Competitiveness and Private Sector Development

Western Balkans Competitiveness Outlook 2024: Albania

OECD

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Foreword

The *Western Balkans Competitiveness Outlook (CO) 2024* is the fourth edition of the OECD's flagship publication that offers an in-depth assessment across 15 policy areas key to bolstering economic competitiveness in the Western Balkans. The CO provides comprehensive guidance to navigate economic reforms, enhance regional co-operation and help the region's economies align their legal frameworks and policies with those of the OECD and EU. It also enables policy makers to track performance over time, by comparing outcomes against those reported in the previous editions since 2016.

The *CO 2024* comprises seven reports: one regional and six economy profiles. Each economy profile evaluates performance across each of the 15 policy dimensions, highlighting areas of progress as well as those requiring continued improvement. The regional profile presents findings for the whole Western Balkans across five policy clusters – *infrastructure and connectivity*, *skills*, *business environment*, *digital transformation* and *greening* – and seeks to evaluate the broader regional trends in these areas.

Complementing these reports, the publication's findings are accessible for the first time through a landmark interactive digital tool: the *Western Balkans Competitiveness Data Hub*. By providing policy makers with an enhanced ability to assess and benchmark economic reforms seamlessly, the Data Hub aims to support policy makers in designing economic reforms that drive competitiveness and convergence.

The Albania profile of the CO is the outcome of work co-ordinated by the South East Europe Division. The assessment was conducted under the guidance of Andreas Schaal, Director of the OECD Global Relations and Co-operation Directorate, and Marzena Kisielewska, Head of the OECD South East Europe Division.

Umur Gökçe and Ali-Fuad Turgut (OECD South East Europe Division) led this work, which was initially also managed by Martin Kohtze. The project also benefitted from inputs by William Tompson (OECD Global Relations and Co-operation Directorate), who served as the lead reviewer of the publication.

Our special thanks also go to the Albanian Government officials and other stakeholders who have been actively involved in the data collection, whose support and dedication have made the development of this publication possible. We would like especially to acknowledge the contributions of Elira Demiraj, CO National Coordinator of Albania, and Elsa Dhuli, the National Statistical Office Coordinator of Albania, as well as the following individuals, who supported the data-gathering and verification process.

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Acronyms and abbreviations

AFOLU	Agriculture, forestry and other land use
5G	Fifth-generation technology standard for cellular networks
AADF	Albanian-American Development Foundation
AAES	Albanian Association of Electricity Suppliers
AATSF	Albania Agribusiness and Tourism Support Facility
ACAA	Albanian Civil Aviation Authority
ACN	Anti-corruption Network
ADF	Albanian Development Fund
ADM	Excise Customs and Monopolies Agency of Italy
AECA	Albanian E-Commerce Association
AEOI	Automatic Exchange of Information
AFD	French Development Agency
AFSA	Albanian Financial Supervisory Authority
AIDA	Albanian Investment Development Agency
AIMS	Albania, Italy, Montenegro, and Serbia
AKCESK	National Authority for Electronic Certification and Cyber Security
AKEP	Albanian Electronic and Postal Communications Authority
AKPA	National Employment and Skills Agency
AL-CIRT	National Cybersecurity Incident Response Team
ALFIS	Albanian Forest Information System
ALKOGAP	Albania-Kosovo Gas Pipeline
ALL	Albanian lek
ALMPs	Active labour market programmes
ALPEX	Albanian Power Exchange
ALREG	Albanian Securities Register
ALSE	Albanian Securities Exchange
AMIS	Agriculture Market Information System

AMLD5	Fifth Anti-Money Laundering Directive
AMP	Asset Management Plan
ANQEP	National Agency for Qualification and Vocational Education and Training, Portugal
ANTOCC	Albanian National Traffic Operation and Control Centre
ANTP	Albanian National Transport Plan
APIs	Application programming interfaces
AQF	Albanian Qualifications Framework
ARA	Albanian Road Authority
ATTC	Agricultural Technology Transfer Centres
B2B	Business-to-business
B2C	Business-to-consumer
BAN	Business Angel Network
BEPS	Base erosion and profit shifting
BIDS	Business Investment and Development Strategy
BIRN	Balkan Investigative Reporting Network
BIT	Bilateral Investment Treaty
BPO	Business process outsourcing
CAP	Common Agricultural Policy
CBA	Cost-benefit analysis
CBAM	Carbon border adjustment mechanism
CbC	Country-by-Country
CBD	Convention on Biological Diversity
CCD	United Nations Convention to Combat Desertification
CE	Circular economy
CEFTA	Central European Free Trade Agreement
CEO	Chief Executive Officer
CfDs	Contract for differences
CIIs	Critical information infrastructures
CIT	Corporate income tax
CMO	Common market organisation
CO	Competitiveness Outlook
COSME	Competitiveness of enterprises and small and medium-sized enterprises
COST	European Cooperation in Science and Technology
CRM	Common Regional Market
CRSA	Credit risk standardised approach

CSCC	Cross-Sectoral Coordination Centre, Latvia
CVA	Credit Valuation Assessment
DCM	Decision of the Council of Ministers
DLT	Distributed ledger technology
DMOs	Destination Management Organisations
DPA	Directorate of Accreditation
DSO	Distribution system operator
EASI	European Union Programme for Employment and Social Innovation
EBA	European Banking Authority
EbA	Ecosystem-based adaptation measures
EBRD	European Bank for Reconstruction and Development
ECE	Early childhood education
EDGAR	Emissions Database for Global Atmospheric Research
EDGI	E-Government Development Index
EDP	Entrepreneurial Discovery Process
EECC	European Electronic Communications Code
EFAS	European Flood Awareness System
EFSA	European Food Safety Authority
EFSRI	European Strategy Forum on Research Infrastructures
EFTA	European Free Trade Association
e-ID	Electronic identification
eIDAS	Electronic Identification, Authentication and Trust Services
EIMMS	Environmental Information Management and Monitoring System
EITI	Extractive Industries Transparency Initiative
EMD2	Second Electronic Money Directive
EnC	Energy Community
ENISA	European Union Agency for Cybersecurity
ENTSO-E	European Network of Transmission System Operators for Electricity
EPO	European Patent Office
EPR	Extended producer responsibility
EQF	European qualifications framework
ERA	European research area
ERE	Energy Regulatory Entity
ESAP	Employment and Social Affairs Platform
ESG	Environmental, social and governance

ESJS	European Skills and Jobs Survey
ESPN	European Social Policy Network
ETS	Emissions trading system
EU	European Union
EU NIS/NIS2	Network and Information Security Directive
EUR	Euro
EUSIWM	EU support to integrated water management
FADN	Farm Accountancy Data Network
FAO	Food and Agriculture Organisation
FDI	Foreign direct investment
FSHU	Furnizuesi I Shërbimit Universal (Universal Service Supplier)
FTAs	Free trade agreements
FTL	Furnizuesi I Tregut të Lirë (Free Market Supplier)
FTTP	Fibre to the premises
Gbps	Gigabits per second
GCF	Green Climate Fund
GDAC	General Directorate of Anti-Corruption
GDIP	General Directorate of Industrial Property, Albania
GDP	Gross domestic product
GDPR	General Data Protection Regulation
GDT	General Directorate of Taxation
GEF	Global Environment Facility
GERD	Gross domestic expenditure on research and development
GG	Government Gateway
GHG	Greenhouse gas
GI	Geographical indications
GIS	Geographical Information System
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Development Cooperation)
GloBE	Global anti-base erosion
GMO	Genetically modified organism
GRECO	Groupe d'États contre la corruption
GST	Goods and services tax
GTD	General Tax Directorate
GVA	Gross value added

Ha	Hectares
HEI	Higher education institution
HIDAACI	High Inspectorate for the Declaration and Audit of Assets and Conflicts of Interest
HPC	High Prosecutorial Council
HS	Harmonized commodity description and coding system
HSH	National Rail Company
IACS	Integrated administration and control system
IAPR	Independent Authority for Public Revenue
ICILS	International Computer and Information Literacy Study
ICO	Initial coin offering
ICT	Information and communications technology
IDP	Albanian Information and Data Protection Commissioner Office
IEA	International Energy Agency
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INSTAT	Albania Institute of Statistics
IRB	Internal ratings-based
IRENA	International Renewable Energy Agency
ISACS	Inter-Sectoral Anti-Corruption Strategy
ISCED	International Standard Classification of Education
ISP	Imbalance Settlement Period
ITE	Initial teacher education
ITS	Intelligent Transport Systems
JBCP	Joint border crossing point
JRC	Joint Research Centre
JSI	(WTO) Joint Statement Initiative
KESH	Albanian power corporation
KFW	Kreditanstalt für Wiederaufbau (Credit Institute for Reconstruction), Germany]
KPA	Special Appeals College
KPIs	Key performance indicators
KPK	Independent Qualification Commission
LAG	Local Action Group
LEADER	Liaison entre actions de développement de l'économie rurale (Links between actions for the development of the rural economy)

LNG	Liquified natural gas
LPIS	Land parcel identification system
LULUCF	Land use, land use change and forestry
M&E	Monitoring and evaluation
MARD	Ministry of Agriculture and Rural Development
MED	The Mediterranean Sea Programme
MFE	Ministry of Finance and Economy
MIE	Ministry of Infrastructure and Energy
MNE	Multinational enterprises
MoESY	Ministry of Education, Sports and Youth
MOFE	Ministry of Finance and Economy
MoJ	Ministry of Justice
MoU	Memorandum of understanding
MR	Minimum requirements for market risk
MRL	Maximum residue levels
MSCA	Marie Skłodowska-Curie Action
MSMEs	Micro, small and medium-sized enterprises
MTBP	Medium-term budget planning
MTE	Ministry of Tourism and Environment
MW	Megawatts
MWh	Megawatt-hours
NACC	National Anti-Corruption Co-ordinator
NAES	National Agency for Employment and Skills
NAIS	Albanian National Agency of Information Society
NAP	National adaptation planning
NASRI	National Agency for Scientific Research and Innovation
NAVETQ	National Agency of Vocational Education, Training and Qualifications
NBC	National Business Centre
NBI	National Bureau of Investigation
NBP	Albanian National Broadband Plan
NCTS	New Computerised Transit System
NDC	Nationally Determined Contributions
NEA	National Environment Agency
NECP	National Energy and Climate Plan
NEET	Not in education, employment or training

NEMO	Nominated Electricity Market Operator
ACCs	Network of Anti-Corruption Co-ordinators
NFA	National Food Authority
NI4OS Europe	National Initiatives for Open Science in Europe
NIB	National Investigating Body
NSA	National Safety Authority
NSIP	National Strategy for Intellectual Property
NSIWRM	National Strategy for Integrated Water Resources Management
NSPP	National Single Project Pipeline
NSW	National single window
NTA	National Tourism Agency
NTFC	National Trade Facilitation Committee
NTO	National Tourism Organisation, Montenegro
NTS	National Transport Strategy
NYS	National Youth Strategy
OeAD,	Agency for Education and Internationalisation, Austria
OECD	Organisation for Economic Co-operation and Development
OF	Output floor
OGP	Open Government Partnership
OHS	Occupational health and safety
OIE	World Organisation for Animal Health
OR	Operational risk
ÖREK	Österreichische Raumordnungskonferenz (Austrian Conference on Spatial Planning)
OSCE	Organisation for Security and Co-operation in Europe
OSHEE	Albanian electricity distribution company (Operatori i Shpërndarjes së Energjisë Elektrike)
OST	Operatori I Sistemit te Transmetimit (Albanian Transmission System Operator)
OTP	Országos Takarékpénztár (Hungarian private bank)
PDP	Albanian Law on Personal Data Protection
PEM	Pan-Euro-Mediterranean
PES	Public employment service
Ph.D.	Doctor of Philosophy
PIM	Public investment management
PISA	Programme for international student assessment
PIT	Personal income tax

PPP	Public-private partnership
ProSEED	Sustainable Economic and Regional Development, Employment Promotion and Vocational Education and Training in Albania
PSD2	Second Payment Services Directive
PSO	Public service obligation
PV	Photovoltaic
QDMTT	Qualified domestic minimum top-up tax
R&D	Research and development
R&I	Research and innovation
RAI	Regional Anti-Corruption Initiative
RAMS	Road Asset Management System
RASH	Academic Network of Albania
RBC	Risk-based capital requirements
RCC	Regional Cooperation Council
RCGF	Rural Credit Guarantee Fund
REACH	Registration, evaluation, authorisation and restriction of chemicals
READ	Research Expertise from the Academic Diaspora
REMIT	Regulation on wholesale energy market integrity and transparency
RES	Renewable energy sources
RESEAL	Resilience Strengthening in Albania
RITTD	Research, innovation, technology transfer and digitalisation
RRA	Renewables readiness assessment
S3	Smart Specialisation Strategy
SAA	Stabilization and Association Agreement
SANE	Supporting Albanian Negotiations in Environment
SARDF	Strategy for agriculture, rural development and fishery
SDAC	Single day-ahead coupling
SDGs	Sustainable Development Goals
SECO	Swiss State Secretariat for Economic Affairs
SEE CAO	South East Europe Capacity Allocation Office
SEPA	Single Euro Payments Area
SES	Single European Sky
SEZ	Special Economic Zones
SHSSH	State Social Service
Sida	Swedish International Development Cooperation Agency

SIMS	State Inspectorate for Market Surveillance
SIS	Special Investigation Service, Lithuania
SILSS	State Inspectorate of Labour and Social Services
SME	Small and medium-sized enterprises
SMIAL	Higher Education Information Management System
SMIP	Pre-university Information Management System
SNV	Stichting Nederlandse Vrijwilligers (Netherlands Development Organisation)
SOE	State-owned enterprise
SPAK	Special anti-corruption structure
SPO	Special Prosecutor's Office
SPS	Sanitary and phytosanitary
SRC	Share Registration Centre of Albania
SREP	Supervisory review and evaluation process
SSC	Social security contributions
SSCs	Sectoral Skills Committees
SSPP	Single sector project pipeline
SST	Sectorial Strategy of Transport
ST	Switzerland Tourism
STC	Swiss Tourism Council
STI	Science, technology and innovation
STIP Compass	Science, Technology and Innovation Policy Compass
STM	Switzerland Travel Mart
STO	Security Token Offering
STP	Science and technology park
TAB	Tabbed navigation
TAP	Trans Adriatic Pipeline
TCT	Transport community treaty
TE	Tax expenditure
TEDA	Technology and Economic Development Area
TEU	Twenty-foot equivalent unit
TFA	Trade Facilitation Agreement
TFI	Trade Facilitation Indicators
TPPs	Third-party payment services providers
TPP	Thermal power plant
TSAs	Tourism Satellite Accounts

TSE	Tirana Stock Exchange
TSO	Transmission system operator
TTO	Technology Transfer Centre
UBA	Environment Agency Austria
UIS	UNESCO Institute for Statistics
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission for Europe
UNFCCC	United Nations Framework Convention on Climate Change
UNCITRAL	United Nations Commission on International Trade Law
UNWTO	United Nations World Tourism Organization
USS	Universal service supply
VANAF	Assessment of Primary Education Pupils' Achievement
VAT	Value added tax
VET	Vocational education and training
WB6	Western Balkan economies
WBL	Work-based learning
WHO	World Health Organization
WIWW	Vienna Institute for Comparative Economic Studies
WTO	World Trade Organization
WTTC	World Travel & Tourism Council
YIC	Youth Innovation Centres

Reader's guide

Assessment process

Following the first three *Western Balkans Competitiveness Outlook* assessments, published in 2016, 2018 and 2021, the fourth assessment cycle was launched on 27 April 2023. In Albania, the Ministry of Finance and Economy held the main role of co-ordinator for the assessment process, while for each of the 15 thematic policy dimensions, a relevant line ministry was delegated as policy dimension co-ordinator responsible for input collection. Once the assessment was launched, the OECD team introduced new digitalised frameworks for assessing each of the 15 policy dimensions. Consisting of qualitative questionnaires and a statistical data sheet, these frameworks were presented and explained by the OECD, with particular attention paid to new questions and indicators.

Following the launch of the assessment, the National Co-ordinators disseminated the assessment materials among the co-ordination network and completed the assessment between April and August 2023. They assigned a score to each qualitative indicator used to assess the policy dimension in question, accompanied by a justification. The completed assessment materials were returned to the OECD team between August and October 2023. The OECD then reviewed the inputs and, where necessary, requested additional information from the National Co-ordinator. The updated assessment materials were sent back to the OECD until November 2023.

Upon final completion of the assessment materials, the OECD organised a fact-finding meeting in Tirana on 28 September 2023 to gain a better understanding of the policy landscape, to collect additional information for indicators where necessary, and to discuss the first set of selected draft findings. Based on the additional inputs received and outcome of the discussions on preliminary analyses and recommendations, the OECD compiled the key findings for each of the 15 policy dimensions. These findings were then presented during a dedicated preliminary findings meeting on 13 December 2023 and discussed with the National Co-ordinators of the Western Balkan economies. The OECD then held consultations on these findings with local non-government stakeholders, including chambers of commerce, academia and NGOs, in January and February 2024. The draft Competitiveness Outlook economy profile was made available to the Government of Albania for its review and feedback from February to March 2024.

Assessment approach

Coverage

This publication features data from, and a comprehensive analysis of, the six Western Balkan economies, including Albania, Bosnia and Herzegovina, Kosovo*, Montenegro, North Macedonia, and Serbia, providing a detailed analysis of their key sectors, trends, and challenges for achieving convergence with the European Union and OECD.

The data collection and assessment are standardised for the region, with some differences in the case of Bosnia and Herzegovina. As policy making in Bosnia and Herzegovina is much more decentralised than that of the other Western Balkan economies, information from the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) as well as the state-level has been taken into account in assessing and scoring of policy dimensions. While Brčko District was not directly included in the assessment, its policies have been specified in various sections of the report, as appropriate. For more information on the exact methodology of the scoring, refer to the Bosnia and Herzegovina profile of the CO 2024.

Timeline

The assessment and monitoring of policy developments were undertaken between 1 March 2021 and 1 March 2024. Any policy changes and new developments after 1 March have not been considered in the assessment.

Scoring

The assessment comprises a total of 15 policy dimensions that are key to economic competitiveness; these constitute the central building blocks under national economic reform agendas. Each policy dimension is divided into several sub-dimensions (generally between 2 and 4), which are further comprised of granular indicators.

The methodology consists of assessing a total of 147 qualitative indicators across 15 policy dimensions, presented in Table 1. In addition, there are a total of 265 quantitative indicators that provide insights on the policy outcomes, demonstrating whether policies bring out the desired results and the extent to which they help to achieve Western Balkans' socio-economic convergence with the OECD area and EU.

The 2024 assessment retains the 0-5 scoring scale from previous cycles. However, the scoring criteria have been revised to reflect current best practices and policy trends in OECD and EU countries, as well as policy developments in the Western Balkans. Each indicator is assigned a numerical score ranging from 0 to 5 based on the level of policy development, implementation and monitoring & evaluation, enabling performance comparison across economies and over time. Level 0 represents the weakest performance, while Level 5 indicates the strongest, signifying a higher level of policy convergence towards OECD good practices and standards.

Table 1. Policy dimensions and qualitative indicators

Dimension	No. of qualitative indicators
1. Investment policy and promotion	8
2. Trade policy	6
3. Access to finance	8
4. Tax policy	11
5. State-owned enterprises	11
6. Anti-corruption policy	13
7. Education policy	9
8. Employment policy	12
9. Science, technology and innovation	9
10. Digital society	11
11. Transport policy	10
12. Energy policy	11
13. Environment policy	10
14. Agriculture policy	8
15. Tourism policy	10

Each criterion that is met on the scale of Level 0 to Level 5 indicates a level of policy sophistication. This form of scoring allows for more nuanced score progression along the scale, and permits the consideration of more refined inputs in scoring. For this assessment, the OECD team has also prepared simplified versions of the scoring methodology, using benchmark criteria to better illustrate the rationale behind the scores. However, it is only a simplified representation, and does not encompass all the elements that influence the scoring. Table 2 presents an example indicator for accommodation quality (Tourism policy), with assessed criteria in the second column.

Table 2. Competitiveness Outlook scoring system: A sample indicator – accommodation quality

Score level	Policy requirements	Criterion met
Level 0	A consistent accommodation quality standard framework has been adopted.	✓
	Measures facilitating investments in high-quality private accommodation development or renovation have been adopted.	✓
	Measures facilitating investments in renovation or in building up new high-quality private accommodation are implemented.	✓
	Accommodation quality standard framework is in the process of implementation.	✓
	Energy efficiency requirements are included in the accommodation quality standard framework.	✓
	Regular inspection of quality standards is in place.	X
	Requirements for persons with disabilities are included in the quality standards for accommodation.	
	The sharing economy is regulated.	X
	Accommodation facilities that enhance energy efficiency efforts are supported by the government.	X
Level 5	Regular monitoring of the accommodation framework is conducted.	X
	An independent ex post evaluation has been conducted to assess the effectiveness of the implemented measures and to take corrective action.	X
	Score for Albania	**2.5**

Note: The indicator and criteria shown in the table above do not reflect the actual score for Albania and are included solely for demonstration purposes. Moreover, there is no methodology for specific criterion being assessed, which would translate directly into a score. In other words, each criterion does not necessarily result in a score increase.

As part of the current assessment cycle, **the *Western Balkans Competitiveness Data Hub* (https://westernbalkans-competitiveness.oecd.org/) has also been developed to access all the scores by indicator, showcasing the fulfilment of criteria by each economy and offering the rationale behind scores**. Scores can be explored through policy dimensions as well as over time, and in comparison to other Western Balkan economies.

The final scores represent a simple average of all indicators, and not individual sub-dimensions. Table 3. illustrates an example of the dimension scoring system and thus the final scores. The number of indicators included in each sub-dimension varies depending on the complexity and scope of the concerned policy area. Therefore, the sample average of the sub-dimension scores can be different than the final dimension scores.

For further details on the Competitiveness Outlook methodology, individual scores for each indicator, as well as the changes in scope compared to the last assessment cycle in 2021, please refer to the detailed assessment methodology on the *Western Balkans Competitiveness Data Hub*.

Table 3. Competitiveness Outlook scoring system: A sample presentation of dimension scores

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Investment policy and promotion	1.1: Investment policy framework			4.3	3.9
	1.2: Investment promotion and facilitation			3.7	3.3
	1.3: Mobilising sustainable investment			2.5	2.8
Albania's overall score		**2.6**	**3.1**	**3.6**	**3.4**

Comparability

The Western Balkans Competitiveness Outlook reflects a continual process of methodological refinement aimed at improving enhancing the robustness and comparability of indicators. However, evolving policy trends in OECD and EU countries, alongside shifting priorities in the Western Balkans, can sometimes make a direct comparison of scores difficult over time. In the 2024 edition, scores are compared back to 2021 and 2018. Due to vast methodological changes, direct comparisons to the first edition in 2016 are not feasible.

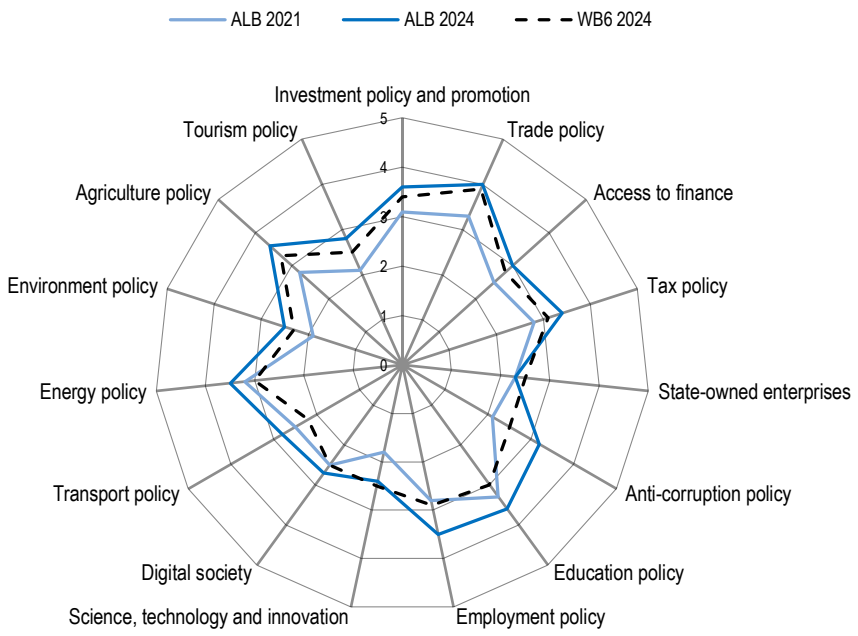
Since the 2018 edition, indicators have also been reorganised into different subdimensions, reflecting the policy aspects that are of key importance for the Western Balkans. This does not have any impact on the overall score comparability, i.e. dimension scores remain comparable. However, subdimension scores cannot be compared across subsequent editions.

Executive summary

Performance overview

Albania has made significant advancements since the 2021 *Competitiveness in South East Europe: A Policy Outlook* (Competitiveness Outlook), positively progressing across 14 of the 15 policy dimensions and stagnating in one, state-owned enterprises (SOEs). Albania experienced the strongest score increases in the areas of anti-corruption, agriculture and employment policies. Figure 1 illustrates that Albania is outperforming the average of the six Western Balkan (WB6) economies across 13 policy dimensions. Moreover, it is the regional leader in several areas, achieving the highest score in anti-corruption, education and employment policies. In contrast, Albania scores under the regional average in both SOEs and science, technology and innovation (STI), which, despite a notable score increase, show significant room for improvement. For additional insights into Albania's performance across various dimensions, trends over time or comparisons with other economies, please refer to the *Western Balkans Competitiveness Outlook Data Hub at* https://westernbalkans-competitiveness.oecd.org/.

Figure 1. Scores for Albania across Competitiveness Outlook policy dimensions (2021 and 2024)



Note: Dimensions are scored on a scale of 0 to 5. See the reader's guide and the Data Hub, at westernbalkans.competitiveness.oecd.org for information on the assessment methodology and the individual score assigned to indicators.

StatLink https://stat.link/wmsdqx

Main progress areas

The main achievements that have led to increased performance for Albania since the last assessment are as follows:

- **Efforts to prevent and combat corruption have been bolstered due to a comprehensive legal and institutional framework.** Albania's anti-corruption institutions have seen substantial growth in both human and financial resources, empowering them to step up their activities. Between 2018 and 2022, the General Directorate of Anti-Corruption experienced a fourfold rise in its staff count, and the High Inspectorate for the Declaration and Audit of Assets and Conflicts (HIDAACI) witnessed a 40% boost in its annual budget. Moreover, there has been notable progress in convicting high-level corruption cases, with the number of sanctions increasing steadily since 2018. The robust safeguards for the independence of the relevant organisations have played a role in this progress.
- **The agriculture sector increasingly benefits from improved rural infrastructure and information systems, enhancing its productivity.** Substantial investment in the economy's irrigation infrastructure has led to a more than twofold increase in irrigation capacity between 2013 and 2023, reaching 265 000 hectares of irrigated land. Moreover, Albania has made progress in establishing a Farm Accountancy Data Network (FADN), paving the way to assess the effectiveness of agricultural policies and helping to make informed decisions regarding support mechanisms for farmers. With a contribution of 18.4% of gross domestic product (GDP) and 35% of total employment – the largest in the Western Balkans – the agricultural sector stands to gain further from these developments.
- **Efforts to improve the effectiveness of employment policies have produced positive outcomes.** In 2022, Albania recorded the highest activity rate (73.2%) and employment rate (65.0%) in the Western Balkans, with rates approaching European Union (EU) averages (74.5% and 69.8%, respectively). Recent initiatives, such as the establishment of sectoral skills committees and curricula revisions of vocational education and training programmes, have been good steps to address skills mismatches and gaps in the labour market. The government has also increased efforts to boost women's participation in the labour market by expanding coverage of affordable child and elderly care.
- **Advances in environment policy have been achieved through strengthened legislative and policy frameworks.** Albania boasts the lowest greenhouse gas (GHG) emissions per capita in the region (2.7 tonnes of CO_2 equivalent per capita), with levels less than one-third of EU and OECD averages (8.1 and 9.9 tonnes of CO_2 equivalent per capita, respectively). Further strides have been made in enhancing climate change frameworks to align with obligations under the Paris Agreement and EU directives, and in setting targets to mitigate GHG emissions, Moreover, the preparation of the circular economy roadmap reflects the economy's commitment to enhance its framework guiding sustainable resource use, consumption and production.

Policy insights

To further improve its competitiveness and boost its economic convergence with the EU and OECD, Albania is encouraged to:

- **Strengthen the governance of SOEs.** SOEs in Albania operate in a largely decentralised manner, lacking a whole-of-government ownership policy to professionalise ownership practices or to clarify the state's objectives regarding SOEs. Moreover, significant shortcomings in SOE board arrangements increase corruption-related risks, including the presence of politically affiliated individuals on SOE boards. Growing state subsidies to SOEs, coupled with the absence of rate-of-return expectations, risks distorting the level playing field.
- **Enhance the implementation of STI policies through increased public investment, complemented by enhanced data collection**. Albania's STI capacity necessitates continued

development and investment. Overall investment in research and development (R&D) remains low and scientific research outputs remain limited, with the number of national patent applications stagnating. Knowledge exchange and co-creation also remain weak, notably due to the lack of incentives to stimulate linkages between academia and businesses. The lack of systematic data related to STI further hinders the design and monitoring of effective policy measures.

- **Consider implementing tax policy reforms aimed at broadening the tax base and addressing widespread informality.** Albania's tax-to-GDP ratio is 25.6%, which significantly lags behind the Western Balkan and OECD averages of 30.4% and 33.6%, respectively. There are no presumptive tax regimes in place that could incentivise small businesses to formalise their operations. Integrating social security contributions (SSCs) into such a presumptive tax regime could reduce SSC compliance costs and assist low-income self-employed workers in formalising their status, thereby increasing tax revenues from SSC – which are, in terms of share of total tax revenues, second lowest in the Western Balkans. Additionally, consideration could be given to lowering the high value added tax (VAT) registration thresholds, after assessing the tax administration's capacity, as this could help to expand the VAT base and boost tax revenue.
- **Continue efforts to increase energy supply and security through the diversification of sources**. Albania's energy sector is not sufficiently diversified, primarily relying on hydro resources for electricity generation. This dependence on hydropower leaves the economy vulnerable to energy shortages during periods of hydrological variability, necessitating energy imports from other sources. Albania also lacks internal gas infrastructure and terminals, with projects such as the Trans Adriatic Pipeline and the Albania-Kosovo Pipeline progressing slowly. To enhance the security of its energy sector, Albania should intensify its efforts to advance these diversification projects.
- **Improve connectivity in the transport sector to address infrastructure gaps**. While Albania has devoted significant public funding toward the construction and maintenance of road infrastructure, this level of investment has not been directed towards other modes of transport. During the period 2019-22 the economy allocated only 0.09% of its GDP to rail infrastructure investment – one-third of the levels seen among EU and OECD countries – and did not allocate any funding towards the maintenance of rail infrastructure. Closing current disparities and upgrading infrastructure, especially in rail, is essential for enhancing safety, increasing export efficiency and strengthening regional connectivity initiatives.

1 Context

This chapter offers an overview of Albania's economic developments since the *Competitiveness Outlook* 2021, with a special focus on the economic impact of recent external shocks and economic convergence. The chapter also examines the progress made and challenges encountered in achieving the Sustainable Development Goals. It also recaps the progress made towards EU accession, including the financial and development support provided by the EU for Albania's accession efforts. Altogether, this sets the stage for in-depth examination across 15 policy dimensions in the subsequent chapters, all necessary for sustaining economic competitiveness.

Economic context

Key economic developments

Albania's economy has displayed a high level of resilience and is expected to remain robust in the face of successive shocks in the past four years, which include the December 2020 earthquake, the COVID-19 pandemic, and economic fallout from the Russian Federation's war of aggression against Ukraine (see Box 1.2). Despite a 3.3% decline in GDP in 2020, Albania experienced a strong recovery of 8.9% in GDP growth in 2021, followed by slowed growth of 4.9% in 2022 (European Commission, 2024[1]; World Bank, 2022[2]). Projections indicate that this trend will persist into 2023 and 2024, with growth rates expected to ease to 3.6% and 3.3%, respectively (IMF, 2024[3]). Services, led by a significant contribution from tourism and construction, continue to be the main growth drivers in terms of output (World Bank, 2023[4]). Private consumption has also contributed to growth, increasing by 7.4% in 2022 due to increased employment and wages (European Commission, 2024[1]). Investment, on the other hand, has made a declining but positive contribution to GDP growth, dipping from 4.6% in 2021 to 1.7% in 2022 (World Bank, 2023[4]).

Inflation remained moderate from 2019 to 2021 and is expected to decline gradually as the Bank of Albania continues to tighten its monetary policy stance. As a result of Russia's war of aggression against Ukraine and rising international food and energy prices, inflation peaked at 6.7% in 2022 (Table 1.1). Downward pressures from lower import prices, domestic currency appreciation, and monetary policy normalisation, however, eased inflation to 4.3% in 2023. This trend is expected to continue, with Albania anticipated to meet its 3% target by early-2025 (IMF, 2024[5]). Interest rates have increased considerably over the period to slow inflation, from 0.5% in March 2020 to 3.25% in November 2023 (European Commission, 2024[1]; Bank of Albania, 2024[6]).

Amid challenges presented by informality, labour shortages and skills gaps, Albania's labour market has improved, with employment increasing by 4.8% over 2021 to 2022 (European Commission, 2024[1]). Labour force participation rates also increased, from 59.8% to 62.4% over the same period (International Labour Organization, 2024[7]).Youth unemployment continued to remain high despite a slight decrease from 20.9% in 2020 to 20.7% in 2022 (World Bank, 2023[4]). The increase in employment has also been accompanied by an increase in wages, with wage growth consistently rising in 2021 and 2022, by 6.3% and 8.2% respectively. These upward trends reflect positive developments in addressing informality, which measured at 37% in 2021 and is a persistent issue that restricts employment growth and has an overall negative impact on the economy (OECD, 2022[8]).

Albania's external sector has made a strong recovery following the pandemic, largely owing to its services exports, backed by tourism. As of 2022, travel comprised 59% of Albania's services exports (UNCTAD Statistics Division, 2023[9]). After a notable decrease from 31.3% of GDP in 2019 to 22% in 2020, Albania's total exports rebounded strongly due to the resurgence of tourism (World Bank, 2024[10]) (Box 1.1). Total exports recovered in 2021, accounting for 31.3% of GDP in 2021 and continued to grow, reaching 37.4% in 2022 (World Bank, 2022[11]). Inward FDI flows increased from EUR 971 million in 2020 to EUR 1.36 billion in 2022, and have remained consistent in terms of their size to GDP (UNCTAD, 2023[12]). In 2022, Albania's largest investment inflows came from the Netherlands, Italy and Germany (UNCTAD, 2023[12]). Personal remittances also increased from 2020, reaching EUR 1.66 billion in 2022 (World Bank, 2022[13]). External inflows from tourism and FDI and an increase in policy rates have led to a continuous appreciation of the Albanian lek against the euro in recent years (European Commission, 2024[1]). Albania's current account deficit narrowed to 6% of GDP in 2022 (European Commission, 2024[1]; World Bank, 2023[4]).

The government's fiscal position also improved following the shocks of 2019 and 2020, with a steadily improving fiscal balance into 2022 and a positive primary balance of 0.13% as of 2023 (IMF,

2024[14]). The improved fiscal position was propped up by improved revenues and underspending – particularly in capital expenditures, where only 76.7% of planned expenditures were realised in 2023 (European Commission, 2024[1]). Despite an increase in public debt over 2020 and 2021, public debt decreased to 65.4% by 2022, as Albania has been complying with its rule of keeping its public debt-to-GDP ratio declining until it falls below 45% (World Bank, 2023[4]).

Box 1.1. The contribution of the tourism sector to Albania's recovery

As of 2022, Albania's economy is predominantly services-based, with tourism comprising a significant contribution to its prosperity (Ministry of Tourism and Environment, 2024[15]; IMF, 2024[5]). Tourism's direct contribution to Albania's GDP is estimated to be between 8.5 and 8.7%, while its indirect contribution is estimated to amount to more than 20% of the Albanian economy (WTTC, 2022[16]).

Tourism has been a key contributor to Albania's success over the Competitiveness Outlook period, as Albania had among the best post-pandemic recoveries in the industry (UNWTO, 2022[17]). Albania stood out globally for its resilience in tourism during the pandemic, experiencing an 11% decrease in foreign visitors from 2019 to 2021, leading to its identification as the third-least impacted economy worldwide and the least affected nation in Europe (UNDP, 2022[18]). In 2022, its tourism arrivals and revenues largely surpassed pre-COVID levels (UNDP, 2022[18]). Approximately 7.5 million people visited Albania in 2022, an increase of more than 32% against 2021, and contributed to 24% of the economy's GDP (UNDP, 2022[18]). Tourism further increased by 35% over 2022 to 2023, with Albania welcoming more than 10 million visitors in 2023 (ABNAse, 2024[19]).

Table 1.1. Albania: Main macroeconomic indicators (2019-23)

Indicator	Unit of measurement	2019	2020	2021	2022	2023e
GDP growth	% year-on-year	2.1	-3.3	8.9	4.8	2.1
National GDP	USD billion	15.40	15.16	17.93	18.92	n.a
Inflation	% average	1.4	1.6	2.0	6.7	n.a
Current account balance	% of GDP	-7.9	-8.7	-7.7	-6.0	n.a
Exports of goods and services	% of GDP	31.3	22.7	31.3	37.4	n.a
Imports of goods and services	% of GDP	45.0	37.2	44.7	47.8	n.a
Net FDI	% of GDP	7.5	6.7	6.5	6.6	n.a
Public and publicly guaranteed debt	% of GDP	67.9	75.8	75.4	65.4	63.1
External debt	% of GDP	60	64.2	64.2	53.9	n.a.
Unemployment	% of total active population	12	12.2	12.1	11.3	n.a
Youth unemployment	% of total	27.2	30.8	29.7	28.2	n.a
International reserves	In months of imports of G&S	6.5	9.6	8.8	6.9	n.a
Exchange rate (if applicable local currency/EUR)	Value	123	123.74	122.45	118.98	n.a
Remittance inflows	% of GDP	9.6	9.7	9.4	9.5	n.a
Lending interest rate	% annual average	6.28	6.12	6.02	6.51	n.a

Note: G&S = goods and services. "n.a" indicates data is not available.
Sources: European Commission (2024[1]); World Bank (2021[20]); World Bank (2023[4]); EBRD (2023[21]); IMF (2024[22]); UNCTAD (2022[23]).

Albania's financial sector has shown increased stability, with a capital adequacy ratio of 18% in 2022 (Bank of Albania, 2023[24])**, while nonperforming loans decreased from 8.0% in 2020 to 5.0% in 2022** (World Bank, 2023[4]). Amid higher rates, tightening of credit standards by banks especially for businesses, and exchange rate appreciation, credit to the private sector has been slowing, declining from 5.5% in 2021 to 2.9% in 2022 (World Bank, 2023[4]).

Box 1.2. Economic impacts of Russia's war of aggression against Ukraine on Albania's economy

Despite the economic fallout from Russia's war of aggression against Ukraine, which provoked an energy, fuel and food crisis as well as rising inflation globally and in Europe, Albania's economy has shown resilience owing to its strong tourism sector and effective monetary policy against inflationary pressures. Since the start of Russian aggression against Ukraine, Albania's foreign policy has been consistently in line with EU foreign and security policy, including sanctions against Russia (European Commission, 2023[25]).

Albania's trade sector has been minimally affected, as trade with Russia and Ukraine comprises a small amount of its trade volumes. As of 2021, trade with Russia amounted to less than 2% (EUR 122.8 million) of Albania's imports and less than 0.01% (EUR 95.55) of its exports (Central European Free Trade Agreement, 2024[26]; United Nations, 2024[27]). However, Russia accounted for a significant share of Albania's wheat and meslin and fertiliser imports, representing 62% of wheat and meslin and 21% of fertiliser imports as of 2021 (United Nations, 2024[27]). Food and fertilisers have been exempt from EU sanctions, and Albania's trade with Russia initially increased immediately after the start of the war, particularly in wheat imports. In 2022, trade with Russia remained low, with imports totalling EUR 91.9 million, about EUR 30 million less than in 2021 (Central European Free Trade Agreement, 2024[26]). Prior to the conflict, trade with Ukraine comprised an even smaller but generally increasing share of Albania's total trade volumes since 2015. Albania's exports to Ukraine peaked at EUR 3.16 million in 2020, and declined to EUR 2.26 million in 2022 (United Nations, 2024[27]; Board of Governors of the Federal Reserve System (US), 2023[28]). Albania's imports from Ukraine amounted to approximately EUR 31.7 million in both 2020 and 2021 and declined slightly to EUR 31.5 million in 2022 (United Nations, 2024[27]).

Albania's direct energy needs were relatively unaffected, though inflationary pressures from rising energy prices spilled over into the economy. Albania has no regular consumption of Russian gas, instead relying on hydropower, some solar, and imports of other fossil fuels for its energy needs. To address the socio-economic fallout from energy prices and to further encourage energy transition, the EU's Energy Support Package to the Western Balkans is providing Albania with EUR 80 million in the form of grants and subsidies to vulnerable populations and small and medium-sized enterprises (SMEs) (European Commission, 2023[29]).

Tourism to Albania also remained robust in the face of declining arrivals in the region (UNDP, 2022[18]). Albania has witnessed a decline in tourism by Ukrainian and Russian nationals, though each comprises less than 1% of yearly foreign visitors to Albania. In 2021, Ukrainian and Russian nationals comprised 1% and 0.7% of total foreign visitors, respectively. The drop in tourism by Ukrainian nationals was significant in the first year of the war, as the numbers decreased from 110 205 to 38 847 over 2021 to 2022. In 2023, tourism by Ukrainian nationals slightly recovered, reaching 73 863 (Ministry of Tourism and Environment, 2024[15]). The number of tourists from Russia declined slightly over 2019 to 2022, from 28 832 to 28 284 (UNDP, 2022[18]), which is likely to reduce further as a result of Albania not extending seasonal visa-free access to Russian nationals (European Commission, 2023[25]).

Sources: United Nations (2024[27]); INSTAT (2024[30]).

Sustainable development

Albania has made moderate progress toward reaching the targets of the 2030 Agenda for Sustainable Development over the assessment period (Sachs et al., 2023[31]). As of 2023, Albania has achieved or is on track to achieve 41.2% of its target indicators and has made some degree of progress in 30.9% of indicators, while performance has worsened across 27.9% of indicators (Table 1.2). Efforts to implement and monitor the SDGs in Albania are positive. The government has mainstreamed SDGs into its national and sectoral plans and tracks SDG achievement on an annual basis, but it has yet to incorporate SDG tagging into national budgeting practices (Braho, 2023[32]). Albania has achieved or has maintained achievement of the SDGs in two areas – poverty (SDG 1) and climate action (SDG 13), and is on the track to achievement in the areas of clean water (SDG 6) and reduced inequalities (SDG 10). Progress has been more moderate in the area of affordable and clean energy (SDG 7), though attainment of the goal is nearing. Meanwhile, it has backtracked on its SDG attainment in education (SDG 4), with declining pre-primary and primary enrolment rates (Sachs et al., 2023[31]).

Table 1.2. Albania's progress towards achieving the SDGs (2023)

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

Note: The order of progress (from greatest to least) is as follows: SDG achieved; challenges remain; significant challenges; major challenges.
Source: Sachs et al. (2023[31]).

Progress has been strongest and nearing SDG achievement in the areas of clean water and sanitation (SDG 6) and reduced inequalities (SDG 10). Albania has maintained its performance regarding the elimination of extreme poverty since 2021 (SDG 1). Access to basic drinking water and sanitation services has increased across the population (both above 95%). Meanwhile, the Gini coefficient for inequality has been on a declining trend, thus nearing the national target value of 27.5% (29.4% in 2020) (Sachs et al., 2023[31]). Further improvement is needed to increase the share of renewable energy in total final energy consumption and widen access to clean fuels and technology for cooking.

Health outcomes (SDG 3) remain positive and moderately improving, with 2030 target levels being met across indicators on mortality rates for mothers and children, adolescent fertility rates, and prevalence of new HIV infections. However, impediments to further progress lie in the decline of vaccination rates among infants and stagnate in the area of universal health coverage. Industry, innovation

and infrastructure is also moderately improving (SDG 9), owing to increased access to the Internet and increasing academic research (Sachs et al., 2023[31]).

Progress is broadly stagnant in the areas of sustainable cities and communities (SDG 11). While 2030 target levels have been met, the proportion of the urban population living in slums, reducing air pollution, and improving access to piped water, transport and other services remain significant challenges. Further progress is also needed in the area of circular economy (SDG 12) and protection of terrestrial ecosystems (SDG 15). The most significant gaps remain in the areas of decent work and economic growth (SDG 8), marine life (SDG 14), and peace, justice and strong institutions (SDG 16) (Sachs et al., 2023[31]). Economic progress and inclusion remain hindered by lack of access to financial resources across the population, high youth unemployment, and lack of fundamental labour rights. Impediments to progress in SDG 16 lie in persistent rates of homicides, corruption, continuance of unlawful expropriation practices, and declining performance in press freedom.

EU accession process

Albania's EU accession process began in June 2006, with the signing of its Stabilisation and Association Agreement (SAA). The SAA entered into force in April 2009, and Albania submitted its application for EU membership in the same year. In 2012, the European Commission recommended that Albania be granted candidate status, contingent upon the implementation of key reforms in areas such as judicial and public administration. In 2014, Albania was granted EU candidate status, allowing for progressive trade liberalisation and mutual duty-free access to most goods.

Albania's candidacy has advanced, with the EU issuing its recommendation for the opening of accession negotiations in 2018. In March 2020, the European Council endorsed the decision to accession negotiations with Albania, which officially began at the first Intergovernmental Conference on 19 July 2022. The analytical examination of the EU *acquis* or the "screening" was launched on the same date and has progressed smoothly. Albania has continued to implement the Stabilisation and Association Agreement and the meetings of the joint bodies under the agreement have taken place at regular intervals.

According to the EU's 2023 enlargement report, Albania has made uneven progress across the political criteria for accession, with its judicial reform having produced good results but public administration reform and public financial management reform are still pending. Efforts in the areas of corruption, organised crime, fundamental rights, and freedom of expression need to be intensified (European Commission, 2023[25]). Its external relations, foreign security and defence preparation showed a good level of alignment with the EU *acquis* and its external positioning maintained "full alignment" with EU decisions and declarations during the CO assessment period.

Regarding economic criteria, Albania shows an adequate level of preparation to cope with competitive pressure and market forces within the EU, with progress being made over the previous year on structural reforms in the energy market, transport infrastructure, the digitalisation of the economy and education outcomes (European Commission, 2023[25]).

On 8 November 2023, the European Commission adopted a new Growth Plan for the Western Balkans to improve the level and speed of convergence between the Western Balkans and the EU (European Commission, 2023[33])**.** Backed by EUR 6 billion in non-repayable support and loan support, the Growth Plan has the potential to boost socio-economic convergence and bring WB6 closer to the EU single market (Gomez Ortiz, Zarate Vasquez and Taglioni, 2023[34]; European Commission, 2023[33]). The new Growth Plan is based on four pillars, aimed at:

1. "Enhancing economic integration with the European Union's single market, subject to the Western Balkans aligning with single market rules and opening the relevant sectors and areas to all their neighbours at the same time, in line with the Common Regional Market;

2. Boosting economic integration within the Western Balkans through the Common Regional Market;
3. Accelerating fundamental reforms, including on the fundamentals cluster[1], supporting the Western Balkans' path towards EU membership, improving sustainable economic growth including through attracting foreign investments, and strengthening regional stability; and
4. Increasing financial assistance to support the reforms through a Reform and Growth Facility for the Western Balkans" (European Commission, 2023[33]).

The new Growth Plan builds on the existing enlargement methodology and creates a package of mutually reinforcing measures. The aim is to speed up accession negotiations by providing incentives to economies to accelerate the adoption and implementation of the EU acquis, while narrowing the economic convergence between the Western Balkans and EU Member States. In that context, the OECD has recently released the *Economic Convergence Scoreboard for the Western Balkans 2023* to track the region's performance in achieving economic convergence towards the EU and the OECD area, and to highlight policy bottlenecks that hinder faster economic growth in a sustainable and inclusive way (Box 1.3) (OECD, 2023[35]).

Box 1.3. *Economic Convergence Scoreboard for the Western Balkans 2023*: A spotlight on Albania

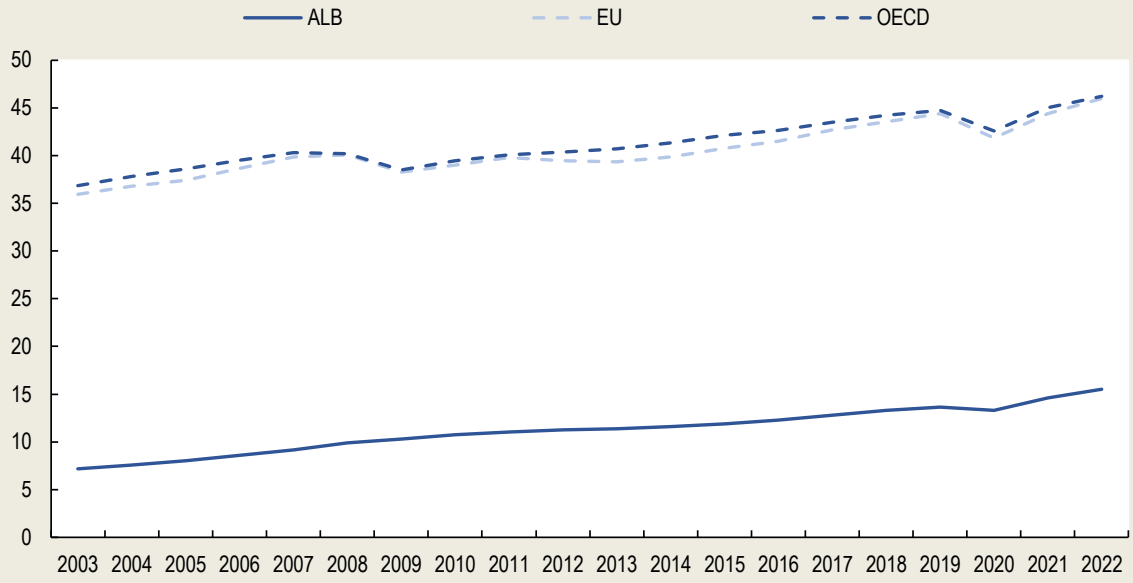
Albania's GDP per capita has more than doubled from 2003 to 2022 compared to the EU's and OECD area's modest increases of 27% and 25%, respectively. Between 2003 and 2022, Albania significantly narrowed the gap in GDP per capita with the EU and OECD area. In 2003 the EU rate was five times higher but by 2022 it had decreased to half that, showing substantial progress. However, Albania's 2022 GDP per capita of USD (PPP international $) 15 492 (EUR 14 717[1]), compared to the EU's USD 45 978 (EUR 43 679) and the OECD area's USD 46 208 (EUR 43 897), highlights the considerable progress that remains to be made for Albania to align with the EU and OECD, emphasising the complexity of the task ahead.

In this context, the OECD developed the *Economic Convergence Scoreboard* for the first time in 2023, marking the establishment of a recurring monitoring mechanism and dedicated tool designed to evaluate the extent of economic convergence of the Western Balkans with the EU and the OECD area. Prepared to inform discussions at the Berlin Process Western Balkans Leaders' Summit 2023 and grounded in a decade-long series of policy assessments, the Scoreboard offers a thorough analysis of the region's progress across five key policy areas, or clusters, crucial for attaining sustainable and inclusive economic growth. These clusters are *business environment*, *skills*, *infrastructure and connectivity*, *greening*, and *digital transformation*.

Since 2008, Albania achieved noteworthy advances and minor regressions across the five policy clusters, underscoring not only the adoption of polices in alignment with the EU *acquis* and OECD standards but also their effective implementation. Albania exhibited strong progress in both the *business environment* and *skills* clusters. In the context of the *business environment*, the economy's performance in FDI net inflows from 2018 to 2022 surpasses that of the EU fourfold, reflecting an overall 200% change across three defined periods (2008-12, 2013-17, and 2018-22). Albania also outperforms the EU in small and medium sized enterprises (SME) total exports, showing a consistent increase between 2013 and 2022. Furthermore, Albania is performing near parity with the EU in many areas across the *skills* cluster, including employment rate, PISA average score, lifelong learning, and tertiary education achievement. The PISA average score and tertiary education achievement experienced a notable overall rise in performance over the observed periods relative to the EU, by 12% and 22%, respectively.

Figure 1.1. Albania's GDP per capita convergence with the OECD area and the European Union (2003-2022)

In Purchasing Power Parity 2017 USD (thousand)



Source: World Bank (2022[36]).

StatLink https://stat.link/3ek29x

By contrast, the *greening* and *digitalisation* clusters require further development. Albania's performance lags behind that of the EU in several key policy outcomes, including CO_2 emissions, renewable energy consumption, water exploitation intensity, and fertiliser consumption. For instance, Albania has witnessed an increase in water exploitation intensity over the observed periods and renewable energy consumption has been steadily decreasing, underscoring the relevance of comprehensive sustainable energy and consumption policy. As for *digitalisation,* Albania must converge by more than double its current rate across several metrics, except for mobile cellular penetration, which is near parity with the EU.

In the context of aligning with OECD standards, Albania has demonstrated consistent progress, albeit with a slight setback in the areas of *Competitiveness Outlook* (CO) *2021* agriculture policy and *OECD Services Trade Restrictiveness Index and Digital Services Trade Restrictiveness Index*. Notably, advancements have been made in CO finance, transport and energy policies. Albania's positive development within a majority of OECD good policy practices, standards, and tools indicates a positive influence of the CO 2021 recommendations on Albania's long-term policy development.

1. The 2022 market exchange rate has been used to convert PPP constant 2017 international dollars into EUR
Source: OECD (2023[35]).

As part of the new Growth Plan, the Western Balkans have been asked to submit to the European Commission country-specific Reform Agendas listing a number of structural reforms that would need to be implemented in order to access part of the Plan's funding. All Reform Agendas are structured along the same four policy areas: 1) business environment and private sector development, 2) green and digital

transformation, 3) human capital development and 4) fundamentals (of the EU accession process). They replace Economic Reform Programmes' chapter IV on structural challenges, as, going forward, the Economic Reform Programmes will only cover macrofiscal aspects.

EU financial and development support

Since 2009, Albania has received over EUR 1.3 billion in funding from the EU through the Instrument for Pre-accession Assistance (IPA) providing support for national reform programmes, as well as through dedicated investment packages. Under IPA I, the EU provided financial assistance to Albania with a total allocation of EUR 594 million for the period 2007-13. IPA II (2014-20) introduced targeted reforms within the framework of predefined sectors. Under IPA II, Albania received total allocated funding of EUR 758.1 million in support for investments, capacity building and reforms in sectors of: Rule of Law, Democracy and Governance, Competitiveness and Innovation, Agriculture and Rural Development, Transport, Environment, Education, Employment and the Social sectors. This includes performance rewards, as well as EUR 115 million that was mobilised to support recovery following the 2019 earthquake (European Commission, 2023[25]).

For 2021-23, the IPA III funding for national programmes amounts to close to EUR 250 million for Albania. The IPA 2022 programme covers the areas of environmental protection, strengthening democracy and the judiciary, and support to other reforms to fulfil EU standards and norms. It also includes the dedicated EUR 80 million from the 2023 Energy Support Package immediate measures, 90% of which has already been disbursed, both to support vulnerable families and SMEs facing rising energy prices and to accelerate the energy transition (European Commission, 2023[25]). Additionally, through the Economic and Investment Plan for the Western Balkans 2021-27, Albania is expected to benefit from EUR 1.4 billion in investments, out of which EUR 470 million are grants. Flagship investments amounting to EUR 581.1 million are foreseen in the areas of road infrastructure, digital infrastructure, and renewable energy transition (European Commission, 2023[25]).

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Note

[1] In line with Communication on "Enhancing the accession process – A credible EU perspective for the Western Balkans" COM(2020)57, the fundamentals cluster includes: chapter 23 – Judiciary and fundamental rights, chapter 24 – Justice, Freedom and Security, the economic criteria, the functioning of democratic institutions, public administration reform, chapter 5 – Public procurement, chapter 18 – Statistics and chapter 32 – Financial control (European Commission, 2023[33]).

2 Investment policy and promotion

Creating an attractive environment for investors is essential to stimulate economic activity and to foster sustainable economic growth. This chapter assesses the scope and effectiveness of existing policies and strategies that aim to enhance investment volume and quality. The first sub-dimension, investment policy framework, assesses the robustness of legal framework for investment, the efficiency of dispute settlement mechanisms, as well as intellectual property rights enforcement and awareness-raising capacity. The second sub-dimension, investment promotion and facilitation, focuses on investment promotion agency structures, investment promotion strategies and investor incentives, all geared towards attracting foreign direct investment. The third sub-dimension, mobilising sustainable investment, explores the strategic framework for a sustainable investment governance, while also reflecting on the scope of financial and technical support allocated to sustainable investment.

Key findings

Albania has registered an improvement in its performance in investment policy and promotion. The economy's score has increased from 3.1 in the previous *Competitiveness Outlook* (CO) (compared to 2.6 in 2018) to 3.6 in the 2024 assessment. Albania is one of the best-performing economies in the Western Balkans for investment policy and promotion, scoring above the regional average for its investment policy framework (Table 2.1).

Table 2.1. Albania's scores for investment policy and promotion

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Investment policy and promotion	1.1: Investment policy framework			4.3	3.9
	1.2: Investment promotion and facilitation			3.7	3.3
	1.3: Mobilising sustainable investment			2.5	2.8
Albania's overall score		**2.6**	**3.1**	**3.6**	**3.4**

The **key findings** are as follows:

- The overhaul of Albania's legal framework for investment is still pending, lacking a clear timeline for adoption. The law on strategic investments, which was expected to expire in 2023, has been extended until 2027.
- The implementation of judicial reforms and prompt appointments to the Constitutional Court have enhanced dispute settlement mechanisms in Albania. Nevertheless, a backlog of commercial disputes persists, primarily attributed to the suboptimal performance of the case management system.
- Following the approval of the new arbitration law in July 2023, featuring provisions for virtual hearings, there has been a noticeable absence of practical applications as of early 2024. The potential benefits of alternative dispute mechanisms remain untapped, leaving the burden on the judiciary system unchanged.
- A recent study reviewed 122 sectoral and horizontal laws, identifying 27 as potential entry restrictions for foreign direct investment (FDI). Nevertheless, Albania maintains its status as an open economy, with on average fewer restrictions on FDI compared to OECD member countries.
- In the absence of a dedicated strategic framework for sustainable investment, the Business and Investment Development Strategy 2021-27 articulates an economic approach aimed at fostering sustainable growth through strategic investment initiatives.

State of play and key developments

Having dipped slightly in 2020 and 2021 during the COVID-19 pandemic, FDI inflows to Albania fully recovered in 2022 to reach 7.6% of GDP (UNCTAD, 2023[1]). Notwithstanding the slight decrease in average annual net FDI inflows, from 8.6% of GDP during 2017-19 to 7.2% during 2020-22, Albania was second only to Montenegro by this measure during the latter period (UNCTAD, 2023[1]). Since 2015, Albania's stock of FDI has increased by 14.7 percentage points, reaching 63.2% of GDP by 2022 (WTO, 2023[2]). In 2022, the FDI stock remained concentrated in the energy sector (26.5%), extractive industry (15.3%) and financial services (12%). The main source of FDI inflows in 2022 came from the tourism-driven real estate sector, accounting for 21.2% of the total (AIDA, 2023[3]). FDI inflows from the EU surged from 30% of GDP in 2015-18 to 51% in 2019-22. During the same period, the contributions from Switzerland and Türkiye, previously the second and third-largest sources, declined from 33.7% to 11.4% and from 8% to 7.6%, respectively. The EU maintained a robust share of FDI stock at 54.4% (European Commission, 2023[4]).

Sub-dimension 1.1: Investment policy framework

Albania is currently revising its investment framework,[1] aiming to merge and update the existing 1993 Law on Foreign Investment and the 2015 Law on Strategic Investment. The goal is to create a unified and competitive legal structure aligned with international standards, encouraging both domestic and foreign investments. The proposed legislation emphasises non-discrimination, transparency, and accessibility, with amendments planned for strategic sectors and the associated designation process. The revision of the framework is partially motivated by the Law on Strategic Investments not yielding a considerable impact, attracting primarily domestic investment mostly in the tourism sector (US State Department, 2023[5]). Nevertheless, the revision of the investment framework was postponed without a clear adoption timeline and the current Law on Strategic Investment was extended until 2027.

Legislation, including information related to investments, is accessible on the National Publication Centre's website and the Albanian Investment Development Agency (AIDA), but it lacks systematic availability in English.

Public-private partnerships are a long-standing feature of the Albanian economy, governed by the 2013 Law for Concessions and Public-Private Partnership. However, the law still needs further alignment with EU standards to ensure transparency for investors. Six PPP infrastructure projects had, by mid-2023, been initiated since January 2021. Irregularities in government procurement are a pervasive challenge. The continued reliance on PPP contracts has restricted competitive opportunities, particularly for foreign investors, across various sectors, including infrastructure (US State Department, 2023[5]).

Albania's market is open with limited **exceptions to national treatment**. According to the OECD foreign direct investment (FDI) Regulatory Restrictiveness Index, which evaluates market access and exceptions to national treatment, the economy scored 0.057 in 2019, below the OECD area average of 0.064. A lower score suggests a less restrictive regime (OECD, 2020[6]). While the economy maintains some minimal investment restrictions, particularly in areas such as arms production, inland maritime transport, fishery, notary services, and judicial enforcement services, these restrictions do not pose impediments to foreign direct investment. As part of the Regional Investment Reform Agenda within the Western Balkans Regional Economic Agenda, Albania's Ministry of Finance and Economy (MFE), in collaboration with the International Finance Corporation (IFC), identified potential entry barriers for investors. By analysing 88 sectoral laws and legal instruments, 18 were identified as potential restrictions for FDI, with most of them infringing on the non-discrimination principle. Additionally, out of 34 horizontal laws examined, 9 were recognised as potential FDI restrictions.

Progress in implementing justice reform has been positive overall. However, despite advances, significant challenges remain in the legal and judicial system and in respect of effective **dispute settlement**

(European Commission, 2023[4]).The clearance rate[2] of civil and commercial litigious cases remained at 89% in 2022, below the EU median of 100%. Similarly, the time to process such cases[3] increased from 279 days in 2021 to 377 days in 2022, also exceeding the EU average of 234 (CEPEJ, 2022[7]) – spotlighting the growing backlog of cases in Albania's courts.

In February 2022, Albania's Parliament extended the EU-backed judicial reform, involving vetting of prosecutors and judges. Constitutional amendments defined the tenure of Independent Qualification Commission (KPK) and Special Appeals College (KPA) members. Originally set to end in 2022, KPK members' mandate was extended[4] until 2024 due to delays in vetting 800 magistrates. Amendments also detailed revaluation case procedures post-commission dissolution, involving the Supreme Judicial Council, High Prosecution Council, and the Head of Special Prosecution.

In July 2023, Albania adopted a new Law on Arbitration based on the United Nations Commission on International Trade Law (UNCITRAL) Model Law. The new Law (Article 30) makes explicit provisions for virtual and hybrid hearings. This should facilitate the uptake of arbitration while removing any doubt as to the legal validity of hearings held in such a manner. It is hoped that the new Law will help develop an arbitration culture among Albanian business entities and encourage them to resolve disputes through arbitration. However, as of February 2024, there have been no applications of the new Law.

Despite having mediation legislation in place since 2011, its use has been limited. The business community favours mediation mechanisms to resolve disputes and reduce the backlog of commercial cases. However, there is a need for increased awareness and promotion of mediation's advantages to alleviate the strain on the judiciary system.

Albania's **legal framework for intellectual property rights** is generally sound, although **enforcement and awareness raising** require strengthening. The General Directorate of Industrial Property (GDIP), overseen by the MFE, serves as the public authority responsible for the registration, protection, and enforcement of intellectual property (IP) rights. In line with its National Strategy for Intellectual Property 2022-25 (NSIP), and the National Plan for European Integration 2022-24, GDIP has undertaken legal reforms in the field of industrial property, drafting separate laws for each of its object categories. Amendments to the 2008 Law on Industrial Property[5] have included i) protections against the misuse or disclosure of or unfair gains from trade secrets; ii) definition of the competencies of the State Inspectorate for Market Surveillance (SIMS); and iii) regulation of the Industrial Property Objects Administration System. As of mid-2023, GDIP was continuing its work on reforms to the Laws on "Patents, Utility Models, Certificates of Supplementary Certificates" and on "Trademarks". These new draft laws will aim to address those deficiencies identified in respect of their alignment with directives and regulations of the EU *acquis*, with the exception of those provisions for which implementation is only relevant to existing EU Member States. Likewise, work was expected on a new draft industrial design law to further align it with EU Directive 98/71/EC[6] on the legal protections of designs. The law is expected to be drafted in 2025. In 2021, further amendments were also made to the Criminal Code and Code of Criminal Procedures on enforcement of intellectual property laws (US State Department, 2023[5]). From May 2022, all 164 services provided by the General Directorate of Industrial Property are accessible on line through the government's singular platform, e-Albania.

Sub-dimension 1.2: Investment promotion facilitation

Albania continues to reinforce its **investment promotion agency structure and strategy**. The Business Investment and Development Strategy 2021-27 (BIDS) (Box 2.1), and its Action Plan provide overarching direction for medium-term economic development, focusing mainly on the development of micro, small and medium-sized enterprises, as well as on attracting investments. AIDA has a broad mandate, covering export promotion and SME development, as well as investment promotion, facilitation, and retention. Following a 39% increase in staffing levels in 2019, the agency's headcount has since remained stable at 39, of which 14 are dedicated to investment promotion, facilitation and aftercare activities (i.e. excluding

e.g. export promotion). It has also received an increase in financial resources, albeit modest, its annual budget having more than doubled to ALL 19 million (EUR 182 400) in 2019 and reaching ALL 26.8 million (EUR 257 300) in 2022. However, the amount of investment promotion/ matchmaking had not yet by 2022 recovered post-pandemic to levels seen during the 2013-19 period, when human and financial resources at the agency's disposal were more limited. AIDA is reinforcing its investor-targeting actions, by adopting a proactive approach involving outreach campaigns[7] for foreign investors in certain sectors, with the aim of generating new investments in Albania.

Box 2.1. Business Investment and Development Strategy 2021-27 (BIDS)

Adopted in 2021, BIDS and its action plan provide an overarching direction for Albania's medium-term economic development, focusing mainly on the development of micro, small and medium-sized enterprises as well as investments. The strategy sets out the vision of a competitive Albanian economy, driven by innovation and based on knowledge, which creates new and better jobs, taking advantage of the opportunities offered by the digital transition and the transformation of the international value chain, with emphasis on sustainable development and European and regional integration.

With particular relevance to investment, BIDS focuses among other things on the intensification of measures for the promotion and facilitation of specific investments, according to target groups, reflecting international good practice and sustainable development objectives. One component of the strategy is a supplier development programme that aims to increase the level of sophistication of local SMEs, to help them compete more effectively and integrate into the global and regional supply chains of foreign investors.

Recognising the important contribution of start-ups to a more innovation- and knowledge-driven economy, BIDS also focuses on the development of a favourable business environment, closely related to the 2022 Law "On support and development of startups" as well as the EU for Innovation programme. Special emphasis is given to women entrepreneurs and start-ups that offer digital solutions or products/services that contribute to the development of the green and circular economy.

BIDS is monitored by an inter-institutional group under the direction of the Ministry of Finance and Economy. Within the BIDS framework, AIDA conducts an annual investor outreach campaign. Depending on economic potential and the sector's importance, AIDA may also target investments in the ICT and business process outsourcing (BPO) sectors.

For its part, during the course of the preparation and adoption of BIDS, the Albania Investment Council made a number of pertinent suggestions. Notably, these included a focus on "stimulation of investments that are in line with nature protection or social cohesion" while noting "transparency, sustainability and coordination of public investment plans as important factors in attracting private investment". The Council also suggested "identifying models for internationalisation of business in the international value chain", an objective ultimately reflected (as mentioned above) in the final draft of BIDS.

