



REPUBLIC OF ALBANIA
COUNCIL OF MINISTERS

2005 Annual Progress Report

September 2006

Preface

The fundamental goals of my government are the integration of Albania in the EU and NATO, the development and consolidation of the democratic state, the restoration of the rule of law and uprooting of the system of corruption, a rapid, balanced and sustainable growth of economic and human resources, and a social role for the state. My government is working towards these major goals with dedication and we demand a high degree of accountability for results.

I am therefore very pleased to launch the 2005 Annual Progress Report, which will serve as the key monitoring and evaluation document of the Government of Albania. The Report is a very important component of the Integrated Planning System, which was approved by the Council of Ministers in November 2005, in order to ensure that the main policy and financial processes of the Government function in a coherent and efficient manner. It outlines the key challenges that were facing the country at the time when my government came to office.

Starting from next year, the Annual Progress Report will be the principal monitoring instrument of the National Strategy for Development and Integration, whose preparation is currently under way. This report will have the following objectives:

- to assess the progress towards meeting key government goals
- to use information to benchmark the progress of reforms in Albania against other countries in the region
- to be a basis for wider discussions on the government's strategic plans and agenda

The preparation of the 2005 Annual Progress Report has been managed by the Department of Strategy and Donor Coordination at the Council of Ministers. I would like to fully acknowledge the Director and staff of the Department for the excellent work in producing this document.

In addition, I would like to extend my sincere thanks to all ministries, INSTAT, the Institute of Public Health and the Bank of Albania for their contributions.

Finally, I wish to express my appreciation and thanks to the UK Department for International Development for its essential technical support in the preparation of this document.

The Prime Minister

Sali Berisha

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1 National Strategy for Development and Integration

Integrated Planning System

Since November 2005, the Integrated Planning System (IPS) has provided a set of operating principles to ensure that government planning and monitoring take place in a coherent, efficient and integrated manner. This is neither a new nor a separate planning system. Two existing processes cover all government activities:

- a national medium- to long-term strategic planning process, the National Strategy for Development and Integration (NSDI) (2007-13), establishes strategic priorities and goals. The NSDI is expected to be approved in early 2007 and will succeed the National Strategy for Socio-Economic Development (NSSD); and
- a medium-term budgeting process, the Medium-Term Budgeting Programme (MTBP), requires each ministry to develop a three-year plan within an expenditure ceiling to achieve its policy objectives in consistency with the NSDI. The MTBP process has been in operation since 2000 and feeds directly into the annual budget process.

Four core processes will be fully reflected in the strategic planning and budgeting processes:

- European and Euro-Atlantic integration, namely the implementation of the Stabilisation and Association Agreement and the NATO Membership Action Plan;
- Government Programme;
- public investment management; and
- external assistance management.

In terms of strategic planning, the changes that are being introduced aim to address the following three limitations of the earlier process:

1. The strategic planning process was not comprehensive.

Under IPS, there will be a hierarchy of strategic planning documents. A single national strategy, the NSDI, will build on a comprehensive set of sector strategies and will be guided by a selective set of crosscutting strategies. The national strategy will emerge as a synthesis of sector strategy documents developed for all sectors, unlike the NSSD, which was developed for a limited number of sectors. The European integration and NATO membership planning processes will be fully incorporated in the new national strategy.

2. The strategic planning process did not receive sufficient direction from the Council of Ministers.

Under IPS, line ministries will be responsible for preparing sector strategies that meet quality standards and demonstrate the links between costed policies and their aims. This will enable the Prime Minister and ministers to set strategic directions within a sound fiscal framework at the beginning of the annual planning process.

3. The strategic planning process was disconnected from medium-term budgeting.

Under the IPS, strategic and budget planning are components of a single public expenditure management system:

- Line ministries set medium- to long-term goals in their sector strategies. These are identical to the goals specified in the MTBP preparation forms for each budget programme. Line ministries also broadly estimate the resources needed to achieve these goals.

- The Department of Strategy and Donor Coordination, in collaboration with the Department of Budget Policy and Analysis and the Macroeconomic Department, prepare options for the broad inter-sectoral allocation of resources for the Strategic Planning Committee at the beginning of each MTBP cycle.
- The Strategic Planning Committee and the Council of Ministers decide on the broad inter-sectoral resource allocations over the medium-term in order to initiate the MTBP preparation process.

Figure 1.1 shows the annual cycle that integrates the core planning and financial processes. The calendar was first developed in 2005 and has determined the key decision-making and reporting deadlines for central agencies and line ministries in 2006.

NSDI preparation process

The NSDI preparation process is outlined in an instruction that has been issued by Prime Minister Order. It includes a set of standards according to which the national, sector and crosscutting strategies will be developed and approved. The Strategic Planning Committee of the Council of Ministers has approved the set of sector and crosscutting strategies to be developed as foundations for the NSDI.

On the basis of completion plans jointly agreed with the Department of Strategy and Donor Coordination at the Council of Ministers in June 2006, line ministries will prepare sector and crosscutting strategies under the guidance of their respective Strategy, Budget and Integration Working Groups. Draft strategies will be submitted by October 2006 to be reviewed by the Strategic Planning Committee of the Council of Ministers. Drafts may be either basic or full, according to whether they meet the standards set in the instruction.

On the basis of received (basic or full) sector and crosscutting strategy documents, the Department of Strategy and Donor Coordination will coordinate the preparation of the draft NSDI. The final draft of the NSDI will be submitted to the Strategic Planning Committee for debate and review. The NSDI will be approved by the Council of Ministers and submitted to Parliament within the first quarter of 2007. Throughout 2007, those line ministries that only submitted basic sector strategies will continue working towards their completion.

NSDI monitoring process

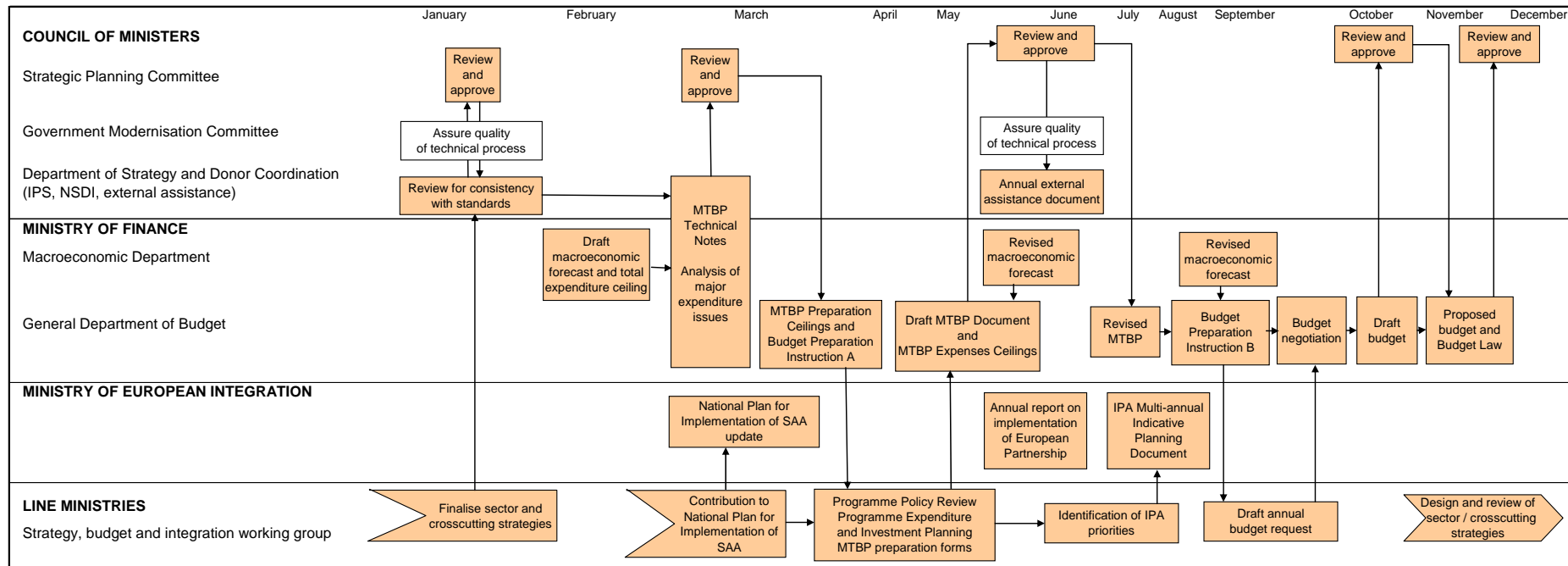
Under the IPS, the Department of Strategy and Donor Coordination at the Council of Ministers will be responsible for an annual progress report which will:

- assess the progress made in the implementation of the strategy, mainly in terms of trends in the high-level outcome indicators to be commonly agreed with line ministries and of consistency with the national statistical master plan of the Institute of Statistics (INSTAT);
- utilise other available statistical information in order to analyse long-term trends and benchmark Albania against other countries in the region; and
- selectively identify issues that are of critical importance in the process of achieving the country's long-term goals and be a basis for wider discussion.

The annual progress report:

- does not present a fully fledged strategy, as this is the role of the NSDI document;
- does not outline a forward-looking framework, as this is spelled out in the MTBP document, under the responsibility of the Ministry of Finance; and
- does not substitute for the annual reporting of outputs by individual line ministries that forms part of the budget reporting system.

Figure 1.1 Integrated planning calendar



Purpose and structure of the 2005 Annual Progress Report

The process to develop the NSDI highlights the commitment of the Government of Albania to introduce a comprehensive strategic planning framework spanning all areas of its activity that will replace the previous fragmented approach. However, the NSDI has not yet been formulated and approved, nor has the set of high-level indicators that will be used to monitor its implementation yet been decided. As a result, the 2005 Annual Progress Report represents a transition towards establishing a permanent monitoring tool:

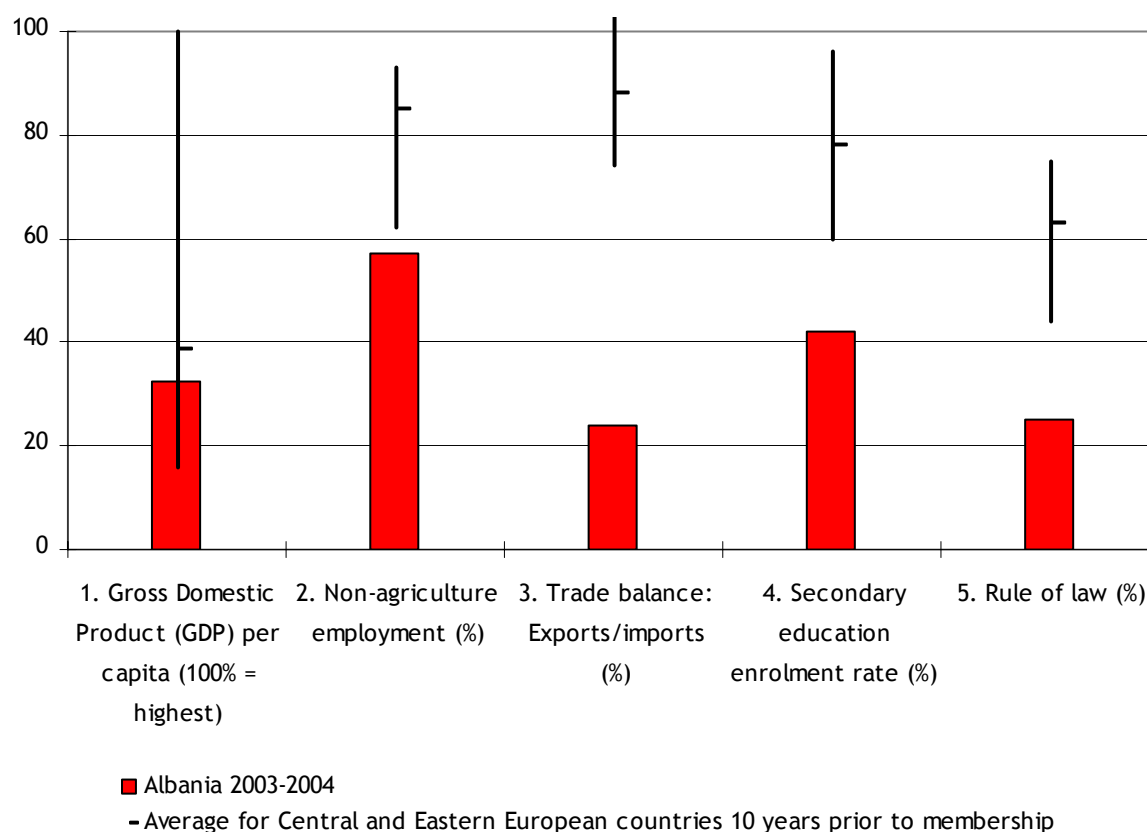
- it underlines the changes that are taking place through the IPS and the NSDI, in particular the utmost priority accorded to European and Euro-Atlantic integration; and
- it aims to support the process of selecting indicators and targets that will take place during the NSDI preparation and to draw attention to the outputs of the national statistical system.

This report dedicates one page to each of a selected set of issues. Each page follows broadly the same format. A graphic representation of a statistical indicator is presented, followed by text defining the indicator, drawing the key policy implication and providing a narrative report on what actions the government has undertaken or is intending to undertake to address the policy issue.

It must be stressed that the indicators in the 2005 Annual Progress Report are provisional and in no way pre-empt the indicators that will be used to monitor the implementation of the NSDI.

For reasons of continuity the 2005 Annual Progress Report includes all main NSSED indicators, as these have featured in the three previous progress reports and as the NSSED is one of the foundations of the 2006 budget.

2 European and Euro-Atlantic integration



	Albania 2003-04	Central and Eastern European countries 10 years prior to membership		
		Minimum	Mean	Maximum
1. Gross domestic product (GDP) per capita	€1970	Lithuania €977	€2360	Slovenia €6099
2. Share of non-agricultural employment	57%	Romania 62%	85%	Czech R. 93%
3. Trade balance: exports / imports	24%	Slovakia 74%	88%	Bulgaria 109%
4. Secondary education enrolment rate	42%	Latvia 60%	78%	Poland 96%
5. Rule of law	25%	Romania 44%	63%	Hungary 75%

Sources: (1-3) Relative GDP *per capita*: Eurostat; Ameco; IMF and INSTAT for Albania; (4) World Bank Edstats Regional indicators ECA; (5) World Bank Governance Indicators.

Notes: The group of Central and Eastern European countries includes the eight countries which became European Union members in 2004 (averages for 1994) plus Bulgaria and Romania, which will become European Union members in 2007 (averages for 1997). Averages for the two groups have been calculated for 1994 and 1997, respectively, except for the rule of law indicator, which is based on 1996 for all 10 countries.

The process of integration into the European Union is complex. The above graph shows the position of Albania in 2003-2004 (red column) in five socioeconomic areas relative to member states ten years before accession (the vertical line shows the range of performance on each of these indicators). Albania today is in fact better off in terms of the income per capita compared to some of the recent member states at the beginning of their accession process but is lagging considerably in other areas such as secondary education enrolment or the rule of law.

2.1 EUROPEAN UNION MEMBERSHIP PROCESS

Albania signed the Stabilisation and Association Agreement on 12 June 2006.

The *2005 Stabilisation and Association Report* noted that, overall, Albania had made 'some progress in implementing the European Partnership's short-term priorities' but proper implementation had been 'hampered by a difficulty in making available resources, combined in some cases with a lack of political will'. The following were salient points in the report:

Political situation	
Democracy and the rule of law	'Legislative reform of the judicial system has brought Albania closer to EU standards', but this 'must be translated more quickly and willingly into concrete achievements'
Human rights and minority protection	A Special State Committee on Minorities was established, but law enforcement officers must be aware of their human rights obligations
Regional and international cooperation	'Albania has fostered good regional relations through free trade agreements with its non-EU neighbours and through participation in a number of multilateral regional initiatives'
Economic situation	
Free market economy, structural reforms and public financial management	'Albania has been successful in maintaining a stable macro-economic framework', but 'certainty of property ownership urgently needs to be improved through the full and timely implementation of the new law on property restitution'
European standards	
Internal market and trade	'Good progress has been made in the field of customs, with fulfilment of revenue targets, improved administrative capacity, lower levels of staff turnover, better co-operation with the police and the implementation of the ASYCUDA system', but 'more concrete progress should be made by the customs service in fighting smuggling and trafficking'.
Sectoral policies	'Albania has made progress in implementing its energy strategy ... and its commitments undertaken in the framework of the regional energy market process leading to the Energy Community Treaty'
Cooperation in justice and home affairs	'New legislation in the fight against organised crime should be followed up by ... concrete achievements in the arrest and prosecution of perpetrators and the seizure of assets'

The following were identified as key priorities in the November 2005 European Partnership:

- 'to achieve concrete results in the fight against organised crime, in particular by making full use of the provisions of the new organised crime laws and accelerating the implementation of the action-oriented measures against organised crime
- to implement and update the 2004-2005 anti-corruption action plan and the recommendations of the Council of Europe's Group of States Against Corruption (GRECO) Evaluation Reports
- to implement existing legislation on the restitution/compensation of real estate. In particular, accelerate both the first registration of properties and the processing of restitution claims and ensure that strategies and mechanisms for compensation are sustainable.
- to foster media freedom, in particular by expediting the adoption of appropriate legislation for the print media and improve legislation on the electronic media, taking into account EU standards.
- to further strengthen public sector governance, in particular public investment management, planning and execution'.

