditure is projected to be in the range of 30-32% of GDP over the next three years with the exception of 2008 which is affected by the increased foreign financing of the Durres-Kukes-Morine road. It is stressed that this does not include the use of revenues from strategic privatisations.

Personnel. Expenditure for the staff of the public administration will remain constant in the coming years in relation to the GDP, which implies a full indexing to the rate of inflation and differentiated real growth for priority sectors, in accordance with the public administration reform objectives.

Operations and maintenance. Expenditure is projected to grow in real terms over the next three years. This growth will be oriented toward the growth of maintenance expenditure, as a consequence of the growth in investment levels during this period. Within this category, operational expenditure for the administration will fall in relation to GDP, creating space for a faster increase of maintenance expenditure in priority sectors such as infrastructure, education and health, as well as for specific sector policy expenditure, such as those supporting agriculture, export promotion, environment etc.

Interest. Projections are based on the finance strategy. Public debt will fall as a share of GDP. However, for long-term projections, there is an additional rule which caps the growth in public debt by 4% per year. This ensures that the public debt does not expand when the economy is growing strongly. In the future, this rule is intended to allow government debt to respond to the business cycle, allowing slightly higher borrowing during years of low growth. Over half of the deficit is financed by domestic borrowing, often at rather poor terms.

Subsidies. Projections are based on existing policies and plans for their reduction.

Transfers. Ndiha ekonomike, unemployment and disability benefits are projected to grow by 12% per year. This takes into account a policy for differing growth rates for each of these payments.

Capital. Capital expenditure is projected to be above 6% of GDP in the next three years, depending on the availability of foreign financing. Following high growth rates in 2007-2008, investment will stabilise at these levels, allowing a large part of budget allocations to be provided for maintenance. Investment will continue to support priority sectors such as education, health and infrastructure.

Expenditure projections by functional classification

Table 4.6 presents the average annual cost by sector. For the years 2007-2010, the cost is based on the budget of 2007 and the 2008-2010 MTBP. For the years 2011-2013, the cost is based on sector strategies, when these have presented sufficient cost information, and on some additional assumptions, which are presented in Table 4.5. If there is no specification, it is assumed that the level of recurrent and capital expenditure will remain at the same level as in 2007 in real terms.

The costing analysis of NSDI costs shows that average expenditure in the period 2011-2013 for all sectors will be Lek 327 billion in nominal terms. According to the projections of the Ministry of Finance in the framework of the NSDI, average public expenditure in this period (excluding interest, local government expenditure and the reserve fund) will be Lek 298 billion, also in nominal terms. The costing of the NSDI shows that the cost of its policies is 10% or Lek 30 billion higher than the amount of resources likely to be available. Additional expenditure refers primarily to capital items. This difference can be justified by taking into account factors that are likely to reduce or eliminate it, such as economic growth above the anticipated level; a more effective administration of tax revenues beyond what is expected that would make more financial resources available; strategic privatisations which are not included in the macroeconomic and fiscal projections for 2007-2013; the reduction of some costs through the application of public private partnership methods, especially in the transport sector; and projects financed by international organisations and foreign governments that are not anticipated and not reported in the period 2007-2013. Moreover, the government will

continue to refine the costing of its policies. The corresponding costing of NSDI priorities will take place in the course of the Medium-Term Budget Programme process.

The costing analysis of the NSDI for the years 2011-2013 provides a general direction of the distribution of resources from the current allocations, which will assist the financing of those priorities that are most important in the process towards EU membership. The share of transport in capital expenditure will continue to be the largest until 2010, while it is projected to fall over the period 2011-2013 reflecting in this way the completion of the major projects in the national road network. At the same time, the proposed increasing share of the regional development component in capital expenditure reflects the acceleration of investments in the secondary road network. The water supply sector will expand to bring these services rapidly to EU standards. Other sectors that are proposed to receive a growing share of capital expenditure include rural development and environment, all of which have substantial spending programmes in EU member states, and health.