The strategy lays out a comprehensive framework for investment attraction and company internalisation, with a special focus on SMEs, underscoring the importance of its effective implementation in achieving strategic objectives. By directing increased attention towards sustainable investment, particularly in areas such as decarbonisation and gender equality, the economy stands to enhance its attractiveness to sustainable investors. Embracing sustainable practices can not only bolster the economy's appeal to investors seeking to align their portfolios with environmental and social objectives, but also drive long-term resilience.

Sources: Council of Ministers (2021[8]); Ministry of Finance and Economy (2021[9]); Secretariat of Albania Investment Council (2021[10]).

Investment facilitation services and aftercare activities are important elements of AIDA's mandate. The agency serves as a link between investors and the government, aiming to encourage investment and reinvestment. In 2022, AIDA's co-operation network was expanded to reach 11 municipalities,[8] further strengthening the co-operation between local governments and foreign investors. In line with BIDS, there is a dedicated department that promotes and enables linkages between foreign investors and local companies besides the Directorate of Investment. The agency also provides information and accompanying services both to local firms and to international companies through the SME help desk, and facilitates contacts by organising training courses, workshops, and business-to-business (B2B) meetings. Other measures aimed at creating and deepening linkages include assistance in finding new local suppliers, technology transfer, and information exchange on the agency's website (B2B online platform), as well as financial support through funds under its management. In addition, AIDA actively contributes to addressing skills shortages and mismatches, recognising this as a significant area for intervention. AIDA's aftercare department also frequently visits companies' premises to discuss workforce issues with a view to ensuring business continuity. Recent aftercare outreach campaigns have also included several vocational schools. Suggestions are channelled to the relevant vocational schools while proposals outside the remit of existing programmes may be channelled, in turn, to decision-making institutions such as National Employment and Skills Agency (AKPA) and the MFE. AIDA may also conduct dedicated campaigns with the vocational institutions where there are insufficient numbers of available students to fulfil firms' needs.

Albania continues to provide a wide range of **investor incentives,** with special considerations for strategic investments[9] (please refer to the tax policy chapter for a complete overview of incentives). Despite the broad array of investor incentives available, little progress has been made in their streamlining and simplification, or in assessing their fiscal viability.

The government offers fiscal and administrative incentives to companies establishing businesses in a Technical and Economic Development Area (TEDA). As of early 2024, there are three areas that have been granted TEDA status (Spitalle, Koplik and Kashar); however, they remain in development. A new such Special Economic Zone (SEZ) was established in November 2022 and designed for potential investments from industries that use advanced technology and have large product knowledge in the areas of automobiles, information and communications technology (ICT), and electronics. As of early 2024, the project is still in its initial phase of development with no progress made on its implementation.

Sub-dimension 1.3: Mobilising sustainable investment

While BIDS is not directly focused on sustainable investments *per se*, several of its objectives and key performance indicators (KPIs) are well aligned with this approach, such that one can consider Albania to have an emergent **strategic framework and governance for sustainable investment**. The strategy addresses in particular two of the four objectives linked to Sustainable Development Goals (SDG) relevant to sustainable investment – namely i) productivity and innovation, and ii) job quality and skills – whereas decarbonisation and gender equality aspects are less fully developed, particularly in relation to attracting investment. Some sectoral strategies take account of sustainable investment aspects,[10] but there is a need to ensure this occurs on a systematic basis.[11] Although Albania has not implemented a mandatory environmental, social and governance (ESG) disclosure regime, the Law on Accounting and Financial Statements, introduced in 2018, stipulates that firms with an average number of 500 employees during the relevant reporting period must include in their non-financial report information relating to the environment, employment, human rights, anti-corruption and bribery (Ministry of Finance and Economy, 2018[11]).

Albania provides **financial and technical supports for sustainable investment** relevant to three of the four SDG-linked objectives, namely i) productivity and innovation, ii) job quality and skills, and iii) gender equality. In terms of financial supports, tax incentives, subsidies, grants and credit guarantees are provided on a non-differentiated basis between foreign and domestic firms. Technical supports meanwhile consist of supplier development programmes, training and skills programmes, internationalisation programmes, and digitalisation programmes. The latter aims to address market failures such as weak skills gaps, information asymmetries and weak knowledge spillovers. While the majority of Albania's financial and technical supports for sustainable investment are donor-funded, domestic fiscal resources also make a contribution.

Box 2.2. Achieving resilient growth through sustainable investment in Albania

In May 2023, the World Bank approved a new five-year Country Partnership Framework for Albania (2023-27) and four associated operations, with a dedicated budget of EUR 829 million (USD 900 million).

The framework aims to support Albania's swift recovery and transformation into a more resilient, equitable, and greener economy by attracting sustainable investment. The focus areas include generating more and better jobs, optimising human capital, and enhancing resilience to natural disasters. Joint efforts with the International Finance Corporation are poised to improve the business environment, strengthen regulations, and attract private investment for sustainable growth.

The Multilateral Investment Guarantee Agency (MIGA) will continue supporting and facilitating foreign investment through risk insurance products. The four recently approved projects address key areas such as infrastructure, promoting climate-resilient agriculture, advancing digitalisation of public services, and strengthening the economy's resilience and environmental sustainability.

These projects align with Albania's development priorities and demonstrate its commitment to fostering greener and more inclusive growth. Despite experiencing a robust post-pandemic recovery, Albania continues to grapple with structural setbacks, including a deficiency in climate-resilient infrastructure and inadequate investment in human capital. In this context, the World Bank's Partnership framework is aptly tailored to tackle the enduring challenges that persist.

Source: World Bank (2023[12]).

Work is under way on a draft **Smart Specialisation Strategy (S3),** although the process has been ongoing since 2016. S3 is envisaged as a new tool for enhancing innovation and boosting region-wide development. Supported by the EU, the Smart Specialisation Platform has been adopted by each of the WB6 economies, as well as by Türkiye. The S3 approach is designed to contribute to the international agenda on sustainable development and aims to identify priority areas where the impact of public investments in research, development and innovation can be most pronounced.[12] The draft strategy is expected to be presented by June 2024.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania's progress on implementing the CO 2021 recommendations has been mixed, with advances in improving the performance of judicial institutions, reinforcing the IPR legal framework and boosting AIDA's investment facilitation role. Nevertheless, progress was nonexistent in increasing public awareness and the use of mediation mechanisms. Similarly, only limited progress was achieved in streamlining the regulatory framework for investment, as the draft investment law has not yet been adopted. Moreover,

there was limited advancement in streamlining investment incentives and their monitoring and evaluation (Table 2.2).

Table 2.2. Albania's progress on past recommendations for investment policy and promotion

CO 2021 Recommendations	Progress status	Level of progress
Reduce the complexity of the legislative and regulatory framework for investment and increase its transparency	The revision of Albania's investment legal framework remains pending, with no definitive timeline for its adoption established. The expected update to the law concerning strategic investments has been postponed until 2027.	Limited
Reinforce further the independence, resources and capacity of the court system, especially for commercial disputes	Good progress is being made with the comprehensive EU-backed justice reform programme, with improved performance of judicial institutions in clear evidence. A new arbitration law was adopted in July 2023.	Strong
Increase public awareness and implementation of mediation mechanisms	There is no evidence of progress in this area.	None
Align Albanian IP legislation further with international standards and reinforce the co-ordination, resources and capacity of IPR implementation and enforcement bodies	In line with its National Strategy of Intellectual Property 2022-25, Albania is reforming its legal framework governing industrial property and industrial design, including on patents, utility models, certificates of supplementary certificates, and trademarks.	Strong
Streamline the multiple investment incentives and reinforce mechanisms for evaluating their cost and benefits, appropriate duration, and transparency	No action has been taken to streamline investment incentives.	Limited
Reinforce AIDA's investment facilitation role, notably through better co-ordination with other government bodies and agencies	Implementation of the Business Investment and Development Strategy 2021-27 (BIDS) is monitored by an inter-institutional group under the direction of the MFE, which should improve the degree of co-ordination on investment promotion and facilitation issues.	Strong

The way forward for investment promotion

As Albania has made modest progress in some areas since the last CO assessment, the recommendations from the last cycle remain pertinent. Improving the attractiveness of Albania as an FDI destination requires the adoption of several significant pending investment policy reforms as well as policy adjustments in the following areas:

- **Simplify the legislative and regulatory framework for investment while enhancing transparency.** Reform of the legal framework for investment should be made a priority. This effort should involve not only streamlining investment regulations but also harmonising and stabilising various sectoral regulations and laws related to investment. By doing so, a more stable and favourable environment for investors can be created.
- **Simplify the numerous investment incentives and strengthen mechanisms for assessing their cost-effectiveness, suitable duration, and transparency.** Implementing straightforward and consolidated tax incentive frameworks can facilitate governments in evaluating the advantages and drawbacks of these measures, enhancing resource allocation and providing investors with a clearer system.
- **Enhance public awareness and utilisation of alternative dispute settlement mechanisms, encompassing both the existing mediation arrangements since 2011 and the newly introduced arbitration regime.** Similarly, increased awareness and adoption of the new domestic arbitration regime could have positive effects. It is crucial to view the new arbitration regime as a complement to and not a replacement of the international arbitration regime. Albania's ongoing participation in international arbitration remains vital for sustaining investor confidence.
- **Strengthen the resources and capabilities of the court system, particularly concerning commercial disputes.** Despite notable progress in judiciary reform in recent years, the economy

has only moderately progressed in addressing the backlog of commercial disputes in courts. To enhance the economy's appeal, there should be heightened emphasis on improving the efficiency of handling commercial disputes to diminish case backlogs. Additionally, efforts should be directed towards enhancing judges' expertise in commercial matters (See Box 2.3 on improving efficiency in the judicial system in Bulgaria).

Box 2.3. Streamlining the judicial system in Bulgaria

Bulgaria has an established Inspectorate to the Supreme Judicial Council, comprising an Inspector General and ten inspectors; they are elected by a two-thirds majority of the Members of Parliament in the National Assembly. The Inspector General serves a five-year term, while the inspectors' term is four years. The Inspector General and inspectors function independently under the law. The Inspectorate acts on its own or in response to citizens, entities, or state bodies, including judges, prosecutors, and investigators. It communicates signals, proposals, and reports to state and judicial bodies. Additionally, the Inspectorate shares public information about its activities.

The Inspectorate is the main body through which the Ministry of Justice can reform the justice system with the goal of improving its efficiency and reducing the duration of legal proceedings. In February 2021, the Judges' College of the SJC adopted a roadmap for the restructuring of district and appellate-level courts. The plan aims to bolster the judiciary by expanding the number of judges, enabling specialisation, implementing mandatory court-ordered mediation in specific cases, and enhancing overall efficiency. This involves optimising judicial workload distribution across courts and judges, which will entail:

- Consolidating of regional courts with a view to reducing the caseload.
- Restructuring of judicial staff's contractual status, with personnel categorised into permanent and non-permanent roles. The former will be assigned to regional courts, while the latter will be integrated into higher court staff.
- Increasing the number of judges in district and appellate courts.
- Implementing a workload rate for judges in regional, district, and appellate courts, enhancing the ability to anticipate the specific requirements of judges in each region. The rate will be annually revised using actual workload data to facilitate systematic planning for the judiciary's regional needs.

The concept provides a remedy for current challenges such as uneven workload among courts at a similar level, judge specialisation, the efficiency and quality of justice administration, personnel planning, optimisation of judicial budget costs, and predictability in judges' career development.

Albania shares institutional shortcomings with Bulgaria, notably concerning a mounting backlog of cases, the expertise of judges, and prolonged court case processing times, which surpass the EU median in Albania's instance. Drawing inspiration from Bulgaria's roadmap for reorganising and consolidating its judicial system could offer valuable insights into addressing Albania's challenges in dispute settlement.

Sources: OECD (2022[13]); Inspectorate to the Supreme Judicial Council (2007[14]); European Commission for the Efficiency of Justice (2022[15]).

- **Complement BIDS with a dedicated sustainable investment component.** This would both inform the development of an updated BIDS implementation action plan for the period after the strategy's interim evaluation, due in 2024, and provide an overarching framework for systematically

integrating sustainable investment objectives' aspects into sectoral strategies. In parallel, the mandate of the thematic group on foreign investment under the auspices of the "competitiveness and investment" Integrated Policy Management Group, chaired by the Minister of Finance and Economy, could be amended to incorporate sustainable investment objectives more explicitly. While productivity, innovation, job quality and skills have featured as investment priorities in BIDS and some sectoral strategies, there is scope for more fully integrating decarbonisation and gender equality objectives going forward. This is particularly relevant given that foreign firms are known, on average, to offer women greater opportunities for career advancement and are playing an increasingly important role in financing renewable energy infrastructure.

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Notes

[1] In January 2024, the Ministry of Finance and Economy was split into the Ministry of Finance and the Ministry of Economy, Culture and Innovation, the latter overseeing the legal framework for investment.

[2] The clearance rate is calculated by dividing the number of resolved cases by the number of incoming cases.

[3] The Calculated Disposition Time sheds light on the efficiency of the judicial system by comparing resolved cases with unresolved ones over a reporting period, indicating how quickly cases are processed and providing insight into overall proceedings length.

[4] Law No. 16/2022

[5] The existing legislation concerning "Industrial Property" in Albania partially conforms with Directive 98/71/EC and Council Regulation (EC) No. 06\2002. Notably, there are gaps in alignment within Albanian law concerning aspects such as the exhaustion of rights, the publication of industrial designs, the invalidation of a design, and the rights arising from registration, as there is no equivalent provision.

[6] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A31998L0071.

[7] Outreach campaigns were implemented in the agriculture sector (2019 and 2022) and manufacturing with a special focus on automobiles (2020-23) to diversify the sectors promoted to foreign investors.

[8] Shkodër, Vlorë, Tirana, Durrës, Berat, Lezhë, Elbasan, Kavajë, Vorë and Kamëz and Kamza.

[9] Energy and mining, transport, electronic communications infrastructure, urban waste, tourism, agriculture and fisheries are considered areas of strategic investments.

[10] Notably the Agriculture, Rural Development and Fishing Strategy 2021-27 and the Albania Digital Agenda 2022-26: DCM No. 460, dated 29 June 2022 "For the Approval of the Agriculture, Rural Development and Fisheries Strategy", 2021–27, https://qbz.gov.al/eli/vendim/2022/06/29/460/a49807d6-28cb-4973-94ea-60d89bf8d41c and DCM No. 370, dated 1 June 2022 "For the Approval of the Intersectoral Strategy 'Digital Agenda Of Albania' and the 2022-26 Action Plan", https://qbz.gov.al/eli/vendim/2022/06/01/370/8fd7b0cf-6848-431f-8bcb-5d08d16deaa7.

[11] For example, aspects related to FDI are only tangentially addressed in the National Adaptation Planning (NAP) to Climate Change, while female entrepreneurship is addressed in the National Strategy for Gender Equality 2021-30, but not FDI. Both strategies were published in 2021.

[12] S3 Beyond EU, https://s3platform.jrc.ec.europa.eu/s3-beyond-eu.

3 Trade policy

Effective trade policy is vital for regional integration and alignment with the European Union. This chapter examines how Western Balkan governments use trade policy to ease market access and harness digitalisation for enhanced trade facilitation. The first sub-dimension, trade policy framework, assesses the government's ability to formulate, implement and evaluate trade policy, examining the institutional formulation and co-ordination of trade policy, public-private consultations and the network of free trade agreements. The second sub-dimension, digital trade, focuses on the legal framework for digital trade policy and digital trade facilitation and logistics. The third sub-dimension, export promotion, explores the effectiveness of export promotion agencies and programmes, especially in the context of deepening regional integration.

Key findings

Albania's performance considerably improved in the trade policy dimension, remaining among the best-performing economies in the Western Balkan region. The economy's score increased from 3.3 in 2021 to 4.0 in the 2024 *Competitiveness Outlook* (CO) assessment. The progress was most notable in the areas of trade policy framework and digital trade. While export promotion was not covered under the 2021 assessment cycle, Albania has seen moderate progress in that area (Table 3.1).

Table 3.1. Albania's scores for trade policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Trade	2.1: Trade policy framework			4.8	4.4
	2.2: Digital trade			4.3	3.8
	2.3: Export promotion			3.0	3.6
Albania's overall score		**2.8**	**3.3**	**4.0**	**3.9**

The **key findings** are:

- Albania has improved its customs clearance times, with over 50% of importers completing the process in just two days. Similarly, the economy has relatively quick export clearance compared to others in the Western Balkans.
- Albania was one of the only Western Balkan economies to integrate new environmental measures in trade policy in 2022. While commendable progress has been made, there is a need for better monitoring and evaluation of environmental trade aspects, especially regarding the collection of trade-related environmental data.
- With the introduction of updated guidelines for conducting public-private consultations in 2021, Albania made considerable progress in improving stakeholder engagement and streamlining the process, while making it more participatory and inclusive.
- Albania has modernised customs and trade procedures by implementing electronic signatures, authentication and payment systems. These advances have streamlined processes, reduced administrative complexities, enhanced security, and increased the efficiency and reliability of cross-border transactions.
- Albania has significantly advanced in bolstering customer protection and safety in e-commerce, fortifying consumer interests through pertinent legislation.

State of play and key developments

Albania's overall trade performance has improved since 2021, with the economy exceeding pre-pandemic trade volumes. Albania's trade-to-GDP ratio[1] increased from 35.1% in 2018-20 to 36.9% in 2020-22. Albania's goods exports reached EUR 4.4 billion in 2023 (ALL 440.3 billion), while imports amounted to EUR 8.6 billion (ALL 872.6 billion) (INSTAT, 2024[1]). Fifty-four per cent of Albania's overall exports are categorised as re-exports after processing, indicating active engagement of Albanian companies in global value chains (WTO, 2023[2]). Since the last assessment cycle, there has been a notable increase in trade in services. In 2022, Albania saw a 30% surge in services trade surplus, which amounted to 13% of GDP (European Commission, 2023[3]). Boosted by the tourism sector, Albania's services' export amounted to EUR 4.6 billion (USD 5 billion) in 2022, compared to EUR 2.3 billion (USD 2.5 billion) in imports in 2020 (WTO, 2023[4]; 2021[5]).

While the European Union remains the primary trading partner, accounting for 72.6% of Albania's total trade in 2022 (slightly down from 74.7% in 2020), the economy has further diversified its merchandise export partners since 2020 – most notably, Albania has forged stronger trade ties with other Western Balkan economies. The share of the country's exports to Montenegro and North Macedonia rose during the same period to 7.9% and 5.5%, respectively, in 2022 (WTO, 2023[4]).

Albania's diversified trade linkages helped the economy in navigating the trade disruptions resulting from the Russian war of aggression against Ukraine. In contrast to other Western Balkan economies, Albania has had limited trade exposure to Russia, with merchandise exports to Russia at less than 0.001% of its trade in 2021, and imports at 1.88% (World Bank, 2023[6]). Although Ukraine and Russia serve as crucial suppliers of seed oil and cereal as well as fertilisers, Albania has managed to maintain a consistent supply, albeit at increased costs.

Sub-dimension 2.1: Trade policy formulation

Since 2021, Albania has bolstered its trade **policy formulation framework**, having adopted an overarching strategy and clarifying government unit responsibilities. The National Strategy for Development and European Integration 2021-30 was approved in February 2023. The Ministry of Finance and Economy, in collaboration with the National Trade Facilitation Committee (NTFC), co-ordinates trade policy. Notably, the ministry underwent restructuring in August 2022, leading to the establishment of the new Directorate of Foreign Trade Affairs.[2]

Albania continued to successfully implement its commitments as per the WTO Trade Facilitation Agreement as well as regional-level trade integration measures. The Central European Free Trade Agreement's (CEFTA) Action Plan for the Common Regional Market (CRM) 2020-24 approved by the leaders of six Western Balkan economies in November 2020 is designed to bolster trade collaboration among Western Balkan economies by diminishing trade barriers. Similarly, the National Trade Facilitation Committee's Action Plans for 2017-20 and 2021-23 have seen the successful implementation of measures with most objectives accomplished, particularly concerning the execution of the CEFTA's Additional Protocol 5 on Trade Facilitation and the implementation of the WTO Trade Facilitation Agreement, for which 98% of commitments are reported as implemented at the beginning of 2023 (WTO, 2023[2]). In addition, in December 2021, Albania, together with 69 other WTO Members, concluded negotiations on the Joint Initiative on Services Domestic Regulation[3] and subsequently submitted the improved schedules of services commitments[4] under the WTO General Agreement on Trade in Services in December 2022. The new disciplines on services domestic regulations entered into force in February 2024 during the 13th WTO Ministerial Conference. The new disciplines will ease regulatory measures related to licensing and authorisation requirements, qualifications requirements and technical standards while boosting regulatory transparency and predictability. The disciplines also include a first-ever provision ensuring that authorisation measures do not discriminate based on gender. These new disciplines on services domestic

regulation are estimated to lower trade costs by up to EUR 137.1 billion (USD 150 billion) annually (OECD, WTO, 2021[7]). When adopted, the implementation of these rules is poised to yield broader trade advantages for the Albanian economy, fostering an increase in services trade and enhancing the economy's integration into global value chains (OECD, WTO, 2021[7]).

Furthermore, as the only economy in the Western Balkan region to do so, Albania has been integrating sustainability objectives in trade policy formulation. In June 2022, the Ministry of Finance and Economy, in collaboration with the Ministry of Tourism and Environment, implemented new trade-related environmental measures, effectively banning imports and production of plastic bags.[5] Furthermore, Albania formally submitted its acceptance of the WTO Agreement on Fisheries Subsidies. Albania's acceptance brings the agreement closer to entry into force, once ratified by two-thirds of WTO membership. By accepting the Agreement on Fisheries Subsidies,[6] upon entry into force, Albania will effectively ban subsidies associated with illegal, unreported and unregulated fishing, the exploitation of overfished stocks, or fishing activities in unregulated high seas, which already aligns with Albania's established policy for fishing within its exclusive economic zones.

Despite the economy's progress on integrating environmental sustainability into its trade policy formulation mechanisms, room for improvement remains in adequate monitoring and evaluation. This is especially so with regard to collecting data on environmental aspects of trade, such as emissions generated by trade activities, trade involving environmentally relevant goods, and assistance provided to both fossil fuels and renewable energy. Currently, Albania is unable to assess the impact of trade activities on the environment.

Driven by the government's new guidelines, Albania has seen some advances in the **public-private consultation** process, prioritising interministerial co-ordination and inclusive stakeholder consultations. The new guidelines – implemented in 2021 – offer instructions on the tools and methodologies for effective public-private consultations but also broaden the scope of public engagement to encompass Decisions of the Council of Ministers. This concerted effort aligns different layers of governance, promoting a cohesive and integrated approach to decision making and trade policy formulation that actively involves diverse stakeholders. Effective implementation of these guidelines will be crucial to further Albania's public-private consultations process.

Since the last assessment cycle, the scope of the public-private consultations was also broadened to include policies pertaining to trade in services, namely the implementation of CEFTA's Additional Protocol 6.[7] This broader scope showcases a more inclusive and integrated approach to trade policy formulation, in line with Albania's CEFTA commitments on harmonising and liberalising trade in services.

The monitoring and evaluation of public-private consultations have also improved. Previously conducted on an ad hoc basis, the monitoring process for public consultations now follows a more structured approach. The centre of government issues regular reports on the public consultation process, publishing them semi-annually and annually. In parallel, individual institutions promptly generate and release their semi-annual and annual performance reports on the same e-consultation platform. All the reports are openly accessible to the public and also downloadable, facilitating dissemination.

Sub-dimension 2.2: Digital trade

Albania has a comprehensive **policy framework for digital trade**. Oversight of e-commerce regulations is within the purview of the Commissioner for Consumer Protection, situated under the Ministry of Finance and Economy (MOFE). To promote the growth of e-commerce, in 2022 MOFE established a cross-functional task force that includes representatives from various ministries and government bodies. This task force works in close partnership with the newly formed Albanian E-Commerce Association (AECA) and the German Development Cooperation (GIZ), enhancing co-operation between agencies and drawing upon global best practices and expertise. The main goal of the task force is to draft the 2024-26 Action

Plan “For the facilitation and development of Electronic Commerce in the Republic of Albania”, which was in the final stage of revision at time of writing.

Albania continued to align with relevant EU regulations on e-commerce. In June 2021, the economy has transposed the EU Regulation 2018/644[8] on cross-border parcel delivery services and incorporated it into Albanian legislation.[9] The Law tasks the Electronic and Postal Communications Authority with regulating parcel delivery services, covering tariff transparency, cross-border service assessment and identification of prohibitive tariffs, and specifying information for consumers on cross-border parcel delivery services. Transposing this legislation makes the cross-border parcel delivery process more transparent and streamlined, thereby facilitating cross-border e-commerce and deepening Albania’s regional integration.

Albania has made considerable progress in strengthening customer protection and safety in e-commerce and safeguarding consumer interests in relevant legislation. The government has defined the specific information that online retailers are obligated to provide to their customers. Moreover, to further encourage companies to use e-commerce sales channels, the gradual implementation of essential legislation streamlines electronic payment processes. The government has also mandated that all logistics providers regularly and transparently publish their tariffs, aiming to enhance competition and reduce the costs associated with cross-border parcel delivery.

On top of improving the legal framework for digital trade, the economy also intensified its efforts to engage more companies, especially small and medium-sized enterprises (SMEs), in e-commerce. The Albanian Investment Development Agency (AIDA), whose mandate includes development of and assistance for SMEs, recently released an e-commerce guide in Albanian, offering a readily available resource for local businesses. This guide assists entrepreneurs in assessing the advantages and drawbacks of setting up an online sales platform. It showcases real success stories from businesses and offers hands-on recommendations on initiating e-commerce endeavours.

Albania continued to implement **digital trade facilitation measures**, with some still in the planning stage. Coupled with Albania’s continued implementation of CEFTA’s Additional Protocol 5 on trade facilitation and Additional Protocol 6 on services, applying and extending the scope of digital trade facilitation measures contributed to improvement in the OECD Trade Facilitation Indicators (TFI) 2022 (Figure 3.1). Since the last TFI assessment in 2019, Albania has implemented an electronic signatures and authentication system, electronic payment of customs duties, and specific trade facilitation measures for authorised operators. Through the integration of these electronic systems and technologies, Albania has modernised its customs and trade procedures, alleviated administrative complexities, bolstered security measures, and expedited cross-border transactions with greater efficiency and reliability (Box 3.1).

Albania aims to introduce the New Computerised Transit System (NCTS) to further streamline customs procedures and align them with EU standards. The system is expected to be introduced between 2025 and 2026. While Albania's customs regulations closely adhere to the EU *acquis*, the imposition of scanning fees for every customs declaration remains in contradiction to the Stabilisation and Association Agreement, which explicitly prohibits customs duties or any charges that could have a similar impact on trade between the EU and Albania (European Commission, 2023[3]). Furthermore, the preparatory groundwork for establishing a National Single Window (NSW) advanced through collaborative efforts with international experts and public consultation processes. Legal analysis has been conducted, and procurement procedures have been concluded as part of this ongoing process.[10] The NSW is foreseen to be operational by the end of 2025. Implementing an NSW in Albania would contribute to a more efficient, transparent, and business-friendly trade environment, benefiting both government agencies and the business community involved in cross-border trade (World Customs Organisation, 2017[8]).

Albania uses an electronic customs declaration system, electronic signatures and authentication, electronic payment of customs duties and electronic exchange of sanitary and phytosanitary (SPS) certificates. By integrating these electronic systems and technologies, Albania modernised its customs and

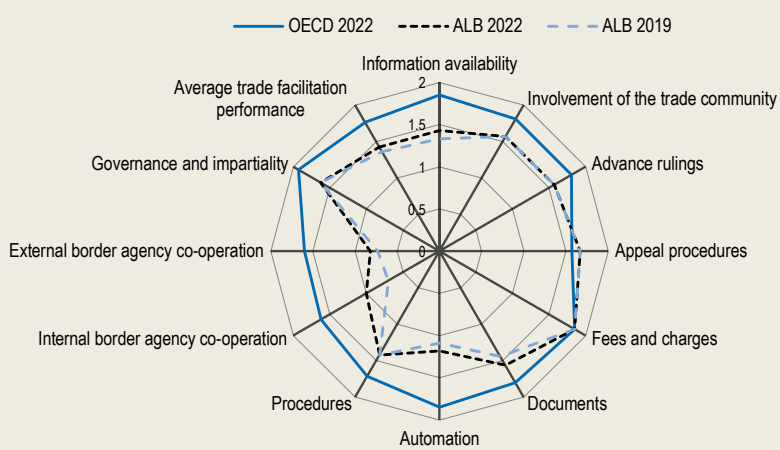
trade processes, reduced administrative burdens, enhanced security, and facilitated faster and more reliable cross-border transactions. Albania now boasts the fastest customs clearance for imports in the region; over 50% of importers can complete the clearance process in as little as two days. Similarly, Albania has the quickest export clearance in the Western Balkans, with the procedures taking less than two days on average (Balkan Barometer, 2022[9]).

The Customs Administration has streamlined import-export procedures, significantly cutting processing times for customs declarations. Currently, the administration provides 34 online services, modernising and digitalising customs processes (Albanian Customs Administration, 2022[10]). The Customs Authority actively collaborates with UNCTAD and receives support from CEFTA and GIZ to implement pre-arrival processing at border points. This co-operative effort aims to enhance efficiency and effectiveness in customs operations. Additionally, the economy has established transit facilitation agreements, notably a recent one with the Albanian Post.[11]

Box 3.1. Albania's performance under the OECD Trade Facilitation Indicators 2022

To assist governments in streamlining their border procedures, reducing trade costs, increasing trade volume, and deriving greater advantages from international trade, the OECD has formulated a set of **Trade Facilitation Indicators (TFIs)**. The TFIs also serve as a tool for economies to visualise the status of policy implementation across different areas and measures outlined in the WTO Trade Facilitation Agreement (OECD, 2022[11]). The agreement, which came into effect on 22 February 2017 following ratification by two-thirds of WTO members, includes provisions aimed at accelerating the movement, release, and clearance of goods, including those in transit. Additionally, the Trade Facilitation Agreement (TFA) outlines measures for fostering effective co-operation between customs and other relevant authorities on matters related to trade facilitation and customs compliance. The agreement also incorporates provisions for technical assistance and capacity building in this domain.

Figure 3.1. OECD Trade Facilitation Indicators



Notes: These indicators pinpoint areas for improvement and enable the assessment of potential reforms' impact. Covering a comprehensive range of border procedures, the OECD indicators apply to over 160 countries, spanning various income levels, geographical regions, and developmental stages. Utilising estimates derived from these indicators allows governments to prioritise trade facilitation initiatives and strategically channel technical assistance and capacity-building efforts for developing nations.
Source: OECD (2022[11]).

StatLink https://stat.link/94go7d

Since 2019, Albania improved in the areas of: information availability, involvement of the trade community, appeal procedures, fees and charges, simplification and harmonisation of documents, automation, streamlining of procedures, and internal and external border agency co-operation. Albania exceeded the OECD area average in appeal procedures and reached the OECD level in fees and charges. In 2022, Albania also outperformed the other assessed Western Balkan economies in three of eleven areas covered by the TFIs: information availability, appeal procedures, and fees and charges. While none of the scores has deteriorated since the last TFI assessment, some remained stagnant: involvement of the trade community, advance rulings, appeal procedures, fees and charges, procedures and governance and impartiality.

In the area of adherence to international standards and WTO agreements on digital trade facilitation, compared to other Western Balkan economies Albania positioned itself as a leader, second only to Montenegro, having ratified or adhered to eight international instruments for digital trade. Albania participates in the WTO Joint Statement Initiative (JSI) on E-Commerce, and is also one of the only economies (together with Montenegro) that adhered to the WTO Information Technology Agreement. On a most-favoured-nation basis, the Agreement removes tariffs for a broad range of IT products, including computers and telecommunications equipment. However, looking beyond the Western Balkans, Albania still has not adopted or adhered to many of the instruments relevant to the policy areas covered by the JSI. For instance, Albania has yet to ratify the leading instruments on electronic transaction frameworks, such as the legally binding UN Electronic Communications Convention and non-binding United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Commerce. These tools encourage standardisation of national laws and regulations governing e-commerce transactions. The Convention and the Model Law establish three essential principles for e-commerce legislation: non-discrimination, technological neutrality, and functional equivalence between electronic communications and traditional paper documents (OECD, 2021[12]). Despite existing legislation in place for consumer protection in e-commerce, Albania has not adhered to the OECD Council Recommendation on Consumer Protection in E-commerce to safeguard consumers involved in digital trade. Adherence would help to ensure conformity with the highest standards of consumer protection.

However, despite progress on facilitating digital trade, there is no recognised certification authority issuing digital certificates to traders to conduct electronic transactions. The presence of a reputable certification authority would help to build trust among traders and other stakeholders. Digital certificates serve as a trusted credential, instilling confidence in the integrity and authenticity of electronic transactions. Similarly, Albania has not implemented the electronic application and issuance of import and export permits. Electronic exchange of customs declarations is still in the planning stage, while electronic exchange of certificates of origin has not been introduced (United Nations Regional Commissions, 2023[13]).

Table 3.2. OECD Digital Trade Inventory

	Albania	Description	Albania's adherence
E-transactions framework	JSI Participant	WTO Joint Statement Initiative comprises discussion on trade-related aspects of e-commerce, including cybersecurity, privacy, business trust, transparency, and consumer protection.	✓
	UN Electronic Communication Convention	Convention encourages standardisation of national laws and regulations governing e-commerce transactions.	✗
Consumer protection	The OECD Recommendation on Consumer Protection in E-commerce	The OECD Recommendation on Consumer Protection in E-commerce provides guidelines and recommendations for member countries to enhance consumer protection in the context of electronic commerce. The recommendations typically cover various aspects of online transactions to ensure that consumers can engage in e-commerce with confidence and trust.	✗
Paperless trading	WTO Trade Facilitation Agreement	The Trade Facilitation Agreement (TFA) includes clauses aimed at accelerating the transit, release, and clearance processes for goods, encompassing those in transit, and outlines measures for fostering efficient collaboration between customs and relevant authorities concerning trade facilitation and customs compliance matters.	✓
Cross-border data transfer/privacy	Convention 108	Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data is the first legally binding international treaty dealing with privacy and data protection.	✓
	2001 Additional Protocol to the Convention	The Additional Protocol reinforces the protection of individuals' rights in the context of automated processing of personal data and encourages international co-operation on privacy and data protection matters.	✓
	Convention 108+	2018 Amending Protocol to Convention 108 updates the provisions on the flow of personal data between signatories.	✓
Cybersecurity	The Convention on Cybercrime of the Council of Europe (Budapest Convention)	An international treaty aimed at addressing crimes committed via the Internet and other computer networks. It serves as a framework for international co-operation in combating cyber threats and promoting a harmonised approach to cybercrime legislation.	✓
Telecommunications	WTO Telecommunications Reference Paper	The WTO Telecommunications Reference Paper serves as a framework that encourages fair competition and promotes the liberalisation of the telecommunications sector, providing guidelines to facilitate open markets and promote efficient global communication services.	✓
Goods market access	The Information Technology Agreement	The Information Technology Agreement, on a most-favoured-nation basis, removes tariffs for a broad range of IT products, including computers and telecommunication equipment.	✓
	Updated ITA concluded in 2015	Covers the expansion of products included in the Information Technology Agreement by eliminating tariffs on an additional list of 201 products.	✓

Source: OECD (2021[12]).

Sub-dimension 2.3: Export promotion

Albania has a well-developed institutional framework for export promotion, with the Albanian Investment Development Agency as the **export promotion agency** responsible for its implementation. Like many Western Balkan export promotion agencies, AIDA operates with a comprehensive mandate that extends beyond export promotion to encompass various facets of economic development. This includes the

facilitation of both inward and outward foreign investments, the promotion of domestic investments, the development of SMEs, and the advancement of regional development initiatives.

Within the realm of export promotion, AIDA's primary objective is to foster the expansion of Albania's presence in international markets. This involves strategic efforts to penetrate new export markets and showcase the capabilities of domestic brands.

The government created an interministerial and inter-agency working group to draft the Programme "For Promoting Exports and Internationalization 2024-27",[12] demonstrating a strong co-ordination mechanism and broad inter-institutional co-operation in formulating export policies. The group is chaired by the Deputy Minister of Finance and Economy and involves 21 members, including three from AIDA.

AIDA actively facilitates and co-ordinates the involvement of companies in both domestic and international trade fairs, thereby providing a platform for businesses to showcase their products on a global scale. In its efforts to boost exports, the agency strategically focuses on key sectors, including the agro-processing industry, leather and textile sectors, and tourism. This constitutes progress since 2018, when AIDA lacked a strategic sectoral orientation (OECD, 2018[14]).

More efforts are needed to diversify the economy's export base. Albania's export sector is predominantly dependent on products characterised by modest technological content and lower added value. This includes items such as garments and leather products, where the economy possesses a competitive advantage, alongside minerals, metals, and agro-food products (OECD, 2019[15]). While the Business Development and Investment Strategy (2021-27) seeks to pinpoint the primary factors contributing to a competitive advantage through in-depth sectoral assessments to identify higher value-added exports, little progress has been made in assisting companies to shift to more sophisticated exports. Placing more emphasis on digitalisation of export promotion services could help to diversify Albania exports and deepen the economy's integration into global value chains. While the e-Albania[13] initiative has successfully digitalised numerous government services and streamlined access to support programmes, AIDA itself is lacking in terms of creating digital solutions and tools to overcome information barriers and build capacity to switch to higher value added exports (OECD, 2022[16]).

Despite its commitment to export promotion, AIDA's support services for exporters are primarily centred on capacity building, with limited targeted assistance for SMEs. Given that SMEs constitute 99.8% of active enterprises in Albania, tailoring assistance specifically to SMEs that have not yet started exporting could facilitate their international market entry (INSTAT, 2021[17]).

While Albania advanced its legal framework for export promotion, little progress was made in improving AIDA's implementation capacity. The number of staff allocated to export promotion activities went from 3 in 2018 to 4 in 2022. Similarly, the ratio of AIDA's budget to the total value of exports in the economy went from 0.0113% to 0.0005% in that same period. Allocating more resources to AIDA to effectively execute its export promotion mandate would positively contribute to the economy's export volumes. A recent study indicates that a 1% increase in the budget allocated to export promotion translates to a 0.074% exports volume growth and a 0.065% GDP increase (International Trade Center, 2016[18]).

Export promotion programmes primarily rely on funding from international donors, who contribute financial support and offer technical assistance to exporters. However, the implementation capacity of AIDA in export promotion programmes is constrained by its broad mandate. Despite these challenges, potential programme beneficiaries stay well informed about AIDA's activities through its dedicated website, email communications, and social media channels. Notably, prospective beneficiaries must adhere to specific environmental criteria to participate in these programmes. To ensure efficacy, export promotion initiatives undergo thorough monitoring and evaluation, with adjustments made based on the results outlined in annual reports. This reflects a commitment to policy evaluation and performance assessment.

Apart from a potentially limited reach of Albania's export promotion efforts that fail to specifically target exporters, 55% of companies are not generating any revenue from exports in 2022, which may also be attributed to other factors influencing low export performance. These factors could include challenges related to market access, trade barriers, insufficient diversification of products, or inadequate competitiveness on the international stage. The statistics indicate a decrease from 2019, when 60% of companies reported generating none of their revenues through exports, suggesting a need for a comprehensive assessment of the various impediments hindering export growth in the economy (AmCham Albania, 2019[19]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania made considerable strides in implementing CO 2021 Recommendations (Table 3.3). Strong progress was achieved in strengthening trade policy formulation framework and its co-ordination mechanisms, establishing monitoring and evaluation guidelines for public-private consultations, and improving stakeholder participation and inclusivity in the trade policy-making process. Nevertheless, room for improvement remains in establishing a robust strategy for digital trade.

Table 3.3. Albania's progress on past recommendations for trade policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Monitor and evaluate trade policy-making co-ordination mechanisms to guide policy makers in improving co-ordination and boosting consultation with an increased number of stakeholders. Also ensure that the mechanisms can be adjusted based on evaluation results	Albania further strengthened its policy formulation framework, which includes a dedicated ministry and a specialised department within the ministry - Directorate of Foreign Trade Affairs, which has been established in August 2022. It holds the mandate of formulating, overseeing, and facilitating policies aimed at enhancing the business and investment environment. Furthermore, it is entrusted with the development of trade policies within the context of the economy's integration into the European Union. The Directorate collaborates closely with a wide array of stakeholders to ensure a participatory approach in trade policy formulation. The institutional co-ordination mechanism remains unchanged, with the Ministry of Finance retaining its role as the main co-ordinating body. Adjustments to the co-ordination mechanism for trade policy formulation are being driven by the results of previous evaluations.	Strong
Establish mechanisms for evaluating and monitoring public-private consultations to regularly assess their degree of openness and transparency	Starting in 2021, notable enhancements have been observed in the process of public-private consultations. The government has introduced updated guidelines that not only offer practical instructions regarding consultation tools, methodologies, stakeholder mapping and focused consultations, but also extend the range of public consultations to encompass Decisions of the Council of Ministers. Furthermore, these guidelines establish a framework for ensuring the seamless co-ordination of the consultation process with other mechanisms, including advisory bodies, consultative councils, integrated planning management groups, and sectoral steering committees.	Strong
Implement a policy to increase stakeholder participation: invite stakeholders who may be reluctant or unaware to become more involved in the legislative and regulatory process for trade, and build their capacity to participate	By publishing the updated guidelines for conducting public-private consultations, Albania made considerable progress in increasing stakeholder participation. At the time of writing there are 883 stakeholders registered on the e-consultation platform, up from 870 in August 2022. The new guidelines mostly follow the approach of the 2023 EU Better Regulation Guidelines on stakeholder consultations.	Strong
Finalise the e-commerce action plan	In 2022, the Ministry of Finance and Economy took steps to foster the expansion of e-commerce by forming an interdisciplinary working group, comprising diverse ministries and government entities. Collaborating closely with the Albanian Electronic Commerce Association and GIZ, they aim to bolster co-operation among governmental agencies and draw from international best practices and knowledge. The primary objective of this team is to draft the "2022-23 Action Plan for the Promotion and Advancement of Electronic Commerce in the Republic of Albania". While Albania does have a dedicated e-commerce law, it still lacks a solid strategy to lead the digitalisation of commerce.	Moderate

The way forward for trade policy

Despite Albania's notable progress, there is still room for improvement in trade policy. Aligning with international best practice requires focused efforts to refine policies, ensure regulatory compliance and strengthen institutional capacity. Ensuring close convergence with international and EU standards will require efforts in the following areas:

- **Start collecting data on environmental aspects of trade, such as data on the sustainability impacts of trade policies.** Doing so, governments can better understand the environmental consequences of their trade policies and practices. This can include the carbon emissions from trade activity, trade in environmentally related goods, and support to fossil fuels and renewable energy, as well as other negative environmental effects resulting from trade. It allows policy makers to assess the true environmental cost of trade. Promoting transparency, incorporating environmental trade data into policy making, and periodic assessments are key steps. Additionally, capacity building, public awareness campaigns, and support for sustainable trade practices should be integrated into the strategic policy framework. Collecting and utilising this data is pivotal to achieving a balance between economic growth and environmental sustainability, which would demonstrate Albania's commitment to responsible and sustainable growth. The OECD has developed trade and environment indicators (Box 3.2), which aim to provide insights into the correlation between domestic environmental regulations and international trade policies (OECD, 2019[20]). By collecting and analysing such data, Albania could better understand the nexus and the complementarity between its environmental policies and trade. This would enable the formulation of more targeted national and regional policies geared towards mitigating the environmental impact of trade.

Box 3.2. OECD trade and environment indicators

Trade and environment are becoming increasingly interlinked, as greening efforts continue to extend to trade policies and policies directly or indirectly affecting trade. The indicators developed by the OECD aim to translate the interaction between trade and the environment into a basis for empirical assessment. The main goals of the indicators are to assist policy makers in monitoring advances in the alignment of trade and environmental policies and to identify potential conflicts of interest.

The indicators cover the following data:

- *carbon emissions embodied in trade* – the amount of carbon emissions from fossil fuel combustion embodied in imports and exports in megatonnes of CO_2
- *raw materials embodied in trade* – total raw materials embodied in final consumption for each economy
- *trade in environmentally related goods* – the amount of exports and imports of environmentally related goods as defined in the Combined List of Environmental Goods
- *support to fossil fuels and renewable energy* – support to fossil fuels reports the amount provided by governments to fossil fuel producers and consumers
- *trade in waste and scrap* – amount of exports and imports of waste and scrap, in current USD and in kilogrammes
- *nutrient balances of exported grains* – the difference between the quantity of nutrient of nitrogen and phosphorus inputs entering an agricultural system and the quantity of nutrient outputs leaving this system – for exports of nine cereals and oilseed as a share of the total nutrient balance.

Examining the connection between domestic environmental regulations and international trade policies is crucial for gaining a deeper comprehension of the necessity for mutual complementarity. The OECD compilation of trade and environment indicators seeks to offer valuable perspectives on this association, contributing to ongoing discussions about the interplay between trade and environmental policies.

- **Further modernise the IT system for customs with online services and new applications in order to facilitate customs procedures.** Finalising the drafting of the legal and regulatory framework; the governance and operational model; the revenue model and the structure of payments for the functioning of the National Single Window; designing of the architecture and technical and functional specifications for the NSW system; and agreements on the inclusion of relevant institutions in the NSW will all be crucial not only for modernising the customs administration, but also to improve trade performance. Moreover, completing the implementation of the New Computerised Transit System (NCTS) would further contribute to streamlining customs procedures, reducing transit times, enhancing trade efficiency, and minimising the risk of fraud or errors in cross-border trade, ultimately promoting economic growth and facilitating international trade in Albania.
- **Reinforce AIDA's implementation capacity**. The majority of export promotion initiatives relies on financial support from international donors, who also offer exporters technical assistance and training. However, due to the expansive scope of AIDA's responsibilities, its ability to effectively execute export promotion efforts is constrained by a low budget and low number of staff.
- **Broaden the reach of export promotion programmes and target non-exporting companies, with a focus on SMEs.** Considering the crucial role SMEs play in driving Albania's economic growth, export promotion efforts should be amplified. Customising these initiatives to specifically tackle the unique challenges encountered by SMEs in exporting their goods and services would not only enhance inclusivity but also contribute to the development of a more resilient and dynamic economic environment. Given the small percentage of exporting SMEs in Albania, introducing SME-targeted assistance would help to close the gap between large companies and SMEs, and could potentially lead to improved linkages between SMEs and multinational companies present in the economy. Broadening the reach of export promotion programmes to include non-exporting companies and SMEs can lead to a more diversified and robust export ecosystem. It not only helps individual businesses expand their market reach but also can contribute to overall economic growth by increasing the number of companies participating in international trade. Expanding the scope of initiatives beyond the traditional beneficiaries who are already engaged in exporting activities would boost the exports' participation in GDP. Albanian non-exporting companies, often referred to as potential exporters, may lack awareness, resources, or the knowledge necessary to enter international markets. Therefore, by extending the reach of export promotion programmes to this group, the aim is to provide them with the support, training, and resources needed to explore and enter global markets.

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Notes

[1] Trade-to-GDP ratio is estimated as an economy's trade of goods and services (average of exports and imports, balance of payments) divided by GDP, on the basis of data for the three latest years available (WTO, 2023[21]).

[2] The Department comprises three distinct units: the unit tasked with managing Free Trade Agreements (FTAs) and trade policy; the unit responsible for matters related to the World Trade Organization (WTO); and the unit responsible for conducting trade policy analysis.

[3] The regulations outlined in the Reference Paper on Services Domestic Regulation pertain to measures concerning licensing requirements and procedures and qualification requirements and procedures, as well as technical standards that impact trade in services.

[4] Albania has submitted to the WTO Secretariat the acceptance document for the Joint Initiative on Services Domestic Regulation.

[5] The measure dictates the prohibition of the use, market placement, production, importation, or introduction of plastic bags and oxo-degradable and oxo-biodegradable plastic bags.

[6] The WTO Agreement on Fisheries Subsidies, adopted at the 12th Ministerial Conference (MC12) on 17 June 2022, marks a major step forward for ocean sustainability by prohibiting harmful fisheries subsidies, which are a key factor in the widespread depletion of the world's fish stocks.

[7] CEFTA Additional Protocol 6 (AP6) on Trade in Services was adopted in 2019 and entered into force on 11 January 2021. This document extended the principle of free trade within CEFTA to the service sector. AP6 provides a framework for the removal of restrictions on trade in services, in addition to the previously abolished restrictions on trade in industrial and agricultural products.

[8] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018R0644.

[9] It was incorporated into Albanian legislation through the Instruction of Minister of Infrastructure and Energy No. 5 of 25.6.2021, titled "On the approval of the regulation on cross-border parcel delivery services".

[10] In February 2023, a public consultation meeting with business associations introduced the NSW technical system and draft legal changes proposed to the Albanian Customs.

[11] “Co-operation agreement for the summary declaration of entry/exit at customs" No. 7927/10 has been implemented in December 2023. The Albanian Post module necessitates the creation and execution of the postal declaration, along with its integration into the systems of the Universal Postal Union.

[12] To complement drafting, the working group prepared an Export Questionnaire. The survey, distributed widely through various channels, assessed the export capacity of 325 companies, leading to the identification of measures and services to support SMEs in their export efforts. The results were analysed by AIDA and submitted to the Ministry of Finance and Economy for consideration in the programme’s drafting.

[13] The E-Albania portal functions as a centralised hub for government services, enhancing the overall accessibility of information to the public.

4 Access to finance

Access to finance is crucial for developing the private sector in all economies. This chapter, along with three sub-dimensions, explores the necessity for businesses to be able to access financing sources to start up, grow, diversify and ultimately contribute to overall competitiveness. The first sub-dimension, bank financing framework, assesses the regulatory framework of bank financing, including the quality of banking industry legal framework, registration and information systems and the policies making bank finance inclusive. The second sub-dimension, access to alternative financing sources, focuses on the various means that businesses can get financing, encompassing access to capital markets, private equity as well as factoring and leasing. The third sub-dimension, digital finance, delves into the effects of digital solutions on payment services and the emergence of new avenues for business finance.

Key findings

Albania has substantially improved its access to finance score since the 2021 *Competitiveness Outlook* (CO)– from 2.5 to 3.0 (Table 4.1). Most notably, Albania exhibits strong performance in the bank-financing framework, securing the second-best regional score of 3.7. Furthermore, the economy has made notable efforts in developing digital finance, ranking also as the second-best performer in the region in this aspect.

Table 4.1. Albania's score for access to finance

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Access to finance	3.1: Bank financing framework			3.7	3.5
	3.2: Access to alternative finance sources			2.3	2.4
	3.3: Digital finance			3.0	2.3
Albania's overall score		**2.5**	**2.5**	**3.0**	**2.8**

The **key findings** are:

- Albania implemented several regulatory changes to harmonise its banking industry's legal framework with Basel III standards, and these have contributed to enhancing the financial stability of the banking system. Strengthening liquidity requirements has contributed to enhanced liquidity ratio of banks – with 300.4% in 2022, Albania's ratio is nearly twice the euro area average (163.8%). However, the potentially related low level of corporate credit provided by the commercial banks, 34.0% of GDP while 45.4% for the Western Balkan average, indicates that Albania has a significant share of financially constrained companies.
- Access to banking finance for small and medium-sized enterprises (SMEs) is hindered by stringent collateral requirements, limited credit guarantee schemes, and the absence of policies supporting microfinance. Consequently, SMEs constitute only 29.6% of total loan recipients from commercial banks in 2022, a figure much below the Western Balkan average of 39.0%. This discrepancy underscores the need for targeted interventions to improve SME financing conditions, such as permanent credit guarantee schemes.
- Alternative forms of financing remain absent as private equity and crowdfunding are not regulated by any legal framework. However, stock and debt market development has begun following recent regulatory changes, outlining various aspects of the capital markets' legal framework.
- Albania has made good progress in strengthening its legal framework for digital payments as part of its Single Euro Payments Area (SEPA) integration efforts. A series of regulations allowed Albania to align with the EU's Second Electronic Money Directive (EMD2) licensing for e-money institutions, providing the conditions facilitating electronic money issuance.
- The progression of digital finance in Albania is limited by the relatively low adoption rates of digital payment technologies stemming from the reluctance of commercial banks to implement open-banking protocols. In 2021, only 34.5% of the Albanian adult population reported having made or received a digital payment, which remains below the Western Balkan average (61.7%). The data also suggest Albania may be struggling with a digital skills deficit, hindering the widespread adoption of digital payment methods.

State of play and key developments

Albania's financial sector remains strongly bank-dominated; in the last quarter of 2022, the banking sector stood for 91% of total financial system assets (Bank of Albania, 2022[1]) (93% in 2017 (Bank of Albania, 2017[2]) (Bank of Albania, 2017[2])),), while this figure is 50% in the euro area (European Central Bank, 2023[3]). Regarding the banking industry, consolidation continued with the merger of the Alpha Bank into OTP Bank Albania, which reduced the number of banks in Albania to 11 (16 in 2013). Still, concentration in the banking industry remains stable as the top three banks own 57.5% of assets in 2022 (56.2% in 2013), substantially less than in the Western Balkan region (68.8%) or the EU (71.5%).

The total credit provided by the Albanian financial sector has been receding over the past decade. In 2013, domestic credit to the private sector was equivalent to 39.8% of GDP, while only 34.0% in 2022. This figure is substantially higher in the Western Balkan region (46.4% in 2022) and the European Union (69.5%) (World Bank, 2022[4]).

Sub-dimension 3.1: Bank financing framework

Albania's legal framework for the **banking industry** is moderately developed, as Basel II standards are fully implemented and harmonisation with Basel III is ongoing. Following the Supervisory Review and Evaluation Process (SREP) from the European Banking Authority, several legislation and regulation updates entered into force in 2022 to enhance the overall resilience and stability of the banking sector. Recent regulatory changes in the banking sector have addressed various crucial aspects, including adjustments to the leverage ratio as a non-risk-based backstop for maintaining a minimum level of capital. Amendments to regulations governing risk management from large exposures emphasise effective risk practices, while guidelines on the Internal Liquidity Adequacy Assessment Process underscore the importance of sufficient liquidity buffers. Additional changes related to the capital adequacy ratio and net stable funding ratio aim to enhance banks' overall resilience and stability.[1] Notably, the general regulatory improvement regarding banking supervision coincides with the robust liquidity of Albanian banks, with a liquidity coverage ratio of 300.4%, surpassing the euro area (163.8%) and the Western Balkans (256.6%) in 2022 (International Monetary Fund, 2023[5]). However, disclosure requirements, standards on interest rate risk in the banking book, and most capital requirements – especially those related to credit and market risks – remain unharmonised with Basel III standards.[2]

Regarding collateral requirements, they remain relatively stringent in Albania. While intangible assets can be used to secure loans, the legal framework does not fix a threshold under which SME lending can benefit from lighter requirements, which could make access to traditional lending more challenging for smaller businesses. However, it is worth noting that existing regulations aim to incentivise SME lending by mitigating banks' provisioning requirements through decreased risk-weight coefficients specific to SME loans.[3]

While the cadastre system is well-developed, the Albanian **registration and information** systems are not comprehensive in terms of registering assets and credit information systems. The State Cadastre Agency automatically updates cadastral information for the entire Albanian territory with each transaction. This information is accessible on line to authorised institutions approved by the State Cadastre Agency. Regarding the Albanian registry of security pledges, it is digitalised but accessible only for authorised persons, while a version providing public access is being developed. Moreover, the registration of securities is subject to discrepancies. While real estate is registered by the State Cadastre Agency, securities should be registered by the Albanian Securities Register (ALREG) under the Law on Capital Markets. However, banks often register securities as collateral with the Security Bar Registry, which lacks the necessary licence and technical capacity for such registrations, leading to the potential legal nullity of contracts and exposing banks to default risks for credits based on securities collateral. Additional challenges arise from incomplete registration of assets from the agricultural sector because there is not an

institution in Albania that comprehensively registers ownership of livestock, agricultural business assets, or equipment for greenhouses across all regions. Another issue arises with certain motorised vehicles, including agricultural vehicles, as debtors lack proper ownership documentation for these moveable assets.

Albania's primary credit information service is the Credit Register, which is managed by the Bank of Albania and serves both financial institutions and the public. Financial institutions offering loans must report the comprehensive history of an individual's or business's credit and loan-related activities. However, the system currently lacks information on non-regulated entities such as utilities. The Credit Register provides online data to financial institutions about existing or potential borrowers, contingent on obtaining written consent from the borrower. Finally, credit information data in Albania are safeguarded through stringent measures to maintain confidentiality, prevent unauthorised access, and mitigate the risk of data destruction or loss, ensuring the security and integrity of the credit information system.

Bank finance remains hardly **inclusive,** either for its citizens or businesses. Regarding accessibility – the inclusion of bank finance for citizens – Albania's bank finance penetration remains limited, with only 44.2% of the population holding a bank account in 2021; that is the lowest figure in the Western Balkan region, where the average stands at 71.2% (International Monetary Fund, 2023[5]). To improve the accessibility of bank finance, the National Bank of Albania has begun implementing the 2022-27 national strategy for financial education to raise financial awareness among primary school pupils, high school students and the general public; one example is the Global Money Week annual event (Bank of Albania, 2023[6]). Private entities, such as the Sparkasse Foundation, also offer some training on financial literacy for SMEs and farmers. Overall, however, actions remain uncoordinated.

Regarding the accessibility of bank finance for all businesses, small businesses struggle **to access bank finance**. SMEs only represent 29.6% of total loan recipients from commercial banks in 2022, while the figure is 39.0% in the Western Balkans and higher than 60% in comparable economies from the EU, such as the Slovak Republic (60.5%) or Latvia (76.0%) (OECD, 2022[7]). The temporary credit guarantee schemes, i.e. the First and Second Guarantee Schemes approved by the Council of Ministers in April and May 2020, have not been made permanent because of their significant strain on the government's budget, despite a positive impact on the liquidity and profitability of Albanian firms (World Bank, 2021[8]).[4] Despite the absence of a national guaranteed scheme, some alternatives remain available. Since 2015, the German Development Bank (KFW) Rural Credit Guarantee Fund (RCGF) has invested EUR 33.8 million to provide portfolio guarantees, but only for Albanian farmers and rural entrepreneurs without sufficient collateral. In 2019, the Albania Agribusiness and Tourism Support Facility (AATSF), funded by the European Bank for Reconstruction and Development (EBRD), supported up to EUR 35 million in eligible loans for SMEs specifically in the agriculture and tourism sectors, with risk-sharing through Raiffeisen Bank Albania.[5] Finally, it should also be mentioned that SMEs increasingly benefit from programmes offered by the Albanian Investment Development Agency (AIDA).

Small businesses in Albania are gradually gaining access to microfinance, supported by a robust legal framework. However, the sector's growth is hindered by stringent licensing criteria, resulting in the operation of only seven institutions in 2022 compared to six in 2019. The loans provided by these institutions accounted for 0.6% of GDP in 2022, compared to 0.37% in 2019 (International Monetary Fund, 2023[5]). Albania has implemented policies such as interest rate caps to support the expansion of microfinance. Nonetheless, platforms providing information or services on microfinance for SMEs are not currently operational, potentially hindering the diffusion of microfinance in Albania.

Sub-dimension 3.2: Access to alternative finance sources

Alternative financing sources for banking remain limited in Albania, maintaining the economy's dependency on traditional banking.

The Albanian **capital markets'** legal framework has limited coverage. The Albanian Securities Exchange (ALSE) only deals with government bonds.[6] However, Albania has implemented substantial legal efforts to develop capital markets through a dedicated project (Box 4.1). Moreover, recent initiatives aim to implement measures that support companies going public. In April 2023, the Council of Ministers approved a capital market development policy created by the Albanian Financial Supervisory Authority (AFSA) with the Ministry of Finance and the Bank of Albania. Notably, it aims to list state-owned companies to increase demand from private pension funds and deepen the secondary market for government securities.[7] In June 2023, the microfinance entity Noa issued the first Albanian corporate bonds valued at ALL 500 million (around EUR 4.95 million). In July 2023, ALSE approved the listing for trading these first private debt securities on its platform. Requests to buy or sell the bonds can be submitted through the investment intermediaries' members of the ALSE. Despite these developments, Albania is the only Western Balkan economy, as well as Kosovo, that does not have any publicly listed companies.

Box 4.1. Financial Sector Strengthening Albania project

The Swiss State Secretariat for Economic Affairs (SECO) funded the Financial Sector Strengthening Albania project between January 2015 and May 2023. The project aimed to enhance the Albanian Financial Supervisory Authority's (AFSA) capacities to address immediate risks and prepare for capital market developments.

During Phase 1 of the project (2015-18), the primary focus was establishing robust regulations and supervision methods for the burgeoning investment funds sector. This phase resulted in new legislation tailored for capital markets and an overhaul of the organisational structure, staffing plans, and remuneration policies. Additionally, Phase 1 addressed the need for AFSA's capacity development in anticipation of regulating and supervising corporate and municipal bond issuance, laying the groundwork for a more diversified and resilient financial sector.

During Phase 2 (2019-23), AFSA made significant strides in overseeing capital markets and promoting their development. A key achievement was the enactment of Law no. 62/2020, "On Capital Markets", in September 2020, along with 16 regulations introduced by AFSA between December 2020 and June 2023. These regulations addressed various aspects of the capital markets' legal framework, such as prospectus requirements, transparency for listed companies, capital adequacy, operational activities of investment firms, market abuse prohibition, licensing, operational requirements for financial entities, and auditor appointments for investment firms. The project's scope expanded to include risk-based supervision, with AFSA developing prudential reporting on capital market intermediaries. The authority also reinforced its capabilities in inspecting, investigating, and enforcing regulations related to securities markets and investment funds. Market Surveillance Systems were upgraded to improve oversight. Additionally, AFSA focused on raising awareness and promoting financial education among potential issuers and investors. Simultaneously, AFSA enhanced its supervisory role in the insurance sector. This involved implementing new tools for insurance risk indicators, outlining a Solvency II Roadmap, and drafting a new Insurance Law to boost consumer confidence and ensure the stability of the broader financial ecosystem.

Source: Swiss Secretariat for Economic Affairs (2023[9]).

Venture capital and **Business Angel Networks (BAN)** are currently absent in Albania, with no existing regulations or policies dedicated to their development. However, while no longer existent, some schemes had been in place to mitigate the absence of these financing sources. For example, the Albanian Government, in co-operation with German Development Cooperation (GIZ) and the Swedish International Development Cooperation Agency (Sida), established the Albanian Innovation Challenge Fund, endowed

with EUR 7.6 million over the period 2018-22, as a means of addressing the issue of access to finance for innovative companies at an early stage of development (European Union, 2021[10]).

Although **factoring and leasing** are supported by robust legal frameworks, their growth has been limited, possibly due to ongoing challenges in financial education and the lack of policy initiatives encouraging businesses to utilise these financing options. Leasing volumes have been consistently increasing since 2015. However, they only account for 0.61% of GDP in 2022, a slight increase from 0.57% in 2015, while this figure was close to 2% of the GDP of the EU in 2022 (Leaseeurope, 2023[11]). On the other hand, factoring volumes have remained very marginal, representing only 0.03% of GDP in 2022 (0.02% in 2015), while factoring turnover was equivalent to 12.6% of GDP in the EU in 2022 (EU Federation of Factoring & Commercial Finance, 2023[12]).

Factoring and leasing activities operate within a comprehensive legal framework in Albania. In March 2023, the legal framework of both activities was strengthened by the amendments made to the “Risk Management in the Activity of Non-bank Financial Institutions” regulation; these outlined rules to govern large exposures, prohibited transactions with related parties (only factoring), introduced contract classification based on payment delays, and mandated reserve funds for potential losses from contract failures.

Sub-dimension 3.3: Digital finance

In line with the Albanian National Retail Payments Strategy implemented from 2018 to 2023, Albania has made good progress in strengthening its legal framework for **digital payments** as part of its SEPA integration efforts. In the period between December 2021 and March 2022, a series of regulations were implemented, stemming from the “Law on Payment Services”. Achieving alignment with the EU's Second Electronic Money Directive (EMD2) licensing for **e-money institutions,** thereby facilitating electronic money issuance, Albania has extended banks' payment services to Third Party Payment Services Providers (TPPs) with appropriate security requirements by complying with the Second Payment Services Directive (PSD2).[8] Moreover, Albania has continued to take steps to bolster safety measures in digital payments. Most notably, in January 2024 it implemented regulations enforcing the “Strong Customer Authentication and Common, Open, and Secure Standards of Communication”.[9] In tandem with the improving legal framework, the digital payment and e-money services sector has continued to expand in Albania, with the number of firms reaching 19 in 2022 compared to only 13 in 2019.

While strides have been made in establishing the legal framework for digital payments, their uptake remains constrained due to the reluctance of commercial banks to implement open-banking protocols mandated by the "Law of Digital Payments" until December 2023. In 2021, only 34.5% of the Albanian adult population reported having made or received a digital payment (World Bank, 2022[4]), which remains below the Western Balkan average (61.7%) and significantly lower than the EU (93.0%). The data suggest that Albania may be struggling with a digital skills deficit, hindering the widespread adoption of digital payment methods. The overall low penetration of digital payments poses several challenges, ranging from increased business transaction fees to hindered financial accessibility and higher remittance costs for citizens. This is particularly crucial for Albania considering the importance of remittance inflows standing at 9.2% of GDP in 2022 (World Bank, 2024[13]). Increased digitalisation of the financial system can also promote the use of bank accounts (Khera et al., 2021[14]).

Albania currently lacks a legal framework for **crowdfunding**, leaving it without active operators. Nevertheless, there is a robust legal structure for **Distributed Ledger Technology (DLT) for financing** backed by both the “Law on Capital Markets“ and the “Law on Financial Markets based on Distributed Ledger Technology”, which offer alternative ways to access finance. In particular, the legislation on Security Token Offerings (STOs) and Initial Coin Offerings (ICOs) includes exempting a prospectus publication for public offer values below EUR 1 million for STOs and below EUR 8 million for ICOs.[10] These digital finance tools may offer smaller businesses an alternative means to access finance, allowing them

to circumvent traditional banking requirements and regulatory requirements associated with capital markets (OECD, 2019[15]). It should be noted that Albania has developed these new investment avenues in line with the security requirements of the fifth Anti-Money Laundering Directive (AMLD5), which aims to detect and prevent money laundering using virtual currency exchanges and wallets.[11] However, as of February 2024, the AFSA has not received any authorisation requests for issuing ICOs and STOs, suggesting that digital finance is still in the early stages of development in Albania.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania has made significant strides in aligning its banking regulations with global standards and strengthening its legal framework for capital markets. Despite the advances, limited progress related to policies facilitating businesses' access to long-term debt financing was observed. Additionally, there has yet to be an evaluation of the current legal framework for financing through blockchain technology. The key developments based on the previous CO Recommendations are elaborated in Table 4.2.

Table 4.2. Albania's progress on past recommendations for access to finance

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Continue efforts to align Albania's banking regulations with international standards	Regulation is being harmonised with Basel III standards, with several regulatory changes implemented in 2022-23 following the Supervisory Review and Evaluation Process (SREP) from the EBA (European Banking Authority).	Strong
Continue efforts to diversify the financial sector	Several initiatives have been launched to strengthen the legal framework for primary sources of alternative financing, especially the series of regulations adopted by the Bank of Albania to encourage the development of capital markets.	Moderate
Review the blockchain legislative framework regularly to adapt the sector quickly and efficiently to the needs of domestic firms and international market trends	There is no system to monitor the legal framework of distributed ledger technology for financing, resulting in no progress or review on this matter.	None
Facilitate market-based long-term debt financing for businesses	Currently, policies that could help businesses access long-term debt financing are minimal and existing regulations are not flexible enough. Also, the legal framework for SMEs' long-term financing remains underdeveloped.	None

The way forward for access to finance

To enhance the banking industry, make bank finance accessible, and support alternatives to bank finance, policy makers should:

- **Continue efforts to develop capital markets by adopting EU *acquis* regulations on stock and debt markets, with flexibility and transitional periods to accommodate new entrants and prevent banking dominance**. Authorities should also encourage banks to pursue public offers and stock market listings to build public trust, support investment and pension fund growth, and provide liquidity for investors holding corporate obligations until maturity. Additionally, licensing credit rating entities will enhance transparency and investor confidence.
- **Address the low development of corporate credit by establishing permanent tools addressing credit constraints of SMEs and micro-firms** (See Box 4.2). A critical step in this direction is to adopt permanent credit guarantee scheme programmes and credit lines to broaden financing opportunities for SMEs. Policies aiming at developing microfinance facilities can also help remove barriers to finance for the smallest businesses.