2.2 NATO MEMBERSHIP PROCESS

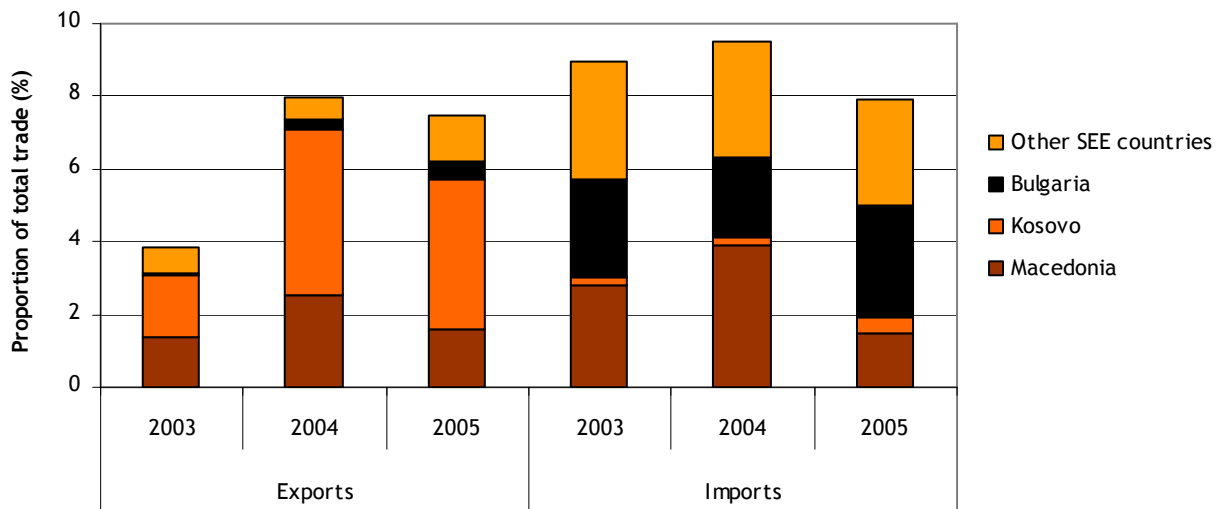
According to the Ministry of Defence and the Ministry of Foreign Affairs, the following were the major achievements on the road to NATO membership in 2005:

Political conditions	
Consolidation of democratic civil control in the Armed Forces	<p>Substantial progress has been made in the direction of reforming the defence system of the Armed Forces.</p> <p>The budget allocations, which were recently approved by Parliament, have been utilised efficiently. According to the Security Strategy and the Military Strategy, the defence budget needs to reach 2% of the GDP by 2010.</p>
Contribution to peacekeeping missions	<p>There are missions in three countries:</p> <ul style="list-style-type: none"> • Albania is participating in three missions in Afghanistan: in the International Security Assistance Force (ISAF) mission (22 troops), in the framework of the Adriatic Charter (second round of the joint medical team mission), and under the command of the South East European Brigade (SEEBRIG) General Staff (9 officers) • About 120 troops participate in the 'Freedom for Iraq' mission • About 70 troops participate in the EU Althea mission in Bosnia and Herzegovina
Military conditions	
Defence reform and achievement of NATO membership objectives	<p>Progress has been made in introducing a new structure for the Armed Forces, which is smaller than the previous structure, but more professional and compatible with NATO standards. The new set of Partnership Objectives is currently in the process of implementation.</p> <p>All resources have been allocated where most needed: reserve components have been removed from the Armed Forces structure and have been substituted by the Regional Support Command; aeroplanes with fixed wings are being either sold off or destroyed and will be replaced with helicopters.</p> <p>In the framework of the implementation of the Operational Capability Concept (OCC), four units have been placed at the disposal of NATO.</p> <p>The Ministry of Defence is currently in the process of re-evaluating the structure of the Armed Forces with assistance from the USA and the NATO Allied Command Transformation (ACT).</p>
Implementation of the Planning, Programming, Budgeting and Execution System in the management of defence resources	<p>The Long Term Development Plan covering the period 2007-15 has already been finalised. In the framework of the professionalisation of the Armed Forces, particularly in the case of priority units, the Ministry of Defence, in collaboration with the Ministry of Finance and the Ministry of Justice, is developing a legal strategy to include the wages of military professionals in the state budget for defence. Staff cost reductions and increased investments for equipment, training and modernisation are the current objectives.</p>
Destruction of excess munitions, small and light weapons	<p>About 28,000 tons of munitions have been destroyed following the abolition of the reserve components. Work continues in the framework of bilateral agreements with other Alliance members to develop programmes to destroy excess munitions, and small and light weapons.</p>

All efforts have been oriented towards obtaining the support of the Alliance and member states and the definition of a clear timeline for the expansion of NATO. A clear message has been delivered that Albania is a potential candidate and the invitation may be realised in the NATO Summit in 2008.

2.3 REGIONAL COOPERATION

Trade with South-Eastern European (SEE) countries



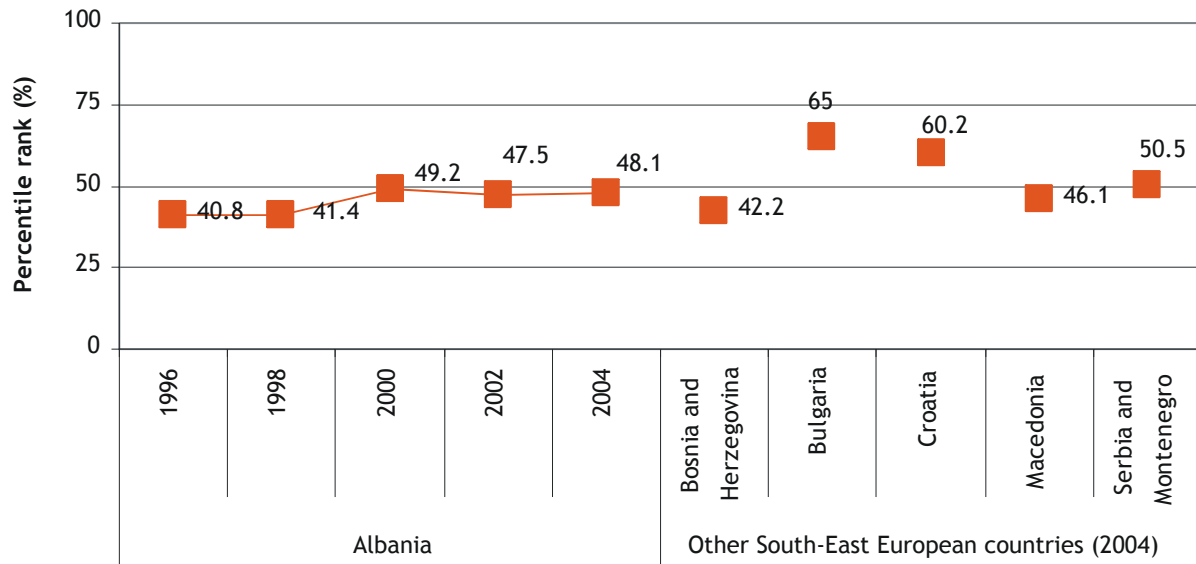
Source: Albanian Center for International Trade, various annual foreign trade reports.

There are at least three dimensions of regional cooperation:

- **Political:** Close relations with neighbouring countries are one of the pillars of Albanian foreign policy. Further improvement of the general political environment in the region continued in 2005 and this was accompanied by intensive contacts, generally at the level of multilateral cooperation. Through a spirit of dialogue and understanding, Albanian foreign policy aims to promote the country as a factor of stability and peace in the region. Among other ways, this has been expressed through a moderate and constructive message to neighbouring nations.
- **Economic:** As the European Commission recently pointed out, in areas such as trade, energy and transport 'there is no other option but to embark on intense regional cooperation as the only realistic way forward' ['Regional cooperation in the Western Balkans' (January 2006)]:
 1. Regional *trade* liberalisation is progressing. The graph above shows trade between Albania and its neighbouring countries. Exports to neighbouring countries increased from \$36 to \$58 million, while imports grew from \$58 to \$92 million between 2003 and 2005. However, despite bilateral free trade agreements entering into force, trade between these countries is still modest. In fact, trade with neighbouring countries decreased in 2005 as a share of total trade. In view of that, the countries in the region are currently considering replacing their bilateral agreements with a unique agreement on free trade through amending and extending the Central European Free Trade Agreement.
 2. A treaty establishing the Energy Community of South Eastern Europe was signed in October 2005 and Albania is one of the signatories. The treaty aims to set up a single regulatory framework for trading *energy* and is intended eventually to mirror the full scope of the energy directives of the European Union.
 3. Significant progress is being made in rebuilding infrastructure where steps are taken toward an integrated regional *transport* strategy consistent with the trans-European networks.
- **Security:** Many urgent issues, such as organised crime, integrated border management and illegal migration, can be addressed effectively only by concerted action.

3 Democratic system

Voice and accountability



Source: Governance Indicators, World Bank Institute.

The government aims to implement a comprehensive programme of institutional and legal reforms oriented towards European standards in order to achieve tangible results for the consolidation of the democratic system. Measuring these perceptions with precision is very difficult. A generally accepted set of measures are the Governance Indicators, which are calculated every two years by the World Bank Institute. The above graph reports the voice and accountability indicator, which captures 'various aspects of the political process, civil liberties, political and human rights, measuring the extent to which citizens of a country are able to participate in the selection of governments'.

It needs to be stressed that unlike other indicators in this report, the Governance Indicators are subjective. In other words, they are based on expert or informed opinions, perceptions and surveyed views, which are aggregated using statistical techniques. As a result, they are vulnerable to bias in terms of the sources of these opinions. They appear to be collected with significant time lags. However, the indicator can be useful for observing long-term trends and for making cross-country comparisons. Unlike for other indicators in this series, Albania is in a better position than Bosnia-Herzegovina and Macedonia.

3.1 DEMOCRATIC INSTITUTIONS

Parliamentary elections took place in July 2005 on the basis of a newly revised Electoral Code. Although lengthy and not without problems, the election adhered to fundamental democratic principles. According to the *2005 Stabilisation and Association Report*, 'these parliamentary elections were fundamentally valid and led to a smooth change of government'.

The Organisation for Security and Cooperation in Europe / Office for Democratic Institutions and Human Rights (OSCE/ODIHR) Election Observation Mission reported that a number of positive developments characterised the election process: it was conducted in line with an improved Electoral Code, and in a generally peaceful atmosphere; a wide spectrum of parties and candidates were registered, offering voters a diverse choice; parties pledged to adhere to a Code of Conduct, which was instrumental in setting campaign standards; media coverage was balanced overall; the Central Electoral Commission and the Electoral College fulfilled their roles transparently and professionally.

Nonetheless, the OSCE/ODIHR Election Observation Mission also indicated that a number of issues still have to be addressed, including technical and administrative problems, concerns related to tactical voting, the possible disenfranchisement of a number of students, a lack of improvement in the participation of women in public affairs and, above all, a need further to improve voter lists. On this last point, the OSCE/ODIHR Election Observation Mission made the following recommendations:

"17. to improve the accuracy of voter lists, an ongoing effort is required urgently to maintain and improve the accuracy of civil registers. Priority should be given to developing an address system for building and other real estate property. Other priorities include rectification of incorrectly spelled names, incomplete records, the so-called '999 entries' and possible multiple entries within and across local government units' administrative borders.

18. to this end, civil registry offices need the appropriate financial, technical and human resources. Work on updating civil registers and subsequently on voter lists will require a long term commitment if Albanian authorities want a fully functional system of civil registration (and consequently of voter registration) to be in place for the 2009 parliamentary elections.

19. serious consideration should be given to introducing a form of voter identification that is not open to abuse. If the government wishes to introduce new identity documents, a wide-ranging consultation process should take place before their introduction. For as long as 'birth certificates' are a permissible form of voter identification, the central authorities should ensure that civil registry offices keep accurate official records on certificates issued for all purposes, in particular for electoral ones, and that such data are publicly available."

In October 2005, the Central Electoral Commission received the final report of the OSCE/ODIHR Elections Monitoring Mission, for the July 3 parliamentary elections. The Central Electoral Commission welcomed the assessments made in the report and is committed to fulfilling all the recommendations issued in it.

3.2 PUBLIC ADMINISTRATION

Institutional reforms in public administration are seen as a precondition for achieving the complex set of long-term national goals. According to the *2005 Stabilisation and Association Report*, 'Albania has made progress in improving the oversight, recruitment and training of the civil service and taken steps to enhance its legal framework' but 'considerable efforts remain necessary to restrict political appointments to the appropriate levels, improve salaries and career structures and introduce performance management to raise the effectiveness of the public administration'.

Among others, the November 2005 European Partnership specified that, in the short- and medium-term, the government needed to ensure that:

- recruitment, transfer and dismissal of civil servants are conducted according to the Civil Service Law;
- results-oriented management and training is introduced for civil servants; and
- the salary structure allows a motivating career structure.

The *2005 Annual Report* of the Department of Public Administration acknowledges some of these weaknesses. 'Despite the steps taken to improve the recruiting examination procedures ... the competitive selection of candidates has been fundamentally compromised due to management procedures in the third round of selection as well as due to the discretionary right of the respective direct manager who is entitled to make the selection of one among the three best selected candidates in the final round'.

However, the report also observes that public administration suffers from low professionalism and that 'the inability to realise different objectives, the lack of respect for deadlines set to fulfil these objectives, the lack of realism in planning to achieve these objectives' are clear evidence. The report argues that 'despite efforts to attract better qualified staff in the public administration' the objectives have not so far been met.

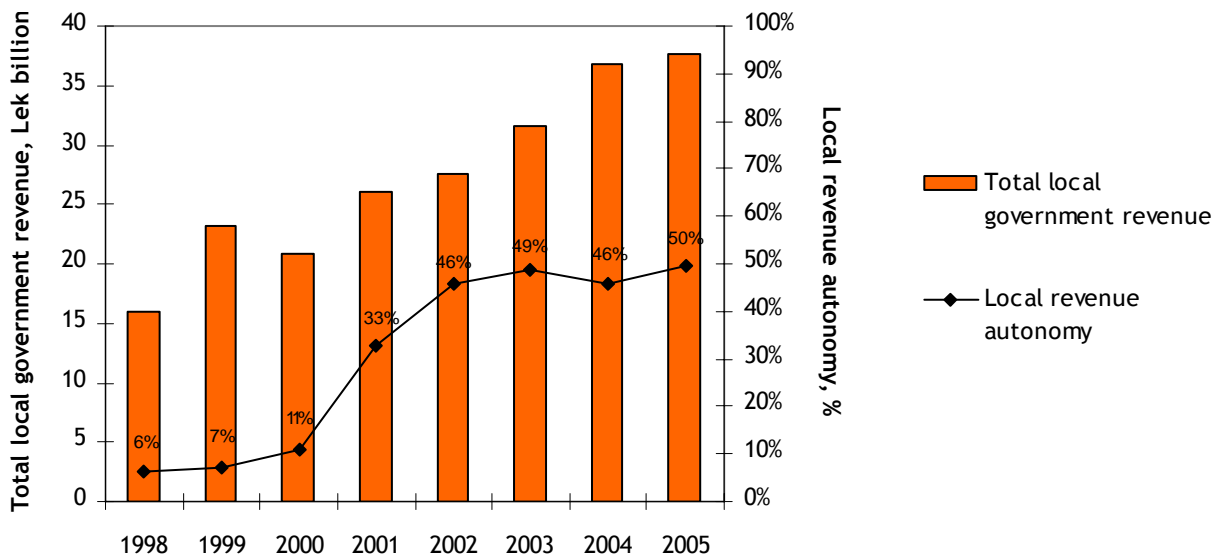
The government intends to embed further the principles of meritocracy and performance. Furthermore, the Government Programme aims to raise the level of professionalism in the civil service through:

- an open and competitive process of recruitment and career development; the Department of Public Administration is recommending changes to the recruitment procedure to minimise subjectivity in the selection of candidates, such as joint examinations for specialists across government institutions that will take place several times a year; and
- continuing professional training; in that direction, there is a need for changes in the assessment of training needs and a closer link with job descriptions; last year's *Stabilisation and Association Report* observed that 'better understanding is needed of the generic management training that all civil servants should undertake in order to do their jobs more effectively.'

In addition, a policy document for salaries and bonuses in the institutions of public administration was prepared. As part of the implementation of the policy document, a draft law regulating salaries in constitutional and other independent institutions was finalised. The policy document also calls for the general classification of all posts in public administration institutions with the following aims: increase salaries, which is a government priority; ease the management of human resources, especially in terms of mobility; and standardise institutional structures to create a hierarchy.

3.3 DECENTRALISATION

Local revenue autonomy (%)



Source: Ministry of Finance; Local Government and Decentralisation in Albania (LGDA) project.