Table 4.5 Costing assumptions of main NSDI policies

Defence	The commitment to allocate 2% of GDP to defence as part of NATO membership obligations is maintained. The existing ratio between recurrent and capital is maintained.
Justice	The figures include also the following independent institutions: General Prosecutor's Office, Office for the Administration of the Judicial Budget, Constitutional Court, School of Magistrates, and High Council of Justice.
Interior	In the case of the police, after 2010 there will be an additional Lek 0.7 billion per year for recurrent expenditure and an additional Lek 1 billion per year for capital expenditure. In the case of the civil registry, the 2008 level of capital expenditure is maintained for the following three years.
Transport	In the period 2011-2013, the average level of recurrent expenditure for the national road network will be Lek 5 billion; the average level of capital expenditure for the national road network will be Lek 28 billion; and average level of capital expenditure for ports will be Lek 4 billion. The cost of rural roads is not included in this category.
Water and sanitation	In the period 2011-2013, the average level of capital expenditure will be Lek 11 billion. The level of subsidies for water utilities will fall by 10% each year in real terms after 2010.
Environment	In the period 2011-2013, it is projected that the level of capital expenditure will increase by Lek 1.5 billion to fund the rehabilitation of 'hot spots' and to construct hazardous waste disposal sites.
Economy	The capital expenditure figures are based on the sector strategy (extended over a 15-year period) and include the promotion of small and medium-sized enterprises, export promotion, industrial parks, and foreign direct investment promotion.
Social protection	In the period 2011-2013, the average level of expenditure for ndihma ekonomike and payments for people with disabilities will be Lek 17.8 billion.
Social insurance	The level of subsidy for the social insurance scheme will remain constant at the level of 1.5% of GDP until 2013.
Health	Salaries will increase at the same rate as in the rest of the public sector after 2010. The annual growth rate of other recurrent and capital expenditure will be 25% in real terms after 2011.
Health insurance	The level of subsidy for the health insurance scheme will remain constant in real terms until 2013.
Education	Salaries will increase at the same rate as in the rest of the public sector after 2010. Operation and maintenance expenditure will reach 14% of total recurrent expenditure by 2013. Capital expenditure will be 15% of total expenditure on pre-university education by 2013. Capital expenditure will be 30% of total expenditure on higher education by 2013.
Agriculture and rural development	The rural development component of the Instrument for Pre-Accession Assistance (IPA) will support rural development. With reference to the average per capita expenditure in former accession countries, the support will begin in 2010 and it is expected that its level will reach about €17 million per year by 2013.
Spatial planning, regional development and tourism	The figures include the following institutions: Ministry of Public Works, Transport and Telecommunications (urban planning and public services programmes); Ministry of Tourism, Culture, Youth and Sport; Mountain Areas Development Agency; and Albanian Development Fund. It is assumed that the average level of capital expenditure for rural roads in the period 2011-2013 will be Lek 14 billion.

Table 4.6 Indicative NSDI implementation costs

	2007-2010				2011-2013			
	Allocations according to budget/MTBP				Indicative NSDI implementation costs			
	Current Lek bn	Capital Lek bn	Total Lek bn	Total %	Current Lek bn	Capital Lek bn	Total Lek bn	Total %
Integration								
Defence	16.3	5.8	22.1	9.6	23.4	8.1	31.5	9.6
Democratisation and rule of law								
Justice	5.9	1.4	7.3	3.2	6.1	2.1	8.2	2.5
Interior	13.1	1.7	14.7	6.4	14.9	3.4	18.2	5.6
Infrastructure								
Transport	2.9	43.2	46.1	20.1	5.8	37.6	43.4	13.3
Water and sanitation	0.9	7.5	8.5	3.7	0.9	15.1	16.0	4.9
Environment	1.0	0.9	2.0	0.9	1.5	2.7	4.2	1.3
Market economy								
Finance	3.8	0.4	4.2	1.8	4.2	1.2	5.5	1.7
Economy	0.8	1.6	2.4	1.1	0.7	3.1	3.8	1.2
Social policy								
Labour and social protection	18.1	0.4	18.4	8.0	28.1	0.8	28.9	8.8
Social insurance	15.2		15.2	6.6	23.6		23.6	7.2
Health	15.3	5.0	20.3	8.8	26.0	8.8	34.8	10.6
Health insurance	6.0		6.0	2.6	6.6		6.6	2.0
Education	32.2	7.9	40.2	17.5	48.0	10.8	58.8	18.0
Urban, rural and regional development								
Agriculture and rural development	2.7	2.5	5.2	2.2	3.1	5.6	8.7	2.7
Spatial planning, regional development, and tourism	2.2	4.2	6.4	2.8	2.5	17.9	20.4	6.2
Other	9.2	1.8	11.0	4.8	11.7	3.0	14.6	4.5
Total	145.6	84.4	230.0	100.0	207.1	120.1	327.1	100.0

Figure 4.1 presents the changes in the average shares of recurrent expenditure across sectors between the periods 2007-2010 and 2011-2013 respectively, while Figure 4.2 presents the corresponding changes required in the average shares of capital expenditure.