Box 4.2. Access to Finance Hub in Ireland

The Access to Finance Hub was established as a single access point for SME funding in Ireland. It provides access to a Credit Review function that helps SMEs which have been refused credit from the major lending institutions. The Hub includes four key funding schemes catering for event-specific funding, such as COVID-19 and Brexit, as well as continuous funding schemes called the "Growth and Sustainability Loan Scheme" and the "Microenterprise Loan Fund Scheme".

Succeeding the "Future Growth Loan Scheme" that stopped operating in March 2023, the "Growth and Sustainability Loan Scheme" makes up to EUR 500 million in loans available (0.1% of the Irish GDP in 2022). Loans between EUR 25 000 and EUR 3 million, with terms of up to ten years and attractive conditions, will be available to eligible SMEs through the scheme. The scheme targets a minimum of 30% of the lending volume towards environmental sustainability purposes, to encourage SMEs to take positive action in support of the climate change agenda. 70% of available funds support strategic long-term investment, such as investments in tangible or intangible assets, machinery or equipment, research and development, business expansion and premises improvement.

Operating since 2012, the "Microenterprise Loan Fund Scheme" provides support in the form of loans for up to EUR 25 000, available to start-up, newly established, or growing micro-enterprises employing less than ten people and with a turnover below EUR 2 million with viable business propositions that do not meet the conventional risk criteria applied by banks. In 2022, 401 loans were drawn to a value of EUR 6.9 million. 88% of approvals are granted to businesses employing three people or fewer, and 45% are granted to start-ups (in business for less than 18 months).

Source: European Commission (2022[16]).

- **Develop alternative financing sources beyond banking able to provide finance accessible for SMEs.** Alternative investment funds (e.g. private equity) or digital finance (e.g. crowdfunding) can provide financing alternatives for larger corporates and mitigate the lack of availability of early (e.g. seed or venture) capital financing, which constrains the growth opportunities for promising SMEs.
- **Continue harmonising banking regulations with Basel III standards.** Given the banking sector's importance for access to finance in Albania, it is essential to create a more robust and stable global banking system that can withstand economic downturns and financial shocks.
- **Develop financial education programmes for both individuals and businesses, focusing on adopting digital finance challenges.** Financial services are increasingly digitalised, and individuals with low education, those residing in rural areas and elderly people face more significant financial exclusion. Albania would benefit from implementing financial inclusion policies to address this issue and promote digital capability measures. Albania should also develop a national infrastructure for the settlement of fast payments to foster the development of digital finance.

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Notes

[1] More specifically, Regulation 63/2020 amended banks' leverage ratio, reinforcing its role as a non risk-based backstop to guarantee a minimum level of capital. Regulation 10/2014 focused on changes related to risk management from large exposures, emphasising the significance of effective risk management practices. Guideline 2/2021 offered direction on the Internal Liquidity Adequacy Assessment Process, stressing the need for banks to uphold sufficient liquidity buffers. Meanwhile, Regulation 48/2013 amended the capital adequacy ratio, reflecting adjustments to the regulatory framework governing banks' capital adequacy. Finally, changes to Regulation 70/2020 addressed the net stable funding ratio to ensure that banks maintain stable funding over a more extended time horizon. Collectively, these targeted adjustments aim to fortify the resilience and stability of the banking sector.

[2] Albania follows the EU's disclosure requirements, but the EU has not yet adopted the Basel III standards. Additionally, the EU and Albania differ in their implementation of the crypto assets and internal ratings-based (IRB) pillars, as well as the Credit Risk Standardised Approach (CRSA 2023), Credit Valuation Assessment (CVA 2023), Minimum Requirements for Market Risk (MR 2023), Operational Risk (OR 2023), Output Floor (OF 2023), and Risk-based Capital Requirements (RBC 2013) standards from the capital pillar.

[3] An intangible asset is an identifiable non-monetary asset without physical substance. Examples of intangible assets include computer software, licences, trademarks, patents, films, copyrights, and import quotas (International Financial Reporting Standards, 2024[19]).

[4] The total cost of the First Guarantee Scheme has been EUR 91.6 million (approx. 0.6% of GDP in 2020), and the Second Guarantee Scheme cost EUR 124.6 million (approx. 0.9% of GDP).

[5] Other guarantee programmes that operate regionally and to a smaller extent (less than EUR 5 million) also in Albania are the Italian-Albanian Program for the Development of SMEs, the EU's Competitiveness for Small and Medium Enterprises (COSME) Loan Guarantee Facility programme, the EBRD Trade Facilitation Programme, the InnovFin SME Guarantee Facility and the European Union Programme for Employment and Social Innovation (EASI) guarantee instrument dedicated to microfinance and social entrepreneurship.

[6] The first Albanian stock market, the Tirana Stock Exchange (TSE), was licensed to operate as a regulated securities market in 2003. No company was registered, and the Albanian Financial Supervisory Authority decided to suspend the licence of TSE in the Republic of Albania following the shareholders' Decision

No. 16, dated 07 April 2015 (Albanian Securities Exchange, 2017[17]). It has been replaced by the ALSE, which was licensed in July 2017 and began operations in February 2018. In 2021, the BoA undertook an initiative to transition the intermediary activity of purchasing and managing the Albanian Government's securities accounts for individuals to commercial banks, intending to foster the development of the secondary market for these securities. However, in 2023, the government of Albania opted to reinstate this service through the BoA, which had a detrimental effect on the secondary market's development.

[7] The privatisation process in Albania is nearing conclusion, with just a few major privatisations remaining. Entities that might represent opportunities for privatisation in the future include OSHEE (Operatori i Shpërndarjes së Energjisë Elektrike), the state-run electricity distributor; 13.8% of shares in the telecommunication company One Albania; and state-owned oil company Albpetrol (United States Department of State, 2023[18]). However, the Public Procurement Agency of Albania did not publish timelines for future privatisations (United States Department of State, 2023[18]).

[8] Following a set of regulations inherited from the "Law on Payment Services" implemented between December 2021 and March 2022, Albania ensured full compliance with PSD2 standards. These are Regulation 59/2021, enacted in December 2021, which outlined conditions and procedures for licensing payment institutions and electronic money institutions, and Regulation 7/2022, implemented in March 2022, which established guidelines for the public register of payment service providers in Albania. Furthermore, Regulation 57/2022, in force since 1 March 2023, governs the activity and supervision of electronic money institutions, outlining rules for their operations, risk management and supervision, as well as specifying requirements for electronic money issuance. Lastly, Regulation 14/2023, effective from 18 April 2023, pertains to the activity and supervision of payment institutions, including digital payments, delineating rules for their operations, risk management, and supervision. EMD2 directive: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0110; PSD2 directive: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015L2366.

[9] The "Strong Customer Authentication and Common, Open, and Secure Standards of Communication" regulation emphasised secure customer authentication, exemptions for practical considerations, user credential protection, and standardised communication among payment service providers. AMLD5 directive: https://eur-lex.europa.eu/legal-content/FR/TXT/PDF/?uri=CELEX:32018L0843.

[10] It should be noted that no business can obtain a DLT licence without an auditing company that would monitor and oversee the licensed business.

[11] Alignment to this directive was achieved in December 2020 with the implementation of the "Law on Financial Markets Based on Distributed Ledger Technology".

5 Tax policy

A well-planned tax policy provides the necessary incentives to promote economic growth. This chapter, along with two sub-dimensions, explores the effectiveness of tax policy and tax administration. The first sub-dimension, tax policy framework, assesses the soundness and efficaciousness of the legal framework, the tax system, and the incentives for investment in promoting steady economic growth. The second sub-dimension, tax administration, focuses on the efficiency and transparency of the tax administration organisation while also reflecting upon the tax filing and payment procedures and taxpayer services.

Key findings

Albania has improved its overall score since the previous *Competitiveness Outlook* (CO), outperforming the regional average (Table 5.1). This improvement was driven by an increase in performance in the tax administration, largely due to advancements in tax filing and payment procedures as well as taxpayer services. Conversely, Albania's tax policy framework score has marginally increased since 2021.

Table 5.1. Albania's score for tax policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Tax	4.1: Tax policy framework			3.1	2.4
	4.2: Tax administration			3.7	3.8
Albania's overall score		**2.8**	**2.8**	**3.4**	**3.1**

The **key findings** are as follows:

- Albania has not broadened its Value Added Tax (VAT) base since 2021. Instead, the ongoing utilisation of reduced rates and a high VAT registration threshold has kept the base narrow.
- Albania's tax expenditure reporting stands out as the most advanced in the region. The Ministry of Finance and Economy mandated the publication of a tax expenditure report every two years.
- Albania has started to conduct demographic analyses on its population, but it has yet to estimate how these changes will concretely impact the size of the labour market or revenue from Social Security Contributions (SSCs). However, the Ministry of Finance and Economy is considering developing a new economic model that would assess the effect of demographic changes on the personal income tax (PIT) system.
- E-filing is mandatory for all taxpayers. To enhance tax compliance, the Albanian Government has introduced several services on its digital government portal, e-Albania, facilitating electronic filling and payment processes. These features include pre-filled PIT returns and the new e-Filing programme, which aims to reduce the likelihood of errors in return filings. Additionally, the tax administration has facilitated pre-filled and automatic declaration of sales and purchase ledgers, with plans to extend this feature to VAT declarations.
- The economy has made significant strides in aligning with the OECD Automatic Exchange of Information (AEOI) standards. Albania, the only Western Balkan economy to implement the AEOI legal framework, shared its information with more than 77 jurisdictions (including 24 EU Member States) in 2022. To process and use the taxpayer information, the Directorate of Information – Communication Sector was established in May 2023, specifically assigned to handle Common Reporting Standards (CRS) duties.
- Albania has not yet begun preparing for the implementation of the Global Anti-Base Erosion (GloBE) Rules, which will likely have a significant impact on its domestic tax system. The statutory Corporate Income Tax (CIT) rate is relatively low compared to OECD countries, and the use of generous tax incentives can further lower the effective tax rate.

State of play and key developments

Sub-dimension 4.1: Tax policy framework

Tax revenues in Albania remain significantly below the regional and OECD average. Albania's tax mix, on the other hand, is comparatively more balanced. In 2021, Albania's tax-to-GDP ratio was 25.6%, whereas the WB6 and OECD averages were 30.4% and 33.6%, respectively. One of the main reasons for the difference in tax revenues is that Albania collects less revenue from SSCs. In 2021, SSCs accounted for 23.3% of Albania's total tax revenues and 6% of its GDP, which is significantly below the WB6 average of 31.6% and 9.9%, respectively. Meanwhile, although the level of revenue from taxes on goods and services (11.9% of GDP in 2021) is above the OECD average (10.6%), Albania is more reliant on these taxes because it raises less revenue from personal and corporate income taxes. In 2021 for example, PIT revenues were only 2.1% of GDP in Albania, compared to an average of 8.3% in OECD countries (Table 5.2).

Table 5.2. Albania's tax revenues composition (2022)

Tax revenues are expressed as a percentage of GDP

	Corporate income tax revenues	Personal income tax revenues	Social Security contributions revenues	Taxes on goods and services revenues	Total tax revenues
Albania	1.9	2.1	5.7	11.9	25.6
WB6	2.1	1.9	9.9	14.9	30.4
OECD	2.8	8.3	9.2	10.6	33.6

Note: Information on Albania is from 2022 and information from the OECD is from 2020.
Sources: Data from the Ministry of Finance and Economy provided for the *Competitiveness Outlook* assessment; (OECD, 2024[1]).

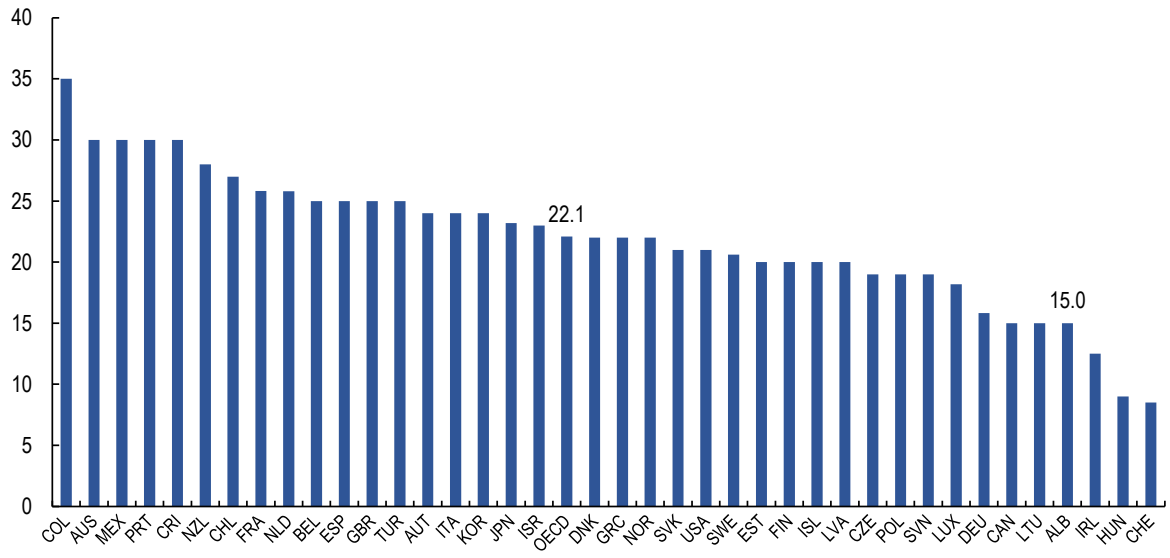
Albania's statutory 15% **corporate income tax** rate is among the highest in WB6 economies but is low compared to those in OECD countries (as shown in Figure 5.1). The CIT system in Albania is a worldwide tax system, which means that resident companies are taxed on both their foreign and domestic income. Given the low statutory CIT rate compared to other OECD countries coupled with the fact that a very limited number of Albanian businesses have expanded their activity in foreign jurisdictions, the worldwide tax system is unlikely to lead to significant additional revenues in the case of Albania.

Although Albania already boasts a relatively low top CIT rate compared to the OECD average, its generous profit-based **investment tax incentives** may further lower the effective tax rate of some companies operating within Albania. Since 2018, Albania has introduced numerous profit-based tax incentives. For example, qualifying companies in the software production, agriculture, agrotourism or automotive industries are eligible for a reduced 5% CIT rate, and four- to five-star hotels are exempt from CIT for the first 10 years of operation. However, as of January 2024, profit-based incentives were discontinued for 169 professions, which are now subject to a flat tax rate of 15% (apart from those offered in the IT sector, which will only be applicable until 31 December 2025).

Additionally, Albania operates Special Economic Zones (SEZ) that may further lower the effective CIT rate of some businesses. Companies established in such "designated areas of technology and economic development" are exempt from 50% of their CIT liability for a five-year period.

Figure 5.1. Corporate income tax rates, Albania and OECD countries (2022)

Tax rates are expressed in percentage



Source: OECD (2024[1]).

StatLink https://stat.link/rvuz3f

While all firms might benefit from a lower effective tax rate, Albania also has a **presumptive** (or simplified) **expenses regime** for micro and small businesses with turnover of up to ALL 10 000 000 (EUR 99 300). This can encourage "bunching" or business split as companies try to exploit this scheme.

Recent international tax developments may have implications for Albania and warrant further assessment. The **Global Anti-Base Erosion Rules (GloBE)** ensure large multinational enterprises pay a minimum level of tax on the income arising in each of the jurisdictions where they operate. While countries are not required to adopt the GloBE Rules, jurisdictions that adopt them will apply an effective tax rate test using a common tax base and a common definition of covered taxes to determine whether a multinational enterprise (MNE) is subject to an effective tax rate below the agreed minimum rate of 15% in any jurisdiction where it operates (OECD, 2022[2]). For Albania, this means that in-scope Ultimate Parent Entities of MNE Groups – that have their headquarters in a jurisdiction that has implemented the GloBE Rules and that operate a subsidiary (or constituent entity) in Albania – may be subject to a top-up tax in the residence jurisdiction, if the profits earned in the subsidiary are taxed at an effective rate in Albania below 15%. Moreover, Albania currently has no plans to introduce a **qualified domestic minimum top-up tax** (QDMTT) that would increase the effective tax rate of relevant subsidiaries to 15%.

With respect to the **exchange of tax information**, Albania is the only Western Balkan economy that has fully implemented the OECD Automatic Exchange of Information (AEOI) standards. In 2022, Albania shared its information with over 77 jurisdictions and received information from over 65. To process and use the taxpayer information, the Directorate of Information – Communication Sector was established in May 2023, specifically assigned to handle Common Reporting Standards (CRS) duties. Using this information for tax compliance and enforcement purposes can incentivise taxpayers to voluntarily disclose their assets, and enables the tax authority to better detect tax evasion and concealed offshore assets. Continuing to strengthen its capacity in this area will also help Albania more effectively tax capital income from its top earners (OECD, 2017[3]). At the end of 2023, Albania initiated the process of implementing the

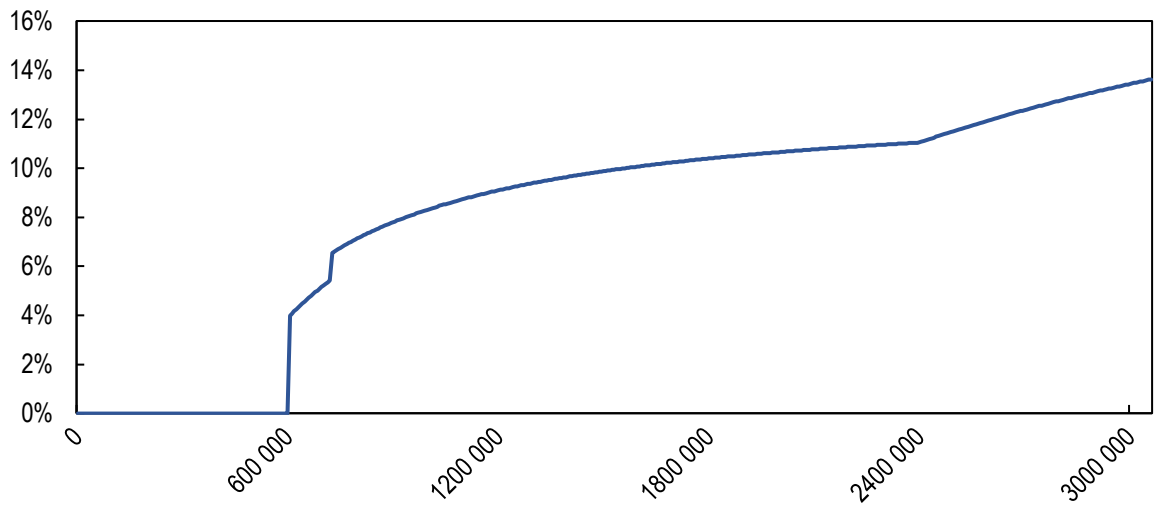
Country-by-Country (CbC) Reporting Package as set out in BEPS (base erosion and profit shifting) Action 13 (OECD, 2015[4]) and plans to implement the Package in 2024. In 2023, Albania also increased its co-operation with economies in the WB region, participating in multiple regional meetings and training focused on audit practices and international tax challenges.

The tax rules for personal capital income depend on the type of income. The tax rate for **dividends** is 8%, while realised **capital gains** and other forms of investment income are taxed at a flat rate of 15%. Meanwhile taxable business income (from self-employed or unincorporated businesses) is taxed progressively at 15% and 23% for net income up to and over ALL 14 000 000 (EUR 137 000) respectively. The differential treatment of capital and labour income, which is taxed progressively from 13% to 23%, can lead to arbitrage opportunities such as profit shifting (where entrepreneurs incorporate their businesses to distribute their profits as dividends rather than salaries). Incentives to incorporate are further heightened by the high turnover threshold of ALL 14 000 000 (EUR 137 000), below which incorporated businesses are not subject to CIT. It should be noted that to limit arbitrage opportunities, Albania has enacted an anti-avoidance rule targeting businesses that derive income from a limited number of taxpayers. Under this provision, such income is treated as labour income, thereby partly mitigating these arbitrage opportunities.

Albania has a progressive **personal income tax** regime and the highest top PIT rate in the WB6. A unique feature of the Albanian PIT system is that the basic tax allowance decreases with income as follows (and as seen in Figure 5.2). Individuals with annual income of less than ALL 600 000 (EUR 5 500) are exempt. Those with annual income between ALL 600 000 and ALL 720 000 can deduct ALL 420 000 (EUR 3 900). And finally, those with income over ALL 720 000 can only deduct ALL 360 000 (EUR 3 300) from their tax base. The remaining taxable income is then separated into two brackets where the first ALL 2 040 000 (EUR 20 000) is taxed at 13% and income above that threshold is taxed at 23%.

Figure 5.2. Effective average personal income tax rate in Albania based on annual gross income (2022)

Annual gross income is expressed in ALL



Note: Calculated taking into account standard personal income tax allowance only.
Source: OECD calculations based on Law No. 29/2023 "On Income Tax", Albanian Ministry of Finance and Economy.

StatLink https://stat.link/iay0tu

While Albania boasts the highest PIT top rate in the region, its total **SSC rate** on gross salaries is around the regional average (27.9% versus 27.2%, respectively). Moreover, the share of revenue from SSC (as a percentage of total tax revenue) is the second lowest in the region. Bringing more employees into the formal sector could expand social protections and increase revenues from SSCs. SSC liability is split into 16.7% for employers and 11.2% for employees. Given the progressive PIT schedule and relatively low employee SSC rate, Albania's tax burden on low-income individuals is comparatively low, reducing the barriers to entry into the formal economy. Meanwhile, the self-employed in Albania pay a lump sum (equivalent to 23% of the monthly minimum wage in social contributions) and a lump sum (equivalent to 3.4% of twice the monthly minimum wage) in health insurance. Although these lump sums are set at low levels, they make the SSC system more regressive and risk disincentivising self-employed individuals – with earnings below the minimum wage – to formalise. These lump sums also imply that the self-employed will only be entitled to low benefits. However, the system allows them to increase SSC to receive higher benefits.

Albania has developed an aggregated tax revenue **forecasting model** and developed micro-simulation models for the VAT, PIT, CIT and certain excise taxes in 2019**.** Estimating future tax revenues is critical for policy makers to understand the revenue impact of proposed policies. Furthermore, the micro-simulation models, which Albania continues to improve, will help policy makers better identify those who are most positively and most adversely impacted by proposed tax reforms. However, this modelling and forecasting will grow in importance given the economy's rapidly ageing population; the population aged 65 or over is expected to almost double by 2050 (ILO, 2022[5]). Additional demographic changes include the increase in the share of women in the population due to the higher emigration rates for men. While Albania has carried out multiple demographic analyses and publishes projections on ageing and migration, the analysis does not estimate the impact of a drop in the number of people active in the labour market on tax revenues and the SSC system. That said, Albania plans to develop a micro-simulation model to analyse the impact of demographic changes on the PIT, which could help inform policies that will make Albania's economy more resilient to future challenges.

With respect to the **design and structure of the VAT system**, the standard VAT rate in Albania is 20%, which is similar to the OECD average of 19.2% and significantly above the EU minimum rate of 15%. In recent years, Albania has introduced reduced rates and considerably narrowed the base by increasing the VAT registration threshold to ALL 10 000 000 (EUR 81 000) from ALL 2 000 000 (EUR 16 000). Considering the size of the Albanian economy, this registration threshold is relatively high and results in a substantially reduced VAT base. For comparison, the average VAT registration threshold in OECD countries is EUR 53 000 (OECD, 2022[6]). Additionally, Albania applies two reduced rates: a 6% rate on tourism and accommodation as well as some advertising services; and a 10% rate on the supply of agricultural inputs. The fairly limited list of goods and services that are exempt from VAT, or for which a reduced rate applies, is in line with the OECD VAT guidelines (OECD, 2017[7])**.**

In line with the International VAT/GST (Goods and Services Tax) Guidelines for **digital taxation** (OECD, 2017[7]), Albania implemented measures such as levying VAT on cross-border digital services since 2014. Furthermore, Albania's rules determining the place of taxation refer to the usual residence of the private consumer, which is also aligned with the guidelines. This is important because the rapid growth in online sales of services and digital products (streaming, gaming, accommodation rentals, ride-hailing, etc.) requires regular updating of rules to ensure that the VAT is collected. Involving digital platforms in the VAT collection and remittal process can lower administrative costs and increase efficiency.

Albania levies several **environmentally related taxes**, including excise duties on gasoline and diesel and a carbon tax on gasoline, diesel, coal, kerosene, and petroleum. Although these policies are a step in the right direction and fuel taxes are relatively high in the Western Balkan region, there is significant room for Albania to increase its excise taxes further or introduce additional carbon pricing. Moreover, Albania has not yet begun to assess how it will be affected by the EU Carbon Border Adjustment Mechanism (CBAM),[1] which will impose taxes on carbon-intensive imports starting in 2026. In 2023 however, the Albanian

Government, with the support of the World Bank, approved a legal framework for the regular increase of the carbon tax on coal from January 2026, to have the tax rate aligned with the CBAM regulations by 2030. Additionally, in response to inflation and higher energy and food prices, Albania passed a law temporarily levying a solidarity contribution on electricity producers until the end of 2024. The revenues will be used to finance social packages for citizens.

As for **health taxes**, or taxes levied on goods that negatively affect health, Albania approved a plan in 2022 to gradually increase its excise taxes on tobacco products (from EUR 60 to EUR 90 for 1 000 cigarettes) over the next five years to align its tax burden on tobacco products with the minimum level set by the EU. The planned increase in excise taxes on tobacco products will likely increase tax revenues and have positive health implications. These taxes therefore have the benefit of both financing health expenditures while at the same time decreasing health costs through their impact on smoking rates. Currently, the total tax burden of cigarettes in Albania is over 50% of the retail price, which is still substantially below the 75% level recommended by the WHO (WHO, 2021[8]). For comparison, the tax burden is above 60% for almost all OECD countries and above 75% in most of them (OECD, 2022[6]). Considering their potential revenue and health benefits, there is room to raise taxes on tobacco products, provided there is minimal substitution with additional import.

Albania is a regional leader in **tax expenditure (TE) reporting** and has followed through on its commitment to evaluating TEs annually and publishing a TE report every two years. In 2019, the Albanian Ministry of Finance developed the necessary models to estimate the TEs and published its first report. Since then, Albania has continued to improve its modelling and published its second report in 2021. The regular systematic reporting of TEs allows the Ministry of Finance to evaluate better the efficiency of its tax expenditures, including the tax incentives, and the impact of its reforms.

Sub-dimension 4.2: Tax administration

Over the past decade, Albania has made significant strides in improving **tax administration organisation and functions.** The organisational structure of Albania's tax administration is split into the General Tax Directorate (GTD) and the General Directorate of Customs. GTD is responsible for the collection and administration of both direct and indirect taxes (including SSCs and VAT). The General Directorate of Customs is responsible for collecting and managing customs duties, VAT on imports, and excise duties, on both imports and domestically produced goods. Both institutions are part of the Central Tax Administration of Albania. Additionally, the tax administration continues to offer training courses to its employees through the Albanian School of Public Administration.

In the context of **compliance assessment and risk management**, the responsibility of executing tax audits rests with the audit division of the Regional Directorate of Taxation. 70% of audits are proposed by the centralised Risk Management Directorate, which employs an IT-based risk module. The remaining 30% originate from regional directorates. Three types of audits are carried out: comprehensive audits that scrutinise all tax types and fiscal years since the last audit; fiscal visits that concentrate on a single tax type and fiscal year; and field verifications, which handle the registration of taxpayers or the use of non-cash registers.

Regarding **transparency and independence**, the Albanian tax administration is given an annual budget, has a distinct legal status with responsibilities and duties, and has clear rules for dealing with officials inside the administration who abuse their power. That said, the tax administration still does not have an independent management board, and there are no concrete plans to establish one.

Electronic **tax filing** is mandatory for all taxpayers, and the filing software is available for free. In fact, over 97% of all VAT and PIT declarations are e-filed. Furthermore, pre-filled PIT returns are available in the tax authority's portal, e-Albania, and the methods used to calculate the amount of tax owed are clearly explained. Almost all the taxpayer services are now available through the e-Albania online portal. This

significantly reduced the number of in-person visits and lowered compliance costs for taxpayers. The tax administration is developing business intelligence tools for improved tracking to enhance compliance further. Additionally, the tax administration has facilitated pre-filled and automatic declaration of sales and purchase ledgers, with plans to extend this feature to VAT declarations.

Taxpayer services provided by the GTD include online access to information, electronic communication with taxpayers, and in-person inquiries. Each of the 14 regional directorates is equipped with a Taxpayers Services Unit. Moreover, the Service Taxpayer Unit within the GTD monitors the effectiveness of these regional directorates, which report on their performance and issues monthly. Surveys on taxpayer satisfaction are conducted quarterly on the GTD website.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania's progress in implementing past CO Recommendations has been mixed. Moderate advancements have been achieved through implementing the AEOI legal framework and new discussions on expanding the use of micro-simulation models. Conversely, its progress has stagnated in domains such as establishing an independent management board for the tax administration or expanding its VAT base. Table 5.3 shows the economy's progress in implementing past recommendations for tax policy.

Table 5.3. Albania's progress on past recommendations for tax policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Continue to support the economy in light of COVID-19	Most tax support measures have been phased out, and some have been made permanent.	Strong
Increase tax revenues while maintaining a balanced tax mix	Albania has made progress in risk-based auditing to increase tax compliance and raise revenues. However, on the tax policy design side, there has been only limited progress with the moderate increase in health taxes.	Limited
Evaluate the scope to broaden the VAT base by reducing the goods and services taxed at the reduced VAT rate	Albania has introduced more reduced rates and narrowed the base by increasing the VAT registration threshold.	None
Expand the use of micro-simulation models to forecast tax revenues and to assess the distributive effects of tax reforms	Albania continues to update and improve its micro-simulation and tax revenue forecasting models developed in 2019.	Moderate
Weigh the advantages and disadvantages of the differentiated taxation of capital and labour income	Albania's New Income Tax law clarified the distinctions between employment, business, and investment income. Moreover, starting in January 2024, the CIT rate for income from professional services will be 15%. Nevertheless, a broader analysis of the advantages and disadvantages of the remaining differentiated taxation of capital and labour income has yet to occur.	Limited
Prepare an action plan in the case of consensus on Pillar 2's global minimum tax among members of the OECD/G20 Inclusive Framework on BEPS	No indication that this is actively being assessed and/or resulted in policy actions.	None
Establish an independent management board for the tax administration	No policy actions have been taken.	None
Continue to engage with the international tax community and implement international best practice	Albania has fully implemented the AEOI standards. In 2022, the economy shared its information with over 77 jurisdictions and received information from over 65. However, it has yet to start processing and using the information it receives from other jurisdictions.	Moderate

Carry out a cost-benefit analysis on the merits of a worldwide taxation system for resident corporations	No indication that this has been analysed and/or resulted in policy actions.	None
Foster co-operation and co-ordination on common tax issues within the WB region	Albania signed a memorandum of understanding on tax matters with Kosovo and addressed double taxation issues. Additionally, in 2023, Albania increased its co-operation with economies in the Western Balkan region through attending regional meetings and trainings.	Moderate

The way forward for tax policy

Considering the level of the previous recommendations' implementation, there are still areas in which Albania could enhance the tax policy framework and further improve the functioning of the tax administration. As such, policy makers may wish to:

- **Assess the impact of the GloBE rules on large in-scope MNEs operating in Albania.** To avoid forgoing tax revenues in the short run, Albania may also want to consider introducing a qualified domestic minimum top-up tax (QDMTT) to increase relevant subsidiaries' effective tax rate to 15%.
- **Re-evaluate the effectiveness of some profit-based tax incentives in light of the GloBE rules**. In particular, profit-based tax incentives such as rate cuts and exemptions are more likely to be impacted by the GloBE Rules, and evidence of their effectiveness is limited. Moreover, evidence of these incentives' effectiveness is limited relative to cost-based incentives.
- **Take advantage of the information obtained from AEOI**. The information is valuable for tax compliance and enforcement purposes. Tax administrations can use this information to incentivise taxpayers to voluntarily disclose their assets, which in turn enables the tax authority to detect tax evasion better and concealed offshore assets. Engaging in automatic information exchange with other countries will further aid Albania in more efficiently taxing its top earners' capital income (OECD, 2017[3]).
- **Assess the benefits of having income-specific PIT allowances.** The current design of the tax system may lead to kinks in individuals' marginal effective tax rates, which in turn can lead to distortions and inefficiencies.
- **Explore ways to decrease reliance on revenue from VAT and SSCs.** One way that the Albanian Government could reduce this dependence would be to increase tax revenues through expanding direct taxation.
- **Consider introducing a presumptive tax regime for small businesses and low-earning self-employed workers**. Well-designed and administered presumptive tax regimes can play an important role in raising revenues, gradually bringing small businesses into the formal economy and expanding social protection coverage while keeping compliance costs low (Mas-Montserrat et al., 2023[9]). Moreover, if Albania integrates SSCs into this presumptive tax regime, SSC compliance costs would be low and might incentivise low-income self-employed workers to formalise, thereby expanding social protection coverage. The self-employed who have higher earnings could then pay SSCs on all of their earnings.
- **Assess whether the tax administration has sufficient capacity to lower the VAT registration threshold.** If the Albanian tax administration could audit a greater number of smaller firms, this threshold could potentially be lowered.
- **Establish an independent body or management board for the tax administration (Box 5.1)**. This will increase transparency and accountability. Strengthening public trust in the tax administration can have a positive impact on tax morale and, therefore, on compliance more generally.

- **Implement a vendor collection regime supported by streamlined registration and collection procedures**. This regime would help collect VAT on B2C supplies of services and intangibles supplied by non-resident providers (OECD, 2019[10]).

Box 5.1. Independent Authority for Public Revenue in Greece

The Independent Authority for Public Revenue (IAPR) is Greece's competent body for the collection and distribution of public tax revenue. It was established in 2017 and facilitated by the Structural Reform Support Programme of the EU's Technical Support Instrument. The Independent Authority for Public Revenue aims to safeguard public revenue through enhanced tax compliance, and to provide high-quality services. It has the power to implement necessary measures to ensure the effective and efficient operation of its tax and customs services.

This reform of Greece's tax authority introduced a new organisational and operational framework to the tax administration. The Independent Authority for Public Revenue is operationally independent of the Ministry of Finance, meaning it is not subject to inspection by the Ministry of Finance or any other government bodies. Furthermore, the IAPR is autonomous regarding its finance and administration. It has the power to prepare and execute its budget and procurement programme, ensuring the smooth and sound functioning of the tax administration. The independence of the tax authority has tangible benefits, such as the high efficiency of the administration in managing its internal affairs while avoiding political interference in day-to-day operations. (OECD, 2013[11]).

Sources: IAPR (2017[12]); European Commission (2016[13]).

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Note

[1] The EU Carbon Border Adjustment Mechanism (CBAM) is the policy instrument designed to reduce the likelihood of carbon leakage by instituting a carbon price on imported goods. This tool reflects the EU's commitments to reducing its greenhouse gas emissions under the "Fit for 55" package while still ensuring a level playing field between EU and non-EU businesses. The CBAM's transitional period, which started on 1 October 2023 and continues until the end of 2025, exclusively involves reporting obligations; however, from 1 January 2025, carbon pricing will also be implemented.

6 State-owned enterprises

State-owned enterprises (SOEs) are important economic actors and can enhance economic activity and competitiveness if a level playing field with private companies is ensured. This chapter, along three sub-dimensions, explores the importance of implementing policy, institutional and legal frameworks that contribute to competitive neutrality between private firms and state-owned enterprises. The first sub-dimension, efficiency and performance through improved governance, assesses clarity of the ownership policy and the board nomination framework, including independent and professional boards, and privatisation practices. The second sub-dimension, transparency and accountability, focuses on the financial and non-financial reporting and audit practices, including anti-corruption integrity measures and protection of minority shareholders. The third sub-dimension, ensuring a level playing field, explores the discrepancies in the legal and regulatory treatment of SOEs compared to private businesses, and the financing conditions of SOEs.

Key findings

Albania performs broadly in line with the Western Balkans' regional average on overall state-owned enterprise (SOE) policy, although it underperforms the region with respect to SOE ownership and governance practices (Table 6.1). This largely reflects the absence of a state ownership policy to clarify the state's expectations of SOEs, together with Albania's mostly decentralised ownership arrangements and persistent weaknesses in SOE boards of directors.

Table 6.1. Albania's scores for state-owned enterprises

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
State-owned enterprises	5.1: Efficiency and performance through improved governance			1.9	2.3
	5.2: Transparency and accountability			2.6	2.7
	5.3: Ensuring a level playing field			2.8	2.8
Albania's overall score		**2.7**	**2.3**	**2.3**	**2.5**

The **key findings** are:

- SOEs in Albania operate in a largely decentralised manner under several ownership ministries, without a whole-of-government ownership policy in place to professionalise and harmonise ownership practices or to clarify the state's objectives regarding SOEs. One SOE has been privatised in the decade since 2012 and no privatisations are currently under way or planned.
- Despite a new 2022 directive related to SOE board nominations in state-owned joint-stock companies, weaknesses persist in SOE board qualifications and independence, including the presence of politically affiliated individuals such as vice-ministers in some SOE boards. In certain SOEs, the state bypasses boards of directors to appoint Chief Executive Officers (CEOs), depriving boards of their good-practice role of supervising management with no political interference.
- Significant shortcomings in SOEs' ownership and board arrangements heighten SOEs' corruption-related risks, including the aforementioned presence of politically affiliated individuals on SOE boards as well as insufficient clarity on corporate objectives. The authorities have not elaborated specific expectations for SOEs regarding the establishment of anti-corruption and integrity measures in SOEs.
- SOEs are subject to sound basic financial reporting standards, while those of a certain size are subject to additional non-financial reporting requirements in line with related EU directives. The state does not gather centralised performance data on SOEs and does not publish an aggregate report on their activities and performance, signifying an accountability gap for the ministries, boards and managers responsible for SOEs.
- Concerning the level playing field with private companies, the majority of SOEs in Albania are incorporated under company law, in line with good practice. However, the extension of state subsidies to SOEs, coupled with the absence of rate-of-return expectations, distorts the level playing field when it comes to SOEs' financing conditions.

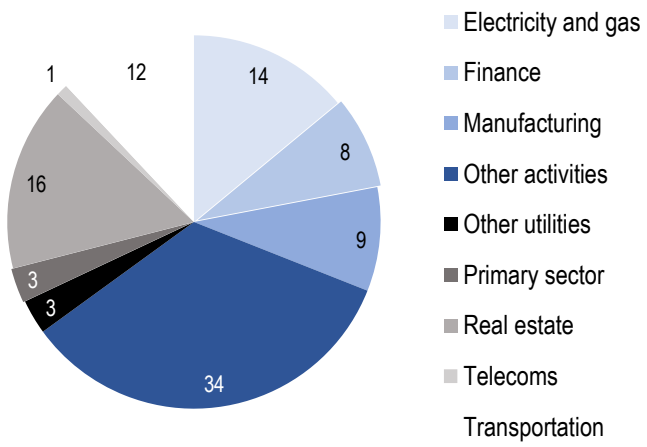
State of play and key developments

The central government of Albania is the majority or full owner of approximately 76 SOEs, which are present in several systemically important sectors.[1] Figure 6.1 provides an overview of the sectoral distribution of these SOEs by number of enterprises, according to which – outside of the "Other activities" sector – the majority of SOEs, as measured by the simple number of companies, operate in the real estate sector (16%), followed by electricity and gas (14%), transportation (12%), manufacturing (9%) and finance (8%). (A more meaningful measure of SOEs' sectoral distribution would reflect each sector's contribution to total SOE employment and/or corporate valuation, but the authorities do not collect such data.)[2]

A number of systemically important central SOEs merit mentioning, including: in the transportation sector, Albanian Railways and several port enterprises; in the other utilities sector, the Albanian Post; in the electricity and gas sector, the Albanian Power Corporation, which is the largest electricity producer in Albania, the electricity distribution company OSHEE, and the gas transmission company Albgaz. The state also owns several SOEs operating in the primary sectors, including the petroleum production company Albpetrol and two large mining companies. Finally, the state owns several real estate and manufacturing companies – seven companies operating in the financial sector, several universities, and two football clubs. The Ministry of Finance and Economy additionally holds minority shares in 28 companies not considered SOEs, including many manufacturing companies.

Figure 6.1 Sectoral distribution of centrally-owned SOEs in Albania (2021)

Number of enterprises



Source: OECD calculations based on INSTAT (2021[1]).

Although available information allows for such general descriptions of SOEs' presence in different sectors of the Albanian economy, the absence of a centralised national dataset shedding light on additional characteristics of SOEs – such as their employment, financial performance and corporate valuation – makes it difficult to paint a more complete picture of their economic footprint. In the context of this assessment, some detailed data were provided on the portfolio of the Ministry of Finance and Economy, which suggests some underlying performance issues in Albania's SOEs: 7 of the Ministry of Finance and Economy's 21 SOEs were loss-making in 2022 (with negative returns on equity). There is a need both to better understand SOEs' performance in Albania through more thorough data collection – notably on the SOEs outside the portfolio of the Ministry of Finance and Economy – and to address persistent performance issues through improved ownership, governance and transparency practices.

Sub-dimension 5.1: Efficiency and performance through improved governance

Concerning the **clarification of ownership policy and rationales**, the Albanian authorities have not developed a state ownership policy that articulates the rationales for state ownership of enterprises or defines the overarching objectives of the state as a shareholder. The general rationales for state ownership in Albania can be implicitly deduced from a variety of sources, including sectoral policies, company and public administration law, and company-specific documents such as articles of association. The authorities reported, in the context of this assessment, that state enterprise ownership is undertaken primarily to 1) provide goods and services where there is no private supply and 2) support social objectives. Separately, the authorities report that individual ministries develop their own policies related to the SOEs under their purview, but these policies are not publicly available. The absence of a clear state ownership policy outlining the overarching rationales for state ownership can translate into unclear performance objectives for SOEs, as well as gaps in accountability for those responsible for overseeing SOEs. Without an ownership policy in place to steer shareholding ministries' decisions, the SOE objectives-setting process in Albania appears to be ad hoc and characterised by an unclear division of responsibilities between the state as owner, boards of directors and management. The authorities report that in practice, SOE administrators (CEOs) set the long-term objectives of SOEs, which are then submitted first to supervisory boards and then to the general assembly (the shareholding ministry) for approval.[3] On a related point, given SOEs' large presence in the energy sector, there is scope to strengthen the state's expectations with respect to SOEs' contributions to environmental sustainability.

Efforts to **professionalise state ownership** practices in Albania are limited by the dispersed nature of the SOE portfolio and the aforementioned absence of a state ownership policy. The result is a lack of harmonised state ownership practices across the public administration. The Ministry of Finance and Economy exercises ownership rights in the largest single portfolio of SOEs (21 companies), while the remaining 55 companies are primarily overseen by other sectoral line ministries, including the Ministry of Energy and Infrastructure (overseeing the economy's large energy SOEs and railway infrastructure); the Ministry of Education and Sports; the Ministry of Culture; and the Ministry of Defence (which owns one SOE engaged in the import and export of military goods).

In the context of these decentralised ownership arrangements, some elements are in place to co-ordinate ownership decisions with other parts of government, at least for those SOEs that are incorporated as joint-stock companies. In these SOEs, the Ministry of Finance and Economy is responsible for nominating two-thirds of SOE board members and the responsible line ministries the remaining one-third. The authorities have additionally implemented measures to introduce greater separation between ownership roles and other potentially conflicting roles such as sectoral regulation, in that each ownership ministry has established SOE monitoring units that are separate from sectoral policy-making units.

The fact that a large number of SOEs are under the purview of the Ministry of Finance and Economy – which does not undertake sectoral regulatory functions – also contributes to a greater separation of ownership and regulatory functions. As part of the state budgeting process and measures to mitigate the fiscal risks presented by SOEs, the Ministry of Finance and Economy undertakes quarterly and yearly monitoring of the performance of some of Albania's largest SOEs (including those outside of its immediate ownership portfolio), including notably those operating in the energy sector, municipal water utilities and several other large SOEs.[4]

Albania has implemented some measures to introduce a more **robust board nomination framework** for SOEs, but the authorities have not elaborated an SOE board nomination framework applicable to the state's entire portfolio of SOEs (state-owned limited liability companies are not within its scope of applicability). A directive by the Ministry of Finance and Economy concerning the composition and qualifications of the supervisory boards of state-owned joint-stock companies, adopted in April 2022, notably establishes that all state-owned joint-stock companies must have boards of directors and that responsibilities for nominating their members are shared between the Ministry of Finance and Economy

and the relevant sectoral ministries, in line with the process outlined above. The directive establishes certain minimum qualifications criteria, for example requiring that board candidates have at least five years of professional experience and barring individuals who have a conflict of interest as defined in a dedicated law on preventing conflicts of interest in the performance of public functions. Despite the presence of these minimum requirements, in practice the SOE board nomination process is not particularly transparent. For most SOEs, board vacancies are not competitive or open to the public.

Efforts to establish **independent and professional boards** in Albanian SOEs are limited. There are no requirements for SOE boards of directors to include a certain number, or percentage, of independent directors, limiting the potential for external scrutiny of management decisions. Most SOE boards are dominated by public officials and in some cases include politically affiliated individuals such as vice-ministers or advisors to ministers, introducing the risk of political interference in corporate decision making. Some stakeholders have suggested that the promise of SOE board seats is used by ministers as a means of rewarding their new recruits by offering them a source of additional financial compensation (Balkan Insight, 2023[2]).

Another shortcoming is that in several SOEs (and in most of the SOEs overseen by the Ministry of Finance and Economy), the articles of association grant the general assembly (the shareholding ministry) – and not boards of directors – the authority to select and dismiss the CEO. This significantly reduces the board's power to monitor management decisions and shield the enterprise from political interference. Together, these elements contribute to a situation wherein SOEs are perceived to be run as extensions of their responsible line ministries, whose objectives may not always align with corporate performance objectives.

Concerning **privatisation practices**, a number of companies with partial state ownership (including also those with state shareholdings of less than 50%) were, at the time of writing, due to be restructured, liquidated or privatised (European Commission, 2022[3]). However, related plans have not yet been carried out and no SOE privatisations have been completed in Albania in the past five years. There has been one SOE privatised in the decade since 2012: the insurance company Insig, which was privatised in 2016 for around ALL 2.2 billion (around EUR 16 million). The legislation and regulations bearing on privatisation do not specify the agreed rationales for privatising SOEs, but do include provisions requiring that the authorities publicly disclose information on privatisations prior to their completion. A Commission of Review and Transparency, an ad hoc commission established by the Minister of Finance and Economy, is tasked with verifying that established procedures on privatisation are respected during the process of selling public property and, based on its assessment, recommending to the Ministry of Finance and Economy the continuation or halting of initiated privatisation procedures. The Directorate of Privatisation and Sale at the Ministry of Finance and Economy is mandated to oversee privatisations.

Sub-dimension 5.2: Transparency and accountability

No SOE-specific **financial and non-financial reporting** requirements have been elaborated in Albania, but SOEs are subject to the related requirements applicable to all companies. They are notably required to submit annual financial statements to the National Registration Centre, which subsequently publishes them. Large SOEs must prepare financial statements in accordance with international financial reporting standards, while smaller SOEs can report using national accounting standards. Large public-interest entities with over 500 employees are required to prepare non-financial reporting on environmental protection, social responsibility, treatment of employees, respect for human rights, anti-corruption and bribery, as well as board diversity (in line with EU Directive 2014/95/EU). As an EU candidate economy, Albania will also be expected to comply with future EU directives on sustainability reporting. In the context of this assessment, the authorities reported that less than 20% of SOEs report on sustainability practices and that among the 21 SOEs in the portfolio of the Ministry of Finance and Economy, 3 SOEs published sustainability reports in 2022.[5] There is also scope to improve SOEs' reporting on their achievement of public policy objectives, for those SOEs that are tasked with such objectives.

The state does not produce an annual aggregate report on the activities or performance of its SOE portfolio as a whole. Albania's national Institute of Statistics (INSTAT) does publish an annual list of public sector institutions, which includes all centrally-owned SOEs[6] and contributes to the state's transparency regarding the enterprises that it owns. However, the list does not provide corporate valuation, employment or performance data on individual enterprises and so cannot be considered to constitute an aggregate report on SOE portfolio performance (INSTAT, 2021[1]). At the time of writing, the Albanian authorities were reportedly in the process of developing a new SOE financial monitoring system with the support of the World Bank, but it is not yet operational.

Regarding **auditing practices**, SOEs fall under the scope of provisions in the company law requiring that all joint-stock companies, as well as limited liability companies fulfilling certain criteria, have their financial statements audited by an external auditor. (All SOEs in Albania are incorporated as joint-stock or limited liability companies.) The external auditor is appointed by the state shareholder, in line with standard corporate practices. The audits of SOEs' financial statements are usually undertaken by external firms, while the State Audit Office undertakes ad hoc audits of SOEs, which can consist of financial audits, compliance audits, or both.

In practice, a significant proportion of SOEs do not have their financial statements audited by an external auditor. External audits are a crucial tool to ensure that SOEs' financial statements accurately reflect the financial health of the company and provide a credible basis for shareholder and board decisions related, among others, to investments and spending. According to information provided on the 21 SOEs in the portfolio of the Ministry of Finance and Economy, only 8 of those SOEs underwent a financial statement audit in 2022. SOEs whose financial statements were not audited include some economically or systemically important enterprises, such as Albanian Post, a joint-stock company employing 2 500 people; and AgroKredit which, although employing a relatively small number of people (130), is active nationwide and plays an important public policy function of providing targeted financing to individuals and companies, with a focus on rural and touristic development.

Concerning **anti-corruption and integrity measures**, there are important shortcomings in SOEs' ownership arrangements and board responsibilities and independence that increase the risk of political interference in SOE management decisions and operations. The fact that the CEOs of some SOEs, including most SOEs in the Ministry of Finance and Economy's portfolio, are directly appointed by state shareholders exacerbates the risk that those CEOs will make corporate decisions in the interest of the politician(s) that hired them, rather than in the interest of the enterprise. In the worst of cases this can lead to SOEs becoming vehicles for political patronage or corruption. That being said, some safeguards are in place within applicable legislation: the companies law establishes that board members and CEOs must adequately take into account the interests of the company and its shareholders and shall be held liable for company commitments, to the extent of their own assets, if their actions, or failure to perform certain actions, involve abusing the company for illegal purposes or treating the company assets as their own. CEOs must avoid actual and potential conflicts of interest between personal interests and those of the company. However, the authorities have not elaborated specific expectations for SOEs regarding the establishment of anti-corruption and integrity measures, and SOEs are not required to carry out corruption risk assessments.

External non-governmental assessments have pointed to SOEs' use as vehicles for political patronage in Albania and have highlighted the often significant disconnect between staffing decisions and corporate performance. For example, a 2023 investigative report[7] found instances of hiring decisions in SOEs being directly influenced by political party representatives and reported data showing that SOEs increase employment levels by an average of 5% every electoral year (Balkan Insight, 2023[2]). In some large individual SOEs, such staffing increases occurred even during periods of significant corporate losses.

Concerning the **protection of minority shareholders**, there are three SOEs in Albania that are majority-owned by the central government but include small non-state minority shareholdings. Out of these three enterprises, two are currently in the process of being liquidated.[8] The Albanian law on companies grants all shareholders, unless otherwise established in company statutes, equal rights and responsibilities, in line with good practice. All shareholders are explicitly granted the right to be informed about company performance and to access company-specific information upon request, with the exception of business secrets whose disclosure could be damaging to the company. Similar to the legislation in many neighbouring Western Balkan economies, the Albanian law on companies also grants shareholders with at least 5% of shares the right to call a shareholders' meeting or propose agenda items, providing a channel through which minority shareholders can have greater influence over corporate decisions. In case such a request is not granted, these minority shareholders are further granted the right to 1) request a court order declaring breach of the CEO's fiduciary duties or 2) require that the company purchase their shares. There have been no recent cases reported in the media of alleged abuse of minority shareholder rights in Albanian SOEs.

Sub-dimension 5.3: Ensuring a level playing field

All SOEs in Albania are incorporated as joint-stock or limited liability companies and thus face broadly the same **legal and regulatory treatment** as private companies. The Law on Corporatisation of State Enterprises, which was adopted in 1995, sets out additional requirements applicable to SOEs, but these do not appear to distort the level playing field with private companies. Also related to the level playing field, earlier assessments by the European Commission found that competition in energy markets was hindered in Albania by a preferential access contract between the state-owned energy producer KESH and state-owned electricity supply companies. This situation was expected to end with the establishment of ALPEX, the Albanian Power Exchange, and the eventual entry of Albania into the EU single electricity market (European Commission, 2022[3]). ALPEX is a joint venture between the transmission system operators of Albania and Kosovo and is operational since April 2023.

Concerning **SOE financing conditions**, most SOEs in Albania obtain debt financing from the commercial marketplace, with the likelihood (as in many OECD economies) that they benefit from favourable terms owing to their state ownership and the assumption of implicit guarantees – in other words, that the state will step in if the enterprises are unable to service their debts. Many SOEs also benefit from direct subsidies from their line ministries, with limited transparency regarding the activities these subsidies are expected to finance. In many cases, subsidies appear to be provided just to keep the SOEs afloat, indicating significant structural problems that would need to be addressed to level the playing field with private companies and ensure an efficient allocation of resources. In the context of the recent energy crisis, the Albanian state extended a sovereign guarantee of ALL 8 billion (around EUR 77 million) for loans of the three energy-sector SOEs[9] and granted ALL 20 billion (around EUR 192 million) in direct budget support to those SOEs (Republic of Albania Council of Ministers, 2023[4]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania's progress in implementing the CO 2021 Recommendations has been limited overall, with no major reforms undertaken related to ownership arrangements, structural reforms or monitoring of SOEs' financial performance (Table 6.2). The main SOE-related reform undertaken since the last assessment was the April 2022 adoption by the Ministry of Finance and Economy of an SOE board nomination directive, which has not significantly affected Albania's scores since it is only applicable to a subset of SOEs and does not entail requirements for competitive and open SOE board nomination procedures.

Table 6.2. Albania's progress on past recommendations for state-owned enterprises

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Strengthen the institutional arrangements for state ownership	The Albanian authorities have not taken any measures to adjust the institutional arrangements for state ownership.	None
Increase the independence and operational autonomy of SOE boards of directors	The Ministry of Finance and Economy updated its directive on the appointment, functioning and remuneration of SOE supervisory boards, applicable to all state-owned joint-stock companies in Albania. Although this has clarified board nominations and responsibilities for these SOEs, it is only applicable to a subset of companies. SOE boards still frequently include politically affiliated individuals.	Moderate
Improve SOEs' efficiency so that they create economic value alongside private companies	The Albanian authorities have not provided evidence of structural reforms in any individual SOEs to improve their efficiency. However, earlier concerns related to competition in the energy market have been partly addressed through the establishment of the Albanian Power Exchange ALPEX (operational since April 2023).[1]	Limited
Gather and publish financial performance data on SOEs	The Albanian authorities have not developed a central overview of the state's portfolio of SOEs, with information on their size, employment or financial returns.	None

1. Previously, the development of a competitive market in the electricity sector was reportedly hindered by preferential access contracts granted to state-owned electricity suppliers, a situation that was expected to change through the establishment of the ALPEX power exchange to facilitate electricity purchase and sale on a competitive market. More information on earlier impediments to competition in the energy sector is available in two European Commission staff documents, dated 12 October 2022 (European Commission, 2022[3]) and 29 May 2019 (European Commission, 2019[5]).

The way forward for ownership and governance of state-owned enterprises

Given the slow pace of state ownership reform in Albania, the Recommendations set forth in CO 2021 remain largely relevant today. These recommendations, with some elements added to fine-tune them, are as follows:

- **Strengthen the institutional arrangements for state ownership**. The authorities should move forward with establishing a central state ownership agency – or, if this is not possible, a co-ordination entity – to further harmonise state ownership practices and fully separate ownership and regulatory roles. The state ownership or co-ordination entity could be charged with, among other things, developing an overarching ownership policy (see the following recommendation), gathering performance and other data on Albanian SOEs, and establishing clearly defined performance indicators for SOEs.
- **Elaborate a state ownership policy** that takes into account the state's expectations with respect to environmental sustainability. In line with good practice, the ownership policy should clearly define the rationales for state ownership and the roles and responsibilities of state actors responsible for implementing it. The content of the ownership policy should also take into account the emerging international consensus regarding the important role of SOEs in supporting the green transition, given their heightened presence in sectors with a high carbon footprint (OECD, 2022[6]). Where the authorities have established commitments related to environmental sustainability, these should form an integral part of the state ownership policy. Any SOE-specific objectives related to sustainability should be ambitious and subject to adequate monitoring and disclosure.
- **Increase the independence and operational autonomy of SOE boards of directors**. There remains scope to strengthen the board nomination process so as to ensure that SOE boards are staffed with a sufficient number of qualified professionals who focus on corporate efficiency rather than political objectives. Elements of the SOE board nomination processes in place in two OECD economies, Latvia and New Zealand, could offer some useful inspiration for implementing more

transparent SOE board nominations in Albania (Box 6.1). The authorities should also ensure that qualified and independent SOE boards are granted their good-practice role of appointing, dismissing and monitoring top management in the long-term interest of the enterprise.

- **Improve SOEs' efficiency so that they create economic value alongside private companies**. The Albanian authorities should consider structural reforms within the most economically important SOEs to improve their productivity. Staffing and other organisational decisions should be based on the achievement of clearly defined corporate performance objectives and should not be linked to political goals.
- **Gather and publish financial performance data on SOEs.** To inform the development of effective ownership reforms, the authorities should develop a clear central overview of how many companies the government owns, including an indication of which companies are "active" and which are insolvent and/or undergoing bankruptcy proceedings. Such a central overview of SOEs could be enriched with employment figures, as well as financial performance data, e.g. provided by the National Registration Centre that oversees SOEs' financial statements. Information and consistent reporting on SOEs can provide the authorities with an up-to-date understanding of how the SOE portfolio is performing and, ultimately, could assist in the development of performance indicators (e.g. rate-of-return expectations).

Box 6.1. State-owned enterprises board nominations in Latvia and New Zealand

Latvia. The nomination process of supervisory board members is initiated by shareholders, who indicate to the Cross-Sectoral Coordination Centre (CSCC) a need to elect new supervisory board members if there are plans to replace some or all of the incumbent members, or if some members have stepped down or were dismissed by shareholders. CSCC delegates its power to the nomination committee, and shareholders invite independent experts and observers to become members of the nomination committee. Shareholders approve the composition of the nomination committee by separate decision. The nomination committee is to be led by the shareholders' delegated representative (or by the supervisory board's delegated representative, if a supervisory board is established) in case of nomination of the executive board, or by the CSCC's representative in case of nomination of the supervisory board. After approval of the nomination committee, it meets to discuss and to approve detailed rules regarding the nomination procedure, and a text of job advertisement to be published on the webpages of the shareholder, the SOE and the CSCC, as well as in other relevant public sources of information, to ensure a sufficient number of applicants. Recruitment companies should be used, for example, to help with the search for potential candidates to be invited to submit their applications, but they could also be assigned other tasks such as competence assessment, feedback on candidates, etc. The nomination committee also has to receive relevant information on the enterprise, including the overview of the enterprise's strategy, excluding only commercially confidential information (i.e. information whose publication might prejudice the commercial interests of the SOE).

New Zealand. The treasury runs a transparent process to identify and recommend candidates for appointment to SOE boards, and shareholding ministers can also identify suitable candidates to be shortlisted. This process includes public advertisements, targeted searches for candidates that may meet the identified criteria of particular board vacancies, and interviews by a panel (comprising the company chair, a director and representatives from the treasury). Recommendations of preferred candidates are then passed to shareholding ministers and they make final decisions on appointments. The treasury also plays an advisory role on board, remuneration, evaluation, and skills development activities.

Source: Selected unedited country excerpts from OECD (2021[7]).

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Notes

[1] Figures on the number and sectoral distribution of SOEs are derived from the Albanian Institute of Statistics (INSTAT)'s annual list of public sector institutions for 2021, which includes basic information on main activities but excludes information on employment levels and corporate valuation. Entities included in the identified list of 76 SOEs are those identified in the 2021 INSTAT list as extra-budgetary central government institutions, public non-financial corporations and public financial corporations. The INSTAT list also includes some central government budgetary institutions that might be considered SOEs owing to their potential engagement in commercial activities (e.g. two forestry directorates that reportedly engage in logging), but determining the extent of their commercial activity goes beyond the scope of this assessment.

[2] The non-governmental Albanian Institute of Sciences does, however, maintain a public database of companies, which notably provides detailed company-specific information on SOEs held by both the central and municipal levels of government. According to this database, there are 285 enterprises held by all levels of government in Albania (Albanian Institute of Science, 2024[8]).

[3] The SOE objectives-setting process is further informed by a 2018 Directive (approved on 2 May 2018), "On the economic development programmes of trading companies with state capital", according to which SOE management is expected to prepare development programmes for the upcoming year and the next 2-3 years. SOE supervisory boards are responsible for approving the content of these development programmes and monitoring their implementation. For strategic SOEs, shareholding ministries must also approve the content of the development programmes.

[4] Albania's latest Economic Reform Programme mentions the following additional SOEs as being subject to close monitoring by the Ministry of Finance and Economy: Albanian Railways Sh.a, Albcontrol Sh.a, Albanian Post Sh.a, Albgaz Sh.a, APD Sh.a (Durres Port Authority) and RTSH Sh.a (National Albanian Radio and Television media).

[5] The three SOEs that according to the authorities published sustainability reports, or included environment, social and governance (ESG) reporting in their annual reports, are the General Directorate of Railways Sh.a, and two SOEs that operate in the accommodation and food services sector (Treatments Student Enterprise JSC Korçë and Treatments Student Enterprise JSC Vlorë).

[6] Entities categorised either as public corporations or extra-budgetary institutions.

[7] The investigative report was published on the news website Balkan Insight, run by the Balkan Investigative Reporting Network (BIRN).

[8] The three SOEs in Albania that are majority-owned by the central government but include small non-state minority shareholdings are: the tobacco and cigarette manufacturing company Tobacco Producer of Albania, Shkodër (89.65%); Alb Controll Durrës, which undertakes quality control for import-export goods (97% state-owned); and the Share Registration Centre of Albania (SRC) Tiranë, which maintains national shareholder account data (84.94%). The latter two enterprises are reportedly in the process of being liquidated.

[9] These three SOEs are the electricity generation company KESH, the electricity distribution company OSHEE Group, and the transmission system operator OST. These SOEs are under the purview of the Ministry of Infrastructure and Energy.

7 Anti-corruption policy

An effective anti-corruption policy is essential for promoting fair competition. This chapter, along four sub-dimensions, explores the effectiveness of the prevention, investigation and prosecution of corruption cases. The first sub-dimension, anti-corruption policy and risk management, assesses the planning, co-ordination and monitoring of anti-corruption policies, including corruption risk assessments and corruption proofing of legislation. The second sub-dimension, prevention of corruption, focuses on anti-corruption public-awareness as well as the effectiveness of the legal framework regarding corruption prevention bodies, conflicts of interest, and whistleblower protection. The third sub-dimension, business integrity and corporate liability, explores the robustness of the framework for businesses integrity and regulatory mechanisms, as well as the liability of legal persons. The fourth sub-dimension, investigation and prosecution, assesses the capacities of specialised anti-corruption investigative and prosecutorial bodies in investigating and prosecuting high-level corruption cases.

Key findings

Albania has the highest score of the WB6 economies for the anti-corruption policy dimension, outperforming the region notably in the areas of corruption prevention as well as investigation and prosecution (Table 7.1). The economy has an elaborate anti-corruption policy in place, but its overall strategic, legal and institutional framework to prevent and combat corruption has changed little since the previous *Competitiveness Outlook* (CO). While the economy made significant efforts to improve practices in several areas, including the assessment of corruption risk as well as the control of assets and conflicts of interest, limited legislative reforms are the main factor that prevented even stronger progress.

Table 7.1. Albania's scores for anti-corruption policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Anti-corruption	6.1: Anti-corruption policy and risk assessment			2.8	2.4
	6.2: Prevention of corruption			3.5	2.9
	6.3: Business integrity and corporate liability			2.0	1.9
	6.4: Investigation and prosecution			3.8	2.4
Albania's overall score		**1.8**	**2.1**	**3.2**	**2.5**

Notes: Scores for 2024 are not directly comparable to the 2021 scores due changes in the scoring methodology of this indicator. Sub-dimension 3 as well as several indicators in the other sub-dimensions is scored for the first time in this assessment. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy.

The **key findings** are:

- The Ministry of Justice has continuously monitored the implementation of the anti-corruption strategy and action plan based on a sophisticated methodology and reported publicly on implementation progress. In 2024 the monitoring became the responsibility of the new State Minister for Public Administration and Anti-Corruption. However, statutory obligations to carry out corruption risk assessments and corruption proofing of legislation have not been introduced.
- Albania has established several anti-corruption institutions with growing human-financial resources. Considered together, the Ministry of Justice until 2024 and now the State Minister in its capacity as the National Anti-Corruption Co-ordinator (NACC), and the High Inspectorate for the Declaration and Audit of Assets and Conflicts of Interest (HIDAACI), have comprehensive competency and powers for prevention of corruption, and performance reports reveal extensive activity in their areas of competency.
- In 2022, a new digital system for declarations of assets and interests by public officials was launched. However, plans to publish the declared data on line under the new system are yet to be implemented.
- The Law on Whistleblowing and Whistleblower Protection protects whistleblowers in the public and private sectors, but it significantly deviates from the relevant EU Directive. For the time being, only corruption can be the subject of whistleblowing, whereas external whistleblowing (i.e. reporting to the HIDAACI) is subject to conditions and the law strips the whistleblower of the right to protection once they make a public announcement.

- The law establishes the liability of legal persons for all criminal offences, but corporate liability is not clearly autonomous and the upper limit of fines for certain corruption offences is low. The number of cases where liability for legal persons has been applied for corruption is limited.
- Albania has achieved a moderate track record of convictions for high-level corruption, with the number of final sanctions for high-level corruption that entail imprisonment without conditional or other type of releases increasing since 2018. The Special Anti-Corruption Structure (SPAK), comprising the Special Prosecutor's Office (SPO) and the National Bureau of Investigation (NBI), has strong safeguards of independence, a growing albeit not yet sufficient resource base, and a relatively successful early performance record.

State of play and key developments

The perceived level of corruption for Albania has not changed significantly since 2018. On a scale from -2.5 (worst) to +2.5 (best), Albania's score in the World Bank's Control of Corruption Indicator has slightly improved, from -0.55 in 2018 to -0.41 in 2022, which is also reflected in a higher global ranking (Table 7.2). Transparency International's Corruption Perceptions Index also reflects limited change. On a scale from 0 (highly corrupt) to 100 (very clean), Albania scored between 35 and 37 in the period 2018-23, which is below the Western Balkan regional average.

Table 7.2. Albania's perceived anti-corruption policy performance in 2018-23

	2018	2019	2020	2021	2022	2023
Control of Corruption Indicator						
ALB (percentile rank)	33.33	32.28	31.43	31.91	38.68	
ALB (score)	-0.55	-0.56	-0.57	-0.58	-0.41	
WB6 (score)	-0.41	-0.45	-0.44	-0.41	-0.38	
Corruption Perceptions Index						
ALB (rank)	99/180	106/180	104/180	101/180	101/180	98/180
ALB (score)	36	35	36	35	36	37
WB6 (score)	38.67	37.67	37.5	38.67	38.67	39.50

Notes: Percentile rank (0-100) indicates rank of economy among all economies in the world; (0 corresponds to lowest rank and 100 corresponds to highest rank).
Sources: World Bank (2023[1]); Transparency International (2023[2]).

