

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR ALBANIA

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EXECUTIVE SUMMARY

Albania is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement establishing the Bank.

In the period since the adoption of the previous Strategy, Albania has made further progress in democratic reform, to a great extent geared towards integration into the EU. Albania obtained formal status as an EU candidate country in June 2014.

Economic performance has slightly improved in 2014, but growth remains sluggish since 2012. GDP growth in the last three years (2012-14) was below 2 per cent, more than 1 percentage point lower in comparison to the average of period 2009-11, and more than 4 percentage points lower in comparison to the three-year period before the 2008 global crisis. After just one per cent growth in 2012, the economy picked up slightly in 2013-14, but the recovery remained slow. The latest slowdown reflected both domestic problems, namely, government arrears towards businesses, mild deleveraging, negative y-o-y credit growth to private sector and high level of NPLs, as well as difficulties in Albania's most important economic partners, Italy and Greece. Following a fiscal deficit of more than 5 per cent of GDP in the last two years, the public debt to GDP ratio reached more than 70 per cent of GDP, which is worryingly high by regional standards, but there are signs that the peak may have been reached, thanks to progress on fiscal consolidation. Growth is likely to pick up in 2015 to 2.5 per cent, and to a 3-4 annual per cent range in 2016-18. However, downside risks are high. The economy is still running significant twin deficits and the financial sector continues to be exposed to both domestic and external risks.

On the structural side, Albania has made some good progress in recent years in addressing some of the most deep-rooted problems. The country is benefiting from a renewed reform momentum, aimed in particular at improving the overall business environment, addressing challenges in the energy sector and streamlining the municipal organisation. The prospect of EU accession provides a strong anchor for continuation of this trend. In parallel, regional integration in the Western Balkans and the region's relations with the EU are benefiting from a fresh political impetus. This is expected to provide a supportive environment for the Bank's activities in the next four years. At the same time, the challenges remain significant. Low value added production accounts for much of the economy, while financial intermediation is constrained by very high NPL levels, which in turn impedes competitiveness of the private sector. This situation is compounded by Albania's pre-1991 history of isolation which left the legacy of limited infrastructure, investment and trade linkages with the extended region. In addition, power and municipal infrastructure utilities do not operate on a sustainable basis. In this context, the following strategic orientations are proposed to underpin EBRD's engagement in Albania in the forthcoming strategy period:

- **Support private sector competitiveness by enhancing value creation, facilitating SME access to finance and fostering an enabling business environment:** Conditions for doing business remain challenging. SMEs in particular are struggling because of a combination of limited access to finance, corruption, and uncertainty over land and property rights. Informal activities are pervasive, hindering the efforts of those companies willing to play by the rules and operate legitimately. The Bank will support corporates and SMEs directly through debt and equity financing; as well as business advisory, with a view to strengthen enterprise competitiveness through

improved skills, investment in modern technology, energy efficient and sustainable investments, good governance, better business practices and standards. The Bank will also seek to help restart credit to the private sector through risk-sharing products and dedicated credit lines with commercial banks, as well as through engaging in policy advisory on NPL resolution. Finally, leveraging the authorities' renewed reform momentum, the Bank will expand its activities under the Investment Climate and Governance Initiative (ICGI).

- **Expand markets by strengthening regional linkages:** As a small, open economy, Albania could benefit significantly from enhanced economic links with neighbouring countries, building on the positive spirit of regional cooperation that has emerged in recent years. A comprehensive regional approach to improving cross-border infrastructure and energy links and a reduction in non-tariff barriers to trade is needed. To address these needs, the Bank will work closely with the EU and its other partners in the Western Balkans Investment Framework (WBIF) which is increasingly emphasising projects that promote connectivity. In particular, the Bank will seek opportunities to support expansion and rehabilitation of regional transport infrastructure to facilitate cross-border links and lower transportation costs. To strengthen energy security, it will also support power and gas interconnections with neighbouring countries. The Bank will also support foreign investors in Albania and facilitate trade by providing financing and capacity building for export-oriented SMEs.
- **Promote sustainability of public utilities through commercialisation and private sector participation:** Albania faces major challenges in putting provision of municipal services and energy on a sustainable basis. Accordingly, the Bank will explore ways to best support the deep restructuring of the energy sector, led by the World Bank. Subject to progress in developing a conducive and reliable regulatory environment, this could entail providing financing to private independent hydropower producers. The Bank could also engage in the restructuring of the state-owned electricity companies in generation, transmission and distribution provided there is a credible commitment by the government to commercialisation. As the territorial reform progresses, the Bank will aim to engage in financing municipal and environmental infrastructure, with primary emphasis on urban transport, street lighting and water.

1 OVERVIEW OF THE BANK'S ACTIVITIES

1.1 The Bank's current portfolio

As of 30 November 2015

The private sector share of bank investment stands at 56 per cent (five year rolling basis, 2010-2015).

Sector Group	Sector Team	Portfolio no of operations	Portfolio (€m)	% Portfolio	Op Assets	% Op Assets
Energy	Natural Resources	3	103	21%	55	21%
	Power and Energy	7	52	10%	41	15%
		10	154	31%	96	36%
Financial Institutions	Depository Credit (banks)	2	7	1%	7	3%
	Insurance, Pension, Mutual Funds	0	0	0%	0	0%
	Leasing Finance	1	1	0%	1	0%
	Non-depository Credit (non-bank)	9	109	22%	7	2%
		12	117	24%	15	5%
Industry, Commerce & Agribusiness	Agribusiness	1	0	0%	0	0%
	Equity Funds	6	22	4%	11	4%
	ICT	0	0	0%	0	0%
	Manufacturing & Services	3	15	3%	9	3%
	Property and Tourism	1	14	3%	14	5%
		11	52	10%	35	13%
Infrastructure	Municipal & Env Inf	2	13	3%	7	3%
	Transport	7	160	32%	115	43%
		9	174	35%	122	46%
Summary		42	497	100%	268	100%

1.2 Implementation of the previous strategic directions

The current Country Strategy for Albania was approved by the Board on 11 December 2012, with the following four strategic priorities:

- Promoting sustainable energy policies and environmentally sound investments.
- Enhancing commercialisation, competition and private sector involvement in infrastructure, alongside targeted public sector projects.
- Supporting the development of a more competitive private sector.
- Strengthening the financial sector and deepening intermediation.

The implementation of the Country Strategy took place during a difficult period for Albania. Politically, the transition between two governments progressed peacefully. However, large arrears by the sovereign and state owned enterprises came to the fore after the elections and needed to be cleared. Large staff turnover in the administration posed operational challenges for investors, including for EBRD. The economic environment was characterised by low growth and investment, due to both domestic factors and the contraction in Italy and Greece, Albania's main trade and investment partners.

Developments in the **energy sector** were particularly challenging. After the sale of 76 per cent of the state-owned distribution company to CEZ in 2009, the authorities revoked the Czech company's licence in January 2013, blaming CEZ for severe electricity shortages in

several regions. High electricity import costs and low regulated domestic power prices together with distribution losses and uncollected revenues had forced CEZ to operate at a loss leading the company to cut power over unpaid bills. As a consequence of this situation, the Bank's electricity distribution efficiency improvement program had to be cancelled. In the strategy period, the Bank has continued to work with the World Bank, SECO and KfW to support the financing of safety upgrade investments in the Komani HPP dam – part of the largest hydro-power plant in Albania.

In the **natural resources sector**, the environmental remediation and development of the Patos-Marinza oil field has achieved its objectives, meeting the output levels and increasing the role of the private sector, as well as significantly raising environmental and social standards in the sector. The Bank has also assisted the Ministry of Energy and Industry through a TC project, introducing a management information system for monitoring concessions in the mining and hydropower sectors.

In the **transport sector**, the rehabilitation of the Local and Regional Roads Project has proceeded very successfully, having increased private sector participation and raised technical standards. The construction of the Fier and Vlore Bypasses progressed well, albeit with some delays caused by the government's internal procedures. These projects combine loan financing with grant funds, and have been good examples of successful donor coordination between the Bank, the EC and the EIB through the Western Balkans Investment Framework (WBIF). The Bank also initiated TC projects to support sector reform and institutional strengthening, such as the road tolling strategy, a sustainable transport plan study, detailed design for the rehabilitation of the Durres-Tirana railway line, as well as a financial and economic appraisal of the whole Albanian Railway Network.

The **corporate sector** faced a particularly difficult economic environment in the past three years and many businesses cancelled or postponed their investment plans. In early 2015, the Bank successfully exited its investment in Antea Cement, a project that had served to increase competition in the cement industry. The Bank signed an important transaction, through Risk Sharing Framework product (former Medium Sized Co-financing Facility), which brings new standards to the ferro-chromium processing industry.

The Bank has also stepped up its **Small Business Support**. In 2014 alone, the Bank initiated 67 advisory projects of which 61 were with local consultants focusing primarily on marketing, ICT, strategy and quality management, and 6 with international advisors on operations improvement, export and strategic planning. In 2014, MSMEs benefiting from the Bank's advisory services have increased on average their turnover by 13 per cent, their productivity by 8 per cent and created 530 jobs.

During the strategy period, the **financial sector** was affected by the weak bank lending in the face of subdued demand and very high levels of NPLs (20.9 per cent in June 2015). The Bank continued to engage with the financial sector, both to support SMEs via on-lending and to further strengthen financial stability, to which end it committed and disbursed three SME credit lines to two local banks and one leasing company, provided trade finance facilities to one local bank and supported a leasing company and two micro finance institutions with tailored credit lines. In addition, the Bank significantly contributed to strengthening the stability of the financial system by providing a EUR 100 million guarantee facility to the Albanian Deposit Insurance Agency (ADIA). ADIA has also been assisted with a comprehensive TC project aiming to enhance internal procedures through an automatized

pay-out system to depositors, allowing for prompt and accurate payments in the event of a bank liquidation or resolution. Furthermore, the Bank signed an unfunded Risk Sharing Participation Framework with Intesa Sanpaolo Bank Albania, with a first sub-loan in the above mentioned ferro-chromium processing sector. Unfunded risk sharing is very well suited for the highly liquid Albanian market as it offers partner banks a way to manage their capital and their risk concentrations while using their own abundant funding sources. The Bank has also been an active participant in the dialogue between the Bank of Albania and commercial banks in enhancing enforcement procedures for the execution of collateral and in tackling the NPLs issue. The Bank supported the Bank of Albania's regulatory coordination efforts with home country authorities using the Vienna Initiative's coordination platform, where the Governor of the BoA represented the whole SEE region until 2014. Moreover, as a part of the EBRD Local Currency and Local Capital Market Initiative, the Bank conducted an initial assessment of Albania's capital markets current state and shared with authorities its recommendations on how to enhance the capital markets development in the country.

Lastly, the Bank maintained a high level engagement with the Government on improving the **business environment** and combating corruption. Albania was chosen as a pilot country for the Bank's new Investment Climate and Governance Initiative (ICGI). An MoU was signed in February 2014 between Albania's Prime Minister Edi Rama and the Bank's President, detailing actions and responsibilities for implementation of the initiative. The first project under the ICGI in Albania has been the establishment of an Investment Council, with a donor-funded professional secretariat, to facilitate a systematic reform dialogue between the government and the private sector. The Bank has also partnered with the OSCE Presence in Albania to build capacity on good governance of the Albanian School of Public Administration, draft a code of conduct for businesses and increase civil society's oversight role over public and corporate governance in collaboration with the National Coordinator for Anti-Corruption.

1.3 Key lessons learned

The dysfunctional power distribution sector has been severely affecting the entire **energy sector** and has had a negative impact on the Bank's existing investments as well as its ability to originate new bankable projects in the sector. Technical losses reached up to 40 per cent and electricity theft, albeit on a downward trend, remained wide-spread. Payment discipline was weak across private customers, business and even government, while the state-owned electricity company, KESH, had built up significant arrears vis-à-vis independent power producers. This situation has affected the otherwise successfully completed small HPPs which the Bank finances through the Western Balkans Sustainable Energy Direct Finance Facility (WeBSEDF). The World Bank is currently leading a large Power Recovery Project and the government has, at the end of 2014 begun to rigorously address the problems of unpaid bills and electricity theft. These promising developments could pave the way for a reengagement of the Bank in the power sector.

Fragmentation of the municipalities and absence of fiscal autonomy have so far prevented the Bank from engaging in the **municipal infrastructure sector**. This situation may, however, change in the next strategy period as the government is implementing a far-reaching territorial reform, supported by the international community. Until these changes take place, the Bank's ability to finance municipal projects will be a function of political accord between municipal clients and the central government (as demonstrated by the stalled Tirana public transport terminal PPP project).

The Bank has not been able to engage in the **agribusiness sector**, mostly due to the high fragmentation in the sector. While there may be opportunities for direct financing in the future (e.g. in retail or food processing) this sector may also require an indirect financing approach (e.g., Agribusiness Support Facility through commercial banks supported by capacity building TC and first-loss cover), as well as advisory services focused on agribusinesses (e.g., export, operation improvement, quality management).

Lastly, in the **banking sector**, the high liquidity (56 per cent loans to deposits ratio) is likely to continue to limit demand for the Bank's funding products during the upcoming strategy period. There is therefore a need to develop products focusing on providing capital relief for banks (e.g., risk sharing on project / portfolio basis) and dedicated credit lines addressing underserved segments (e.g., Women in Business, agribusiness, energy efficiency).

The Bank will try to increase the number of transactions with the private sector, reached directly or indirectly through Participating Financial Institutions.

2 OPERATIONAL ENVIRONMENT

2.1 Political context

General elections in 2013 marked the return to power of the centre-left Socialist Party (PS) headed by its leader Edi Rama, after eight years in opposition. The current government with Rama as Prime Minister was established on 15 September 2013. The PS-led government includes as a junior coalition partner a smaller centre-left party, SMI. Together, they enjoy a comfortable majority in the parliament. Next general elections are due in summer 2017. The local elections, held in June 2015, saw majority of municipalities, including the capital Tirana, won by the governing coalition. In the capital, where the cooperation between the central government and the local authorities in the past was often hampered by the political infighting, this may create more favourable ground for projects requiring such cooperation.