The goal of the decentralisation and local autonomy strategy is to implement the provisions of the Constitution of Albania regarding decentralisation, in a manner consistent with the principles of the Charter of Local Self-Government of the Council of Europe. There are four sets of indicators to monitor progress in the implementation of the decentralisation and local autonomy strategy:

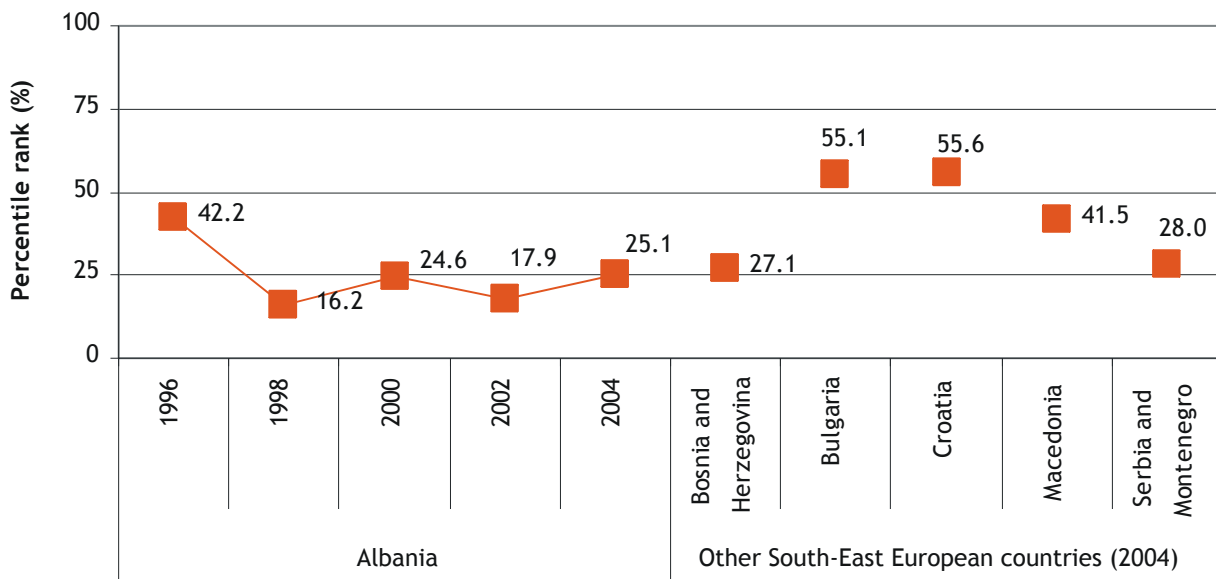
- compliance with the principles of the European Charter of Local Self-Government;
- benchmarks showing the timing of key reforms;
- quantitative measures of fiscal decentralisation;
- qualitative measures of citizen perceptions of local government.

The graph above illustrates progress in one of the fiscal decentralisation indicators. The indicator is the proportion of total revenues intended to provide local public services (including conditional transfers) that were raised from either local government's own sources or the unconditional transfer. The graph illustrates that the share of revenues that local governments were raising themselves increased from 6% in 1998 to 50% in 2005. The main changes occurred with the transformation of the block grant to the unconditional transfer in 2002 and especially with the implementation of the local fiscal package in 2003. On the whole, the share of own local revenues as a percentage of total local revenues was 21% in 2005, whereas the share of own local revenues as a percentage of total budget revenues was 4% in 2005. By comparison, the share of local expenditure as a percentage of total public expenditure was 17% in 2005.

In terms of its local government revenue policy, Parliament has before it legislation to consolidate the two taxes currently levied on small businesses into a single tax subject to local discretionary authority. The government is currently considering additional measures that would provide greater autonomy for local government in setting tax rates (especially with respect to property taxes), new mechanisms for allocating conditional investment funds that will correct past discrepancies across local government units, and amendments to the organic budget law to implement a more transparent and accountable local budget process.

4 Rule of law

Rule of law (%)



Source: Governance Indicators, World Bank Institute.

According to the *2005 Stabilisation and Association Report*, while Albania has made some progress towards improving the functioning of its judicial system, implementation of criminal justice remains weak in terms of its organisation and transparency; judicial independence should be ensured; enforcement of judgements, while improving, is still low, and transparency should be improved.

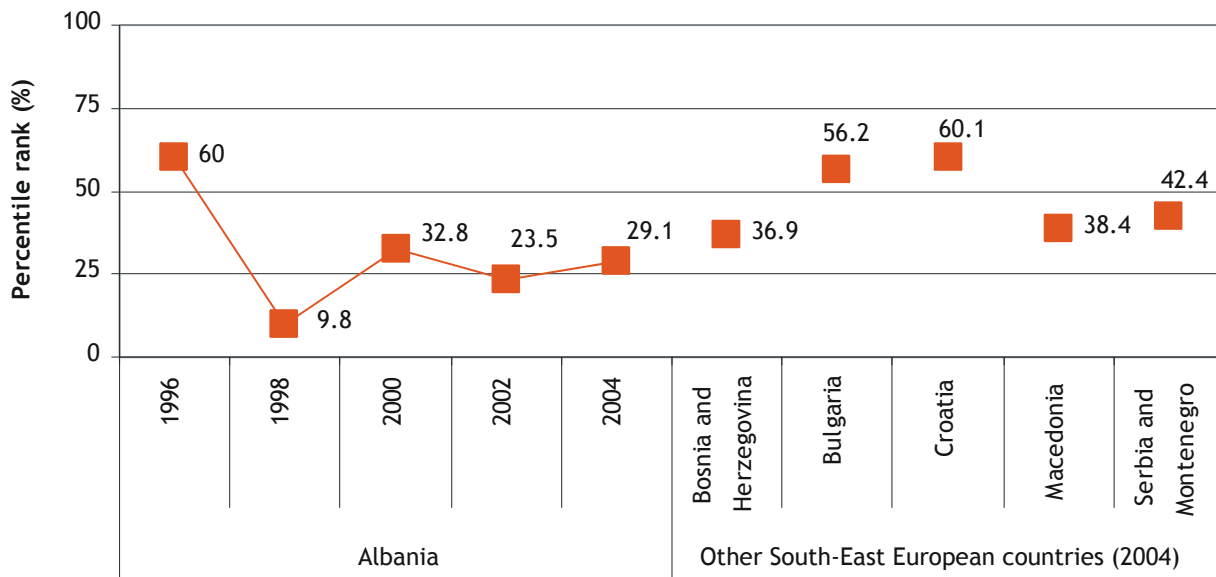
Measuring these perceptions with precision is very difficult. A generally accepted set of measures is the set of Governance Indicators, which are calculated every two years by the World Bank Institute. The above graph reports the rule of law indicator, which measures 'the quality of contract enforcement, the police and courts, as well as the likelihood of crime and violence'.

It needs to be stressed that unlike other indicators reported in this report, the Governance Indicators are subjective. In other words, they are based on expert opinions, perceptions and surveyed views, which are aggregated using statistical techniques. As a result, they are vulnerable to bias in terms of the sources of these opinions. Also, they are collected with significant time lags. However, the indicator can be useful for observing long-term trends and for making cross-country comparisons.

The graph shows the position of Albania relative to other countries in the dataset. For example, the left-hand panel shows that, in terms of the rule of law, Albania was the in the bottom 40% of countries in 1996 but fell to the bottom 20% in subsequent years. In 2004, of 209 countries, 25% were rated below Albania and 75% were rated above. The right-hand panel compares the levels of the rule of law indicator in 2004 among countries in the region and shows that Albania scores worse.

4.1 CORRUPTION

Control of corruption (%)



Source: Governance Indicators, World Bank Institute.

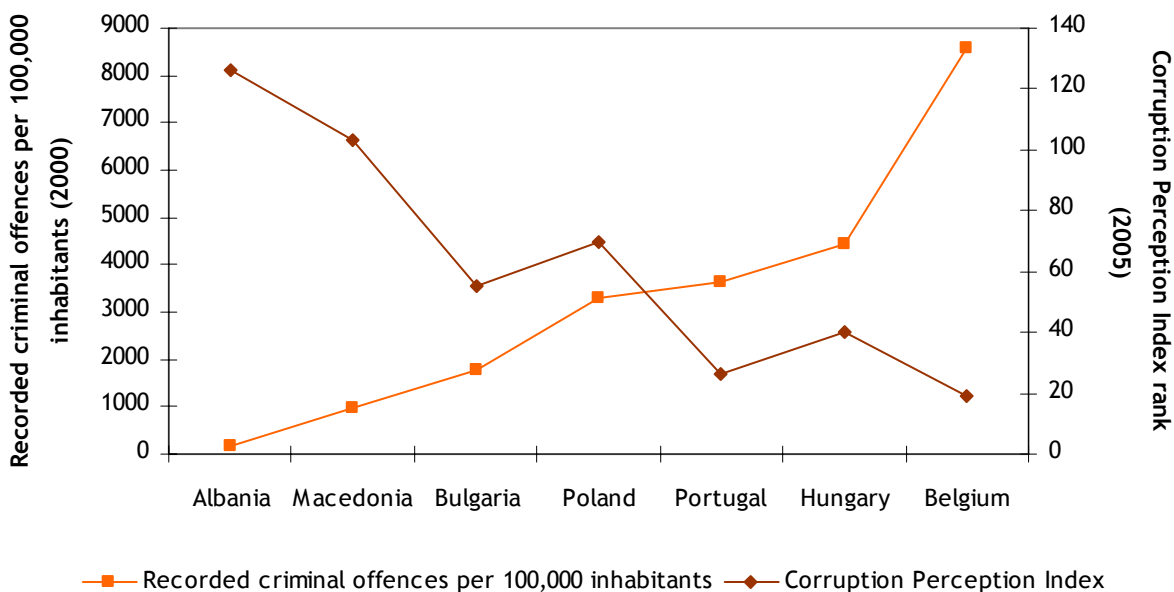
According to the *2005 Stabilisation and Association Report*, corruption remains a serious problem and international perceptions of the country in this respect continue to be poor. Measuring these perceptions with precision is very difficult. As discussed earlier on the issue of the rule of law, despite certain objections, a generally accepted set of measures is the set of Governance Indicators, which are calculated every two years by the World Bank Institute. The above graph reports the control of corruption indicator, which measures 'the exercise of public power for private gain, including both petty and grand corruption and state capture'.

The graph shows the position of Albania relative to other countries in the dataset. For example, the left-hand panel shows that, in terms of corruption perception, Albania was in the top 40% of countries in 1996 but fell to the bottom 10% by 1998. Albania remained stagnant between 2000 and 2004. In 2004, of 209 countries, 29% were rated below Albania and 71% were rated above. The right-hand panel compares the levels of the control of corruption indicator in 2004 among countries in the region and shows that Albania scores worse.

According to the Ministry of Justice, in the framework of the control of corruption, several local courts and their respective prosecution authorities have been inspected. These inspections of judicial activities and the judicial administration revealed violations of penal and civil law procedures and a proposal was put forward to discharge eight judges. The court inspection results were published for the first time by the Ministry of Justice. The inspection arm of the General Prosecutor Office has exercised a series of inspections of local prosecution offices and has submitted the results and the respective recommendations to the General Prosecutor and the President of the Republic.

4.2 ORGANISED CRIME

Recorded criminal offences and corruption perception



Source: Council of Europe, *Organised Crime Situation Report* (2005).

Effective measures against organised crime will change the image of Albania and its government held by European partners and the European public, thus facilitating the integration process. According to the *Organised Crime Situation Report* published by the Council of Europe in December 2005, members of criminal organisations have links to legal businesses and officials in customs, law enforcement and public administration. 'Corruption is widely used to protect criminal activities and prevent prosecution. Proceeds are often used to expand legal business or to fund media, cultural events or political parties'.

The *2005 Stabilisation and Association Report* urged the authorities to make further progress in implementing measures against organised crime, for example on the operation of the General Department for the Prevention of Money Laundering or the review of legal provisions for the reversal of the burden of proof and asset confiscation. 'Much of Albania's progress thus far, in the area of organised crime in particular, has consisted of putting in place a framework: Albania now needs to build upon that framework and to use it to obtain results'.

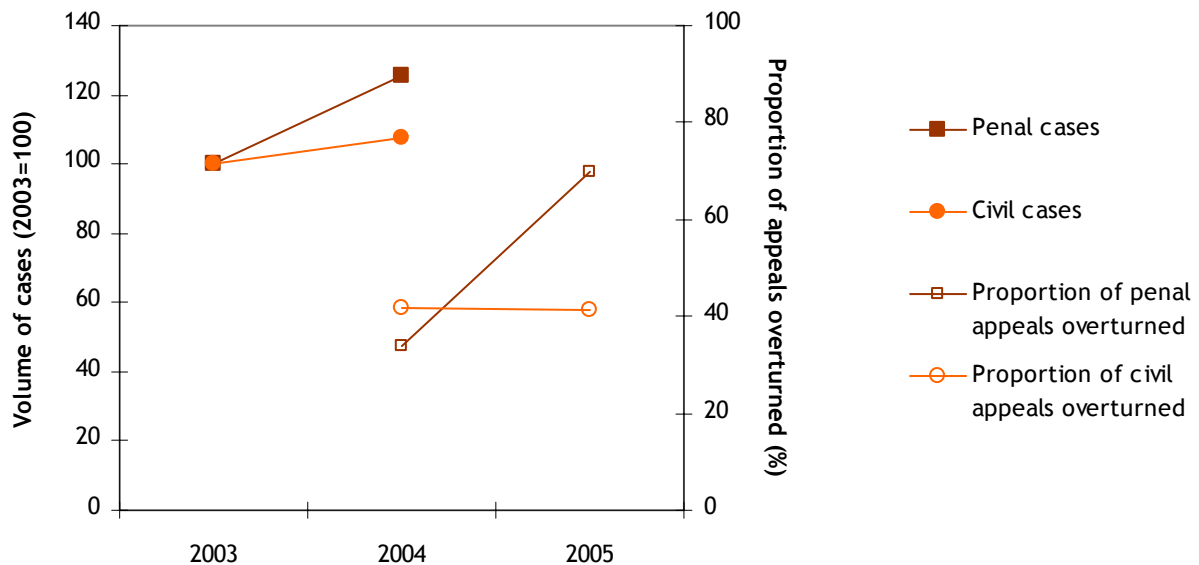
It is very difficult both to describe the scale of the issue and to monitor successes in the control of organised crime. The above figure describes one of the many dimensions of the problem. It shows the relationship between the Transparency International Corruption Perception Index and a standardised measure of recorded criminal offences in selective countries. The more corrupt a country is perceived to be, the more difficult it appears to be to record crime.

In the fight against organised crime in 2005, the prosecution office at the Serious Crime Court recorded an increase of 25% in legal proceedings compared with 2004. During 2004 the Serious Crime Court managed to conclude 53 cases, whereas in 2005 74 cases were completed. This example may be an indication of improved operations in the fight against organised crime.

The government programme aims to reconstruct the main institutions with a substantial role in this field, dismiss any incriminated officials based on evidence, target recognised criminal groups, establish a partnership with specialised international institutions, and amend the Penal Code to establish sentencing rules for these penal offences.

4.3 JUSTICE

Work load and quality of decisions



Source: Ministry of Justice.

In the process of European integration, the judicial system is at the centre of attention. Among others, the European Partnership specified the following priorities for the government in November 2005: increase the transparency of the criminal and civil justice process; guarantee that judges and prosecutors are appointed through competitive examinations; establish a transparent and merit-based system for the evaluation of prosecutors; foster the status, independence and constitutional protection of judges; establish objective rules for the transparent assignment of cases to judges; and ensure credible witness protection.

All these measures can improve the quality of judicial decisions, which depends on conditions such as appropriate organisational aspects and processing capacities, the professional skills of officials, and the judicial infrastructure. Pressures to increase efficiency, in terms of the number of judgements judges are able to deliver in a given time, risk compromising their ability to deliver justice in individual cases. However, measuring the quality of judicial decisions is difficult.

The graph above shows one potential measure of quality: the proportion of original judgements that are overturned at the appeal stage. It shows that an increase in the penal case load between 2003 and 2004 was followed by a sharp increase in the proportion of original judgements that were not upheld between 2004 and 2005.

According to the Ministry of Justice, following a study on the reorganisation of the judicial system in order to address the disproportionate increase of the workload, uneven personnel placements and a high level of judge transfers between courts, a decree has been drafted and sent for review and approval by the President.