Figure 4.1 Indicative shifts in the functional allocation of recurrent expenditure

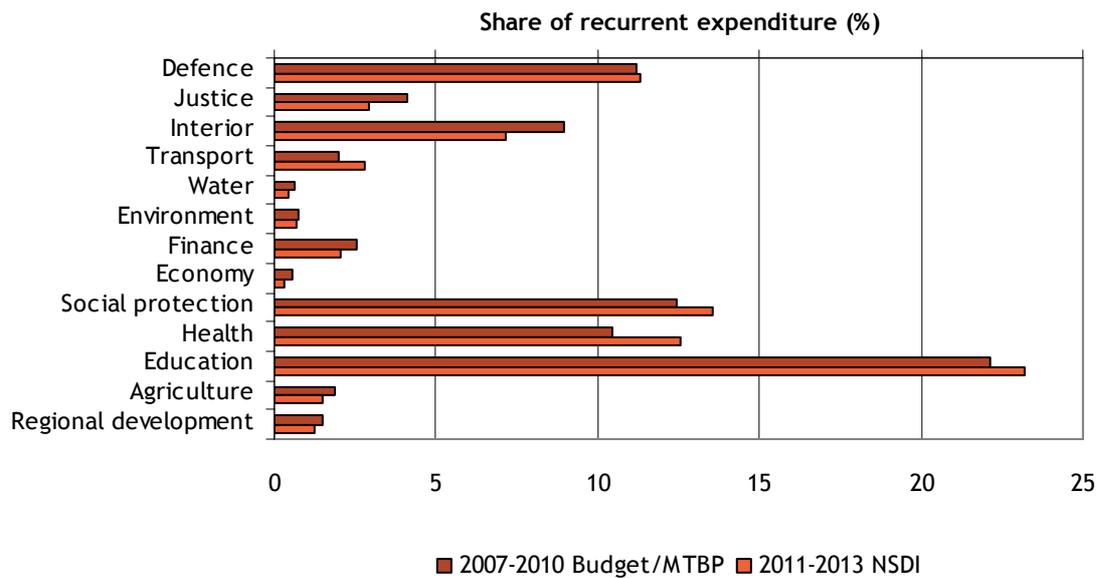
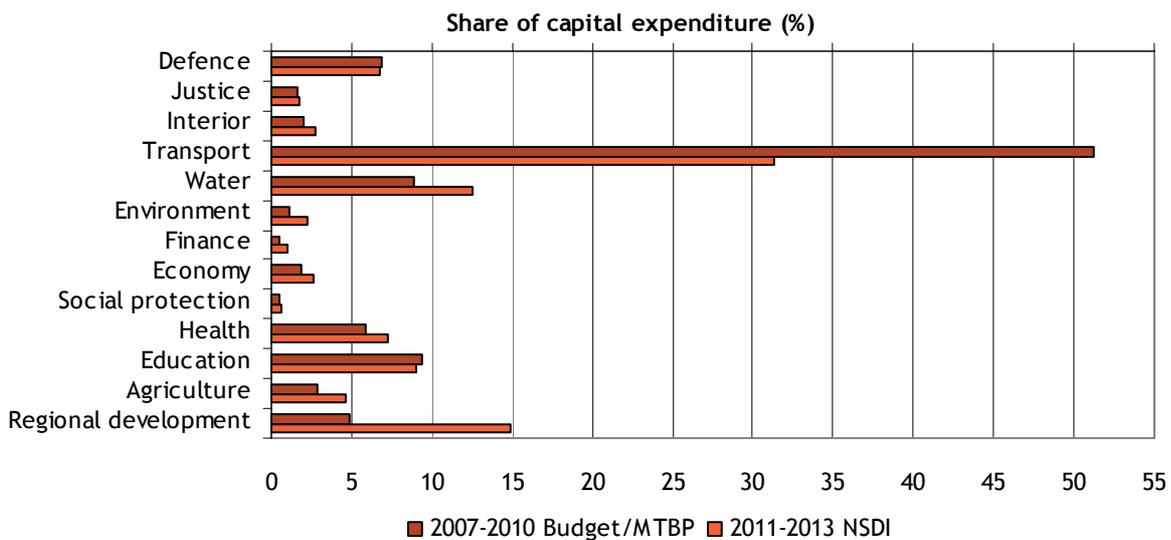