PM Rama has come up with a programme of modernisation underpinned by reform of governance, strengthening of the rule of law and the fight against corruption in domestic policy, and the acceleration of EU approximation as the country's top foreign policy priority. There is a genuine realisation among the Albanian leadership that without improving the business environment it will be difficult to attract foreign investment and enable sustainable growth. This is also an explicit requirement by the EU.

Prospects for further progress on the EU track remain the main external anchor for reforms. The political will demonstrated by the new Albanian authorities and initial practical steps in implementing reforms have been rewarded by the country's accelerated approximation with the EU. Albania obtained formal status as an EU candidate country in June 2014. However, significant challenges remain. According to the conclusions of the latest Progress Report by the European Commission (EC) on Albania, it needs to proceed with comprehensive reform of the judicial system and improve the business environment, as well as improve the culture of political dialogue between the government and the opposition. The opposition, which holds 35 per cent of the seats in parliament, boycotted the parliament for most part of 2014. The relations have remained strained even when it returned to the parliament at the end of 2014, hampering the normal functioning of the legislative body.

The authorities have recently embarked on the reform of local self-government, designed to streamline the territorial organisation of the country, address existing regional disparities, and increase overall efficiency and quality of services to citizens. The first measures included streamlining existing units of self-government by merging more than 300 of such units into 61 municipalities. Although the comprehensive reform may take time, particularly with respect to capacity building at the municipal level and transfer of certain competences to them from the central level, progress on this track could be conducive for greater engagement from IFIs at the local level.

See Annex 1 for a detailed political assessment in the context of Article 1.

2.2 Macroeconomic context

Economic performance has been sluggish since 2012. Albania, unlike most economies in the SEE region, recorded positive growth rates throughout the global and Eurozone crises of recent years, but the pace of growth has slowed markedly in recent years. Economic activity from construction declined significantly, followed by manufacturing. This reflected both domestic problems, namely, government arrears towards businesses, mild deleveraging, negative y-o-y credit growth to private sector and high level of NPLs, as well as difficulties in Albania's most important economic partners, Italy and Greece. Provisional estimates for 2014 point to a growth rate of 1.9 per cent, with services, in particular, trade, hotels and restaurants, being the greatest contributor to growth. Feeble aggregate demand and low imported inflation, as well as a decline in oil prices, have kept inflation below the central bank's target range of 2-4 per cent. In line with the declining inflation rate (of only 1.6 per cent in 2014), the central bank started with expansionary monetary policy by a series of cuts in the base interest rate, with the latest – in January 2015 – bringing it down to a historic low of 2 per cent. A combination of low inflation, comfortable level of reserves and IMF support has helped the recent stability of the LEK/EUR exchange rate.

Fiscal consolidation has advanced. Revenues in 2014 increased, reflecting improved VAT tax collection and a hike in the corporate income tax rate from 10 to 15 per cent. On the spending side, the government implemented expenditure savings, including to personnel expenditure, and operation and maintenance expenditure. Interest expenditure on domestic debt was also lower, reflecting lower interest rates. Overall, last year's deficit was only slightly higher than in 2013, even though the budget also had to accommodate the repayment of a large portion of government arrears to businesses. Following a fiscal deficit of more than 5 per cent of GDP in the last two years, the public debt to GDP ratio reached more than 70 per cent of GDP, which is worryingly high by regional standards, but there are signs that the peak may have been reached in 2014 and that the ratio will start to decline by end-2015. The IMF's three-year EUR 331 million Extended Fund Facility (EFF) Arrangement is on track, although completion of the fifth review has been delayed. The IMF programme, signed in February 2014, is complemented by two development policy loans from the World Bank, in total of US\$ 220 million, which aim to strengthen public financial management and the financial sector stability. With these funds, the government has cleared most public arrears to companies, which had reached an estimated EUR 500 million or 5.4 per cent of GDP. This injection of liquidity in the economy is a clearly positive development for the banking sector, as government arrears had contributed to the rising NPL problem.

In the short-term, growth is expected to pick up, but to remain modest, with significant downside risks. Growth is likely to pick up in 2015 to 2.5 per cent, and to a 3-4 annual per

cent range in 2016-18, helped by the clearing of most government arrears, supportive monetary policy (lower interest rates) and a gradual pick up in bank lending, as well as the start of the major construction work on the Trans-Adriatic gas Pipeline (TAP). Over the medium term, Albania could benefit considerably from a Eurozone recovery if it is able to make further progress on structural reforms and advance towards the start of EU accession talks. Progress towards EU membership and adherence to sound macroeconomic policies, combined with visible improvements in the business environment, including improved efficiency of administration, more independent judiciary system and more freedom from corruption, will make the country more attractive to potential foreign investors.

The downside risks are high. The economy is still running significant twin deficits (fiscal and current account), and the financial sector continues to be exposed to both domestic and external risks, including the high level of NPLs. In addition, Albania's close economic ties to Greece and Italy imply risks, especially in the light of increased uncertainty regarding the Greek economy. Exports to Italy account for about 50 per cent of the total, while both countries are important destinations for Albanian migrant workers and thus a major source of Albanian remittances. The main linkages with Greece are in the financial sector, with subsidiaries of Greek banks retaining significant (albeit declining) market share in Albanian banking sector. These subsidiaries no longer rely on funding from the parent banks, but negative reputational spillovers from a banking crisis in Greece cannot be ruled out. A deterioration in the business climate, in particular conditions for foreign investors, could also deter future FDI, on which Albania will continue to depend to finance current account deficits. The high level of public debt is another source of concern and severely limits the fiscal space for major public spending projects.

2.3 Structural reform context

Despite nearly 25 years of progress in transition, Albania still faces a major reform agenda, to a large extent guided by the goal of EU membership. The Albanian government has put business environment reforms and investment climate improvement at the heart of its economic programme. The government is also pushing ahead with efforts to privatise remaining state stakes in large companies, including its 16.8 per cent share in Albtelecom. However, investor appetite at present is uncertain.

During 2014 and 2015 there have been positive developments in the power sector as well. The Government has settled a major dispute with Czech Power Utility CEZ and agreed a loan with the World Bank in the amount of US\$150 million to support the country's power sector recovery and reforms. Also, the parliament has adopted a new electricity law compliant with the Third Energy Package, which was praised by the Energy Community. The importance of the law goes far beyond formal compliance with EU legislation, as it constitutes a decisive step forward on the long path of energy reforms in Albania, for which it lays a solid foundation. The Government also undertook targeted efforts at reducing bad debt and electricity thefts which significantly improved the liquidity and self-sufficiency of the sector in the first half of 2015.

To date, there has been no gas market in Albania, but plans have advanced for the creation of a functioning gas market in the coming years on the back of the Trans Adriatic Pipeline (TAP). TAP aims to transport gas from Azerbaijan to Italy, with a proposed Ionian Adriatic Pipeline (IAP) branch from Albania to Croatia. The comprehensive medium-term master plan for natural gas, launched by the government, financially supported by the EU and led by

EBRD, will examine all aspects (technical, legal, regulatory, economic, market and social) related to the introduction of gas system in the country.

2.4 Business environment and legal context

Business environment

Efforts are under way to improve the business environment and investment climate in the country. At the same time, evidence from recent surveys, including the EBRD/World Bank Business Environment and Enterprise performance Survey (BEEPS), points to continuing difficulties for businesses in terms of unfair competition from the large informal sector and corruption – all issues that stem from wider governance failures as well as deep-seated phenomena that are at the forefront of the current government’s reform efforts.

The Bank’s Investment Climate and Governance Initiative with Albania is delivering a number of targeted interventions to help address some of these issues. Through the recently established Investment Council, chaired by the Minister of Economic Development and coordinated by a donor-funded professional secretariat, businesses have already pointed to a number of obstacles they are facing and that need to be tackled by the government, including the need to reform the tax inspection system, streamline bankruptcy procedures, and strengthen contracts enforcement mechanisms.

Legal context

The legal system in Albania has been the subject of constant reforms in recent years. The main driving force for these reforms has been the EU integration process. However, there are several areas where further in-depth reforms are necessary:

- Overall, progress is needed on reforms to deal with uncertainties over property ownership, deficiencies in the regulatory framework and weaknesses in contract enforcement, which continue to be detrimental to the business environment. The pace of property legalisation, restitution and compensation remains slow.
- In the area of company law, amendments to the 2008 Law on Entrepreneurs and Companies, including provisions governing reporting and documentation requirements for mergers and divisions have been adopted. However it is vitally important that company law remains compatible with other laws while it is revised time after time. In the area of corporate accounting, new national accounting standards, to be implemented as from January 2015, were adopted too. The National Accounting Council continued efforts to increase its capacity and adopted a manual of operating procedures and methodologies for transposing international accounting standards at national level. Albania will need to focus on enforcing accounting and auditing standards, and further increasing its inspection capacity as part of its work on building sound economic governance. Legislation must be further aligned with the *acquis*, in particular on auditing.
- In the judiciary, Albania has demonstrated its commitment to reform, notably by interacting with the Venice Commission to improve the independence, accountability and professionalism of the system. Measures were taken to increase the accountability of judges, prosecutors, members of parliament and other senior officials through the adoption of legislation regulating their immunity. There was some progress on setting up administrative courts, which became operational in 2014. The functioning of the judicial system continues to be affected by politicisation, limited accountability, poor inter-institutional cooperation, insufficient resources and

backlogs. Albania needs to vigorously pursue judicial reform with the cooperation of all stakeholders.

See Annex 4 for a more detailed assessment of the legal environment in specific areas relevant to the Bank's investment strategy.

2.5 Access to finance

Private sources of capital

The financial sector has remained stable throughout the turbulence of recent years, but credit growth is weak, after being negative on an annual basis for about a year (between July 2013 and June 2014), and non-bank financial institutions are still at early stages of development. Banking sector assets account for 93 per cent of total financial system with 16 banks operating in the market, of which 14 are foreign-owned. The level of non-performing loans remains very high, even by regional standards. The situation is being eased progressively through the gradual clearance of public sector arrears, along with legislative changes to the civil code to improve collateral execution, and a more stringent enforcement by the Bank of Albania of regulations obliging banks to write-off older non-performing loans, with the support of the World Bank. In that context, the NPL rate has declined from a high of 24.9 per cent in Q3 2014 to 20.9 per cent by June 2015. Despite the high level of NPLs, the banking sector has a relatively high capital adequacy ratio of 16.0 per cent, as of June 2015.

Non-bank financial institutions account for a small share of the Albanian financial system, further restraining private sector's access to finance, in particular SMEs. At the end of 2013, leasing penetration stood at only 1 per cent of GDP, even though the framework for the leasing sector has been established and the regulator is active in monitoring the market. The insurance market remains also underdeveloped: at 0.6 per cent as of end 2013, the insurance premia/GDP ratio continues to remain well below its peers in the SEE region. While the latest insurance law has strengthened the legal and regulatory environment, effective implementation remains a challenge. Further improvements would also be welcome in the areas of accounting, disclosure and auditing standards.

Capital markets remain underdeveloped. There is virtually no equity market. Although there are companies in Albania that would potentially qualify to be listed, the culture of informal economy and lack of transparency have prevented the public offerings from being considered as an alternative financing. As a result, there were no companies listed on the Tirana Stock Exchange (TSE) and the stock exchange was closed down in early 2015. In addition, there is very limited activity in the bond market outside of government debt instruments. There are only few suitable large corporate issuers that are willing to meet high standards of corporate disclosure and transparency. In addition, with access to reliable and cost-effective funding from deposits, most banks are not incentivised to initiate bond issues in the local market. Out of the limited number of bond issues, most of them are placed to a few private investors (e.g., issuer's favoured depositors or wealthy retail investor) with no competitive bidding mechanism. A robust corporate bond market is necessary to provide a stable source of term finance to local banks and especially to microfinance institutions. To establish the credibility of corporate bonds as an asset class with a simple and transparent bond structure, the Financial Supervisory Authority (FSA) needs to support institutional offerings, by establishing a clear regulatory framework for corporate bond issues that are targeted towards more sophisticated investors.

In order to address these challenges, the Bank is engaging in policy reform dialogue and has shared with the Ministry of Finance and Bank of Albania an initial assessment report on Albania's capital markets, with the following recommendations, among others: to promote the use of local currency (LC) and continue to reduce euroisation through regulatory measures on banks, improve liquidity in the LC interbank money market and develop a reliable money market benchmark index, encourage LC bond issuance either through interested counterparties such as microfinance institutions and locally owned banks, or potentially by EBRD (subject to loan demand in Albanian LEK as well as some changes to the legal and regulatory regime), undertake measures to develop the secondary market in LC debt securities including reducing the frequency of government bond auctions and increasing activity in secured bilateral money market transactions, develop a medium term strategy to increase foreign participation in LC government bond markets, ensure that the regulations governing investment funds allow for adequate differentiation between fund investment and bank deposits before encouraging more funds to enter the market, and finally, provide investor education on potential risks related to investments in funds and clarify these funds are not covered by deposit insurance.

Multilateral and bilateral development bank finance¹

The EU, the IFIs as well as a number of bilateral agencies are very active in Albania and constitute an important source of financing – both for individual projects and for the budget.

As an EU Candidate Country, Albania benefits from significant financing from the EU. Under the Instrument for Pre-Accession (IPA II), EUR 649.4 million have been allocated for Albania for the period of 2014-2020. Financing will increasingly be provided in the form of budget support to a number of priority sectors to progress towards EU accession, including democracy, governance, rule of law, environment, transport, competitiveness, innovation, education, agriculture and regional cooperation. Moreover, under IPA II, the EU is expected to allocate EUR 1bn for priority investments in regional infrastructure projects.