5 Economic and human development

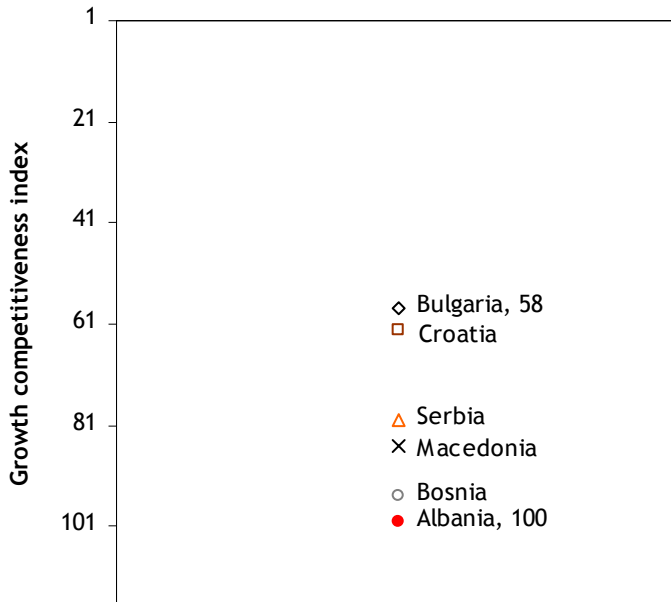
Table 5.1 Key macroeconomic indicators

	Unit	1999	2000	2001	2002	2003	2004	2005
Population	Million	3.05	3.06	3.07	3.09	3.11	3.13	3.14
Inflation (average)	%	0.4	0.0	3.1	5.2	2.4	2.9	2.4
Exchange rate	Lek / \$	137.7	143.7	143.5	140.2	121.9	102.8	99.9
	Lek / €	147.0	132.6	128.5	132.4	137.5	127.7	124.2
Output								
Gross Domestic Product	Lek billion	480.6	533.0	590.3	631.3	714.0	775.9	836.9
Gross Domestic Product	\$ billion	3.5	3.7	4.1	4.5	5.9	7.5	8.4
Real GDP growth	%	13.2	6.5	7.1	4.3	5.7	6.7	5.5
GDP <i>per capita</i>	Lek thousand	157.4	174.1	192.0	204.1	229.5	248.1	266.9
GDP <i>per capita</i>	\$	1143	1212	1339	1456	1883	2414	2673
Public finance								
Total revenue	Lek billion	123.2	130.6	145.6	154.6	167.2	184.4	204.2
Total expenditure	Lek billion	165.7	170.6	186.1	192.5	201.2	222.4	232.3
Overall deficit	Lek billion	-42.5	-40.0	-40.4	-37.9	-33.9	-38.1	-28.2
Total revenue	% GDP	25.6	24.5	24.7	24.5	23.4	23.8	24.4
Total expenditure	% GDP	34.5	32.0	31.5	30.5	28.2	28.7	27.8
Overall deficit	% GDP	-8.8	-7.5	-6.8	-6.0	-4.8	-4.9	-3.4
Internal debt	% GDP	36.9	42.4	40.9	41.3	39.3	38.0	37.7
External debt	% GDP	15.8	16.6	17.0	21.7	20.5	18.4	16.8
Balance of payments								
Trade balance	\$ million	-663	-821	-1027	-1155	-1336	-1592	-1887
Exports	\$ million	275	255	305	330	447	603	652
Imports	\$ million	938	1076	1332	1485	1783	2195	2539
Transfers	\$ million	353	533	571	613	842	1109	1014
Reserves	\$ million	482	608	754	860	1026	1374	1390
Reserves - Import cover	Months	3.8	4.2	4.6	4.4	3.9	4.1	4.6
Trade balance	% GDP	-19.0	-22.1	-25.0	-25.6	-22.8	-21.1	-22.5
Export growth rate	%	32.3	-7.2	19.3	8.4	35.4	34.9	8.1
Import growth rate	%	15.5	14.8	23.7	11.6	20.1	23.1	15.7

Source: Ministry of Finance, Macroeconomic Department

5.1 BUSINESS ENVIRONMENT

Growth competitiveness index (2005-06)



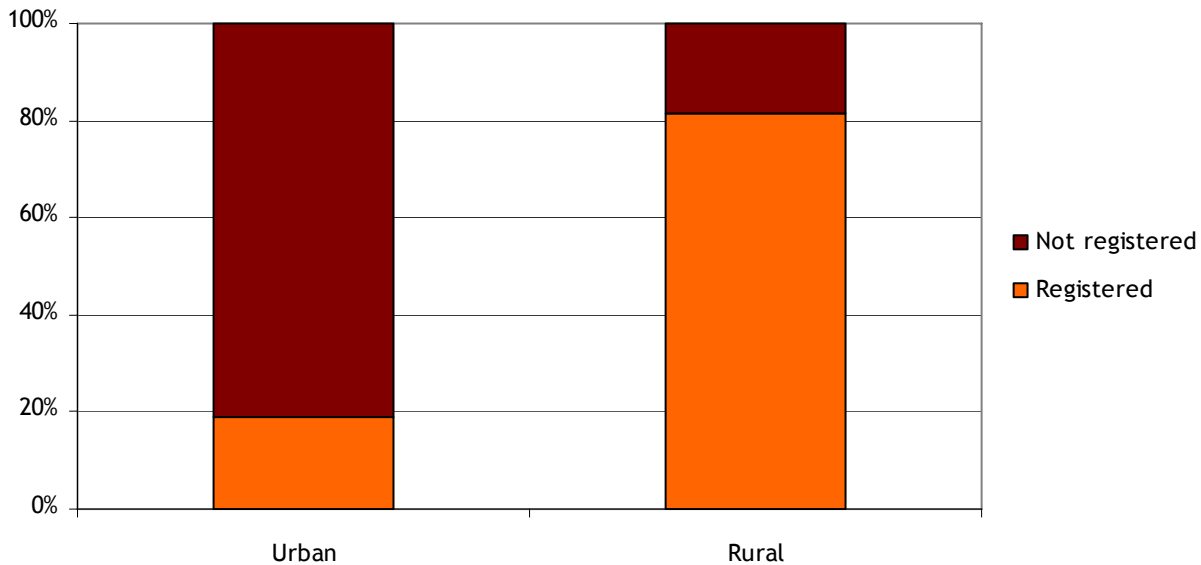
Source: *Global Competitiveness Report 2005-2006*.

The Growth Competitiveness Index included in the *Global Competitiveness Report 2005-2006* of the World Economic Forum is a leading monitor of the competitive condition of economies worldwide. Albania was ranked according to this indicator for the first time in 2005. The Growth Competitiveness Index is composed of three component indexes: the technology index, the public institutions index, and the macroeconomic environment index. These indexes are calculated on the basis of both quantitative evidence and surveys of opinion among business leaders. The Growth Competitiveness Index is calculated as the mean of the three component indexes. Not all countries in the world are ranked. The figure above shows that Albania was ranked 100th out of 117 countries, whereas among neighbouring countries Bulgaria was ranked the highest (58th) and Bosnia and Herzegovina was ranked the lowest (95th).

According to the *Global Competitiveness Report*, corruption, inappropriate infrastructure and a bureaucratic administration are perceived as major obstacles to conducting business in Albania, whereas inflation, the labour market and the exchange rate are less problematic. However, despite this indicator, and when compared with historical data, the competitiveness of the Albanian economy is improving, with positive results in the following directions: improvement of the financial and banking system's capacity to provide credit to the economy; government measures against corruption and the informality of the economy; reduction of fiscal barriers to business; government initiatives to reduce energy prices for business; reduction of social security burden paid by enterprises; regulatory reform that aims to eliminate the administrative barriers and simplify procedures for businesses, especially for registration and licensing; and measures for improving quality, such as certification, accreditation and standards.

Property rights

Cadastral zones where first registration is completed (2005)



Source: Immovable Property Registration Office.

The issue of property rights is pivotal to economic growth in Albania. The continuing uncertainty affects the opportunities for foreign direct investment. There are three areas of policy interest:

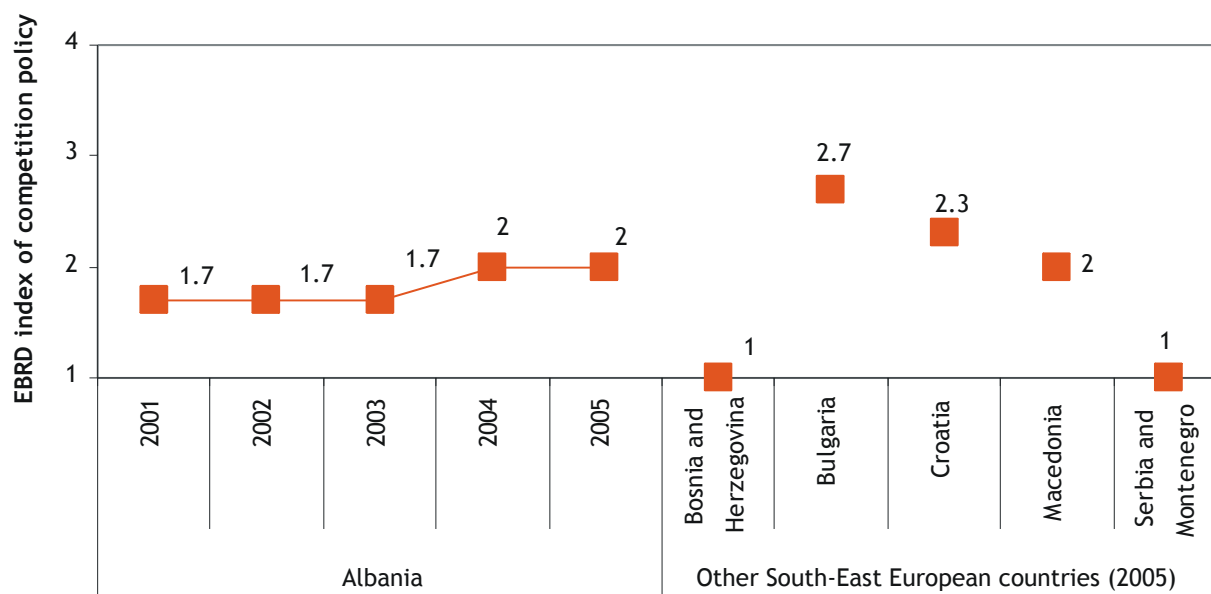
- compensation of property owners and restitution of properties: what are the criteria and what are the types of compensation on offer (and their budgetary implications)?
- land registration: since 1994, there has been an Immovable Property Registration System (IPRS), but its work has not been completed, particularly in high-value areas. This is reflected in the graph above, which shows the limited progress in the registration process in urban cadastral zones. The graph shows that most of the registered properties were located in the 2263 rural cadastre zones out of 3064 zones in all of Albania. Although urban apartment units have been registered occasionally, urban zones registration would not be complete until all the other properties (land parcels and buildings) could undergo systematic first registration. The delays in comprehensive land registration affect the possibility of restitution; and
- legalisation of informal settlements: this pre-supposes progress with the land registration process, such as the mapping of land plots, the registration of claims, and adjudication using historical data.

The government is committed to carry out the restitution and compensation of properties, to consolidate the property rights system and to create opportunities for the legalisation of properties. The registers of property rights will be computerised and the responsible institutions will be strengthened to guarantee their respect.

The reform of the Immovable Property Registration Office has begun with the preparation of necessary legal acts to restructure the authority, to change the service tariffs, and to improve the payment system. The reform is focusing on Tirana, with the aim of utilising this experience in all local offices.

Competition

EBRD index of competition policy



Source: 2005 European Bank of Reconstruction and Development (EBRD) Transition Report.

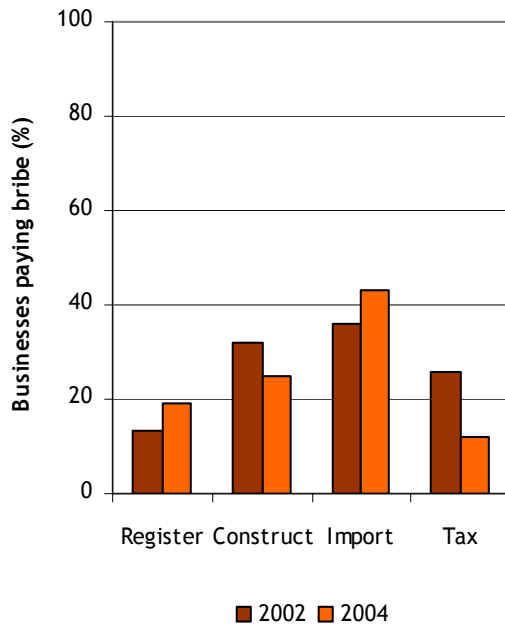
	Competition office	Quality of insolvency law	Secured transactions law	Quality of corporate governance law
Albania	Yes	High	Advanced	Medium
Bosnia and Herzegovina	No	High	Inefficient	Low
Bulgaria	Yes	High	Advanced	Medium
Croatia	Yes	High	Inefficient	Medium
Macedonia	No	Medium	Some defects	High
Serbia and Montenegro	No	High	Some defects	Medium

Source: European Bank of Reconstruction and Development (EBRD) Transition Report.

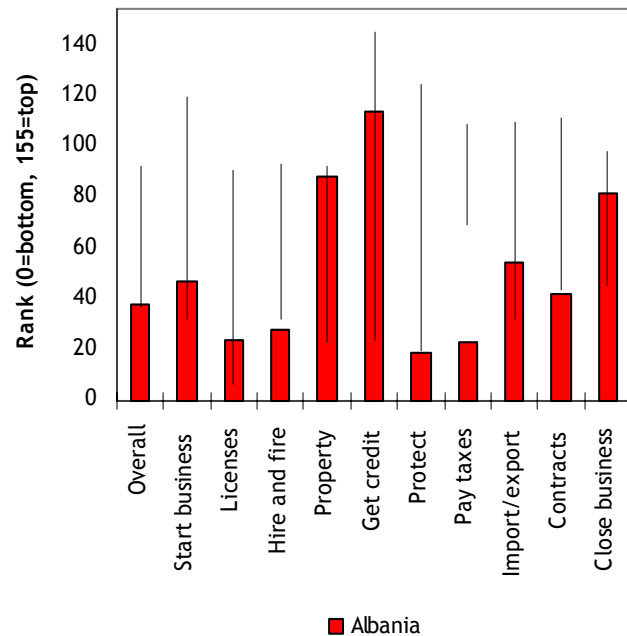
A commonly quoted indicator that evaluates competition policies in transition countries is compiled by the European Bank of Reconstruction and Development (EBRD). The EBRD indicator of competition policy ranges from 1 (= no competition legislation and institutions) to 4+ (= standards and performance typical of advanced industrial economies: effective enforcement of competition policy; unrestricted entry to most markets). The worst performers among neighbouring countries are Bosnia and Herzegovina and Serbia and Montenegro. The score assigned to Albania implies that competition policy legislation and institutions have been set up and that 'some reduction of entry restrictions or enforcement action on dominant firms' has been achieved. Re-establishing the system of fair competition constitutes the basis of government economic policies. The government will undertake legal and institutional reforms, and will establish or empower specialised institutions to guarantee the proper functioning of the market.

Administrative barriers

Selective administrative barriers indicators



Source: Self-assessment survey, Ministry of Economy.



Source: *Doing Business in 2006*, World Bank.

Note: the column represents the position of Albania; the line shows the best and worst performer among Bosnia, Bulgaria, Croatia, Macedonia, and Serbia.

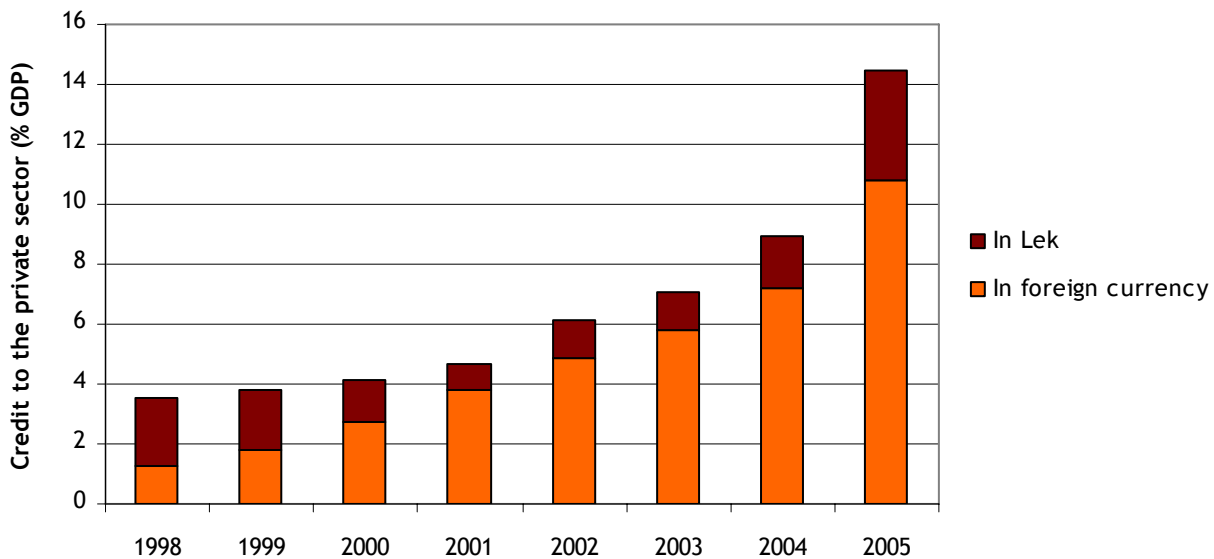
A weak framework for business activity discourages investment. With support from the Foreign Investment Advisory Service (FIAS), the Ministry of Economy conducted a self-evaluation exercise in 2002 and 2004 to evaluate business procedures: registration, licensing, customs, tax, construction, and inspections. The exercise consisted of surveys of state institutions and of 500 private companies, collecting data on administrative barriers and costs. The left-hand panel shows one of the indicators measuring the business problems; the proportion of surveyed businesses that paid a bribe for selective services. At least one-fifth of those businesses admitted paying a bribe for registration and construction and more than two-fifths for imports at the customs. The next self-assessment will take place in 2008.

The right-hand panel compares the ranking of Albania with that of five neighbouring countries (Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, and Serbia and Montenegro) in the World Bank *Doing Business in 2006* survey of 155 countries. This survey follows a different methodology from the self-assessment: it is based on a study of laws and regulations with verification by government officials, lawyers and other professionals. The advantage is that comparisons and benchmarks are valid across countries on an annual basis. However, there are limitations, as some measures involve an element of judgement by the expert respondents. Albania is faring better in areas such as access to credit and closure of businesses, but worse in areas such as investor protection, payment of taxes, and enforcement of contracts.

Improving the business regulatory environment is a priority reform for the government, which approved an action plan in April 2006. The action plan determines four main directions: a managerial system of the regulatory reform; improvement of the existing legal framework through removal of remaining administrative barriers for business; improvement of the quality of the new regulatory framework; and systematic monitoring and evaluation of the regulatory reform.

Credit

Credit to the private sector (% GDP)



Source: Bank of Albania.

In common with other Central and Eastern European countries, there has been a rapid expansion of bank credit to the private sector in Albania in recent years. As the above graph shows, the increase was particularly high in 2005, when private sector credit reached 14.5% of the GDP (even though still among the lowest in the region). Early evidence from 2006 suggests that this is likely to exceed 20%. This is a welcome sign of deepening financial intermediation, itself a predictor of faster economic growth. It suggests the banks' growing management experience, a growing relationship of trust between businesses and banks, improvements in general socioeconomic conditions, and regulatory legislation. There have been changes in the loan composition towards longer-term credit and the proportion of credit in Lek has increased to 25% of the total.