Regarding the fight against corruption, less than half of Albania's population agreed that the government fights corruption successfully. Although the share who believe government efforts are successful increased significantly in 2021, reaching 43% (RCC, 2021[3]) compared to 25% in 2020 (RCC, 2020[4]), the evidence of changes are inconclusive, as it consists of only a single data point without any follow-up data regarding the sustainability of the trend. Indeed, the Institute for Democracy and Mediation, which has been conducting regular surveys, consistently reveals sceptical public opinion. For example, in its 2021 survey, 68% of respondents indicated having no confidence in the prosecution of grand corruption cases, only marginally less than in 2019 (71%) (IDM, 2022[5]). In 2022, another survey revealed a somewhat indecisive public sentiment where respondents rated the Albanian Government's efforts in combating corruption over the past year. The results showed that 7% perceived a noticeable or significant improvement, 26% noted a slight improvement, 40% felt that the condition had remained the same, and 26% believed that the situation had worsened (Hallunaj and Strati, 2023[6]). Therefore, it is not possible to confirm that Albania has reached a turning point in its efforts to combat corruption.

Sub-dimension 6.1: Anti-corruption policy and risk assessment

The Inter-Sectoral Anti-Corruption Strategy (ISACS) 2015-23 and the Action Plan 2020-23 form Albania's **anti-corruption policy framework** and include the key components of anti-corruption policies: prevention, repression and awareness raising. The Action Plan specifies necessary and available funding amounts for related activities as well as gaps between the needed and secured sums. As reported by the 22 responsible implementing institutions, the state budget funding spent on prevention, repression and awareness-raising activities experienced an increase from ALL 124.4 million (around EUR 1.03 million) in 2021 to ALL 348.7 million (around EUR 3.39 million) spent on such activities between January and June 2023. The Ministry of Justice in its capacity as the National Anti-Corruption Co-ordinator (NACC) has published an outline of the new ISACS 2023-30 (Ministry of Justice, 2022[7]), but the document has not yet been adopted. Since 2024, however, the new State Minister for Public Administration and Anti-Corruption has assumed the position of NACC, replacing the Ministry of Justice in this capacity.

Albania has developed an advanced system of performance monitoring, with the Directorate of Anti-Corruption Programs and Projects of the Ministry of Justice (MoJ) monitoring the implementation of the ISACS. This responsibility now falls on the new State Minister for Public Administration and Anti-Corruption, as the NACC since January 2024. In 2018, the Cabinet of Ministers approved the passport of measurable indicators to assess realisation of the strategy's objectives. Each implementing institution reported to the MoJ, among others, the level of implementation of its activities and problems encountered, while the Ministry of Justice in its former role as the NACC reported on the ISACS' overall progress to the public. In quantitative terms, the level of implementation is approximately two-thirds of envisaged activities: in 2022, the target values were achieved regarding 14 out of 21 performance indicators in corruption prevention, 7 out of 9 in corruption repression and 3 out of 7 in awareness raising (NACC, 2023[8]).

While the Ministry of Justice as NACC has been engaged in consultations with civil society and, notably, solicits comments on draft monitoring reports of the ISACS through online calls for consultation, the published information suggests that contributions by civil society actors are usually limited. In 2023, the Ministry of Justice also held online consultations on priority policy measures, including on the Roadmap for the Rule of Law Chapter 23, "The Judiciary and Fundamental Rights", a planning document which outlines measures to address findings by the European Commission for Chapter 23. With the State Minister for Public Administration and Anti-Corruption having assumed the position of NACC in January 2024, the potential implications of this for the development of the ISACS are uncertain. However, it's worth noting that the new NACC's responsibilities encompass participation in formulating national anti-corruption strategy and policies.

There is no legal obligation for public agencies to carry out **corruption risk assessment** but increasingly systematic engagement in this activity has been developing. The Action Plan 2020-23 for the ISACS 2015-23 envisaged the development of integrity plans, including the implementation of risk assessment, by all ministries and subordinate institutions. The Ministry of Justice has published the Integrity Risk Assessment Methodology for Institutions of Central Government (2020) (Sulstarova, 2020[9]) and the Methodological Instrument of Integrity Plan Monitoring in Central Institutions (2021) (Ministry of Justice, 2021[10]), on the basis of which all ministries have completed risk assessments and approved integrity plans (NACC, 2023[8]). In 2023, the implementation of risk assessments and development of integrity plans proceeded in institutions subordinate to ministries, with an estimated rate of completion of 50% by the end of June 2023 (Ministry of Justice, 2023[11]). While corruption risk assessments directly lead to actions in the integrity plans based on established methodology, no analysis or evaluation of risk assessment results and effects is carried out at the national level.

The law does not envisage **corruption proofing of legislation**. The decree of the Minister of Justice on the Unified Methodology for Drafting Normative Acts (2022) requires that public authorities and persons participating in the development of normative acts must ensure that they do not create gaps for corruption.

Drafts must be subject to evaluation of "spaces for corruption" according to the rules laid down in the Manual for Drafting Legislation (2021). According to the authorities, the Ministry of Justice has assessed 186 draft laws and 990 draft decisions of the Council of Ministers based on established methodology, but limited evidence is available about the practical impact of the practice. The Ministry of Justice, in co-operation with the Organisation for Security and Co-operation in Europe (OSCE) presence in Tirana, the Regional Anti-Corruption Initiative (RAI) and the Albanian School of Public Administration, has organised training in this area in 2022 and 2023.

Sub-dimension 6.2: Prevention of corruption

Albania has two **corruption prevention bodies** with growing human-financial resources. Considered together, the Ministry of Justice in its former capacity as the NACC managing a co-ordination network, and the High Inspectorate for the Declaration and Audit of Assets and Conflicts of Interest (HIDAACI) had comprehensive competency and powers for prevention of corruption. Within the Ministry of Justice, the General Directorate of Anti-Corruption (GDAC) performed multiple tasks such as managing the Network of Anti-Corruption Co-ordinators (Network of ACCs), verifying and investigating abusive, corrupt or arbitrary practices; planning, co-ordinating and monitoring anti-corruption policies; developing anti-corruption projects; and proposing new activities. The Network of ACCs was comprised of co-ordinators from 44 central institutions and several regional institutions, which, among others, conduct administrative investigations. The director and staff of the GDAC were selected and appointed subject to regulations of civil service, and the unit is accountable to the Minister of Justice. As such it was under control of the political leadership and had no special safeguards for independence. Notably, it was the Minister of Justice who forwarded reports on administrative violations or files of suspected criminal offences prepared by the GDAC to the competent bodies. In 2018-22, the number of employees of the GDAC increased from 6 to 27, which signifies a growing capacity of the unit. With the State Minister for Public Administration and Anti-Corruption having assumed the role of NACC in January 2024, this assessment has not been able to assess and analyse whether new structures emerged following this change in role.

The HIDAACI is a legally independent institution, established in 2003 and headed by the Inspector General. Parliament oversees the body and appoints the Inspector General following an open call for candidates. In the first vote, the support from three-fifths of all members of parliament is required to appoint the Inspector General but a simple majority suffices if the first vote fails. While the number of staff of the HIDAACI has remained constant between 2018 and 2022 at 70 (including 40 inspectors), the annual budget has been increasing from ALL 136 349 100 (around EUR 1.09 million) in 2018 to ALL 191 479 000 (around EUR 1.67 million) in 2022. In 2022, the Council of Europe's anti-corruption monitoring body, *Groupe d'États contre la corruption* (GRECO), found that its recommendation to provide necessary legal, human, financial and other resources to the HIDAACI has been implemented satisfactorily by Albania's authorities (GRECO, 2023[12]).

Albania has rather strict rules on **conflicts of interest**, but its track record of enforcement is unclear. The HIDAACI is the central authority responsible for overseeing compliance and enforcing the Law on Prevention of Conflict of Interest in the Exercise of Public Functions (adopted in 2005). The Law defines actual, potential and apparent conflicts of interest as well as different kinds of private interests. The rules apply in a comprehensive manner to officials and employees of central and local state institutions, including enterprises and organisations controlled by the state. A public official is obliged to make a case-by-case self-declaration of private interests that may cause a conflict of interest. However, making the self-declaration is voluntary in cases where community, ethnical or religious relationships, or friendship or enmity may cause the conflict. The law prescribes measures of resolution of conflicts of interest in detail but rules concerning post-employment restrictions are scarce. The HIDAACI investigates conflicts of interest and checks compliance with prohibitions and restrictions applicable to public officials (such as restrictions on entering contracts with public institutions). Data on the track record of enforcement of the conflict-of-interest rules remain of poor quality. The statistics on fines imposed by the HIDAACI merge

different violations with no possibility to determine the share of fines related to conflicts of interest. The authorities also do not possess aggregated data on the number of invalidated acts and contracts concluded under conditions of conflict of interest.

Albania has a strong track record of effectively enforcing **asset and interest disclosure** based on declarations submitted by public officials upon taking office, on an annual basis during their time in office, and after leaving office. The Law on the Declaration and Audit of Assets, Financial Obligations of the Elected Persons and Certain Public Officials, adopted in 2003, applies to a comprehensive circle of high- and mid-level public officials as well as to candidates for various positions within the justice system institutions. The obligation to submit asset and interest declarations does not cover all members of regional councils and executives of all state-owned enterprises (SOEs). While the content of these declarations covers information relevant to monitoring the economic situation and interests of the individual, there appear to be gaps, including the absence of an explicit requirement to declare beneficial ownership or virtual assets (for example, cryptocurrencies). The HIDAACI administers the declaration system and carries out verifications. In 2021, the HIDAACI administered and arithmetically checked 4 032 declarations, of which 802 were fully verified (Institute for Democracy and Mediation, 2023[13]). Based on the verifications, if signs of criminal offences are detected, the HIDAACI regularly refers cases to law enforcement for further investigation (72 cases in 2020, 15 cases in 2021, 37 cases in 2022) (European Commission, 2023[14]). However, the effectiveness of law enforcement in following up on these cases remains unclear.

On 1 January 2022, the HIDAACI launched a new digitalised system for declaration of assets and interests, and has since only accepted declarations in electronic form (GRECO, 2023[12]). The introduction of the digitalised system required multiple efforts to familiarise users with it, establish inter-institutional co-operation to ensure connection or integration with other systems, ensure security of the data against cyberattacks, and approve electronic declaration forms (HIDAACI, 2023[15]). Under the new system, Albania also announced plans to publish the declared data on line, a departure from the previous practice of releasing information only upon request. The total number of administrative fines imposed by the HIDAACI has increased from 33 in 2020 to 128 in 2022, reversing the observed decrease in 2017-20. The authorities reported that a significant part of these fines concern non-compliance related to asset and interest disclosure, but the HIDAACI does not provide precise disaggregated information on the nature of these violations. The re-evaluation or vetting process for judges and prosecutors that Albania launched in 2016 also comprises a component of asset assessment, which aims to ensure that the wealth of judiciary officials can be accounted for by legal income earned in the past.

The Law on Whistleblowing and Whistleblower Protection adopted in 2016 protects whistleblowers and applies to the public and private sectors. The whistleblower is entitled to confidentiality and protection from any retaliation measures. Yet, the law deviates in several important ways from EU Directive 2019/1937 on the protection of persons who report breaches of European Union law. It envisages the presumption of good faith of the whistleblower unless the contrary is proven, but the good faith standard itself may lead to unfair deprivation of protection as it opens an avenue for construing accusations against the whistleblower. Moreover, only corruption can be the subject of whistleblowing under Albanian law. Whistleblowing can be internal and external, by reporting to the HIDAACI, but external whistleblowing is subject to potentially deterring conditions such as well-grounded reasons to be sceptical about the integrity and impartiality of the responsible unit within the organisation. The law also removes the whistleblower's right to protection once they publicly disclose allegations of corruption; does not provide protection for facilitators of whistleblowing and people connected to the whistleblower; and contains several other loopholes to the detriment of whistleblowers (Devine and Worth, 2021[16]). Overall, whistleblowing activity in Albania has been relatively low, with 19 reports on whistleblowing in 2022 (Table 7.3). In 2018-22, the HIDAACI received eight requests for protection and, in most cases, found no acts of retaliation. There is no independent evidence available regarding the effectiveness of whistleblower protection, criminal cases initiated, or other consequences resulting from whistleblowing.

Table 7.3. Whistleblower activity in Albania in 2018-22

	2018	2019	2020	2021	2022
Internal whistleblower reports	5	12	7	9	6
External whistleblower reports	16	14	9	11	13
Total whistleblower reports	**21**	**26**	**16**	**20**	**19**

Source: Based on data provided by Albania's authorities in the context of the *Competitiveness Outlook 2024* assessment.

Albania has been implementing various activities for **anti-corruption public awareness and education**. The MoJ adopts annual communication and visibility plans to raise public awareness about the fight against corruption. For instance, in March 2022, anti-corruption videos were displayed on the streets of Tirana to promote the Network of ACCs; an anti-corruption awareness event was organised with students of the Academy of Arts in April 2022; and the MoJ holds educational activities at high schools. The Ministry of Justice has also prepared and published in 2022 information materials such as the Anti-Corruption Glossary[1] and the Anti-Corruption Guide.[2] In addition, training activities have taken place, including training provided by the HIDAACI in 2019-23 to 1 287 representatives of public authorities who are responsible for managing the process of declaring private interests. Similarly, government officials received training in 2022 on the Ministerial Code of Ethics and the rules of integrity. The GDAC bears responsibility for the co-ordination of awareness-raising and education efforts, with six staff members engaged in this area. However, little information is available on the national funding amounts allocated to awareness-raising and education activities, which makes it difficult to assess the adequacy and sustainability of financial resources. Moreover, while monitoring reports of the ISACS track public information and education activities, the effectiveness of particular measures is not evaluated.

Sub-dimension 6.3: Business integrity and corporate liability

Albania's policy framework for strengthening **business integrity** is limited. The legal framework does not explicitly envisage corruption risk management in companies and, according to reports by the authorities in the context of this assessment, there is no out-of-court mechanism to address grievances of companies. The non-binding Corporate Governance Code envisages the responsibility of company boards for risk oversight and the creation of a system of internal control, but there is no evidence available about its implementation or other concrete business integrity practices. Albania used to participate in the Extractive Industries Transparency Initiative (EITI), a global standard for transparency and accountability in the management of natural resources, but its participation was suspended as of November 2023 due to missed reporting deadlines.

Concerning the transparency of beneficial owners, Albania adopted a Law on the Register of Beneficial Owners in 2020 and launched the register in 2021. According to the Law, certain data on beneficial owners are freely accessible to the public, and the remaining data are available to any person who proves a legitimate interest. The definition of a beneficial owner reflects the definition in the EU anti-money laundering directives. In 2022, 360 sanctions were applied for failure to submit for registration or update information on beneficial owners, demonstrating a comparatively good track record.

In line with international practice, legal persons' liability is applicable to all criminal offences. According to the Penal Code and the Law on Penal Liability of Legal Persons (adopted in 2007), a legal person will be held accountable for criminal offences that have been committed in its name or for its benefit, by its bodies and representatives; by a person who is under the authority of the person representing, directing and administering the legal person; or due to the lack of control or supervision by the person who directs, represents and administers the legal person. Albania's legislation does not clearly establish corporate liability as autonomous, possibly requiring the conviction of a natural person for the liability of the legal person to be applied. However, an in-depth assessment to clarify whether the conviction of a natural

person-perpetrator is a prerequisite for the liability of the legal person in practice would require a review of case law. The law envisages fines and the termination of the legal entity as main penalties for (corruption) offences by legal persons. The upper limit of fines for a legal person for offences with a maximum prison sentence of less than seven years, such as active corruption of public officials and active trading in influence, is up to ALL 5 million (around EUR 48 000), which is low relative to the possible scale of large corruption transactions. The elimination of organisational shortcomings that resulted in the criminal offence is a mitigating circumstance. The general level of enforcement of liability of legal persons for corruption offences appears low. According to the data provided by the authorities, no sanctions were imposed on legal persons for corruption offences in 2018-20, but non-monetary sanctions were imposed in two cases in both 2021 and 2022. More detailed statistics on the detection, investigation, prosecution, trial and sanctions imposed on legal persons are not available for public access on line.

Sub-dimension 6.4: Investigation and prosecution

Albania continues its efforts regarding the **investigation and prosecution of high-level corruption** and has achieved a moderate track record of convictions in recent years. As shown in Table 7.4, convictions for high-level corruption by first-instance courts rose to four persons in 2022 with the same amount of sanctions applied that entail imprisonment without conditional or other type of release.

Table 7.4. Convictions and sanctions for high-level corruption in 2018-22

	2018	2019	2020	2021	2022
Persons convicted for high-level corruption by first-instance courts	2	0	2	0	4
Number of final sanctions for high-level corruption that entail imprisonment without conditional or other type of release	2	2	0	2	4

Source: Based on data provided by Albania's authorities in the context of the *Competitiveness Outlook 2024* assessment.

Prominent recent examples include a two-year jail sentence for the former prosecutor general for concealing assets valued at approximately EUR 1 million (Hoxhaj, 2021[17]), and in 2023 the almost seven-year jail sentence for a former environment minister and conviction of several other individuals in a case related to a government-awarded concessionary agreement worth EUR 28 million for building and operating a waste incinerator (Erebara, 2023[18]). Altogether in 2020-22, the Special Prosecutor's Office (SPO) investigated cases concerning 25 former high-level officials, including 8 former judges, 3 former public prosecutors, 2 former members of parliament, 1 former deputy minister, 1 member of the Independent Qualification Commission and 4 former mayors (SPAK, 2023[19]). The authorities stated that confiscation is routinely applied in high-level corruption cases, with confiscation orders being fully executed in at least half of such cases in 2021-22. There were no instances of corruption proceeds being returned from abroad in high-level corruption cases during 2018-22.

The Special Anti-Corruption Structure (SPAK), comprising the Special Prosecutor's Office (SPO) and the National Bureau of Investigation (NBI), and specialised courts represent the **specialised anti-corruption investigative** and **specialised anti-corruption prosecutorial bodies** in Albania. The SPO was established in 2019 and presents indictments in the anti-corruption and organised crime courts of first instance and appeal as well as in the Albanian Supreme Court. In 2022, the SPO transferred 43 criminal cases concerning 208 defendants accused of criminal offences related to corruption for trial. This represents an increase of 30% in the number of cases and 117% in the number of defendants compared to the previous year, reflecting an increasingly effective role of the SPO in the fight against corruption (SPAK, 2023[19]). The SPO's prosecutors supervise the NBI and give directions to its investigators. Public opinion regarding the SPAK is ambivalent. On the one hand, 43.7% did not believe that the SPAK would

investigate all senior politicians and just 21.2% believed so in October 2022 (Si, 2022[20]). On the other hand, 50% of survey respondents rated SPAK's work positively, 25% neutrally, and only 23.8% negatively in November 2023 (Euronews Albania, 2023[21]).

Both bodies have sound legal safeguards of independence. The SPO is independent from the prosecutor general, and the higher prosecutor may not instruct a special prosecutor on the merits of an investigation or case. Based on competitive procedures, the High Prosecutorial Council (HPC) elects the Chief Special Prosecutor of the SPO for a three-year term without the right to reappointment, and the Director of the NBI for a five-year term with the right to reappointment once. The SPO's Chief Special Prosecutor shall be selected from among the prosecutors of the SPO. In the most recent election of the current Chief Special Prosecutor by the HPC in December 2022, the European Commission considered the nomination process to be sound (European Commission, 2023[14]). Two-thirds of the members of the HPC can dismiss a prosecutor of the SPO for committing a crime or a serious disciplinary violation. Following an open and transparent recruitment process, a committee comprising the Chief Special Prosecutor and the two special prosecutors with the most years of service recommends a candidate for the Director position of the NBI to be appointed by the HPC. The law prescribes specific circumstances under which the HPC must dismiss the NBI Director, including when sentenced by a final decision of the court for commissioning a criminal act, in case of violation of the constitution or a serious violation of law during the performance of duty, or in case of serious and very serious breaches of discipline.

The Head of the SPO, the Chief Special Prosecutor, prepares the draft budget of the SPAK. When the Council of Ministers submits a different budget proposal, the Head of the SPO may participate in parliamentary proceedings to defend the SPO proposal. For 2022, the initial budget for the SPAK was set at ALL 1 038 000 000 (around EUR 10 million), but the revised budget decreased to ALL 663 300 000 (around EUR 6.4 million), of which 89% was spent (SPAK, 2023[19]) In terms of staffing, the SPO had 17 prosecutors and 3 vacant prosecutorial posts in 2022. According to the law, the SPO is supported by several administrative units such as the Expertise Sector, the Financial Investigation Sector, and the Sector for International Cooperation and Liaison for Joint Investigations. In 2022, the Council of Europe's anti-corruption monitoring body GRECO found that its recommendation regarding "the recruitment of prosecutorial and technical staff to the office of the Special Anti-corruption Prosecutor be completed as a matter of priority and that its members [be] provided with adequate human and technical resources and prosecutors benefit of highly specialised training" had been implemented satisfactorily (GRECO, 2023[12]). At the end of 2022, the NBI had 73 staff members including its director, 60 investigators and 12 administrative personnel. However, at the beginning of 2023, the SPAK reported that it still faced certain capacity-related challenges associated with the growth of the number of cases, insufficient premises, and incomplete staff of financial investigators (SPAK, 2023[19]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania's progress in implementing the recommendations from the previous assessment cycle has overall been modest (Table 7.5), with no major legislative reforms undertaken in the areas of whistleblower protection or liability of legal persons. However, moderate progress was made in areas such as modernising and digitalising the system of asset and interest declaration and ensuring a track record of convictions for high-level corruption.

Table 7.5. Albania's progress on past recommendations for anti-corruption policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Establish legal obligations to carry out corruption risk assessments, develop integrity plans and implement corruption proofing of legislation	There were no legal obligations established but Albania's authorities are assessing corruption risks and developing integrity plans in an increasingly systematic manner. A ministerial decree requires that the drafting of legal acts include the evaluation of areas prone to corruption.	Limited
Ensure effective operation of the new electronic system for declarations of public officials	A new digitalised system for the declaration of assets and interests was launched in 2022. However, plans to make declared data accessible on line for the general public are yet to be implemented.	Moderate
Further develop legislation to protect whistleblowers	No relevant amendments or reforms have been introduced.	None
Strengthen corporate liability for corruption offences	No relevant amendments or reforms have been introduced.	None
Monitor and analyse the investigation, prosecution and adjudication of high-level corruption cases	Albania continues its efforts regarding the investigation and prosecution of high-level corruption and has achieved a moderate track record of convictions in 2018-23.	Moderate

The way forward for anti-corruption policy

Considering the overall slow pace of implementing the previous CO 2021 Recommendations, Albania should further strengthen its anti-corruption framework and practices. It should continue efforts to follow the policy advice set forth in CO 2021 and consider some additional recommendations:

- **Incentivise public bodies to improve the implementation of the anti-corruption strategy and action plan.** The successful suppression of corruption requires not only the effective functioning of key laws and institutions, but also comprehensive efforts across the public sector to implement policy measures. To strengthen implementation, additional incentives for public bodies could include: (1) making data on implementation progress accessible in a user-friendly manner that reflects the achievements of each public body, (2) integrating the progress on anti-corruption actions into the key performance indicators of public bodies and into performance appraisal of managers, and (3) ensuring that all planned anti-corruption actions are financially secured by the state budget through legal guarantees. Lithuania could offer some useful inspiration for implementing new legal provisions and practices more effectively (See Box 7.1).

Box 7.1. Strengthening the responsibility of public sector bodies to prevent corruption in Lithuania

Like many economies, Lithuania encountered and recognised the challenges of insufficient proactiveness and low capacity of public bodies in implementing anti-corruption actions despite the existence of specialised anti-corruption institutions at the national level that aim to ensure the overall development, coherence and implementation of anti-corruption policies.

In 2021, Lithuania adopted a new Law on Prevention of Corruption in an attempt to overcome these challenges. Among the innovations brought by the law were:

- a direct responsibility of public sector bodies and their heads for preventing corruption and ensuring they live up to the anti-corruption standards
- the preparation of special methodologies for corruption risk assessments and evaluations of resilience for individual public bodies

- a requirement for entities to assess their own anti-corruption practices (quality and effectiveness) and those of subordinate bodies
- an obligation to publish information about violations detected over the past three years and actions taken to mitigate the impact.

Despite the recent implementation of the new law, which has not yet allowed for a comprehensive impact evaluation, Lithuania's anti-corruption agency, the Special Investigation Service (SIS), reported an unprecedented interest of public sector representatives in understanding their role and demand for practical recommendations. The SIS saw a fourfold increase in requests to explain how to implement anti-corruption practices and divide anti-corruption-related responsibilities within institutions, which it interprets as a positive sign of increasingly active engagement.

As Lithuania's challenges appear similar to those faced by Albania, it could be beneficial for these economies to share experiences regarding the implementation and effectiveness of the new legal provisions and practices.

Source: Huss et al. (2023[22]).

- **Establish a statutory obligation for all public bodies to ensure corruption risk management** (including assessment) and establish a legal obligation to carry out corruption proofing of legislation, including for legislation already in force. The OECD Recommendation on Public Integrity[3] calls to (among other things) ensure a controlled environment[4] with clear objectives as well as a strategic approach to risk management that includes assessing risks, addressing control weaknesses and establishing an efficient monitoring and quality assurance mechanism. While Albania is on course to expand the practice of corruption risk assessment to the whole public sector, ensuring full risk management should be a clear statutory duty of each body and its management. Establishing the legal basis for systematic corruption proofing of current legislation would be a further crucial step to limit corruption risks arising from deficiencies in the existing legal framework.
- **Prepare and publish detailed statistics** about the compliance with obligations, prohibitions and restrictions related to the management of conflicts of interest, including the invalidation of administrative acts and contracts concluded under conditions of conflicts of interest. The availability of comprehensive data would not only better reflect the performance of the HIDAACI but also demonstrate the overall progress in ensuring that the discharge of public powers does not serve narrow private interests. Albania may wish, for instance, to consider the practice of Latvia, which publishes detailed information about each conflict-of-interest-related violation committed by a public official, including the name and position of the individual, a short description of the violation and the applied penalty.[5] Albania could also consider developing digital data-mining tools to detect signs of conflict of interest. An example of such a tool is ARACHNE,[6] developed by the European Commission. It comprises a database of projects containing information from managing authorities and public sources, identifying "the projects, beneficiaries, contracts and contractors that might be susceptible to risks of fraud, conflicts of interest and irregularities". ARACHNE features various risk indicators concerning procurement, contract management, eligibility, performance, concentration, and reputational and fraud alerts. Additionally, the tool alerts legal links between persons and identifies risks of conflict of interest (European Commission, 2021[23]).

- **Develop legislation to strengthen the protection of whistleblowers**, including by removing the good-faith requirement; providing protection for public disclosure, for facilitators of whistleblowing and for persons connected with whistleblowers; and by eliminating deterring conditions for external

reporting to the HIDAACI. Whether or not a whistleblower acted under a motive of good faith is immaterial for the merits of the reported information. EU law envisages protection for a person who makes a public disclosure if, for example, the person has reasonable grounds to believe that the breach may constitute an imminent or manifest danger to the public interest or if, when reporting to an external body, there would be a risk of retaliation or a low prospect for an effective handling of the breach. The relevant EU directive also envisages several other rules and measures favourable to the whistleblower and related persons that are currently absent in Albania's whistleblowing law.

- **Strengthen corporate liability for corruption offences** by significantly increasing the maximum applicable fines. Monetary sanctions should be sufficiently severe to affect large corporations that may engage in corrupt acts, potentially yielding millions of euros in profits. While international standards do not define what sufficient sanctions look like, the OECD Working Group on Bribery in International Business Transactions recommends that monetary sanctions should be sufficiently severe to affect large multinational corporations. In certain economies, statutory sanction ceilings of a few million euros have been found to be insufficient (OECD ACN, 2015[24]). Based on these findings, the Working Group has encouraged setting maximum fines as a share of a company's turnover (OECD, 2022[25]). While such high levels of fines may not appear relevant for an average company, the law should provide the option of applying adequate sanctions in the event of a large business player engaging in corruption.

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Notes

[1] The Anti-Corruption Glossary can be accessed here: https://www.drejtesia.gov.al/wp-content/uploads/2022/12/Fjalori_Antikorrupsion_AL.pdf.

[2] The Anti-Corruption Guide can be accessed here: https://www.drejtesia.gov.al/wp-content/uploads/2022/02/Guida_Antikorrupsioni_-EN.pdf.

[3] In 2017, the OECD adopted a new Recommendation on Public Integrity, which provides policy makers with the blueprint for a public integrity strategy. The text of the recommendation can be accessed here: www.oecd.org/gov/ethics/OECD-Recommendation-Public-Integrity.pdf.

[4] The controlled environment consists of the set of standards, processes and structures that provide the basis for carrying out internal control across an organisation. For more information, please consult the *OECD Public Integrity Handbook* (OECD, 2020[26]).

[5] Reports on violations of the Law "On Prevention of Conflict of Interest in the Activities of Public Officials" found in the activities of public officials in Latvia can be accessed here: www.knab.gov.lv/lv/media/4098/download?attachment.

[6] For more information on ARACHNE, please consult the European Commission's website here: ec.europa.eu/social/main.jsp?catId=325&intPageId=3587&langId=en.

8 Education policy

A robust education policy framework is essential for developing human capital and meeting the labour market's need for a skilled and productive labour force. This chapter, composed of four sub-dimensions, assesses the presence and efficacy of education strategies, legislation, programmes and institutions. The first sub-dimension, equitable education for an inclusive society, examines system governance and the quality of pre-university education starting from preschool. The second, teachers, looks at the selection, initial training and ongoing professional development and management of the teaching workforce. The third sub-dimension, school-to-work transition, focuses on VET governance and the labour market relevance and outcomes of higher education. The fourth sub-dimension, skills for green-digital transition, explores the frameworks and initiatives for fostering green and digital skills in education curricula.

Key findings

Albania has continued to increase its overall education policy score since the last *Competitiveness Outlook* (CO), remaining well above the regional average (Table 8.1). Its performance in ensuring an equitable education for an inclusive society and reinforcing teachers' education and training has continued to improve. Conversely, further progress has been limited by the nascent policies on the skills needed for the green-digital transition.

Table 8.1. Albania's scores for education policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Education	7.1: Equitable education for an inclusive society			3.8	3.3
	7.2: Teachers			4.0	3.1
	7.3: School-to-work transition			3.5	3.4
	7.4: Skills for the green-digital transition			3.0	2.0
Albania's overall score		**2.4**	**3.3**	**3.6**	**3.0**

The **key findings** are:

- Albania's performance in PISA 2022 (Programme for International Student Assessment) significantly deteriorated compared to 2018 in mathematics, reading and science (by 69, 47 and 41 points, respectively), the largest decline observed among the other participating economies in the region.
- In 2021, Albania approved its National Strategy for Education 2021-26, which is the first strategy to encompass both pre-university and university education. Monitoring of the strategy has been strengthening, and it foresees an annual evaluation analysis of the education system, although no progress report has been published yet.
- There has been a significant priority placed on increasing participation in early childhood education and care (ECEC) with positive results shown through augmented coverage. Albania is outperforming its regional peers with a net enrolment rate in pre-primary education of 75% in 2022, but these rates still lag behind EU and OECD levels (85% and 88%, respectively).
- Requirements to enter the teaching profession have changed, particularly with the aim of improving the supply of teachers. Individuals with a university diploma in a relevant field can become teachers, provided they undergo psycho-pedagogical training and have obtained an average grade criterion of 7.5. Additionally, higher education institutions are working on a unified programme for continuous training in the field of teaching.
- School-to-work transition remains a challenge for Albania, with high youth unemployment rates (28.2% in 2022) and decreasing vocational education and training (VET) enrolment. However, the government has made efforts to consolidate the VET institutional framework, improved quality assurance of VET and adopted a new Employment and Skills Strategy (2023-30), with intentions to ensure quality vocational education and training.
- Education digitalisation is increasingly recognised as a priority for Albania. There is a specific priority for digitalisation outlined in the National Strategy of Education 2021-26 and a cross-sectoral Strategy for the Digital Agenda 2022-26. Information and communications technology (ICT) curricula are being revised for all levels of education, with ICT included from Grade 1. On the other hand, initiatives to help students develop the skills needed for the green transition are yet to be developed.

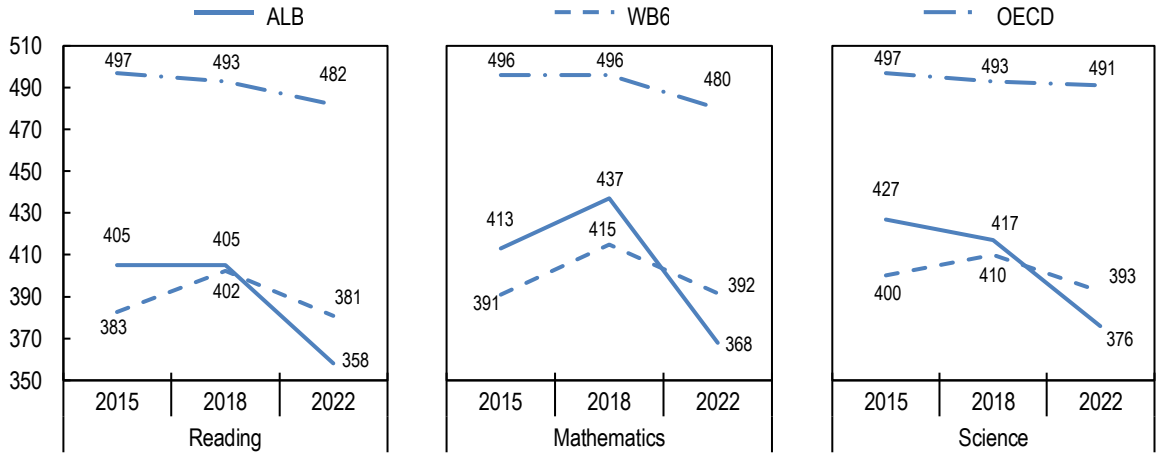
State of play and key developments

Over the past few years, net enrolment rates in both primary and secondary education in Albania have been trending downward, albeit at varying paces. Primary education enrolment rates have exhibited the sharpest decline, falling from 98.3% in 2017 to 90.8% in 2022 (UIS, 2023[1]). Notably, there was a substantial drop of 2.8 percentage points between 2020 and 2021, followed by a further decrease of 3.0 percentage points between 2021 and 2022. In a similar pattern, net enrolment rates in lower secondary education decreased, although this drop was much smaller at only 2.5 percentage points (98.6% in 2017 to 96.1% in 2022). Even given the decline, this figure remains comparable to EU and OECD levels (98%). Conversely, the decrease in enrolment rates in upper secondary education (89.0% in 2017 to 85.5% in 2022) widened the gap with EU and OECD averages, which stood at 93%. Recent data reveal the continuation of this trend: Albania's national statistics institute INSTAT reported that enrolment in both primary and secondary education dropped by 4.0% and 7.4%, respectively, between the 2021/22 and 2022/23 school years (Taylor, 2023[2]).

The Programme for International Student Assessment (PISA) 2022 results show that Albania's average scores in mathematics, reading and science are slightly lower than the WB average, and much lower than the EU and OECD averages (Figure 8.1). At the same time, 56.2% of Albanian students were low performers, or those who did not achieve a baseline level of proficiency needed to participate fully in society (Level 2), in all three subjects – a proportion more than three times above the OECD average (16.4%) (OECD, 2023[3]). While both the WB and the OECD area saw a decrease in their average scores compared to 2018, the deterioration for Albania was by far the most significant in the WB region. For example, Albania's average mean score in mathematics fell by 69 points, while the OECD area's average mean score only declined by 15 points, illustrating the magnitude of the economy's weakening performance. Yet despite this reduction in score, Albania's ranking fell by only one place between the PISA 2018 and PISA 2022 evaluation, dropping from 61st to 62nd place.

Figure 8.1. PISA performance in reading, mathematics and science in Albania (2015-22)

Scores are expressed in points



Note: WB6 average excludes Bosnia and Herzegovina for PISA 2015 and PISA 2022 and excludes Serbia for PISA 2015.
Source: OECD (2023[3]).

The observed drop in the results may be attributed to a combination of different external factors. On the one hand, the 2019 earthquake in Albania caused serious damage to education infrastructure. This resulted in more than half of students who participated in PISA 2022 studying outside of their regular schools and reduced teaching hours until April 2022. On the other hand, the COVID-19 pandemic further hindered the regular functioning of the education system in Albania. These disruptions on learning and on the psychosocial life of students may have had a negative impact on the engagement of students in PISA 2022 (OECD, 2023[3]).

Sub-dimension 7.1: Equitable education for an inclusive society

Since the last assessment, Albania has continued efforts to strengthen its education **system governance**, aligning progressively with EU and OECD education systems. In 2021, the National Strategy for Education 2021-26 was adopted. This is the first strategy encompassing all levels of education. Only vocational education and training (VET) and adult learning are addressed separately by the National Employment and Skills Strategy 2023-30. The new national education strategy has a clear vision, budget, timeline and implementation plan, and was developed in consultation with a range of stakeholders. Albania also has a national qualifications framework (AQF) that was introduced in 2010. In 2021, the European Qualifications Framework (EQF) Advisory Group adopted a referencing report aligning the AQF with the EQF. The referencing is a milestone ensuring transparency and promoting quality assurance through the alignment of the frameworks.

Albania is making efforts to improve data collection, monitoring and evaluation. It has data on learning outcomes from international assessments like PISA and from the National Assessment of Primary Education Pupils' Achievement (VANAF) in Grade 5. Also, since 2022, it has been working on fully developing the Pre-university Information Management System (SMIP) to digitally collect and process information on student attendance and grades. For the first time, starting from the 2023/24 school year, using SMIP is obligatory for all schools and teachers across the economy.[1] While this is a positive development, issues posed by limited digital infrastructure or insufficient teacher training hinder the effectiveness of the platform's implementation (Dervishi and Vrapi, 2022[4]). Furthermore, Albania is introducing an annual evaluation process on system performance. In that regard, the Ministry of Education, Sports and Youth (MoESY) adopted a Pre-University Education System Performance Assessment Manual and Methodology in 2022 and determined a national indicator framework in 2023. Implementing this system evaluation will help better identify the achievements and challenges for pre-university education and adjust policies as necessary.

The economy's government expenditure on education as a share of GDP has decreased from 3.9% in 2019 to 3.1% in 2021, and is much lower than the OECD (5%) and EU (5%) averages (World Bank, 2024[5]). Moreover, spending per pupil in Albania is a mere one-tenth of the average spending by OECD countries (EUR 804 versus EUR 8 395, respectively[2]) (UNICEF Albania, 2021[6]). The challenge posed by funding is most notable for preschool education, which has suffered long-term underfinancing. Indeed, while the EU average for preschool education spending hovers around 4.9% of GDP, Albania's average is only 0.29% of GDP (UNICEF Albania, 2021[6]).

Albania performs relatively better in **early childhood education and care** (ECEC) compared to the WB6, with higher enrolment rates and a specific strategic and legal framework regulating ECEC. Net enrolment in pre-primary education was 75% in 2021. While lower than the OECD[3] and EU[4] averages (85% and 88%, respectively) ECEC enrolment in Albania is significantly higher than most WB6 economies (UIS, 2023[1]). However, pre-primary education is not compulsory and some children from vulnerable groups continue to face barriers to access. The government aims to address these barriers through specific objectives outlined in the National Agenda on Child Rights 2021-26. These include financial support for children from low-income families attending public day care and kindergarten, and exemption of fees for Roma and Egyptian students in early childhood education. On the other hand, the curriculum sets out learning standards for

different age groups in ECEC and there is an assessment framework to help monitor early childhood learning and development. Legislation also sets out minimum education requirements and standards for preschool teachers and principals. However, following the decentralisation of ECEC in 2016, the distribution of competencies between the national and local levels of government remains ambiguous. Another challenge is that preschool education services have suffered long-term underfinancing (EuroPartners Development, 2023[7]).

Albania's initiatives to strengthen its instruction system contribute to ensuring **quality instruction for all**. The National Strategy for Education 2021-26 sets out a vision to improve quality and equity in education. Albania has a competence-based curriculum for all education levels and harmonised with the EU, and clear learning standards aligned with the curriculum and student assessments. Learning standards are established to serve as a baseline for syllabuses, teacher guides, and other materials that support teaching and learning. In 2021, Albania decided to introduce English as a foreign language starting from Grade 1. In addition, Albania has several standardised assessments and examinations of student learning. The Educational Services Centre drafts and administers the national assessment (VANAF) for students in Grade 5 and national examinations (National Exam of Basic Education and State Matura) for students in Grades 9 and 12, respectively. It also manages the country's participation in international assessments. In 2023, the Ministry of Education, Sports and Youth introduced new innovations for the State Matura, such as the design of special tests for students with disabilities (MoESY, 2023[8]). School performance cards and national assessments and examinations provide information about school performance and student learning outcomes. While some of this information is contextualised (such as by geographic region or gender), data on student participation, retention, learning outcomes and school performance disaggregated by socio-economic background are not available. Therefore, Albania has yet to progress in its efforts to build monitoring and evaluation at the system level. The economy has a School Evaluation Framework that sets out school quality standards and serves as the main reference for external and internal school evaluation.

The early school-leaving rate in Albania (15.5% in 2022) is much higher than the WB6 (7.6%) and EU (9.6%) averages (Eurostat, 2023[9]). Recognising this issue, there are several policies in place for the prevention of early school leaving. In the National Education Strategy 2021-26, there are targeted mechanisms to provide schools with additional resources to increase participation and retention as well as to help to raise learning outcomes of different student groups, based on their needs. At the level of the Local Offices of Pre-university Education, a school dropout reduction network has been established, consisting of heads of institutions, teachers and psychosocial service workers as well as security officers. However, while these developments are positive, Albania reportedly exhibits one of the highest degrees of social segregation in schools across the entire Western Balkans and Eastern Europe (Global Education Monitoring Report Team, European Agency for Special Needs and Inclusive Education, and Network of Education Policy Centers, 2021[10]).

Sub-dimension 7.2: Teachers

The accreditation criteria for **initial teacher education (ITE)** in Albania are the same as the general accreditation process for higher education institutions. The requirements for teacher certification are higher than the average in OECD countries. In general, teachers are required to obtain a master's degree in order to be certified to teach in the country's public schools at the primary and secondary level. However, to increase the number of applications to ITE, the required grade point average to enter some teaching programmes was reduced from 7.5 to 6.5 in 2022. Candidates who have completed ITE must conduct a nine-month teaching internship, pass a state examination, and take a separate recruitment test before they can become fully certified teachers. The online portal "Teachers for Albania" helps manage the recruitment process across the country. New teachers have access to professional networks and three training days per year offered by accredited providers.

However, Albania has witnessed a dramatic reduction in the number of high school graduates who choose to study teaching in recent years. In response, the government has introduced new alternative pathways to enter the teaching profession to improve the teacher supply. As of 2023, the teaching profession can be exercised by individuals who hold a university diploma of first and second cycles or dual university diploma – equivalent to a teaching field/subject in pre-university education. Candidates must also have certified knowledge in psycho-pedagogical training by institutions of higher education offering continuing education study programmes. Currently, a working group of professors in public and private higher education is working on unifying the continuing education programme for the teaching profession.

There have also been some efforts to increase recruitment and the attractiveness of teaching (relative to other professions). A state examination for the regulated profession of assistant teachers was held for the first time and the profile of teachers in "special education" has become a licensed profession. Teachers' salaries have increased by 7% in 2023 and another increase is planned for 2024, as part of a wider reform to increase salaries of public employees. The government is in the process of re-examining teachers' workload – which, if reformed, could lead to an improvement in working conditions by enhancing job satisfaction and facilitating a better work-life balance.

Albania has been developing its regulatory framework for the **professional management and development of teachers**. Since 2021, there are new professional teacher standards for the use of information and communications technology (ICT) in place, and professional teacher standards for VET teachers are being developed. The Commission for the Accreditation of Training Programmes holds the specific mandate of accrediting these professional development programmes. On the other hand, the Agency for the Assurance of Quality in Pre-University Education determines teacher development needs using a range of sources, such as self-appraisals or surveys, appraisals by school leadership and external experts, results from teacher qualification tests and student results on national and international assessments and exams. A study to identify the professional development needs of teachers conducted once every four years was most recently completed in 2021, highlighting the need to further support new teachers, and develop all teachers' digital skills.

There are three categories of teachers in Albania (qualified, specialist and master), which align with years of experience and the accrual of professional development credits. As teachers progress through these categories, upward movement is accompanied by salary increases. For example, obtaining a "qualified teacher" title corresponds with a 5% salary increase, while achieving the "specialist" or "master" titles each leads to a 10% salary increase. Teachers' standards in Albania are, however, not differentiated by competency level, contrary to an increasing number of OECD countries. Therefore, teachers at different qualification categories are not expected to demonstrate different levels of competency. The state supports teachers by financing professional development activities and providing access to professional learning networks. All teachers must complete at least three days of training per year and go through certification processes to evaluate their professional development and impact on the teaching process. In this process, they now receive an e-certificate for their level in the teaching career structure.

Sub-dimension 7.3: School-to-work transition

There are some indications that school-to-work transition in Albania has gone back to levels similar to those pre-COVID-19, although it continues to remain a challenge. For instance, the unemployment rate of youth (ages 15-24) decreased from 29.7% in 2021 to 26.9% in 2023 (World Bank, 2024[5]). However, the youth unemployment rate is still more than 10 percentage points higher than the EU average (15.8% in 2023). Similarly, Albania's NEET rate (not in education, employment or training) decreased from 26.5% in 2018 to 23.5% in 2022, although this is approximately 2.5 times the rate in the EU (9.6% in 2022) (Vienna Institute for International Economic Studies, 2023[11]; Eurostat, 2024[12]).

In this context, VET programmes can play an important role in facilitating the school-to-work transition by providing practical skills, hands-on experience, and industry-relevant training that directly prepare individuals for employment opportunities and career pathways. In the 2021/22 school year, 16 516 students were enrolled in VET, accounting for 17% of the total students enrolled in upper secondary education. Moreover, there are 34 public and 12 private schools offering initial VET (IVET) in Albania (ETF, 2022[13]).

Albania has made progress in the area of **VET governance** by strengthening its institutional framework and the quality assurance framework of VET programmes, but continues to face challenges in increasing VET enrolment and improving resources for the sector. VET enrolment fell in the 2022/23 school year compared to the previous year (European Commission, 2023[14]), and vocational students tend to have weaker numeracy skills than their peers in general education. However, Albania has the second narrowest learning gap in this area in the region (35 score points in PISA 2022), which is also lower than the OECD average (59 score points in PISA 2022).

VET governance is centralised under the Ministry of Finance and Economy, which oversees a state-funded system composed of vocational schools (targeting young people) and vocational training centres (mainly targeting adults). Supporting the Ministry are the National Employment and Skills Agency (NESA) and the National Agency of Vocational Education Training and Qualifications (NAVETQ). Albania has made efforts to reinforce and restructure these agencies by increasing their resources or allocating new responsibilities. For instance, the number of employees in the National Agency for Employment and Skills (NAES) has increased due to these additional responsibilities of administering and managing education and professional training providers. However, staffing for both NAES and NAVETQ remains inadequate (European Commission, 2023[14]). Co-ordination and policy coherence is ensured by the National VET Council at the national level, NESA Governing Committees at the regional level and Steering Committees in each VET school. Stakeholders can participate via these co-ordination bodies.

The National Strategy on Employment and Skills 2023-30 is the main strategy that sets out the vision and policy goals for VET. One of its priorities is skills development for better matching of demand with supply in the labour market for more employment, in great part through an improved VET system. One of the reforms implemented towards that direction has been the development of a quality assurance framework for VET, although in the context of the Swiss-funded Skills Development for Employment Programme. This involved the development of an accreditation model for all VET providers, procedures, criteria, and standards, as well as capacity development for the National Agency for VET and Qualifications and external evaluators who are in charge to assess the criteria for accreditation. Until March 2023, six VET providers (public and private) successfully completed the accreditation process and received certification, and the accreditation process will be fully implemented by 2024 based on the Action Plan for the Strategy on Employment and Skills 2023-30.[5] Another strategy that will guide VET governance in Albania is the recently prepared Optimisation Plan of VET. Its implementation commenced in 2023 in the Durrës/Kavaje, Elbasan, and Korce regions and will continue throughout 2024.

To ensure that the system adequately responds to the labour market needs for skills, NESA conducts annual studies of labour market skills needs. The government collects information on completion rates, employment rates of VET graduates, and the number of learners who are hired after completing an apprenticeship or work-based learning (WBL) opportunity. However, there is no information gathered on VET graduates' salaries.

In Albania, there is a specific regulatory framework governing work-based learning (WBL). According to the regulation, every school student should have a contract with the company in which they carry out a professional practice. There are no financial and/or non-financial incentive schemes for employers to encourage apprenticeships or other forms of WBL. The system collects some information to monitor the WBL sector, but there is no information on demographics, completion rates or credits/wages earned.

One of the top priorities of the National Education Strategy (2023-30) is the **labour market relevance of higher education.** The government is developing short-cycle tertiary education programmes (ISCED 5)[6] in higher education public institutions, to enable more young people to obtain high qualifications in a shorter time, as well as to transition faster to the labour market. For instance, the "Innovation and Excellence in Manufacturing" and "Innovation and Excellence in Information Technology (IT)" training programmes offer qualifications in innovation, design, marketing, and research and development, with the cost of participation entirely covered by the government. These packages not only aim to cultivate relevant, in-demand skills among young people, but also direct them toward growing sectors with more plentiful employment opportunities.

Furthermore, higher education institutions will be encouraged to design and offer continuing education programmes as a way to support better labour market integration. These programmes can be offered as qualification and requalification courses, summer schools and similar activities. There are a number of policies to promote the internationalisation of students and staff, and quality assurance bodies align with the standards and guidelines of the European Higher Education Area. The Albanian Government will make available a fund to urge public local higher education institutions (HEIs) to launch and provide joint study programmes with EU HEIs. There are also some targeted mechanisms in place to help align programmes with labour market demands, such as the Labour Market Observatory. This instrument, which was built recently and is now operational, aims to collect all the labour market information from all the responsible actors/institutions in order to provide a complete overview of the situation and better orient the policies on the required/necessary professions.

Sub-dimension 7.4: Skills for the green-digital transition

The **digital skills development** of students is gaining prominence in Albania. This is reflected in the new Digital Agenda for Albania 2022-26 and the National Strategy of Education 2021-26, which has a dedicated priority for digitalisation. One of the main actions towards preparing students for the digital transition is the revision of the ICT curriculum. There is an inter-institutional working group in charge of revising the ICT curriculum for Grade 1 to Grade 3 as well as equipping schools with "smart labs." ICT and digital skills development courses are incorporated in the curricula in both primary and secondary education, following a coherent progression. Coding courses have been introduced as part of the curricula in primary school, starting in Grade 1, in the 2023/24 school year. To support this transition, Albania has developed professional standards guiding teachers' ICT use and offers them ongoing training and professional development opportunities in this field. However, a 2021 survey found that 85% of teachers assessed their digital competence to be either at a beginner or elementary level. Plans are under way to establish ten technological youth centres nationwide by the end of 2024. These centres will offer training in digital skills to young people through individual sessions, workshops and projects.

However, despite efforts to improve technological resources in schools, they remain inadequate. PISA 2022 results showed that Albania has one of the lowest rates of availability of computers by student of all WB6 economies: one computer for every five students, which is much lower than the OECD average of 1.2 computers per student (OECD, 2023[3]). Additionally, 65% of students study in schools reported to have inadequate or poor-quality digital resources, compared to 25% in the OECD (OECD, 2023[3]). The Albanian Government has attempted to partially address this issue by allocating ALL 10 million (EUR 96 450) from the 2023 budget for the Ministry of Education to purchase computers and electronic equipment for schools. However, given the priority that the next PISA exam will place on digital learning, it is likely that Albania's ranking might fall without substantial reforms made to the economy's approach to promoting digital skills. There are no reports publicly available that present regular monitoring results of performance indicators or programmes on digital skills development for students.

Education policies can play an essential role in preparing students for the green transition and ensuring that greening the economy does not lead to new forms of vulnerability and deprivation. As with most Western Balkan economies, Albania's work on supporting **green skills development** for students is at an early stage. While there is no dedicated policy for green skills, the framework outlining the curriculum for pre-university education includes a competency related to environmental protection and sustainable development. Moreover, schools have mandatory courses and various activities to promote students' knowledge to contribute to a greener and more sustainable economy. One such example is the "Land at school" initiative, which, as of March 2023, requires all schools to develop gardens to confer a sense of responsibility for the environment among students. Albania also plans to integrate skills needed for the green transition in the VET curriculum, although recent initiatives only include more generally promoting vocational education and providing enhanced career guidance for students.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania's level of progress in implementing CO 2021 Recommendations is varied. On the one hand, the economy has fully implemented the recommendation to develop a new education strategy and improve its monitoring. Conversely, efforts to strengthen data collection and management have been moderate, and there has only been limited progress on planning exercises to identify teacher demand and to ensure integrity in external school evaluation. Table 8.2 presents a more detailed picture of Albania's progress on implementing past recommendations for education policy.

Table 8.2. Albania's progress on past recommendations for education policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Develop Albania's new education strategy with a clear set of priorities and a strong monitoring framework	MoESY in Albania has adopted the "National Strategy for Education 2021-26". For the first time, the strategy includes all levels of education from preschool education to higher education. Monitoring is based on an information collection system and analysis of monitoring indicators of the Integrated Planning System Information System (IPSIS).	Strong
Conduct forward planning exercises to identify teacher demand	While the new National Education Strategy highlights the lack of certain teacher profiles in some areas of the country, there have been a number of measures planned in this regard, but no measures have been implemented yet.	Limited
Ensure integrity in external school evaluation	There are external evaluation mechanisms in both in pre-university education and in higher education. Albania intends to implement the Higher Education Information Management System (SMIAL), which will enable the periodic transparent evaluation of HEIs through comparative indicators at the international level. However, the integrity of these evaluations is compromised by several high-profile instances of cheating during the state matura exams.	Limited
Continue to strengthen the collection and management of data	Efforts to improve the collection and management of education data and linking various databases have continued. The new education strategy aims to have a fully functioning Pre-university Information Management System (SMIP), and to create the Higher Education Information Management System (SMIAL).	Moderate

The way forward for education policy

Albania's education system exhibits a nuanced landscape with notable achievements and challenges across various dimensions. Notably, the steep decline in performance in PISA 2022 relative to both the regional and OECD averages highlights the need for more focused efforts in improving the education system. Key challenges include disparities in access to education, limitations in monitoring and evaluation

practices, and the challenges of school-to-work transition. To address these issues, the following policy recommendations are proposed:

- **Improve the quality and equity of education performance in line with findings of international assessments such as PISA.** The significant decrease in performance in PISA 2022 underscores the need to ensure adequate and equitable allocation of financial resources to schools. Albania should ensure continued participation in international assessments (e.g. PISA, International Computer and Information Literacy Study [ICILS]) to monitor progress.
- **Continue efforts to improve monitoring and evaluation at the system level.** System evaluation in Albania is not yet sufficiently developed due to the limited availability of co-ordinated and high-quality data. To address this, ensure implementation of planned improvements to the Pre-university Information Management System (SMIP) and the planned annual system performance evaluation process outlined in the education strategy. Albania should also work towards making data on student participation, retention, learning outcomes, and school performance disaggregated by socio-economic background readily available for comprehensive analysis.
- **Enhance access to ECEC and primary education for all groups.** Remove barriers to access for children, particularly those from vulnerable groups, by reinforcing the National Agenda on Child Rights initiatives. Consider making pre-primary education compulsory to promote inclusivity and ensure a strong foundation for all children. Albania should also allocate sufficient resources to overcome long-term underfinancing issues in preschool education.
- **Continue reforms to modernise VET and ensure implementation of work-based learning (WBL).** School-to-work transition is a significant challenge in Albania, and the VET system can help ensure graduates are well prepared for the demands of the labour market. To do so, Albania should implement VET curriculum reforms to align with labour market needs, and strengthen co-operation with social partners, in particular employers, who can increase provision of WBL opportunities. Sweden could offer a good practice example of how to improve the involvement of social partners (Box 8.1).

Box 8.1. Social partners' involvement in Sweden

Since 2007, Sweden has developed a permanent national framework for social partners' involvement. In 2010, programme councils were created for each national upper-secondary VET programme. Thirteen sectoral National Programme Councils (*nationella programråd*) concern themselves with the 12 national vocational programmes. Each council has 8-10 members representing industry, social partners, and sometimes national and regional authorities, and meets around six times a year. Councils advise the National Agency for Education (the government agency that manages, on behalf of the Ministry of Education, the Swedish school system for youth and adults, including upper-secondary VET) on the quality, content and organisation of upper-secondary VET for youth and adults, aiming to match VET provision to labour market needs. The councils advise on proposals for-new subjects or courses submitted by the National Agency, which may lead to modification of the proposals, or possibly even their abandonment. Social partners reported to the OECD that they were generally satisfied with this framework. This is a major achievement, as international experience shows that establishing employer engagement in VET systems can be extremely challenging.

Source: OECD (2022[15]).

- **Enhance support in the education system to promote students' acquisition of digital and green skills.** Regarding digital skills, Albania should ensure that all schools have updated, functional infrastructure and equipment that would enable students to regularly engage with digital tools and build the relevant competencies. Moreover, while initial efforts to integrate green skills into school curricula have been promising, the economy should sustain this momentum by strengthening its policy framework and evaluating the effectiveness of current initiatives to identify areas for improvement and reform.

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Notes

[1] There has been a recent public outcry regarding the use of the SMIP due to concerns about the violation of children's rights. Namely, filing the personal data of children on this government database is seen to be in violation of Law 69/2012 "On Pre-University Education" Articles 66, 67, and Law 9887 "On Protection of Personal Data".

[2] The original data were given in USD, making average spending per child in Albania USD 900, while the OECD average was USD 9 400. The exchange rate used to convert USD to EUR was 1 USD:0.8931 EUR.

[3] The OECD average excludes Canada, Estonia, Japan, South Korea and the United Kingdom.

[4] The EU average excludes Estonia.

[5] This implementation process concerns all public VET providers, as well as private providers offering professional qualifications of AQF levels 2-5.

[6] Level 5 vocational/professional qualifications correspond to a post-secondary study programme of professional type, a professional non-university study programme after secondary education or a vocational certificate.

9 Employment policy

Effective employment policies are crucial for forging a strong economy and fostering economic development and social inclusion. This chapter aims to assess the regulatory framework and policies governing employment, as well as the institutional capacity for implementation. The first sub-dimension focuses on inclusive labour market governance, specifically looking at the employment regulatory and policy framework, labour inspectorates, social dialogue and inclusive employment policies. The second sub-dimension, social protection and activation policies, analyses the public employment services, mutual obligations framework and active labour market programmes. The third sub-dimension, skills for adaptable labour markets, assesses the skills mismatches in the labour market and initiatives for developing digital and green skills. The fourth sub-dimension, expanding the skills pool, focuses on attracting highly skilled migrants and diaspora.

Key findings

Albania has made notable progress in improving its overall employment policies since the last assessment cycle, exceeding the regional average in all four examined sub-dimensions (Table 9.1). Strong advances were made in the areas of inclusive labour market governance as well as social protection and activation policies. Conversely, further efforts could be made in strengthening policies to expand Albania's skills pool and bolstering its labour market's capacity to adapt to the twin green and digital transitions; such reforms would help sustain improvements in policy outcomes.

Table 9.1. Albania's scores for employment policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Employment	8.1: Inclusive labour market governance			3.6	3.2
	8.2: Social protection and activation policies			3.7	3.1
	8.3 Skills for adaptable labour markets			3.3	2.6
	8.4: Expanding the skills pool			3.0	2.4
Albania's overall score		**2.6**	**2.8**	**3.5**	**2.9**

The **key findings** are:

- The Albanian labour market has recovered well from the negative impact of the COVID-19 pandemic. In 2022, the activity rate (73.2%) and employment rate (65%) were the highest in the Western Balkans, with the activity rate close to the EU average (74.5% and 69.8%, respectively). However, the access for vulnerable groups to the labour market remains difficult and youth unemployment remains high (27% compared to the EU average of 16.7%).
- The efficiency of the State Inspectorate for Labour and Social Services (SILSS) has increased on the back of digitalisation reforms, through the promotion and use of the e-inspection platform and automated inspection procedures. Staffing of the Labour Inspectorate increased slightly (6.4%) from 2020 to 2022, and new training and tools were introduced to build additional capacity. Inspection activity increased by 17.4% from 2021 to 2022.
- Skills mismatch remains a challenge for Albania's labour market. Recent surveys indicate that 27% of employees had an education level higher than what their job requires, while 12% reported having a lower level. Embarking on the revision of the curricula of vocational education and training and higher education programmes, and establishing sectoral skills committees in the tourism and information and communications technology (ICT) sectors, are good initial steps to address the challenge.
- Albania lags behind both the region and the EU when it comes to developing the digital skills of its workforce. In 2021, only 23.8% of individuals reported having basic or above-basic levels of digital skills, compared to the EU average of 53.9%. Moreover, in 2023, only 12% of employees reported participation in continuous training to improve their digital skills, compared to 25% on average in the EU.
- Albania has updated its policy framework for migration management, through the development of the new National Strategy on Migration (2024-30). Legal changes during the assessment period facilitate the integration of foreigners into the labour market and bilateral agreements were signed with the other WB6 economies to open the labour market to highly qualified professionals under the Berlin Process framework.

State of play and key developments

In 2022, Albania had the highest activity rate of the population aged 15-64 (73.2%) and the highest employment rate (65%) among WB6 economies, surpassing the corresponding 2019 levels by 3.6 percentage points and 3.8 percentage points, respectively. Moreover, data from the most recent Quarterly Labour Force Survey show a continued rise in the employment rate to 66.7%, bringing Albania closer to the EU average rate of 69.8% (INSTAT, 2024[1]; Eurostat, 2024[2]). Albania also had the highest activity rate of older workers (55-64) among the WB6, at 66.3% in 2021, marking an increase of 1.7 percentage points as compared to 2019 (Vienna Institute for International Economic Studies, 2021[3]).

Sub-dimension 8.1: Inclusive labour market governance

During the assessment period, Albania has made progress in aligning its **legal framework for employment** with the EU *acquis* in several fields. In 2023, the Law on Employment Promotion was amended, reinforcing provisions and programmes for support to the employment of young people and disadvantaged groups (KPMG, 2024[4]). Progress was also made in transposing EU regulations in the field of occupational safety and health (European Commission, 2022[5]). In 2021, provisions on remote working were introduced (in relation to the COVID-19 pandemic), and new working time regulations in public institutions were decided. Yet, there is significant scope to strengthen the legal and policy framework for occupational health and safety, as current institutional capacities for enforcement are weak. Moreover, the alignment of national legislation with key EU documents, such as the EU Strategic Framework for Health and Safety at Work 2021-27 (Box 9.1), remains outstanding (European Commission, 2023[6]). This poses challenges not only to Albania's EU accession ambitions, given that the economy is obliged to align with the EU *acquis*, but also acts as a barrier to further enhancing worker safety.

In terms of its employment **policy framework**, Albania completed the implementation of its National Employment and Skills Strategy 2014-22 and published a final, publicly available monitoring report on its progress in 2023. The report concluded that the strategy achieved major milestones, such as the implementation of the quality assurance framework for vocational education and training (VET), integrated case management for the public employment service, and reforms that pave the way for key employment promotion programmes (Ministry of Finance and Economy, 2023[7]). While it contains a detailed monitoring of activities implemented and those whose implementation is ongoing and delayed, it does not aggregate these to give an overall picture of the strategy's implementation rate.

Albania subsequently adopted its new Employment and Skills Strategy 2023-30, which was prepared in consultation with a wide array of stakeholders as well as with key actors of the international donor community, such as the United Nations Development Programme (UNDP) and United Nations Children's Fund (UNICEF). The strategy's main policy goals are bridging labour market gaps and making the labour market more inclusive, through measures aiming to support the employment of youth and women, improve the efficiency of labour inspections, and develop the green and digital skills of the workforce.

Regarding the **labour inspectorate**, the Albanian State Inspectorate for Labour and Social Services (SILSS) underwent restructuring in 2021. Its work is guided by a strategy that contains targets related to risk-based planning, digitalisation of the inspection process, integration of platforms into the official website of SILSS,[1] e-inspection,[2] and raising awareness of the benefits of compliance with legislation among employers and employees. The SILSS has introduced complaint mechanisms that offer employees the possibility to complain about non-respect of the labour law.[3] Digitalisation has helped the SILSS increase its efficiency through automated planning and streamlined procedures made possible by overarching digital government reforms.

Box 9.1. The EU Strategic Framework on Health and Safety at Work 2021-27

The Strategic Framework on Health and Safety at Work is the EU's overarching policy for improving occupational health and safety (OHS), adopted as part of the European Pillar of Social Rights Action Plan. Based on a joint approach involving the Commission, Member States and social partners, the framework aims to improve the legal, regulatory and policy environment for improving OHS in Europe by achieving three main objectives:

1. *Anticipating and managing change* in a new world of work, specifically when it comes to anticipating the effects of the green and digital transitions on work conditions and the labour market. Initiatives under the strategic framework include modernising legislation related to the use of digital tools at the workplace, including on psychosocial and ergonomic risks, as well as campaigns and studies on issues such as mental health and remote work.
2. *Improving prevention of workplace accidents and illnesses,* through the update of legal frameworks, introducing new OHS standards for safer work environments. The Commission introduced legislation introducing stricter standards for toxic materials such as asbestos and lead in the workplace.
3. *Increasing preparedness for any potential future health crises.* The disruptions and challenges caused by the COVID-19 pandemic brought to light the need for more resilient workplaces that can help labour markets adapt to potential future pandemics or less serious health crises. Within the framework, the Commission encourages national authorities to improve co-ordination mechanisms for future crises, including in exchange of information and co-operation between labour inspectorates and health authorities.

To meet the evolving EU legislation on occupational health and safety, the WB6 economies need to ensure that policies aiming to meet these three objectives are integrated into their domestic policy frameworks.

Sources: European Agency for Safety and Health at Work (2022[8]); European Commission (2021[9]).

In terms of staffing and the capacity to conduct its work effectively, the number of staff of labour inspectorates slightly increased between 2020 and 2021 (by 10, to 165 staff) and the number of inspections increased by 17.4% from 2021 to 2022 (European Commission, 2023[6]). However, despite this positive dynamic, the current staff level does not allow the inspectorate to conduct its role effectively, as the average caseload per inspector increased in line with the increase of inspection activity. Following the audits of the capacity of labour inspectorates, the introduction of new training and tools has been initiated to address the deficiencies within the staff. This training included both initial sessions for new inspectors and refresher training sessions, provided by the Albanian School of Public Administration and SILSS experts at the central level as well as various foreign and Albanian organisations.

Institutional co-operation has been consolidated with the support of the EU-funded Employment and Social Affairs Platform (ESAP) II project; a risk-based inspection planning system has been established as part of the project to address violations of legal provisions concerning informality, working relationships, and working conditions. This system has facilitated the exchange of information between SILSS and other key institutions, such as the General Directorate of Taxation (GDT) and the National Business Centre (NBC) to anticipate and mitigate informality risks. Additionally, with the support of the International Labour Organization (ILO), SILSS has developed a risk assessment tool using data mining and machine learning. Preliminary results indicate that this new tool can predict undeclared and under-declared work with 30% more accuracy than the previous assessment tool (ILO, 2024[10]). Data show that informal employment in

Albania is estimated to be around 29.4% of total employment (INSTAT, 2022[11]). However, inter-institutional co-ordination still has room for improvement in other areas when it comes to effectively monitoring compliance in the labour market. For instance, the current framework for monitoring child labour, as well as mechanisms for co-ordination among key institutions such as SILSS and the Agency for the Protection of Children's Rights, remains weak (European Commission, 2023[6]).

Key elements of a **social dialogue framework** are in place defining the role of social partners, the bipartite collective bargaining structure, and the mechanism for dispute resolution, including tripartite consultation. However, workplace-level representation remains underdeveloped and limited to health and safety councils. Collective bargaining predominantly focuses on wages, working hours, training sessions, working conditions, trade union rights and accident insurance, with limited attention paid to regulating non-standard forms of work. Improvements have been made in the monitoring of collective bargaining within the framework of the ESAP II during the years 2021-23. The related Results Framework sets objectives and evaluates the performance of the social dialogue institutions in the same years.