In February 2014, the IMF returned to Albania with an Extended Fund Facility (EFF). This facility over SDR 295 million (ca. EUR 330 million at the time of approval) is being made available to the government as budget support over three years and supports the government's reform programme.

The reform drive of the new government, together with the return of the IMF, also led to a significant increase in the World Bank Group's engagement in Albania. Particularly noteworthy are the EUR 150 million loan to support the government's Power Recovery Programme, a programme for the maintenance of rural roads and a policy based guarantee over EUR 200 million in support of a commercial loan to the government. In addition, a new policy development loan is being prepared, supporting improvements in Albania's business climate. The World Bank is also conducting a modernisation project of the property registration office, while USAID and others are also supporting enhancement of property rights. Given the active efforts of other IFIs in that field and the limited internal expertise in EBRD, the Bank's engagement in this area is likely to remain limited. IFC finances large foreign investors, such as in the cement and natural resources industries.

¹ This section focuses on large scale financing, whereas other donor and TC activities are captured in Chapter 3.5 and Annex 6

EIB's activities in Albania focus on large transport infrastructure such as roads and ports. EIB/EIF are also key partners in a number of regional funds such as the Green for Growth Fund, the European Fund for South East Europe and the Enterprise Expansion Fund.

KfW is very engaged in the energy sector, notably power transmission and dam safety. KfW is also the lead agency in the water and waste-water sector where Albania has very significant investment needs.

2.6 Social context

According to the UNDP 2014 Human Development Index (HDI), Albania is ranked 95th out of 187 countries, which is below the regional average for the Europe and Central Asia and among the lowest ranked countries in the South Eastern Europe (SEE) region.

Albania has one of the youngest populations in Europe, with a mean age of 33, and 40 per cent of its population below 25. However, over a quarter of young people are not in employment, education or training (NEET), which is a reflection of the scarcity of local employment opportunities. Youth unemployment remains high at 28.7 per cent compared to total unemployment at 18 per cent. The quality of schooling is substantially below EU averages and lags behind all other countries in the region, which is evidenced by low PISA student performance outcomes as well as low household perceptions of education quality. Minority groups, in particular Roma communities, face additional challenges. Whilst 96 per cent of Albanians completed primary education and 80 per cent achieved a lower secondary level, only 43 per cent of Roma children (40 per cent of girls and 46 per cent of boys) have a full primary education and 21 per cent of Roma youth finished lower secondary level (18 per cent of women and 23 per cent of men). Migration flows to other SEE countries and the EU, and the resulting 'brain drain' effect, are major challenges particularly among young people. According to the ILO and confirmed by a recent regional study by the Friedrich Ebert Stiftung, more than two thirds of Albanian youth nurture hopes of migration. Employment, economic status and education levels are the three main factors that influence migration intentions of Albanian youth. Young people with only primary level education are more eager to migrate (55 per cent) than youth with university degrees (34 per cent). Remittances are estimated by the World Bank to constitute 8.5 per cent of Albania's GDP.

There are substantial regional discrepancies between the country's southern and central regions and the underserved northern region, in particular in relation to regional access to infrastructure and services supply, formal employment and finance. Water access is still a problem. Nearly 25 per cent of the population does not have access to water supply systems, with lower network coverage and poorer quality of connections in the mountainous rural areas. Rural poverty and regional disparities in the labour market reflect a twofold dilemma with regards to informality. According to the ILO, undeclared work remains prominent in Albania's rural areas where agriculture is the main source of employment. This is mostly informal unpaid family work: according to the World Bank, 58 per cent of the Albanian population were employed in such vulnerable employment positions in 2013. The resulting migration of rural populations into urban areas adds considerable pressures on the urban labour market, where it contributes towards increased informality. Lastly, only 23.5 per cent of the rural population in Albania (aged 15+) have a bank account at a formal financial institution compared to 28.3 per cent of the total population.

Women's labour force participation rate remains low at 44.0 per cent compared to men's at 65.5 per cent. Women from Roma and Egyptian communities face even larger barriers. Only as few as 15 per cent of Roma women and 13 per cent of Egyptian women are employed, whereas 58 per cent and 73 per cent respectively are unemployed and actively look for work. For more information on the situation of gender equality in the country, see Annex 5.

2.7 Energy efficiency and climate change context

To meet its electricity demands, the country is entirely dependent on hydropower and on imports and therefore highly reliant on hydrological conditions. Albania has also good resources for solar, wind and biomass, but those sources remain largely undeveloped. Although power cuts have significantly decreased over the last few years, Albania still experiences more power outages than the rest of the south east European countries. Adoption of the Renewable Energy Law in 2013 signalled commitment to improve the country's renewable energy sources (RES) regulation, but implementation of legislation remains a challenge. Albania's first national Renewable Energy Action Plan is under development, with delay. Albania did not meet the deadline of 30 June 2013 to prepare and submit to the Energy Community Secretariat its National Renewable Energy Action Plan and therefore was referred to the Ministerial Council by the Energy Community Secretariat, in May 2015.

A new Power Sector Law compliant with the 3rd EU Energy Market package was adopted by the Parliament on 30 April 2015, which will also trigger amendments of the Renewable energy law.

Albania's carbon intensity is still high compared to the EU-28 average (0.34 CO₂/GDP versus 0.24 for EU). The residential sector is the largest end-user of energy and accounts for almost half of electricity consumption. Public sector buildings are often inefficient, which opens opportunities for energy cost savings investments. The Energy Efficiency Law is largely in compliance with the acquis, and was prepared with the support from the Energy Community Secretariat. The First Energy Efficiency Plan (EEAP) was adopted in 2011, establishing a national indicative energy savings target of 168 Ktoe by 2018 (9 per cent).

Albania offers significant technical energy saving potentials, some of which could be addressed through ESCO projects. However the commercial case has yet to be developed. On the one hand, public authorities often do not have a strong incentive and commercial case for energy efficiency investments or initiating ESCO projects, as energy payment discipline is weak even in the public sector. In addition, low energy prices and weak political support and unclear regulatory framework are remaining barriers. The revision of the Energy Efficiency law is still on-going. The first National Energy Efficiency Action Plan (NEEAP) was published in 2010, and the second NEEAP is being prepared with the technical support offer by EBRD and in close cooperation with the Energy Community Secretariat. Establishing a regulatory and commercial basis for energy efficiency is required for further energy efficiency investments, including through ESCO projects.

In Albania's 2nd National Communication to the United Nations Framework Convention on Climate Change (UNFCCC), it identified a number of climate change adaptation priorities that are important to address over the coming decade. For example, shifts in precipitation and temperatures are projected to intensify pressure on water resources. Improvements in water supply infrastructure, and in water use efficiency in agriculture and industry, will be key priorities. Hydropower generation is forecast to be affected by climate-driven shifts in hydrology and reductions in surface runoff, which will need to be taken into account in

significant investments. Finally, impacts on sea-level rise and coastal erosion will need to be taken into account in investments in coastal infrastructure such as ports. The most urgent climate change risk in Albania is the exposure of the energy system to variable and extreme weather, especially summer droughts (complicated by conflicts with irrigation demand), which result in serious electricity shortages and a need for expensive power imports from neighbouring countries such as Italy.

3 STRATEGIC ORIENTATIONS

3.1 Strategic Directions

Albania has made some good progress in recent years in restoring a sound macroeconomic framework and in addressing some of the most deep-rooted problems facing the economy. The country is benefiting from a renewed reform momentum, aimed in particular at improving the overall business environment, addressing challenges in the energy sector and streamlining the municipal organisation. The prospect of EU accession provides a strong anchor for continuation of this trend. In parallel, regional integration in the Western Balkans and the region's relations with EU are benefiting from a fresh political impetus, following the high-level Berlin Conference in August 2014. This is expected to provide a supportive environment for the Bank's activities in the next four years. At the same time, the challenges remain significant. Low value added production accounts for much of the economy, while financial intermediation is constrained by very high NPL levels, which in turn impedes competitiveness of the private sector. This situation is compounded by Albania's pre-1991 history of isolation which left the legacy of limited infrastructure, investment and trade linkages with the extended region. In addition, power and municipal infrastructure utilities do not operate on a sustainable basis. In this context, the following strategic orientations are proposed to underpin EBRD's engagement in Albania in the forthcoming strategy period:

- **Support private sector competitiveness by enhancing value creation, facilitating SME access to finance and fostering an enabling business environment:** Conditions for doing business remain challenging. SMEs in particular are struggling because of a combination of limited access to finance, corruption, and uncertainty over land and property rights. Informal activities are pervasive, hindering the efforts of those companies willing to play by the rules and operate legitimately. The Bank will support corporates and SMEs directly through debt and equity financing, as well as business advisory, with the view to strengthen enterprise competitiveness through improved skills, investment in modern technology, energy efficiency, good governance, better business practices and standards. The Bank will also seek to help restart credit to the private sector through risk-sharing products and dedicated credit lines with commercial banks, as well as through engaging in policy advisory on NPL resolution. Finally, leveraging the authorities' renewed reform momentum, the Bank will expand its activities under the Investment Climate and Governance Initiative (ICGI).
- **Expand markets by strengthening regional linkages:** As a small, open economy, Albania could benefit significantly from enhanced economic links with neighbouring countries, building on the positive spirit of regional cooperation that has emerged in recent years. A comprehensive regional approach to improving cross-border infrastructure and energy links and a reduction in non-tariff barriers to trade is needed.

To address these needs, the Bank will work closely with the EU and its other partners in the Western Balkans Investment Framework (WBIF) which is increasingly emphasizing projects that promote connectivity. In particular, the Bank will seek opportunities to support expansion and rehabilitation of regional transport infrastructure to facilitate cross-border links and lower transportation costs. To strengthen energy security, it will also support power and gas interconnections with neighbouring countries. The Bank will also support foreign investors in Albania and facilitate trade by providing financing and capacity building for export-oriented SMEs.

- **Promote sustainability of public utilities through commercialisation and private sector participation:** Albania faces major challenges in putting provision of municipal services and energy on a sustainable basis. Accordingly, the Bank will explore ways to best support the deep restructuring of the energy sector, led by the World Bank. Subject to progress in developing a conducive and reliable regulatory environment, this could entail providing financing to private independent hydropower producers. The Bank could also engage in the restructuring of the state-owned electricity companies in generation, transmission and distribution provided there is a credible commitment by the government to commercialisation. As the territorial reform progresses, the Bank will aim to engage in financing municipal and environmental infrastructure.

3.2 Key challenges and Bank activities

Theme 1: Support private sector competitiveness by enhancing value creation, facilitating access to finance and fostering an enabling business environment

Transition challenges

- While the quality of the business environment has, overall, improved in recent years, surveys of enterprises show that problems with infrastructure (especially energy supply), corruption and endemic informality remain important impediments to business development. The weak judicial system is another obstacle to the development of an efficient market economy.
- Much of the economy is concentrated in low value added activities. Moving up the value chain is difficult because of a lack of market-oriented skills, especially amongst young labour market entrants, as well as weak corporate governance and managerial standards.
- The lack of clear property rights is a pervasive problem in Albania. In particular, uncertainty regarding property titles is a clear deterrent to investment in property and tourism and also affects the agribusiness sector. In the agribusiness sector, a key challenge is to improve the land registry and cadastre system to facilitate the transferability of land and the much-needed consolidation of small farms.
- Access to finance remains difficult, especially for SMEs. In spite of banks' high level of liquidity (57 per cent loan to deposit ratio), credit portfolios are contracting, as balance sheets are burdened with NPLs (22-24 per cent).
- Women-led SMEs, in particular, struggle with additional barriers of financial and non-financial nature. These barriers include women's low levels of property ownership, which makes it difficult to obtain the required collateral necessary for securing loans, lack of business skills and networks, less prior work experience as

compared to that of men and greater time demand on women for household and child care activities, which often leaves women with less time to devote to business affecting their choice and growth path of business.

- Large transition challenges exist in the non-banking financial sector. Private equity is virtually unknown, capital markets do not function as a meaningful source of long term finance to the economy, and insurance and leasing penetration levels are low relative to other countries.

Operational focus

- The Bank will continue to support corporates and SMEs in Albania through debt and equity financing with a view to encourage higher value added production, introduce new technologies and new standards and promote good governance. These investments will focus on areas where Albania has a comparative advantage, including through its endowment of natural resources (e.g. good hydropower conditions, mineral wealth, sizeable oil and gas deposits, and attractive coastline) and its competitive labour costs (e.g., agribusiness, international business services, manufacturing, logistics and hospitality).
- Through Small Business Support, the Bank will seek to build capacity and strengthen competitiveness of local SMEs by providing advisory services in the fields of inter alia marketing, strategy and quality management. In order to support SMEs' access to finance, it will also seek to increase financial literacy of local companies, through donor-funded support with accounting, financial audit, financial and corporate planning, consolidation and restructuring advice. Synergies with the Bank's direct and indirect financing products will be realised through a combination of small business advisory and financing, as well as by deploying dedicated integrated finance and support products for women in business and, potentially, agri-business, as well as sustainable resource and energy efficiency.
- The Bank will seek to deploy new instruments in the banking sector so that it can best serve the real economy. Given the high liquidity but limited capital headroom of many banks, the Bank will focus on risk-sharing products on a project basis (Risk Sharing Framework – former MCFE) or on a portfolio basis (e.g. Women in Business to address large gender gaps in access to finance, Agribusiness Financing Facility to improve the Bank's reach to this very fragmented sector). These products can be accompanied by TC for capacity building for the banks as well as the end borrowers.
- In its projects with corporate clients, the Bank will seek opportunities to support the development of equal opportunities policies and practices and to promote diversity in the workforce of these companies. It will also explore ways to improve training standards and the availability of work based learning opportunities for youth.