Figure 4.2 Indicative shifts in the functional allocation of capital expenditure



5. Accountability

The Government is committed to enhancing transparency. Participation in the formulation of strategic plans will enable policy choices to be better informed. Accountability in the use of public resources is a fundamental step toward democratisation and improved governance. This chapter outlines the broad participation process during the preparation of the NSDI. In addition, it describes how progress in the implementation of the NSDI will be monitored.

5.1 CONSULTATION

Sector and crosscutting strategies

Advisory Groups

As sector and crosscutting strategies form the core of the NSDI, the consultation process was designed to encourage line ministries to actively seek advice from non-government policy stakeholders. Line ministries were called upon to take the responsibility for the consultation process, as prior experience had suggested that excessive reliance on external assistance had not led to sustainable outcomes.

The body designated to represent domestic non-government stakeholders in each strategy is the Advisory Group. The 10-15 members of these groups represent, depending on the strategy, local government; trade unions; professional associations and chambers; academics and other experts; non-government organisations; citizen associations; businesses and employers associations. Each Group's membership and terms of reference were determined by minister decision. Ministries were instructed to ensure that the consultation process would leave sufficient time for feedback. Groups were encouraged to consolidate their comments and submit them to the ministries in written form.

In those cases where a group with similar function pre-existed, no new group was established. Cases in point are the Legal Reform Commission in the case of the justice sector strategy, the Higher Education and Science Council in the case of the higher education sector strategy, and the Decentralisation Group of Experts in the case of the decentralisation crosscutting strategy.

Ministries were instructed to establish long-term partnerships that would be a resource not just for the preparation of the strategies but also for monitoring their implementation.

Parliamentary committees

Advanced drafts of the sector and crosscutting strategies were submitted to the heads of the respective parliamentary committees. The committees were instructed to study the document and invite the ministries to debate the content of the documents.

Donor community

External assistance technical working groups were not fully serving the needs of the strategic planning process. For example, several groups were not meeting regularly, while other groups met without the participation of the government. The preparation of sector and crosscutting strategies was seen as an opportunity for ministries to reshape their relationship with their donor counterparts. Advanced drafts of the sector and crosscutting strategies were shared with representatives of the donor community with an active interest in the respective policy areas.

Review of sector and crosscutting strategies

Successive drafts of sector and crosscutting strategies were reviewed by teams mobilised by the DSDC and comprising representatives from the Ministry of Finance, the Ministry of European Integration and INSTAT. Wherever possible, Prime Minister advisers were also contacted for additional comments. These inputs were combined by the DSDC comments into a single official response to the responsible ministry signed off by the General Secretary of the Council of Ministers.

The final drafts of some sector and crosscutting strategies were submitted to the Strategic Planning Committee for review. For those strategies with substantial resource and policy implications,

ministers were invited to make short presentations to the Committee to support a debate and improve the quality of the decisions. Subsequently, strategies were sent to the Council of Ministers for approval.

National strategy

The consultation of the National Strategy for Development and Integration document had the following aims:

- To receive feedback and suggestions for improvement, with particular emphasis on the way that the document identified strategic priorities and outlined the future resource allocation
- To build consensus around the key points of the document
- To assist the dissemination of the work that had taken place over the past year and a half

The main instrument of consultation was a series of roundtables. The following were organised:

- Three thematic roundtables, one for each strategic priority: integration, democratisation and the rule of law, and economic and social development
- Two roundtables which focused on particular groups: a roundtable with civil society, in which representatives from each Advisory Group as well as other non-government organisations took part; and a roundtable with the donor community, in which development counsellors and a selective set of technical assistance advisers took part
- Four regional roundtables: in Lezha, Peshkopi, Fier and Pogradec

All participants in these workshops were provided with a structured questionnaire in order to provide their comments in written form. The public consultation draft was also distributed to all parliamentary commissions for comments.

In order to disseminate further the NSDI process, a series of ten debates was also broadcast on public television in the period October-December 2007. The majority of these debates were recorded in a mobile studio outside Tirana where representatives of the local community took part. The aim of the debates was to give the opportunity to discuss the key strategies in public.