Albania had the highest activity rate and the highest employment rate for women among Western Balkan 6 economies in 2021 (Vienna Institute for International Economic Studies, 2021[3]). Following a decline in women's employment rates during the pandemic, the rate rose to 58.9% in 2022, surpassing the 2019 rate of 54.4%. Despite this improvement, Albania's women's employment rate was 6 percentage points below the EU average and 12.4 percentage points lower than the one for men – showing that despite strong improvements, further efforts can be made in addressing the issue of gender inequality in the labour market.

Progress was made in the implementation of policies aiming for an **inclusive labour market**. Albania aims to continue addressing gender inequalities through the National Strategy for Gender Equality 2021-30. Specifically, there were advances in the area of reconciling work and family life: "Family Hub" services were set up, including the provision of day care for children. In the framework of social fund financing, eight community-based services for children (including children with disabilities) were established, and for the first time two services for the elderly (family assistance) were established. Such efforts are important, given that many female workers in Albania have reported a deterioration in their work-life balance in recent years (Xhumari, 2023[12]). Namely, nearly one-fifth of Albanian women attribute their economic inactivity to family obligations.

In 2021, the activity rate among young people (15-24) was the highest among the WB6 economies, and the pre-pandemic level was nearly achieved.[4] However, in 2022 Albania had the second highest rate of young people not in employment, education, or training (NEET) in the region at 23.5%, more than double the EU average of 9.6% (Vienna Institute for International Economic Studies, 2023[13]; Eurostat, 2024[14]). This underscores the need to address the issue of unemployed youth.

To tackle the issue, Albania adopted the National Youth Strategy 2022-29 (NYS 2022-29) in line with the European Youth Strategy 2019-27, aiming to improve the overall position of youth in society through building employment skills, increasing opportunities in the labour market and fostering innovation and quality education. Employment policies have also continued to target other vulnerable groups such as Roma and other ethnic minorities, people living in extreme poverty, people with disabilities, people with a low skill level, the older unemployed, and victims of violence.

Sub-dimension 8.2: Social protection and activation policies

In 2023, Albania had the second lowest unemployment rate in the Western Balkans with a level of 11.1%, although this remains far above the EU average of 6.0% (World Bank, 2024[15]; Eurostat, 2024[16]). Nevertheless, this unemployment rate fell under the pre-pandemic level (11.5% in 2019). Women had a higher risk of being unemployed.[5] About 62.8% of all unemployed were long-term unemployed in 2022, only a slight decrease since 2019, and largely above the EU average of 38.4% (Vienna Institute for

International Economic Studies, 2021[3]; Eurostat, 2024[17]). The figure is evidence of an acute problem of long-term unemployment, possibly affecting vulnerable groups disproportionately.

Albania's **public employment service** (PES), the National Agency for Employment and Skills (NAES), is continuing to focus on the provision of services for vulnerable groups. The emphasis is newly on NEETs, and there has been progress in implementing profiling and counselling. The NAES is putting to use a profiling tool to assess the employability of each jobseeker and to classify them into one of three groups depending on their level of employability, which would allow the service to intensify and tailor the support it provides to the least employable jobseekers.

Given the high share of vulnerable jobseekers registered with the PES, the workload of its counsellors is still high, making it difficult to implement in-depth counselling and follow-up. However, NAES has made progress in becoming more efficient and effective. Notably, the agency is currently in the process of reorganising the distribution of job counsellors at the local level to align the average client/staff ratio across the entire territory, although the total number of the institution's staff is likely to stay the same. For the first time, two mobile offices are planned to be set up in Tirana and the Durrës region, with counsellors deployed in municipalities where they are most needed and moved from municipality to municipality on a rotating basis. Digitalisation of processes was also conducted in order to improve administrative efficiency.[6]

The effectiveness of the PES is hampered by its insufficient coverage of jobseekers. In 2021, only 47.2% of unemployed persons were registered with the NAES,[7] a slight improvement compared to 2019. However, this leaves significant room for improvement when it comes to ensuring support for a wider range of unemployed individuals. Many jobseekers registered with the service do not receive any benefit, such as unemployment benefits or social assistance, which reduces their incentive to register or expect helpful service provision.

Social assistance and unemployment benefits remain low, limiting their effectiveness, despite an increase in financial benefits being decided in 2021. A roadmap is being developed with the support of the World Bank outlining the process for assessing and reviewing the adequacy of benefits by the end of 2024 (Jorgoni, 2022[18]). Programmes are in place to support the long-term unemployed. For instance, NAES is implementing the Community Works Program, delivered by NGOs and public bodies, which targets the most vulnerable long-term adult unemployed jobseekers. This programme aims to include in the labour market jobseekers who have been away from it a long time and those from disadvantaged groups. Through this programme, part-time employment and professional training are provided at the same time.

Progress can be noted in the co-operation between employment services and social services, as well as in improving coverage and co-ordination at the local level. Since 2022, regional commissions have been established and are functioning in all 12 regions; these evaluate and refer for employment and social integration people of active working age receiving welfare benefits.[8] Local employment offices have profiled the individuals referred by the State Social Service (SHSSH), and identified employment opportunities, participation in vocational training courses or participation in employment promotion programmes. However, a limitation for implementing integrated employment and social services is the modest public spending on social care services programmes (Jorgoni, 2022[18]).

NAES is implementing a wide array of **active labour market programmes** (ALMPs), including employment subsidies for 4, 6 and 12 months, a 4-month on-the-job training programme, a 6-month internship programme, a self-employment programme, and the community works programme (which absorbs the highest budget among the ALMPs). Additionally, there are vocational training programmes available, which include continuing training and VET offers. Albania has also made progress in setting up a system for social enterprises. The budget spent for ALMPs (assessed at 0.25% of gross domestic product) is comparatively high compared to other economies in the region, but below the EU-27 average (0.39%). Overall, ALMPs in Albania are targeted at youth in general and young NEET in particular, specific groups of women, older unemployed, people with disabilities, ethnic minorities, long-term unemployed, and migrants. However, for individuals with multiple vulnerabilities (such as long-term unemployment and

a low education level), support through ALMPs or targeted services is fragmented and thus less readily available (Miluka and Tori, 2021[19]). A monitoring system for ALMPs is in place, with external experts' evaluations of their sustainability planned for the second half of 2024.

Sub-dimension 8.3: Skills for adaptable labour markets

The risk of unemployment was higher for those with a medium International Standard Classification of Education qualification level (ISCED 3-4), as compared to those with a low qualification (ISCED 0-2) or high qualification (ISCED 5-8) level. However, individuals with lower levels of qualification saw a stronger negative impact on their employment rate during the pandemic year in 2020 and a weaker recovery in employment rates following the pandemic (Vienna Institute for International Economic Studies, 2021[3]). More employees surveyed through the European Skills and Jobs Survey (ESJS) stated they had an education level that was higher than what the job required (27%), while 12% had a lower level (ETF, 2023[20]).

In Albania, about 48% of employees surveyed through ESJS stated they were participating in education and training activities to learn new job-related skills. In this respect Albania falls close to the regional average, but participation in continuing education and training was 14 percentage points lower in Albania than the EU-27 average (62%) (ETF, 2023[20]), showing significant room for improvement.

The new National Employment and Skills Strategy foresees introducing a skills intelligence system as a means of measuring and reducing **skills imbalances.** Specifically, it plans to create a Labour Market Information Observatory to analyse data from various sources to measure skills gaps and anticipate new in-demand skills. Albania is continuing to develop and improve career guidance for students and adults. In 2021,[9] the role of career guidance co-ordinator was introduced in vocational education and training (VET) schools. This co-ordinator is responsible for ensuring that candidates, students/trainees, parents, and the community have ample information about VET programmes. Albania is also revising and updating curricula for vocational education, training programmes and higher education systems on the basis of consultation with a wide range of actors. Workplace-learning elements are integrated into the VET system. However, the Chamber of Commerce is no longer a member of VET school boards, limiting the involvement of the private sector. Thus, except for ALMPs implemented by NAES, there are few instances that would promote or facilitate VET students getting internships in companies.

Albania has made progress in analysing skills gaps by using different methods and sources (e.g. employer surveys, forecasts, web scrawling and big data, sector studies, tracer studies). NAES has been responsible for conducting the Skills Needs Analysis since 2010 on a two-year basis; in the meantime, several sector skills need analyses are conducted at the request of National Agency of Vocational Education, Training and Qualifications (NAVETQ). Sectoral Skills Committees (SSCs) comprising representatives from the business community as well as technicians and professionals have begun to be set up, with the two first SSCs – for the information and communications technology (ICT) and tourism sectors – starting their operations in 2022. The approach is sector-specific, with a focus on identifying strategic sectors and analysing the skills required for each of them. In 2023, the ICT and Tourism Sectoral Committees started conducting skills analysis in their respective sectors, which should help Albania identify training needs in these key sectors.

Policies for improving adult learning are included in the Employment and Skills Strategy 2023-30. Training measures for the unemployed are provided by NAES. However, the budget for training measures only makes up 7% of all ALMP expenditures (in 2022), and it has been reduced between 2021 and 2022. This shows a significant gap, as the EU-27 average share for training was generally much greater at 40% in 2019 (European Commission, 2023[21]). NAES is also running an internship programme to facilitate education-to-work transition. There is some evidence that evaluation results are used to adapt policies. For example, in 2020 the professional practice programme added students graduating from secondary vocational schools to the category of beneficiaries from this programme.[10]

Overall, Albania lags behind the rest of the WB economies as well as the EU-27 countries when it comes to **digital skills development**. Indeed, only 23.8% of surveyed individuals in Albania reported having basic or above-basic levels of digital skills – nearly 15 percentage points below the regional average and 30 percentage points below the EU average (Table 9.2).

Table 9.2. Individuals with basic or above-basic overall digital skills in Albania, the WB6 economies and the EU in 2021

Percentage of all individuals

	ALB	WB6	EU
Individuals with basic or above-basic overall digital skills	23.8	34.8	53.9

Note: Kosovo data (used to calculate the WB6 average) was from the latest available year (2019).
Sources: Eurostat (2020[22]; 2023[23]).

The new Employment and Skills Strategy sets the objective to increase the digital skills of all actors in education, including students, teachers and leaders. As part of the strategy, as well as Albania's digital agenda (2022-26), joint initiatives are being implemented towards this goal with the German and Japanese Governments, and the EU Delegation in Albania, in partnership with the Ministry of Finance and Economy (MFE). One of the projects in the field of Vocational Education and Employment that has been implemented is the Sustainable Economic and Regional Development, Employment Promotion and Vocational Education and Training in Albania (ProSEED) project of German Development Cooperation (GIZ). In collaboration with relevant institutions, the programme has worked on developing competencies in alignment with EU DigComp curricula, enhancing information and communications technology (ICT) infrastructure, and providing training for teachers.

Efforts are being made towards developing digital skills at the workplace and participation in related continuous training is happening, but Albania is lagging significantly behind the EU-27 average (12% and 25% of surveyed employees, respectively) (ETF, 2023[20]). One explanation is that both the use of computer devices and computerised machinery at the workplace is less developed than on EU-27 average (ETF, 2023[20]). NAES is also implementing the "Digital Competence" curriculum in public vocational training centres, which deals with the five basic digital competencies according to the EU Digital Competencies Framework 2.0. This course is offered free of charge to unemployed jobseekers. Progress has been made in the area of digital skills need analysis and monitoring, through consultations with key stakeholders such as employers and sector associations.

Skills for the green transition are still at an early stage of development in Albania. In contrast to digital skills, studies on the identification of green jobs and skills have not been conducted yet, although NAES and NAVETQ are co-operating with Save the Children to develop a study on green jobs. Additionally, German Development Cooperation (GIZ), in partnership with the Ministry of Finances and Economy (MFE), has launched initiatives to incorporate green skills into curricula and raise awareness of their significance. As a result, VET training courses are being modernised to integrate the skills needed for the green transition. Environment and sustainable development topics are part of VET teacher training standards, pre-service training programmes and continuous professional development programmes. Moreover, all vocational schools organise students' extracurricular activities focused on local environmental protection. Additional training and skills adaptation measures are planned for both employed and unemployed persons to prepare them for the green transition.

The Albanian labour market faces limited risk of job losses due to the green transition, given its reliance on renewable energy sources. However, instances of job losses still occur, such as the dismantling of the oil refinery in Ballsh in 2022 due to economic inefficiency and bankruptcy. To mitigate the negative employment impact the government implemented a specific programme to compensate workers with a minimum wage for 30 months and payment of social security contributions.[11]

Sub-dimension 8.4: Expanding the skills pool

Albania has enhanced strategic planning and legislation in order to effectively address challenges of **migration** and make use of related opportunities. A new National Strategy on Migration (2024-30) and its Action Plan (2024-26) have been developed and are the subject of public consultation.[12] These documents were prepared by Ministry of Interior with technical support from the International Organization for Migration (IOM) and were shaped by an evaluation of the previous National Strategy on Migration (2019-22). The strategy aligns with the umbrella National Strategy for Development and European Integration (2022-30) and the Intersectoral Strategy on Integrated Border Management (2021-27), which recognise that Albania continues to be an origin country for economic migrants, as well as a transit and destination country for migrants, asylum-seekers and refugees. The main strategic objective is to manage migration effectively, by addressing challenges stemming from migratory movements and by increasing migration's positive impact on development. Other related strategies, such as the National Strategy on Employment and Skills (2023-30), aim to make the most of foreign talents by paying attention to labour migration and providing for specific measures to train and employ migrants.

Albania is actively co-ordinating qualifications and education as well as social security systems through bilateral agreements and ongoing negotiations.[13] In 2022 and 2023, within the framework of the Berlin Process, Albania signed agreements with other WB6 economies recognising higher education and qualifications for professionals such as doctors of medicine, dentists, and architects, facilitating their movement within the region (Berlin Process, 2023[24]).

The new Law on Foreigners, adopted in 2021, has simplified access to Albania's labour market for foreigners. The law extends the scope of the rights of foreigners, in terms of protecting migrants and their family members, refugees and asylum-seekers. Moreover, the law guarantees access to integration programmes and services for foreigners, enables a better provision of information, simplifies procedures to obtain a residence permit, and strengthens institutions that provide services to migrants. The law was amended in February 2023, introducing the "Unique Permit," which serves as a streamlined application for all visa, work and residence permit applications. Domestic legislation also contains provisions to promote fair and ethical recruitment of migrant workers. In March 2024, Albania, North Macedonia and Serbia fully opened their labour markets to each other as part of the Open Balkan initiative (Government of Serbia, 2024[25]).

International migration's impact on population size is monitored, with annual estimates provided by National Institute of Statistics (INSTAT) since 2015. Statistics for foreigners with residence permits and asylum-seekers have been included in the Official National Statistics Program, detailing age, gender, reason for application, and country of origin. A notable surge of 21.6% from 2021 to 2022 in the annual growth of foreign residents with permits in Albania was observed, mainly composed of men from Italy, Kosovo and Türkiye, with employment cited as the primary reason for obtaining residence permits (INSTAT, 2023[26]). Data from the National Agency for Employment and Skills reported that there were 9 825 foreigners with work permits or certificates in Albania in 2023.[14]

Regarding the **diaspora**, with an estimated 1.68 million Albanian citizens residing abroad,[15] there are continuous efforts to engage diaspora members in the economy's development. Such measures are particularly important given the steady, high levels of emigration; since the start of the COVID-19 pandemic, an estimated 20 000 inhabitants have left Albania annually (IMF, 2022[27]). An institutional framework focused on the diaspora is in place although it has been subject to changes over the past three years. In

terms of policy, the Albanian Diaspora National Strategy (2021-25) is aligned with the National Strategy on Development and European Integration (2022-30) and highlights Albania's commitment to reassess diaspora engagement by strengthening long-term connections, amending legislation, improving co-ordination among institutions and developing a functional diaspora network.

Between 2018 and 2021, diaspora-related responsibilities were assigned to a dedicated Minister of State for Diaspora as well as related agencies. From 2021, the Directorate of Diplomacy and Diaspora at the Ministry for Europe and Foreign Affairs replaced the Minister of State for Diaspora and related agencies. These changes were made in order to streamline EU integration efforts, avoid overlap and reduce costs.

Recognising that inter-institutional co-ordination in migration governance and diaspora engagement is crucial, the National Strategy for Migration 2024-30 and its Action Plan 2024-26 envisage the Ministry of the Interior leading and co-ordinating a dual monitoring mechanism of migration and diaspora-related data. The Strategy of Migration plans to create and review migration policies using precise data. A methodology will be developed to co-ordinate data collection aligned with the Official Statistics Program. Currently, there is a shortage of official data on the Albanian diaspora, the latest being a 2020 publication titled "Albanian Diaspora in Numbers", published by INSTAT.[16] Moreover, for an efficient use of resources and effective co-ordination, the Strategy determines responsibilities at central and local levels, aiming to establish and further strengthen all the relevant structures for migration and diaspora at the local level in municipalities by 2026.

Several initiatives have been implemented to attract diaspora skills, such as Diaspora Summits, Diaspora Medical and Legal Professionals Meetings, Albanian-American Development Foundation (AADF)'s Research Expertise from the Academic Diaspora Fellowship Programme, efforts by the Albanian Diaspora Business Chamber to facilitate knowledge transfers, particularly in agriculture and crafts, and the IOM's Diaspora Engagement Programme, which offers fellowships in government institutions for diaspora members.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania has shown varying degrees of progress in implementing previous CO Recommendations (Table 9.3). Namely, the economy exhibited substantial advances toward improving its policies engaging with medium- and highly-skilled migrants and diaspora. Conversely, progress remained limited in several areas, including analysing the drivers of informality and increasing investment in developing adults' digital skills.

Table 9.3. Albania's progress on past recommendations for employment policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Do more to strengthen social partners' role in tripartite social dialogue, including on setting the minimum wage	Improvements have been made in performance monitoring of collective bargaining within the framework of the Employment and Social Affairs Platform (ESAP II) during the years 2021-23. The related Results Framework sets objectives and evaluates the performance of the social dialogue institutions in the following years. The "Access to Justice for Labor Disputes through Mediation and Conciliation" project promotes collective bargaining at all levels and improves the quality of collective bargaining at the national, regional and enterprise levels.	Moderate
Increase the capacity of labour inspectorates to detect informal employment and child labour and tackle poor working conditions	The SILSS has introduced complaint mechanisms that offer the possibility to employees to complain about non-respect of labour law. The number of staff has been moderately increased between 2020 and 2021. New training and new tools have been introduced as a result of audits of the capacity of labour inspectorates. Inter-agency co-operation to combat informal employment has improved. However, it remains inadequate in the case of combating child labour. Digitalisation has	Moderate

	improved the efficiency of processes.	
Evaluate implementation of the cross-sectoral Strategic Document for Occupational Safety and Health 2016-20 and its Action Plan	No detailed information was provided on the implementation of the 2016-20 strategy, nor evidence that an evaluation has been conducted. Health and safety councils at company levels are in place but operational only in large companies. In 2021 new regulations allowing for telework if needed (pandemic situation) and new working time regulations in public institutions were adopted.	Limited
Launch awareness-raising activities targeted at employees and employers to pursue continuing training and to set adequate financial incentives for continuing education and upskilling of the medium and lower skilled	Skills gaps analysis has advanced using different methods and sources (e.g. employer surveys, forecasts, web scrawling and big data, sector studies, tracer studies). New training has been implemented to upskill the workforce with digital skills. A strategy to address the issue of young NEET has been launched. However, there is no specific strategy to increase skills of low-skilled workers.	Moderate
Continue efforts to improve local social services for vulnerable groups and to develop close co-operation between social and employment services	Improvements in co-operation between employment and social services have been made. However, activating beneficiaries of social welfare benefits as well as providing social and employment services for vulnerable groups still needs to be improved.	Moderate
Provide adequate public investment for developing digital skills among adults	Although, some progress has been made in prerequisites for digital upskilling, such as the implementation of the "Digital Competence" curriculum, Albania continues to lag behind the region in developing the digital skills of its workforce, and spending on related training activities constitutes a very low share among ALMPs.	Limited
Do more to understand the drivers of informality among workers (differentiated by men and women) and employers in order to design adequate policy responses	There is no evidence of analysis of the drivers of informality. However, the Employment and Skills Strategy 2023-30 emphasises as one of its main priorities decent and formal employment, specifically objective 2.2, "Ensuring decent work for everyone and everywhere".	Limited
Co-ordinate policies to encourage the return of medium- and highly skilled people to Albania	The conclusion of the National Strategy on Migration 2019-22 involved an evaluation report, influencing the drafting of the new migration strategy for 2024-30. Institutional and policy frameworks to incentivise and support diaspora reintegration into the labour market are in place.	Strong

The way forward for employment policy

Although Albania has achieved notable progress in many areas of employment policies, there are still areas in which the economy could further improve its performance and subsequently strengthen its employment policy framework. As such, the following recommendations are made:

- **Launch awareness-raising activities and increase financial incentives targeted at employees and employers pursuing continuing training.** This would involve offering adequate financial incentives and targeting low-skilled, prime age and older workers as well as SMEs for participation in adult learning. The employability of low-skilled individuals can be increased through upskilling. Several OECD countries have introduced mechanisms that could serve as a model for Albania, such as individual learning accounts (Box 9.2), which could help to address the economy's low levels of adult learning. Other potential mechanisms include developing infrastructure for guiding adults in their upskilling pathway, implementing programmes to upskill low-skilled adults, and supporting companies in doing so (OECD, 2019[28]).

Box 9.2. France's experience implementing individualised learning accounts

France has developed and implemented an individual training account scheme. The French Compte Personnel de Formation (CPF) was created in 2015 and reformed in 2018. This instrument enables the accumulation of credits for the right to training for every individual since his/her entrance into the labour

market. The account is entirely transferable from one occupation to another and preserved when changing or losing one's job. Key features include:

- For jobseekers and employees, the scheme is financed through a compulsory training levy on firms equivalent to 1% of gross wages to be paid by employers with more than 11 employees, and 0.55% for micro-enterprises. Financing training by using the CPF may not be sufficient to get training financed. Additional funding is provided for the unemployed by the French PES, by employers and specific regional or sectoral institutions.
- The CPF was initially available to employees and jobseekers only. Since January 2018, the self-employed are also covered.
- These accounts enable the financing of certified training for an individual. Credits can be used to pay for training fees of programmes that are required to deliver a certificate (certification), skill assessments (*bilan de compétences*), actions for skill recognition and driving licences, and training for business creation can also be covered.
- A change in implementing the CPF was introduced in November 2019 by offering users the possibility to directly buy the training. This has significantly increased take-up.

Source: OECD (2019[28]).

- **Continue to facilitate co-ordination among various actors to flexibly adapt and modernise education and training**, by ensuring a high level of hard and soft skills – including digital skills at all proficiency levels and skills for the green transition – and measuring the quality of training and education. Improve monitoring the participation of adults in related training activities, including for digital skills and skills for the green transition.
- **Implement vocational guidance in a life cycle perspective, starting at secondary school, as an important factor to reduce skills mismatch.** Vocational guidance should also be offered to adults. To reduce occupational gender segregation, vocational guidance should aim at attracting more girls into science, technology, engineering and mathematics (STEM) vocational education and training and tertiary education.
- **Continue efforts to support the integration of vulnerable groups into the labour market.** Expanding employment services and measures targeting vulnerable groups, improving local social services and developing close co-operation between social and employment services will be key in this regard. Increasing staffing and budgets allocated for ALMPs focused on vulnerable groups will also be a prerequisite.

- **Conduct studies to understand the drivers of informality among workers and employers in order to design adequate policy responses.** Drivers of informality vary depending on a given context and can be diverse as well as mutually reinforcing. For instance, they can be structural, legal and institutional or behavioural (OECD/ILO, 2019[29]). Different factors might affect men and women as well as the employed and employers respectively. Studies to determine these factors in the context of Albania would be useful in order to appropriately target and tailor policy responses.
- **Continue to increase the capacity of labour inspectorates to detect informal employment and child labour and tackle poor working conditions.** Increasing staffing as well as strengthening inter-institutional co-ordination is crucial to ensuring that labour inspectorates can effectively perform their responsibilities.
- **Continue to strengthen the social partners' role in tripartite social dialogue, including on setting the minimum wage.** This would also include making a regular assessment of labour inspectorates' capacity to detect remuneration below the minimum wage and informal employment. An assessment of the impact of the minimum wage on informal employment and on poverty reduction should be conducted.
- **Implement measures to foster stability and continuity within diaspora institutional frameworks**, ensuring consistent policies over time. Stable institutions provide the necessary foundation for long-term development initiatives and enhance trust between the diaspora and the home government. While the changes in institutional arrangements for governing diaspora policies might have been justified to improve efficiency and rationalise resources, caution should be given in the future to ensure stability and long-term continuity, as it takes systematic and sustained strategies to build long-term relationships.

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[4] In 2021, the youth unemployment rate (15-24) was the second lowest in the Western Balkan region (see: https://wiiw.ac.at/see-jobs-gateway-database-ds-5.html), but largely above the EU average of 16.7%. Youth unemployment was not significantly reduced between 2019 and 2021.

[5] In 2022, the unemployment rate for women was 0.8 percentage points higher than the one for men.

[6] To increase efficiency, an IT-based system to match jobseekers and vacancies is implemented, and most jobseekers and employers use digital services. The IT system has been newly integrated fiscally and with other governmental systems. This helps reduce the administrative workload of NAES staff.

[7] Own assessment on the basis of administrative data and LFS data collected by the Vienna Institute for Comparative Economic Studies.

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[15] Of note, most estimates by INSTAT are based on the 2011 population census. The Albanian Government plans to release the results of the new census (carried out in October 2023) in June 2024, which likely will provide an update to this estimate.

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10 Science, technology and innovation

An effective institutional and policy context for science, technology and innovation (STI) is essential to boost the knowledge economy. This chapter, along three sub-dimensions, analyses the overall STI trends and performance in the region, the development of sustainable and impactful STI policies and processes. The first sub-dimension, STI system, assesses the STI regulatory framework and strategies, including smart specialisation strategies and the institutional framework for STI policy. The second sub-dimension, public research systems, analyses the governance of the public scientific research sector, funding approaches and human resource capacity to foster academic research excellence. The third sub-dimension, knowledge exchange and co-creation, assesses policies that support integration between scientific research and the private sector, which is critical for technology transfer, as well as policies and initiatives to promote European and regional collaboration in STI.

Key findings

Albania has made progress in the science, technology and innovation (STI) policy dimension since the previous Competitiveness Outlook (Table 10.1). In particular, the overall policy framework for STI has strengthened and public funding for STI-related activities increased, albeit from very low levels. With an overall score of 2.4, Albania continues to perform better than some of its regional peers, but scores just below the WB6 average, and falls significantly behind the regional innovation leader, Serbia. Further efforts are required to create an environment conducive to public-private sector co-creation that fosters knowledge and technology transfer.

Table 10.1. Albania's scores for science, technology and innovation

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Science, technology and innovation	9.1: STI system			2.8	2.9
	9.2: Public research system			2.5	2.5
	9.3: Knowledge exchange and co-creation			1.8	2.0
Albania's overall score		**1.3**	**1.8**	**2.4**	**2.5**

The **key findings** are:

- Albania adopted a new STI strategy in 2023; the successor to one that expired in 2022, it contains a number of important objectives aligned to the European Research Area (ERA). The economy's first Smart Specialisation Strategy (S3), however, is still being developed.
- In 2022, Albania participated for the first time in the European Innovation Scoreboard, demonstrating improvements in collecting STI-related data. Nevertheless, insufficient quality and granularity of statistical data, particularly on gross domestic expenditure on research and development (GERD), continue to hinder evidence-based STI policy making and monitoring.
- While the availability and scope of financial support schemes in Albania have increased, the funding methodology for scientific research remains non-systematic. A forthcoming Law on Scientific Research envisages a new methodology for public research funding, which could provide transparent criteria for funding allocations and more competitive-based funding for research activities in the medium term.
- Both financial and (particularly) non-financial incentives to stimulate business-academia collaboration remain limited. Some support schemes are run by the National Agency for Scientific Research and Innovation (NASRI), including a pilot finance scheme, but more efforts are needed to increase the mobility of researchers, strengthen the infrastructure of collaboration and encourage co-creation via targeted intellectual property (IP) incentives.
- Albania has taken some steps to support open access to science, but further work is required to adhere to open science principles.

State of play and key developments

Science, technology and innovation (STI) capacity in Albania requires continued development and investments, although a comprehensive assessment of the state of play of STI in Albania remains difficult amid the absence of statistical data. While figures are not systematically captured, overall investment into research and development (R&D) remain low and scientific research outputs remain limited with the number of national patent applications stagnant. In contrast, however, participation in regional and international research collaboration programmes, including Horizon Europe, is increasing, albeit from very low levels and with limited private sector participation. According to the European Innovation Scoreboard, Albania is an emerging innovator; its performance, however, has been decreasing and stood at 41.1% of the EU average in 2023 (European Commission, 2023[1]).

Sub-dimension 9.1: STI system

Albania's strategic **STI policy framework** remains well developed and aligned to European good practice, although it falls short of specifically addressing emerging trends such as digitalisation, sustainability, or emerging technologies. Following expiration of the National Strategy for Scientific Research, Technology and Innovation (2017-22), a new National Strategy on Scientific Research and Innovation covering the period 2023-30 was approved in 2023. The strategy envisages a gradually increasing annual budget of up to ALL 3.7 billion (around EUR 36 million) to be implemented by 2026, thereby addressing funding shortcomings identified in a 2019 midterm review of the implementation of the previous strategy. The new STI strategy also puts forward a number of recommendations from an interministerial working group set up in 2021 to oversee monitoring and evaluation of the STI strategic framework. In 2022/23, this working group concluded an assessment providing recommendations in line with the ERA's priorities, such as ensuring open online access for all publicly funded scientific publications and creating legal and fiscal incentives to encourage businesses to finance scientific research. The policy framework is complemented by the Business Development and Investment Strategy (2021-27), which places strong emphasis on small and medium-sized enterprise (SME) innovation and links between industry and academia to spur economic growth. In 2022, legislation on start-ups was adopted, which facilitated the establishment of a start-up agency and regulation of digital nomads. Lastly, Albania also adopted a Digital Action Plan for the period 2022-26, which however focuses primarily on the development of digital skills for the general public, and less on the development of digital technology.

The **institutional framework** to oversee and implement STI policy has slightly improved since the previous Competitiveness Outlook assessment. A newly proposed Ministry of Economy, Culture, and Innovation, once set up, will fully oversee innovation policy, while the Ministry of Education and Sports formally leads the design and implementation of scientific research-related policies. The aforementioned interministerial working group, established in 2021, aims to co-ordinate STI policy measures and implementation; its efforts build on the impact assessment of the previous STI strategy, which constituted an important milestone in ensuring that STI priorities and future activities are aligned and co-ordinated. Furthermore, the Agency for Innovation and Excellence was established in 2023 with the aim to promote innovation and support policy formulation by the planned Ministry of Economy, Culture, and Innovation in this area. While the agency's establishment is encouraging and underlines the government's commitment to building a knowledge economy, it will be important to ensure efficient co-ordination across ministries, as well as clear responsibilities for the respective institutions.

The National Agency for Scientific Research and Innovation (NASRI) and the Albanian Investment Development Agency (AIDA) remain the key implementation vehicles, and have expanded activities since the previous assessment. Although the institutional capacities of both agencies are improving, the overall availability of funding to implement effective and sizeable policy measures remains limited (see Chapter 2 for more information on AIDA).

In addition, Albania has started participating in the European Innovation Scoreboard in 2022, marking a significant opportunity for the economy to enhance data collection and better inform STI policy making. In an effort to improve data collection for gross domestic expenditure on research and development, the National Statistical Institute of Albania (INSTAT) in 2021 conducted surveys across the private sector, public sector bodies, higher education institutions (HEIs) and non-profit organisations to collect information on funds allocated for research and development (R&D). However, the outputs were unsatisfactory as both public and private entities did not report data, or values were not representative. While the overall quality and granularity of data continue to pose an obstacle for evidence-based policy making, the authorities conducted the surveys again in December 2023, with the results still being processed at the time of writing.

There has been limited progress made in the development of Albania's first **Smart Specialisation Strategy** (S3). Under the auspices of the Office of the Deputy Prime Minister and with the support of a national S3 team, the Entrepreneurial Discovery Process (EDP), in line with the European Commission's Joint Research Centre (JRC) methodology, was finalised in 2023. The S3 process identifies, among others, energy efficiency, information and communication technology, and the blue economy as key crosscutting priority areas. Albania is currently in the process of drafting the S3 strategy, which it expects to adopt by June 2024.

Sub-dimension 9.2: Public research system

While further steps towards promoting **public research excellence** have been taken since the previous assessment, Albania's overall scientific research and innovation capacity remains low. The impact assessment of the 2017-22 STI strategy identified several shortcomings in R&D, including an incomplete legal framework and insufficient public spending for scientific research, limited links between academia, industry and government, and shortcomings in the fields of open access and open data. The new 2023-30 STI strategy aims to address some of these findings, while the forthcoming Law on Scientific Research will establish new rules and procedures for the organisation and operation of the public research system in Albania. It is also expected to lay the ground for introducing a new methodology for public sector research funding, which may reduce the chronic funding gap in the system. Currently, public sector research institutions, including HEIs, are funded through institutional block funding and some competitive grants distributed through NASRI, but available information on their funding methodology and mix is limited.

Albania has demonstrated some effort in increasing funding for scientific research. However, despite an increase from 0.04% and 0.05% in 2021 and 2022 respectively to 0.08% of GDP in 2023, public research funding remains significantly below the government's explicit target of 1% of GDP by 2030 (a target prolonged from initially 2022) (European Commission, 2023[2]). In the absence of data on GERD, a full analysis of the economy's performance in scientific research remains incomplete.

Albania is chronically affected by brain drain, undermining the development of **human resources for research and innovation**. NASRI administers a number of programmes to develop researchers' skills, including on proposal writing, applying for research programmes, and project management, which is an important step in recognising and addressing shortcomings in this policy area. Improvements have also been made to increase linkages with Albania's diaspora so as to support the development and capacity of human resources in research and innovation. In 2021, an online platform was established to leverage Albania's diaspora for brain circulation. With support from the Albanian-American Development Foundation, the fellowship programme "Research Expertise from the Academic Diaspora (READ)"[1] with the purpose to support curriculum co-development, Ph.D. supervision and capacity building. A first call took place in 2022, but no further information has been made available. Nevertheless, actions to foster Albania's human research capacity remain ad hoc and limited in size. No support is available for research mobility, and there have been few efforts to increase the overall attractiveness of scientific research as a profession. Since the last Competitiveness Outlook assessment, only one Albanian research institution participated in the Marie Skłodowska-Curie Action (MSCA),[2] making it four in total by March 2024.

Albania has made efforts to promote **international and regional collaboration** in STI policy. The economy's participation in the EU Framework Programmes for Research and Innovation has improved, and the economy is fully associated with Horizon Europe. While 38 Albanian organisations have to date participated in Horizon Europe, receiving over EUR 5.81 million in EU contributions, most beneficiaries remain public bodies and HEIs, with only few private firms (including only two SMEs) successfully participating in the scheme (European Commission, 2023[3]). Since the last assessment, Albania has also officially joined the Eureka platform, and collaboration with European Cooperation in Science and Technology (COST) is improving; however, the economy does not participate in the European Strategy Forum on Research Infrastructures (EFSRI). In May 2023, a new centre for innovation called the Pyramid of Tirana was opened to the public. The centre will house a TUMO Centre for Creative Technologies, providing educational programmes for young people in the region in areas such as robotics, animation, game development, music, and film. Despite overall progress in promoting international and regional research collaboration, there is potential for Albania to further improve linkages with European partners in order to engage more closely in international research projects under the auspices of the ERA.

A good-practice example of regional research co-collaboration is NanoALB (Box 10.1), which launched activities in 2020 under the auspices of the Academy of Sciences of Albania. It is a virtual centre that coordinates research activities in nanoscience and nanotechnologies across HEIs in the region.

Box 10.1. NanoALB

NanoALB is a virtual centre established under the Albania Academy of Science with the goal of co-ordinating activities in the area of nanoscience and nanotechnology in Albanian universities across four economies in the region: Albania, Kosovo, North Macedonia and Montenegro.

The key objective of NanoALB is to strengthen the R&D activities in nanoscience and nanotechnology and enhance collaboration and synergies among the various research organisations and industries in the region. To achieve this objective, NanoALB offers academic courses in nanotechnology and its application in health and the pharmaceutical industry, environment, food and agriculture, as well as safety and security. Moreover, it offers Ph.D. research opportunities and promotes knowledge sharing and dissemination to a younger generation of scientists and students, through seminars, conferences, workshops and meetings. Most notably, it has organised an annual nanoBalkan international conference each year since 2021, bringing together regional and international experts to discuss the latest trends and developments in nanotechnology.

Source: NanoALB (2024[4]).

Sub-dimension 9.3: Knowledge exchange and co-creation

Albania has made efforts to set the foundations for future linkages between scientific research and industry. Stimulating knowledge exchange and co-creation is a cornerstone of the forthcoming National Strategy on Scientific Research and Innovation (2023-30) and the planned Smart Specialisation Strategy, particularly in industries such as agriculture and fishery, energy, services and manufacturing. These efforts are complemented by the Business Development and Investment Strategy (2021-27), mentioned above.

Although national STI strategies, particularly the OECD-led Triple Helix Action Plan, contain well-designed **incentives for business-academia collaboration**, the implementation of these provisions is not advancing and financial incentives have remained largely absent. Some recent efforts have been made when NASRI in 2023 launched on a pilot basis a dedicated call for proposals to implement a university-business co-operation programme. Of 20 received applications, 10 were selected from priority sectors and

awarded over ALL 17 million (approximately EUR 167 000). In addition, a number of Albanian-Italian technological and scientific research projects are currently being supported under NASRI. Moreover, the new Law on Scientific Research, once adopted, foresees provisions to establish a regulatory framework to facilitate grants in support of joint research activities for businesses and academia. AIDA's dedicated Innovation Fund has not yet resumed financing activities following funding suspension during the COVID-19 pandemic, but there are plans to reactivate innovation programmes in 2024. As a result, a voucher scheme established in 2018 promoting innovation in SMEs that had awarded over EUR 2.5 million to 58 enterprises has also halted activities. In 2023, the Swedish and EU-supported Challenge Fund, aimed at innovative start-ups, launched operations.

Non-financial incentives to stimulate collaboration between the private sector and public research institutes remain limited, with no progress or planned policy measures reported since the previous assessment cycle. Despite mobility schemes being included in the 2017-21 action plan to support the development of innovative policies based on the Triple Helix approach, efforts to develop targeted mobility schemes in order to increase exchanges between academia and businesses are still needed. Likewise, researchers are not incentivised to collaborate with businesses during research activities, as performance is purely based on conventional assessment criteria such as the number of publications and citations.

A new IP strategy (2022-25) has been adopted since the previous assessment and amendments to the Law on Copyright have aligned Albania's IP framework further to the EU *acquis*; however, no specific provisions are included to favour business-academia collaboration. Albania's General Directorate of Industrial Property (GDIP) provides services that support patent counselling and commercialisation of intellectual property, and works closely with universities to raise awareness about IP, but does not provide incentives or support for co-creation. Scientific research outputs continue to be limited overall, with little development in the number of national patent applications. Since 2020, six patent applications have been filed with the European Patent Office, of which only one patent was granted (EPO, 2022[5]).

There has been minor progress since the previous assessment cycle to establish a research and innovation **(R&I) infrastructure for business-academia collaboration** in Albania**.** With support from the Regional Cooperation Council (RCC), Albania has mapped its R&I infrastructure and produced a roadmap in 2022. This roadmap focuses, among other things, on developing an action plan for further developing R&I infrastructure, increasing funding, and raising participation in pan-European research projects, as well as facilitating regional mobility for researchers. In the same year, a law was adopted to establish a legal basis for the organisation and operation of science and technology parks (STPs) in Albania, although there are no concrete plans to establish any STPs to date. Several Technology Transfer Centres (TTOs) operate throughout four universities; however, these mainly function as information centres, linked to the GDIP's activities. Tirana Inc., a collaborative project of Albania's five leading universities supported by EU funds to foster entrepreneurship and innovation among university students, was created in 2021. The project could contribute to further exchanges and collaboration opportunities between industry and academia in the medium term, although it has yet to show tangible results.

Initial steps have been taken to foster **open science**. Albania is a member of the European Open Science Cloud, and key principles of open science are embedded in the forthcoming Law on Scientific Research. The Albanian Initiative for Open Science, operated by the Academic Network of Albania (RASH) and part of the framework of National Initiatives for Open Science in Europe (NI4OS Europe), encourages and works with national universities to promote and institutionalise open access to science. Moreover, a new National Register of Scientific Journals[3] has been set up – but still needs to become fully operational – to enable open access to all publicly funded scientific research, but also to better analyse and monitor overall research quality in the economy. Efforts are also under way better to define criteria for the publication of scientific research.

Overview of implementation of Competitiveness Outlook 2021 recommendations

All recommendations made in the previous Competitiveness Outlook have been partially addressed or implementation is in progress (Table 10.2). Albania's STI policy framework is being strengthened but remains incomplete, with the Smart Specialisation Strategy still under development. Investments into R&D are expected to increase further in the coming years, and progress has been made to improve statistical data collection to inform STI policy making better. Nevertheless, knowledge exchange and co-creation remain weak, most notably due to the lack of incentives to stimulate linkages between academia and businesses.

Table 10.2. Albania's progress on past recommendations for science, technology and innovation

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Prioritise implementation of the existing STI policy framework	An interministerial working group was set up in 2021 to oversee and monitor Albania's National Strategy for Scientific Research, Technology and Innovation (2017-22). An ex post assessment identified achievements and shortcomings, which significantly contributed to streamlining the governance of the STI framework. The new STI strategy 2023-30, which is aligned with the priorities of the European Research Area, was approved in September.	Strong
Finalise the development of the Smart Specialisation Strategy	The development of a Smart Specialisation Strategy is progressing but remains unfinished.	Moderate
Increase investment in public sector research	Public spending on scientific research has increased substantially since the previous assessment, but continues to fall short of the economy's target of 1% of GDP. The forthcoming Law on Scientific Research is designed to enable a more systematic approach to funding research and development.	Moderate
Expand data collection to support evidence-based STI policies	In 2022, Albania participated in the European Innovation Scoreboard for the first time, albeit with limited data. STI-related data continue to be incomplete and of low quality.	Limited
Improve the incentive structure to encourage academia and businesses to seek co-operation with each other	A number of financial instruments have been piloted to facilitate closer business-academia collaboration. A new law on science and technology parks has been adopted in 2022; however, no concrete plans currently exist to build any STPs.	Limited

The way forward for science, technology and innovation

Albania has made some progress in the areas of science, technology and innovation since the last CO assessment. Albania should focus on the following to maintain momentum and further improve the economy's STI performance.

- **Accelerate adoption of the Smart Specialisation Strategy.** Albania has taken major steps in developing the Smart Specialisation Strategy (S3) and clear ownership has been established. The economy should maintain momentum and ensure the swift finalisation and adoption of the S3 strategy to complete Albania's STI policy framework. Similarly, an action plan with clear short- and medium-term targets and sufficient resources to implement the S3 strategy should be developed. Securing international donor support can help build continuous implementation capacity.
- **Improve quality and availability of statistical data related to STI,** including the indicator on GERD. Comprehensive statistical data are an important tool for the design and monitoring of policy measures. While INSTAT is already taking important steps to improve and align data collection to Eurostat methodology, capacity-building support will be required to support research and

development institutions, private sector players, HEIs and public bodies in producing consistent high-quality data. Participation in the OECD STIP Compass database can provide further assistance.

- **Increase public investments in research and development activities.** It will be important for the government of Albania to adhere to its commitments made as part of the new STI strategy (2023-30) to gradually increase public funding to ALL 3.8 billion by 2026 and ALL 4.5 billion in 2030. This will ensure the sustainability of policy measures introduced in the early years of implementation and provide certainty to the research community and private sector seeking to invest in R&D activities. The allocation of funding should be merit-based and in co-ordination with all relevant stakeholders. Moreover, financial incentives should particularly target research on strategic priorities such as digital development and net-zero.
- **Develop more systematic incentives to stimulate business-academia collaboration**. Financial and non-financial incentives to stimulate more exchange between academia and industry should be deployed in tandem. The authorities should work with public research institutions and private sector bodies to identify platforms for exchange, encourage mobility of researchers and create physical spaces for co-creation. The adjustment of Albania's IP regulatory framework to incentivise the commercialisation of research in favour of the creator should be another non-budgetary support mechanism to consider.

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Notes

[1] More details on Albania's fellowship programme "Research Expertise from the Academic Diaspora (READ)" to strengthen ties with the diaspora can be found here: aadf.org/launching-event-of-read-program-research-expertise-from-the-academic-diaspora.

[2] Marie Skłodowska-Curie Actions (MSCA) is an EU programme that provides grants to support research careers and encourages transnational, intersectoral and interdisciplinary mobility (ec.europa.eu/programmes/horizon2020/en/h2020-section/marie-sklodowska-curie-actions).

[3] The Nation Register of Scientific Journals can be accessed here: research-scientific.arsimi.gov.

11 Digital society

Digital transformation, driving efficiency and productivity through the adoption of digital technologies and data utilisation, holds promise for fostering economic activity and competitiveness. This chapter, across four sub-dimensions, assesses the scope and quality of the policy framework and strategies and the implementation and adoption by Albania. The first sub-dimension, access, explores government policies and initiatives to enable network infrastructure investment and broadband services take-up and increase data accessibility. The second, use, delves into the government's plan to implement programmes to develop a user-centric digital government and help businesses achieve a digital transformation. The third, society, assesses whether governments have planned and implemented programmes to reduce the digital divide and create an inclusive society through green digital technologies. The fourth, trust, examines the economies' frameworks and how they are being implemented to protect data and privacy, build trust in e-commerce and ensure cybersecurity through effective digital risk management systems.

Key findings

Since the last assessment, Albania has enhanced its performance in the digital society policy dimension. The economy's score has increased from 2.5 in the 2021 Competitiveness Outlook to 2.7 in the current assessment,[1] with notable progress in enhancing the policy framework with measures that promote digital inclusion and trust in the digital environment. Albania has maintained good performance in the government policies and initiatives to enable network infrastructure investment and broadband services take-up. Albania ranks second in the Western Balkan region, performing better than the regional average, despite the need for stronger implementation (Table 11.1).

Table 11.1. Albania's scores for digital society

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Digital society	10.1: Access			3.2	2.9
	10.2: Use			2.5	2.3
	10.3: Society			2.3	1.7
	10.4: Trust			2.8	2.7
Albania's overall score		**2.9**	**2.5**	**2.7**	**2.5**

Note: Competitiveness Outlook 2021 assessment included one additional sub-dimension entitled "Jobs" that received a 2.0 score.
Source: OECD (2021[1]).

The **key findings** are:

- Albania has incorporated commitments for developing gigabit connectivity in key strategic documents, such as the National Strategy on Development and Integration 2030 and the Digital Agenda 2022-26. While recent regulatory enhancements have reduced costs and administrative burdens, creating a more conducive environment for investments in fixed (fibre) and mobile (5G) network infrastructure, Albania lags behind the WB6 and EU Member States, with 20.9% of fixed broadband subscriptions per 100 inhabitants. Alignment with the EU framework on electronic communications is pending at the time of writing, and 5G spectrum auctions are yet to be conducted.
- With an up-to-date digital government framework in place, Albania is consistently pursuing its government digitalisation. Following adopting a *digital by default* approach, 95% of all public services are currently available on line. Citizens and businesses' engagement in e-government is growing and digital signatures' uptake is increasing, propelled by legislation aligned with the EU Electronic Identification, Authentication and Trust Services (eIDAS) Regulation[2] on e-identification.
- Despite addressing different aspects of digital inclusion policies, Albania faces challenges in the co-ordination and monitoring measures to reduce inequalities. The digital divide in e-government service utilisation is widening, particularly among underprivileged groups lacking digital skills or access to high-speed connectivity, especially after the shutting down of local front desks in May 2022.
- Albania has significantly enhanced the legal framework governing e-business. Initiatives promoting e-commerce are gaining traction, with intensified efforts to create an innovation ecosystem providing financial support and incubation services to SMEs and start-ups, primarily in the information and communications technologies (ICT) sector. However, the impact of implemented programmes remains limited regarding the overall number of beneficiaries.

- The framework for consumer protection in e-commerce requires alignment with current EU legislation on consumer rights, modernising consumer protection rules, particularly in the realm of e-commerce. Albania lacks effective mechanisms for implementing alternative dispute resolution and self-regulation, while it has yet to prioritise the delivery of e-consumer education.
- Albania has enhanced its cybersecurity framework, aligning with the EU *acquis* level faster than the other WB6 economies. However, its national cybersecurity authority faces challenges in ensuring the resilience of Albania's critical information infrastructure in the aftermath of the series of cyberattacks against the Albanian Government in 2022-23.

State of play and key developments

Albania is making significant strides in developing its digital society, experiencing a rapid increase in Internet usage within the 16-74 age group, rising from 79.37% in 2021 to 83.1% in 2023 (INSTAT, 2023[2]). However, it falls short of the EU average of 91.46% in 2023 (Eurostat, 2024[3]). Gender-related usage of the Internet is well balanced and there has been a positive decline in the share of individuals aged 65-74 who never used the Internet, dropping from 37.9% in 2022 to 32.3% in 2023. Nevertheless, it remains considerably higher than the EU average of 21.66%, revealing a substantial risk of digital exclusion for older individuals. Albania faces a digital skills deficit, with only 23.8% of individuals possessing at least the basic skills, contrasting with the 53.92% EU average in 2021 (Eurostat, 2024[4]). Additionally, the economy lags behind in the number of ICT specialists, constituting just 2.6% of employees in 2021, as opposed to 4.5% in EU Member States.

Despite these challenges, the government is actively pursuing further digitalisation of public services, adopting a *digital by default* service delivery model. In 2022, 44.75% of individuals in the 16-74 age group in Albania used the Internet to interact with public authorities, slightly below the OECD average of 51%. However, according to the United Nations E-Government Development Index (EGDI),[3] Albania slipped to the 63rd position (out of 193 countries) in 2022, a slight regression from the 59th position in 2020 (UN, 2022[5]). Although the economy maintained its absolute score around 0.74 between the two assessments, the regional frontrunner, Serbia, surged from 58th place in 2020 to 40th in 2022, leaving Albania 23 places behind in the EGDI rankings. This comparison indicates that while Albania has sustained good performance in e-government development, it has achieved suboptimal speed in implementing relevant policies and reforms.

Sub-dimension 10.1: Access

Albania has substantially enhanced its **broadband infrastructure** since 2021, performing above the regional average in developing high-capacity networks. The government has incorporated ultra-high-speed connectivity targets in key horizontal and sectoral policy documents, such as the National Strategy on Development and Integration 2030, the Digital Agenda 2022-26 and the Economic Reform Programme 2023-25.

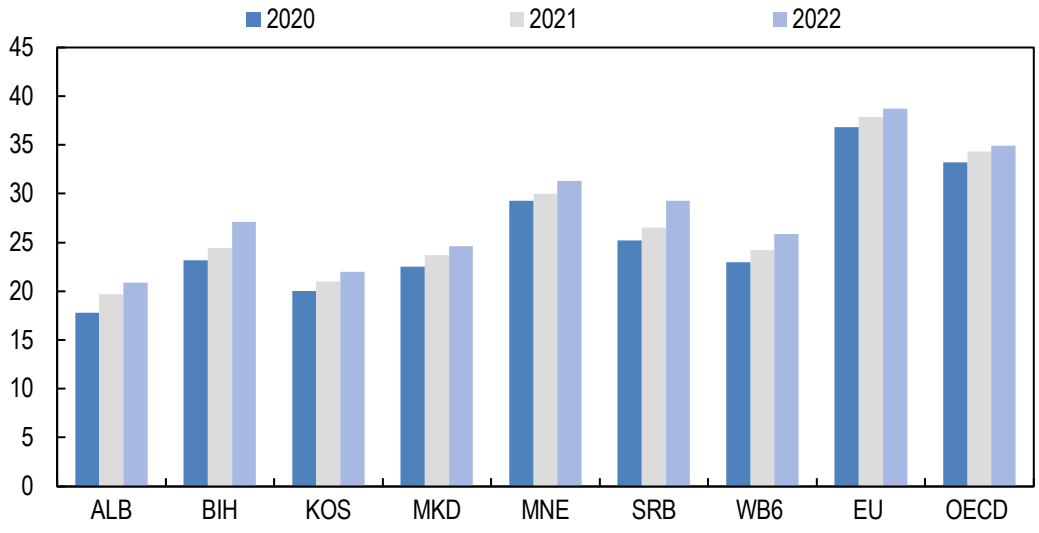
Over the past three years, Albania has consistently implemented its National Plan for Sustainable Development of Digital Broadband Infrastructure 2020-25 (National Broadband Plan, NBP), aimed at achieving 100% broadband penetration to households, businesses and public institutions by 2025, with 50% enjoying connectivity speeds of at least 1 Gbps (gigabits per second) in urban areas such as Tirana. Fibre infrastructure, fibre to the premises (FTTP), increased by 12% year-on-year in 2022, contributing to fibre broadband connections reaching 61% of the total broadband connections in 2022. Despite these advancements, a noticeable gap in the penetration of fixed broadband connectivity remains. Albania lags behind the other five WB6 economies, the EU average and OECD average (Figure 11.1) in fixed

broadband penetration. At the end of 2022, the share of subscribers with broadband access from fixed networks was 20.9% per 100 inhabitants (compared to 34.9% in OECD countries), which corresponds to slightly over 80% in household penetration (AKEP, 2022[6]). Furthermore, only 12% of households with fixed Internet subscriptions have access speeds exceeding 100 megabits per second (Mbps) (AKEP, 2023[7]).

Additionally, access inequalities between urban and rural populations persist. In 2022, fixed broadband penetration in rural areas remained as low as 9%, in contrast to 31% in urban areas, which highlights a lack of active government incentives for infrastructure investments in rural settlements. Notably, rural broadband connectivity in Albania heavily relies on mobile networks, which face speed limitations imposed by 4G/3G technology that cannot support gigabit speeds. The commercial deployment of 5G has not yet been launched, awaiting the finalisation of the 5G spectrum allocation process scheduled for 2024. Moreover, Albania has yet to align its existing legislation with the 2023 revised EU Guidelines on State Aid for broadband networks,[4] currently enforced in EU Member States. These guidelines align the threshold for public support to fixed networks with the latest technological and market developments; introduce a new assessment framework for deploying mobile networks (including 5G); and outline simplified rules and compatibility criteria to incentivise adoption of broadband services.

Figure 11.1. Fixed broadband penetration in the WB6 economies, the EU and the OECD (2022)

Percentage of the population with a subscription to fixed broadband



Note: OECD and EU averages are calculated as simple averages.
Sources: Regarding ALB data, information sent by AKEP for the *Competitiveness Outlook* assessment; OECD (2024[8]); International Communications Union (2024[9]).

StatLink https://stat.link/1atdbp

Albania has demonstrated a commitment to establishing a robust electronic **communications regulatory framework,** empowering market players to innovate and invest in infrastructure to meet the growing demand for high-quality connectivity, while fostering competition and providing consumer choice. However, the existing legal framework does not yet align with the European Electronic Communications Code (EECC).[5] The government has prepared a new Law on Electronic Communications, which has undergone consultations and subsequent EC review, and is currently anticipated for adoption in early 2024. This legislation is expected to deliver various benefits, including regulatory harmonisation with EU Member

States, reducing complexity for service providers operating in multiple countries, and facilitating cross-border services. The new law promises to improve consumer protection and competition in electronic communications, and to fortify the financial independence of the regulator, the Electronic and Postal Communications Authority (AKEP). The regulator is consistently monitoring the domestic telecommunications market and applying regulatory remedies, according to the existing framework. Moreover, AKEP is committed to the continuous development of the ATLAS system[6], the electronic registry of public electronic communications networks, with comprehensive training on its use conducted across all municipalities in 2022. In a positive development, the regulatory framework was updated in 2022 to streamline administrative procedures and reduce costs associated with investments in fixed and mobile broadband infrastructure development. This update aligns with the EU Broadband Cost Reduction Directive.[7]

Furthermore, Albania stands out as the first economy in the WB region to align with the 2020 EU Connectivity Toolbox Recommendation,[8] amending existing regulations in 2022 to introduce lighter rules for building permissions for small antennas in 5G mobile networks. However, despite these regulatory advances, Albania has not yet conducted 5G spectrum auctions, placing it behind its three neighbouring WB6 economies (Kosovo, Montenegro and North Macedonia); those economies have already awarded 5G licences to operators and commercial 5G deployments have emerged in respective urban centres. Forthcoming adoption of the new law on electronic communications will necessitate additional regulatory adjustments and updates on relevant product and service markets within the electronic communications sector, in line with the 2021 EU Delegated Regulation[9] supplementing the EECC and the 2020 EC Recommendation.[10]

In advancing **data accessibility**, Albania has integrated open data policy measures in its broader national Open Government Partnership (OGP) Action Plan for 2023-25. The economy has strengthened its legal framework for reusing public sector information by enacting the new Open Data Law in April 2023. This legislation enhances the economy's legal alignment with the EU Open Data Directive,[11] underscoring the importance of transparency and fair competition. While the law introduces novel concepts, such as the definition and creation of high-value datasets accessible through Application Programming Interfaces (APIs), their practical implementation is still pending. Achieving full alignment with the EU data framework necessitates further reforms to facilitate data reuse by the public sector and the development of trustworthy data-sharing systems, in accordance with the EU Data Governance Act.[12] The current policy focus is primarily centred on data transparency, with less emphasis on data sharing for innovation.

Currently, the data-driven economy is impeded by a lack of understanding regarding the significance of data openness in the public sector, coupled with limited public awareness of its benefits for citizens and businesses. Efforts to promote data accessibility through campaigns and capacity-building opportunities for both the public and private sectors have been insufficient. Despite relevant obligations for public institutions and support from the National Agency for Information Society, information is not consistently published on public sector websites. To address some of these challenges, Albania has integrated relevant commitments in its OGP action plan. These include streamlining automatic data publishing to the national open data portal and organising public awareness campaigns on the wide range of open data applications. Nevertheless, Albania's Open Data Portal remains underdeveloped. The economy performed below average in the portal and quality dimensions among five EU candidates (4 WB economies and Ukraine) in the 2023 open data readiness assessment of the EU's official open data portal (M. Page, 2023[10]). The national portal offers access to only 91 datasets with one out of four datasets being real-time or dynamic (Albanian Open Portal Data, 2024[11]). While datasets are published according to technical standards, their consistency and timeliness is not regularly reviewed, limiting their reuse potential for developing new services. Additionally, data reuse cases are not highlighted in the portal and data reuse monitoring is not systematically performed, hindering comprehensive assessment of relevant demand for datasets.

Sub-dimension 10.2: Use

Albania has consistently pursued a citizen-centric approach in developing its **digital government** initiatives, yet the inclusiveness of public e-services warrants further attention. Its commitment to the implementation of its Paperless Administration strategy has been further underscored by the adoption of the Digital Agenda 2022-26, which aims to enhance the quality and security of e-government services. The enactment of the new e-government law in May 2023 has brought comprehensive regulations governing the creation and provision of electronic services. Legislation on electronic identification and trust services has aligned fully with the EU eIDAS Regulation on e-identification and the uptake of digital signature services has advanced significantly.[13] However, while digital signature services are available to domestic users, cross-border public services are not yet established. Mutual cross-border recognition of eID systems depends on bilateral agreements, while discussions among WB economies and the EU are under way to establish cross-border interoperability in the region.[14]

Since May 2022, over 1 237 public services, constituting approximately 95% of the total, have transitioned to *digital by default* (i.e. online-only delivery), eliminating the need for physical interaction with public administration employees and eradicating corruption practices, long queues, and dissatisfaction (Jorgoni, 2022[12]). The government's current focus is on implementing a life-event approach[15] within public administration. Plans are under way to redesign existing e-services for citizens and businesses, framing them around life-events, and to re-engineer the e-government portal (e-Albania). Meanwhile, the e-Albania portal continues to witness a steady rise in engagement, boasting approximately 3 million registered users, including citizens and businesses. On a daily basis, the portal serves an average of 410 000 users. Additionally, the government remains committed to fostering communication and interaction with citizens and businesses, aiming to build trust and facilitate equitable resolutions to community or business issues (Box 11.1). The Government Gateway (GG), Albania's public administration interoperability platform, provides real-time interconnection of 60 public administration information systems. This enables automatic completing of around 68% of application forms on the e-Albania portal. Currently, the Government Network (GovNet) connects more than 230 public institutions in Tirana. However, the GovNet is not yet expanded throughout Albania to ensure regional institutions' access to centralised services; fibre infrastructure has yet to reach the entire territory (NAIS, 2023[13]). Despite notable advancements in government digitalisation, Albania has further steps to take to enhance the inclusiveness, quality and personalisation of public e-services, adopting new digital service standards and digital innovations.

Digital business development in Albania has gained momentum over the past three years, largely influenced by the impact of the COVID-19 pandemic. While legal and policy framework reforms since 2021 have facilitated e-commerce and e-business development, state financial support for the digital transformation of SMEs across sectors remains inadequate. The Law on Electronic Documents, Electronic Identification and Trusted Services laid the groundwork for e-business development, while the Inter-sectorial Business and Investments Development (BID) Strategy 2021-27 integrated initiatives for promoting e-commerce and supporting SMEs' digital transformation to enhance the economy's competitiveness.

Despite these efforts, financial support and mentoring services for digitalisation have primarily relied on donor funding. Programmes like CoSolve-19[16] have assisted approximately 700 SMEs to overcome the negative effects of the pandemic, providing digitalisation grants averaging EUR 7 000 to about 300 SMEs. Another donor-funded initiative, ConnectIT 2.0,[17] allocated similar grants to support the digitalisation of 75 SMEs with a total budget of around EUR 450 000. The government has mobilised the Albanian Investment Development Agency (AIDA) to enhance SMEs' innovative and technological capacities. While AIDA is responsible for organising campaigns and training on adopting e-commerce and e-business practices, the scope of relevant activities has been limited. AIDA's website offers an online guide on starting an e-commerce business and information on financing opportunities for SMEs. AIDA also created an assessment tool to identify the needs of the labour market and to provide adjusted e-commerce and e-business training opportunities, but the implementation of training programmes remains pending.

Box 11.1. "The Albania We Want" co-government portal

"The Albania We Want" (www.shqiperiaqeduam.al) is an open platform for communication and interaction with citizens, which aims to serve as a tool for listening to citizens in real time regarding current political and governance issues – discussing important reforms and measures; enabling citizens to influence government policies in every sector or the progress of work in ministries and state institutions; facilitating active participation in the fight against corruption; and promoting fair solutions to community or personal issues.

The portal aims to provide a practical tool for co-governance, promoting a politically agnostic vision of policy making to create a state for all citizens regardless of their political beliefs. The portal provides space for citizens to express their critical stance on reforms, projects or governance issues, or to report abusive or unethical behaviour by state officials. It also allows businesses to submit complaints about the business climate, government policies or interactions with public administration. Citizens and businesses can submit evidence or even video material to support their complaints.

Complaints received through the platform are treated by the Agency for Dialogue and Co-Governance, which reports directly to the prime minister. The Law on co-governance, adopted in November 2021, gives substantial powers on mediation and dealing with grievances to the agency, which was reorganised by a government decision in 2022. There is evidence that complaints and issues reported on the portal have been resolved for the benefit of citizens, although some concerns remain on whether the agency's role may discourage the use of more formal and independent appeal and complaint channels.

Sources: Government of the Republic of Albania (2024[14]); European Commission (2023[15]).

Challenges persist in reporting and conducting impact assessments on implemented activities. Only in December 2023, the government approved the establishment of an interministerial working group to monitor the BID Strategy and its Action Plan, highlighting the need for a more systematic approach to implementing monitoring. Nevertheless, the 2023 ICT survey on enterprises by the Albanian Institute of Statistics indicates a growing adoption of e-commerce, with 14.8% of SMEs engaging in online sales (INSTAT, 2023[16]). However, this figure still lags behind the EU average of 22.9% (Eurostat, 2024[17])..While 99.1% of businesses have computers with Internet access in 2023, only 54.9% maintain a business website, compared to an EU average of 78.1%. The survey also indicated that 80.5% of businesses with Internet access use social media to promote business services or products, but there is underutilisation of cloud computing services (22.9% against the EU average of 45.2%).

Meanwhile, government initiatives supporting SMEs' technological innovation have gained momentum in the past three years. The initiatives support enterprise innovation and internationalisation across sectors, but not the specific growth needs of the ICT industry. There is a lack of programmes for hiring skilled ICT professionals and investing in ICT standardisation.

Since adopting the law on start-ups in 2022, Albania has fostered initiatives for developing scientific and technology parks and a start-up ecosystem. Highlighted programmes include the TechSpace, created by the National Agency of Information Society, and the Technology and Economic Development Area (TEDA) in Tirana, aimed to attract investments and support the internationalisation of companies, focusing on the ICT industry among other targeted sectors. AIDA is pivotal in managing state funds designed to support SMEs in their growth and innovation endeavours. These include the Competitiveness Fund, the Innovation Fund, the Creative Economy Fund, and the Start-Up Fund. In 2022, the Start-up Fund allocated EUR 2.5 million in financial support to 58 innovative start-ups, with 39% (or 29 companies) operating in

the ICT sector, to purchase equipment, renovate technology and buy software. Additionally, the Minister of State for the Protection of Entrepreneurship published calls for ICT start-ups and innovations in late 2022; others were published by the donor-funded Challenge Fund[18] in late 2023, with implementation pending in 2024.

Horizontal monitoring and impact assessment of various government and donor-funded initiatives fostering innovation and digitalisation of SMEs have been unsatisfactory thus far. To address this deficiency, the government established a new state agency in July 2023, Startup Albania. The purpose of this agency is to ensure the proper functioning of the start-up ecosystem. Planned initiatives under the Digital Agenda Strategy for 2024 and 2025 include programmes supporting start-ups and attracting digital nomads to Albania by introducing the e-residency concept. In implementing this concept, Albania could draw inspiration from successful practices observed in countries like Estonia (Box 11.2).

Box 11.2. "e-Residency" in Estonia

Estonia is the first country to offer e-Residency, a government-issued digital identity and status that provides access to Estonia's e-services and transparent business environment. E-Residency provides the key for a growing global community to access Estonia's digital nation.

Estonian e-Residency enables digital entrepreneurs to establish and manage an EU-based company completely online, from anywhere in the world. Estonia launched its highly popular e-Residency programme, the first of its kind, back in 2014. Thus far, more than 103 000 people from 170+ countries have applied for e-Residency, establishing over 25 000 Estonian companies. Estonia is a near-cashless society, with over 99% of financial transactions happening digitally. Estonia developed the X-Road, its proprietary decentralised, distributed system, in 2001 and has utilised Blockchain since 2008.

E-Residency's ambitious mission is to facilitate and advance the provision of Estonia's unique digital services, empower entrepreneurs, and transform business practices globally. The programme is a government-wide initiative led by the e-Residency team, the Estonian Police and Border Guard Board, and several government ministries dedicated to constantly improving Estonia's digital infrastructure and business environment.

Since 21 June 2021 foreigners have been able to apply for e-resident status also in Lithuania, to receive an e-resident card and e-ID certificate. This allows them to use the electronic administrative, public or commercial services provided in Lithuania.

Source: Government of the Republic of Estonia (2024[18]).

Albania currently lacks formulated policies to govern the development and use of **emerging digital technologies** such as artificial intelligence, Blockchain, or the Internet of Things (IoT). However, the Digital Agenda strategy advocates for using such technologies to enhance the quality of e-services provided to citizens and businesses. Likewise, the Law on e-Government adopted in June 2023 enables the use of artificial intelligence technology in e-government information systems, pending a decision of the Council of Ministers on the methodology and technical standards for its use. The government has initiated a process for drafting an artificial intelligence strategy that is anticipated by the end of 2024 to ensure the responsible use of this technology, focusing on its safe and socially beneficial development. The National Agency of Information Society (NAIS) introduced the first version of the virtual assistant in the e-Albania portal on 28 December 2023, receiving 22 000 questions from the portal's users in the first two days. It is currently integrated as a chatbot, designed to offer information and assistance to citizens regarding the use of public e-services, while its voice-based version is under development.