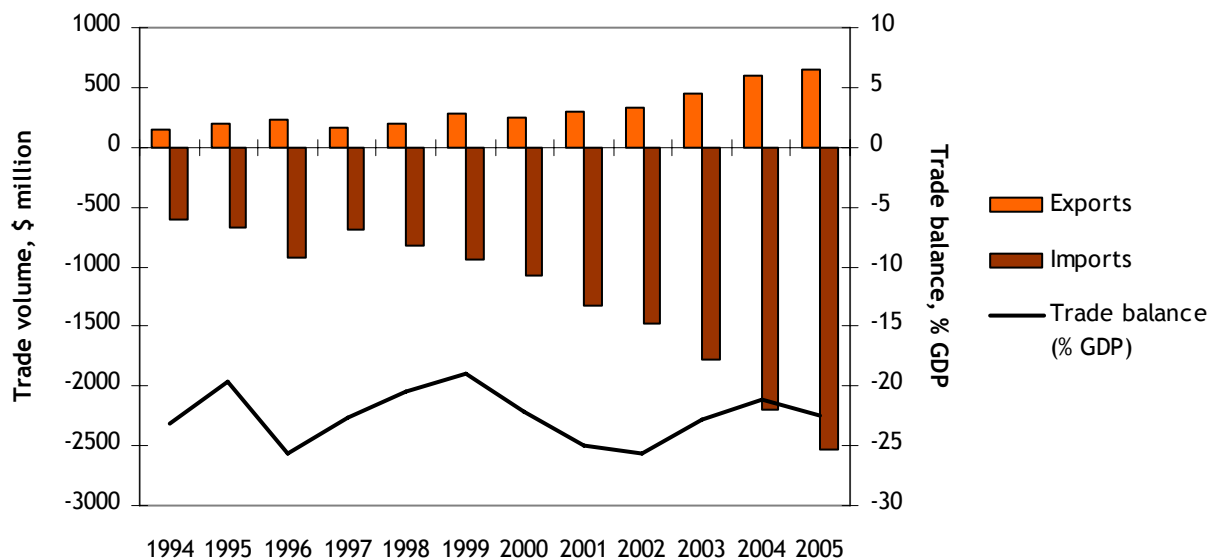
The rapid increase in loans could increase credit risk due to the effect of an expanding portfolio on the ability of banks to monitor and assess risks. The independent supervision of the financial system is a responsibility of the Bank of Albania, which publishes an annual report on the banking system. Its latest report identifies the need to:

- enrich and improve the internal regulatory framework, particularly in new banks;
- tighten the implementation of regulations; and
- further invest in information technology systems.

The Bank of Albania is implementing a supervision development plan, which aims to standardise the supervisory process and to transform supervision into a continuous and proactive process oriented towards risk identification, corrective actions and verification of implementation.

5.2 BALANCE OF PAYMENTS

Trade balance



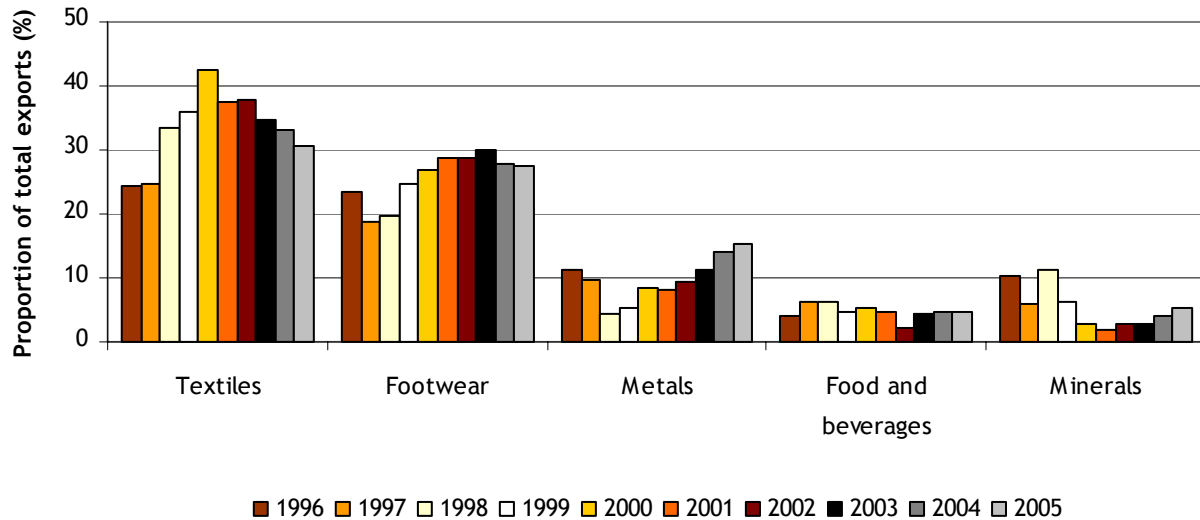
Source: INSTAT

During 2005, the external sector of the economy was characterised by a large negative current account balance caused by a large trade balance deficit. The trade deficit (goods and services) reached 24% of GDP or 4 percentage points higher than the previous year. The deepening of the trade deficit in goods was a consequence of a slowdown in export growth and continuous growth in imports. The export slowdown is considered to be the result of competition in the textile sector and the opening of European markets to China and India. High oil prices in international markets contributed to high import growth, whereas increased lending has also fuelled import demand. However, much of this demand is directed towards capital goods, which is a positive indicator for the level of investment, technological upgrading and productivity growth. The growth of credit activities (new credit to the economy grew on an annual basis by 74%) led to a growth in imports of 16%.

The large trade deficit was financed not only by capital inflows; a considerable part of the current account has been financed by remittances. It is estimated that just over 80% of the inflow of current transfers (of about €1 billion) is contributed by Albanian migrants. The net capital inflow reached €424 million, which financed 71.3% of the current deficit and increased foreign exchange reserves to €125 million.

Export structure

Composition of exports



Source: Albanian Center for International Trade, various annual foreign trade reports.

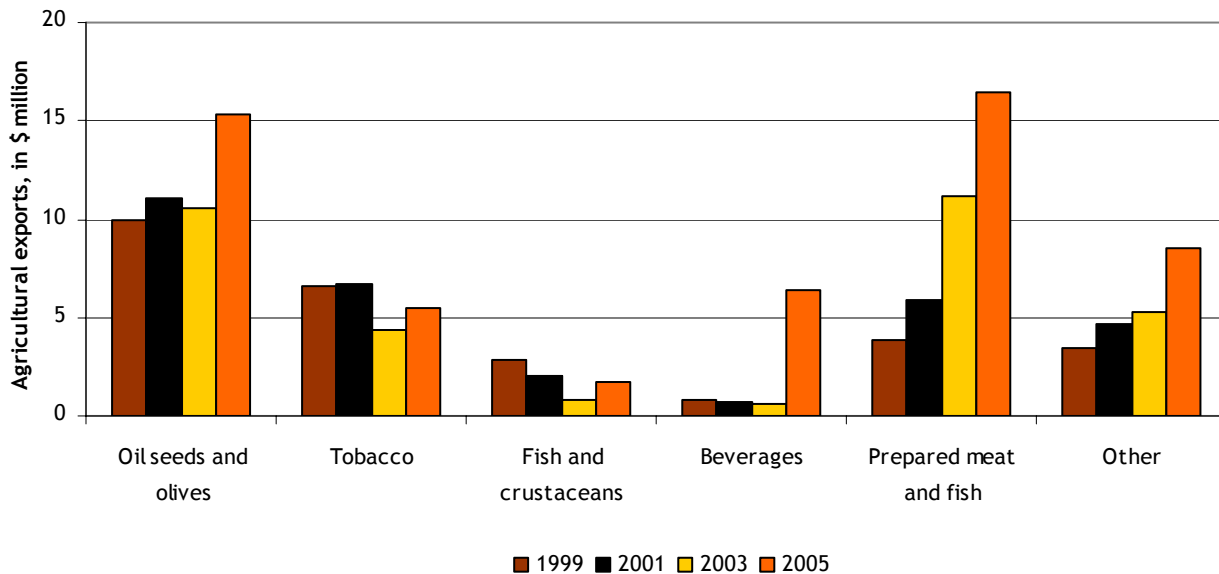
The trade deficit has exceeded 20% of GDP since 2000 and it grew in 2005 because the export growth rate slowed down (from 35% in 2004 to 8% in 2005). Export activity is concentrated in five sectors, although there have been changes in recent years. Textile exports peaked in 2000, but their relative share has been declining since. Mineral (petroleum oils) and metal (chromium and locks) exports were declining throughout the 1990s, but have returned to positive growth.

Export of footwear, which enjoyed a rapid growth in the late 1990s, has remained constant since 2000. All exports from this sector during 2004 were directed to Italy from where they are often re-exported. The potential for increasing footwear exports to European markets is substantial as a result of geographic advantages and cheap labour.

The Government Programme identifies exports as one of the main sources of future growth for the Albanian economy and sets out various policies for encouraging exports, including: the strengthening of standards and quality control; tax breaks for exporters; encouraging export-oriented foreign direct investment; and the continuation of the policy of trade opening through the implementation of free trade agreements. The government is working in the direction of improved infrastructure to lower the operating costs of businesses, financing and crediting products with export potential, setting up schemes to guarantee exports, and developing accredited laboratories. In addition, ongoing efforts are being made to set up the Agency for Export Credit, a new financial institution to provide security and guarantees to exporting companies, to increase capacities for investing in export production, and to support improvement in the business climate.

Agribusiness

Main agricultural exports



Source: Albanian Center for International Trade, various annual foreign trade reports.

The government considers agriculture and particularly agro-industry as one of the three priority fields for economic development over the next 10-15 years. The agricultural sector covers about 25% of GDP and close to 50% of the population lives in rural areas. The sector is currently under-developed and only a small share of domestic agricultural production is processed. Growth is hampered by poor infrastructure, weak marketing systems and poorly-defined property rights connected to the absence of an efficient market for land. Although support to farmers has been quite low until now, an improvement in the agro-processing sector has been seen in recent years, notably for livestock, olive, seed and vegetable production.

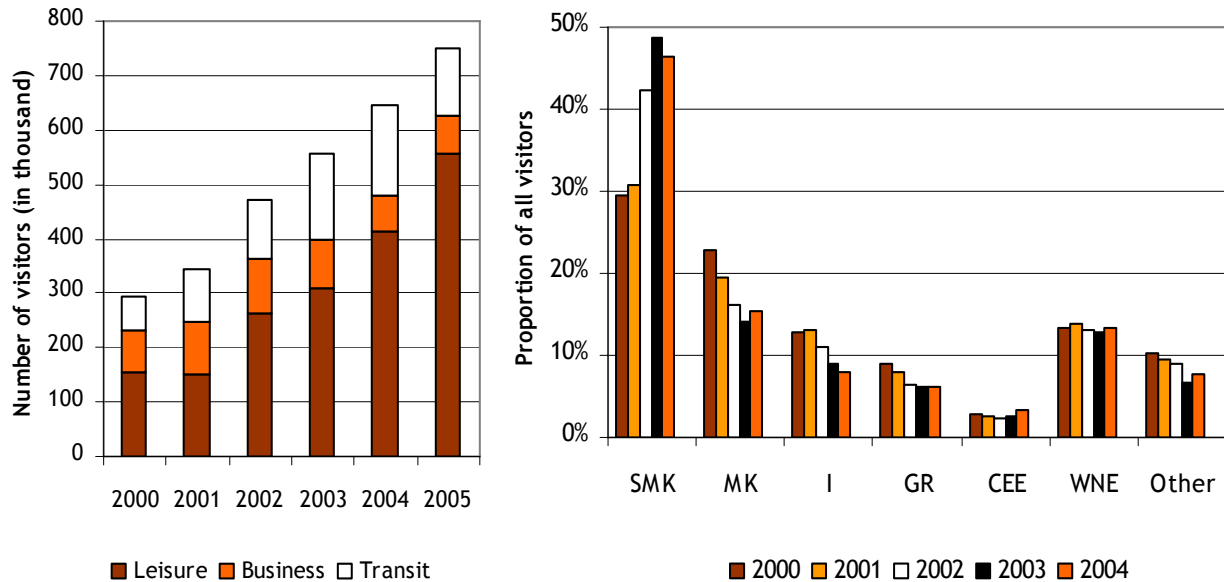
The graph above shows trends in exports for key agricultural products. Exports of olives and beverages experienced rapid increases in 2005, whereas exports of prepared meat and fish continued their increasing path, which has seen the export level quadruple in seven years. On the contrary, the 2005 export levels of tobacco and fish remain lower than in 1999. Overall, agricultural exports have almost doubled between 2000 (\$28 million) and 2005 (\$54 million), although their share in total exports has declined from 11% to 8%.

The Government Programme considers a shift from subsistence to market-oriented agriculture underpinned by the development of agro-industry as a key aim. Planned policy interventions include land titling to pave the way for the efficient operation of a land market, investments in farming infrastructure and the expansion of extension services. The development of agro-industry, which is critical to improving the balance of food trade, will be encouraged with tax incentives for new agro-industrial enterprises. In addition, the government plans to develop a network of vocational schools supporting agriculture and agro-industry.

The Ministry of Agriculture, Food and Consumer Protection is developing and will implement policies on food safety, reduced VAT, abattoirs, water and sanitation. Special attention and investment funds will be given to viticulture, and other supporting schemes will be provided to the priority sectors of olive, vegetable and livestock production.

Tourism

Number and origin of visitors



Source: INSTAT.

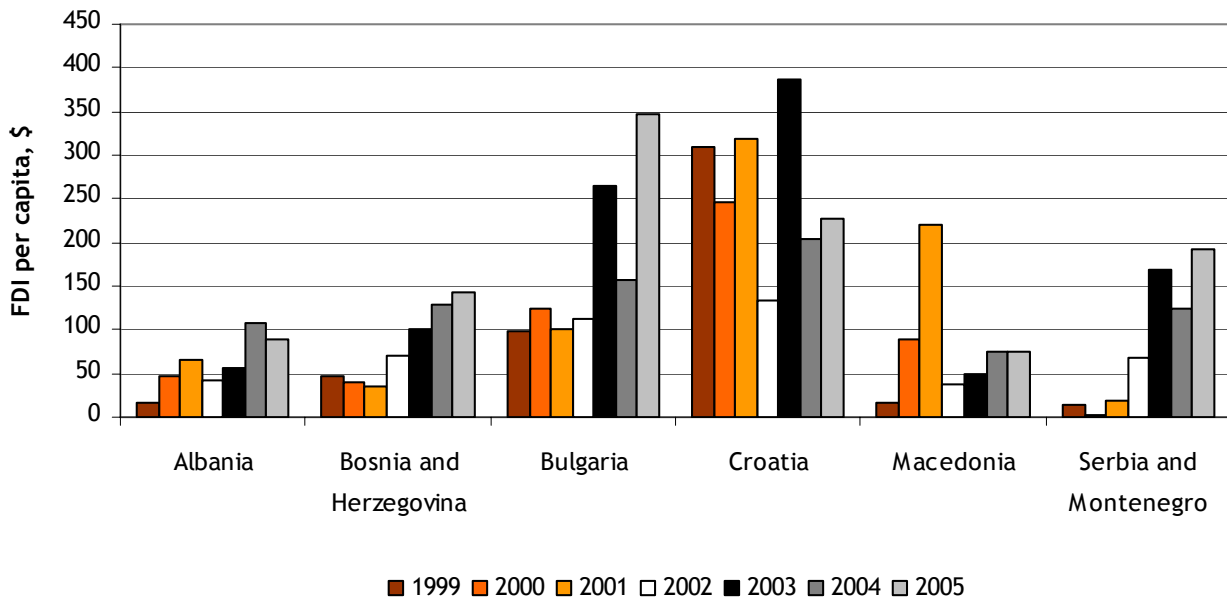
Despite its great potential, the tourism sector remains under-developed, hampered by poor infrastructure, ill-defined property rights and weak enforcement of construction regulations. Two sets of indicators are presented above. In the left-hand panel, the total number of visitors per year is broken down by purpose: leisure, business and transit. The data are collected on the basis of quarterly sample surveys conducted at border points. The total number of visitors rose by 135% between 2000 and 2005. The share of visitors who came to Albania for leisure increased from 50% in 2000 to 75% in 2005. According to the Bank of Albania estimates for 2005, tourism services generated €692 million, an amount that exceeds exports of goods by about 30%. The increase was not caused only by the increase in the flow of foreign visitors but also by the expenditure of emigrants visiting Albania. In addition, the Bank of Albania has estimated that the average daily expenditure level of each visitor has increased slightly.

The right-hand panel presents a breakdown of the visitors by country of origin. The available official statistics group together visitors from Serbia, Montenegro and Kosovo (SMK). Within this group, visitors from Kosovo are the overwhelming majority and represent a growing share of all visitors, accounting for almost 50% in 2004, up from 30% in 2000. In contrast, the share of visitors from Macedonia (MK), Italy (I), and Greece (GR) has been falling. An interesting trend is that the shares of visitors from Western and Northern European as well as Central and Eastern European countries, which are a long-term target group according to the tourism strategy, have remained stable.