Policy dialogue

- On the basis of the Memorandum of Understanding on the Investment Climate and Governance Initiative for Albania, signed between the Albanian Government and the Bank in 2014, the Bank will expand its activities in support of an enabling investment climate and good governance. The Bank will continue to support with donor funds the professional secretariat of the Investment Council, thus bolstering a platform for structured and systematic dialogue between the public sector and the private sector in order to improve the investment climate. The Bank will also seek to provide support for easing business registration procedures, improving procurement practices, and

enhance alternative dispute resolution mechanisms (arbitration and mediation). Further, the Bank will explore opportunities to address some of the key weaknesses in the judicial system (e.g., through providing training for judges). This is expected to ease some of the key obstacles to private sector development, and together with the Bank's financial literacy programmes, can provide some pointed responses to the issue of informality.

- The Bank will help to address, under the leadership of the IMF, the NPL-problem in the banking sector, using the platform of the Vienna Initiative and working closely with the World Bank Group and the EU.

Result Framework for Theme 1: Support private sector competitiveness by enhancing value creation, facilitating SME access to finance and fostering an enabling business environment

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
1.1	Lack of market-oriented skills, weak corporate governance and managerial standards hinder development of high value added activities	Strengthen enterprise competitiveness through improved skills, new technology, governance practices and standards	<ul style="list-style-type: none"> ▪ Investment promoting higher value added, new technologies, skills transfer, improved standards, and good governance (incl. equal opportunities policies where possible) ▪ Small Business Support (SBS) advisory on operational and management standards 	<ul style="list-style-type: none"> ▪ Evidence of increased productivity of client firms (incl. SBS indicator on number of projects that reported increased productivity) (<i>Baseline – established at projects approval</i>) ▪ Evidence of successful introduction of higher corporate governance and business standards by clients (<i>Baseline – N/A</i>)
1.2	In spite of high level of liquidity, credit portfolios are contracting, as banks' balance sheets are burdened with NPLs	Support access to finance to the private sector by contributing to restarting lending by banks	<ul style="list-style-type: none"> ▪ Risk-sharing on project basis / portfolio basis ▪ Dedicated facilities (Agribusiness Financing Facility, Women in Business, sustainable resource and energy efficiency), with capacity building TC for banks ▪ Strengthening SME's bankability / financial literacy through SBS advisory ▪ Engage with regulator and market participants on NPL issue under the Vienna platform (IMF-led in Albania) 	<ul style="list-style-type: none"> ▪ Total number/volume of MSME sub-loans provided by client banks, incl. to identified target areas (women entrepreneurs, agri, energy efficiency) (<i>Baseline – established at projects approval</i>) ▪ Share of SBS beneficiaries that obtain finance within one year after project completion (<i>Baseline – established at projects approval</i>)
1.3	Weakness in the judicial system, lack of clear property rights, corruption and unfair competition from the informal sector are key impediments to business development	Address legal and regulatory obstacles to private sector development and facilitate public / private sector dialogue to improve investment climate	<ul style="list-style-type: none"> ▪ Support secretariat of Investment Council as an independent and professional platform for public / private sector reform dialogue ▪ Further activities under the Investment Climate and Governance Initiative (e.g., procurement, business registration, training for judges, corporate governance, alternative dispute resolution) 	<ul style="list-style-type: none"> ▪ Evidence of improvement in investment climate through specific changes in business environment (e.g., procurement practices, registration procedures, capacity building in the judicial system, improvement in corporate governance practices in the banking and enterprise sector), as a result of the Bank's policy dialogue (<i>Baseline – N/A</i>)
Context indicator: Δ Business sophistication index (baseline 2014-2015: score 3.6 / rank 104 th). <i>Source: Global Competitive Index (WEF)</i>				

Theme 2: Expand markets by strengthening regional linkages

Transition challenges

- Albania's history of near-total isolation prior to 1991 has left a legacy that is still visible today. The quality of infrastructure lags well behind that of other countries in the region and is a hindrance to regional integration.
- In the energy sector, a key challenge is the development of a grid infrastructure to allow for increased cross-border trade, a reduction in losses and an enhanced role for private sector operators, as well as a more stable electricity supply, as the country's electricity production is highly weather dependent.
- Albania is not connected to any major gas supply network and does not have a proper national network either. The Trans-Adriatic Pipeline, which is expected to come online after 2020 and will pass through Albania, could be a game changer in that regard, by making Albania a key exit point for gas to Italy and the South Eastern European region. In addition, private companies have already shown interest in the Albanian market's potential. However, such project would need to be supported by a well-planned gasification strategy.
- Major progress has occurred in recent years in the building of roads to the borders with neighbouring countries, and a roads agency (ARA) now exists. The challenges now are to develop private sector involvement in further development of the road infrastructure and to introduce a service level agreement and improving corporate governance within ARA.
- The railways sector suffers from severe underinvestment for decades. From a regional perspective, the key challenges include the improvement of linkages of the network in the TENS network planning and funding priorities, and the introduction of competition in railway businesses.
- Regional integration is hampered by difficulties in trading across borders; Albania ranks 95th in this category in the latest World Bank *Doing Business* report. Non-tariff trade barriers need to be tackled in order to encourage greater flows of trade across borders.

Operational focus

- The Bank will seek opportunities to promote and support commercial solutions to the development of regional transport infrastructure to strengthen regional economic links, working closely with the EU and the other partners in the Western Balkans Investment Framework. Fiscal space permitting, the Bank will consider financing, together with the World Bank, the government's investment programme for the maintenance of the road network. Across these projects, the Bank will seek to increase private sector participation for financing transport projects.
- The Bank will seek to support the power transmission company, if possible on a non-sovereign basis, with the view to further integrate Albania into the regional power market and assist the opening of the market to private operators.
- The Bank will consider financing gas transmission (Trans-Adriatic Pipeline), as well gas distribution on the basis of the results of the gas master plan, to support the diversification of energy resources, enhance Albania's energy security, and support the development of a regional gas market.

- The Bank will continue to support Albanian exporters by seeking to provide trade finance credit lines through partner banks as well as business advisory to small businesses on export readiness.
- The Bank will seek co-financing opportunities with foreign sponsors looking to invest in Albania, including companies or investment funds with an existing presence in the region, and will support regional solutions for capital markets and expanding regional financial linkages.

Policy dialogue and TC

- The Bank will continue to advise the Ministry of Transport in the development of a sustainable transport plan, aimed at reducing energy consumption in the transport sector and setting energy efficiency targets. At the national level, this will entail setting targets for sustainable development of the multimodal transport network, and then articulating how these objectives will be achieved through an Action Plan.
- The Bank will continue to provide advice for the development of the national road tolling strategy, articulating the benefits of road tolling, defining the optimal tariff structure and identifying suitable potential road sections for tolling.
- The Bank will continue to support, as the lead IFI, the technical assistance on the detailed design for the rehabilitation of the Durres-Tirana railway line (incl. link to the airport), as well as a financial and economic appraisal of the whole Albanian Railway Network. The Bank will consider financing follow-on investment projects.
- The Bank will support the gas master plan as lead-IFI under the Western Balkans Investment Framework, to best leverage the future Trans-Adriatic gas pipeline going through Albania, and build a sustainable natural gas system contributing to the competitiveness of the economy. The master plan will take into account the existing energy mix, natural gas supply security issues, as well as environment requirements.

Result Framework for Theme 2: Expand markets by strengthening regional linkages

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
2.1	The quality of transport infrastructure lags well behind that of other countries in the region and is a hindrance to regional integration	Support the expansion and rehabilitation of regional transport infrastructure to facilitate cross-border trade and lower transport costs	<ul style="list-style-type: none"> ▪ Finance construction and maintenance of regional transport links ▪ National road maintenance and safety ▪ TC for sustainable transport plan and national road tolling strategy ▪ Lead-IFI on railway rehabilitation study 	<ul style="list-style-type: none"> ▪ Evidence of regional transport infrastructure services successfully incorporating commercial solutions (<i>Baseline – 0</i>) ▪ Demonstrated progress in road sector reforms (improved financial and energy sustainability) (<i>Baseline – N/A</i>)
2.2	The country's electricity production is volatile (weather dependent) and gas supply inexistent, while regional inter-connections need to be developed	Contribute to enhancing energy interconnections with neighbouring countries to improve energy security	<ul style="list-style-type: none"> ▪ Finance power transmission, and promote opening sector to private operators ▪ Trans-Adriatic Pipeline (subject to TAP progress) ▪ Lead-IFI on gas master plan study 	<ul style="list-style-type: none"> ▪ Evidence of successful expansion of regional power and gas transmission infrastructure with the Bank's support (<i>Baseline – 0</i>) ▪ Evidence of actions being taken on the basis of the Bank's recommendations on the gas master plan (<i>Baseline – N/A</i>)
2.2	Difficulties in trading across borders remain, while investments across the region needs to be encouraged	Support trade and investments flows with the extended region	<ul style="list-style-type: none"> ▪ Trade finance credit lines ▪ SBS advisory on export readiness ▪ In / outwards FDI co-financing and support regional financial linkages 	<ul style="list-style-type: none"> ▪ Δ in share of exports in total turnover of export-oriented SBS clients (<i>Baseline – established at projects approval</i>)
Context indicator: Δ Trading Across Borders Rank (<i>Baseline 2014: 95th</i>). Source: Doing Business Report (World Bank)				

Theme 3: Promote sustainability of public utilities through commercialisation and private sector participation

Transition challenges

- The energy sector is plagued with a range of issues, which the government is currently trying to address. The key challenges for achieving long-term sustainability include: (i) increasing competition from the private sector in both generation and retail energy supply; (ii) further improving collection and reinforcing payment discipline; and (iii) introducing cost-reflective tariffs for end consumers; and (iv) promoting effective unbundling in the power sector along with improving the efficient operation and corporate governance of network companies.
- Regulatory uncertainty is a further challenge for energy sustainability. The lack of independence and transparency particularly affects the small hydro power producers when it comes to the feed-in tariff mechanism.
- Provision of municipal services remains highly centralised in Albania. A key challenge therefore is to foster and improve the financial autonomy of municipalities and municipal utilities under effective regulation. The territorial reform has drastically reduced the number of municipalities. As a next step, fiscal decentralisation needs to follow to create bankable municipal entities.

Operational focus

- Subject to progress on the World Bank-led Power Recovery Project, and the development of a conducive and reliable regulatory framework, the Bank will seek to reengage in investing in hydropower generation. This could include both rehabilitation of existing HPPs, as well as construction of new ones by private independent power producers. The Bank will also explore opportunities to support other forms of renewable energy generation (e.g., wind, solar) on the basis of the government's forthcoming strategy on renewable energy sources.
- Depending on the authorities' plans, the Bank will explore how to best engage with the state owned power and energy companies (KESH, OST, OSHEE) to facilitate their restructuring and commercialisation as well as finance their priority investments where feasible.
- As the territorial reform progresses the Bank will, in close cooperation with Albania's other international partners, aim to engage in financing municipal and environmental infrastructure and help prepare local entities for greater financial autonomy, with a primary emphasis on urban transport and street lighting, but also potentially extending to water, wastewater and solid waste. This could be done by leveraging EU funds or other grant resources. The Bank will, where feasible and appropriate, also support private sector participation in the provision of municipal services, with the capital Tirana being the preferred starting point for this.

Policy dialogue and TC

- The World Bank is taking the policy lead in support of the recovery of the power sector. The Bank will continue to explore where it is best placed to provide policy advisory, complementing the efforts of other international partners, and provide TC where there is a strong business case.

- Engage in policy dialogue and analytical work on commercialisation of municipal services.
- As part of its support to the Ministry of Transport in the development of a sustainable transport plan, the Bank will help develop best practice policies for energy efficiency of urban transport, to be implemented at the municipal level.
- As opportunities arise, the Bank will help design municipal services that are gender-responsive and meet the needs of different users.

Result Framework for Theme 3: Promote sustainability of public utilities through commercialisation and private sector participation

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
3.1	Lack of competition in generation and retail, weak payment discipline, below cost-recovery tariffs and regulatory uncertainty are key challenges for the power sector's sustainability	Working with WB and other IFIs, contribute to enhancing sustainability of the power sector	<ul style="list-style-type: none"> ▪ Subject to progress on World Bank Power Recovery Project and improvement in regulatory environment, promote hydro power (through newly installed capacity and rehabilitation of existing assets) and other forms of renewable energy ▪ Depending on the authorities plans, support restructuring and commercialisation of state owned power companies 	<ul style="list-style-type: none"> ▪ Total capacity of renewable energy installed and refurbished with the Bank support (<i>Baseline –158,746 MWh/y for 2006 – 2014</i>) ▪ Evidence of improvements in corporate governance and business practices of KESH companies as a result of Bank's activities (<i>Baseline – N/A</i>)
3.2	Provision of municipal services remains highly centralised. Municipalities and municipal utilities' financial autonomy need to be improved	Assist territorial reform and promote commercialisation of municipal services	<ul style="list-style-type: none"> ▪ Investments in urban and inter-urban transport, street lighting, and possibly water, wastewater and solid waste, with TC for financial and operational performance improvement ▪ Engage in policy dialogue and analytical work on commercialisation of municipal services. 	<ul style="list-style-type: none"> ▪ Improvements in operational practices (revenue collection, productivity) and cost performance of municipal operators supported by the Bank (<i>Baseline – established at project's approval</i>) ▪ Evidence of success of analytical and policy dialogue support of EBRD for commercialisation of municipal services (<i>Baseline – N/A</i>)
Context indicator: Δ in MEI and Power ATC scores (<i>Baseline 2014 – TBD</i>)				

3.3 Potential Risks to Country Strategy implementation

The proposed strategy for Albania is very ambitious, particularly in the light of the Bank's past experience. Risks to the successful implementation of the country strategy are therefore high. The level of ambition is still considered appropriate as it matches the Government of Albania's own very ambitious reform programme.