The government plans to use AI in the process of legislative alignment with the EU *acquis*, analysing Albanian legislation, comparing it to EU legislation and assisting in the work of legal approximation experts. Moreover, plans are under way for integrating AI and machine learning in public procurement procedures and in preventing and detecting fiscal evasion and financial crime. Considerations include the exploitation of AI and IoT technologies in agriculture to enhance yields, and in the judicial system to contribute in decision-making processes. These government initiatives for integrating emerging technologies in public service create an even more pressing need to adopt policies and adapt the legal framework to ensure such technologies' beneficial and safe use.

Sub-dimension 10.3: Society

Albania has enhanced the policy framework with measures that promote **digital inclusion** since 2021, but tangible progress from implemented initiatives remains limited. The Digital Agenda Strategy 2022-26 allocates EUR 49 million for the development of digital skills, and additional funds for the adaptation of the e-government portal and public sector websites for persons with disabilities. However, these Digital Agenda initiatives will be implemented through the donor-funded GovTech[19] programme. As of February 2024 the implementation of GovTech is still pending, with planned activities extending until 2027. Albania has not yet adopted legal obligations for accessibility in public sector websites and e-services and accessibility requirements in the procurement processes of ICT products and services. The government's 2024 work plan incorporates the development of updated legislation on e-accessibility, aligning with the EU *acquis* and international standards, with an anticipated adoption by the end of that year. Meanwhile, since adoption of the National Plan for Persons with Disabilities 2021-25, NAIS has collaborated with the Ministry of Health and Social Protection to redesign public institution websites for accessibility. The activity was initiated in 2022; NAIS has so far reported limited progress, mainly through improvements made to ministry websites (NAIS, 2023[13]).

The risk of digital exclusion is exacerbated by the *digital by default* service delivery model. Since May 2022, the government closed down the local “front desks” delivering national administrative services, enacting its plan for the transfer of all public services on line (EC, 2022[19]). This abrupt shift has widened the gap in digital government service utilisation, particularly affecting population segments with limited digital skills, such as the Roma and Egyptian communities, the elderly, and those with limited access to affordable high-speed broadband connectivity. Recognising this gap, businesses in Albania have stepped in to support those struggling with e-services. Unfortunately, without alternatives, digitally illiterate individuals are compelled to pay for assistance in accessing public administration e-services that are otherwise free of charge. This creates a financial barrier for certain groups, necessitating strong government action to provide local support centres and widespread digital skills training for all underprivileged groups. While the launch of the virtual assistant in the e-Albania portal in December 2023 adds value, it cannot replace the recommended omni-channel approach, as proposed by OECD good practice recommendations. These recommendations promote a more inclusive digital transformation, allowing online and mobile services to coexist with face-to-face or over-the-phone service delivery, ensuring that underlying processes are digitally coherent and integrated (OECD, 2020[20]).

Positively, the GovTech programme promises to enhance digital inclusiveness in e-government services. Programme commitments include creating the e-Albania Omni-channel Contact Centre, complemented by local info-points for additional assistance. The government is also planning the establishment of 10 Youth Innovation Centres (YIC) across the economy to support digitally marginalised groups. YICs will function as comprehensive hubs, offering access to various e-services and providing inclusive digital skills training. Another positive development is the Job Office Digitalisation programme, implementing assistive technology with hardware, software and special devices and catering to various needs, including advanced screen-reading technology for the visually impaired and portable computers with built-in Braille systems (AKEP, 2023[7]).

Albania has not yet formulated a dedicated policy for ensuring a **green digital sector** and harnessing its benefits for the green transition. Nevertheless, the National Plan for Sustainable Development of Digital Broadband Infrastructure 2020-25 (NBP) is the first policy document to recognise digital technologies' environmental impact, particularly in electronic communications systems and networks. The NBP introduces measures to make telecommunications networks more environmentally friendly, incorporating sustainable energy technologies such as solar energy installations at remote telecom stations. Additionally, it addresses the issue of environmental pollution caused by the disposal of electronic equipment, commonly known as e-waste. While existing legislation on waste from electrical and electronic equipment (2012) outlines basic relevant obligations, the government is preparing new legislation on e-waste, expected to be finalised in 2025. This new law will outline extended responsibilities for producers in the post-consumer phase, specifically referring to three categories of waste, including e-waste.

NAIS is at the forefront of efforts to co-ordinate the process of electronic and electrical waste in compliance with provisions of the law on integrated waste management. The agency is also implementing the GoGreen project, a co-funded initiative under the IPA Programme, designed to enhance the energy efficiency of the government data centre. According to Eurostat (Eurostat, 2022[21]) in 2022, 41% of enterprises in Albania applied some measures affecting the energy consumption of ICT equipment, marking the second highest rate in the WB region and closely following the EU average of 44.1%. Despite the advancement of digitalisation in both the public and private sectors, public awareness regarding the negative environmental impact of the digital sector remains limited. Initiating public campaigns could play a pivotal role in promoting measures to mitigate environmental impacts, reduce energy consumption, and advocate for sustainable practices.

Sub-dimension 10.4: Trust

Albania has actively implemented its existing legal framework on **privacy and personal data protection**, consistently working towards alignment with the EU *acquis*. Yet implementing this framework would require enhanced capacity, especially in human resources. While the legal framework on e-privacy adheres to current EU legislation, the personal data protection framework is still in the process of alignment with the EU General Data Protection Regulation (GDPR).[20] Oversight of the framework's implementation falls under the responsibilities of the Information and Data Protection Commissioner Office (IDP), an independent authority currently staffed by 60 employees, both for the protection of personal data and the right to access public information. The IDP has already drafted 13 sub-legal acts to complement the new Albanian Law on Personal Data Protection (PDP) and facilitate its implementation in practice. Its Institutional Strategy 2022-25, coupled with annual Work Plans, outlines a vision for enhancing personal data protection and e-privacy in Albania. Emphasis is placed on collaboration with international counterparts, increased training opportunities, and awareness initiatives for the public and data protection practitioners. However, the IDP faces challenges due to budgetary restrictions, limiting its capacity to implement this vision fully. An analysis of the domestic situation in personal data protection in 2022 reveals a persistent weakness in how public and private sector controllers fulfil their obligations and functions (IDP, 2022[22]). The IDP's 2022 annual report notes an increasing trend in citizens' complaints over the past three years. This shift can be attributed to enhanced awareness of citizens about their rights, and support provided by the IDP in exercising them. Despite not being consistently consulted by government institutions during policy or legislation design processes, the IDP contributed legal opinions on 27 draft legal acts in 2022. It nevertheless anticipates challenges in meeting the requirements of the forthcoming adoption of the PDP law, compounded by the growing digitalisation of systems and services in Albania. Addressing these challenges will necessitate significant staff-capacity building and practitioners' training. Additional

capacities are also essential to tackle priorities relating to emerging technologies linked to digitalisation, such as biometrics, genetic data, and video/audio surveillance.

Albania currently lacks a comprehensive policy or programme for **consumer protection in e-commerce**, signalling a need for modernisation of the legal framework and an intensified focus on consumer education. Recognising this gap, the government has engaged in a multi-stakeholder process to formulate a new Consumer Protection strategy, with adoption anticipated for 2024. The existing legal framework for consumer protection is outdated,[21] but plans to align it with the EU framework, enhancing enforcement and modernising consumer protection rules for e-commerce, are set for 2025. The current framework requires improvements in mechanisms for alternative dispute resolution, as only some form of arbitration is currently foreseen. Additionally, it lacks provisions for self-regulation and adequate sanctions and remedies to effectively protect online consumers' rights.

Meanwhile, the Internal Market Department of the Ministry of Finance and Economy (MFE) has implemented a monitoring initiative of online traders' websites on legal compliance (so-called website screening or "Sweeps"). The screening of 92 business websites or social network accounts offering distance contracts or online shopping services yielded valuable results, informing the development of the Action Plan for Electronic Commerce 2023-26, pending adoption in early 2024. The Action Plan outlines legislative updates to regulate e-commerce and relevant consumer protection in line with the EU *acquis*; development of a harmonised regime for mutual recognition of electronic signatures in judicial proceedings; membership in an international dispute resolution platform; and adoption of updated privacy rules. While the MFE is tasked with raising awareness about consumer rights and how to exercise them, including e-commerce transactions, current efforts are insufficient to create a tangible impact. An information leaflet detailing rules and obligations for both consumers and traders in distance and off-premises contracts is available on the Consumer Protection Commission's website, but awareness-raising campaigns for online consumers are not actively pursued. The forthcoming e-commerce action plan aims to strengthen awareness campaigns in co-operation with the AIDA.

The Albanian Government has prioritised enhanced **cybersecurity** measures following the mid-July 2022 cyberattack on Albanian government services. The National Authority for Electronic Certification and Cyber Security (AKCESK)[22], which incorporates the National Cybersecurity Incident Response Team (AL-CIRT), has undertaken activities to comply with advanced cybersecurity standards, intensifying efforts to address escalating challenges and strengthening national cyber-defence capacities. AKCESK has increased public awareness raising and staff training initiatives to elevate cybersecurity levels, expanding the list of Critical Information Infrastructures (CIIs) subject to audits for implementing minimum-security measures[23]. Despite continuous growth in the capacities of AKCESK personnel and public/private security experts safeguarding CIIs, alongside ongoing investments in technology, a subsequent cyberattack on the National Assembly of the Republic of Albania and telecom company One Albania on 25 December 2023 underscored the need for a reassessment and further fortification of the national cybersecurity strategy (AKCESK, 2023[23]).

As the key institution in implementing the National Cybersecurity Strategy 2020-25, AKCESK is currently formulating a new Action Plan for 2024-25. The Strategy's 2021 monitoring report revealed that 52% of planned activities (65 in total) were fully realised in the first year (AKCESK, 2022[24]). However, despite a decision in 2023 to increase the national authority's staff to 85, the current number of employees remains at 50 by year-end. The government has yet to develop a strategic approach to cybersecurity capacity building in the public sector to strengthen the economy's overall cyber resilience. In a positive development, the government prioritised the establishment of the Government Cyber Security Centre within NAIS in 2023, which was outlined by the Digital Agenda. Additionally, enhancement of the existing cybersecurity law, largely aligned with the EU NIS Directive,[24] is under way. The new law on cybersecurity, approved by the Council of Ministers in January 2024 and pending adoption by the National Assembly at the time of writing, improves legal alignment with the NIS2 Directive,[25] the EU-wide legislation on cybersecurity since 2023. The new law also governs certification for ICT products, services and processes in accordance with

the EU Cybersecurity Act.[26] While there are currently no cybersecurity requirements for public procurements of ICT products and services, nor a qualifications framework for the recruitment of cybersecurity professionals, the Strategy's 2024-25 Action Plan has foreseen the development of a National Cyber Security Certification Scheme. This initiative is an important step in strengthening the overall cybersecurity infrastructure in Albania.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania's progress on implementing CO 2021 Recommendations has been mixed: the economy has made strong advances in business digitalisation, while moderate improvements were made in areas like data openness or rural connectivity. Conversely, progress has stagnated in domains such as digital inclusion and consumer protection in e-commerce. Table 11.2 shows the economy's progress in implementing past recommendations for developing a digital society.

Table 11.2. Albania's progress on past recommendations for digital society policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Accelerate adoption of open data and data reuse legislation and strengthen the demand for open data innovation through inclusive co-creation processes	The government made progress by adopting the new Law on Open Data and the Reuse of Public Sector Information in April 2023, aligning with the EU Open Data Directive. However, the number of published datasets on the Open Data portal is limited, and few are real-time or dynamic. Public awareness and public sector capacity-building opportunities on data reuse and data innovation concepts are insufficient.	Moderate
Improve the legal framework on e-commerce and e-business and promote private sector ICT adoption through financial support programmes	The legal framework on e-signatures and e-business was improved in 2021. The National Agency of Information Society (NAIS) promotes digital signature services, enabling e-business. Implementation of the Business and Investments Development Strategy 2021-27 has started with programmes supporting SME digitalisation across sectors and e-commerce development. The Albanian Investment Development Agency (AIDA) is implementing awareness raising and training activities on e-commerce. However, the number of SME beneficiaries and trainees so far remains below expectations. The Startup Fund provides financial support for technological equipment and software to innovative start-ups.	Strong
Provide adequate public investment for developing the digital skills of students and adults, in parallel with increasing Internet connectivity and ICT for schools	While the National Broadband Development Plan 2020-25 is being implemented with minor delays, the Digital Agenda Strategy Gigabit Society established more ambitious gigabit society targets. While Internet connectivity in schools has increased, fibre networks delivering high-speed broadband services have not yet covered all rural settlements. The Digital Agenda 2022-26 strategy prioritises digital education and digital skills development, but the implementation of relevant activities is integrated in the pending donor-funded GovTech programme.	Moderate
Adopt accessibility requirements in public procurement of ICT products and services and create corresponding certification schemes	The government has not made progress in adopting accessibility requirements for ICT products and services in public procurement processes, and a cybersecurity certification scheme has not been adopted. Positively, the new cybersecurity law pending adoption in early 2024 governs certification for ICT products, services and processes in alignment with the EU Cybersecurity Act.	Limited
Design a programme for consumer protection in e-commerce that realistically promotes consumers' education or guidance and builds trust in e-commerce	There is currently no policy or programme on consumer protection in e-commerce. However, the Consumer Protection Commission's website has published an information leaflet describing rules on consumer rights and traders' obligations in distance and off-premises contracts. The legal framework on consumer protection in e-commerce does not align with the EU *acquis*. An Action Plan for Electronic Commerce 2023-26 is pending adoption in early 2024.	Limited

Note: Digital skills assessment is not part of the Digital Society Dimension in CO 2024 and is now part of Education and Employment Policy.

The way forward for digital society

Considering the previous recommendations' implementation level, there are still areas in which Albania could enhance the digital society policy framework. As such, policy makers may wish to:

- **Complete the legal alignment with the European Electronic Communications Code (EECC) and incentivise investments in ultra-high-speed networks development.** Following the adoption of the new law in 2024, the government needs to expedite regulatory adjustments and promptly conduct 5G spectrum auctions. The government holds an important role in encouraging investments in 5G and fibre network rollouts and developing public awareness campaigns informing the Albanian public about the benefits of 5G. It is important to develop and fund an ambitious fibre infrastructure development plan, particularly in "white areas",[27] and ensure fair sharing of fibre infrastructure. The government should prioritise regulatory and administrative streamlining measures for 5G operators, enhancing their capacity to implement the required infrastructure rapidly.
- **Identify high-value datasets and ensure their automated, timely and consistent publication while promoting data-driven innovation.** The government needs to intensify law enforcement on data reuse by defining high-value datasets and adopting regulations that delineate data intermediary services for trustworthy data sharing and pooling. Awareness-raising campaigns should be supported to highlight the benefits of open data reuse and sharing through successful use-case promotion. The TechSpace initiative could be further mobilised as a hub for data-driven innovation, encouraging the development of data-driven public-private partnerships and the creation of new services.
- **Ensure an omni-channel approach in providing public services and prioritise the implementation of e-accessibility obligations by all state institutions to reduce inequalities.** The government needs to take measures to ensure inclusiveness for all underprivileged groups, accelerating the establishment of the planned Omnichannel Contact Centre and Youth Innovation Centres. However, since these efforts may not be sufficient for the entire territory, the government should provide practical support to citizens struggling to use e-services through phone lines and local support centres in rural settlements, possibly considering the example of Portugal's Citizen Spots (Box 11.3) to ensure that no one is left behind. It is important to expedite the planned adoption and swift implementation of e-accessibility standards to align with relevant EU legislation for e-accessibility in public sector websites,[28] and to ensure that the e-Albania portal is equally accessible to citizens with disabilities.

Box 11.3. Citizen Spots (Portugal)

In order to advance the multichannel delivery of public services in Portugal, the government has prioritised the development of small and integrated one-stop-shops, which provide central and local administration services as well as those of utility providers (e.g. electricity, telecommunications). These counters, managed by public officials, assist citizens in accessing online public services. Developed in partnership with municipal governments and the main national postal company, the network of Citizen Spots allows the Portuguese Government to reach segments of the population that lack access to the Internet or the necessary skills to use online services. At a relatively small investment, the network also covers remote areas where face-to-face delivery of public services would otherwise pose a financial challenge.

Source: OECD (2020[25]).

- **Improve alignment of the consumer protection framework with the EU *acquis* and enhance e-consumers' education.** The government should advance alignment with the EU Consumer Rights Directive[29] in 2024 to align with EU's modernised consumer protection rules in e-commerce and to facilitate their enhanced enforcement. Attention should be drawn to establishing effective self-regulation, redress and dispute resolution mechanisms, and adjusting sanctions and remedies to increase effectiveness. The government should empower e-commerce consumers by providing access to practical consumer education, information and advice on how to file complaints and access alternative dispute resolution mechanisms.
- **Develop a cybersecurity framework for procuring and verifying ICT products and services in line with internationally recognised cybersecurity standards.** Following the adoption of the new law on cybersecurity in 2024, the government needs to adopt a National Cybersecurity Certification Scheme for ICT products and services and enforce corresponding requirements in public procurement procedures to ensure a stronger cybersecurity system in Albania. The government should develop a 5G certification scheme, integrating ENISA's recommendations within the framework defined in the EU Cybersecurity Act and the EU 5G Cybersecurity Toolbox.

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Notes

[1] The scores from the 2018 assessment are not directly comparable due to the significant restructuring of the digital society policy assessment framework, while even maintained scores between the 2021 and current assessment may reflect a slightly improved performance, considering updated thresholds and new qualitative indicators included in the 2024 assessment framework.

[2] Regulation (EU) 2014/910 of the European Parliament and of the Council of 23 July 2014 on electronic identification and trust services for electronic transactions in the internal market, repealing Directive 1999/93/EC, http://data.europa.eu/eli/reg/2014/910/oj.

[3] The EGDI is a composite measure of three important dimensions of e-government, namely provision of online services, telecommunication connectivity, and human capacity.

[4] Communication from the Commission Guidelines on State Aid for Broadband Networks 2023/C 36/01, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A52023XC0131%2801%29.

[5] Directive (EU) 2018/1972 of the European Parliament and of the Council of 11 December 2018 establishing the European Electronic Communications Code (Recast) (Text with EEA relevance), http://data.europa.eu/eli/dir/2018/1972/oj.

[6] The ATLAS system is available via the following link: https://atlas.akep.al/smartPortal/AKEP.

[7] Directive (EU) 2014/61 of the European Parliament and of the Council of 15 May 2014 on measures to reduce the cost of deploying high-speed electronic communications networks (Text with EEA relevance), https://eur-lex.europa.eu/eli/dir/2014/61.

[8] Commission Recommendation (EU) 2020/1307 of 18 September 2020 on a common Union toolbox for reducing the cost of deploying very high-capacity networks and ensuring timely and investment-friendly access to 5G radio spectrum, to foster connectivity in support of economic recovery from the COVID-19 crisis in the Union, http://data.europa.eu/eli/reco/2020/1307/oj.

[9] Commission Delegated Regulation (EU) 2021/654 of 18 December 2020 supplementing Directive (EU) 2018/1972 of the European Parliament and of the Council by setting a single maximum Union-wide mobile voice termination rate and a single maximum Union-wide fixed voice termination rate (Text with EEA relevance), http://data.europa.eu/eli/reg_del/2021/654/oj.

[10] Commission Recommendation (EU) 2020/2245 of 18 December 2020 on relevant product and service markets within the electronic communications sector susceptible to ex ante regulation in accordance with Directive (EU) 2018/1972 of the European Parliament and of the Council establishing the European Electronic Communications Code (notified under document C[2020] 8750) (Text with EEA relevance), http://data.europa.eu/eli/reco/2020/2245/oj.

[11] Directive (EU) 2019/1024 of the European Parliament and of the Council of 20 June 2019 on open data and the reuse of public sector information (recast), http://data.europa.eu/eli/dir/2019/1024/oj.

[12] Regulation (EU) 2022/868 of the European Parliament and of the Council of 30 May 2022 on European data governance and amending Regulation (EU) 2018/1724 (Data Governance Act) (Text with EEA relevance), http://data.europa.eu/eli/reg/2022/868/oj.

[13] During 2023, the National Agency for Information Society, as a Qualified Provider of Trusted Services, has generated 1 600 electronic seals for public institutions as well as 148 654 qualified certificates for electronic signature.

[14] A Memorandum of Understanding on Regional Interoperability and Trust Services in the Western Balkan Region was signed in Tirana on 2 November 2020 during the WB Digital Summit. Albania is collaborating with the EU and the other WB economies in enhancing interoperability and trust services in the region.

[15] The life-event approach in the context of digital public services delivery refers to a user-centric approach that organises and delivers government services based on major life events or significant milestones in an individual's life. This approach is designed to make government services more accessible, user-friendly, and tailored to the specific needs of individuals at different stages of their lives.

[16] https://cosolve19.al.

[17] https://euforinnovation.al/connectit.

[18] https://challengefund.euforinnovation.al.

[19] The World Bank is financing the GovTech programme for improving equitable access to high-standard public services with USD 65 million, with its implementation spanning across four years until 2027. The programme aims to support the Albanian Government in its efforts to upgrade the e-Albania online portal and mobile application to become more user-centric, more user-friendly, and more accessible to all groups, including the disabled. Among other objectives, GovTech will underpin the portal's transition to enable personalised and proactive services organised by life events; support building the digital and foundational skills of the population; and integrate means to ensure that individuals who require dedicated assistance because they lack digital literacy, information and stable access to ICT devices and connectivity can easily access digital services.
https://documents1.worldbank.org/curated/en/099250001092351699/pdf/P17784500b2e5f0e093500f87faffa866c.pdf.

[20] Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, repealing Directive 95/46/EC (General Data Protection Regulation), http://data.europa.eu/eli/reg/2016/679/oj.

[21] The existing consumer protection law in Albania is aligned with the Consumer Rights Directive (2011/8/EU) that was amended by the newer Directive (EU) 2019/2161.

[22] Upon the entry into force of the new law nr.25/2024 “On Cyber Security” transposing NIS2 Directive, the name has changed to National Cyber Security Authority.

[23] During 2023, 250 individuals from 60 operators of critical and important information infrastructures were trained in the activities organized by AKCESK.

[24] Directive (EU) 2016/1148 of the European Parliament and of the Council of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union, http://data.europa.eu/eli/dir/2016/1148/oj.

[25] Directive (EU) 2022/2555 of the European Parliament and of the Council of 14 December 2022 on measures for a high common level of cybersecurity across the Union, amending Regulation (EU) 2014/910 and Directive (EU) 2018/1972, and repealing Directive (EU) 2016/1148 (NIS 2 Directive) (Text with EEA relevance), http://data.europa.eu/eli/dir/2022/2555/oj.

[26] Regulation (EU) 2019/881 of the European Parliament and of the Council of 17 April 2019 on ENISA (the European Union Agency for Cybersecurity) and on information and communications technology cybersecurity certification and repealing Regulation (EU) No 526/2013 (Cybersecurity Act) (Text with EEA relevance), http://data.europa.eu/eli/reg/2019/881/oj.

[27] "White areas" are regions characterised by the absence of high-capacity broadband infrastructure, commonly found in remote or rural locations. These areas face limited commercial interest from telecommunications operators, resulting in a lack of network investments.

[28] Directive (EU) 2016/2102 of the European Parliament and of the Council of 26 October 2016 on the accessibility of the websites and mobile applications of public sector bodies (Text with EEA relevance), http://data.europa.eu/eli/dir/2016/2102/oj.

[29] Directive (EU) 2019/2161 of the European Parliament and of the Council of 27 November 2019 amending Council Directive 93/13/EEC and Directives 98/6/EC, 2005/29/EC and 2011/83/EU of the European Parliament and of the Council as regards the better enforcement and modernisation of Union consumer protection rules (Text with EEA relevance), http://data.europa.eu/eli/dir/2019/2161/oj.

12 Transport policy

Through the development of a modern, sustainable, efficient, interoperable and integrated transport network, a sound transport policy can promote closer co-operation with neighbouring economies and be a key driver of competitiveness, both for an economy as well as for the region. The first sub-dimension, planning and management, measures the extent to which an orderly, coherent, consistent and transparent process is in place for developing transport policy and implementing infrastructure projects. The second sub-dimension, regulation and connectivity, determines how well transport modes and networks are regulated and operated, as well as how they are leveraged to promote regional connectivity. The third sub-dimension, sustainability, measures progress towards resource efficiency, environmental protection, reducing health impacts and increasing safety as well as social inclusion.

Key findings

Since the last *Competitiveness Outlook* (CO) assessment (2021), Albania has made progress in designing and implementing policies related to planning and management, as well as environmental sustainability, in its transport sector (Table 12.1). With Serbia, Albania is the best performer among the WB6 economies. Going forward, further efforts are needed to drive forward regulatory reforms and implement policies that seek to improve regional connectivity as well as road safety.

Table 12.1. Albania's scores for transport policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Transport	11.1: Planning and management			3.5	2.6
	11.2: Regulation and connectivity			2.4	1.9
	11.3: Sustainability			2.3	2.1
Albania's overall score		**2.7**	**2.5**	**2.8**	**2.2**

The **key findings** are:

- Environmental sustainability policies for transport are increasingly being developed and implemented. The upcoming Transport Sector Strategy and Action Plan incorporate sustainability considerations and outline a range of planned measures. Significant efforts have been made to promote electric vehicles and charging infrastructure, to increase the adoption of biofuels and to enhance public transport.
- Progress is under way in developing asset management systems for road and rail transport in Albania. Once operational, these systems will represent an important step towards enhanced management of transport infrastructure, enabling Albania to allocate maintenance spending and new investments more efficiently.
- The project selection process was further reinforced, through updates to the legal framework. These changes strengthen the link between the Single Project Pipeline and overarching strategic documents, as well as integrate environmental and social impact assessments into the process.
- Notable efforts were made on rail reforms and infrastructure. Albania has approved rail projects to enhance rail connectivity within the country, and with Montenegro and North Macedonia. Reforms have been implemented to align Albania's rail market with the EU *acquis*, by setting the stage for the creation of a new regulatory body and separating the national rail company into four separate entities.
- There is room for improvement in the road safety policy framework. Despite a positive trend, the rate of road fatalities, at 59 per million inhabitants in 2022, remains higher than the EU average of 46. While general road safety policies have been outlined in the Transport Sector Strategy and Action Plan 2025, Albania has been without a comprehensive road safety strategy since the previous one expired in 2020.

State of play and key developments

Sub-dimension 11.1: Planning and management

Albania has continued efforts to improve the planning and management of the transport sector since the last CO assessment. The Sectorial Strategy of Transport (SST) and its accompanying Action Plan 2021-25 have been drafted and reflect Albania's **transport vision.** The main goal of the SST and its Action Plan 2016-20 is to i) enhance the national transport infrastructure of Albania and ii) notably enhance its sustainability, connectivity, compatibility and alignment with both the broader international and European transport networks and the region. Moreover, these objectives are clear and measurable, are supported by defined implementation plans and clear timelines and budgets, and were developed in consultation with relevant stakeholders. However, the 2021-25 SST and Action Plan have not yet been adopted (and their timeline has been extended until 2030 pending their adoption), meaning that Albania is currently implementing its overarching transport policies from the previous strategy, as well as under cross-sectoral documents, such as the National Development and Integration Strategy, or ad hoc policies, limiting the ambition, coherence and efficient strategic articulation of the transport vision and its policy objectives.

The SST and its Action Plan also include guidelines to ensure monitoring of the progress in implementation of the priority actions. However, monitoring is not yet taking place due to the strategy not yet being in force. A monitoring report for the previous Sectorial Strategy of Transport and its Action Plan 2016-20 was published in 2021 and is publicly accessible. It concluded that 67% of activities were completed according to the timeline, 25% were ongoing and the remaining 8% had not yet been started (Ministry of Infrastructure and Energy of Albania, 2021[1]), showing some room for improvement in the implementation of the next strategy once it is adopted.

The Albanian Government relies on the National Single Project Pipeline (NSPP) as a strategic medium and long-term prioritisation instrument for economy-wide **project selection**. The National Single Project Pipeline defines the list of strategic projects in Albania, orients foreign and domestic sources of funding towards these priorities, and connects long-term priorities with medium-term budget planning (MTBP) (Republic of Albania, 2023). The NSPP merges and prioritises the projects in the pipelines of each sector/ministry (Single Sector Project Pipeline, SSPP). All projects in the NSPP process are developed based on the EU Guide to Cost-Benefit Analysis of Infrastructure Projects. Albania notably improved its selection process through a new Decision of the Council of Ministers (DCM), "On public investment management procedures", that came into force in January 2023. Among other updates that aim to improve investment management procedures, the DCM gives the NSPP legal power to select projects based on criteria linked to strategic documents, government priorities, and sectoral priorities. In addition, the new DCM integrates environmental and social impact assessments into the selection process.

The SST and its Action Plan further consider the National Package of Priority Projects prioritised under the SSPP system in the transport sector. These Projects of Strategic Significance are approved annually by the Strategic Planning Committee/Strategic Investment Council chaired by the prime minister. The Albanian National Transport Plan (ANTP) serves as a transport master plan and was first adopted by the government in 2005 (TYPSA, 2019[2]). ANTP provides the basis for an overarching framework for the development of the sector and is updated every four years. The second revision of the ANTP, i.e. the 3rd ANTP covering the period 2019-23, was approved in 2020, prioritising the projects using the transport model (TYPSA, 2019[2]). The Sectorial Strategy of Transport and Action Plan 2021-25 (now 2023-30) is aligned with all the latest strategies and plans of ANTP3.

Several relevant updates have also been made to Albania's **implementation and procurement** processes over the last assessment period. Albania has fully aligned with important EU *acquis*[1] on review procedures regarding public procurement rules applicable to the transport sector, strengthening oversight, transparency, and efficiency in allocating resources and contracts within the industry. All the remaining

directives and regulations that prescribe procurement procedures and related services are partially aligned now (Transport Community, 2023[3]). Besides public procurement, public-private partnerships (PPPs) and concession contracts have been in use over the assessment period. In Albania, as of the end of 2021, the record of PPPs and concessions included data on 229 contracts at the economy-wide level, with 6 newly signed during that year (European Commission, 2022[4]). However, PPPs are not yet fully integrated into the public financial management system revision (European Commission, 2023[5]). PPPs and concession contracts can enhance competitiveness by attracting private investment, fostering innovation, and improving infrastructure development and service provision efficiency. Provided they are accompanied by sufficient oversight mechanisms, they can allow for the sharing of risks between the public and private sectors, leading to better-quality infrastructure and services while freeing up public funds for other priorities.

The DCM also lays down monitoring guidelines by clearly mentioning the information required for performance indicators at the project level and for implementation of procurement procedures, information on the cases of creation of substantiated arrears, actions for problems faced in the implementation of projects, justification in case of delays, etc. Budget monitoring reports are published yearly for all sectors, including transport, and were last published in 2022. One of the main objectives of the new DCM is to include the PPP financing option as a separate section in the submission phase of the Project Proposal Form, as well as in the feasibility study for all the projects under the NSPP. The recent changes outline the regulatory and methodological framework for preparing, approving, updating, monitoring and implementing public investment management (PIM) procedures and National Single Project Pipeline procedures (Republic of Albania, 2023).

While further action has been taken to improve **asset management** in the transport sector, Albania could improve processes further. Although asset management systems do not yet exist for all modes of transport, procedures are being developed for road and rail transport.

Progress has been made on the four-year maintenance plan for the entire road network until 2026. The main network that spans over 1 400 km is undergoing maintenance through four substantial contracts within the 2022-26 framework agreement (Transport Community, 2023[3]). Additionally, the Albanian Road Authority has entered into 11 contracts for secondary road segments, totalling 347 km, under DMC No. 600 dated 13 October 2022.[2] Importantly, the government of the Republic of Albania received World Bank funding to establish a Road Asset Management System (RAMS). However, the contract between the government and the subcontractor was terminated due to lack of progress. Albania obtained an EBRD Grant for Technical Assistance with International Financial Reporting Standards (IFRS), the Asset Management Plan, and Track Access Charges in 2020. This included the creation of an Asset Management Plan (AMP), including an assessment of the full cost and direct cost of maintaining and operating the rail infrastructure (Transport Community, 2020[6]).

Sub-dimension 11.2: Regulation and connectivity

Albania has advanced significantly in updating and aligning its **rail regulation** more closely with the EU's Rail Action Plan to boost long distance and cross-border passenger rail.[3] Several laws[4] have been passed and updated over the assessment period. These have paved the way for the establishment of key institutions, such as the National Investigating Body (NIB), the regulatory body – Rail Regulatory Agency (RRA), and the separation of the National Rail Company (HSH) into four separate entities responsible for infrastructure, freight operations, passenger operations, and vehicle maintenance (Transport Community, 2023[3]). The Railway Safety Authority was legally established in December 2022 but is not yet fully operational.[5] Rail market opening has been approved in Albania since 2018, and there are currently three operators in the market. New railway companies are being established but have not yet started operations in the economy.

Several railway modernisation and rehabilitation projects are under way in Albania. These projects encompass a range of initiatives aimed at enhancing infrastructure and connectivity. They include the rehabilitation of existing railway lines, such as the Durrës – Rrogozhinë and Vorë-Hani Hotit routes, as well as the construction of new lines like the Durrës – Pristina and Pogradec – Korça – Border with Greece links. Additionally, plans involve electrifying certain railway sections, such as Tirana – Durrës and Vora – Hani I Hoti. These projects are vital for improving transportation efficiency, promoting economic development, and fostering regional connectivity. By upgrading railway infrastructure and expanding networks, Albania can facilitate smoother freight and passenger transportation, reduce travel times, and enhance overall connectivity within the economy and with neighbouring regions. Furthermore, electrification initiatives contribute to environmental sustainability by reducing reliance on fossil fuels and lowering carbon emissions.

Albania's rail network and fleet utilisation are presented in Table 12.2. A significant downward trend has been noticed in passenger railway transport, and fleet utilisation is low compared to the EU average. There are many steps to be taken to revive railway passenger transport. On the contrary, fleet utilisation is higher than the EU average for freight transport, reflecting a more efficient use of resources and infrastructure for transporting goods, potentially indicating a stronger demand for freight services compared to passenger services.

The reforms in Albania's railway sector, including establishing regulatory bodies, would aid in modernising regulations, enhancing safety standards, and fostering competitiveness. These reforms are crucial for aligning with EU standards and attracting investment, improving efficiency and service quality. Market opening and the emergence of new railway operators promote competition, driving innovation and offering greater choice for consumers. Furthermore, ongoing modernisation projects enhance infrastructure quality, reliability and capacity, supporting economic growth through efficient freight and passenger transportation while instilling confidence among passengers and stakeholders through adherence to safety standards.

Table 12.2. Trends in rail transport in Albania (2019-22)

	Change 2019-22 (in %)	2022	EU average (2021)
Rail network utilisation			
Passengers (passenger-kilometres/km of track)	-76	0.002	0.99
Freight (tonne-kilometres/km of track)	-46	0.098	2.02
Rail fleet utilisation			
Passengers (passenger-kilometres/train-km)	-19	4.46	59.21
Freight (tonne-kilometres/train-km	77	203.73	178.69

Sources: European Commission (2023[71]); Information provided by the government of Albania for the *Competitiveness Outlook* assessment.

Albania has also advanced in its efforts to implement the initiatives outlined in the Waterborne Transport and Multimodality Action Plan through enhancing its maritime regulations. Albania has taken actions aimed at strengthening the system for seafarer training and improving the procedures for the recognition of their training and certificates within the European Union framework. Albania's advancements in maritime regulations and seafarer training bolster safety standards, fostering safer navigation and reducing maritime incidents. Aligning with EU frameworks enhances Albania's competitiveness in the global maritime industry, attracting investment and facilitating trade for economic growth.

Several efforts have been made to improve aviation regulations in Albania over the last assessment period, bringing the economy closer to the EU *acquis*. The Albanian Civil Aviation Authority (ACAA) monitors the aviation market in Albania. Albania has fully aligned with the Single European Sky (SES) I package already during the last CO assessment and has progressed on alignment with the SES II package, but it is yet to be completed – meaning that there is room for improvement in enhancing airspace efficiency, reducing

delays, and improving safety standards, as well as the unrealised potential for cost saving for airlines and modernisation of Albania's aviation infrastructure.

The regulatory reforms for road transport have progressed as well; these mainly correspond to Intelligent Transport Systems (ITS) deployment, asset management and climate resilience, and are discussed in relevant sections of this chapter.

Investment in rail infrastructure is considerably higher in this assessment period than for road transport (Table 12.3) due to the ongoing construction and electrification projects. This investment, however, still falls short of the EU and OECD average when it comes to the share of GDP spent for rail. On the other hand, the investment in road transport surpasses the EU and OECD average for the share of GDP spent. Maintenance of road infrastructure is slightly below the EU and OECD average (Table 12.3), but for rail infrastructure it indicates that the economy has not spent on maintenance during the period. This reflects a disparity in investment priorities between rail and road infrastructure in Albania. Despite higher investment in rail infrastructure during the assessment period, it falls short of international benchmarks, while investment in road transport surpasses them.

Table 12.3. Trends in transport infrastructure investments and maintenance, Albania (2019-22)

	Investment					Maintenance				
	Change 2019-22 (in %)	Value in 2022 (million EUR)	% of GDP (2022)	OECD average - % GDP (2021)	EU average - % GDP (2021)	Change 2019-22 (in %)	Value in 2022 (million EUR)	% GDP (2022)	OECD average - % GDP (2021)	EU average - % GDP (2021)
Road infrastructure	15	202	1.13	0.57	0.59	107	27.00	0.15	0.27	0.28
Rail infrastructure	802	16.5	0.09	0.30	0.30	-19	0.00	0.00	0.17	0.18

Note: OECD and EU averages represent the average value for the countries with available data.
Source: ITF (2024[8]).

Albania has taken concrete steps to improve **regional connectivity** with its neighbours. Measures have been implemented to enhance rail connectivity within the economy as well as with its neighbouring economies of Montenegro and North Macedonia. Albania started reconstructing and modernising the railway line Rinas – Tirana – Durrës in January 2022. This will have a direct link with Tirana airport and will be the first rail connection with an airport in the region (Transport Community, 2022[9]).

Albania has also progressed in improving road border crossings with its neighbours. Progress has been made on electrification, land expropriation, equipment, installation of IT systems and additional accompanying works at the joint border crossing point (JBCP) Zatrijebacka Cijevna – Grabon between Montenegro and Albania, and operations began in July 2021. Albania has also established the BCP Qafe Thane with North Macedonia, and it has been operational since 1 August 2023. With the support of the World Bank's Transport and Trade Facilitation Project, infrastructure improvements and new equipment are expected to be in place to increase the capacities of the relevant BCPs. This could facilitate trade, improve companies' competitiveness, reduce waiting time at the border, and increase co-operation and trust, enhance border security and reduce corruption (Transport Community, 2023[3]).

The Customs Administration of Albania and the Excise Customs and Monopolies Agency of Italy (ADM) have signed a memorandum of understanding (MoU) in 2022, which lays the basis for the facilitation of sea traffic (Blue Lanes) through the electronic exchange of data on goods transported by maritime transport, including information about empty trucks via the SEED+ system (Transport Community, 2023[3]).

The upcoming SST includes promoting intermodal and **combined transport** as a strategic priority. It calls for the creation and implementation of the National Strategy for the Promotion of Intermodality and Combined Transport in Albania; and the construction of logistics centres (intermodal dry port, 100 TEU [twenty-foot equivalent unit] storage in the first phase) in the areas of Elbasan and Milot in connection with the rehabilitation of the railway line. However, pending the SST's adoption, Albania does not have a policy framework in place to implement these measures, although work on the National Strategy for the Promotion of Intermodality and Combined Transport is ongoing. Albania has partially implemented the Interoperability Directive 2008/57/EC (valid until June 2020) and its new version, the Directive (EU) 2016/797 (4th railway package). However, concrete actions are yet to take place (Transport Community, 2023[3]).

Albania must continue to support the development of **smart transport** systems. The ITS Directive 2010/40/EU is partially implemented, and more effort is required to reach full implementation. While the SST calls for the expansion of ITS projects and creating a platform for digitalising information related to traffic, management plans, and road interventions, concrete actions have not been taken yet without the strategy's adoption. Albania has continued preparing a national ITS strategy for rail and maritime transport.

Albania completed the detailed design for the deployment of ITS on 200 km for which EUR 20 million has been designated, including the Traffic Monitoring Centre, and is planning to apply for funds within IPA III for the implementation of this project (Transport Community, 2023[3]). ITS equipment for roads has been procured and is yet to be installed revision (European Commission, 2023[5]). The Albanian Road Authority (ARA) has allocated a budget of EUR 1.8 million to establish the Albanian National Traffic Operation and Control Centre (ANTOCC).

Sub-dimension 11.3: Sustainability

Albania has made significant progress in advancing towards **environmentally sustainable transport**. The Sectorial Strategy of Transport and Action Plan 2021-25 (now 2023-30) includes specific emission reduction targets from different transport modes. While particular actions are not outlined in the strategy, developments that will lead to reduced emissions from the transport sector have been observed in Albania. Albania also has a National Energy and Climate Plan (NECP) adopted in 2021, in line with the 2030 energy and climate target, but it is currently undergoing revision (European Commission, 2023[5]). The NECP represents an integrated policy framework to steer decarbonisation efforts until 2030 and beyond, and aims to steer the decarbonisation of the transport sector.

Under the NECP, planned transport-related measures include integrating freight systems with EU networks, implementing ITS, improving road quality, promoting energy-efficient vehicles, and enhancing public transport infrastructure. Additionally, efforts will focus on setting minimum annual amounts of biofuels, developing electric car charging infrastructure, and upgrading taxi fleets to hybrid or electric models (Ministry of Infrastructure and Energy of Albania, 2021[10]).

Albania has not yet implemented the Alternative Fuel Infrastructure Directive, which provides a basis for the deployment of alternative fuel infrastructure and specifies minimum requirements for building this infrastructure. However, Albania has taken steps to deploy e-charging stations in the economy and offers incentives for electric vehicles. In June 2023, a nationwide tender was initiated to establish electronic charging stations as part of the NECP (SEENews, 2023[11]). Albania offers few new and electric vehicle incentives to encourage the phaseout of older, highly polluting vehicles. New vehicles (manufactured in the past three years) are exempt from paying the annual vehicle tax, and new electric cars can be imported without customs duty or paying value added tax. They are also exempt from annual turnover tax and can be registered at no initial cost (Exit.Al, 2022[12]). The Albanian Road Authority (ARA), with the support of the World Bank, is working on the preparation of the Resilient Risk Map for the 100 priority Bridges out of 745 bridges of the national network (Transport Community, 2023[3]), in order to increase the resilience of these key points.

The Port of Durrës is the largest seaport of Albania and, as part of an Interreg project, is undergoing major renovation and expansion focused mainly on greening of the port. The project is being carried out through four action areas: revitalisation of green spaces within and outside the port areas; a recycling plan for a sustainable port; a mobility plan for Durrës port staff to increase the use of green transport modes; and clean energy investment (renewable) (Alite, 2019[13]). While monitoring reports are not officially published, progress has been observed in advancing the development of green transport. Data on transport emissions are regularly collected and available.

Albania has continued efforts to improve **road safety.** Road fatalities have been following a downward trend; between 2019 and 2022, they have fallen by 28% (Table 12.4). Nonetheless, these accomplishments must be sustained to align with the updated objective outlined in the European "Vision Zero" strategy for 2050, which includes an interim target of reducing road fatalities by 50% within the period from 2021 to 2030. The fatality rate per million residents surpasses the average risk observed in the EU (Table 12.4), underscoring the imperative to persist in enhancing traffic safety measures in Albania. Albania had a Road Safety Strategy 2011-20; a new strategy is being developed, with the support of IPA III, but has not been adopted yet (Transport Community, 2023[3]).

In 2021, Albania finalised the designs for ten high-risk road sections spanning approximately 300 km. The projects for refurbishment and modernisation of these sections to reduce their level of risk are now ready for investment. Albania is one of the first WB6 economies to adopt the guidelines and complete the training for Road Safety Inspections (RSI) and Road Safety Audits (RSA), thereby aligning the legislation with the EU Directive 2008/96/EC on Road Infrastructure Safety Management (Transport Community, 2023[3]).

Safety strategies for other transport modes have not yet been developed in Albania. The economy also established the National Authority of Investigation of Railway and Maritime Accidents and Incidents (AKIAIHD) in July 2021, determining its organisation's and functioning rules. This will improve safety standards, mitigate risks, and enhance overall safety in railway and maritime operations.

Table 12.4. Road safety trends in Albania and the EU (2012-22)

Changes are expressed in percentage

	2012-22	2019-22	2022
Change in number of road fatalities in Albania	-51	-28	
Change in number of road fatalities (EU)	-22	-9	
Number of fatalities per million inhabitants in Albania			59
Number of fatalities per million inhabitants (EU)			46

Sources: European Commission (2023[14]). Albania data – Information provided by the government for the *Competitiveness Outlook* assessment.

A **just and fair** transport system is addressed in several strategic documents. The actions outlined in the Railway Code of Albania demonstrate a concerted effort to ensure fair and just transport for all passengers, particularly focusing on the rights of individuals with disabilities and reduced mobility. Provisions such as Article 96 emphasise transparency and communication during delays or disruptions, with an obligation for railway operators to inform passengers promptly and provide alternative transport options where necessary. Similarly, Article 97 addresses the specific needs of disabled passengers, prohibiting discrimination and requiring railway undertakings to offer assistance and information tailored to their requirements.

Furthermore, the Code underscores the importance of accessibility in Article 98, mandating that railway facilities meet international standards to accommodate persons with disabilities and reduced mobility. These measures aim to facilitate inclusive travel experiences and ensure equal access to rail services. Additionally, as highlighted, alignment with EU legislation in air transport further reinforces the commitment

to passenger rights and establishes a comprehensive framework for addressing issues such as denied boarding, flight cancellations, and long delays. Overall, these legislative efforts reflect a proactive approach to fostering a fair and just transport system that prioritises the needs and rights of all passengers, including those with disabilities or reduced mobility.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania has made progress in following up on the Recommendations of the CO Assessment 2021 (Table 12.5). Significant efforts have been made to complete the actions of the EU Rail Action Plan, aligning Albania's rail sector more closely with the EU *acquis*. Moderate progress has also been observed in developing processes for implementation, monitoring and readjusting policy frameworks and institutionalising guidelines for project selection.

Table 12.5. Albania's progress on past recommendations for transport policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Enhance implementation, monitoring and readjustment of the approved policy framework	**Albania's SST 2021-25 (2023-30) still needs to be adopted, but it has a framework that supports monitoring and evaluation. The SST has several new indicators based on previous evaluations.**	Moderate
Develop national cost-benefit analysis (CBA) guidelines and tailor them specifically to Albania, ensuring they cover all transport modes	**The CBA guidelines in Albania are within the National Single Project Pipeline framework and are based on the EU guidelines. These guidelines clearly outline the principles that the project selection should be based on. However, the CBA guidelines have not been tailored to Albania's needs and national context yet.**	Moderate
Continue rail reforms	**Albania has made significant progress in updating and aligning its rail legislation more closely with the EU's Rail Action Plan. Several laws have been passed and updated over the last assessment period.**	Strong
Prioritise road safety	Albania is developing a new Road Safety Strategy, but it has not been adopted yet. Albania has continued efforts to improve road safety, but these could be further accelerated by the development of an ambitious policy framework.	Limited
Develop an Integrated Environmental and Transport Action plan	**Albania also has a National Energy and Climate Plan (NECP) adopted in 2021, in line with the 2030 energy and climate target, but it has yet to be in force, pending its revision. The NECP contains targets and measures to decarbonise the transport sector, and combined with measures under the SST could represent a solid policy framework for greening transport once fully in place.** In June 2023, a tender was initiated to establish electronic charging stations nationwide as part of the plan.	Moderate

The way forward for transport policy

Considering the progress made in several areas, and areas in which there is still room for improvement, to ensure sustained successful development of better transport policies, policy makers in Albania may wish to:

- **Place additional emphasis on policies ensuring a fair and inclusive transport system.** An equitable transport system makes mobility affordable and accessible in all regions and for all passengers, ensures access to opportunities for all, and enhances the conditions of transport workers. Addressing policy areas such as accessibility to destinations, accessibility for users with specific needs, affordability, and enhanced working conditions is essential. Albania should introduce relevant policies and integrate them into the SST and other strategic documents. Some of the EU legislation that must be covered through these policies includes the rights of people with reduced mobility — air travel, EU rail passengers' rights, bus and coach passengers' rights, EU air

passenger rights in case of denied boarding, a delayed flight or a cancelled flight, internal market and state aid. Albania has already aligned with some of this legislation,[6] and efforts should be made to align with the remaining *acquis*.

- **Advance on implementation of rail reforms:** While significant progress has already been made, there is room for improving the regulation of the rail sector. Albania should build on the advances of recent legislative efforts by establishing functional and operational institutions such as the National Safety Authority (NSA), the National Investigating Body (NIB), and the Regulatory Body (RRA) for rail transport. Albania should expedite the restructuring of Albanian Railways (HSH) into separate entities for infrastructure, freight operations, passenger operations, and vehicle maintenance. Efforts should also be made to align the national law with the Passenger Rights EU Regulation 1371/2007, as it plays a crucial role in safeguarding the interests of passengers and promoting a fair and efficient transportation system within the European Union.
- **Improve the legal and policy framework for road safety.** Further efforts are required to align national legislation with the EU *acquis* on road safety. Albania should ensure that the New Road Safety Strategy is linked to the Action Plan with aspirational targets to reduce fatalities and serious injuries by 50% by 2030 and reach Vision Zero by 2050. The monitoring results of the previous road safety strategy, including lessons learned, should be used to develop the new strategy. All actions proposed need to include the implementing agency responsible, the timeline for implementation, the budget, and monitoring indicators. An impact assessment of the new strategy should also be carried out. Albania should also establish a Road Traffic Safety Agency fully competent to co-ordinate and spearhead efforts to improve the road safety management system. Adopting a safe systems approach and developing safety performance indicators (Box 12.1) can help Albania achieve better outcomes in road safety.

Box 12.1. Adopting the Safe System Approach and Safety Performance Indicators for improved road safety

In the past decade, the International Transport Forum (ITF) has promoted the adoption of the Safe System Approach to road safety. This approach can drastically reduce road fatalities and is endorsed by the United Nations General Assembly. It now forms the basis for the new Global Plan for the Decade of Action on Road Safety 2021–30. The Safe System Approach is a proactive approach to road safety; it is preventive and is predicated on the notion that people make mistakes and that these errors can result in traffic crashes. It seeks to identify and proactively address vulnerabilities in the transportation system in a holistic manner. Adopting the Safe System Approach is a concrete step that the WB6 economies can take to improve road safety outcomes.

The Safe System Approach requires road safety authorities to collect, analyse and use accurate road safety data and develop Safety Performance Indicators (SPIs). The European Commission developed a list of SPIs with the correspondent methodology in the baseline project. These Safety Performance Indicators are those that are related to driving behaviours, such as following speed limits, drunk driving, and seat belt usage. Indicators related to vehicles, infrastructure, or trauma are also important. Road safety improvement can be further accelerated by identifying distinct at-risk user groups – or vulnerable user groups – and implementing SPIs to improve road safety outcomes. The ITF report recommends SPIs tailored for vulnerable road users such as pedestrians, cyclists, and motorcyclists. Implementing SPIs that are specific to these groups can help the WB6 economies in advancing on the Road Safety Action Plan goal of protecting Vulnerable Road Users.

Sources: ITF (2022[15]; 2023[16]).

- **Enhance efforts to develop well-functioning combined transport.** Combined transport is the most cost-efficient transport mode, reducing environmental pollution and increasing co-operation between the freight forwarding network companies. Achieving well-functioning logistical chains and establishing an international corridor approach and intermodal solutions could promote high competitiveness in Albania's transport market. The policy measures in place are currently inadequate to support combined transport systems. Specific detailed measures should be included in order to develop co-modal solutions and identify corridors to decrease transportation costs, enhance interoperability, improve the quality of trade-related infrastructure, and increase the competence and quality of logistics services and timeliness of shipments. Albania should enhance efforts to align with the Action Plan for Waterborne Transport and Multimodality and relevant sections of the Transport Community Treaty.

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Notes

[1] Council Directive 89/665/EEC of 21 December 1989 on the co-ordination of the laws, regulations and administrative provisions relating to the application of review procedures for the award of public supply and public works contracts (OJ L 395, 30.12.1989, p. 33).

[2] Decision of the Council of Ministers No. 600, dated 13 October 2021, On the ownership of state roads and transfers of ownership between road owner entities, www.qbz.gov.al/eli/fz/2021/161/90324a3b-0759-4080-a396-75242bc226b0.

[3] Communication from the Commission to the European Parliament and the Council: Action plan to boost long distance and cross-border passenger rail, https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=COM%3A2021%3A810%3AFIN.

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[5] Law No. 88/2021, dated 1 July 2021, Establishing the Railway Safety Authority, www.qbz.gov.al/eli/fz/2021/125/3ad6c11a-71e1-4b1b-9150-6cdb7c00d16c.

[6] Including ones that concern the rights of disabled persons and persons with reduced mobility when travelling by air and compensation and assistance to passengers in the event of denied boarding and of cancellation or long delay of flights.

13 Energy policy

The competitiveness of any economy is heavily influenced by its energy policies. This chapter investigates the energy policies in place to ensure that energy markets are well-regulated, sustainable and competitive. The first sub-dimension, governance and regulation, focuses on how the energy markets are governed and whether policy is conducive for establishing efficient and competitive energy markets. The second, energy security, explores measures taken to make the energy sector more resilient, including through the diversification of energy supply. The third sub-dimension, sustainability, focuses on the energy sector decarbonisation, including through the promotion of renewable energy and energy efficiency policies. The fourth sub-dimension, energy markets, analyses how energy markets are operated, whether competition is used to promote efficient allocation of energy resources, and the degree of regional integration.

Key findings

Albania has improved its performance in the energy policy dimension since the previous assessment, raising its dimension average score from 3.2 to 3.5, chiefly through progress in the areas of unbundling, the creation of markets and strengthening regional integration (Table 13.1). In those areas it now outperforms the regional average. Areas that are not as advanced as the rest are comprehensive decarbonisation policies and energy poverty.

Table 13.1. Albania's scores for energy policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Energy	12.1: Governance and regulation			3.5	3.3
	12.2: Energy security			3.5	2.5
	12.3: Sustainability			3.0	2.8
	12.4: Energy markets			4.0	3.3
Albania's overall score		**1.9**	**3.2**	**3.5**	**3.0**

The **key findings** are:

- Through its newly adopted National Energy and Climate Plan (NECP) 2020-30, Albania has progressed in alignment with key EU *acquis* such as the governance regulation and established an overarching framework for decarbonisation. However, the NECP still needs to be revised to accommodate the recommendations of the Energy Community Secretariat, with a focus on enhancing the overall alignment of policy objectives and between the relevant ministries and a clear decarbonisation pathway.
- Renewable energy gained further momentum. The new renewable energy sources (RES) law was adopted, bringing the legal framework in line with the latest Energy Community *acquis*. The first onshore wind auctions, complemented with additional solar ones, have been conducted, further pushing for an increase in installed capacity for non-hydro RES generation and diversification of energy sources.
- Electricity market coupling with Kosovo took place at the end of January 2024 and is the very first coupling project in the WB6 economies. It has the potential to provide substantial benefits to both economies in terms of both supply security and price competitiveness of electricity.
- The Albanian Power Exchange (ALPEX) started operations in April 2023, introducing an organised market for day-ahead electricity auctions. Liquidity, however, remains limited for now as only the transmission losses and the volumes for the supplier of last resort are traded at ALPEX.
- Albania's energy regulator continues to be equipped with sufficient resources to perform its roles and tasks and remain financially and operationally independent. The salaries are at industry levels, allowing for the retention of workforce. The regulator could, however, adopt a more proactive approach when it comes to tariff setting and launching of *ex officio* investigations.
- Liberalisation of the Albanian market remains at a low level, as on the supply side no real market for alternative suppliers exists and on the demand side the level of price regulation is still very high. This situation was reinforced by the newly adopted public service obligation (PSO) act, as the non-market-based prices offered by the Albanian Power Company (KESH) to the Supplier of Last Resort in line with this Act did not create any incentives to switch suppliers in 2023.

State of play and key developments

Sub-dimension 12.1: Governance and regulation

The Albanian **energy policy, legal and institutional framework**[1] has seen some progress over the past years in aligning with EU legislation, including some EU Network Codes and Guidelines pursuant to the Third Energy Package and the Clean Energy Package. Thus, the EU Third Energy Package has been largely implemented, and additional efforts to align with the Clean Energy Package and the Electricity Integration Package are foreseen to take place in the upcoming months through the drafting of the outstanding network codes and a redrafting of the Power Sector Law to align with the applicable EU and Energy Community *acquis*.[2] These additional alignment efforts will enable Albania to reap the full benefits of a green transition, enhance energy security, and prepare its markets for additional regional integration beyond the Western Balkan 6 region.[3] Furthermore, they present an opportunity to rectify remaining noncompliances, as despite the formal alignment with the Third Energy Package highlighted above, key legal acts such as for example the PSO act are not in compliance with the Energy Community *acquis*, thus precluding full compliance with the EU Third Energy Package.

The NECP is currently also still undergoing a revision process in line with comments raised by the Energy Community Secretariat which had not been incorporated into the NECP before its adoption in 2021. The Governance Regulation[4] has also been only partially integrated into the legal framework, and additional amendments to the Law on Climate Change are needed to strengthen alignment with the *acquis*.

From 1 January 2022, a significant number of customers connected to the medium voltage level have been legally deregulated as they are no longer supplied by the Universal Service Supplier. From this moment onwards, those customers had two years' time to find an alternative supplier during which they were entitled to be supplied by the Supplier of Last Resort. Thus, from 2024 onwards, those customers would have been obliged to have an alternative supplier to avoid being disconnected from the electricity supply. However, since 1 January 2024, as a result of an order from the Ministry of Infrastructure and Energy,[5] only a portion of the medium voltage segment has to be supplied from an alternative supplier, while other customers retained the right to be supplied by the Supplier of Last Resort.[6] Thus, Albania is not progressing with its deregulation as originally envisaged, as de facto the majority of the medium voltage segment is still to be regarded as part of the regulated segment.

In terms of policy evaluation and performance assessment, alignment among different departments and institutions does not always seem to be fully in place, and policy decisions are sometimes more short-term and ad hoc in nature rather than being the consequence of a comprehensive forward-looking evaluation of different possible options.[7]

The **energy regulator** in Albania, the Energy Regulatory Authority (ERE), continues to be well equipped with the necessary resources to perform its roles and tasks. The financial resources of the ERE are derived from regulatory and licensing fees, ensuring a stable funding stream. ERE's budget, which includes allocations for staff capacity building, is approved by its Board, granting ERE complete autonomy over its budget implementation. This financial independence allows for allocating sufficient resources dedicated to enhancing the skills and knowledge of its staff. The contribution of twinning projects and regulatory co-operation initiatives has been notably positive, further bolstering the capacity building of the ERE staff.

The regulator has maintained all of its responsibilities and has not experienced any diminution in its duties. The salary levels within ERE are competitive with industry standards, which aids in maintaining its operational integrity and independence. However, while the ERE is considered sufficiently independent, a more proactive approach in areas such as tariff setting could enhance its role further. Notably, ERE has not reviewed or adopted new tariffs for the universal service supply in the past ten years and has not initiated any *ex officio* investigations, indicating potential areas for increased activity.

Sub-dimension 12.2: Energy security

In response to the energy crisis[8] and to strengthen an adequate **crisis response and resilience**, the Albanian Government has implemented several measures and plans through various decisions of the Council of Ministers.[9] In line with these decisions, KESH has been mandated to provide all the energy required to fulfil the needs under the universal service supply (USS).

As of 1 January 2024, the Albanian Transmission System Operator (TSO), Operatori I Sistemit te Transmetimit (OST) is obliged to purchase the transmission losses through ALPEX, and Furnizuesi I Shërbimit Universal (FSHU), acting as the Supplier of Last Resort, is obliged to purchase all its energy needs through ALPEX. To hedge their costs, contracts for differences (CfDs) with KESH are concluded, which allow for limiting the impact of price fluctuation on TSO and FSHU tariffs. During the energy crisis, the Council of Ministers also obliged the priority producers benefiting from a Feed-in-Tariff to sell their generated electricity at a regulated price regardless of higher market prices, disallowing the producers to sell electricity in the free market. In addition to these measures, a windfall tax law has been adopted for generators operating in the deregulated market segment. While those measures succeeded in reducing the need for energy imports and the volatility of prices, they fell short of enhancing the overall resilience of the Albanian energy sector as no sustainable long-term measures focusing on enhancing the financial sustainability of the sector were taken. Institutionally, the Albanian Government responded to the energy crisis through the establishment of a Transparency Board, which imposed temporary restrictions on wholesale/retail prices of fuel and regularly updated decisions on the price caps.

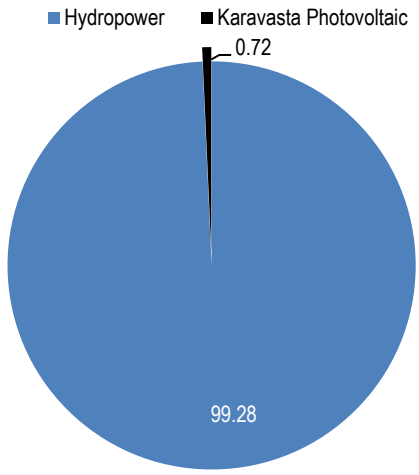
A comprehensive approach to resilience and responding to crises, however, is not present, as crisis measures are mostly taken ad hoc and focus on mitigating the negative impacts of the crisis, rather than tackling its root causes. Furthermore, there seems to be a lack of co-ordination between ministries and institutions, which hampers the effective implementation of these policies. The absence of dedicated climate change adaptation aspects in network development plans also highlights that the current policies might not be based on a comprehensive evaluation of all relevant circumstances and factors, suggesting a need for more integrated and forward-looking policy planning.

According to the Albanian Government, an overarching policy framework for the **diversification of energy supply** is in place. The amended Albanian law on the gas sector[10] partially aligns with Gas Security of Supply Regulation 2017/1938, and addresses several critical aspects such as the security of natural gas supply, the declaration of a state of crisis in natural gas supply, and the facilitation of regional co-operation and solidarity. Concerning the relevance of gas in Albania, however, it must be highlighted that the economy currently does not have a gas market, as further elaborated below. In terms of diversification, gas thus currently does not play a relevant role in Albania, and the most important factor in this regard is an insufficient diversification within Albania's electricity mix.

The economy depends heavily on hydropower, sourcing its electricity generation almost exclusively from hydro resources (Figure 13.1). This makes Albania particularly vulnerable to hydrological variations, as in such situations the economy has difficulty sourcing sufficient energy from other sources and is greatly reliant on energy imports. This had a significant negative financial impact on the Albanian energy sector especially during the crisis of 2022.

Figure 13.1. Electricity mix in Albania (2022)

Electricity source contribution is denoted in percentage



Source: Energy Regulatory Authority (2023[1]).

Concerning other energy sources, it must be highlighted that Albania lacks an internal gas infrastructure and does not possess any gas terminal. Presently, Albania's only connection to the gas network is through the Trans Adriatic Pipeline (TAP), which notably has no exit point within the economy. Thus, as also noted by the Energy Community Secretariat, no significant progress in the development of Albanian gas infrastructure has been made (Energy Community, 2023[2]). This is also true of the Albania-Kosovo Gas Pipeline (ALKOGAP), which despite being a Project of Energy Community Interest, has not been progressing. This highlights a gap in the actualisation of diversification projects, indicating a need for renewed focus and efforts to advance these critical infrastructure developments.

Nevertheless, the government of Albania remains committed to position Albania as a regional hub for gas supply, aiming at ensuring interconnectivity, security of supply, and diversification of energy sources, focusing on Liquefied Natural Gas (LNG) as well as the TAP. A critical component of this strategy is the Vlora LNG Terminal Project, which is currently in its feasibility phase. The project envisions an extensive infrastructure, including regasification, offloading, mooring, shipping, storage, and pipeline facilities. With a projected capacity of around 5 billion cubic metres per year, the terminal will not only supply the Vlora Thermal Power Plant with 100 megawatts (MW) and its potential expansion, but also offer small-scale solutions through virtual pipelines for both domestic and regional needs.

Sub-dimension 12.3: Sustainability

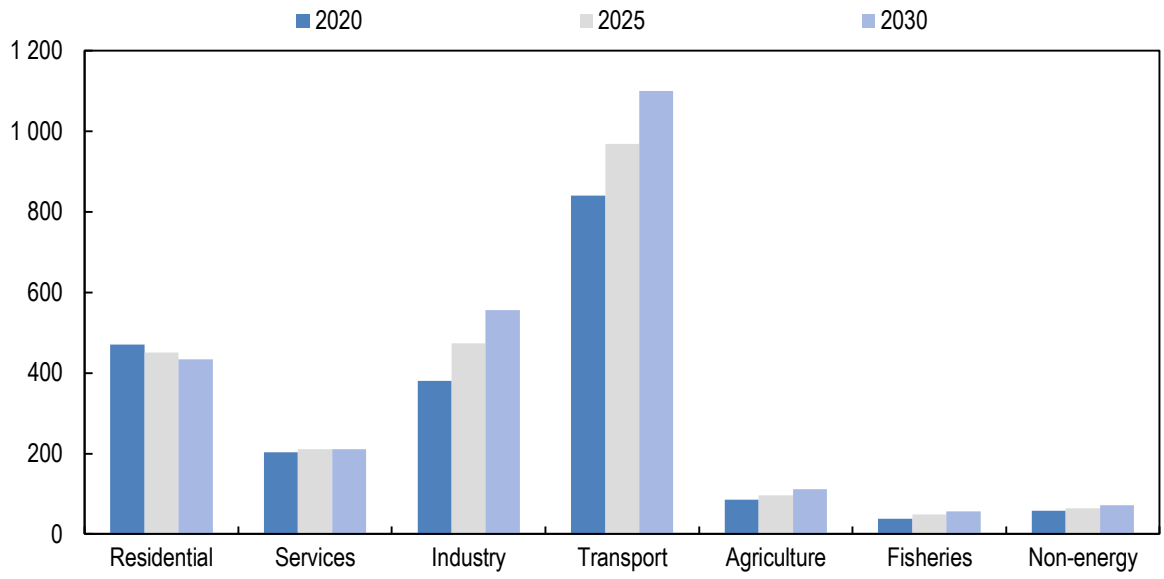
The key documents building the foundations of Albania's **energy sector decarbonisation** path are the Law on Climate Change and the NECP. The provisions of the Law on Climate Change include high-level references to the NECP and to the Long-term Strategy, and ensure public participation in line with the Aarhus Convention.[11] The Law also includes provisions related to the monitoring and reporting of greenhouse gas (GHG) emissions to the United Nations Framework Convention on Climate Change (UNFCCC), under which Albania has adopted an emissions reduction target of 23% by 2030 for its energy sector as part of its revised Nationally Determined Contribution (NDC). The reporting frequency related to

climate change adaptation planning and strategies currently foresees four years, which is not in compliance with the two-year frequency pursuant to the Governance Regulation.

Furthermore, the Governance Regulation 2018/1999 has been partially aligned with the adoption of DCM No. 889 dated 27 December 2022, which approves the regulation on monitoring and reporting greenhouse gas emissions and other climate change-related information at the national level. The NECP for 2020-30 was adopted through DCM No. 872 dated 29 December 2021. This plan sets forth Albania's energy and climate goals for the coming decade. The goals set in the current NECP 2020-30 include a reduction in GHG emissions by 18.7%, an energy efficiency target with energy savings of 8.4%, and a target for renewable energy shares in the final energy demand of 54.4% (Ministry of Infrastructure and Energy of Albania, 2021[3]).

Figure 13.2. Final energy demand per economic sector in Albania (2020-30)

In megatonnes of oil equivalent (Mtoe)



Source: Ministry of Infrastructure and Energy of Albania (2021[3]).