5.2 IMPLEMENTATION

The principal implementation mechanism of the National Strategy for Development and Integration is the **budget process**. As part of the Integrated Planning System, the strategic planning and budgeting processes meet at several points during the annual calendar.

Preparation of initial budget ceilings (January-February)

In February, the Strategic Planning Committee sets the initial ceilings of budget institutions for the next three years. The decision is organised at three stages. First, the parameters of the macroeconomic framework are specified by the Ministry of Finance. Second, the Strategic Planning Committee discusses a policy priorities note that focuses on policies that call for resource reallocation across sectors. This is prepared by the Department of Strategy and Donor Coordination following prior consultations with line ministries and the Ministry of European Integration. Third, on the basis of the conclusions reached, the initial ceilings are prepared by the Ministry of Finance and approved by the Strategic Planning Committee. This process aims to ensure that initial ceilings take into account any significant additional funding requirements for the top policy priorities.

Review of programme policy statements (March-April)

The budget of each ministry is composed of programmes: these are groups of activities that can be effectively and jointly managed and whose outputs contribute to the achievement of medium-term policy objectives and long-term policy goals. These goals and objectives are specified in detail in the sector strategies, which serve as the reference documents. There is a programme policy statement which outlines the goals and objectives that each programme will achieve. A review of these statements, which aims to ensure that they are fully consistent with the sector strategies, takes place at the beginning of the Medium-Term Budget Programme.

Budget hearings (June and September)

Line ministries submit their budget proposals in May, for the following three-year period, and in September, to refine next year's budget breakdown. In both phases, the Ministry of Finance assisted by the Department of Strategy and Donor Coordination and the Ministry of European Integration review the submissions for consistency with the National Strategy for Development and Integration, in general, and the National Plan for the Implementation of the Stabilisation and Association Agreement, in particular.

Review of sector and crosscutting strategies (November-December)

After the budget has been submitted to the Parliament and approved, line ministries can concentrate on policy review. The review will aim to ensure that sector and crosscutting strategies are on track and to check whether they need to be updated to reflect major policy changes. In recognition of the fact that the budget process lacks mechanisms that allow the direct funding of crosscutting strategies, the preparation instructions had emphasised the need to make them fully consistent with the respective sector strategies. One of the areas of focus for strategy review will be the extent to which these links can be improved.

In addition to the budget process, the implementation of the National Strategy for Development and Integration will be supported over the next few years by the coordinated and gradual introduction across government of **impact assessments** prior to major policy decisions.

5.3 MONITORING

Sector and crosscutting strategies

The monitoring of the implementation of sector and crosscutting strategies is based on a short list of indicators defined for each strategy. These focus on the achievement of strategic goals and are developed at the level of *impacts* and *outcomes*. Ministries are not required to report regularly on these indicators through a separate report.

However, the sector strategies will be the reference documents for the preparation of the MTBP. The MTBP ensures that budget allocations over the three-year period reflect the policy priorities defined in sector strategies by making an explicit linkage between budget allocations and budget programme policy objectives. Monitoring the implementation of each sector and crosscutting strategy at the level of *inputs* and *outputs* is therefore part of the overall budget reporting system. Under the IPS, each ministry is required to produce every year a Ministry Integrated Plan (with a Ministry Monitoring Plan included as an annex), which is envisaged to be:

- a planning tool, containing the major commitments of each ministry for the current year outlined in key documents (notably the MTBP) to assist the Prime Minister in assessing performance;
- a monitoring tool, where ministries will report against them quarterly on progress achieved towards their key commitments; and
- a communication tool, in the sense that the document repackages the main commitments of each ministry in a compact (not expected to exceed 15 pages) and integrated manner to facilitate scrutiny from the public

Ministry Integrated Plans were prepared for the first time in 2007. A short Ministry Annual Report on the achievements relative to the commitments made in the Ministry Integrated Plan and the Ministry Monitoring Plan will be published in 2008. Ministries may also wish to include in the Ministry Annual Report updates on the key monitoring indicators of their strategies.