Ultimately, the Bank's ability of the Bank to deliver on this strategy and achieve the targeted outcome will depend on the following factors which are largely outside of the Bank's control:

- Overall progress will crucially depend on the government's sustained reform momentum. This includes not only legislative reforms but, importantly, effective implementation despite very limited administrative capacity.
- To effectively support private sector competitiveness (Theme 1), further reforms in areas relevant to the investment climate will be essential. This includes, for example, combatting informality to enable the development of value chains in the country and expand the universe of companies eligible for EBRD financing. The government's intention to combat informality is welcome. In addition, Albania's ability to attract new foreign direct investment will depend on the creation of a level playing field for all investors, strict adherence to existing agreements and respecting the 'rules of the game'.
- Strengthening regional linkages (Theme 2), is also premised on further deepening continued regional cooperation, with EU approximation being an important driving force. Success will also depend on economic developments of Albania's main trade and investment partners.
- Promoting the sustainability of public utilities (Theme 3) will require continued, deep reforms in the power sector and sustained action to enforce payment of utility bills. The scope of our engagement in municipal infrastructure will also depend on conducive policies both on the central and local level.
- In light of very limited fiscal space, many projects – ranging from infrastructure to SME promotion – will require significant donor resources, both as TC and investment grants.
- Youth inclusion (under Theme 1) is a new area for the Bank. Progress will depend on the effectiveness of the Bank's external partnerships, as well as the readiness of private sector clients to engage in those issues.

The Bank will strive to originate and finance bankable private sector projects, however success under themes 2 and 3 is likely to entail a decrease in the course of the strategy period of the private sector share of the Bank's investment, currently at 56% on a 5-year rolling basis. While the majority of the business volume may be in the public sector, the Bank will seek to have the majority of the number of operations in the private sector. An increase in the investment volume in the private sector from its current low base will also depend on progress in the investment climate, as well as FDIs inflows.

3.4 Environmental and Social Implications of Bank Proposed Activities

Despite the continued implementation of the Stabilisation and Association Agreement (SAA) with the EU, which entered into force in April 2009, Albania needs to make further

substantial efforts to align with the EU acquis with respect to a number of key environmental and social areas.

In the area of water quality, the law on integrated water management came into force in December 2013. However, the water supply and sewerage strategy is yet to be adopted and the implementation of the law is at a very early stage. According to the Albania Progress Report published by the European Commission (EC) in October 2014, there are only five functioning wastewater treatment plants in Albania, with two others under construction and three wastewater treatment plants completed but not commissioned. Waste management is another area of concern. The Law on Integrated Waste Management has been amended in October 2013 but the law is not fully in line with the EU acquis. Although there are efforts to improve planning and coordination of waste management policies such as the newly formed national advisory body and waste management committee, the capacity in waste management authorities is very low and the infrastructure is almost non-existing with most waste disposed of in dumpsites. The Bank will aim to extend its engagement in municipal and environmental infrastructure potentially to water, wastewater and solid waste to help improve the infrastructure in country.

Air pollution is a growing problem in Albania. The legislation regarding air emissions and quality are not aligned with the EU acquis. Responsibilities of state authorities with air quality monitoring are not clear and enforcement is very weak. Air pollution, among other issues will need to be reviewed in the context of individual project appraisal and in line with EBRD's Environmental and Social Policy (ESP) and Performance Requirements (PRs).

Occupational safety and health (OSH) is a key area that EBRD will be carefully reviewing in individual project appraisals. Albania ratified the International Labour Organisation Conventions on safety and health in construction, and on the promotional framework for occupational safety and health in 2014 and approved a number of new regulations on OHS to align its legislation with the EU acquis. A number of inspectors have also been trained. Despite these improvements, health and safety conditions at work remain poor, monitoring and reporting of work accidents need improvements and enforcement needs to be strengthened.

Some of the priority sectors for Albania such as hydropower, extractive industries, transmission lines, and transport may involve significant environmental and social issues which will be subjected to rigorous due diligence and monitoring throughout project implementation. In some cases, successful implementation of these projects would depend on the capacity of the authorities and the clients to understand and implement the EU and EBRD requirements, in particular the requirements with respect to land acquisition, resettlement, road safety, occupational health and safety, strategic environmental assessments, and greenhouse gas emissions. The Bank will seek TC opportunities for developing tools and helping build capacities of authorities and the clients in these areas.

Many people do not have land titles in Albania, with many never having formalised their occupation of land and so have been 'informally occupying' land. This presents challenges when any resettlement is required as a result of a project. To date the various authorities have worked well with the Bank in facilitating the legalisation of those titles, but it takes time.

EBRD will work closely with its clients to minimise the impacts and maximise benefits of projects especially for those who are considered to be vulnerable. This includes groups of people who are trying to urbanise, who lack appropriate documentation and/or who establish

themselves in informal settlements, without legal title, that often lack adequate infrastructure and related services. Whilst this presents a very real challenge to EBRD and its clients, the Bank's environmental and social due diligence will be designed to ensure that vulnerable groups, who might be disproportionately affected by a project, are identified. This will enable both adequate mitigation measures to be put in place as part of the project design as well as interventions that will enhance these groups' ability to benefit from a project. Moreover, stakeholder engagement will be carried out in a culturally sensitive manner that is aimed at including the participation of men and women and/or those groups who might otherwise not have a voice.

3.5 EBRD co-operation with MDBs

Cooperation among the IFIs, DFIs and donors is close and works on two levels. Regionally, the Western Balkans Investment Framework (WBIF) continues to be a very effective coordination mechanism for stakeholders, including the beneficiary governments of the Western Balkan countries, the EU, IFIs and bilateral donors, to prioritise the financing of core infrastructure projects in the transport, energy, environment and social sectors as well as energy efficiency and private sector development initiatives. 23 projects are on-going or under preparation in Albania, mainly in the energy, transport and environment sectors. Among these, EBRD is taking the lead on the gas master plan, the detail design for the Tirana-Durres railway line, and the feasibility study for the Tirana road by-pass.

Nationally, donor coordination works through the regular meetings of the Development & Integration Partners (DIP), led by the EU Delegation, as well as through project-specific meetings and frequent bilateral contacts.

For Theme 1, the Bank works closely with the World Bank Group, the EU delegation and GIZ on improving the investment climate. The World Bank's new Country Partnership Framework contains a focus area on creating conditions for accelerated private sector growth. This includes support to reforms in the area of the business climate which will be at the centre of a new development policy loan. Many of Albania's international partners (including EU, UNDP, Cooperazione Italiana, USAID, GIZ, SDC) run programmes to foster SME development in Albania. In the financial sector, the EBRD is working closely with its Vienna Initiative partners on a region-wide initiative to tackle the problem of high levels non-performing loans in Albania and other SEE countries. By agreement among the partners, the IMF is leading this work in Albania, supported by the IFC and EBRD.

Under Theme 2, the EBRD works closely with the EU to help develop cross-border infrastructure. KfW is a key partner in electricity transmission, as well as dam safety together with SECO and the World Bank. The bank is cooperating with EIB and the World Bank in transport infrastructure. For larger cross-border investments the Bank often co-finances projects with IFC. Examples include Antea Cement and Bankers Petroleum. SECO is also conducting a institutional capacity building project for the gas market, in good coordination with the Bank's work on the gas master plan.

With regards to Theme 3, the Albanian government has received significant international support for its territorial reform, including from the EU, USAID, UNDP, SIDA and SDC. This work could contribute to creating the right framework conditions for developing municipal finance in the future. In the water sector, KfW plays a central role. In the energy sector the World Bank, through its Power Recovery Project, is the lead IFI. This project aims

to improve reliability of power supply and financial viability of the power sector and consists of four components: i) short-term complementary power import support; ii) upgrading distribution infrastructure, iii) transmission meter/data centre upgrade; and iv) supporting power sector reforms and project implementation.

The Bank works closely with all of Albania's international partners to use scarce resources most efficiently.

ANNEX 1 – POLITICAL ASSESSMENT

Albania is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement establishing the Bank.

The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, guarantees for fundamental rights and the protection of minorities and for a meaningful role of the civil society, are largely in line with international and European standards, as assessed by the Council of Europe. Elections are generally conducted in a manner deemed by the OSCE and the Council of Europe to be free and in line with international standards.

In the period since the adoption of the previous Strategy, Albania has made further progress in democratic reform, to a great extent geared towards integration into the EU. Improvements were made in particular in the areas considered to be the key weaknesses in the Western Balkans countries, such as public administration reform, and in preparations for a thorough reform of the judicial system. The progress in democratic reforms achieved by the Albanian authorities has been reflected in its accelerated approximation with the EU. Since the adoption of the previous Strategy, Albania obtained formal status as an EU candidate country in June 2014. However, significant challenges remain. According to the conclusions of the latest Progress Report by the European Commission (EC) on Albania, which assesses progress made towards meeting the Copenhagen criteria, Albania needs to undertake further sustained efforts to improve the business environment and tackle the informal economy.

Free Elections and Representative Government

Free, fair and competitive elections

Elections in Albania are generally conducted in a manner deemed by the OSCE and the Council of Europe to be largely free, fair, and competitive. The legal framework provides a sound basis for democratic elections. It has benefited from several waves of electoral reforms, including extensive amendments in the Electoral Code adopted in 2012 based on recommendations from the OSCE Office for Democratic Institutions and Human Rights (ODIHR) and the Council of Europe's Commission for Democracy through Law (Venice Commission). The last four elections in Albania (parliamentary in 2009 and 2013; local in 2011 and 2015) were peaceful, which represented a significant achievement compared to past elections that were often accompanied by violence and intimidation. However, procedural shortcomings continue to mar elections, which, according to the OSCE, do not yet meet the highest international standards and best practices for democratic elections.

The last general elections, held on 23 June 2013, were particularly closely monitored due to the conditional recommendation for EU candidate status that had been issued by the EC shortly before and were widely viewed as an important test for Albania's democratic development. According to the International Election Observation Mission, which brought together observers from the ODIHR, the OSCE Parliamentary Assembly and the Parliamentary Assembly of the Council of Europe (PACE), the elections were held in an orderly manner, in an atmosphere of genuine respect for fundamental freedoms, and went peacefully, except for isolated incidents.

Nevertheless, a number of shortcomings were noted, including the politicisation of the work of the Central Election Commission (CEC) and other institutions, which undermines public confidence in the electoral process. This concern has been reiterated by OSCE/ODIHR Election Observation Missions in the preliminary assessment of the latest municipal elections, held on 21 June 2015.

The final report on the 2013 general elections issued by ODIHR offered a number of detailed recommendations for consideration by the authorities, political parties and civil society, including the appeal to make further revisions in the Electoral Code to address shortcomings noted in previous OSCE/ODIHR reports, particularly with respect to “ensuring equal rights for independent candidates” and “more effectively prevent... the abuse of state resources, including human resources, for campaign purposes”².

Separation of powers and effective checks and balances

The constitutional and legislative framework for a parliamentary democracy – underpinned by the separation of powers and checks and balances in the political system, an independent legislature and well-established procedures of legislative oversight in prescribed domains of decision-making – is in place in Albania and largely in line with international and European standards, as assessed by the Council of Europe. The scope of powers of the legislature to hold the government to account and to exercise parliamentary oversight is also largely in line with international standards.

The 140-member unicameral parliament is elected for a four-year term under a regional proportional system. Overall, some progress has been made in the functioning of the parliament, including transparency and inclusiveness of the legislative process. However, it continues to suffer from periodic boycotts by opposition members of parliament. According to the conclusions of the latest EC Progress Report, “more needs to be done to address the divisive political culture and ensure a more constructive cross-party dialogue”³.

The scope of powers of the legislature to hold the government to account and to exercise parliamentary oversight is largely in line with international standards. The Prime Minister and Government Ministers participate in interpellations requested by the parliamentary opposition and Ministers regularly participate in hearings at parliamentary committees. Exercising their right to initiate and amend legislation, parliamentary committees have introduced a number of amendments to existing laws.

The new government, established in 2013, set up a network of delivery units to identify policy priorities, including good governance, and monitor progress in their implementation. The ongoing reform of local self-government, which started in 2013, should lead, among other things, to increased efficiency and accountability of the government at the local level.

Effective power to govern of elected officials

² OSCE/ODIHR, Election Observation Mission, Albania, parliamentary elections 23 October 2013. Final Report, p. 29.

³ European Commission, communication from the Commission to the European Parliament and the Council, Albania 2015 Progress Report, 10 November 2015 p.4.

Albania has established institutional, legal, and financial arrangements for elected officials to exercise effective power to govern, and they are not constrained by any non-democratic veto powers or any other undue influences. As in many other transition countries, there has long been a close relationship between business and political elites. However, this does not compromise the powers of elected officials to govern the country.

Civil Society, Media and Participation

Scale and independence of civil society

A satisfactory legal framework for civil society organisations (CSOs), which has improved significantly in recent years, including the laws related to the functioning of non-profit organisations, is in place. A new law on access to information was adopted in 2014. The process for the registration and operation of CSOs is relatively straightforward and generally in line with international standards. However, there are unresolved issues related to the definition of non-profit activities, financial reporting and taxation. Cooperation between the state and CSOs has improved. A draft law “On the Creation and Functioning of the National Council for Civil Society”, a platform for institutionalised dialogue between the government and CSOs, is being prepared by the government in consultations with the civil society. CSOs are in general consulted more regularly on policy and legal initiatives than in the past. Follow-up processes, however, leave much to be desired.

More than 1,600 CSOs are currently registered with the tax authorities in Albania. However, there are only a handful of well-established and well-funded CSOs, mostly in the largest cities. Some CSOs are highly professional in their respective areas of expertise, particularly those specialised in EU integration related issues, environment, media, and gender. At the same time, the role of CSOs is affected by the, real or perceived, polarisation of CSOs and their leadership, which mirrors a high level of polarisation in the country in general. The civil society sector remains fragmented and overly dependent on external donor funding, while the last years witnessed the withdrawal of many foreign donors due to their reorientation towards other regions.