StatLink https://stat.link/f4dsbu

The NECP is currently under revision and the Energy Community Secretariat recommended aiming at more ambitious targets and provision of a coherent decarbonisation trajectory in line with Albania's commitment to carbon neutrality by 2050.[12]

While a National Greenhouse Gas Inventory System is kept up to date, ensuring accurate tracking and reporting, a GHG pricing mechanism is not yet in place, preventing the internalisation of environmental externalities into fossil fuel production. An additional shortcoming in this regard is a subsidy for thermal power plants that can benefit from excise reimbursement.[13] This arrangement will also apply to future projects, including the Vlora Thermal Power Plant (TPP) if it resumes operation.

The government of Albania has contracted two oil-powered power plant ships to operate from the Vlora area. These ships, with an estimated electricity generation capacity of 100-114 MW, were expected to cater to up to 15% of Albania's overall consumption needs and were planned to come into operation by December 2023. Currently they have not been put into operation, as other sources of energy are more

cost-efficient, but this initiative and the facility's reliance on oil are in direct contradiction to any comprehensive policy approach towards decarbonisation.

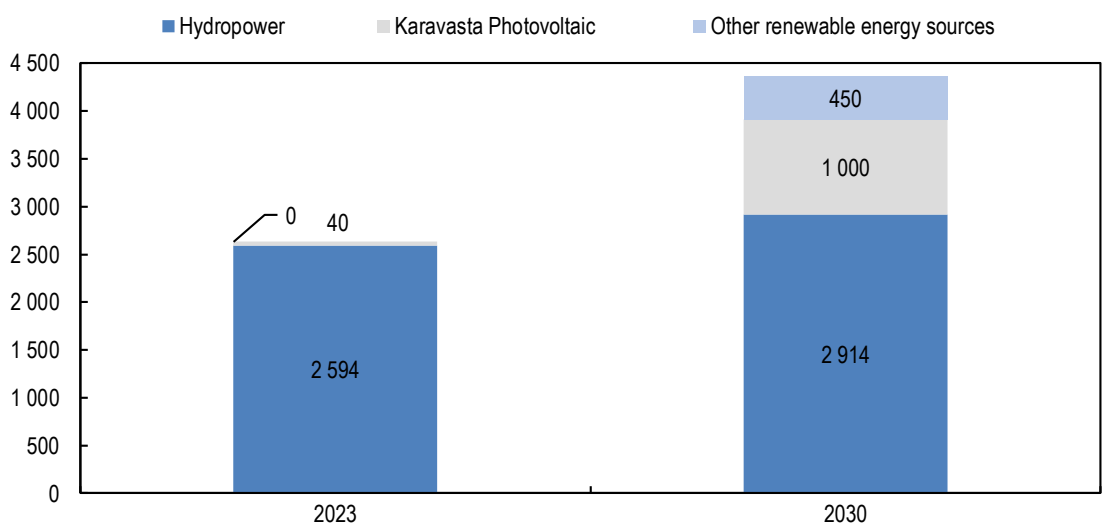
In the area of **renewable energy policy,** Albania has taken a number of notable steps that further strengthen its compliance with the renewable *acquis* of the Energy Community. A new renewable energy sources (RES) Law has been adopted in April 2023, which largely aligns the Albanian renewable energy laws with the Clean Energy Package. The Ministry of Infrastructure and Energy (MIE) is currently also drafting a law on the production, transportation and trade of biofuels and other renewable fuels for transport, which aims at implementing additional elements of the Renewables Directive 2018/2001.

The installed capacity for prosumers has seen a noteworthy increase, reaching 120 MW. This expansion signifies prosumers' growing importance and contribution to the national energy mix. Additionally, competitive auctions have been successfully utilised to source renewable energy. A significant development in that regard is the Karavasta Photovoltaic (PV) project, with a capacity of 140 MW. This project is a major step forward in boosting Albania's renewable energy capacity and is operational since the end of 2023. The government plans to add a total of 350 MW of additional PV capacity in 2024.

Additionally, MIE has already initiated, and successfully concluded, the first wind auction in the second half of 2023. Three companies have been selected as the winner of this competitive process and are expected to conclude the respective contracts with MIE for a total installed capacity of 222 MW. In the area of PV auctions, MIE has also already initiated an additional auction, which was launched in early January 2024, with an installed capacity of 300 MW. Additional solar and wind auctions are planned, which underscore Albania's commitment to enhancing its renewable energy capabilities and moving toward a more sustainable and diversified energy sector.

Figure 13.3. Distribution of installed capacity sources in Albania (2023-30)

In megawatts (MW)



Source: Energy Regulator Authority – Alabnia (2023[4]).

In line with the further increase in installed RES capacity, a technical study focusing on the integration of increasing volumes of renewable generation capacity into OST's infrastructure has also been incorporated into OST's master plan. This inclusion is a strategic move to enhance the capacity and efficiency of Albania's energy infrastructure in handling renewable energy.

Continuous efforts are also being made to enhance the legal framework and implement policies related to **energy efficiency**, particularly in the context of building renovation and energy performance. The drafting of the Long-term Renovation Strategy, aimed at both public and private buildings, is under way. The first draft, prepared by the Energy Efficiency Agency in collaboration with the European Bank for Reconstruction and Development (EBRD), was submitted in March 2023, and contains a detailed and comprehensive situational analysis regarding the needs for building renovation in Albania. The draft also includes stakeholder mapping and highlights key considerations for building renovation policies going forward. This strategy will be integrated into the revised NECP.

The Albanian Energy Efficiency Law has successfully implemented Energy Efficiency Directive 2012/27/EU, and several by-laws have been adopted to facilitate the application of primary laws within this domain. Furthermore, an Energy Performance Certification Scheme for buildings is already operational. Some indicators, such as those on the energy intensity of economic sectors and households, are being duly collected; others are lacking. The Energy Efficiency Agency has successfully certified 11 energy auditors in industrial installations, 100 energy auditors in buildings, and 153 energy managers.

A new law on energy labelling has also been drafted and is pending parliamentary approval. Furthermore, the energy efficiency law will be undergoing additional revisions in 2024 in order to further align with the EU and Energy Community *acquis* in the area of energy efficiency. It remains to be seen whether these additional alignment efforts will also tackle some missing elements in this regard, such as the establishment of an energy efficiency obligation scheme and the completion of a study of the potential of high-efficiency cogeneration and district heating in line with the obligations under Energy Efficiency Directive 2018/2002.

Regarding policy implementation, the Energy Efficiency Agency is actively involved in generating energy performance certificates for buildings. It also follows up on various projects focused on energy efficiency and the energy performance of buildings. These projects include auditing public buildings in several municipalities, conducting studies, and implementing improvements through construction. Additionally, energy-saving targets were introduced at the end of 2022 to respond to the energy crisis. In the residential sector, 2, 000 family customers have received government subsidies covering up to 70% of the cost of installing solar thermal panels on their buildings. Another project, co-financed by the Municipality of Tirana and private apartment owners, focuses on the thermal insulation of building envelopes. Nevertheless, despite these initiatives, the Energy Community Secretariat notes an insufficient use of financing sources and a lack of public and private investment (Energy Community, 2023[2]).

Albania's policy framework concerning **energy poverty** and the support of vulnerable consumers is defined in both policy documents and legislation. The framework outlines specific measures to assist these consumers. Firstly, all vulnerable customers with a monthly consumption of up to 200 kilowatt-hours (kWh) are eligible for direct support of ALL 640 per month. Additionally, as a result of the removal of the two-tariff scheme in 2014, all vulnerable customers can be directly supported with an amount of ALL 648 per month. Furthermore, particularly vulnerable groups, such as blind, paraplegic and quadriplegic customers, can receive additional support ranging from ALL 2 400 to ALL 3 000 per month. The main shortcomings in this area are that despite clear stipulations in the primary law and the rules set by ERE, the list of vulnerable customers eligible for support has not yet been adopted. Consequently, these consumers are not guaranteed the right to be supplied with electricity even when they are unable to pay their electricity bills. Furthermore, addressing the challenges in fighting energy poverty requires more structural measures also tackling root causes of energy poverty. To address this, a joint working group, comprising the Ministry of Infrastructure and Energy as well as the Ministry of Health and Social Protection, is being created to draft and implement an action plan to alleviate energy poverty. The successful implementation of this plan will be crucial in ensuring effective support for vulnerable customers and in addressing the broader issue of energy poverty in Albania.

Sub-dimension 12.4: Energy markets

Regarding **market operation,** Albania has taken substantial steps since the CO 2021 assessment. ERE adopted the ALPEX market rules and introduced the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT Light).[14] Additionally, ALPEX has been granted increased competencies for market monitoring. Albania has also abandoned the import value added tax (VAT) for electricity dedicated to ALPEX, while maintaining VAT on all other electricity imports. Furthermore, Albania and Kosovo have signed a memorandum for the mutual recognition of licences. ERE nominated ALPEX as the Nominated Electricity Market Operator (NEMO), a designation in line with the Energy Community *acquis*.[15] As of April 2023, ALPEX is operational, albeit with limited liquidity. Thus, an organised market for day-ahead electricity auctions is operational, with market participation requirements that are non-discriminatory and not overly burdensome. Nevertheless, while the EU target model has been largely adopted, its implementation remains limited. This indicates that while the framework and policies are in place, their practical application and enforcement require further development to fully realise the benefits of Albania's integrated and efficient energy market. Most notably, the noncompliant PSO act needs to be revised and volumes under the universal service contract between KESH and FSHU should be reduced.

Since April 2021 the Albanian Balancing Market is also in place, which is further substantial progress. One change compared to the originally envisaged setup relates to the Imbalance Settlement Period (ISP), which was set for a transitory period to 60 minutes instead of the originally envisaged 15 minutes. According to information from OST, their systems are ready to switch to 15 minutes, but despite being technically ready for this switch its implementation has been postponed to stick to the same ISP as is applicable to the cross-border TSO compensation mechanisms currently in place. Switching to the 15-minute ISP will be necessary in the future to align with the Network Code on Electricity Balancing.[16]

The framework regarding **unbundling and third-party access rules** is very advanced and mostly in line with EU best practices. OST is certified as transmissions system operator and compliance officers have been appointed for both OST and the distribution system operator (DSO) – OSSH. Following the completion of the OSSH's legal unbundling and substantial progress in its functional unbundling, the Energy Community Secretariat has closed its related infringement case ECS-4/17. Regarding third-party access, trade licences are mutually recognised only between Albania and Kosovo. A notable incident occurred in April 2021 when a formal complaint was submitted to the ERE regarding the refusal of third-party access by OSSH. Despite OSSH's firm refusal, ERE ruled affirmatively on the unconditional right of alternative suppliers and customers to access the DSO network and on the customers' right to choose their supplier freely (see Box 13.1)

Box 13.1. Refusal of third-party access rectified through the regulator

In April 2021 the Albanian Association of Electricity Suppliers (AAES) submitted a complaint to the Energy Regulatory Authority (ERE), concerning the refusal of OSSH and FSHU to allow two consumers to switch and freely choose their electricity supplier. The complaint primarily involved two customers (one low-voltage non-household and one low-voltage household customer) and the alternative supplier of their choice.

After the customers wanted to enter into contracts with a new supplier, pursuant to the Law 43/2015 "On the electricity sector" and the "Regulation on switching the electricity supplier", FSHU (the existing supplier) confirmed the switch and the new supplier informed OSSH and OST about the switch. Both operators confirmed the regularity of the application. However, despite its initial confirmation, OSSH then refused to submit the metering data to the new supplier and OST, which would have been needed

to proceed with settlement and issuance of the respective invoices. Instead, OSSH continued to attribute both customers to FSHU.

During the period of assessment from ERE, the customers then decided to withdraw their complaint, as the electricity prices had changed so drastically due to the energy crisis that a continued supply from FSHU was more advantageous. ERE, however, still ruled on the issue, clearly outlining the shortcomings from OSSH and FSHU and firmly recognising and confirming the right of all customers to freely select the supplier of their choice.

Source: Documents from the Albanian Association of Electricity Suppliers and Energy Regulatory Authority, shared with the OECD as part of the *Competitiveness Outlook* assessment.

When it comes to **regional market integration**, Albania, through its TSO, is actively engaging with neighbouring economies to enhance electricity market integration and strengthen regional interconnections. Already in March 2019, OST signed a memorandum of understanding with the transmission system operators of North Macedonia (MEPSO) and Bulgaria (ESO). This agreement focuses on the development of the electricity market and bolstering regional co-operation through mutual assistance. A critical aspect of the co-operation is the development of an interconnection between Albania and North Macedonia, which is essential for the anticipated market coupling between these markets. However, construction of this new interconnection is currently facing delays. Another emerging initiative in the regional co-operation sphere is the Albania, Italy, Montenegro, and Serbia (AIMS) market-coupling project. Furthermore, with the successful coupling of its power market with Kosovo through the establishment of the ALPEX Kosovo branch, Albania realised one of the first market coupling projects in the WB6 region.

In the context of capacity rights allocation, ERE has adopted the new Harmonised Allocation Rules applicable to the South East Europe Capacity Allocation Office (SEE CAO). Additionally, ERE has initiated procedures for adopting the Shadow Allocation Rules for the markets of Albania and Kosovo. These rules are designed to be applicable in scenarios where the day-ahead market coupling fails to produce results, and are currently undergoing a consultation process.

Regarding additional alignment with the Clean Energy Package that will also strengthen regional integration, Albania is poised to initiate procedures soon. The European Bank for Reconstruction and Development has already started a procurement process to support the Albanian Government in fully integrating the Electricity Directive and Regulation into its legal framework. This is a crucial step toward aligning Albania's energy policies with European standards and further integrating its energy market within the regional and European contexts. Adoption of the Network Codes under the Electricity Integration Package is currently also still outstanding, but a project to support this adoption has started in February 2024.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania has made good progress in the creation of electricity markets and working toward further regional integration. Deficiencies remain, however, in the actual implementation of legislation. Furthermore, as part of the energy crisis, some ad hoc measures were introduced that could have been structured in a less distortive way and which limited Albania’s overall progress in the implementation of the recommendations in Table 13.2 below.

Table 13.2. Albania's progress on past recommendations for energy policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Ensure additional human resources.	ERE has significantly increased the number of its employees, to advance on the alignment with and implementation of the Clean Energy Package.	Strong
Draft and implement policies to promote competition and liquidity within energy markets.	ALPEX is operational as of April 2023, however with limited liquidity. Market coupling with Kosovo took place in early 2024. The competitive balancing and ancillary services market was established. Liberalisation of the Albanian market remains at a low level, as on the supply side no real market for alternative suppliers exists and on the demand side the level of price regulation is still very high. All the customers connected to the 35 kV voltage level, although they had been supplied by alternative suppliers in the past, are (100%) supplied from the state-owned supplier (FTL), due to the possibility offered by FTL of the net metering scheme for the prosumers on a yearly basis (most of the customers connected to this segment are prosumers).	Moderate
Improve market monitoring and transparency.	Regulation on Wholesale Energy Market Integrity and Transparency aligning with REMIT regulation 1227/2011 (Remit Light) was adopted by ERE. The EU Transparency Regulation (No. 543/2013) is fully aligned with and implemented, and electricity market data are regularly submitted to the central data platform established by the European Network of Transmission System Operators for Electricity (ENTSO-E).	Strong
Design and implement a decarbonisation strategy and phase out coal.	Albania was the first Contracting Party to adopt its NECP. Governance Regulation has been partially aligned with. To assure electricity production, Albania has contracted, since September 2022, two oil-powered power plant ships to operate from the Vlora area that have not been put into operation yet.	Limited
Improve the approach to renewable energy project assignment and support to encourage renewable growth, and improve the deployment of energy efficiency measures to limit demand growth and volatility.	RES law was adopted. Competitive auctions are being deployed successfully. Next to solar auctions, Albania has also run a successful wind auction. 2 000 family customers have received subsidies from the government to cover up to 70% of the cost for the installation of solar panels that will supply their buildings with hot sanitary water. Project on "Thermal insulation of the building envelope" financed 50% by the Municipality of Tirana and 50% by the owners of private apartments is still being implemented. Financing for energy efficiency projects needs to be further strengthened.	Moderate
Improve regional integration.	With the go-live of ALPEX in 2023 and the coupling with Kosovo early in 2024, important steps toward further regional integration have been taken. Additional coupling initiatives are under consideration, going even so far as to work towards joining the European single day-ahead coupling (SDAC). Timeline and a clear roadmap, however, still need to be developed.	Strong
Finalise alignment with the EU's Third Energy Package to complete the implementation of international good practice and fully align local legislation for the governance of the energy sector with the EU *acquis*.	RES law was adopted. NECP is adopted but requires revision to accommodate the recommendations of the Energy Community Secretariat. Adoption of the ALPEX rules. Albania is expected to initiate soon the procedures for alignment with the electricity integration package. EBRD is procuring support to align with the Clean Energy Package through revision of the Power Sector Law. Adoption of the revised Power Sector Law is expected in Q3 2024. Despite an advanced level of alignment with the EU and Energy Community *acquis*, the Albanian market model is mainly driven by the PSO act, which is not compliant with the Third Energy Package.	Moderate

The way forward for energy policy

While Albania has made progress since the last *Competitiveness Outlook* (CO) in a number of areas, additional efforts are needed to close existing gaps and to further align with the EU and Energy Community *acquis*. The recommendations below provide an outlook on the main topics that, if tackled appropriately, would lead to significant improvement of the Albanian energy sector and its alignment with the applicable *acquis*.

- **Align the legal and policy framework with the remaining elements from the Clean Energy Package and the Electricity Integration Package.** Albania should speedily amend its existing legislation or draft new laws in order to strengthen its compliance with the EU and Energy Community *acquis*, including the Electricity Integration Package. The latter will provide an additional impetus for regional integration and enable working toward joining also the EU single day-ahead coupling, which would unlock additional potential of the Albanian energy market.
- **Revise the NECP in line with the recommendations of the Energy Community Secretariat.** A comprehensive revision of the NECP will streamline Albania's way toward carbon neutrality and provide more planning certainty, which can unlock additional investments. Having a clear decarbonisation and diversification pathway will have a positive effect on the resilience of Albania's energy sector.
- **Phase out Universal Supply Contract between KESH and FSHU**. Reducing the volumes covered under the Universal Supply Contract between KESH and FSHU will enhance the flexibility of KESH and can lead to optimisation of the use of KESH resources. It could also enhance the liquidity of ALPEX, as additional volumes could be traded by KESH on ALPEX.
- **Enforce full and de facto deregulation of the medium voltage segment from January 2024 onwards.** Introducing fully market-based tariffs for the medium voltage segment will enhance the cost-reflectiveness of tariffs and thus enhance the financial consolidation of the sector. Deregulation of the medium voltage segment shall also take place in a way to enable alternative suppliers to enter the market, thus strengthening the Albanian energy market even further.
- **Ensure timely and co-ordinated implementation of the Action Plan to tackle energy poverty and improve the protection scheme for vulnerable customers.** Having a well-structured and targeted support scheme in place as well as tackling the root causes of energy poverty will be a critical means to ensure a just transition. It will also increase societal acceptance of further deregulation and liberalisation and the potential accompanying tariff increases. Monitoring and evaluation of energy poverty and its root causes will be key in this regard (Box 13.2).

Box 13.2. Monitoring of key energy poverty indicators: The case of France's National Observatory of Energy Precarity

In July 2010, France introduced a legal definition of energy poverty through the Grenelle 2 Law: a situation in which a person experiences particular difficulties related to energy provision to meet their basic needs due to inadequate resources or due to their housing conditions. This legal definition provides the basis for analysing the root causes of energy poverty by pre-emptively defining the possible causes, facilitating monitoring of relevant indicators.

In March 2011, the French Government created the National Observatory of Energy Precarity, entrusted with monitoring key indicators related to energy poverty. The observatory regularly publishes monitoring reports analysing the situation related to energy poverty in order to inform policy making, as well as evaluations of public policies seeking to address its causes.

Indicators monitored by the Observatory include:

- *The energy effort index,* based on the social category of households (focusing on the lowest-earning third of French households), and the share of their income that is allocated to meeting monthly energy needs (minimum 10%). These data are collected from the national housing survey.
- *The low-income, high-expenditure indicator,* focused on both income (benchmarked by the poverty line), and energy consumption (per square metre and household size).
- *A subjective indicator,* measuring perceived exposure to cold.

In order to be classified as falling under the most critical and prioritised definition of energy poverty, households have to meet high levels under all three of these indicators. The Western Balkan economies could take inspiration from this example in order to draw from existing indicators and expand data collection on energy poverty to cover new ones. The practice of having an institution dedicated to monitoring and evaluating the problem of energy poverty and related policies could also be an example to follow.

Source: Adapted from Ministry of Ecological Transition and Territorial Cohesion, France (2024[5]).

References

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Energy Regulatory Authority (2023), *Annual Report: The Situation of the Power Sector and ERE Activity during 2022*, https://ere.gov.al/images/files/2023/07/26/Annual_Report_2022.pdf. [1]

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Ministry of Infrastructure and Energy of Albania (2021), *Draft of the National Energy and Climate Plan of the Republic of Albania*, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwiGpYHonJyHAxVuTqQEHXWhBaIQFnoECBQQAQ&url=https%3A%2F%2Fwww.energy-community.org%2Fdam%2Fjcr%3Aa0c2b8a8-96c8-4423-993a-537cf51daa65%2FDraft_NECP_AL_%25202021.pdf&usg=AOvVaw0tvDVdrQ2z. [3]

Notes

[1] The most important acts and strategies that can be regarded as the backbone of Albania's energy policy, legal and institutional framework are the Law on the Power Sector (No. 43/2015), the Law on Promotion of the use of Energy from Renewable Sources (No. 24/2023, the Law on Energy Efficiency (No. 124/2015, as amended in 2021) and the Law on Climate Change (No. 155/2020). The most relevant planning documents are the Energy Strategy 2018-30, established through DCM No. 480 dated 31 July 2018 and the National Energy and Climate Plan for the years 2020 to 2030 as adopted through DCM. Those two documents, as well as the Law on the Power Sector and the Law on Energy Efficiency, are scheduled to be revised in 2024.

[2] Most notably Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity; Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity; Regulation (EU) 2019/942 of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators; and Regulation (EU) 2019/941 of the European Parliament and of the Council of 5 June 2019 on risk-preparedness in the electricity sector.

[3] For a general overview of the Clean Energy Package and the Electricity Integration Package and their overall scope and advantages, please also see www.energy-community.org/implementation/package/EL.html and https://energy.ec.europa.eu/topics/energy-strategy/clean-energy-all-europeans-package_en.

[4] Regulation (EU) 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action.

[5] See Order of the Ministry of Energy and Infrastructure No. 217, dated 28 December 2023.

[6] The medium voltage segment consists of those customers that are connected to the 6, 10 and 20 kV (kilovolt) voltage levels. All 6 and 10 kV customers remain with the Supplier of Last Resort and are not forced to find an alternative supplier, contrary to the original deadline. The vast majority of the 20 kV segment, however, is indeed no longer being supplied by the Supplier of Last Resort.

[7] As part of its recommendation to the Draft National Energy and Climate Plan of Albania, accessible via www.energy-community.org/dam/jcr:a89708a9-96f2-48a7-ad6e-79484a2ea5d1/ECS_RE01_AL_NECP_122021.pdf, the Energy Community Secretariat for example explicitly highlighted insufficient alignment and co-ordination as a factor endangering planning certainty in Albania. Concerning non-sustainable ad hoc measures, the most notable example probably is the decision that was taken during the energy crisis to lease two floating thermal power plants in order to enhance supply security and reduce costs of energy imports, but those plants have never actually been put in

operation, and most likely never will be as under post-crisis conditions their operation is simply not economical. See also www.voxnews.al/english/fokus/erdhen-me-ceremoni-por-tec-et-lundruese-ne-vlore-nuk-kane-asnje-dite-pune--i34349.

[8] The term "energy crisis" here refers mostly to one aspect that characterised the crisis in 2022, namely the significant increase in wholesale market prices. It is, however, beyond the scope and also not the objective of this assessment to provide an analysis of the different factors that actually led to this situation.

[9] Initially, a temporary market model and PSO were imposed on state-owned companies in the energy sector through the DCM No. 620/2021, which was later repealed and replaced by the PSO act though DCM No. 456/2022, turning the measures that originally were envisaged as temporary into more permanent ones.

[10] Amendment took place through Law 81/2021.

[11] The United Nations Economic Commission for Europe (UNECE) Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters.

[12] For more information on the Energy Community Secretariat's recommendations, please see: https://www.energy-community.org/dam/jcr:a89708a9-96f2-48a7-ad6e-79484a2ea5d1/ECS_RE01_AL_NECP_122021.pdf.

[13] See Article 42 of the DCM No. 612 dated 5 September 2012.

[14] ERE adopted these rules through its Decision 126 dated 17 May 2021. The REMIT Light Rules were adopted by the Ministerial Council of the Energy Community by Decision 2018/10/MC-EnC of 29 November 2018 and contain the most relevant elements of Regulation (EU) No. 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency. See also https://www.energy-community.org/dam/jcr:04da54ae-178c-4924-98f4-ba3ea363668e/ECRB_REMIT_guidance_0422.pdf.

[15] See ERE Decision 228 dated 17 July 2023.

[16] Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing.

14 Environment policy

A healthy and sustainable environment is crucial for economic competitiveness as it supports resource efficiency, enhances resilience to climate-related risks, fosters innovation, and attracts investments while mitigating environmental degradation and associated costs. The chapter analyses the robustness and comprehensiveness of environment policies across four sub-dimensions. The first sub-dimension, climate action, assesses strategies aimed at both mitigating and adapting to climate change. The second sub-dimension, circular economy, focuses on policies promoting waste minimisation, resource efficiency, as well as sustainable production and consumption. The third sub-dimension, protection of ecosystems, explores challenges in managing freshwater, biodiversity and forestry, as well as land-use. The fourth sub-dimension, depollution, analyses policies related to air quality, water supply and sanitation, and industrial risk management, paramount for enhancing competitiveness while ensuring environmental sustainability.

Key findings

Albania has significantly enhanced its overall environment policy score since the last *Competitiveness Outlook* (CO) (Table 14.1). Noteworthy progress has been achieved across all sub-dimensions, with particular advancements in climate action, circular economy, and ecosystem protection. Notably, Albania stands out as the economy that has made the most significant progress since the last assessment and is currently among the top-ranking economies across all sub-dimensions.

Table 14.1. Albania's scores for environment policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Environment	13.1: Climate action			2.8	2.5
	13.2: Circular economy			2.3	2.2
	13.3: Protection of ecosystems			2.7	2.1
	13.4: Depollution			2.3	2.3
Albania's overall score		**1.8**	**1.9**	**2.5**	**2.3**

The **key findings** are:

- Important strides have been made to enhance the climate change legal and policy frameworks in Albania, in line with obligations under the Paris Agreement and EU directives. Further efforts were undertaken to set targets to mitigate greenhouse gas (GHG) emissions, and adaptation measures have been implemented to increase resilience to climate risks. Economic instruments and incentives remain to be introduced to discourage high-carbon behaviour, in particular in the transport sector.
- While waste management remains a challenge in Albania, well-defined objectives and targets for waste reduction, recycling and recovery have been defined in revised policy and legislative frameworks. A cross-sectoral transition to a circular economy is also envisaged as part of the recently developed roadmap. Nevertheless, improved infrastructure, economic instruments and enhanced awareness raising across all parts of society will be necessary to ensure this transition.
- Legal frameworks on the protection of water, biodiversity and land ecosystems increasingly align with international good practices, with substantive progress achieved in enhancing biodiversity and forestry management. Nevertheless, suboptimal data collection, limited inter-institutional co-ordination and dependence on donors' funds impede sustained implementation of policies.
- Efforts are ongoing to increase environmental quality of life in Albania. Measures have been implemented to reduce air pollution and reform water supply and sanitation services. The industrial risk management framework has been strengthened, though it remains at an early stage of development.

State of play and key developments

Sub-dimension 13.1: Climate action

In 2022, Albania had the lowest GHG emissions per capita (2.71 tonnes of CO_2 equivalent per capita) in the Western Balkan region, significantly below the EU and OECD averages (8.1 and 9.9 tonnes CO_2 equivalent per capita, respectively) (Crippa et al., 2023[1]). This can be attributed primarily to the heavy reliance on hydropower energy, upon which Albania relies almost entirely for its electricity supply. Although GHG emissions had tripled in the past two decades until 2017, they have been gradually decreasing since then (JRC/IEA, 2023[2]). Despite this positive trend, Albania remains highly vulnerable to the impacts of climate change, primarily in terms of changes in temperature, rainfall patterns and sea-level rise as well as geophysical hazards such as earthquakes. Projections indicate that Albania's summers will experience significant warming, with temperature increases ranging from 2.4°C to 3.1°C from June to August. Elevated temperatures heighten the risks of drought and wildfires, while shifts in precipitation patterns could lead to more frequent flooding in certain regions and an increased occurrence of droughts, landslides and erosion in embankments and mountainous areas. These changes not only pose significant threats to key sectors like agriculture and tourism, but also affect the availability of water necessary for hydropower generation (World Bank, 2021[3]).

In line with international obligations under the United Nations Framework Convention on Climate Change (UNFCCC) and regional commitments under the Green Agenda for the Western Balkans, Albania has made progress on developing its framework for climate change mitigation and adaptation. In addition to the Law for Climate Change (2020) and the National Strategy for Climate Change (2020-30), Albania submitted its revised Nationally Determined Contributions (NDC)[1] (2021-30), targeting a greater overall emissions reduction of 20.9% below business-as-usual by 2030 (compared to a CO_2 reduction of 11.5% as part of its first NDC). Albania was also one of the first two Western Balkan economies to adopt its National Energy and Climate Plan (NECP) in 2021, which is to be regularly updated in accordance with recommendations from the Energy Community. Moreover, the National Strategy for Development and European Integration (2022-30) is the first document to strongly emphasise the identification, definition and mobilisation of financial resources to protect Albania from climate change's impacts.[2] However, the absence of adequate monitoring instruments poses a challenge in effectively tracking the progress of implemented climate measures and the effectiveness of allocated financial resources. Co-ordination among all institutions involved in climate change matters is ensured through the Inter-Ministerial Working Group on Climate Change, led by the Ministry of Tourism and Environment, which regularly meets and benefits from capacity building as part of donor-funded projects.[3] Changes to the working group were ongoing at the time of writing, resulting in its division into two specific groups for mitigation and adaptation and the incorporation of additional institutions.

On **climate change mitigation**, as a Non-Annex I economy to the UNFCCC,[4] Albania has developed an inventory of emissions by sources and removals by sinks of all atmospheric GHGs since 1990. The latest inventory, covering the period 2009-19, was submitted as part of the Fourth National Communication to the UNFCCC in 2022 and includes emissions from energy, Industrial Processes and Product Use (IPPU), agriculture, Land Use, Land Use Change and Forestry (LULUCF), and waste. To further align with obligations under the Paris Agreement, a regulation establishing the GHG National Inventory System was adopted in 2022, under the authority of the National Environment Agency (NEA). Economic instruments and incentives to achieve GHG emissions targets remain nevertheless scarce and mainly targeted at promoting renewables (primarily through the Agency for Energy Efficiency). A carbon tax for large industrial polluters, feebate or excise taxes on individual fuels have yet to be introduced to discourage high-carbon activities. However, Albania has taken preliminary steps to consider the introduction of an emissions trading system (ETS) and carbon pricing, with the assistance of international partners.[5]

The framework for **climate change adaptation** has also been strengthened since the last assessment. The National Strategy for Climate Change and the revised NDC both outline adaptation measures, primarily in the priority sectors of settlements, tourism and Agriculture, Forestry and Other Land Use (AFOLU). Adaptation measures are also being integrated into existing strategies and plans (including agriculture, water management and national development[6]). Moreover, Albania's government is receiving support from the Green Climate Fund (GCF) to increase its capacity to address climate change vulnerabilities, specifically through the revision of the National Adaptation Plan (NAP), planned for the end of 2024. Extensive consultations are ongoing to revise the NAP and curb implementation challenges that occurred for the previous Plan (only 15% of identified measures were reported as completed between 2019 and 2023). The main recommendations resulting from consulted stakeholders for the revised NAP include institutional strengthening and the development of financing, monitoring and evaluation strategies to ensure the long-term sustainability of adaptation policies.

Following the 2019 earthquake, Albania was supported by the donor-led project "Resilience Strengthening in Albania" (RESEAL). As part of this project, a National Disaster Risk Assessment was conducted in 2022, followed by the development of the National Strategy and Action Plan for Disaster Risk Reduction (2023-30) with the National Civil Protection Agency. The initiative aims to strengthen Albania's capacity to manage the impacts of climate change, with particular attention paid to women and vulnerable groups. The Action Plan specifically foresees the establishment and reinforcement of early warning systems. In this regard, resilience to floods was enhanced between 2017 and 2021 through the National Early Warning System and Flood Prevention programme, which led to the development of flood hazard maps, an improved Flood Early Warning System, the integration into the European Flood Awareness System (EFAS) and increased public awareness activities. Nevertheless, further efforts are required to improve flood forecasting, the sustainability of monitoring stations and the development of flood risk management plans in all basins (European Commission, 2023[4]).

Sub-dimension 13.2: Circular economy

Transitioning to a circular economy requires measures that encompass the entire life cycle of products, spanning from design and manufacturing to consumption, repair, reuse, recycling, and bringing resources back into the economy. The uptake of circular practices remains limited in Albania though gradually gaining momentum, with several stakeholders (mainly civil society organisations and academia) involved in different activities and initiatives, primarily focusing on raising awareness and promoting waste management practices. Important strides have been made since the last assessment to enhance the framework covering **sustainable resource use, consumption and production** and related inter-institutional co-ordination through the new Directorate for Circular Economy, established in 2022 as part of the Ministry of Tourism and Environment (MTE). The transition to a circular economy has increasingly been integrated into strategic documents, such as the National Waste Management Plan (2020-35), the National Strategy for Climate Change (2020-30) and the Business Investment and Development Strategy (2021-27). Moreover, commitment to Albania's circular transition has been backed by substantive international support. With the support of the OECD, Albania developed its Circular Economy Roadmap in 2023-24. Its objective is to create synergies between existing frameworks and activities and to propose recommendations in three priority areas (Box 14.1). Additionally, the EU4Circular Economy and Green Growth, launched in 2023, aims to improve circular economy-related legislation, infrastructure and awareness.[7]

Box 14.1. Development of the Circular Economy Roadmap in Albania

As part of the project "Supporting Green Transition through Circular Economy Roadmaps", the Ministry of Tourism and Environment has been supported by the OECD in developing its Circular Economy Roadmap. The main pillars of the roadmap design process were as follows:

- *Co-ordination mechanism* – Nomination of the Circular Economy (CE) co-ordinator and creation of a working group, comprised of stakeholders from relevant government institutions, academia, civil society and the private sector. The Circular Economy Working Group was consulted throughout the entire design process.
- *Diagnostics* – Drafting of the diagnostics of the state of play of CE in Albania, outlining key economic features, recent CE and environmental trends, ongoing initiatives and projects, critical sectors and horizontal policy areas for addressing the barriers to CE.
- *Prioritisation* – Meeting and consultations on priority areas to be included in the roadmap, based on the diagnostics conducted (3-5 areas to be chosen out of the 10 proposed among construction, textiles, mining, tourism, biomass and food, plastics with a focus on marine litter, municipal waste, economic instruments, circular business models for small and medium-sized enterprises, and awareness raising and education) and drafting policy recommendations for the selected areas.

The roadmap, published in March 2024, includes three priority areas:

1. *Economic instruments,* which make it possible to achieve circular economy goals at a reduced economic cost while simultaneously encouraging innovation. They can induce behavioural changes in private actors such as firms and individuals through price signals, while offering cost-saving flexibility. Changes are incentivised throughout the life cycle, targeting product design and production upstream, stimulating circular consumption patterns, and encouraging reuse and recycling downstream.
2. *Circular business models for SMEs,* which represent ways of producing and consuming goods and services fundamentally different from the traditional linear business models. They aim to reduce the extraction and use of materials, minimise waste generation, and use existing materials and products as inputs to production through reuse and recycling.
3. *Plastics with focus on marine litter*, which serve as a vital material input for various sectors in the Albanian economy. However, a significant portion ends up in landfills, threatening the Mediterranean Sea. In line with recent legislative changes banning certain categories of single-use plastic bags in Albania, circular approaches will be necessary to close the plastics loop. This will be particularly relevant considering plastics' usage in the growing tourism sector.

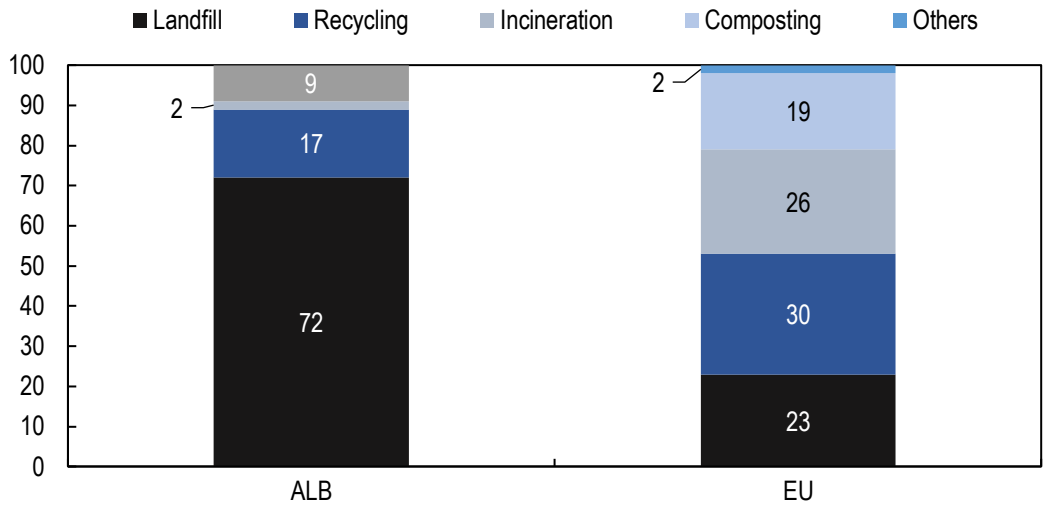
Municipal waste management, awareness raising and tourism are also tackled horizontally. All priority areas include around 12 recommendations organised as short, medium and long-term, and relevant good practice examples, and are accompanied by monitoring indicators.

Source: OECD (2024[5]).

Waste management remains a challenge in Albania, with the majority of municipal waste being disposed of in landfills (Figure 14.1). While the coverage of the population served by waste collection services increased in the past decade, reaching 90% in 2022, waste separation at source remains almost nonexistent despite a legal obligation to do so[8] and only around 17% of generated waste was recycled in 2021 (INSTAT, 2022[6]).

Figure 14.1. Municipal waste treatment in Albania and the EU (2021)

In percentage of generated waste



Note: The figures differ from a total of 100% because not all generated waste is accounted for or treated.
Sources: INSTAT (2022[6]); Eurostat (2021[7]).

The two main strategic documents covering waste management (the National Waste Management Plan (2020-35) and the National Sectorial Plan for Solid Waste Management (2019-35) include well-defined objectives with specific targets for different waste streams, set over the short, medium and long term. A number of measures are being implemented with respect to these strategies, including revision of the legislative framework through acts aligning with 1) the European List of Wastes into Albanian legislation and 2) the extended producer responsibility obligations.[9] The Waste Management Law was also amended in 2022, after a two-year delay, to ban the use of certain categories of plastic bags,[10] and a task force was established to enforce it. Moreover, the NEA is implementing a nationwide campaign to raise awareness of the general public and to educate local institutions about waste management services.[11] Waste management infrastructure is being improved by constructing new recycling and incineration plants and establishing composting facilities in several municipalities. Nevertheless, recent investments in waste incineration plants should not come at the expense of Albania's recycling industry and should not divert the economy from aligning with the EU *acquis* waste hierarchy principle, recycling targets and a circular model (European Commission, 2023[4]).

While waste reporting methodology has been improved in 2021[12] and a donor-funded weighting exercise was conducted in all 61 municipalities between 2020 and 2022, waste data are still not considered of high quality due to the absence of precise statistics for waste generation. Data and reports are based on estimations by the municipalities and recycling companies, except for the few municipalities that take their waste to a sanitary landfill or incinerator equipped with weighing equipment.

Sub-dimension 13.3: Protection of ecosystems

Albania is one of Europe's most water-rich economies, with freshwater resources amounting to 9 479 m^3 per capita in 2020, three times higher than the EU average (3 037 m^3) (World Bank, 2023[8]). Major water demand comes from agriculture – mainly irrigation, for which water remains inefficiently used (see Agriculture policy chapter) (70%) and households (28%). Freshwater also represents a major electricity generation source for Albania, as almost all of its production is derived from hydropower, making it highly vulnerable to the changing climate and important annual fluctuations. **Freshwater management** in Albania

is covered by the National Strategy for Integrated Water Resources Management (NSIWRM) (2018–27) and co-ordinated by the Agency of Water Resources Management. The first implementation phase of the strategy was executed through a three-year Action Plan (2019-22) while the subsequent phase was being developed at the time of writing. Albania further strengthened its legal framework on water through preparation of the Law on Water Resources and the Law on Marine Strategy, planned to be adopted mid-2024. The former aims at the long-term protection of water resources with special attention to reducing groundwater pollution, while the latter seeks to protect and preserve marine environments, including through the restoration of degraded maritime ecosystems.

Advancements in river basin management were also noted, with three new River Basin Management Plans approved in 2023 (Ishem, Ezren and Mati), directed at safeguarding and conserving water resources and related ecosystems at the local level. A Flood Risk Management Plan for the Drini Transboundary River Basin was further endorsed in 2023, including maps for three at-risk areas. A corresponding implementation plan is expected to be approved by Montenegrin authorities in 2024. In addition, Albanian authorities put a stronger emphasis on freshwater preservation, by conducting several awareness-raising and capacity-building activities as envisaged in the NSIWRM Action Plan.[13] There is no systematic collection or compilation of water quality and quantity data from different institutions in the National Water Cadastre, hindering informed policy decisions about competitive use of water and tradeoffs across sectors, in particular in light of expected climate change impacts. Yearly monitoring to identify contaminants of emerging concerns take place but the government reports that the lack of human and financial resources impedes proper implementation in this regard.

Albania's **biodiversity and forest management** framework is progressively aligning with international good practices (including the Global Biodiversity Framework) and relevant considerations are incrementally integrated into sectoral policies (such as climate change, agriculture and development strategies). Recently adopted regulations reviewing the system of protected areas led to the declaration of several protected areas, including national and natural parks, mountain ecosystems, and habitats of endemic plants.[14] The surface of terrestrial protected areas has increased since the last assessment, covering 21.4% of the national territory in 2022, with a total of 769 protected areas. Even though Albania has achieved the Aichi Target of 17% for protected terrestrial areas by 2020, it has fallen short of the 10% target for marine areas. As of 2022, only 2.95% of Albania's territorial waters were designated as protected areas. While collaborative efforts between the MTE and the Patagonia Association are under way to designate additional protected areas and the EU4Nature Programme supports Albania in protecting biodiversity in protected areas, it is crucial for responsible institutions to ensure the capacity needed for proper management and monitoring, without relying entirely on external financial and technical support. Moreover, while the draft amendments to the Law on Protected Areas, approved in 2024, allow for enhanced economic development in the protected areas, they raise concerns that new developments come at the expense of nature and ecosystem preservation. The decision to build the Vlora Airport has raised concerns about its potential negative impact on the ecosystem, particularly in the Vjosa-Narta Protected Area, which is recognised for its significance as a habitat for numerous rare animal and plant species.[15]

The revision of the Biodiversity Strategy, which expired in 2020, is planned to begin for the period until 2030 with the support of the UN Environment Programme, based on the post-2020 Global Biodiversity Framework. Objectives will include the full alignment of the EU *acquis* on nature and biodiversity; increasing the surface of protected areas to 30%; establishing the ecological network "NATURA 2000"; and aligning ecosystem protection with climate change mitigation and adaptation goals. Moreover, biodiversity data have been consolidated in the assessment period within the Environmental Information Management and Monitoring System, developed with the support of international partners[16] in line with global reporting standards. Indicators on biodiversity within the system focus on climate change and land degradation.

According to the National Forest Inventory, forests cover 46% of total land in Albania in 2022, a higher share than the EU average's 39.9% (World Bank, 2023[9]). This share has seen a slight increase in recent years due to afforestation initiatives. The policy framework on forestry management is well developed through the Forest Policy Document (2019-30) and several regulations were adopted to ensure its implementation, particularly in the areas of virgin forest preservation, illegal logging and forest fire prevention.[17] Furthermore, activities aimed at raising awareness and building capacity for the protection of forests have been carried out. Nevertheless, recent wildfires in pristine forest areas – a large portion of which protect sandy beaches from erosion – underscore the importance of implementing further prevention measures and increasing investments in firefighters' capacities. Moreover, the regulatory framework for establishing a National Forest Fund was adopted, leading to its operationalisation in 2022. The Fund acts as a forest inventory with relevant data and reports from forests administrators and owners, while the Forest Information System (ALFIS), in place since 2021, serves data registry purposes at the local, regional and national level, thereby strengthening institutional capacities for inventory and planning.

Limited efforts have been undertaken to develop a comprehensive **land use management** policy framework. The main strategic documents covering land use include the National Land Consolidation Strategy (2016-28) and the General National Spatial Plan (2015-30), for which an in-depth analysis of the territory was conducted. Nevertheless, there is no evidence of policy implementation and no programmes have been conducted to combat soil erosion, restore degraded land, or limit illegal constructions and urban sprawl into green areas.

Main developments relate to the inclusion of natural disaster considerations in the construction sector through the amendments of the Territory Development Regulation (2022) and the integration of land-based mitigation measures in Albania's revised NDC. Moreover, the framework covering agricultural lands was strengthened. Local communities' interests will be receiving enhanced consideration in agriculture land management (in line with the European LEADER approach[18]) with the adoption of the Law on Organisation and Functioning of Local Action Groups (2022). Moreover, sustainable management of agricultural lands is foreseen in the Agriculture, Rural Development and Fisheries Strategy (2021-27), notably through afforestation measures aimed at combating land degradation and erosion. Data on land use and land-cover,[19] which were standardised according to EU standards in 2020, are available on the State Authority for Geospatial Information portal. However, land use data are not harmonised between government bodies like property tax and forest management, impeding efficient inter-institutional policy making.

Sub-dimension 13.4: Depollution

Air quality has shown consistent improvement over the past two decades in Albania, with annual average concentrations of particulate matter ($PM_{2.5}$) reaching 16.5 microgrammes per cubic metre (µg/m^3) in 2020, the lowest in the Western Balkans (EEA, 2023[10]). Nevertheless, it is still more than three times higher than WHO-recommended levels of 5 µg/m^3, mainly due to the highly polluting transport sector, emitting nearly half of total CO_2 emissions (45% in 2020) (IRENA, 2022[11]). While the policy framework on air quality is well developed, with the National Plan on Air Quality Management (2019-26) and the National Strategy on Ambient Air Quality (2014-24), implementation reports are not regularly developed, and a functional monitoring system of the National Plan on Air Quality Management is lacking (European Commission, 2023[12]). Some activities have nevertheless been undertaken, such as expanding capacities through training of responsible institutions and increasing citizens' awareness of improving air quality and using sustainable transport alternatives. For instance, since 2022 the first Sunday of each month has been established as a "Car-Free Day" in all Albanian cities. Moreover, a new regulation has entered into force in December 2021 on fuel consumption information and CO_2 emissions of new passenger cars, allowing consumers to make an informed choice when buying a car. Some planned activities have nevertheless been delayed, such as the development of local air quality plans in most municipalities. This is despite enhanced co-ordination between the MTE and local government units to facilitate the preparation of these plans.[20] In the upcoming period, there are plans to facilitate implementation and enhance institutional co-

ordination through establishment of a National Commission for Clean Air. Regarding air quality monitoring, necessary equipment of all monitoring stations has been repaired since December 2022, allowing the operationalisation of all seven fixed and one mobile station, after they had been inactive for various periods due to lack of funding. Monitoring stations do not cover the whole territory of Albania and monitoring of air pollutants remains to be fully aligned with EU standards (European Commission, 2023[12]).

The **water supply and sanitation system** remains a challenge in Albania, with only 71% of the population having access to safe drinking water and 19% connected to wastewater treatment in 2022 (UN Water, 2023[13]). While a substantial increase in budget resources and implementation capacity of key water agencies are required for further alignment with the urban wastewater treatment directive (European Commission, 2023[4]), Albania has developed a strong regulatory framework for water services delivery and introduced changes in institutional arrangements to improve service delivery. The process of reorganising the water supply and sewerage services started in 2022, following the adoption of relevant regulations aiming to establish joint regional water service companies (from 58 water utilities to 15 regional water utilities) and review water tariffs. Current water tariffs do not cover operating costs and needed infrastructure (based on a 2022 analysis only four water utilities managed to cover operating costs). Further reforms of the water sector are ongoing thanks to donors' substantial financial and technical support, in particular to reduce water losses, improve service delivery and modernise infrastructure. As part of the "Water Negotiations and Investment Planning Support" project, implemented by the Swedish International Development Cooperation Agency (Sida), Albania is being supported in reducing non-revenue water from 65% to 25% by 2050 and improving water supply service continuity.

Moreover, investments in wastewater treatment infrastructure are ongoing (amounting to EUR 570 million, 51% financed by donors' funds). Additional measures are planned as part of the Water and Sewerage Service Sector Strategy (2023-30). These will include improving the quality of water services (coverage, collection, disposal and infrastructure); the sector's financial viability (water tariffs in line with the new regulation, increasing billing and collection of fees, balance between state budget and donors' fund for infrastructure projects); and the capacities of relevant authorities and service companies. Inter-institutional co-ordination was strengthened with the establishment of a working group comprised of all relevant stakeholders during the drafting of the strategy, co-ordinated by the Deputy Minister of Infrastructure and Energy. Nevertheless, weak co-operation among monitoring institutions has been reported by the government (especially between national and local levels), and hence impeding effective responses in emergency situations.

Albeit still at an early stage, the legislative framework addressing **industrial risk management** is further aligned with EU requirements, notably the Regulation on the registration, evaluation, authorisation and restriction of chemicals (REACH) (European Chemicals Agency, 2024[14]). Advancement in this field is evidenced by the recently adopted regulations on the List of Candidate Substances of Very High Concern and on Persistent Organic Pollutants. Based on these regulations, the first draft of the Chemicals Management Plan has been developed, with approval anticipated in 2024. Co-ordination between 21 relevant institutions is ensured through the working group on chemicals, established in 2021. Preliminary steps have been taken to establish a chemical register, with the support of Sida. Moreover, as part of an international project aiming at reducing pollution from harmful chemicals and waste in the Mediterranean (2020-25),[21] an agreement was signed with the NEA for the inventory and prioritisation of chemicals and the preparation of a National Transboundary Diagnostic Analysis report. Regarding the control of major-accident hazards, relevant directives (such as SEVESO III[22]) have not been transposed and there is no system for prior regulations or specific authorisation for storage and handling of substances endangering waters. A policy basis for soil protection does not exist, although some measures are planned with international co-operation partners to manage the 23 contaminated sites presenting a potential risk to humans, water and ecosystems.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania's progress on implementing past CO Recommendations has been mixed: in some areas, such as developing adequate capacities to adapt to climate change hazards and directing more investment into wastewater treatment, the economy has made moderate advances since CO 2021. Conversely, only limited progress has been noted in developing a land use policy framework. Table 14.2 shows the economy's progress on implementing past recommendations for environment policy.

Table 14.2. Albania's progress on past recommendations for environment policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Develop adequate capacities to forecast, monitor, warn and inform the population of the risks from multiple hazards and ensure suitable and timely responses to hazardous events	A National Disaster Risk Assessment was developed, covering climate change-related disasters as well as geophysical hazards at the national level. Moreover, the new National Strategy for Disaster Risk Reduction and Action Plan (2023-30) outlines specific measures, including the establishment of early warning systems, strengthening of emergency response and recovery systems, prevention and response to disasters, improving building standards and land use planning. Implementation of these documents will be essential to manage, cope with and reduce disaster risks.	Moderate
Develop a comprehensive land use policy framework to ensure effective land use planning, preserve land, and foster resilience to natural hazards, such as earthquakes	Albania still lacks an all-inclusive land use policy framework to provide a clear direction in this area. Nevertheless, some positive developments can be noted with regard to agricultural land planning.	Limited
Direct more investment into improving wastewater systems and treating more wastewater	The share of the population connected to wastewater treatment plants has slightly increased but remains low at 19%. Nevertheless, the legislative and policy frameworks covering wastewater systems have been improved. Reorganising water services is ongoing and should increase water tariffs, which currently do not cover operating and infrastructure maintenance costs. Investments in water supply and wastewater treatment infrastructure, mainly funded by donors, are ongoing.	Moderate

The way forward for environment policy

While Albania has strengthened its regulatory and policy frameworks in almost all assessed indicators, there are several areas in which implementation could be further improved. Some of the priorities are as follows:

- **Improve the quality of waste data.** While Albania's waste management regulatory and policy frameworks have been strengthened to increase recycling levels and reduce landfill disposal, proper implementation is hindered by low-quality waste data. Statistics for waste generation are not precise as data and reports are based on estimations by the municipalities and recycling companies. Several activities to enhance the recovery of materials through selective collection and investments to improve waste management infrastructure are under way, though a common approach has yet to be taken to collect and monitor relevant data. Albania needs to consolidate internal waste data and improve data sharing between all stakeholders. Particular attention needs to be paid to amounts of specific waste streams and related recovery and recycling efforts as well as hazardous and non-hazardous industrial waste. The current reporting methodology should also be reviewed to improve waste management operations in the future (such as information on definitions and surveying methods, breaks in time series, waste collection methods, waste prevention measures) (OECD, 2018[15]). In this regard, the city of Antwerp in Belgium can offer a good practice example of how to improve waste data collection and monitoring through a waste dashboard (Box 14.2).

Box 14.2. Managing waste data through the Waste Management Data Warehouse of the City of Antwerp, Belgium

The practice

Before 2016, the Waste Department of the City of Antwerp collected data in an old-fashioned way (handwritten notes, insufficient use of Excel, PDF, etc.), and standardised guidelines on how to collect data did not exist. The department was working with large numbers of datasets coming from a wide range of stakeholders, with no linked data or crossovers.

Fragmented internal data, limited access to waste data and limited data sharing between systems triggered the department's introduction of a data warehouse. The objectives were to increase insight in waste management practices, to eventually drive and support policy decisions, and to disclose waste management data to different stakeholders as automatically as possible to increase transparency.

To achieve these objectives, the Waste Department collected all types of data (real-time e.g. sensor data, static, historical, geographical e.g. track and trace) and involved all relevant stakeholders (local policy makers, local administration, waste-processing companies, citizens and researchers). New technologies, including a Geographical Information System (GIS), were used to optimise systems and improve the visualisation and analysis of data.

Resources needed

Approximately EUR 100 000 was spent to consult expert analysts and for software licences (which consist of a business intelligence tool and a dashboard creator). A dedicated team of six data experts were involved to develop the dashboard.

Results

Waste data from different sources are uploaded in an automated way on the data warehouse. The warehouse delivers added value to Antwerp's various stakeholders: increased transparency, time efficiency, cost efficiency, a reliable source for researchers, and synergies among different programmes. Policy makers are now able to use this data to allocate costs more accurately and introduce more targeted policy instruments towards sustainable waste management.

Source: INTERREG Europe (2021[16]).

- **Ensure proper management of protected areas and increase the share of marine protected areas**. The surface of protected areas has increased in the past decade and this trend is expected to continue in light of recent regulations adopted and activities undertaken. Responsible institutions, particularly the National Agency for Protected Areas, need to ensure appropriate human and financial capacities for proper protection and monitoring of these areas. As more areas become protected, the government might want to introduce "conservation covenants" as an additional protection mechanism, a common practice in New Zealand. Under a covenant, landowners enter into legally binding contracts with the government to protect natural features or areas of natural habitat on their land (OECD, 2020[17]); (QEII National Trust, 2023[18]).

  While Albania has almost 500 km of coastline and an increasingly important tourism sector, marine protected areas only amount to 2.95% of its territorial waters. Increasing the share of marine protected areas along with sustainable tourism activities on its coastline will be key to further protect its marine ecosystems while reducing pressures from activities such as overfishing and pollution, in particular plastic.

- **Develop an all-inclusive land use policy framework and strengthen institutional co-ordination between different ministries responsible for land use issues** related to climate, biodiversity and agriculture, both horizontally (at national level) and vertically (between different levels of government), to achieve a more holistic governance of land use. The land use nexus involves multiple issues and affects multiple actors from both the public and private sectors and requires a whole-of-government approach to co-ordinate policies across all relevant stakeholders, which Albania currently lacks. One good practice example that provides such co-ordination is the Austrian Conference on Spatial Planning (Box 14.3).

Box 14.3. Enhancing land use co-ordination with the Austrian Conference on Spatial Planning

The Austrian Conference on Spatial Planning (ÖROK, Österreichische Raumordnungskonferenz) is an organisation dedicated to co-ordinating spatial planning policies among the three levels of government in Austria (the national level, the states and the municipalities). Its decision-making body is chaired by the Federal Chancellor and its members include all federal ministers, the heads of all federated states and representatives of associations of local governments. Furthermore, business and labour organisations are represented on the body as consulting members. The work of the decision-making body is supported by a permanent secretariat with a staff of approximately 25-30.

One of the central tasks of the ÖROK is the preparation of the Austrian Spatial Development Concept (ÖREK, Österreichisches Raumentwicklungskonzept). The current Austrian Spatial Development Concept ("ÖREK 2030") was published in 2021 and covers a planning period of around ten years. Guided by the key theme of "Need for Transformation", it is a strategic instrument for overall spatial development in Austria. Beyond preparing the Spatial Development Concept, the ÖROK also monitors spatial development across Austria. It has developed an online tool that provides a mapping function for a variety of important indicators at the municipal and regional level, and releases a report on the state of spatial development every three years.

The ÖROK is also the co-ordinating body for structural funds provided by the European Union. It manages integrating structural funds into broader spatial strategies and was directly responsible for the programming work related to one of the eleven Thematic Objectives of the programming period 2014-20. The ÖROK also serves as National Contact Point within the framework of European Territorial Cooperation.

Sources: OECD (2017[19]; 2024[20]).

- **Support municipalities in developing local air quality plans, tailored to specific local circumstances**. While implementation of air quality strategies is ongoing in Albania, some measures, including the development of local air quality plans, have been delayed. As sources of air pollution and the severity of exposure vary across the territory, particularly between urban and rural areas, spatially heterogeneous policies can support environmental objectives at lower costs than measures applied uniformly. Urban municipalities in Albania could follow the example of the city of Pristina, which adopted its Air Quality Plan in June 2023 for a five-year period. The Plan includes measures and budgets for cleaner vehicles and public transport alternatives, promoting cycling and walking, creating low emissions zones, supplying cleaner heating, and enhancing air quality monitoring (City of Pristina, 2023[21]).
- **Support an integrated and co-ordinated approach of water management across sectors.** While Albania is rich in water and has vast natural areas of high ecological value, challenges remain in addressing competitive water uses across sectors, as well as in capturing synergies among them. While the vast majority of water demands come from agriculture, water resources are also

of utmost importance for Albania's electricity production, almost entirely dependent on hydropower. There exist significant opportunities to create greater value for water use across sectors. If environmental protection is ensured for hydro generation investments, hydropower plants can contribute to cleaning rivers with equipped trash racks and cleaning machines, or to improving water management services with water tracking devices for better climate forecast. Moreover, adjusting the operational rules of hydropower plants to allow for increased available volume in reservoirs during the wet season can ease the impact of frequent flooding and still not jeopardise the security of electricity supply (Global Water Partnerhsip - Mediterranean, 2022[22]).

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World Bank (2023), *Forest Area- European Union*, https://data.worldbank.org/indicator/AG.LND.FRST.ZS?locations=EU (accessed on 17 January 2024). [9]

World Bank (2023), *Renewable Internal Freshwater Resources per Capita*, https://data.worldbank.org/indicator/ER.H2O.INTR.PC (accessed on 9 November 2023). [8]

World Bank (2021), *Climate Risk Country Profile - Albania*, World Bank Group, Washington D.C., https://climateknowledgeportal.worldbank.org/sites/default/files/2021-06/15812-Albania%20Country%20Profile-WEB.pdf. [3]

Notes

[1] Nationally Determined Contributions (NDC) refers to the self-defined climate commitments that countries make under the Paris Agreement. These pledges outline the specific actions each country will take to contribute to the global goal of limiting temperature increase to 1.5°C, adapting to climate impacts and securing the necessary financial support for these endeavours.

[2] Measures related to climate change as part of the National Strategy for Development and European Integration (NSDI) 2022-30 include: 1) the completion of primary and secondary legislation in the field of climate change as well as the integration of climate issues in all affected sectors until 2027; 2) integration of mitigation and adaption measures in public budgeting until 2025 and national and local strategic documents until 2030; 3) institutional and organisational reform in order to generate and provide public data on climate and its effects in the key sectors of the economy, security and health of the population until 2029; 4) building a national platform for information exchange and services for climate to ensure institutional interaction for the use of these data until 2030; 5) adaptation and implementation of integrated, ecosystem-based adaptation measures (EbA) and/or nature-based solutions at the local and central level by 2027; 6) piloting and replication of innovative measures in sectors related to mitigation of and adaptation to climate effects (such as integrated waste management, mobility, agriculture, forestry, urban planning, infrastructure, energy, etc.) until 2026.

[3] Capacity-building activities on climate change are organised through the "Supporting Albanian Negotiations in Environment, Chapter 27" (SANE27) project implemented by the Swedish Environmental Protection Agency and the regional project "Transition towards low emissions and climate-resilient economy in the Western Balkans and Türkiye" (2020-23).

[4] Annex I countries in the context of the UNFCCC are often referred to as developed or industrialised nations whereas Non-Annex I countries include a diverse group of nations, primarily developing countries, with varying levels of industrialisation and economic development. These countries are not bound by the same mandatory emission reduction targets as Annex I countries. Instead, they are encouraged to take voluntary actions to address climate change and may receive support, including financial assistance and technology transfer, from Annex I countries.

[5] Regional workshops organised under the EU-funded Tratalow Project (Transition towards low emissions and climate-resilient economy in the Western Balkans and Türkiye) aimed to enhance capacities and inform institutions about the development and implementation of legislation for emissions trading systems (ETS) and carbon pricing.

[6] The Agriculture, Rural Development and Fisheries Strategy (2021-27), the National Strategy on Integrated Water Resources Management (2018-27) and the National Strategy for Development and Integration, under preparation.

[7] The project is financed as part of the EU's Instrument for Pre-Accession Assistance III in the amount of EUR 30.9 million. Three components of the projects are implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ, German Development Cooperation), French Development Agency (AFD) and Environment Agency Austria (UBA).

[8] The 2014 regulation on the separate collection of municipal waste at source states that local authorities must organise waste using a three-bin system.

[9] The draft Extended Producer Responsibility (EPR) Law, open to public consultation at the time of writing, targets the collection and recycling of special waste streams like packaging waste, electronic and electrical equipment waste, and waste batteries and accumulators. It encompasses clear rules and obligations for Producer Responsibility Organisations, a defined governance structure, and co-ordinated efforts among institutions to ensure effective implementation. The new law is set to take effect in January 2025, introducing a corresponding product tax. Notably, the draft law envisages that 30% of the income generated from this tax will contribute to a yet to be established Special Fund for Circular Economy.

[10] The amendment law forbids the production, import and sale of single-use plastic bags, including those that are defined as oxo-degradable or oxo-biodegradable. The legislation excludes those with a thickness of at least 70 microns that can hold a minimum of ten kilogrammes.

[11] The ban of single-use plastic items is one of the topics discussed in the campaign, which has been realised in 61 municipalities so far. Municipalities also organise the “Let’s do it” public awareness campaigns promoting responsible environmental behaviour and waste reduction, reuse and recycling.

[12] Waste data collection was improved in part because INSTAT started gathering data through online questionnaires to municipalities in 2020 and a new methodology was developed in 2021 for collecting and processing waste data. This allowed more precise estimations regarding municipal waste generation.

[13] Such projects include ‘’EU Support to Integrated Water Management (EUSIWM)’’, supported by both EU and the Austrian Development Agency, and ‘’The Institutional Capacity Building of the Water Resources Management Agency’’ supported by The Swedish International Development Cooperation Agency.

[14] In line with the Decisions of the Council of Ministers (DCM) adopted in 2022 “On the declaration of natural ecosystems, as Managed Natural Reserves/Natural Park (category IV)”, the proclamation as “Natural Park” (category IV) of the natural ecosystem “Vjosë River Valley” (annex 21) was approved. Pursuant to the DCM adopted in 2022 “On the approval of the change of the status and the surface of the natural ecosystems of the National Park (category II) of the environmental protected areas”, the proclamation of natural ecosystem of Albanian Alps as “National Park” (Category II) was approved. Moreover, the DCM 2022 “On changing the status and area of the natural/wetland ecosystem ‘Pishë Poro – Nartë’ from “Managed Nature Reserve” to “Protected Landscape” and removing the “Protected Area” status of the reduced area was approved.

[15] The area's designation as the first Wild River National Park in Europe underscores its ecological importance, prompting calls from international bodies such as the Convention on the Conservation of European Wildlife and Natural Habitats (Bern Convention) to suspend the construction project due to its foreseeable ecological impact (Convention on the Conservation of European Wildlife and Natural Habitats, 2023[23]).

[16] “Establishing Albania’s Environmental Information Management and Monitoring System Aligned with the Global Reporting ‘EIMMS Albania’” was a project implemented by the United Nations Development Programme (UNDP) and Global Environment Facility (GEF) in 2020. In addition to developing the system, the project aimed at developing and applying uniform indicators encompassing UNFCCC, the Convention on Biological Diversity (CBD) and United Nations Convention to Combat Desertification (UNCCD) concerns and global environmental threats. Stakeholders’ capacity for information management (collection

processing) of key global environment data and utilisation (interpretation and reporting) was also enhanced at national and local level.

[17] These include DCM to determine the criteria and procedures for the creation of strategic reserves of standing timber (uncut), the preservation and treatment of virgin or almost virgin forests, and their transition to full conservation adopted in 2021; and a DCM adopted in 2022 on the determination of criteria to separate breaches on the forest with light impact or heavy impact and financial sanctions.

[18] LEADER is a local development method that has been used for 30 years in the EU to engage local actors in the design and delivery of strategies, decision making and resource allocation for the development of their rural areas. It is implemented by around 2 800 Local Action Groups, covering more than 60% of the rural population in the EU and bringing together public, private and civil society stakeholders in a particular area.

[19] In addition to land use and land-cover, other groups include cadastral parcels, utility and government services, hydrography, agricultural and aquaculture farms, bio-geographic regions, buildings, protected sites and geology, among others.

[20] In 2023, the MTE has strengthened co-ordination and established a specific network of contact points on air quality in local government units in order to support the preparation of local air quality plans.

[21] Global Environment Facility MED Programme 2020-25, “Reducing pollution from harmful chemicals and waste in Mediterranean hot spots and measuring progress to impacts”.

[22] Directive 2012/18/EU of the European Parliament and of the Council of 4 July 2012 on the control of major-accident hazards involving dangerous substances.

15 Agriculture policy

Agricultural development remains a priority for all economies, not only in response to the essential resource needs of a growing population but also due to its substantial contributions to total employment and GDP. The chapter analyses the performance and trends of agriculture policies across three sub-dimensions. The first sub-dimension, rural development and infrastructure, assesses strategies and programs related to rural infrastructure, livelihood support, and irrigation systems. The second sub-dimension, agricultural support systems, covers the policy, governance and instruments in the agricultural sector. The third sub-dimension, food safety and quality, focuses on the policy framework regulating food safety and on the food quality legislation and agencies, which are key tools in an economy's path towards productive and sustainable agriculture.

Key findings

Albania has increased its overall agriculture policy score since the previous *Competitiveness Outlook* (CO) (Table 15.1), scoring above the regional average. In particular, the economy made strides in improving its agricultural policy framework. This increase in score is also partially attributable to Albania's relatively strong policies guiding both rural livelihoods and food safety, animal and plant health – both of which were assessed for the first time in this assessment.