The Government Programme cites tourism as one of the three sectors with the most potential to contribute to sustained long-term economic growth. The government targets special interest (environmental and cultural) tourism, combined with sun and beach tourism, and business tourism. In order to ensure a sustainable long-term growth of tourism, the government stresses the importance of an integrated management of cultural and natural heritage. The 2002 strategy of tourism and the 2006 strategy of cultural and environmental tourism, currently being implemented, are backed through policy instruments, such as the action plan for the development of the tourism sector, and through the implementation of the Integrated Coastal Zone Management project. The tourism strategy has set the following targets for the sector by 2012: 1.25 million visitors and 15% contribution to GDP.

Foreign investment

Foreign direct investment *per capita* (\$)



Source: 2005 European Bank of Reconstruction and Development (EBRD) Transition Report.

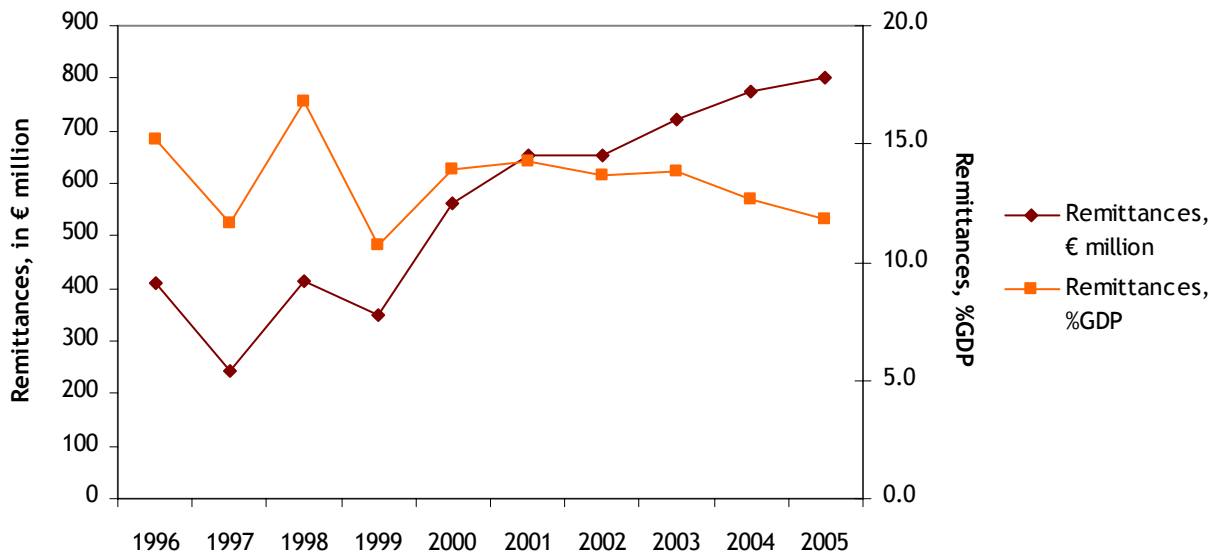
'Albania - the most attractive country for foreign investments in the region and beyond', is a key message of the Government Programme. Albania's poor business climate, the result of administrative barriers, corruption and state capture, weak regulation and high political risk, are potential factors explaining why the country has a relatively low level of foreign direct investment (FDI). The graph above shows the level of FDI *per capita* in Albania according to the data of the 2005 EBRD Transition Report, which allow a comparison with neighbouring countries. Within this group, Bulgaria had the highest rate of FDI *per capita* (\$346). After Macedonia, Albania had the lowest levels of foreign direct investment in the region in 2005. The official data on FDI in Albania are calculated by the Bank of Albania and the methods are constantly being improved to capture, for example, investments in real estate by emigrants paid directly to construction companies. According to the Bank of Albania, the total volume of FDI fell by 24% between 2004 and 2005 from €278 million to €213 million.

The government programme of 2005 sets out four major policy priorities for attracting higher volumes of foreign direct investment. First, democracy and the rule of law must be strengthened and the corruption brought under control. Secondly, the government will foster an enabling market environment by reducing administrative barriers, modernising the financial sector, developing infrastructure and human resources and achieving macroeconomic stability. Thirdly, industrial parks will be established and tax incentives offered to investors. Finally, market regulation will be improved to help the operation of fair and efficient markets with low entry barriers. Property rights will be guaranteed.

A series of measures has been taken to ensure equal opportunities for foreign and domestic investors. In particular, in early 2006, registration fees payable by foreign investors at courts were made equal to those paid by Albanian investors, while solicitors' fees were equalised for Albanian and foreign investors in late 2005. The Ministry of Economy, Trade and Energy is developing a law for the promotion of investment in Albania. The newly established Business and Investment Agency - Albinvest - is reviewing its strategy for promotion of foreign investment and is carrying out studies in sectors with investment potential.

Remittances

Volume of remittances (€ million)



Source: Bank of Albania.

Recorded remittances far exceed inflows from foreign direct investment. Estimating the amount of remittances is complicated by the fact that a substantial amount is not channelled through the formal banking system. The Bank of Albania calculates remittances as the sum of remittances recorded through the banking system and Western Union and of estimated remittances outside these channels using a methodology developed in collaboration with the International Monetary Fund (IMF).

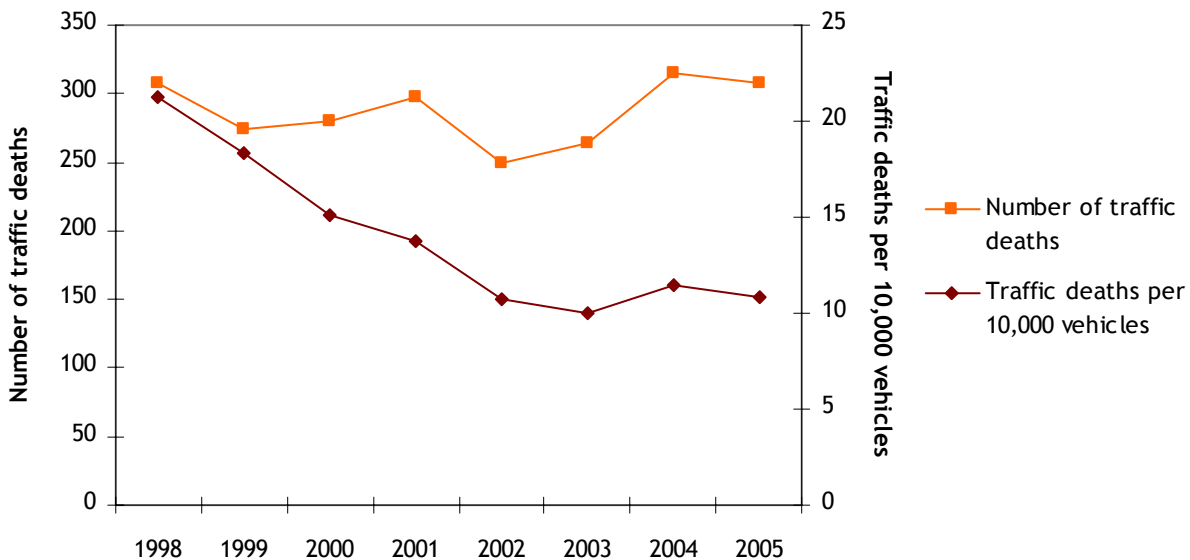
The graph above shows that the absolute volume of remittances has been increasing just as their relative volume as share of GDP has been declining since 2003. The total amount of remittances in 2005 reached €802 million or 11.6% of GDP.

Remittances have helped to finance imports and driven fast expansion of the construction and service sectors. Their full impact has not been reaped and they are still largely used to pay for domestic consumption and the construction of dwellings rather than contributing to savings and investment. Given the size of remittances and the fact that flows may reduce as recent emigrants become more integrated into their host countries, the government has made the development of a coherent policy on remittances a priority. The main aims of planned interventions in this area are to increase the flow of remittances through formal channels and to enhance their development impact. The first of these requires the provision of better banking services with financial products tailored to emigrants. As part of this, incentives for emigrants, such as remittance bonds and premium interest rate accounts, could be considered. A greater development impact depends on attracting more remittances into the formal banking sector and requires building stronger linkages between remittances and investment. In particular, small and medium-sized enterprises could benefit from remittances if funds were channelled into loan or micro-credit schemes. This would be aided by strengthening connections with the diaspora as to better inform Albanians living abroad about new investment opportunities in Albania.

5.3 INFRASTRUCTURE

Road transport

Mortality from car accidents



Source: INSTAT

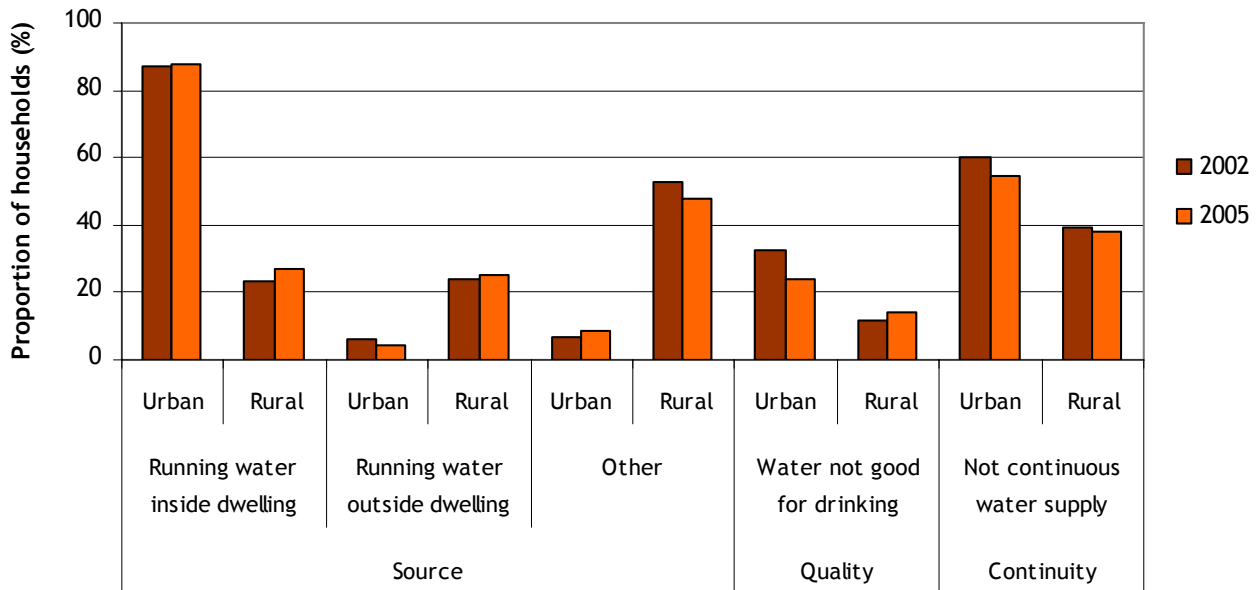
The graph above shows the mortality rate from car accidents. The number of deaths has remained broadly constant. A common indicator to allow comparison across countries tries to standardise the fatalities by the number of vehicles that circulate in the road network. As the number of vehicles has been increasing (from 145,000 to 285,000 between 1998 and 2005), the rate of deaths from traffic accidents has been falling. However, this rate is still double the average of neighbouring countries, such as Bulgaria, Croatia, Macedonia and Serbia.

It must be stressed that the statistic measuring the number of vehicles includes only those vehicles with Albanian number plates. The Traffic Incident Management System (TIMS) software of the Ministry of Interior calculates that there are, in addition, approximately 50,000 vehicles with foreign number plates travelling on Albanian roads on any given day. Incorporating these vehicles would reduce the death rate from 10.8 to 9.2 people per 10,000 vehicles. On the other hand, the number of deaths includes only those occurring at the site of the accident and may therefore be underestimate the total death toll.

Reducing road accidents requires identification and prevention of unlawful driving, improvement of enforcement of traffic regulations, introduction and enforcement of a vehicle inspection system, elimination of unsafe places on the roads (black spots), improvement of access to medical help, and strengthening of education and publicity campaigns. Future measures aim to bring road conditions and traffic signals into line with European standards. The quality of vehicle technical controls will increase through the completion of the control centres with modern equipment. Road auditing procedures will be used from the design through to the construction of new roads. Traffic discipline will be improved by issuing licenses based on clear and fair testing procedures, and by educating the public, particularly school children, about traffic rules. The road police, in cooperation with the municipal police, will properly enforce traffic regulations.

Water

Source and quality of water supply



Source: INSTAT, Living Standard Measurement Survey (LSMS).

The antiquated state of the water infrastructure is an obstacle to economic growth and contributes to lower living standards. The Living Standard Measurement Survey (LSMS) is a useful source of information for the period 2002-05 and highlights differences between urban and rural areas.

In terms of the *source* of water supply, households have been asked whether they had running water (inside or outside the dwelling). Urban households are far more likely to have running water inside their dwelling. However, there have been no major improvements in the last three years. By 2005, the proportion of households with running water inside their dwelling was 87% in urban areas and 27% in rural areas. Other sources of water for rural households include springs, wells or public taps.

In terms of water *quality*, the proportion of households reporting that their water was not fit for drinking was higher in urban areas but had dropped by 9 percentage points in the last three years (24% in 2005). In contrast, the proportion of households reporting that their water was not good for drinking appears not to have fallen in rural areas. The share of households boiling their drinking water fell between 2002 and 2005 in both urban and rural areas.

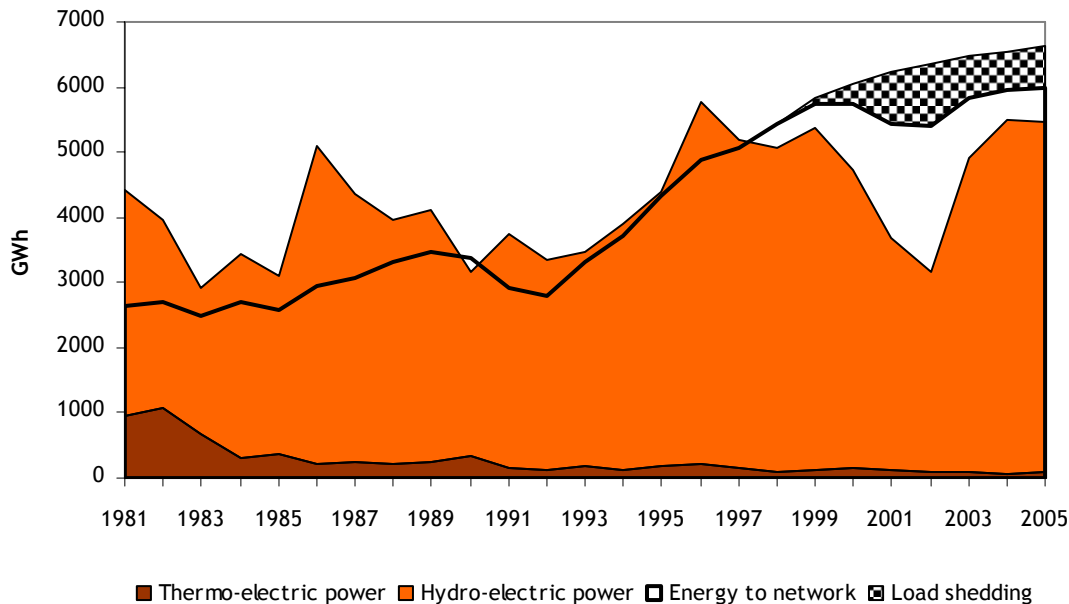
In terms of the *continuity* of water supply, more than half of urban households had intermittent provision. The proportion of rural households with continuous water supply has not changed in the last three years (62% in 2005). The LSMS also shows that poor households were less likely than non-poor households to have running water or a continuous supply.

According to data from the Ministry of Public Works, Transport and Telecommunications, water production increased by 75% between 2002 and 2005, while invoice receipts grew by 94%.

According to the Government Programme, starting from 2007, further developments in the water and sanitation infrastructure will be based on the decentralisation policy, whereby the responsibility will be handed over to local government, which in turn will also be responsible for promoting greater participation of the private sector in the provision of water and sanitation services.

Energy

Production and distribution of electricity (GWh)



Source: KESH.

During 2005, there was further progress in the energy sector through organisational and legal reforms and through investment in the production, transmission and distribution networks, but the energy crisis at the end of 2005 showed the imbalanced nature of the energy system.

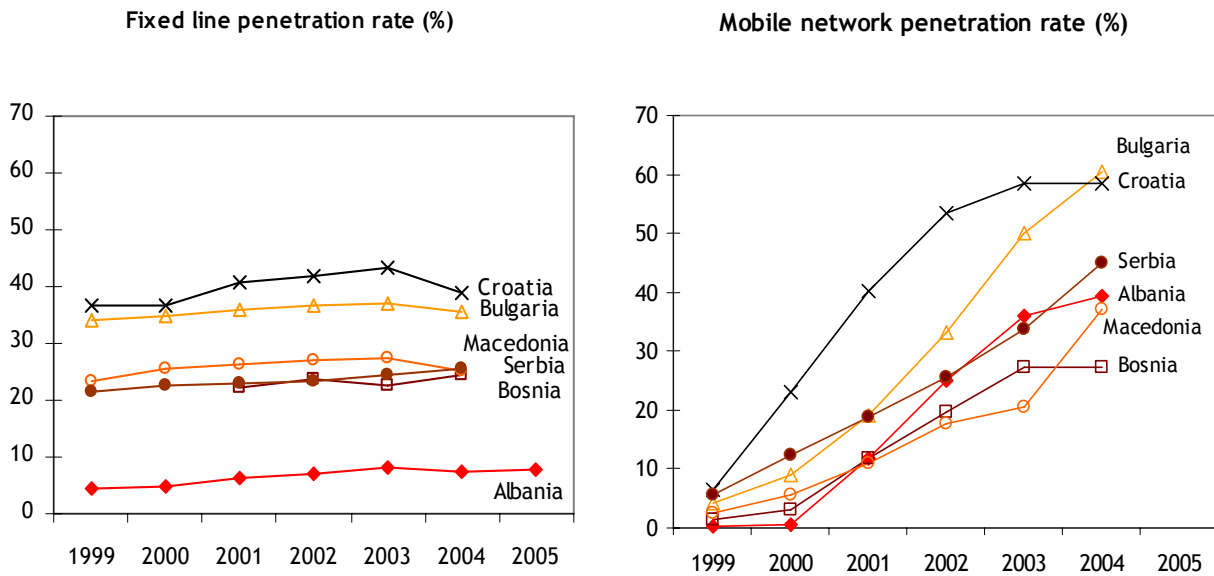
The graph above presents the key features of the electricity sector. The coloured area shows the total amount of energy produced. Essentially all electricity in Albania is produced by hydro-electric plants. Production has not grown in the last ten years and unfavourable weather conditions led to a marked decline between 1999 and 2002. The thick line shows the amount of energy that was provided to the network. The fact that it is below the level of production until the late 1990s means that Albania was able to export electricity. Since then, and due to increasing demand, Albania has been an importer of electricity. In fact, since 1999 the phenomenon of load shedding has been observed (chequered area above the thick line); in other words, electricity has been cut off on certain lines when demand exceeded supply from domestic and imported sources. This unfavourable situation is likely to continue until new investments in generation capacity are made.