The right to form trade unions is enshrined in law, and labour and trade union’s rights are generally respected in practice. The new National Labour Council held its first meeting at the end of 2014.

Independence and pluralism of media operating without censorship

Pluralism in the media, which operate freely and without censorship, has increased overall in recent years. The legal framework is largely in place and in line with international standards. There are more than 250 broadcast outlets and 26 dailies operating in Albania, which is one of the highest numbers per capita in the region (although the circulation, even if taken per capita, lags behind). Electronic media dominate the market. The main media outlet is the public Albanian Radio-Television (RTSh) with its two national channels being particularly influential in rural areas. RTSh is undergoing reforms, designed to increase its professionalism and reduce undue politicisation. There are also two private national channels, and a large number of regional and local private broadcasters.

Recent years witnessed explosive growth in Internet access. According to the International Telecommunication Union (ITU), the percentage of the population with internet access grew

from 0.1 per cent in 2000 to 60 per cent in 2013 and more than doubled in the last few years. Social media is playing an increasingly important role and about 35 per cent of Albanians are active Facebook users⁴.

Given the high number of media competing in a limited advertising market and the lack of transparency in their funding, media observers have raised concerns about excessive interference by business and political interests. Although there are a few journalists associations and trade unions, there is still no self-regulatory body for the media.

A number of amendments have recently been made to the civil and criminal codes, which led to the removal of prison penalties for defamation, although full decriminalisation of defamation and libel have not yet been achieved.

Multiple channels of civic and political participation

Multiple channels of civic and political participation are in place, but there is a lack of clearly defined rules and procedures, in particular regarding public consultations. While CSOs are often sought to provide their expertise by parliamentary committees, this is usually done on an *ad hoc* basis. The documents submitted for public consultations are often presented to the public at a very short notice.

Freedom to form political parties and existence of organised opposition

The freedom to form political parties is both guaranteed by the Constitution and implemented in practical terms, highlighted by the existence of a significant opposition able to campaign freely and oppose government initiatives. The main opposition political party currently holds 35 per cent of seats in the national parliament, its representatives head a number of parliamentary committees, and they also hold a majority in a number of municipalities. 66 political parties participated in the last general elections in Albania and 63 parties were registered for the municipal elections held in June 2015.

Rule of Law and Access to Justice

Supremacy of the law

Necessary legislative and institutional safeguards for the supremacy of the law are in place. The right to a fair trial and freedom from arbitrary arrest and detention are enshrined in the Constitution and the criminal code. However, issues related to the supremacy of the law, including the “de-criminalisation” of public bodies and limitations to the immunity of senior officials and judges continue to be contentious in Albania. An *ad hoc* parliamentary committee has been established recently specifically to deal with “de-criminalisation”, alongside an *ad hoc* committee for judicial reform.

Independence of the judiciary

⁴ ITU (2013) <http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx> and Internet World Stats (2012) <http://www.internetworldstats.com/europa.htm#al>

The independence and impartiality of the judiciary is guaranteed by the Constitution. Comprehensive reform of the judiciary is making progress but much remains to be done to ensure its full independence, transparency, accountability and efficiency. According to the European Commission, Albania's alignment with European standards in the field of the judiciary is at an early stage. In 2014, Albania sought the support of the Venice Commission for a comprehensive and inclusive structural reform of the judicial system.

Government and citizens equally subject to the law

Recently adopted legislation on conflicts of interest and public procurement started to be implemented. However, asset declarations of civil servants are still not being checked on substance.

Further measures are necessary in order to ensure access to justice, for example the implementation of the Law on Free Legal Aid, which came into force in 2012, and the effective functioning of the State Commission for Legal Aid.

Effective policies and institutions to prevent corruption

Corruption remains a serious problem. According to the 2014 Transparency International Corruption Perception Index (CPI), Albania occupies the 110th place out of 176 countries assessed, making it one of the lowest ranking countries in South Eastern Europe.⁵

The Albanian authorities have "reached some level of preparation in the fight against corruption".⁶ Work on the anti-corruption strategy and action plans is ongoing. Legal measures to tackle corruption by high-level officials have been put in place. Coordination improved through the appointment of a National Anti-Corruption Coordinator and the establishment of a network of anti-corruption focal points in the ministries. The number of investigations and the number of corruption cases referred to prosecution by the police have increased. However, investigations continue to be reactive and the number of final convictions remains low at all levels. A solid track record of prosecutions and convictions in high-level corruption cases remains a challenge.

According to the latest reports by the Council of Europe's Group of States against Corruption (GRECO), while Albania adopted detailed anti-corruption and conflict of interest regulation, further efforts are needed to close the implementation gap, particularly with respect to MPs, judges and prosecutors. GRECO recommended to the Albanian authorities, in particular, to make public the contents of asset declarations by MPs and subject these declarations to more frequent full audits, make transparent the selection of High Court justices, and further refine the criteria for assessing prosecutors' ethical qualities. In accordance with GRECO rules, the government will have to submit a detailed report on the measures taken to implement GRECO's ten key recommendations by 30 September 2015.⁷

⁵ Transparency International, Corruption Perceptions Index 2014, <http://www.transparency.org/cpi2014/results>.

⁶ European Commission, communication from the Commission to the European Parliament and the Council, Albania 2015 Progress Report, 10 November 2015, p.15.

⁷ GRECO, Albania, Fourth Evaluation Round, Corruption prevention in respect of members of parliament, judges and prosecutors. 27 June 2014.

Civil and Political Rights

Freedom of speech, information, religion and conscience, movement, association, assembly and private property

The Albanian Constitution and relevant laws prohibit discrimination on grounds of sex, race, language, religion, national or social origin, property or social status. The Constitution guarantees the basic freedoms and rights of citizens recognized by international law, while international treaties are directly enforceable by domestic courts and their status is superior to domestic law.

Albania is a signatory to all major international human rights instruments. The high level of ratifications of conventions of the United Nations, the Council of Europe, and regional human rights instruments represents a significant achievement. Albania has also put in place the institutional framework for the protection of human rights, which includes an Ombudsman institution, a range of state and inter-ministerial bodies and national councils, as well as technical secretariats within ministries. The main challenges Albania face are related to the provision of necessary human and financial resources for implementation and monitoring of these instruments.

The constitutional guarantees of freedom of thought, conscience and religion are generally respected, and Albania continues to provide an example of religious harmony in the region. According to the Constitution of Albania, there is no official State religion and the rights of all religious communities (the main are Muslim, mainly Sunni and Bektashi, and Christian (Orthodox, Catholic and Protestants) are equally guaranteed.

A major problem remains restitution of property confiscated during the communist regime, and the resolution of land titling and ownership. In 2012 the authorities adopted a Property Rights Strategy, covering restitution, compensation, and legalisation, which needs to be reviewed and implemented. The reform of property rights is crucial for the consolidation of the rule of law, as much as it is for economic development.

The latest assessment of the track record of Albania in the area of human rights in the framework of the UN's Universal Periodic Review (UPR) was conducted in 2014. The top three recommendations for Albania included the rights of the child (33.33 per cent of recommendations); women's rights (28.07 per cent of recommendations); and minorities (15.79 per cent). Albania accepted 97.66 per cent of the recommendations made in course of the review process.⁸

⁸ United Nations, Universal Periodic Review (UPR), Albania, 2014 and UPR Info Statistics.

Political inclusiveness for women, ethnic and other minorities

The legislative framework for the protection of ethnic minorities is broadly in place, including the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expression. However, a working group has been set up recently, following a recommendation by the Council of Europe, to evaluate the existing legal and policy framework and to prepare possible improvements. Ethnic minorities actively participate in political life, mainly through their own political parties.

Albania has a less diverse ethnic composition than most of its regional neighbours. Ethnic Greeks, who are the largest ethnic minority, constitute, according to estimates, only a few per cent of the population. The last census, conducted in 2011, included for the first time optional questions regarding ethnic origin and religious affiliation. Inter-ethnic relations in the country remain good. The Roma and Egyptian minorities, as in many other neighbouring countries, are the most vulnerable group and continues to face difficulties in access to education, housing and employment.

Key legislative elements for gender equality are in place in Albania. Crucial laws adopted in the last years include Laws on Gender Equality in Society, On Measures Against Violence, On Health and Safety at Work, and On Protection from Discrimination. However, secondary laws and implementation remain uneven. Domestic violence against women remains a serious problem, particularly in rural areas. In some communities, women are exposed to societal discrimination based on traditional social norms.

Women have a number of high-profile representatives at the national level. The new Albanian government has more than 30 per cent female members. The gender quotas introduced in 2008, which stipulate that there should be at least 30 per cent women among candidates for elected positions at the national level, led to an increase of women's representation in the parliament from 7 per cent in the past to 17 per cent in the current parliament. Ahead of the last local elections, which were held in June 2015, a decision was made to enforce a new requirement to include 50 per cent of each gender in the candidate lists, alternating every second name. All political parties have honoured this requirement.

Freedom from harassment, intimidation and torture

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice. A delegation of the Council of Europe's European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) last visited Albania in February 2014. The latest report, published in 2012, acknowledged the measures taken by the Albanian authorities to address the previous recommendations of the CPT. Police is generally perceived as treating suspects correctly, but a significant number of allegations of ill-treatment at the time of apprehension was noted.⁹

⁹ Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT)

ANNEX 2 – SELECTED ECONOMIC INDICATORS

Albania

	2009	2010	2011	2012	2013	2014
Output and expenditure <i>(Percentage change in real terms)</i>						
GDP	3.4	3.7	2.5	1.6	1.4	1.9
Private consumption	0.7	1.7	1.8	0.7	1.8	n/a
Public consumption	3.7	4.0	0.7	0.5	2.9	n/a
Gross fixed capital formation	1.0	-8.5	5.9	11.3	1.2	n/a
Exports of goods and services	4.4	16.8	7.4	-0.6	7.9	n/a
Imports of goods and services	-1.3	0.6	6.1	-6.6	5.0	n/a
Labour Market <i>(Percentage change)</i>						
Net average monthly earnings in economy (annual average)	5.2	-3.6	4.9	2.9	-3.2	n/a
Real LCU wage growth	2.9	-7.0	1.5	0.8	-5.0	n/a
<i>(In per cent of labour force)</i>						
Unemployment rate	13.8	14.0	14.0	13.6	16.8	17.6
Prices <i>(Percentage change)</i>						
Consumer prices (annual average)	2.3	3.6	3.5	2.0	1.9	1.6
Consumer prices (end-year)	3.7	3.4	1.7	2.4	1.9	0.7
Fiscal Indicators <i>(in per cent of GDP)</i>						
General government balance	-7.1	-3.1	-3.5	-3.4	-5.0	-5.0
General government revenues	26.1	26.2	25.4	24.7	23.8	26.0
General government expenditure	33.2	29.3	28.9	28.2	28.9	31.0
General government debt	59.7	57.7	59.4	62.0	64.9	69.2
Monetary and financial sectors <i>(Percentage change)</i>						
Broad money growth	6.8	12.5	9.2	5.0	2.3	3.8
Private sector credit growth	10.3	10.1	10.4	1.4	-1.4	3.1
<i>(In per cent of total loans)</i>						
Non-performing loans ratio	10.3	13.6	18.9	22.8	23.2	22.7
Interest and exchange rates <i>(In per cent per annum)</i>						
Policy rate, end-year	5.25	5.00	4.75	4.00	3.00	2.25
Deposit rate, annual average	6.8	6.4	5.9	5.4	4.2	1.9
Lending rate, annual average	12.7	12.8	12.4	10.9	9.8	8.7
<i>(Lek per EUR)</i>						
Exchange rate (end-year)	137.2	138.8	138.3	139.7	140.2	140.1
Exchange rate (annual average)	132.1	137.8	140.3	139.0	140.3	140.0
External sector <i>(In per cent of GDP)</i>						
Current account balance	-15.9	-11.3	-13.2	-10.2	-10.6	-14.0
Balance of goods and services	-25.1	-20.6	-22.7	-18.7	-17.8	-19.7
Trade balance of goods	-26.5	-23.2	-24.2	-20.9	-17.7	-25.4
Merchandise exports	8.6	13.0	15.2	15.9	18.0	11.8
Merchandise imports	35.2	36.2	39.4	36.8	35.7	37.1
Trade balance of services	1.4	2.6	1.5	2.2	-0.2	5.6
Foreign direct investment, net	7.9	8.8	6.6	6.8	9.5	8.3
Gross reserves, excluding gold (end-year)	18.6	20.6	20.0	19.9	20.3	21.3
External debt, (end-year)	41.5	45.6	53.5	57.4	63.5	66.0
Public external debt	20.3	22.1	23.4	24.1	24.3	27.0
Private external debt	21.2	23.4	30.1	33.3	39.1	39.1
<i>(In months of imports of goods and services)</i>						
Gross international reserves	4.1	4.3	4.6	4.6	4.3	4.3
Memorandum items <i>(Denominations as indicated)</i>						
Population (in thousands)	2,928	2,913	2,905	2,900	2,897	2,958
GDP (in million EUR)	8,662	8,997	9,268	9,605	9,730	10,092
GDP per capita (in EUR)	2,959	3,089	3,191	3,312	3,358	3,412
FDI, net (in million EUR)	689	789	609	648	923	835
External debt (in million EUR)	3,592	4,100	4,958	5,513	6,177	6,665
Gross reserves (in million EUR)	1,646	1,905	1,912	1,972	2,015	2,148
Exports of goods and services (in million EUR)	2,469	2,922	3,153	3,199	3,411	3,667
Broad money (per cent of GDP)	76.2	79.1	82.3	84.1	84.1	84.3