Table 15.1. Albania's scores for agriculture policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Agriculture	14.1: Rural development and infrastructure			3.5	3.2
	14.2: Agriculture support system			3.5	3.3
	14.3: Food safety and quality			3.8	3.4
Albania's overall score		**2.9**	**2.8**	**3.6**	**3.3**

The **key findings** are:

- Agriculture continues to be one of the most important sectors in Albania, constituting 18.4% of GDP and 34.6% of total employment in 2022 – the highest rates in the Western Balkans.
- Benefiting from significant investments by both the government and donors, Albania has made notable progress in expanding its irrigation system, now covering 265 000 hectares (ha). However, gaps stemming from underdeveloped infrastructure and inadequate coverage persist, prompting ongoing efforts, including the planned investment of EUR 76 million over the next three years.
- Significant strides were achieved in strengthening agricultural information systems, namely through adopting an action plan and initiating pilot surveys in 2023 to establish a Farm Accountancy Data Network (FADN). However, obstacles to implementing the FADN will likely persist due to limited business registration among most small, family-owned farms.
- There is a pressing need to improve the financial management of EU funds under the IPARD programme – a significant source of support to the Albanian agriculture sector. Around EUR 112 million has been earmarked for the period 2021-27, but instances of irregularities and suspected fraud resulted in the suspension of these funds by the European Commission in July 2023.
- Farmers in Albania receive some of the lowest levels of government financial support in the Western Balkans. Budgetary support for farmers (EUR 55/ha) remains below regional (EUR 113/ha) and EU (EUR 200/ha) levels. Additional efforts are needed to assess whether the current level of funding meets the desired objectives and to identify any difficulties farmers may face in accessing public funding.
- While there have been recent advances in the national framework for food safety – including updates to risk-based controls and information systems – Albania's standards in this domain still only partially align with EU regulations. This is partly due to significant deficiencies in monitoring capacities as well as technical and financial constraints.

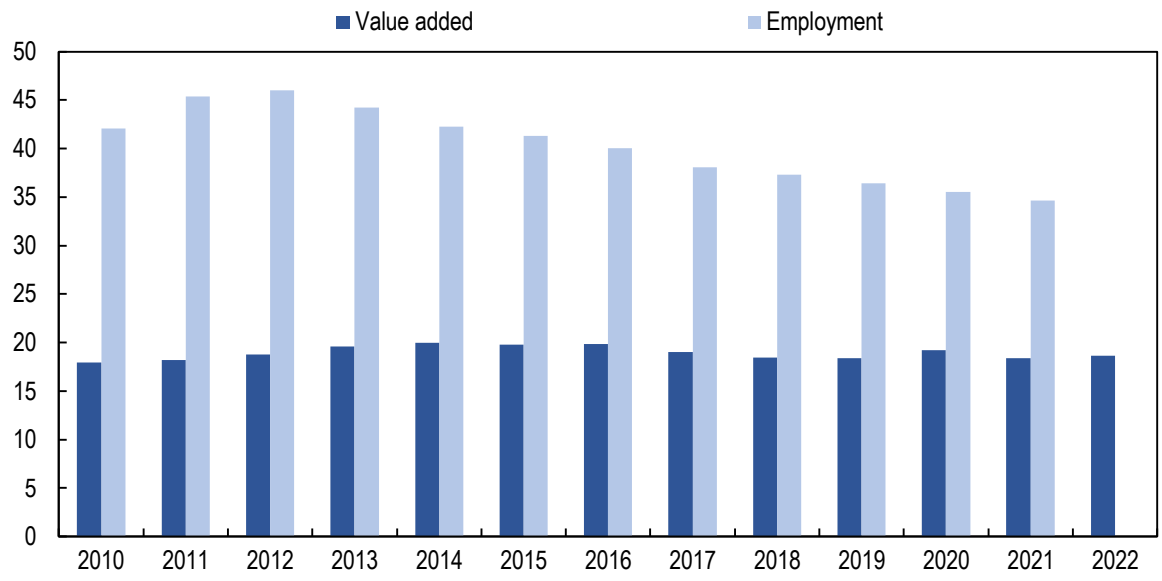
State of play and key developments

Agriculture remains one of the most important sectors of the Albanian economy. Over the years, the agricultural sector has consistently made a substantial and stable contribution to the economy's GDP, reaching USD 3.52 billion (EUR 3.34 billion) in 2022 (World Bank, 2024[1]). This marks a 26% increase from 2018, when agriculture's output was USD 2.79 billion. Moreover, the sector has consistently been the second-largest contributor to the Albanian economy, accounting for 18-20% of national GDP over the past decade (Figure 15.1). Notably, this proportion is over twice the average observed across the region (18.4% in Albania versus 8.4%, respectively, in 2022).

In addition to its economic impact, the agriculture sector plays a significant role in national employment. However, while the sector's contribution to GDP has remained relatively stable, the employment rate in agriculture has been declining, dropping from 46% in 2012 to 34.6% in 2021 (Figure 15.1). This decline is attributed in part to demographic shifts, such as increased migration from rural to urban areas and emigration to other countries (FAO, 2019[2]), as well as the growth of non-agricultural sectors such as manufacturing and services. Yet even with this downward trend, employment in the agriculture sector remains notably higher than the regional average. Specifically, the other Western Balkan economies report employment rates ranging between 7.4% in Montenegro and 13.9% in Serbia.

Figure 15.1. Agriculture's contribution to gross domestic product and total employment in Albania (2010-22)

Agriculture's share in value added and employment are denoted in percentages



Source: World Bank (2024[1]).

StatLink https://stat.link/gmpt5b

The Albanian agriculture sector is characterised by the prevalence of semi-subsistence smallholder farmers and a high level of fragmentation, with more than 80% of farms encompassing less than two hectares (ha) of land. Nonetheless, a gradual but consistent trend of consolidation is under way, marked by a growing number of larger market-oriented farms. This shift has in part facilitated an increase in the export of agrifood products in recent years. Between 2021 and 2022, the quantity of these exports rose by

15.6%, while their value increased by 18.1% (Revista Monitor, 2023[3]). However, despite the positive shift in trade dynamics, Albania remains a net importer of agricultural products (World Trade Organisation, 2024[4]).

Sub-dimension 14.1: Rural development and infrastructure

Despite progress in recent years, there is still scope to enhance the **rural infrastructure** (transportation, electricity, information and communication technology and irrigation) in Albania to overcome remaining gaps. For example, there is a need to expand road networks further to poorly connected rural areas in mountainous areas and to ensure maintenance of the existing ones. With respect to electricity infrastructure, despite widespread access at the household level,[1] one challenge lies in enhancing access for agricultural holdings in fields and plots. Many farmers lack electricity in these areas, hindering processes that require electrical power, such as irrigation (United Nations Albania, 2022[5]). Moreover, there is a substantial gap between the Internet service penetration rates in urban and rural areas in Albania, impacting the latter populations' ability to access essential online resources such as public services, weather information, climatic conditions, and market prices (Satka, Zendeli and Kosta, 2023[6]).

The key policy document guiding Albania's rural infrastructure development is the Strategy for Agriculture, Rural Development and Fishery (SARDF) 2021-27,[2] which covers various policy areas related to agriculture and rural development. This strategy is complemented by the EU-funded IPARD III (Instrument for Pre-accession Assistance for Rural Development) programme, which includes a measure on investing in rural infrastructure to improve the development of rural areas and rural populations' living standards (European Commission, 2022[7]). Although the economy is one of the biggest beneficiaries of the IPARD programme, it has yet to receive entrustment for the implementation of IPARD III due to ongoing issues with administrative capacity and financial management. Indeed, in 2022 there were 71 reported cases of irregularities and suspected fraud in the IPA and IPARD programmes. As a result, in July 2023, the European Commission suspended IPARD funds to Albania; since then, the European Anti-Fraud Office has conducted and concluded an investigation and shared its findings with the Albanian Government (Hoxha, 2024[8]).

To address these challenges to further expanding and modernising rural infrastructure, the Albanian Development Fund (ADF), the government agency tasked with encouraging socio-economic development at both the local and regional levels, has been actively implementing several extensive rural infrastructure programmes. Two examples include the Local and Regional Infrastructure Programme (2019-21) and the Local Roads Connectivity Project (2018-22), both aiming to bolster local infrastructure and improve municipalities' capacities. Funding for these regional projects has come from the national budget as well as from various international financial institutions, such as the World Bank.

Another area in which Albania has lagged behind is the lack of platforms that provide farmers with regularly updated information or data about market and weather conditions. Both the Japanese International Cooperation Assistance Agency and German Development Cooperation (GIZ) have tried to establish new Agriculture Market Information System (AMIS) platforms during the late 2010s and early 2020s. Following discontinuation of funding, the effectiveness and outcomes of these initiatives have become questionable. Recently, Albania's Ministry of Agriculture and Rural Development (MARD), with the support of external donors, launched a platform that provides information on the latest prices and market conditions. However, there is still an opportunity to enhance the platform's scope, specifically by providing additional pertinent information, including local weather conditions and climate forecasts.

There is an official definition for rural areas, which is defined as the territory of all municipalities with populations below 50 000 people (conversely, any area above this threshold is considered to be an urban municipality) (INSTAT, 2014[9]). This definition is applied in determining provisions related to infrastructure, investment, education, health and social assistance. Furthermore, Albania has an official definition for de-

favourised rural areas that is applied in the framework of intergovernmental transfers that, for example, provide these areas with additional funding.[3]

These definitions are integral for shaping policies and programmes supporting **rural livelihoods**. Albania has a national policy framework (embedded within the SARDF 2021-27) as well as several government programmes related to rural diversification and agritourism. However, neither specifically focuses on providing fiscal incentives or on improving education or health services, which are key to rural livelihood and well-being. The rural livelihoods policy framework and provisions are complemented by the IPARD III programme, with a specific measure focused on fostering employment through job creation and maintenance, increasing rural areas' economic activity levels and subsequently increasing farming households' incomes.[4]

Another central component of rural livelihoods is Local Action Groups (LAGs). Under the European Commission's LEADER initiative, these local actors implement programmes to foster and achieve local development in rural areas. The government passed a law in May 2022 that outlined the preconditions for the creation and operation of LAGs in Albania.[5] However, despite this recent legislation, there have been no LAGs registered in Albania as of December 2023.

Albania's **irrigation policy framework and system** has markedly improved since the last assessment cycle, primarily attributed to the continued prioritisation by the government. Over the past decade, approximately EUR 250 million was invested by the national government in this infrastructure, which enabled the area of irrigated land to double, growing from 120 000 ha in 2013 to 265 000 ha in 2023. Other accomplishments over this period included the reconstruction of eleven drainage pumping stations, the rehabilitation of 44 reservoir dams for irrigation, and the introduction of 71 new excavators to clean the network of irrigation and drainage canals. Between 2024 and 2027, the Albanian Government plans to allocate another EUR 48 million from the state budget to continue to strengthen this infrastructure.

That investment was guided by the priorities and objectives outlined in the National Strategy for Irrigation and Drainage 2019-31 and its Action Plan,[6] which serve as the basis for the economy's irrigation policy framework. The focus of these strategies is on the irrigation infrastructure's expansion and modernisation, as evidenced by specific measures related to open canal and gravity irrigation systems and pressurised systems. Moreover, the framework ensures the financial viability of irrigation systems through the collection of farmers' fees, which are determined by the municipality based on technical conditions of the irrigation systems and the water source. Additionally, subsidies from the central and municipal governments cover any remaining operation and maintenance costs. Currently, 61 municipalities play a main role in irrigation management, while the role of water user organisations is limited. From 2016 to 2022, municipalities were given ALL 6 billion (around EUR 58.8 million)[7] from national funds: ALL 5.2 billion targeted the rehabilitation of irrigation infrastructure, while the remaining ALL 800 million helped purchase 61 excavators to support municipalities with the maintenance of irrigation and drainage channels. Some of this rehabilitation has focused on minimising water stress and soil erosion; conversely, little attention has been paid to protecting fragile ecosystems.

International donors have also played a significant role in improving Albania's irrigation systems. For example, between 2020 and 2021, the World Bank implemented a project that completed the rehabilitation of irrigation infrastructure for 20 000 ha, enabling irrigation capacity to reach 265 000 ha. Although this represents significant progress, the ultimate objective is to irrigate 360 000 ha by 2029. Closing this 95 000 ha gap poses a substantial challenge: while about 35 000 ha can become operational through partial and full rehabilitation interventions, the remaining 60 000 ha, which consists of pumped irrigated area and severely damaged gravity systems, is not functional. The large scope and high cost of these rehabilitation efforts necessitate substantial financial and human resources. However, funding through a new programme by the World Bank, the Climate Resilience and Agriculture Development Project (2023-28), will likely alleviate some of the burden. This project focuses on further improving the economy's irrigation infrastructure through the modernisation of irrigation and drainage schemes for high-value

agricultural production. Indeed, over the next three years the World Bank is estimated to invest another EUR 28 million into Albania's irrigation and drainage infrastructure.

Sub-dimension 14.2: Agricultural support system

The Strategy for Agriculture, Rural Development and Fishery (SARDF) 2021-27[8] is the main strategic document underpinning the **agricultural policy framework**. It also includes an Action Plan, although this is not updated yearly. Albania's agriculture policies comply with the EU CAP[9] and strategic programme periods. Significant progress has been made in recent years in aligning long-term programming documents and administrative infrastructure with EU requirements. More specifically, the new strategy of Agriculture, Rural Development and Fishery 2021-27 and its accompanying Action Plan are largely in line with the EU CAP. Despite the strong orientation towards the EU CAP, the policy framework is only partially aligned with EU CAP objectives; only five of the ten objectives are reflected in this national framework.[10] Since the last assessment, Albania also developed a National Plan for European Integration 2022-24, which is an Action Plan describing alignment with EU Agricultural Policy.[11] Annually, new National Support Schemes, funded by the state budget, are drafted and implemented in Albania; these include subsidies for agricultural inputs, support for irrigation infrastructure development, programmes to promote sustainable farming practices, and initiatives to enhance market access for agricultural products. However, as also noted previously, progress on benefiting from the IPARD III programme (including the EUR 112 million in EU contributions) is currently stalled, pending the outcome of the European Anti-Fraud Office's investigation.

These agriculture support policies are subject to quarterly monitoring by the MARD. Impact assessments for policies and programmes are also conducted by external donors, such as the Food and Agriculture Organization (Box 15.1).

Box 15.1. Policy impact assessment in the context of evidence-based policy making

At the request of the MARD, the Food and Agriculture Organization (FAO) launched the project "Evaluation and impact assessment of agriculture and rural development support policies in Albania". Implemented by the Institute for Economic Studies and Knowledge Transfer, the study aimed to review Albania's agricultural policy framework, comparing it to those of the EU and other Western Balkan economies. It evaluated its impact on the key agriculture and farm performance indicators, such as output, investments, and farmers' income, while also identifying gaps in compliance with EU standards. The study generated policy recommendations to enhance the effectiveness, efficiency and relevance of these policy programmes. Its findings helped the MARD to refine its support schemes in the subsequent year.

Note: The FAO project was TCP/ALB/3606.
Source: Institute for Economic Studies and Knowledge Transfer (2019[10]).

Improving administrative capacities and establishing robust information platforms are crucial for transparently distributing support funds to farmers and for monitoring policies' impact. One example of such a platform is a farm register: while Albania has developed a farm register, it is not regularly updated. Moreover, there has been no progress in establishing a land parcel identification system (LPIS), which is crucial for modernising land management, addressing land fragmentation, and enhancing certainty over property rights. However, the economy has advanced by establishing a Farm Accountancy Data Network (FADN). In 2023, in collaboration with the FAO, the Albanian Government developed a new data collection methodology and "farm return" questionnaire for the FADN.[12] Using this methodology, Albania's Institute of Statistics (INSTAT) launched pilot surveys for data collection at the farm level in March 2023 in six regions,[13] and the process of field interviews and data entry concluded in July 2023. Since then, the pilot

has been expanded to include 20 additional farms. Moreover, the government adopted an action plan guiding the formal establishment of an FADN through an Order of the Minister of Agriculture and Rural Development in April 2023. These developments signify substantial progress in addressing long-standing recommendations of the EU Commission, which has advised Albania to develop an FADN since 2019 (European Commission, 2019[11]).

The MARD offers a wide array of **producer support instruments**, although government subsidies for Albanian farmers are among the lowest in the Western Balkans. Support instruments were traditionally structured around payments linked to the number of animals, such as sheep and goats, dairy cows, and bees, or the number of hectares cultivated of crops such as wheat. However, there has been a notable shift in focus among Albanian farmers towards the utilisation and augmentation of direct support funding. Before 2021, Albania did not offer area payments, a departure from the practice in most Western Balkan economies. Between the period 2013 and 2020, the average market and direct support measures constituted around 12% of the total budgetary support, with a much higher proportion of funding allocated to structural improvement and rural development (which comprised 70% in recent years) (FAO, 2022[12]).

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Table 15.2. Albania's budgetary support for the agricultural sector and producers (2019-22)

Million EUR

	2019	2020	2021	2022
Budgetary support to agriculture	39.3	55.6	71.3	85.6
Budgetary support to producers	5.6	15.1	26.7	46.6

Source: SWG (2023[13]).

Russia's war of aggression against Ukraine had a significant impact on the design and delivery of these instruments. In 2022, as part of its broader response to the conflict, the Albanian Government added a new support measure targeting areas cultivating wheat to the national support programme for agriculture and rural development (Box 15.2).

Box 15.2. The impact of the Russian war of aggression against Ukraine on Albania's agriculture sector

Although all Western Balkan economies collectively felt the repercussions of the Russian war of aggression against Ukraine, Albania experienced the most significant impact due to the consequent disruptions and shortages in the grain trade. Specifically, the economy was heavily reliant on Russian wheat imports, which exceeded 60% of its total wheat imports, as well as fertiliser imports. Thus, despite Albania's firm stance against the conflict, evidenced by its participation in EU sanctions and co-authorship of a draft UN resolution condemning Russia, it continued to import large quantities of Russian wheat, totalling nearly 75 000 tonnes by the end of 2022. This impact was compounded by rising food prices, which disproportionately affected Albanian households given the economy's high proportion of household income spent on food (42% versus 13% in the EU).

In response to these challenges, Albania's Ministry of Agriculture and Rural Development offered direct subsidies of ALL 30 000 (EUR 256) per hectare for wheat farmers, injecting an additional ALL 1.2 billion (EUR 10.24 million) into the national agriculture support system. Furthermore, as part of the Open Balkan initiative, Serbia agreed to export cereal crops, specifically wheat and corn, to Albania. This collaborative effort aimed to alleviate pressure on Albania's agricultural sector and ensure a sufficient supply of these crops for its citizens.

Sources: Brankow and Matkovski (2022[14]); Taylor (2022[15]).

Despite the significant upward trend, the level of support remains modest, as budgetary allocations are considerably lower compared to other Western Balkan economies and the European Union (EU). For example, between 2020 and 2021, the budgetary support was EUR 55/ha, which was less than half of the budgetary support provided by other governments in the region (average of EUR 113/ha) (SWG, 2023[13]). In 2023, the EU average payments were EUR 200/ha (European Commission, 2023[16]). Furthermore, this support falls short of adequately addressing all the sector's challenges, especially those related to climate change mitigation and adaptation and meeting the demand for productivity, sustainability and resilience in rural areas. In 2022, Albania's support structure exhibited greater diversity compared to previous years, although it continued to prioritise financing for structural and rural development measures (as defined by the EU CAP's second pillar) (Martinovska Stojcheska et al., 2023[17]). Compliance with environmental standards or with food safety, animal or plant health requirements is not currently incorporated into eligibility parameters.

Agricultural trade policies comply with international agreements and commitments, such as those under the World Trade Organisation (WTO) and bilateral and regional trade agreements. Albania has had a liberal trade policy since 2000, aligning with the European Union (EU) and the World Trade Organisation (WTO) guidelines. Of note, Albania's agricultural exports to the EU averaged 66% of the economy's total agricultural exports between 2018 and 2020, highlighting the high degree of interdependence with the EU (World Bank, 2023[18]). Albania applies preferential tariffs to agricultural products from the EU, the Central European Free Trade Agreement (CEFTA), the European Free Trade Association (EFTA), and Türkiye. The country's customs procedures align with the Harmonized Commodity Description and Coding System (HS) through the Customs Tariff Nomenclature. Agricultural trade legislation is based on the Customs Code and the Nomenclature of Goods and Free Trade Agreement. It ensures that the country's trade policies adhere to the agreed-upon rules and obligations. There are import tariffs for agricultural commodities (crops and livestock) and inputs (fertiliser and pesticides), while tariff rate quotas do not exist. **Free trade agreements** establish preferential tariff rates and tariff rate quotas for agriculture commodities. The base tariff rates are defined in the Combined Nomenclature of Goods 2023 (General Directorate of

Customs, 2022[19]). One major development since 2021 has been the passage of the Trade Partnership Agreement between Albania and the United Kingdom. Albania does not apply export credit support, export duties or export prohibitions for agricultural commodities.

Fiscal policy related to agriculture and rural development is relatively limited, as it mainly regulates agricultural land taxation. Some activities, such as agritourism, benefit from the reduced rate of value added tax (which is 6%, much lower than the typical VAT rate of 20%). There are no specific fiscal policies related to small farmers. Recently, new legislation was drafted regarding property taxation, including agricultural land taxation, with an expected 78% increase in taxes. The objective of this substantial augmentation is to enhance the efficiency of land use and provide incentives to individuals who are willing, capable, and knowledgeable about utilising agricultural land effectively. Moreover, to encourage investment in perennial crops, new orchards and vineyards will be exempt from taxation for the first five years after plantation.

Research, innovation, technology transfer, and digitalisation (RITTD) in the agriculture sector has shown improvement, yet there are persistent deficiencies in programme availability and efficacy. Investments and support in RITTD remain critical for enhancing long-term productivity, sustainability, and resilience in agriculture. One of the crosscutting objectives of the SARDF 2021-27 is the transfer of knowledge and innovation, highlighting the importance conferred by the government to this goal. Agricultural Technology Transfer Centres (ATTCs) annually prepare different programmes based on the needs of farmers, agribusinesses and other interested parties. Several programmes are in place to encourage the adoption of innovations and facilitate knowledge transfer to both farms and agrifood firms, with a focus on areas such as climate change. A notable example is the collaborative effort between the MARD and the Agricultural University of Tirana, where the Agricultural Training Scheme supports the transfer of new technologies and innovations to 50 model farms to improve their understanding of climate change measures. However, there is room to expand the access and use of these services, as recent studies confirm the presence of knowledge gaps for farmers and extension services staff related to climate change impact and adaptation (Zhllima et al., 2023[20]).

A significant component of encouraging farms' transfer and adoption of technology and innovation is the use of extension and advisory services. These services are offered through the network Regional Agencies of Agricultural Extension, whose reach extends throughout the entire economy and is free to farmers.[14] The Albanian Government plays a major role in providing and supporting these public extension and advisory services; for example, four regional agriculture extension agencies collaborate with five ATTCs under co-ordination by the Ministry of Agriculture and Rural Development's Directorate of Advisory Service, Science and Innovation. These ATTCs have demonstrated their ability to lead innovation and share this knowledge with farmers (Box 15.3). However, despite the availability and affordability of extension and advisory services, there is limited evidence suggesting progress in their effectiveness in areas such as collaboration among public advisors, farmers, and local governments, as well as the allocation of financial resources and efforts in professional development. Moreover, a 2022 survey conducted by the FAO found that almost half of the farmers who were interviewed did not trust the extension services (FAO, 2022[12]).

Box 15.3. The Prognosis Centre for Pest Disease Protection, a technological innovation in the fruit sector in Albania

The Netherlands Development Organization's (SNV) ProMali project supported the establishment of a prognosis centre at ATTC Korçë to manage diseases and pests affecting orchard farmers in the Korçë region. This centre proved beneficial for farmers, enhancing plant protection effectiveness against pests and leading to increased production and improved fruit quality and safety. Moreover, the project helped to reduce plant protection costs.

The user-friendly system allowed apple producers to access automated information and guidance on the optimal spraying strategy by calling a designated phone number. The technical components of the prognosis centre included a weather station, spore detector, computer server storing weather data, and a programme simulating disease occurrence based on weather conditions. This advanced technology greatly supported disease and pest modelling in apple orchards.

Despite its success, the forecasting system was transferred to ATTC Korçë, which, along with the Agriculture University of Tirana, was responsible for its maintenance. Unfortunately, ATTC Korçë could not sustain and operate the innovative system, as the trained personnel left and were not replaced.

This case exemplifies the significant impact of innovation in agriculture, especially in the field of plant protection. It also underscores the importance and challenges of achieving sustainability in implementing such advancement.

Source: FAO (2019[2]).

Sub-dimension 14.3: Food safety and quality

The policy framework guiding **food safety, animal health and plant health** in Albania is characterised by a limited alignment with the relevant EU regulations. Namely, the legal bases of food safety, plant health and protection and animal health and welfare are all only partially aligned with EU legal bases. Additionally, Albania's legislation in the sanitary, phytosanitary and veterinary fields remains partially compliant with the World Trade Organisation's Sanitary and Phytosanitary (SPS) Agreement. The primary government entities responsible for food safety and animal and plant health are the National Food Authority (NFA) and the National Authority for Veterinary and Plant Protection. These two bodies' respective competencies are clearly delineated from one another's in sectoral legislation.[15]

Food safety, veterinary and phytosanitary laboratories are crucial in ensuring the safety and health of agricultural and animal products. Albania's laboratories are not accredited, although their results are recognised among CEFTA parties as well as the EU. There is also an established food safety, veterinary, phytosanitary reference laboratory network. However, there have been minimal advances in establishing capacity, accreditation and validation techniques within this network (European Commission, 2023[21]).

Another vital mechanism for ensuring food safety and animal and plant health is the use and efficacy of risk analysis structures. Albania's risk assessment and management are in line with SPS rules and use internationally established methodologies (such as the World Organisation for Animal Health [OIE], International Plant Protection Convention [IPPC], Codex[16] and EFSA[17]). Moreover, risk-based inspection is conducted according to a control plan that is drawn up annually by the NFA and approved by the Ministry of Agriculture and Rural Development. Each plan categorises subjects according to the risk factors.

Since the last assessment cycle, the NFA has drafted a national plan of official risk-based controls through a new methodology with the assistance of the EU Project "Food Safety Project"/"Support for food safety, veterinary and phytosanitary standards in Albania". Under this new methodology, every business operator is categorised as "low", "medium", or "high" risk based on the risk associated with their activities. Unlike in previous years, this new approach necessitates different inspection frequencies depending on the establishment type. Moreover, within a specific category or subcategory of business activities, there is no longer a unified risk profile; instead, each entity must undergo an individual risk based on its history.

There have also been substantial advances in terms of updating information systems for animal diseases and plant pests. In 2023, enhancements were made to the "RUDA" system, which monitors the movements of cattle, pigs, sheep, goats and poultry, ensuring traceability in the food supply chain. This expansion included the introduction of modules for identification of various animals. Additionally, the hardware infrastructure upgraded with the acquisition and installation of new servers, although this update has yet to be fully implemented within the NFA's laboratory network. The continuous integration of the RUDA system with other platforms, such as the Laboratory Inventory Management System, aims to facilitate real-time information exchange regarding the import, movement, and health of animals.

Maximum residue levels (MRLs) are defined based on values defined by the EU. However, the implementation of Albania's national residue monitoring plan remains an issue especially for veterinary medical products, pesticide residues, heavy metals and mycotoxins for livestock products (European Commission, 2023[21]). Other persistent challenges include the absence of a traceability system for products of plant origins, insufficient monitoring of pesticide residue, and lacking laboratory analysis for identifying Plant Protection Products' (PPPs) physical-chemical properties and active substances.[18]

Albania's limited progress in properly implementing food safety, animal and plant health, and SPS measures in part stems from the lack of sufficient monetary, technical, and human resources. Ministries lack personnel due to the numerous unfilled vacancies within the general directorate responsible for food safety, veterinary and plant protection. The government also suffers from an overall deficiency in expertise and training for the staff it does have. Such limitations have not only stalled Albania's progress toward aligning with the EU *acquis*, but also have constrained the government's capacity to conduct surveillance of, reliably assess, and implement effective systems for disease prevention and eradication. Some progress has been observed in the case of the improvement of the NFA's system on inspection statistics, data management and transparency (European Commission, 2023[21]).

Like food safety, Albania's standards on **food quality** are relatively robust but have yet to achieve full alignment with the relevant EU legal bases. For instance, national standards on food marketing remain only partially aligned with EU regulations, apart from a new law on vineyards and wines passed in 2022. Similarly, regulations on geographical indications (GI) are only partially aligned with those of the EU; while some areas (including agricultural foodstuff and wine) are fully harmonised, all other areas still fall short of EU standards. Organic food regulations and legislation are also partially aligned with EU laws. At the time of writing, the Albanian Government was drafting a new law on organic production, expected to be adopted in the fourth quarter of 2024, which will fully align with EU regulations.[19] However, the government has continued to provide support for organic farming by offering subsidies to facilitate the implementation of organic certification. There has been no observed progress concerning feed or genetically modified organisms (GMOs), as the relevant legislation is still absent.

The Ministry of Agriculture and Rural Development remains the key government body tasked with designing and aligning national food quality legislation and regulations with those of the EU. The NFA is responsible for the control of imported organic products as well as the certification and official controls of GI products. Notably, the mandate of the General Directorate for Industrial Property (GDIP) only extends to the application and protection of GI. These three entities co-ordinate on matters related to food quality policy design and implementation, primarily through independent policy units.

Accreditation is crucial for ensuring food quality by not only promoting producers' credibility and consumers' confidence, but also enhancing competitiveness by enabling access to global markets with recognised quality standards. In Albania, the General Directorate of Accreditation (DPA) is the sole national body that can provide accreditation to product certification bodies.[20] However, no product certification body has been accredited by the DPA due to the lack of applications. If local institutions such as the DPA provide accreditation to certification bodies, this process' costs are typically lower than accreditation by foreign bodies.

While there are no product certification bodies in Albania, there is one local organic certification body: Albinspect, which is part of the Swiss organisation bio.inspecta. The organisation was established in 2006 and remains the first Albanian organic certification body accredited and recognised by the European Commission. It also is the sole body approved for certification by the National Commission of Organic Production. As of 2022, there are approximately 1 200 ha that are certified organic, which represents a contraction of almost 25% from 2020. This reduction is likely a result of farmers electing to discontinue organic cultivation. Currently, there are 138 farmers who are certified organic as well as nine processors or exporters, mainly operating in the medicinal and aromatic plants sector.

Overview of implementation of Competitiveness Outlook 2021 recommendations

Albania's progress in implementing past CO Recommendations has been mixed: in some areas, such as upgrading its sanitary and phytosanitary system, the economy has made moderate advancements since CO 2021. Conversely, its progress has been limited or stagnated in domains such as increasing funding for agricultural RITTD. Table 15.3 shows the economy's progress in implementing past recommendations for agriculture policy.

Table 15.3. Albania's progress on past recommendations on agriculture policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Enhance rural infrastructure policy capacity by replicating the Albanian Development Fund's good practices in planning and management of large-scale projects	There has been no evidence of progress.	None
Complete the monitoring and evaluation system for irrigation water management	The World Bank has assisted the Albanian Government with developing a monitoring and evaluation (M&E) system.	Limited
Increase the capacity of the IPARD agency	Albania's IPARD agency, the Agricultural and Rural Development Agency, hired and trained new staff to improve spot controls and the payment process. The implementation of the IPARD II programme has continued, but increased capacity building and oversight is needed to ensure the programme's completion. Additionally, there are monitoring groups in place to identify issues faced by applicants and to help address these issues. These groups send reminders to recipients about their obligations and timelines for finalising investments, and periodically provide spot checks. However, the 2023 suspension of IPARD funds has undermined the agency's ability to execute its mandate.	Limited
Upgrade the SPS system and fully harmonise it with EU requirements	There has been ongoing harmonisation of the Albanian SPS legislation with the EU, and there has been partial upgrade of veterinarian and National Food Authority capacities. The accreditation of reference laboratories and many private laboratories has been achieved.	Moderate
Increase the funding and enforce implementation of the National Strategy for Scientific Research	Investments in research remain modest. ATTCs continue to play a large role in upgrading extension services capacities. Implementation of the strategic action plan for the reform of the advisory system has started, but implementation capacity remains low.	Limited

The way forward for agriculture

Considering the level of the previous recommendations' implementation, there are still areas in which Albania could strengthen its rural development and infrastructure or its agriculture support system, or further enhance its food safety and quality policies. As such, policy makers may wish to:

- **Improve agriculture information systems to enable evidence-based policy making and monitoring, following EU best practices**. The farm register should be complete and regularly updated. This register will serve as a crucial first component of Albania's future integrated administration and control system (IACS), supporting the implementation of the IPARD III programme. Furthermore, an LPIS (Box 15.4) and an FADN should be introduced, both of which could facilitate the conduct of regular impact assessments of agriculture policies.

Box 15.4. Using artificial intelligence to improve Malta's Land Parcel Identification System

Starting in the spring of 2023, the government of Malta undertook significant steps to deploy new technologies, namely artificial intelligence (AI), to improve the quality of information in its Land Parcel Identification System (LPIS). Using the BiedjaCam app, farmers in Malta can take photos of their crops on their mobile phones and directly upload them to the government LPIS.

Like the other EU Member States, Malta must regularly monitor its agricultural land through geo-tagged photos or satellites. As such, using photos through the BiedjaCam app is integral for allowing Maltese farmers to claim EU agricultural support under the Common Agricultural Policy (EU CAP) by demonstrating their compliance with the rules.

The Agriculture and Rural Payments Agency aims to automate the verification of approximately 15 000 geo-tagged photos of agricultural products and land classes, a substantial enhancement in efficiency compared to the current manual verification process. In theory, the AI model would be able to identify both the type of crop as well as the land coverage of each crop. Then, in future years, the model could be retrained to recognise and include additional crops that newly qualify for EU support.

As such, the use of AI in the Maltese LPIS offers an interesting avenue forward in considering how economies might design and modernise their own LPIS. This new system will not only reduce the need for inspections and accelerate the processing of CAP payment claims, but also help ensure that farmers can access EU support.

Source: Malta Today (2023[22]).

- **Prioritise sound financial management of IPARD III funds.** Entrustment for all IPARD III measures is pending, contingent upon Albania authorities' response to the investigation conducted by the European Anti-Fraud Office. As such, the government of Albania should focus on fulfilling the prerequisites for handling budget implementation under the IPARD programme to ensure the swift restoration of EU support, allowing the economy's agricultural sector to continue to benefit from the ongoing funding cycle.
- **Incorporate cross-compliance into the provision of producer support instruments.** Applying cross-compliance is necessary not only to improve standards related to the environment or food safety, but also to facilitate progress in aligning with the EU *acquis* and enable better access to EU markets. To ensure cross-compliance, the Albanian Government should implement robust monitoring mechanisms to track and verify compliance as well as offer educational programmes and support services to farmers to help them understand and meet these requirements.

- **Review support schemes to assess their impact and identify farmers' needs for enhanced and adequate support**, recognising the crucial role of agriculture in the Albanian economy. While aligning budgetary allocations more closely with regional or EU levels can be a step forward, it is imperative to find effective strategies that can boost farmers' productivity and sustainability, acknowledging that relying solely on financial support may not always be the most efficient approach.
- **Strengthen programmes supporting research, innovation, technology transfer and digitalisation.** One way to do this is to improve the capacities of public extension and advisory services, prioritising the provision of sufficient funding and cultivating relationships with farmers and processors. Another priority should be promoting farms' adoption of innovations and knowledge transfer related to climate change. Institutions such as Agriculture Technology Transfer Centres (ATTCs) and the Agriculture University of Tirana should provide advice and up-to-date information about climate change and adaptation, using suitable platforms to disperse this advice to farmers.
- **Harmonise national legislation with the EU *acquis* in the areas of food safety, animal health, and plant health**. Despite the progress made since the last assessment, there is still room to improve alignment further. In particular, Albania should develop a specific law on common market organisations (CMOs). Additionally, the Albanian Government should prioritise enhancing the institutional and administrative capacities of the NFA and the National Authority for Veterinary and Plant Protection.

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Notes

[1] According to data from the World Bank (2023), 100% of the Albanian population has access to electricity. For more, see: https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=AL.

[2] Approved by Decision of Council of Ministers No. 460, dated 29 June 2022.

[3] Joint guidance of Ministry of Agriculture and Rural Development and Ministry of Finance and Economy, No. 3 dated 10 February 2011, "On defining the de-favourized mountain areas".

[4] This specific measure from IPARD III is Measure 7, "Farm diversification and business development".

[5] Law No. 36/2022.

[6] Approved by decision of the government No. 345, dated 22 May 2019 and Law No. 24/2017, "On the administration of irrigation and drainage".

[7] On 13 December 2023, the exchange rate was approximately 1 EUR = 102 ALL. For more, see www.bankofalbania.org/Tregjet/Kursi_zyrtar_i_kembimit/.

[8] The main policy objectives of the SARDF 2021-27 are: promoting sustainable food production and quality through the development of a competitive and innovative agrifood sector; the sustainable management of natural resources and climate actions to mitigate negative impact as a consequence of climate changes; strengthening the socio-economic fabric of rural areas; fostering sustainable maritime and inland water development; and strengthening the institutional and administrative capacities toward EU *acquis* approximation and transfer of knowledge and innovation in agriculture and rural areas

[9] The Common Agricultural Policy (CAP) is the agricultural policy of the European Union.

[10] These objectives include: ensuring a fair income for farmers; preserving landscapes and biodiversity; ensuring vibrant rural areas; protecting food and health quality; and fostering knowledge and innovation.

[11] Adapted by the Decision of the Council of Ministers No. 91, dated 9 February 2022, "On the approval of the National Plan for European Integration 2022-2024".

[12] The FADN is an important tool to monitor the impact of policies. It is in place in all EU countries as well as some Western Balkan economies, such as Kosovo and North Macedonia.

[13] These six regions were Berat, Elbasan, Korçe, Shkoder, Lushnje, and Fier.

[14] Decision No. 147, dated 13 March 2018 "On the establishment, organization and functioning of Regional Agencies of Agricultural Extension". See https://faolex.fao.org/docs/pdf/ALB181508.pdf.

[15] Laws include: Law No. 10465, date 29 September 2011, “On Veterinary Service in Republic of Albania”, as amended; Law 105/2016 “On Plant Protection”, as amended; and DCM No. 683, dated 2 September 2020, “For functioning, organization and operation of the National Authority for Veterinary and Plant Protection”.

[16] Codex Alimentarius Commission by FAO/WHO.

[17] The European Food Safety Authority (EFSA) provides independent scientific advice on food-related risks.

[18] These challenges are identified in the Pesticide Survey from 2018.

[19] Regulation (EU) 2018/848 of the European Parliament and of the Council of 30 May 2018, on organic production and labelling of organic products and repealing Council Regulation (EC) No. 834/2007.

[20] Product certification is the process of certifying that a certain product has passed performance tests and quality assurance tests and meets specifications (sometimes called "certification schemes" in the product certification industry). Organic certification is a requirement to demonstrate a product or operation has met relevant legal standards.

16 Tourism policy

Sound and robust frameworks are essential for the tourism sector to drive positive economic development, enhance competitiveness, and strengthen resilience within economies, particularly those heavily reliant on tourism. This chapter assesses the comprehensiveness of the legislative structure and practices governing tourism across three sub-dimensions. The first sub-dimension, governance and enabling conditions, assesses the effectiveness of efforts aimed at strengthening strategic co-ordination and co-operation in tourism across governance, vertical co-operation, public-private dialogue, and data collection. The second sub-dimension centred on accessibility, tourism offer and human resources, examines progress and challenges in addressing the sector's connectivity framework and infrastructure, accommodation capacity and quality, and availability of qualified workforce. The third sub-dimension, sustainable and competitive tourism, explores the impact of tourism branding and marketing strategies, natural and cultural heritage valorisation frameworks, and operations promoting sustainable development.

Key findings

In tourism policy, Albania shows a positive performance, achieving an overall score of 2.8 in the CO 2024 assessment – an improvement since 2021 and outperforming the WB6 average (Table 16.1). These positive trends include governance and framework conditions, accessibility, tourism products and human resources, but challenges remain for sustainable and competitive tourism. Despite its overall positive performance, Albania still has opportunities for enhancement in sustainability, vertical co-operation, and tourism branding and marketing strategies.

Table 16.1. Albania's scores for tourism policy

Dimension	Sub-dimension	2018 score	2021 score	2024 score	2024 WB6 average
Tourism	15.1: Governance and enabling conditions			2.9	2.8
	15.2: Accessibility, tourism offer and human resources			3.3	2.7
	15.3: Sustainable and competitive tourism			2.0	1.9
Albania's overall score		**1.9**	**2.1**	**2.8**	**2.5**

The **key findings** are:

- Albania has recently strengthened its position as a sought-after travel destination. Tourism remains a cornerstone of the Albanian economy, constituting 21.6% of the GDP and employing 21.2% of the population in 2022 – among the highest rates in the Western Balkans.
- The prioritisation of green and sustainable tourism infrastructure is evident in recent years through the development of numerous projects spearheaded by the ministries and financed through the Tourism Development Fund.
- Due to a surge in tourism in recent years, seasonality has posed several new challenges for the industry, including concerns related to infrastructure strain, overcrowding, and fluctuations in demand and workforce availability.
- The current frameworks fail to fully capture the new challenges stemming from increased tourist numbers in Albania, but the forthcoming revised strategy for 2024-30 is anticipated to likely address these gaps.
- Increasing collaboration is observed between municipalities and the national government, exemplified by the establishment of a task force for summer season management in 2023 under the prime minister's directive.

State of play and key developments

Albania's tourism sector has demonstrated consistent growth, especially during the summer season, emerging as an important source of employment. In 2022, the economy saw a highly positive tourism season, aligning with countries hosting over 5 million tourists annually during post-pandemic recovery, largely attributed to its European diaspora. This recovery was propelled by increased demand post-pandemic, expanded air travel, and heightened the use of international booking platforms in hospitality (UNDP, 2022[1]).

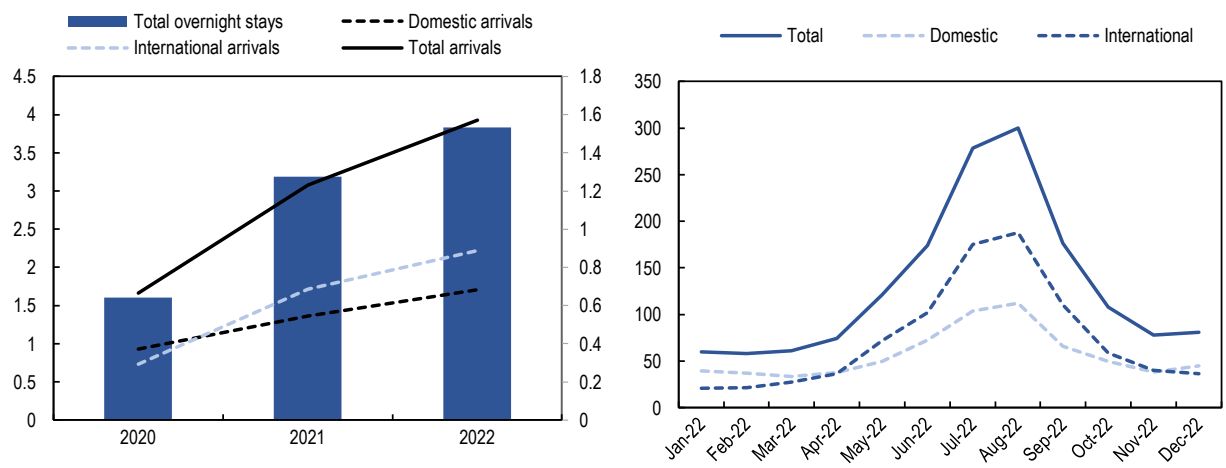
Concretely, tourism contributed 21.6% to the nation's GDP in 2022, with forecasts predicting a further increase to 22% in 2023, amounting to a GDP contribution of EUR 4.26 billion[1] (World Travel & Tourism Council, 2023[2]). The tourism sector is a vital source of employment, providing a total of 246 700 jobs in 2022 and accounting for 21.2% of the workforce, including jobs indirectly supported by the industry, with growth forecasted in 2023.

Of the WB6 economies, Albania shows the strongest seasonal distribution of arrivals in Figure 16.1, concentrated in the summer months. The reported bed occupancy rate for the entire year was 19.0%, lower than the rates recorded in Serbia, North Macedonia and Bosnia and Herzegovina (World Tourism Organization, 2023[3]).

In response, the government's increase in the tourism budget aims to strengthen Albania's engagement in tourism. In 2022, the Ministry of Tourism and Environment received ALL 2 267 278 000 (EUR 18 740 422). The annual budget for tourism stood at ALL 743 343 000 (EUR 6 144 178) (32.8%), with an allocation of ALL 124 045 000 (EUR 1 050 103) (17.1%) for the National Tourism Agency, of which ALL 75 820 000 (EUR 626 698) (59.7%) was earmarked specifically for tourism promotion and marketing.

Figure 16.1. Arrivals and overnight stays in accommodation establishments by international and domestic tourists (2019-22) and seasonal distribution of arrivals (2022) in Albania

Stays and arrivals are expressed in millions (left); seasonal arrivals are expressed in thousands (right)



Source: INSTAT (2023[4]).

StatLink https://stat.link/ivmoje

Despite these positive trends, Albania still faces challenges associated with the influx of tourists during the summer season, including overcrowding, environmental impact, economic dependence, infrastructure strain, seasonal employment, and missed opportunities to attract visitors during other times of the year.

Sub-dimension 15.1: Governance and enabling conditions

Albania's **tourism governance framework** is conducive to a solid operational setting. The framework is anchored in the National Strategy for Sustainable Tourism Development 2019-23, set for an update for the 2024-30 period, and supplemented by additional strategies such as the General National Territorial Plan 2015-30 and the Integrated Intersectoral Plan for the Coast 2015-30. In March 2024, Albania adopted a Law on Strategic Investments, which included amendments specifically targeting the tourism sector. Investment and innovation stand as top priorities, promoted notably through tax incentives like reduced VAT, lower corporate taxes for premium hotel establishments, and strategic investments. Between 2022 and 2023, a total of 11 projects focusing on digitalisation for tourism products (e.g. a digital map of UNESCO cities in Albania, a digital tour of cultural heritage sites, platforms to promote tourism) and sustainable tourism have been developed to enhance green tourism initiatives. Efforts to establish inter-institutional task forces and work for specific workstreams are notable, yet the absence of a governmental or interministerial tourism body hinders effective monitoring of sustainable tourism sector growth. The groundwork for rural tourism and agritourism is continuously evolving through various initiatives (refer to Agriculture dimension).

Vertical co-operation and information sharing mechanisms have developed since the 2021 assessment, mainly thanks to improved co-ordination at regional and local level despite challenges primarily due to limited resources. A task force for the management of the summer season was set up in 2023 by order of the prime minister – one successful example of co-operation was that maps of authorised beaches were collaboratively approved with the municipalities. Regional Tourism Development Committees, which have been established in each prefecture, co-ordinate co-operation between the central institutions and the local government units.

Despite acknowledging the potential to establish future Destination Management Organizations (DMOs), progress in this domain has been notably slow. In 2023, the Deutsche Gesellschaft für Internationale Zusammenarbeit (German Development Cooperation, GIZ) assisted Albania in crafting a national framework for appropriate destination management structures spanning national, regional and local levels. However, the effective implementation of this legal framework remains unrealised.

Efforts to foster **public-private dialogue** in the tourism sector seem to have evolved since the 2021 assessment. Private sector engagement is actively encouraged through representative bodies such as the Albanian Tourism Association, Albanian Tourism Union, Albanian Tour Operators Association, and the Chamber of Commerce. These bodies, along with entities like the Advisory Committee for the Private Sector in Tourism and the Investment Council, featuring ministerial-level representation, have significantly improved engagement with the private sector to address pertinent issues.[2]

Albania's efforts in tourism **data collection** have produced some progress but continue to grapple with significant challenges. INSTAT, in collaboration with the Bank of Albania and the General Directory of State Police, is the primary organisation responsible for collecting tourism statistics. Furthermore, the proposed amended Tourism Law aims to establish a statistical system gathering data from multiple sectors and establish an inter-institutional council for overseeing the system.

Limitations persist in the availability of data, particularly regarding non-compliant statistics on arrivals of foreign visitors and inadequate information on expenditure by domestic visitors. Arrival statistics for inbound visitors do not comply with United Nations World Tourism Organization (UNWTO) guidelines and do not have the necessary granularity for effective use in tourism planning and marketing. To improve data collection and analysis, Albania has established the Delivery and Statistics Unit in 2023, tasked with

analysing data from the Bank of Albania and INSTAT. Furthermore, efforts are under way, with support from the World Bank, to develop an online Tourism Statistics Database to enhance accessibility. INSTAT contributes to transparency by annually publishing a special publication on tourism indicators in Albania, offering valuable insights into tourist characteristics and trends.

Box 16.1. Swiss Tourism Council's Role in the organisation of Switzerland Tourism

The Swiss Tourism Council (STC) plays a central role in the organisational structure of Switzerland Tourism. It comprises government representatives, business partners, strategic employees and representatives of various cantons and cities, and serves as a strategic hub for the national marketing organisation Switzerland Tourism (ST). This dynamic assembly holds important discussions with ST management and significantly contributes to the strategic direction and effective organisation of Switzerland Tourism.

The members of the Tourism Council have an influence commensurate with their financial commitment, as the number of votes in the assembly correlates directly with their annual membership fee of CHF 27 500. Apart from the financial aspects, membership of the STC offers a comprehensive package of services that increase the commitment and privileges of its members.

STC members enjoy VIP status and receive exclusive invitations to prestigious ST events such as the Swiss Holiday Day and the Switzerland Travel Mart STM. This VIP recognition also extends to events hosted by ST's strategic and commercial partners, providing members with invaluable networking opportunities. The annual STC meeting is an important gathering that provides a platform for members to actively participate in presentations and roundtable discussions, creating a collaborative environment that allows ST VIP members to make beneficial contacts within the industry. In addition, the nomination list of STC members is published prominently in the ST Annual Report to recognise their contribution to the tourism landscape.

In a democratic way, voting rights in the general assembly are directly linked to the annual membership fee, which ensures proportional representation and a fair decision-making process in the Council. Beyond democratic participation, STC members enjoy additional benefits, including special promotions and access to exclusive VIP networking platforms. This comprehensive offering not only strengthens the collaborative spirit of the Swiss Tourism Council, but also ensures that its members actively contribute to and benefit from the vibrancy of the Swiss tourism landscape.

Source: Swiss Tourism Council (2024[5]).

Sub-dimension 15.2: Accessibility, tourism offer and human resources

Albania has made progress on the **connectivity framework** by introducing visa facilitation measures such as facilitation during peak tourism seasons, temporary visa exemptions for citizens from several countries, and provisions for foreign citizens with valid Schengen visas. Implementation of accessibility measures has been equally proactive, with the introduction of an official website for visa processing and enhanced accessibility to both major tourist destinations and rural areas. Furthermore, Albania has simplified document control and fostered the movement of citizens with identity cards across its borders with neighbouring nations.

A noteworthy development is the establishment of an inter-institutional task force to oversee the summer tourist season, focusing on entry-exit facilities for tourist groups at national border points. Visa requirements and processing are systematically reviewed and adjusted, which delineate criteria and documentation for the entry, stay, and treatment of foreigners in Albania.

Despite positive efforts to enhance sustainability in the transport sector and successful initiatives like the Sustainable Transport Plan (STP) and ecological transport programmes, accessibility and transport planning to rural areas in Albania remains largely limited.

Concerning **accommodation capacity and quality**, several legislative measures and initiatives have been introduced to establish standards that elevate the overall standards of tourist accommodation. Particularly noteworthy are the efforts to align with recognised quality standards for accommodation classification, closely monitored by governmental bodies. Additional endeavours include improving accessibility for individuals with limited abilities, ensuring compliance with energy efficiency laws, and offering tax incentives to promote the creation of top-tier establishments. Some areas still exhibit shortcomings, particularly the establishment of a sustainable labelling framework for tourist accommodation. The government's focus on promoting private and public investment in tourism, as outlined in the National Strategy for Sustainable Tourism Development 2019-23, is a positive step toward enhancing infrastructure and attracting international brands to the sector.

Albania is actively shaping a comprehensive policy framework for **human resource development**, particularly focusing on ensuring the availability of a qualified workforce for the tourism sector, which is currently facing shortages. Efforts include the approval of the National Strategy for Employment and Skills 2023-30 and the establishment of Sectoral Committee of Hospitality and Tourism to facilitate co-operation with social partners. As digitalisation also accelerates, effects of technology beyond distribution and marketing including use of social media, for example, as a tool to organise and engage in a wide range of e-Human Resources Management (HRM) activities plays a major role in driving workplace change in tourism (OECD, 2021[6]).

While Albania has a vocational education and training (VET) framework in place, it lacks a corresponding higher education framework. However, dual study programmes developed through international projects and partnerships with universities and employers offer practical education opportunities in the hotel-tourism direction. Various VET schools offer profiles with curricula prepared by the National Agency for Vocational Education, Training, and Qualification (NAVETQ), which also conducts self-assessment processes and accreditation procedures for vocational training providers. The National Agency for Employment and Skills regularly reviews the graduates of vocational schools, while tourism programmes in higher education are accredited and monitored by the Agency for Quality Assurance in Higher Education. Despite these efforts, challenges such as the absence of recent skills gap assessments persist, although initiatives like the Sectoral Committee of Hospitality and Tourism and regional projects aim to address this issue and enhance workforce qualifications and skills in the tourism sector.

Sub-dimension 15.3: Sustainable and competitive tourism

Albania's **tourism branding and marketing** are anchored in its “Go Your Own Way” branding which has yielded positive results. Supported by a dedicated department under the National Tourism Agency (NTA), current efforts involve enhancing the existing brand and crafting a new marketing and outreach strategy customised for key markets in Europe and the Western Balkans, utilising both in-person and online promotional channels. To this end, a fresh official emblem and slogan, “Albania All Senses”, are set to represent Albania at various international tourism events.[3] These efforts are further supported by the increasing use of digital marketing tools such as Google Ads, Facebook Ads, and Instagram Ads in key European markets.

Efforts have also been under way to enhance year-round tourism by promoting key events and activities in Albania coupled with involvement in EU-funded regional projects to create a unified tourism brand. Despite making some advancements, Albania trails behind neighbouring countries in the region mainly due to constraints in human and financial resources. This is evident in its reduced budget for tourism promotion and marketing in 2022, totalling ALL 75 820 000 (EUR 626 698) compared to ALL 177 899 000 (EUR 1 470 442) in 2021, which contrasts with the allocations of other countries in the region (Box 16.2).

Box 16.2. Transforming Montenegro's brand into an immersive online experience

Montenegro's National Tourism Organisation (NTO) has embarked on a transformative journey to raise the country's profile in the competitive tourism landscape. Recognising the changing preferences of modern travellers and the need to draw on digital strategies, the NTO initiated the montenegro.travel portal. In line with the principles of sustainable development advocated by the World Tourism Organisation, this portal serves as the cornerstone of Montenegro's digital ecosystem and brings together the efforts of key players in the Montenegrin tourism industry.

The overarching goal of montenegro.travel is to promote the "Montenegro Wild Beauty" brand and showcase various travel experiences that emphasise sustainability and innovation in tourism. With a focus on supporting the private sector and the entire Montenegrin tourism industry, the portal acts as a central source of information. It fits in seamlessly with the changing preferences of travellers and caters to the needs of the modern tourist who values experiences over traditional destinations.

The portal takes into account the changing dynamics of tourism. Today's tourists seek immersive experiences, want to live like locals and leave a minimal environmental footprint. By providing content and resources that cater to these preferences, montenegro.travel is the go-to destination for travellers seeking authentic and sustainable experiences in Montenegro.

The project faced the major challenge of transforming the Montenegro brand from an old-fashioned approach to a modern and innovative level. In collaboration with the tourism organisation, the transformation process was streamlined. The result is an online experience that not only meets travellers' evolving needs but also reflects Montenegro's commitment to innovation and sustainability.

Sources: National Tourism Organisation of Montenegro (2024[7]; 2024[8]).

Albania has established a robust framework for preserving and promoting its **natural and cultural heritage** within the National Strategy for Sustainable Tourism Development 2019-23. This includes various strategies and documents focusing on nature conservation (Table 16.2). Several initiatives are currently being implemented to preserve the natural heritage, including partnerships with organisations like the United Nations Environment Programme and discussions on the management plan for the Vjosa River National Park with the International Union for Conservation of Nature (IUCN) and Patagonia. Additionally, the "Forests - Year 2024" project aims to promote Albania's forests as a national treasure by 2030, offering solutions for biodiversity preservation, climate change mitigation, and economic development. However, some initiatives have been perceived to have shortcomings in addressing the full extent of environmental risks and may lack sufficient consultation processes.

Table 16.2. Key documents shaping nature conservation in Albania

Title	Year
National Biodiversity Strategy of Albania	2012-20
Strategic Document for Biodiversity Conservation in Albania	2015-20
Strategy for Agriculture and Fisheries	2021-27
Study on Proposals for New Marine Protected Areas in Albania, Bosnia and Herzegovina and Montenegro	2021
Forest Policy Document for the period	2018-30
Development of Integrated Forest and Pasture Management Plans in Albania	2019-21
National Plan for Adaptation to Climate Change in Albania	2021

Source: Information based on information provided by national authorities for the *Competitiveness Outlook* assessment.

Albania's cultural heritage preservation framework, bolstered by the National Cultural Strategy 2019-25, features clear implementation plans with defined timelines, responsibilities, and resource needs. Law 27/2018 on Cultural Heritage and Museums underscores Albania's dedication to conserving national heritage and fostering cultural development, involving comprehensive stakeholder engagement from various sectors. Despite challenges stemming from limited state budget allocation, efforts include implementing Integrated Management Plans for cultural sites like Pogradec Protected Landscape and Butrint National Park, supported by initiatives such as the "Revitalization Bonus" project and the "EU4Culture Project". Collaborative efforts between governmental and cultural entities ensure effective site management and heritage preservation across Albania's diverse cultural landscape.

Albania has established a policy framework for **sustainable tourism development**, outlined in both the National Tourism Development Strategy 2019-23 and the Law on Tourism, although concrete implementation remains limited. Concretely, communication and support from destination administration to tourism businesses for enhancing sustainability are lacking, capacity building and guidance for sustainability improvement not adequately promoted, and certification schemes underutilised in identifying compliant enterprises. To promote sustainability, the government has introduced incentives for agritourism and nature tourism, including reduced VAT and profit tax rates, resulting in 50 certified agritourism structures. Efforts to preserve cultural heritage include a bonus programme launched in 2022, continuing in 2023 and 2024, to revitalise heritage sites for tourism purposes. Additionally, financial support initiatives, such as the Tourism Development Fund, have been instrumental in promoting sustainable tourism projects (32 in 2022 and 2023), including the establishment of new national parks. To this end, the establishment of four new national parks has expanded protected areas to cover 21.3% of Albania's territory, up from 16% in 2015, contributing to sustainability. In 2022, the economy hosted the first GSTC course on sustainable tourism, which was attended by participants from both the private sector – consisting of hotels, tour operators and destination managers – and the public sector, including representatives from the Ministry of Tourism and Environment, academics from the local university, and experienced tourism professionals (Global Sustainable Tourism Council, 2023[9]).

Overview of implementation of Competitiveness Outlook 2021 recommendations

Progress on CO 2021 Recommendations has been mixed: the economy has made strong advances in promoting sustainable development, while moderate improvements were made in areas like data collections and monitoring and evaluation mechanisms. Conversely, progress has stagnated in domains such as targeted training programmes and conducting analysis for informal tourists. Table 16.3 shows the economy's progress in implementing past recommendations for developing the tourism sector.

Table 16.3. Albania's progress on past recommendations for tourism policy

Competitiveness Outlook 2021 recommendations	Progress status	Level of progress
Strengthen the governance structure at the central level by establishing efficient interministerial co-operation	Establishment of an inter-institutional task force for the 2023 Summer Tourist Season and the set-up of an interministerial working group to oversee the tourism strategy's action plan.	Moderate
Involve private sector stakeholders more actively in decision making	The Private Sector Advisory Committee for Tourism includes representatives from various sectors. The Investment Council serves as another mechanism supporting public-private co-operation, with tourism as a priority sector in its discussions.	Moderate
Introduce regular monitoring and independent evaluation of implemented policy measures	Yearly progress reports are prepared for tourism strategy implementation, with involved institutions reporting on activity progress. Supported projects by the Ministry of Tourism and Environment undergo monitoring by specialised groups to ensure compliance with approved terms and feasibility.	Moderate

Move away from developing more mass tourism in coastal areas, and start developing new, high-quality and personalised tourist experiences based around natural and cultural sites	Programmes and support through the Tourism Development Fund to promote rural areas away from mass tourism in coastal areas are evidence of the focus on developing new, high-quality and personalised tourism experiences based on natural and cultural sites in rural areas.	Moderate
Develop a comprehensive training programme for public officials at national, regional and local levels	There is a notable lack of digital marketing skills within the National Tourism Agency. Limited progress has been made in destination management skills among public administrators at the regional and local levels.	Limited
Enable municipalities to implement their legally assigned tasks for tourism development	The establishment of Regional Committees for Tourism Development in each prefecture facilitates co-operation on tourism issues at the local and regional levels. However, their ability to manage destinations is questionable and stronger DMO initiatives will be needed. Furthermore, the development of tourism strategies by local and regional destinations suggests a commitment to local tourism development. No specific programme of policies or other measures for municipalities to improve their capacity to manage tourism development effectively has been established.	Limited
Develop a comprehensive framework for promoting sustainable development within the tourism sector	The National Tourism Development Strategy and the Law on Tourism outline sustainable tourism principles. The government has taken steps to endorse a legal framework with incentives for agritourism and nature tourism, alongside financial support initiatives for new sustainable tourist products. Establishing new national parks and expanding protected areas contribute to sustainability by preserving natural resources. Improved communication and support from destination administration to tourism businesses are needed to enhance sustainability and establish a sustainable tourism observatory.	Strong
Do more to improve tourism data collection and sharing by introducing digital collection of data, and by developing Tourism Satellite Accounts	The Ministry's creation of the Delivery and Statistics Unit, which analyses data from the Bank of Albania and INSTAT, and the development of an online Tourism Statistics Database with World Bank support demonstrate progress in improving data collection and analysis within the tourism sector. While INSTAT annually publishes a special publication on tourism indicators in Albania, providing insights into tourists' characteristics and developments, a monitoring and evaluation mechanism for collecting and sharing tourism data is still needed to ensure continuous improvement in data quality and availability. The development of the Tourism Satellite Accounts was not pursued further.	Moderate
Conduct a comprehensive analysis of the informal economy in tourism and prepare a programme	No comprehensive analysis of the informal economy in tourism or elaboration of a programme with clearly defined measures to systematically reduce it has been carried out.	Limited

The way forward for tourism policy

To ensure further successful development of tourism, policy makers should:

- **Address challenges related to seasonality, sustainability, and ensuring the equitable distribution of tourism benefits**. While some initiatives are under way, it is increasingly crucial to unlock the economy's long-term potential. There is a need to increase efforts to spread tourism, both geographically and seasonally, improve interactions between the tourism sector and local communities, and increase the local economic gains from tourism. Some instruments include initiatives to better integrate environmental considerations into tourism curricula and training, introduce visitor management systems, temporary closures of national parks and protected areas, and deployments of smart technology to optimise visitor flows (OECD, 2022[10]).
- **Improve tourism data collection by introducing digital data collection methods and develop the calculation of Tourism Satellite Accounts (TSAs)** (OECD et al., 2010[11]) to provide policy makers with reliable information for policy design. Accurate and up-to-date data are essential for

informed decision making in the tourism sector. Adopting digital data collection methods and establishing TSAs can significantly improve the quality and availability of tourism data.

- **Create destination management organisations (DMOs) to improve vertical co-ordination, decentralise tourism development, and engage stakeholders actively.** DMOs facilitate collaboration among local stakeholders, helping streamline tourism initiatives and ensuring that regions can effectively manage their own tourism resources. This approach promotes sustainable and regionally tailored tourism development (OECD, 2022[10]).
- **Strengthen the National Tourism Agency's capabilities**, both financially and in terms of human resources, to actively promote the economy. Given the sector's limited marketing capacity, it is crucial for policy makers to bolster efforts in promoting the economy effectively on the global stage. A well-resourced National Tourism Agency can play a central role in this; only then can effective initiatives be implemented, such as transforming Montenegro's brand into an immersive online experience.
- **Enhance digital visitor information services, closely linked to DMOs.** Destinations and businesses must adapt to technological changes. Policy makers should support tourism businesses in embracing digital transformation to improve their competitiveness and customer experiences. Similarly, Greece has taken steps to improve the digital skills of tourism stakeholders (Box 16.3).

Box 16.3. Enhancing digital technologies for tourism in Greece

As part of its Digital Transformation Bible for 2020-25, Greece is implementing targeted digital strategies in the tourism sector to improve visitor experiences and evolve its offerings. These strategies focus on making Greece more accessible and interconnected. Currently, 13 projects are underway aiming to modernise Greece's tourism infrastructure. Such initiatives include:

- Development of a unified electronic system to manage tourist accommodation registrations.
- Digitisation of licensing processes for tourist ports and facilities.
- Creation of platforms offering travel recommendations for families and food enthusiasts.
- Implementation of a national observatory for monitoring sustainable tourism practices.
- Introduction of smart tourism tools to enhance visitor experiences and accessibility.

Source: Ministry of Digital Governance, Greece (2023[12]).

- **Develop comprehensive training programmes to address labour shortages and enhance skills for effective tourism management.** The tourism industry is experiencing persistent labour shortages. Implementing a structured training program incorporating targeted digital training could help bridge this gap and ensure the availability of a qualified workforce. Several OECD countries are investing in upskilling
- **Improve the monitoring and evaluation of sustainable tourism practices by establishing a dedicated sustainable tourism observatory.** In addition, Albania should promote the active participation of all stakeholders in destinations in formulating and implementing sustainable tourism strategies.

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Notes

[1] Currency conversion is based on the exchange rates applicable in 2022, https://www.bankofalbania.org/Markets/Official_exchange_rate/Exchage_rate_archive.

[2] For instance, the legal and policy framework (laws, regulations, strategies, etc.) for tourism development is worked out in collaboration with stakeholders (private sector and non-governmental organisations). The Tourism Law is currently being amended, and in connection with the involvement of private stakeholders and non-governmental organisations, the MTE, in co-operation with the Minister of State for Entrepreneurship and Business Climate, has organised several rounds of consultations with stakeholders. These include accommodation providers, restaurants, tour operators and travel agencies, tourist guides, tourism companies offering services, etc.

[3] Information on the new logo is available here: https://turizmi.gov.al/prezantohet-logoja-e-re-e-shqiperise-turistike.

Competitiveness and Private Sector Development

Western Balkans Competitiveness Outlook 2024: Albania

Inclusive and sustainable economic growth in the six Western Balkan (WB6) economies depends on greater economic competitiveness. Although the gap is closing gradually, the standards of living in WB6 are well below those of the OECD and EU. Accelerating the rate of socio-economic convergence will require a holistic and growth oriented approach to policy making.

This is the fourth study of the region (formerly under the title 'Competitiveness in South East Europe') and it comprehensively assesses policy reforms in the WB6 economies across 15 policy areas key to strengthening their competitiveness. It enables WB6 economies to compare economic performance against regional peers, as well as EU-OECD good practices and standards, and to design future policies based on rich evidence and actionable policy recommendations.

The regional profile presents assessment findings across five policy clusters crucial to accelerating socio-economic convergence of the WB6 by fostering regional co-operation: business environment, skills, infrastructure and connectivity, digital transformation and greening. Economy-specific profiles complement the regional assessment, offering each WB6 economy an in-depth analysis of their policies supporting competitiveness. They also track the implementation of the previous 2021 study's recommendations and provide additional ones tailored to the economies' evolving challenges. These recommendations aim to inform structural economic reforms and facilitate the region's socio-economic convergence towards the standards of the EU and OECD.

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