The monitoring system will be supported by a newly-designed IPS Information System (IPSIS) that builds on and links information reported by ministries to the Ministry of Finance (regarding MTBP implementation) and the Ministry of European Integration (regarding SAA implementation). IPSIS will therefore serve two key purposes:

- provides the Government with the monitoring information it needs to track major government commitments; and

- provides ministry management with a means to track comprehensive information on the delivery of Ministry Integrated Plans

National strategy

Progress in the implementation of the NSDI will be assessed through the set of monitoring indicators defined below. These indicators measure exclusively outcomes and impacts and will be available annually except where it is mentioned otherwise. In addition, the macroeconomic indicators reported in Chapter 1 will also be monitored. Finally, the allocation of public expenditure will be followed up.

Table 5.1 List of NSDI monitoring indicators

	Sector	Indicator	Breakdown	Source
1.	Defence	Fulfilment of the Partnership Objectives		Ministry of Defence
2.	Justice	'Rule of law'	Relative to SEE countries	World Governance Indicators, World Bank
3.		Number of prisoners relative to available capacity		Ministry of Justice
4.	Property rights	Number of properties that have received a certificate of legalisation		ALUIZNI
5.		Number of properties that have been registered at the Immovable Property Registration office (IPRO)		IPRO
6.	Anti-corruption	Corruption Perceptions Index	Relative to SEE countries	Transparency International
7.	Organised crime	Number of trafficking victims trafficked to or originating from Albania	Relative to SEE countries	State Police; IOM Annual Report on Victims of Trafficking in South-Eastern Europe
8.	Public order	Criminal offences per 100,000 population (excluding traffic offences)	Relative to selective European countries	State Police; European Sourcebook of Crime and Criminal Justice Statistics
9.	Public administration	Number of appeals regarding the implementation of the Civil Service Law	By type	Civil Service Commission
10.	Decentralisation	Fulfilment of principles of European Charter of Local Self-Government		Ministry of Interior
11.	Transport	Number of kilometres of national roads constructed		Ministry of Public Works, Transport and Telecommunications
12.		Traffic deaths by 10,000 vehicles		INSTAT (deaths); State Police (vehicles)
13.		Average time spent by vessels in ports	By port	Port authorities
14.		Number of passengers		Tirana International Airport
15.	Energy	Domestic production of electric energy (GWh)	By source	KESH
16.		Energy consumption relative to GDP		Ministry of Economy, Trade and Energy
17.	Water supply and sanitation	Access: Proportion of households reporting that they have running water and sanitation inside the dwelling	By income level	Living Standards Measurement Survey (every three years)

18.		Quality: Proportion of samples obtained within a year for all 54 water utilities that tested negative for coliform and chlorine residual		Monitoring and Benchmarking Unit, General Department of Water and Sanitation
19.	Environment	Average yearly concentration in four cities of three air pollutants: PM10 (fine particles); SO ₂ (sulphur dioxide); and NO ₂ (nitrogen dioxide)	Tirana, Shkoder, Durres, Elbasan	Institute of Public Health; Ministry of Environment, Forests and Water Administration
20.	Finance	Domestic debt ratio (% GDP)	Relative to SEE countries	Ministry of Finance; IMF reports for other countries
21.	Economy	Foreign direct investment per capita (€)	Relative to SEE countries	Bank of Albania; EBRD
22.		Export diversification (%): Share of four sectors (textiles, footwear, metals and minerals) in total exports		INSTAT
23.		Rank in 'Doing Business' survey	By indicator Relative to SEE countries	World Bank
24.	Consumer protection	Proportion of respondents who agree that they are adequately protected by existing measures to protect consumers [To be included in a future survey of public opinion]		Currently unavailable
25.	Information and communication technology	E-government readiness index	Relative to SEE countries	United Nations Online Network in Public Administration and Finance
26.	Employment	Unemployment rate calculated for the population aged 15-64 years, according to the standard and relaxed definitions	By gender	Labour Force Survey
27.	Gender equality	Female labour force participation rate according to the standard and relaxed definitions		Labour Force Survey
28.	Social protection	Coverage of the ndihma ekonomike programme (%): Proportion of (extreme) poor people who receive the benefit		Living Standards Measurement Survey (every three years)
29.	Social inclusion	Absolute poverty headcount rate		Living Standards Measurement Survey (every three years)
30.		Share of poorest 20% of population in total consumption		Living Standards Measurement Survey (every three years)
31.	Social insurance	Pension replacement rate		Institute of Social Insurance
32.		System dependency rate: Ratio between beneficiaries and contributors		Institute of Social Insurance
33.	Health	Causes of death by group diseases per 100,000 inhabitants	By gender	INSTAT; Ministry of Health
34.		Maternal mortality rate		INSTAT; Ministry of Health (two sources)
35.		Infant mortality rate		INSTAT; Ministry of Health (two sources)
36.	Basic education	Gross secondary education enrolment rate: Number of students attending Classes 9-12 relative to the population in respective school-age group (14-17 years)	By gender	Ministry of Education and Science; INSTAT