An efficient energy sector is critical to Albania's long-term economic growth and diversification. However, the sector suffers from high loss levels. Limited price liberalisation has led to inefficient patterns of energy use. In addition, as existing energy sources have dwindled, there has been limited success in finding new sources through production sharing agreements.

The Government Programme aims to guarantee uninterrupted energy supply by 2007 and to eliminate regional disparities in power provision. The government has also committed to make energy use more efficient by installing electricity meters and to improve financial and administrative discipline within the Albanian Electricity Corporation (KESH). In compliance with European Union guidelines, the Electricity Sector Policy Document envisages reforms to restructure KESH, legal and tax reforms, and reforms to strengthen the overall electricity system.

Telecommunications

Fixed and mobile telephone network



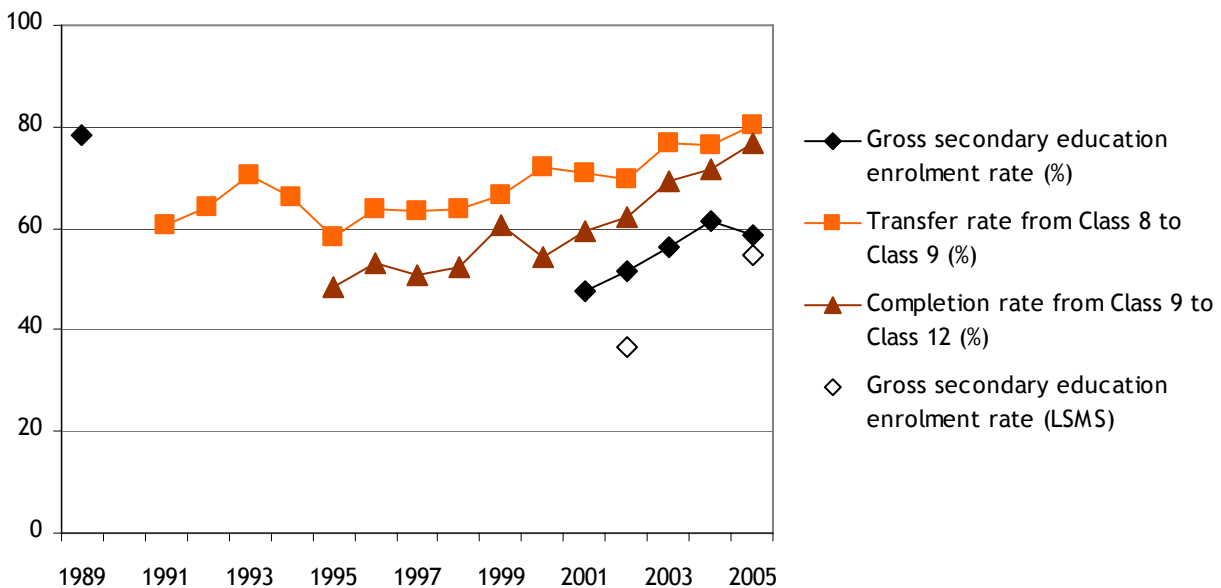
Source: INSTAT; 2005 *European Bank of Reconstruction and Development (EBRD) Transition Report*

One of the main legacies of Albania's isolation until 1991 was the poor condition of the telecommunications infrastructure. The left-hand panel of the graph above shows the number of fixed telephone line connections as a proportion of the total population. The penetration rate remains below 8% in Albania, which is almost one-fifth of the rate in some neighbouring countries, such as Bulgaria and Croatia, and one-third of the rate in Bosnia and Herzegovina, Macedonia, and Serbia and Montenegro. The right-hand panel shows the dynamism of the mobile telecommunications sector in the region and particularly in Albania, which was the last country to have a network developed.

The Ministry of Public Works, Transport and Telecommunications has started the procedure to amend the law on telecommunications, which is expected to ensure full liberalisation. At the same time, other sub-legal acts will introduce a service classification to reflect technological changes. Within six months, a new law is expected on electronic communications, which will reflect European Union directives.

5.4 EDUCATION

Selected secondary education indicators



Source: INSTAT.

One of the main socioeconomic characteristics distinguishing Albania from other countries in the region that have recently achieved European Union membership is the very low level of educational attainment. As shown in the graph above, unlike economic performance indicators, education performance indicators have yet to recover to the pre-transition level.

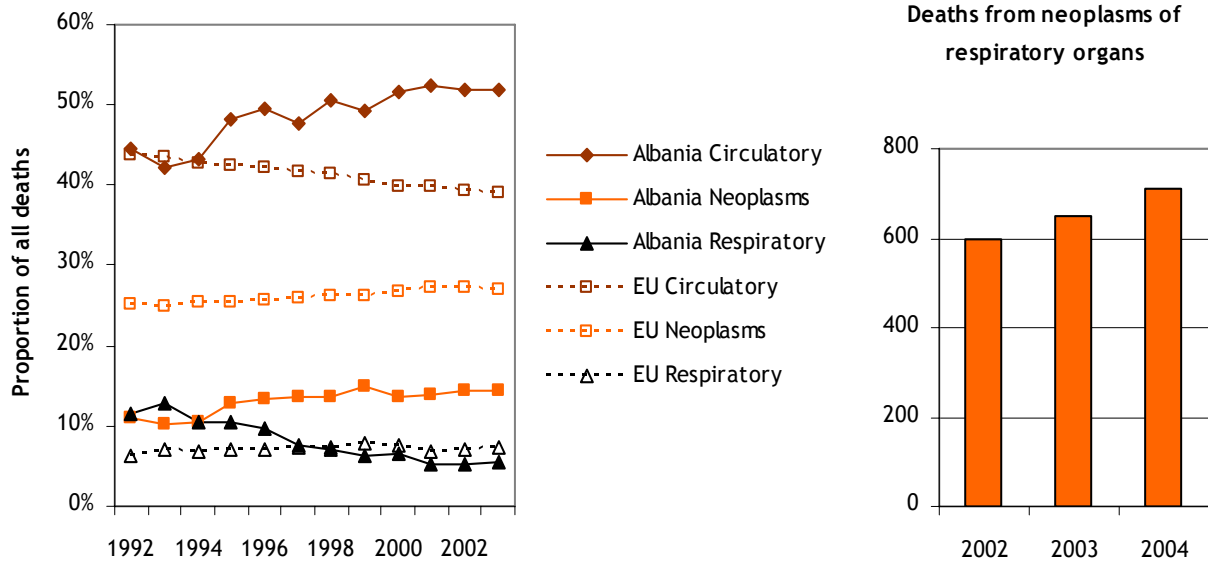
Gross secondary education enrolment rate is the number of students who attend Classes 9-12 relative to the theoretical population in the respective school-age group (14-17-year-olds). Starting from a gross enrolment rate of 78% in 1989, enrolment in secondary education is still at only three-quarters of the pre-transition level. Despite a strong increasing trend in recent years, a decrease was observed in 2005 to below 60%. The figure also shows the gross secondary education enrolment rate estimate according to the LSMS. Household survey estimates differ from administrative data if children enrol in school at the beginning of the school year but drop out later. The closing gap between the administrative and household survey data suggests an improvement in secondary education conditions.

The low enrolment share can be broken down to two components, which are also shown in the graph above. First, the proportion of students who continue to secondary education following completion of basic compulsory education (Classes 1-8) has stagnated in the last three years at about 80%. Secondly, the proportion of students who enrol at Class 9 and successfully complete secondary education four years later has been increasing steadily and is now approaching 80%.

Policies that aim to increase access to schooling include: rationalising school distribution; implementing modern curricula; reporting and evaluating; and social policies in poor areas. Policies to increase quality of teaching are linked to a four-year agreement with the World Bank. The project has the following main directions: strengthening leadership, management and governance in the education system; improving teaching and learning conditions; and improving school infrastructure.

5.5 HEALTH

Main causes of death, Albania and EU



Source: WHO Health for All database; INSTAT Causes of deaths 2004.

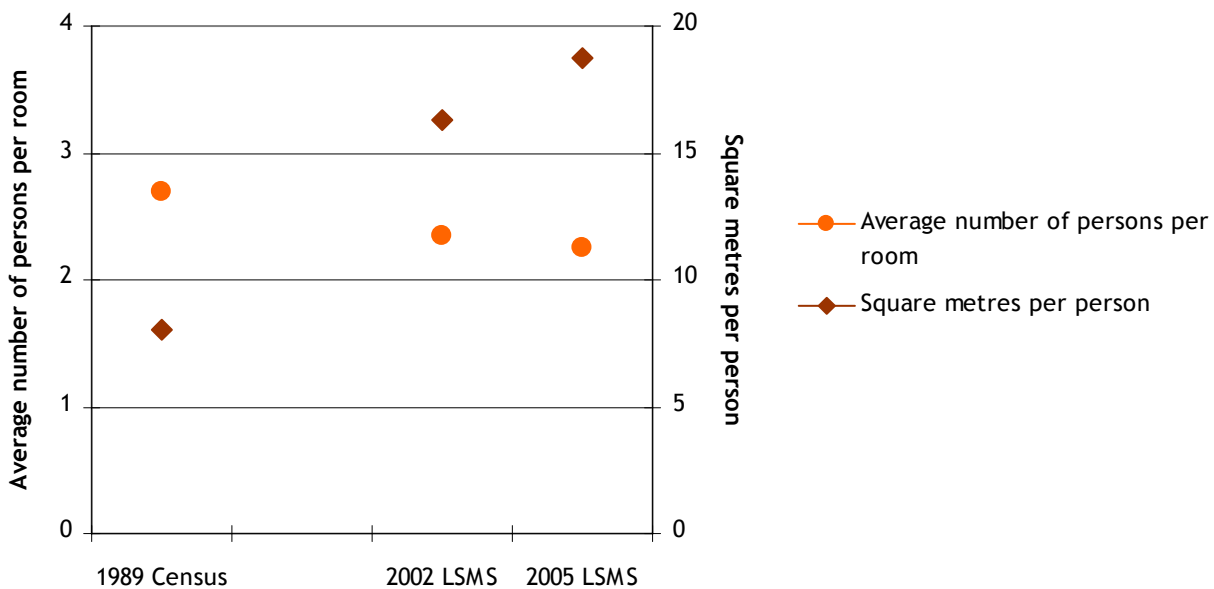
The left-hand panel shows the proportion of all deaths attributed to the three major causes and compares the evolution in patterns between Albania and the EU countries. There has been a significant shift in the causes of death during the transition period. Cardiovascular diseases and cancer now account for about two-thirds of all reported deaths and are the leading causes of death among the adult population. Deaths due to cancers and cardiovascular diseases increased by 3 and 7 percentage points, respectively, between 1992 and 2003. It must be stressed that the above trends are in all probability affected largely by the demographic transition, in other words the increase in the average age of the population as a result of declining fertility and longer life expectancy. However, evidence on causes of mortality by specific age groups also confirms that adult circulatory and cancer death rates are continuously increasing among the middle-aged.

The right-hand panel shows the number of deaths due to cancer of the respiratory organs during the three-year period 2002-04. Cancer death rates remain below those of other EU countries. However, lung cancer deaths for men, as well as breast cancer deaths for women, are likely to increase in the years to come, given the high incidence of tobacco use. A major household survey on tobacco use conducted between October 1999 and May 2000 according to World Health Organisation (WHO) guidelines showed that 60% of males and 18% of females aged 15 or above were smoking. Although subsequent surveys in 2002 and 2004 showed slightly lower prevalence rates, the overall conclusion is that smoking rates are very high.

These changes in the epidemiological profile of Albanians call for a shift of emphasis toward preventive health care. The Ministry of Health and the Institute of Public Health have started an effort to promote the prevention of cardiovascular diseases through primary care services. A working group for the fight against cancer has also been established and is working on a long-term cancer control project in collaboration with WHO. Considerable efforts were made in 2005 to raise the awareness of policy makers for the need to ratify the Tobacco Control Convention in the framework of a social cohesion initiative of the Stability Pact.

5.6 HOUSING

Indicators of housing quantity



Source: Albania housing sector country profile 2002; INSTAT LSMS

At the end of the communist era, Albania had one of the lowest levels of housing provision in Europe. During the transition period there has been a rapid increase in construction activity. Improvements in the quality of the housing stock manifest themselves in many different ways, such as improved building materials used, more frequent maintenance, and access to amenities.

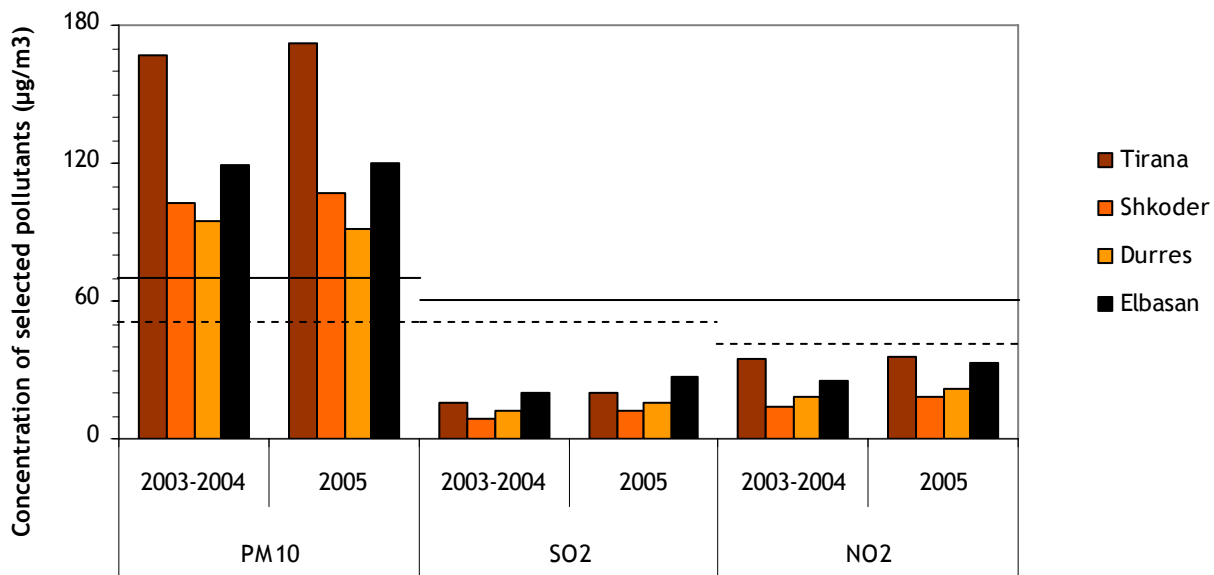
The above figure shows two indicators of housing quantity. The first is the average number of persons per room. According to the 1989 census data, there were 2.7 people per room. The 2002 LSMS and the 2005 LSMS show that density has eased down to 2.25 people per room, although it remains much higher than in the rest of Europe. The ratio ranges between 0.5 and 1 in Western European countries and between 1 and 1.5 in Central and Eastern European countries.

The second is the size of housing per person in square metres. This is an indicator that is also affected by pressure factors such as land prices and availability. The 2002 LSMS and the 2005 LSMS show that the dwelling area has increased to almost 20 m² per person, an increase of almost 3 m² *per capita* compared with 2002, which brings it within the usual range of Central and Eastern European countries. The dwelling area ranges between 25 and 50 m² per person in Western European countries. Despite improvements in living area per person, overcrowdedness remains a persisting problem indicating the need for housing.

Current policies aim at closing the gap between demand and supply for housing. Available instruments to increase housing affordability consist of providing construction sites equipped with suitable infrastructure to facilitate the development of new residential areas in densely populated urban land. Policies for the provision of housing to low income groups include social housing and involving citizens in housing construction at sites provided with suitable infrastructure. One of the mid-term priorities is to determine new standards relating to the housing policy. Within this framework, the right to shelter will be reviewed according to international standards and the average financial condition of a typical household will be reviewed in order to assess their ability to afford housing.