ANNEX 3 – ASSESSMENT OF TRANSITION CHALLENGES

Market Structure	Market Institutions	Key challenges
CORPORATES		
Agribusiness		
Medium	Medium	<ul style="list-style-type: none"> ▪ Improving land registry and cadastre system to facilitate the transferability of land which will support consolidation of small farms and improve access to finance for agricultural activities ▪ Bringing primary agriculture into the formal part of the economy ▪ Enhancing the overall investment climate in the sector to attract FDI
Manufacturing and Services (M&S)		
Medium	Medium	<ul style="list-style-type: none"> ▪ Enhancing further reforms targeting the reduction in the number of procedures and the time to start a business, as well as the enhancement of property rights ▪ Supporting the development of market-oriented skills, corporate governance and managerial standards, in particular for SMEs ▪ Promoting further investment in infrastructure services in order to attract FDI in the sector
Real Estate		
Large	Medium	<ul style="list-style-type: none"> ▪ Streamlining the bureaucracy related to real estate and improving the enforcement of existing regulations ▪ Increasing focus on modern construction techniques and technologies, including energy efficiency and sustainability ▪ Increasing supply of modern commercial property in all sub-segments
Information & Communication Technologies (ICT)		
Medium	Medium	<ul style="list-style-type: none"> ▪ Further developing the telecommunications infrastructure (broadband internet) ▪ Further increasing competition in the wireline segment ▪ Further strengthening independence and capacity to regulate of the telecommunications regulator; and ▪ Completing the alignment of the regulatory framework with that of the EU (especially implementation of the framework)

Market Structure	Market Institutions	Key challenges
ENERGY AND SUSTAINABLE RESOURCES		
Natural Resources		
Medium	Medium	<ul style="list-style-type: none"> ▪ Completing the privatisation process of Albpetrol in a transparent way, while ensuring adequate corporate governance as well as operational and financial performance ▪ Supporting the entry of additional private and international players in the upstream oil and gas sector ▪ Supporting the development of a functioning gas market through the adoption of the necessary secondary legislation ▪ Raising standards (environmental, health, safety, transparency etc.) in the mining industry ▪ Reinforcing fiscal transparency and accountability, improve tax and revenue collection
Power		
Large	Medium	<ul style="list-style-type: none"> ▪ Increasing competition from the private sector in both generation and retail energy supply ▪ Strengthening the independence of the regulator ▪ Improving collection and reinforcing payment discipline in the sector ▪ Introducing cost reflective tariffs for end consumers
Sustainable Energy		
Medium	Medium	<ul style="list-style-type: none"> ▪ Enforce payment discipline among consumers so that electricity tariffs become a meaningful signal that drives energy efficiency and renewable energy investments ▪ Finalise and enforce the long-awaited power sector, renewable energy and energy efficiency laws, in line with EU policies ▪ Set a stable tariff for small hydro power producers ▪ Strengthen the regulator's capacity
Water Efficiency		
Large	Large	<ul style="list-style-type: none"> ▪ Improve institutional capacity and coordination ▪ Allocate financing to water management targets ▪ Increase abstraction tariffs towards cost-recovery ▪ Monitor and price industrial abstraction from groundwater ▪ Introduce load-based wastewater tariffs
Materials Efficiency		

Market Structure	Market Institutions	Key challenges
Large	Large	<ul style="list-style-type: none"> ▪ Allocate funds to priority projects in strategy and improve institutional expertise and coordination ▪ Replace informal dumping sites and uncontrolled landfills by controlled regional landfills ▪ Increase and enforce landfilling fees towards cost recovery ▪ Expand waste collection coverage ▪ Establish data collection and monitoring for industrial waste
INFRASTRUCTURE		
Water and wastewater		
Large	Large	<ul style="list-style-type: none"> ▪ Tariff reforms ▪ Commercialisation of public utilities ▪ Introduction of an adequate regulatory framework ▪ Improved financial autonomy of municipalities and municipal utilities under effective regulation
Urban Transport		
Medium	Large	<ul style="list-style-type: none"> ▪ Better and more integrated urban transport solutions ▪ Ticketing reforms ▪ Strengthening of service contracts ▪ Enhanced route tendering procedures
Roads		
Medium	Medium	<ul style="list-style-type: none"> ▪ Introduction of tendering procedures and full contracting to the private sector for routine maintenance of national roads ▪ The introduction of performance-based maintenance contracts ▪ Development of road funding mechanisms ▪ The introduction of a service level agreement between the government and ARA (successor of GRD) with defined responsibilities and obligations ▪ Development of PPP strategy and project development
Railways		
Large	Large	<ul style="list-style-type: none"> ▪ Increasing financial transparency and independence from the government ▪ Establishment of the financial sustainability in passenger and infrastructure businesses (including tariff reform and reform of the PSO mechanism) ▪ Better linkages of the rail network into the TENS network planning and funding priorities ▪ Introduction of competition in railway businesses

Market Structure	Market Institutions	Key challenges
FINANCIAL INSTITUTIONS		
Banking		
Medium	Medium	<ul style="list-style-type: none"> ▪ Reducing NPL-ratio ▪ Improving deposits/GDP ratio ▪ Increasing share of local currency lending in total lending
Insurance and other financial services		
Large	Medium	<ul style="list-style-type: none"> ▪ Increasing insurance penetration ▪ Enforcing insurance laws and regulation ▪ Strengthening accounting, disclosure and auditing standards of insurance companies ▪ Increasing leasing penetration ▪ Further developing the voluntary pension market
Micro, small and medium-sized enterprises		
Medium	Medium	<ul style="list-style-type: none"> ▪ Broadening access to finance through available financial instruments for SMEs such as access to leasing and availability of equity capital ▪ Continuously improving the coverage of credit information system ▪ Enhancing effective enforcement of creditor rights
Private equity		
Large	Large	<ul style="list-style-type: none"> ▪ To create better conditions for the development of private equity in Albania ▪ Improve corporate governance, transparency and business practices ▪ Develop a local institutional investor base
Capital markets		
Large	Large	<ul style="list-style-type: none"> ▪ Developing a local capital market ▪ Support progress of privatisations

ECONOMIC INCLUSION¹⁰ GAP RATINGS - ALBANIA

ECONOMIC INCLUSION		
Inclusion gap dimension	Inclusion gap	Key challenges
Youth		
Opportunities for Youth	Large	<ul style="list-style-type: none"> Improving progress routes for young people into employment by introducing effective work based learning opportunities in partnership with local schools and universities Improving employment and training opportunities for young people in underserved areas as well as specific outreach to graduates
Quality of Education	Medium	<ul style="list-style-type: none"> Strengthening the private sector engagement with education authorities to improve the quality of schooling (in particular TVET and university tuition), to ensure that the skillset of young labour force entrants meets the demand of the local labour market
Labour Market Structure	Medium	<ul style="list-style-type: none"> Supporting the government in the development of youth policy programmes and initiatives to tackle the structural unemployment issue in the country for a more flexible labour market Incentivising employers to improve access to employment opportunities for youth, particularly in less advanced regions of the country to tackle the internal and international migration of youth
Gender		
Labour Practices	Large	<ul style="list-style-type: none"> Incentivising clients to improve HR policies with regards to equal opportunity practices, including equal pay practices, access to child care and non-discrimination practices to improve women's labour force participation
Employment and Firm ownership	Large	<ul style="list-style-type: none"> Improving women's enrolment and graduate rate for STEM (science, technology, engineering and manufacturing) educational programmes, through targeted outreach programmes, improved career guidance and partnerships with private sector clients Improving the access to female leadership programmes to improve women's progress routes into management positions

¹⁰ The EBRD Economic Inclusion gaps rate the institutions, markets and education systems across all of EBRD's countries of operation in terms of their capacity to extend economic opportunity to individuals regardless of their gender, age or place of birth. These gaps measure *differences* in opportunities – between 15 to 24-year-olds and older workers, and between women and men – rather than opportunity *levels*. Gaps are reported in this Country Strategy where there exists an Inclusion Gap above Small. These gaps are consistent with the EBRD 2014 Inclusion Gap update.

Access to Finance	Large	<ul style="list-style-type: none"> ▪ Improving access to finance for women in a setting where access to collateral is an obstacle for women entrepreneurs to start and grow their businesses ▪ Identifying underlying market failures and support the Banking sector in the development of new products or service offers for women-led SMEs, including but not limited to business support and know-how for women entrepreneurs and SMEs
Health Services	Medium	<ul style="list-style-type: none"> ▪ Supporting better access to and quality of health care for women (particularly to improve maternal mortality)
Regions		
Labour Markets	Large	<ul style="list-style-type: none"> ▪ Enhancing investments in underserved areas of Albania to improve access to quality employment opportunities in these areas ▪ Promoting regional integration, by improving access to quality training and work based learning opportunities for northern population to the level of the urban city areas
Access to Services	Medium	<ul style="list-style-type: none"> ▪ Improving regional infrastructures, particularly access to water in Albania's mountainous rural areas ▪ Improving financial inclusion with a specific focus on rural populations in less advanced parts of the country
Institutions	Medium	<ul style="list-style-type: none"> ▪ Supporting the introduction of an effective transparent institutional framework to attract FDI and create a conducive business environment in order to enhance job creation and rural development

ANNEX 4 – LEGAL TRANSITION

Introduction

This annex offers critical analysis on selected legal topics relevant to the Bank’s investment strategy in Albania during the forthcoming period. It is based on the assessments of commercial laws conducted by EBRD Legal Transition Programme.¹¹ For ease of reference, the analysis is presented along the main strategic orientations defined in this country strategy, in particular the actions proposed under ‘Policy dialogue and TC’.

Theme 1: Support private sector competitiveness by enhancing value creation, facilitating access to finance and fostering an enabling business environment

Judicial capacity in the commercial sector

Albania was granted EU candidate status on 24 June 2014,¹² which indicates positive developments, as well as a strong political will and potential for furthering reforms. The European Commission progress report on judicial reform and fight against corruption,¹³ which preceded the decision on granting candidate status, noted positive developments in the area of preventing and combating corruption, including structural and legislative reforms. Furthermore, efforts are underway to reduce case backlog and courts workload; legislative amendments aimed at improving efficiency of the judiciary are in the pipeline. Also, changes were made to the procedures regulating judicial immunity, to ensure accountability of judges. A new judicial reform strategy for the period of 2015-2020 is being prepared with the help of international stakeholders, such as the Venice Commission.

Still, shortcomings persist, and the judicial system remains one of the priority areas for further reforms in the context of EU candidacy. Continuous efforts to ensure independence and accountability of the judiciary are needed, along with measures to improve efficiency of courts. Presidential powers regarding appointment of higher courts judges raise questions on politicisation of the judiciary, which may seem unresolvable without constitutional changes. The recent changes to the Law on the High Council of Judiciary, dealing in particular with grounds for suspension and dismissal of its members, while aimed at improving its operation, proved to be of a limited nature. The reportedly understaffed administrative courts need to become fully operational. Greater use of IT in the judicial system should also be encouraged, including adequate maintenance of the Judicial Documentation Centre. Further improvements are needed to ensure transparent appointment, promotion and transfer of judges,¹⁴ enhance the regulatory framework for private bailiffs and promote alternative dispute resolution methods (e.g., arbitration).

Secured transactions (immovable and movable property)

Taking security over immovable assets (mortgage) is governed by the Civil Code (art 560-607). In order to be valid a mortgage must be created by a written notarised instrument and

¹¹ See www.ebrd.com/law

¹² http://europeanmovement.eu/wp-content/uploads/2014/08/EC-Enlargement-Strategy_Summary_August-2014_Final-version.pdf

¹³ http://ec.europa.eu/enlargement/pdf/key_documents/2014/al_report_june_2014.pdf

¹⁴ http://ec.europa.eu/enlargement/pdf/key_documents/2014/20141008-albania-progress-report_en.pdf

must be registered with the relevant real property registration office. The registration process is generally slow. In addition, local practitioners report that existing title to property cannot be established with sufficient certainty and that in this respect there have been a considerable number of claims that have shown that the mortgagor's title is not secured to an adequate degree and made subject to subsequent adverse claims on the title. A large number of restitution claims also remains pending, albeit restitution claims are typically in relation to property still held by the state.

Security over movable assets is governed by the Law on Securing Charges. The established regime reflects most of the modern secured transactions principles. It provides that a charge can be created over present or future intangible or tangible movable property as a security for one or more present or future obligations of the charger or another third party. The secured obligation may be conditional and need not be a monetary obligation but must be capable of being valued in money. In general, the law is clear, comprehensive, and provides the right flexibility to accommodate relatively sophisticated transactions. A drawback lies with the priority of secured creditors as priority may be lost to some employee, social security and state claims.

The weakest point of the secured transaction system is in the enforcement, especially of mortgages. The legal provisions of Law on Securing Charges aim at providing a fast and efficient system by providing secured creditor with the automatic right to start enforcement upon debtor's default (execution clause) using execution officers (bailiffs) and choice between private or public mode of realisation. However, bailiffs proved not to be as reliable and efficient as needed. Courts are also reported to be slow and not very experienced in handling enforcement cases. The problem stems from the enforcement provisions of the Civil Procedure Code and relate to the limited number of available auctions, undefined time periods for the bailiff to notify the debtor with effect of process being dragged on and no commonly set standards for real estate property valuation.

Corporate governance

In the 2014 Albania Progress Report, the European Commission stated¹⁵ that “*Some progress was made in the field of company law, through the adoption of new national accounting standards. Substantial work is needed to increase capacity in the National Accounting Council and the Public Audit Oversight Body. The latter's independence must be ensured. Albania will need to focus on enforcing accounting and auditing standards, and further increasing its inspection capacity as part of its work on building sound economic governance. Legislation must be further aligned with the acquis, in particular on auditing.*”

The EU Progress report looks at the approximation of national legislation with the Acquis, which is not exhaustive on corporate governance. The most recent EBRD assessment looks at the corporate governance legislation and practices of companies and highlights a framework well below international standards in all areas under considerations.