37.	Higher education	Number of students in higher education	By full-time / part-time status	Ministry of Education and Science
38.	Planning	Proportion of municipalities with an urban regulatory plan according to planning law		Ministry of Public Works, Transport and Telecommunications; Association of Municipalities
39.	Regional development	Degree of socio-economic development [To be developed as part of implementing the regional development strategy]	By region	Ministry of Economy, Energy and Trade
40.	Rural development	Average size of agricultural holdings (ha)	Relative to SEE countries	Ministry of Agriculture, Food and Consumer Protection; INSTAT
41.		Number of kilometres of rural roads constructed		
42.	Agriculture	Productivity in agriculture and agro-processing (Lek/employee)		Ministry of Agriculture, Food and Consumer Protection
43.		Proportion of agricultural production sold (%)		Ministry of Agriculture, Food and Consumer Protection
44.		Volume of agro-industry exports (€)	By main products	INSTAT
45.	Tourism	Number of tourists	By areas of origin defined in the strategy	World Tourism Organisation

NSDI annual progress report

Under the IPS, the Department of Strategy and Donor Coordination at the Council of Ministers will be responsible for an annual progress report which will:

- assess the progress made in the implementation of the strategy, mainly in terms of trends in the above monitoring indicators
- utilise other available statistical information in order to analyse long-run trends and benchmark Albania against other countries in the region
- selectively identify issues that are of critical importance in the process of achieving the country's long-term goals and be a basis for wider discussion

The annual progress report:

- will not present a full-fledged strategy, as this is the role of the NSDI document
- will not outline a forward-looking framework, as this is spelled out in the MTBP document, under the responsibility of the Ministry of Finance
- will not substitute the Ministry Annual Reports to be produced by individual line ministries that will focus on outputs and are a key feature of the IPS

The main audience of the annual progress report will be primarily the general public. Its structure will therefore be simple and will dedicate one page to each of the indicators and related policy issues identified above.

Five-year programme of statistics

The tracking of these monitoring indicators will be supported by the implementation of the national five-year programme for official statistics. The Government, in the framework of its strategic

priorities, with the European Community Statistical Programme as a starting point, has identified the following main statistical duties:

- Maximise the use of administrative sources. INSTAT after the creation of a registry with unique characteristics for every central institution and ministry will organise a model of collecting data, with well defined hierarchic responsibilities.
- Improve the method of calculating aggregate macroeconomic indicators and national accounts following the ESA 95 methodology. The improved data will assist the calculation of provisional GDP not only according to production but also according to expenditure in current and constant prices.
- Improve the measurement of the hidden economy. Albania will adopt the recommendations of OECD, Eurostat, and the Economic Commission for Europe. The method of calculation on the basis of actual conditions will be improved, particularly using the data of the State Inspectorate of Labour.
- GDP flash estimation. In order to help all decision makers, quarterly GDP calculations will be possible through evaluations based on econometric methods using the annual GDP data, combined with data from the sales index and improved through various deflators.
- Structural business data and the business registry
- External trade data and Intrastat
- Social statistics based on individual and household data. In that respect, until recently there has been only one source of information on households, designed to monitor trends in poverty reduction, the LSMS. No other statistical initiative had been undertaken to bring the country to the level of other countries in Europe and the region. However, INSTAT implemented in 2006 the first household budget survey and will carry out in 2007 the first labour force survey.
- Use of Census and LSMS data. This is a new duty for INSTAT that will extend the analytical capacity of the organisation and will allow the transfer of know-how through external assistance directed to INSTAT. These publications will not only have an impact on the public image of INSTAT but will also enable a presence of INSTAT specialists in international scientific forums.
- Agricultural statistics. These will approximate the European standards, especially through the agricultural census, and will give a full view of the agricultural reality in the country. In addition, they will help to improve the calculation of the GDP. The fishery and forestry sectors will be incorporated in official statistics in full form, especially to follow developments related to Free Trade Agreements.
- Environmental statistics
- Regional statistics, collected through administrative sources at the national level, will be improved with the establishment of classification at the NUTS 2 level