When looking at the ***structure and functioning of the board***, the law and the Code require boards to have a majority of independent directors, however the definition of independence is piecemeal and confused. When looking at the board of the largest companies, it appeared

¹⁵ See Chapter 6: Company Law

that only one company assert having one – and only one - independent board member. However, this person is the former CEO of the company, hence we have doubts about his independence. When looking at the power and responsibilities of the board, it appears that by law the authority to appoint executive directors in the two tier system can stay with the shareholders. This impedes the supervisory board to have an effective leverage upon executives, hence limiting its supervisory functions. When turning the attention to **transparency and disclosure**, the law requires companies to publish annual reports, which should cover “*the key elements of the corporate governance rules (...) and profile of managing directors and board members and explain why individual directors or supervisors are qualified to serve in the light of this profile*”. However, there are no sanctions in case companies breach this rule. As a matter of fact, only 5 among the 10 largest companies in the country publish their annual report, only two publish the name of the board members and none of them disclose their qualifications. When looking at **internal control**, the law recommends JSCs to “*create committees composed of its members to prepare its meetings and decisions or to supervise the implementation of its decisions, in particular (...) the audit of the accounting of the company’s performance*”. The law further recommends that “*the majority of each committee should be comprised of independent non-managing directors*”. In practice, only banks seem to have an audit committee in place – as required by the Law on Banks - however it appears that what it is called “audit committee” is in practice an advisory body and not a board committee. This is because the committee is not necessarily made of board members. This practice has proven to be ineffective and should be reconsidered. First of all, it is important that the audit committee should include only (independent) non-executive board members if the functions delegated to the audit committee are typical board functions. Secondly, it is essential that those members sitting in the audit committee and recommending specific actions, actually follow up on such recommendations and vote on the committee’s recommendations at the board, therefore reinforcing their position and the board “objective judgement”. Finally, audit committees including outsiders might create problems with confidentiality and accountability issues, since such “outsiders” might not be bound by the duties of loyalty and care required to board members.

Theme 2: Expand markets by strengthening regional linkages

Energy sector

Albania has made progress in bringing its legal and regulatory framework in the energy sector in line with the EU *acquis*, however, it needs further reform. Energy security remains a critical issue for the country. A substantive portion of energy is being imported. According to the most recent Business Environment and Enterprise Performance Survey (BEEPS), expensive or unreliable supply of electricity is a top concern for Albanian firms. While the number of power outages has significantly decreased between 2007 and 2014 (largely due to increased precipitation), their number still exceeds the south-eastern Europe average. Unpaid electricity and vulnerable position of power companies contribute to the overall unsustainability of the sector.

In April 2015, the Parliament approved the Electricity Law transposing the Third Energy Package. At the same time, the Law on Power Sector adopted in 2003 requires further alignment with the EU *acquis*. In particular, the requirement for unbundling should be implemented (currently, the transmission system operator is unbundled but the distribution system operator (retail) is not). Mandatory third party access and treatment of refusals and appeals should be provided for in the primary legislation. As for the gas market, while the current framework generally allows for the development of the natural gas infrastructure, the Law on Natural Gas Sector adopted in 2008 needs to be upgraded to allow for full

transposition of the Third Energy Package. In particular, requirement for unbundling and third party access rules need to be further specified in line with the EU *acquis*. The text of the new draft Law on Natural Gas Sector amending existing 2008 Law was aligned with the *acquis*. This draft was approved on 22 July 2015 by the Cabinet of Ministers and transmitted to the Parliament for adoption.

Renewable energy

Albania has hydropower, solar, wind and biomass resources. Adoption of the Renewable Energy Law in 2013 signalled commitment to improve the country's renewable energy sources (RES) regulation. However, putting its implementation and full effectiveness on hold is a step back and further efforts need to be made to align the country's compliance with the *acquis*, and implementation of legislation remains a major challenge. Transparency regarding connection and access to the grids is an issue, and certificate of origin system is currently not in place. While new legislation provides for a priority access of renewable energy producers to the network, implementation of regulations is still pending. The main support scheme for renewable energy sources is feed-in tariff that is currently applied only to small hydropower plants based on concession agreements signed for 15 years. Albania's first national Renewable Energy Action Plan is under development (with delay from the initially set deadline) and its preparation remains a challenge for the government.

Energy efficiency

The energy-intensity of the Albanian economy remains relatively high, compared to the EU MS, but lower than other Western Balkans countries. Residential sector is the largest end-user of energy and accounts for almost half of electricity consumption. The Law on Energy Efficiency (the EE Law) of 2005 is the centrepiece of the current legal and regulatory framework in the sector. However, it is outdated and does not comply with the EU *acquis*. A new draft Energy Efficiency Law largely in compliance with the *acquis* is being prepared with support from the Energy Community Secretariat but is not yet enacted. The National First Energy Efficiency Plan (EEAP) was adopted in 2011, establishing the national indicative energy savings target at 168 Ktoe by 2018 (9 per cent). The major obstacles to enhancing energy efficiency and therefore to be tackled by national policies and regulations identified by the first EEAP include lack of implementation of the current EE Law, lack of a designated EE Fund, absence of secondary legislation and lack of energy services market. The second EEAP was not adopted within the set deadline and its preparation should be a top priority for the government.

In the buildings sector, the current legislation is centred on the Law on Heat Conservation in Buildings adopted in 2002. The Law is generally outdated and while requiring that all newly constructed buildings comply with heat conservation requirements, is not adequately implemented. New law on EE in buildings transposing the EU Buildings Directive 2010/31/EU has been developed with support from the Energy Community Secretariat and now awaits approval and adoption by the government. Labelling requirements for energy-consuming products are being set in the Law on Information of the Consumption of Energy and Other Resources by Energy-related Products which transposes the recast Directive 2010/30/EU. However, the legislation lacks relevant supporting regulations.

Theme 3: Promote sustainability of public utilities through commercialisation of private sector participation

Concessions and public-private partnerships

The Law No. 125/2013 “On concessions and public-private partnerships” (the “PPP Law”) is the main legal instrument governing PPPs and concessions. It is a fairly recent piece of legislation and its workability is largely yet to be tested.

The Concessions Treatment Agency (ATRAKO),¹⁶ tasked with supporting contracting authorities throughout the project cycle, the Public Procurement Agency (the “PPA”),¹⁷ charged with monitoring implementation of concessions / PPP procedures to ensure their transparency and efficiency, and the Ministry of Finance, are the three entities involved in concessions / PPP projects implementation.¹⁸

The PPP Law is a fairly comprehensive document providing for all major expected dimensions of similar laws, including definitions, scope, selection, contracts, and even financial support measures and security interests. The PPP Law is applicable to a variety of sectors, as listed in Article 4 of the PPP Law, including those not commonly listed for PPP application, like telecommunication or mining. Awards of concessions may be appealed first administratively and then in a court. Subject to a contract concession disputes may be settled in an international arbitration.

Despite being a very recent document the PPP Law has been revised by parliament in July 2015. Furthermore, the authorities are said to be willing to develop a set of sub-laws, guidelines, templates and methodologies with a view to providing practical assistance, in particular to municipalities, in attracting private sector for public infrastructure projects and services. Institutional and regulatory developments as well as further alignment with the EU rules are mentioned among objectives in the Ministry of Finance’s Public Finance Management Strategy for 2014-2020. Hopefully the above efforts lead to exercising a comprehensive approach thus ensuring quality, the use of modern best standards and are coupled with other capacity building measures.

¹⁶ <http://www.ekonomia.gov.al/en/the-ministry/dependency-institutions/concession-treatment-agency-atrako>

¹⁷ <https://www.app.gov.al/ep/default.aspx>

¹⁸ http://www.eib.org/epec/resources/publications/epec_wbif_overview_ppp_institutional_arrangements_institutional_frameworks

ANNEX 5 – GENDER PROFILE

Labour force participation and gender pay gap

According to the Institute of Statistics of the Republic of Albania, women 15 years and older in Albania have a much lower labour force participation rate than men (44 per cent versus 65.5 per cent for men). 37.6 per cent of females and 51.4 per cent of men are employed. Women from Roma and Egyptian communities are often disadvantaged for both being women and representing minority groups.

Women on average earn 10 per cent less than what men do. The wage gap is different across different job types and job categories and is the lowest among the highly skilled and largest among semi-skilled workers. The gender pay gap widens with age, reflecting the fact that women are less likely than men to progress to managerial level positions.

Women entering the labour market are constrained by the narrow range of occupations and sectors of employment, which are considered acceptable or desirable for women to work in, either because of cultural perceptions or the need to balance work with family responsibilities. There are high levels of horizontal segregation in the labour market in Albania. Most of women in employment are concentrated in lowest paid sectors of the economy including agriculture, education, health and social work, while men tend to be employed in sectors such as construction, mining and transport, which are also among the better paid sectors of the economy. Segregation in the labour market is also perpetuated by the fact that women are over-represented in certain tertiary education courses, such as health and education, which further constrains their employment options. There also exists vertical segregation as fewer women than men are represented in management positions. For example, although women make up majority of public sector jobs, men are twice as likely to have senior public sector positions in law-making and senior executive positions.

Entrepreneurship, access to finance

According to the 2013 Business Environment and Enterprise Performance Survey (BEEPs), 11.7 per cent of the 360 surveyed firms in manufacturing, retail and other services sectors in Albania had a female top manager and 12.5 per cent of the firms had a woman in ownership (below the Eastern Europe and Central Asia average of 18.7 per cent and 30.9 per cent, respectively). Official statistics indicate that women own or administer only 27 per cent of all active enterprises in Albania.

Women-owned and led enterprises are mostly concentrated in urban areas, such as Tirana and Elbasan, are smaller than those managed by men and are clustered in lower-value activities, such as subsistence trade, services and agriculture. In rural areas, women managers and firms owners are particularly under-represented. For example, according to the Institute of Statistics, despite the fact that more than half of women in rural areas work in agriculture, they own and manage only 6 per cent of farms, making agriculture the sector with the lowest share of enterprises run by women.

By law women and men have equal access to finance in Albania. However, there are indirect barriers that often prevent women entrepreneurs from accessing finance on equal footing with men. They include women's low levels of property ownership, which makes it difficult to obtain the required collateral necessary for securing loans. Legislation requires land to be

registered in the name of the household head, which in practice are usually men. As a result, only up to 10 per cent of land is estimated to be owned by women. Other barriers faced by women include their unfamiliarity with marketing and business plan development.

ANNEX 6 – EBRD AND THE DONOR COMMUNITY

Donor funded technical cooperation (TC) in Albania has allowed the Bank to undertake early diagnostic work, including feasibility studies and preparation of investment opportunities, build capacities of prospective clients, in particular project implementation support in the infrastructure sector, and share transition experience from policy makers and private sector stakeholders from EBRD Countries of Operations in Central and Eastern Europe. TC funds have also been provided to support the transfer of skills and the growth of local private MSMEs through a range of advisory and investment and lending programmes, including the Business Advisory Services, the Enterprise Growth Programme and the Local Enterprise Facility, as well as to support improvement to the business environment by sponsoring the secretariat of the Investment Council.

Albania has also benefited from substantial non-TC grants in the form of investment grants for bypass, local and regional roads, performance incentive fees in the context of regional financing facilities such as the Western Balkans Sustainable Energy Financing Facility and the Western Balkans Sustainable Energy Direct Financing Facility as well as risk share first loss guarantees under the Municipal Infrastructure Development Fund.

The focus of donor grants is expected to remain on improving infrastructure, progressing reforms as well as increasing the competitiveness of SMEs. To sustain these needs, the EBRD will rely on a number of donor funds administered by the Bank, in addition to resources made available by its shareholders:

- **The European Union** has been supporting EBRD activities in Albania since 2008. Through the Instrument for Pre-Accession Assistance (IPA), it has channelled over EUR 54 million through the Bank in TC and non-TC grants to improve the road network as well as to support advisory services to MSMEs under the EBRD's Small Business Support programmes. Under IPA II (2014 – 2020) it is expected that the EU will continue to play a major role in supporting national and regional priorities which target socio economic development, environmental improvement, regional connectivity and progress towards EU accession. Financial support under the WBIF will grow and be increasingly used for co-financing projects of regional interest, particularly those which support connectivity between the countries of the region and between the region and the Member States of the European Union.
- **Bilateral donors:** grant funds will be sought from bilateral donors who hold accounts administered by the EBRD, who have expressed interest in supporting activities in Albania across all sectors and whose funds will be leveraged to complement activities supported under the WBIF;
- **EBRD Shareholder Special Fund (SSF)** endowed by the Bank's net income. The SSF is a complementary facility to donor resources and will provide TC and non-TC support in areas where there is shortage or lack of support, however the area remains a priority for the Bank to advance transition.

TC COMMITMENTS BY DONOR THROUGH EBRD, 2011-2014*

Donor	TC Commitments (€)
Czech Republic	224,681
EBRD Shareholder Special Fund	2,958,463
EBRD Western Balkans Fund	1,952,000
EU	414,353
Italy	816,015
Luxembourg	1,597,825
Total	7,963,337

TC COMMITMENTS BY SECTOR THROUGH EBRD, 2011-2014*

Sector/Team	TC Commitments (€)
Small Business Initiative**	2,382,445
Sustainable Energy Initiative***	5,000
Financial Institutions	719,610
Infrastructure	4,481,600
Legal Transition Programme	374,681
Grand Total	7,963,337

Note: Commitment values based on year end or period end data for each year.

* Reflects commitments status as of 31 December 2014

** This sector category encompasses direct assistance to SMEs and indirect assistance through policy dialogue between the EBRD, the authorities and commercial/business associations (e.g. Investment Councils)

*** This sector includes Energy Efficiency and Climate Change (E2C2) TC project.