5.7 ENVIRONMENT

Air quality ($\mu\text{g}/\text{m}^3$)



Source: Ministry of Environment; the air quality standard is $60 \mu\text{g}/\text{m}^3$

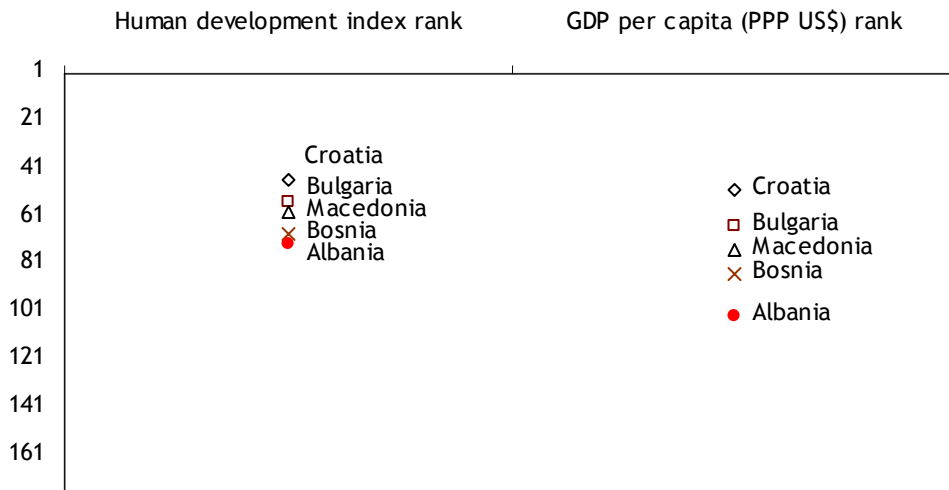
The system of environmental monitoring is determined by the Council of Ministers Decision 103 (March 2002). According to the decision, the Ministry of Environment, Forests and Water Administration is obliged to publish a report on the state of the environment every two years, which will present, comment upon and analyse the approved environmental indicators and make recommendations for improving environmental conditions. The 2003-04 State of the Environment report is currently being processed. As part of the system, the Institute of Public Health monitors and reports to the Ministry of Environment, Forests and Water Administration the levels of six air pollutants in different locations of seven cities: Tirana, Durres, Elbasan, Fier, Vlora, Korca and Shkodra.

The graph above presents the average yearly concentration in four cities of three air pollutants: PM10 (fine particles) measures dust produced by fuel emissions and construction activity; SO₂ (sulphur dioxide) is a pollutant generated primarily by motor vehicle fuel emissions and industrial activity; and NO₂ (nitrogen dioxide) is a pollutant generated by motor vehicle fuel emissions. The national standards on environmental air quality have been approved by the Council of Ministers Decision 803 (December 2003) and are shown as horizontal bars. These standards are set above EU standards and will be adjusted downwards over time. The EU/WHO guideline values are shown with horizontal dashed bars. The graph shows that the fine particle levels exceed significantly the minimum standard, whereas the sulphur dioxide and nitrogen dioxide levels are below the minimum standard. The figures for Tirana and Elbasan are averages over a number of measurement stations. The figures show that vehicles, in particular those that are in use in Albania, have substituted completely the industrial plants as air polluting factors since 1990. This means that the country is facing a more complex air pollution problem, as emission heights of the vehicle discharges are at breathing level and the level of pollutants is higher than normal due to the old age of the vehicle fleet and the fact that diesel engines predominate.

Policies to reduce air pollution will include strengthening of the monitoring system (equipment, automatic stations, frequency of monitoring) and technical controls of vehicles. Two new monitoring stations have been set up in Tirana, whereas the frequency of monitoring has been increased to 16 days per month. The Ministry of Environment, Forests and Water Administration has prepared proposals that aim to improve the quality of oil and petrol.

6 Social role of the state

Human development index



Source: *Human Development Report 2005*.

The human development index (HDI) is a comparative indicator of well-being, which combines the average achievements in a country in three basic dimensions of human development:

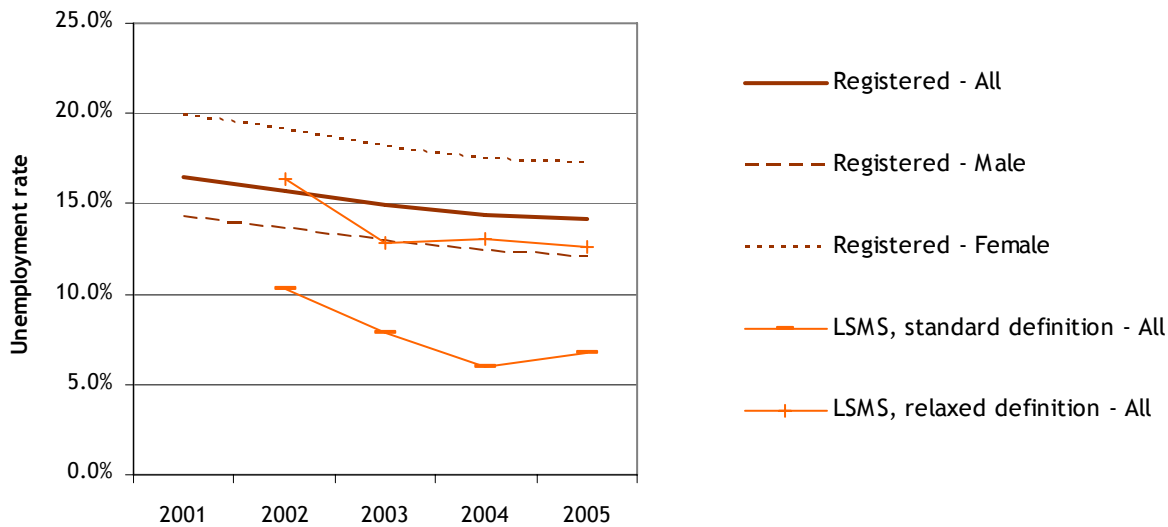
- a long and healthy life, as measured by life expectancy at birth;
- knowledge, as measured by the adult literacy rate and the combined gross enrolment ratio at the three educational levels; and
- standards of living, as measured by gross domestic product (GDP) *per capita* in dollars at purchasing power parity.

The figure above shows the overall position of Albania in the world as well as relative to a group of neighbouring countries and compares their HDI ranking with their GDP *per capita* ranking. Among 177 countries, Albania was ranked 102nd in terms of its GDP *per capita* but 72nd in terms of its HDI standing in 2005.

The government considers its role in social issues not only as an obligation, but also as an effective approach to support economic and social development. The following pages list some of the key social policy challenges facing the government.

6.1 LABOUR MARKET

Unemployment rate (%)



Source: INSTAT.

Measuring unemployment is difficult in a labour market characterised by the prevalence of informal working arrangements and agricultural activities. Defining what it means to search systematically for a job in order to be classified as genuinely unemployed is problematic.

INSTAT has recourse to two measurement methods, which are based on two different sources. The official method has as its source the number of job seeking people registered in local employment offices. According to this method, unemployment has been decreasing continuously between 2001 and 2005 and currently stands at 14%. The female unemployment rate is five percentage points higher than the male unemployment rate.

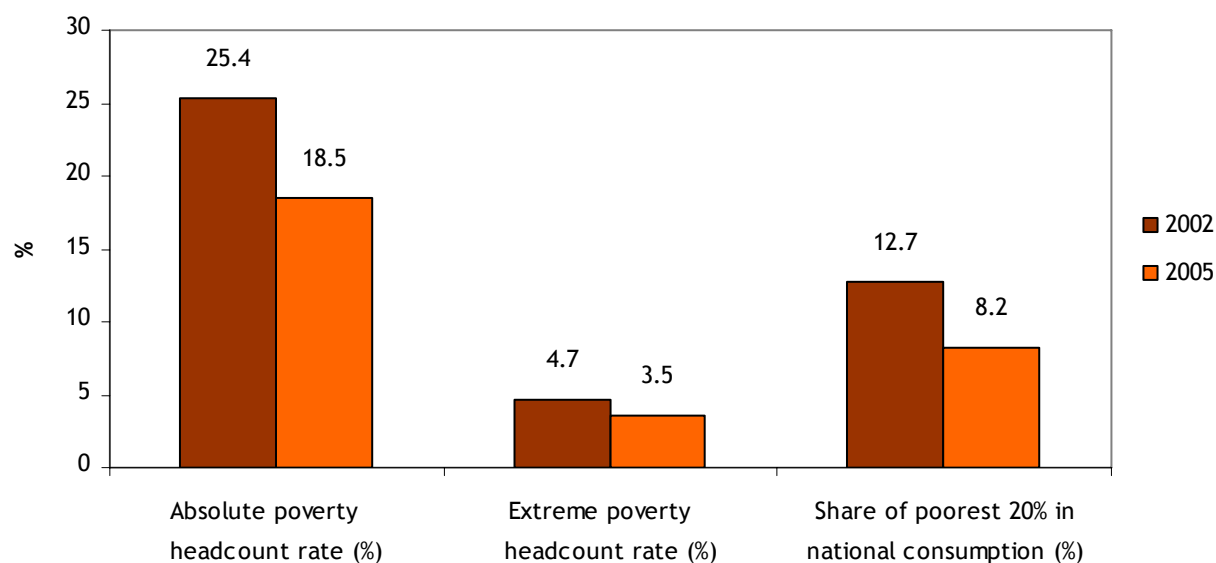
On the other hand, a household survey, such as the Living Standards Measurement Survey (LSMS), is better placed to distinguish between unemployment, active job search, discouraged unemployment, and inactivity. The standard definition of unemployment requires that the individual has actively engaged in some type of job search. The relaxed definition of unemployment also includes seasonal workers or discouraged job seekers, who may be considered as unemployed even though their attachment to the labour force is marginal. Under both definitions, the unemployment rate based on the LSMS method is lower than the official method, which suggests a low rate of active job seekers and a high percentage of people who do not seek work but stay at home.

This improvement ties in with the current rates of economic growth. However, it should be stressed that approximately one-third of all jobs held were temporary, seasonal or occasional, according to the 2001 census. INSTAT is planning to introduce a labour force survey from 2007. This will improve the monitoring of labour market conditions.

The Ministry of Labour, Social Affairs and Equal Opportunities developed a programme of employment services in 2005 that included: employment intermediation, employment and professional advice and orientation, vocational training and programmes for employment promotion. Employment intermediation was the main activity of employment offices in 2005. Through this service it is attempted to balance supply and demand. Employment and professional advisory services are provided mainly to young people entering the labour market for the first time and to people who have lost their job as part of reforms.

6.2 POVERTY

Selective poverty and inequality measures, 2002-05



Source: Living Standards Measurement Survey

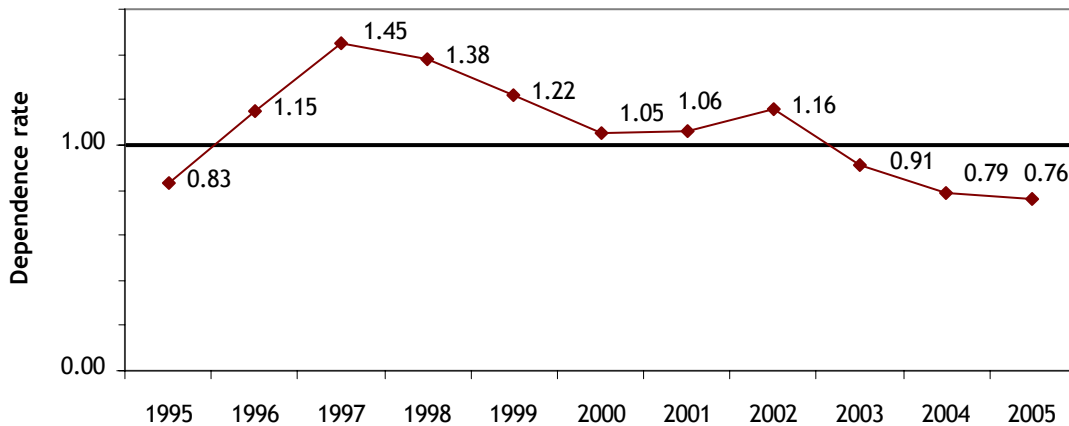
Albania is one of the poorest countries in Europe. However, continuous high growth rates have been expected to have a strong impact on poverty reduction. The main instrument for measuring welfare trends in Albania has been the Living Standards Measurement Survey (LSMS), which interviewed representative samples of households across the country in the period 2002-05. Poverty indicators are based on consumption rather than income because it is very difficult to extract accurate information on individuals' income levels. The above graph shows trends in three standard welfare indicators:

- the absolute poverty headcount rate is the proportion of households whose mean *per capita* consumption fell below a level considered sufficient to satisfy basic needs (poverty line). It shows that poverty fell rapidly between 2002 and 2005, from 25.4% to 18.5%. The evidence from the LSMS also suggests that there has been faster reduction of poverty in rural areas;
- the extreme poverty headcount rate is the proportion of households whose mean *per capita* consumption fell below a level considered sufficient to satisfy nutritional needs. This has also fallen in the period 2002-05; and
- finally, the third set of columns indicates that the level of inequality increased at the same time, as the share of the poorest 20% of the population in total consumption fell from 12.7% to 8.2%. The relationship between growth and inequality is complex and varies across countries according to social conditions and public policies.

In 2005, a new law was approved, which envisages a reform of the economic assistance programme. The key concept of the reform of assistance consists of improving the correspondence between family need and the level of funds allocated from the central budget through local government. Apart from the poor families which satisfy the criteria for receiving economic assistance, starting from 2006, the programme will be extended to other groups of population in need. In addition, it is envisaged that the distribution of economic assistance will be conditioned on community work.

6.3 SOCIAL PROTECTION

Social insurance system dependence rate



Source: Social Insurance Institute.

A number of indicators are used to describe the state of the social insurance system:

- the replacement rate represents the ratio between average pension and average wage;
- the coverage rate represents the ratio between the number of contributors and the size of the labour force and is used to infer the extent of contribution evasion; and
- the dependency ratio, pictured above, represents the ratio between beneficiaries and contributors.

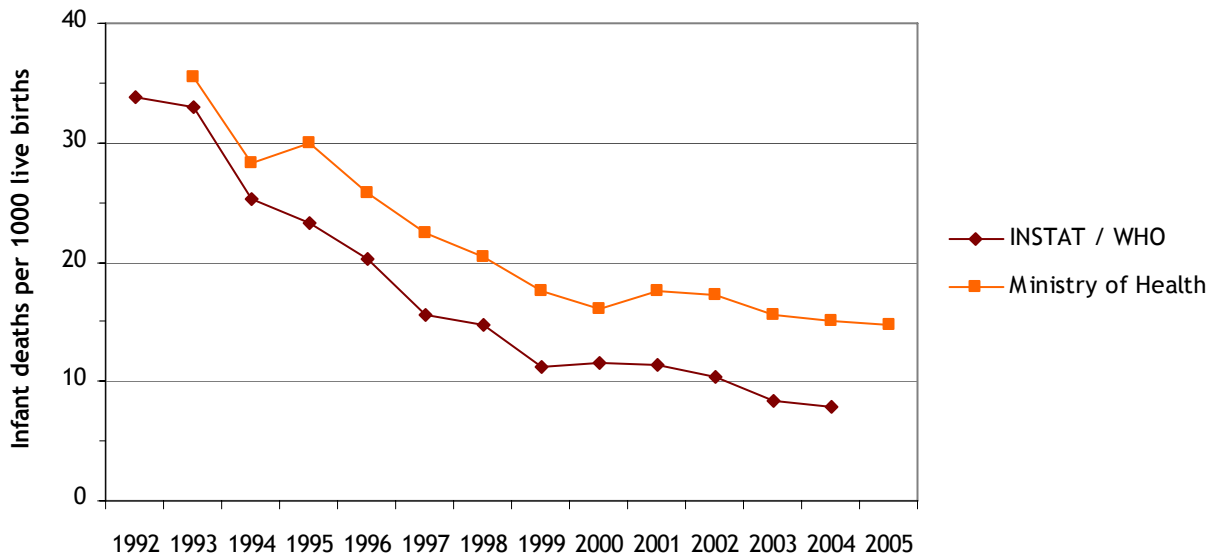
The graph shows that, until 2002, beneficiaries exceeded contributors despite the fact that the current demographic situation is favourable. This has been attributed to a number of causes:

- the number of people employed in the formal labour market has been stagnant;
- high contribution rates have encouraged employers and employees to evade the social insurance system; and
- certain special categories of pensions were being covered under the main social insurance scheme.

The situation has improved over the last three years, although the dependency ratio remains the highest among transition countries. The government aims to reduce evasion and encourage social security payments through the reduction of contribution rates. In addition, it has decided to implement an action plan to reduce the informal sector and therefore increase the number of employees that will be covered by social security.

6.4 CHILDREN

Infant mortality rate



Source: WHO Health For All Database; Ministry of Health: Health indicators for years 1993-2004.

Infant mortality rate, i.e. the probability that an infant dies before their first birthday, is an indicator that combines the effects of diverse factors on living standards. For example, it indicates not only the condition of the health system but also health practices in the population.

There are two main mechanisms based on administrative data for measuring infant mortality in Albania. The INSTAT method is based on the reporting of deaths at civil registries and is the official method. The Ministry of Health method is based on the reporting of deaths at clinics and gives higher estimates because recording tends to be more systematic and does not depend on individuals visiting civil registries. However, both sources show a continuous downward trend. According to INSTAT, the infant mortality rate in 2004 was 8 deaths per 1000 live births.

On the other hand, household survey methods, such as the Multiple Indicator Cluster Survey (MICS) organised by UNICEF, base their infant mortality rate estimates on asking women aged between 15 and 49 years to recall their recent fertility history. This approach gave a mortality rate estimate of 28 deaths in 2000 and 18 deaths in 2005, according to preliminary results.

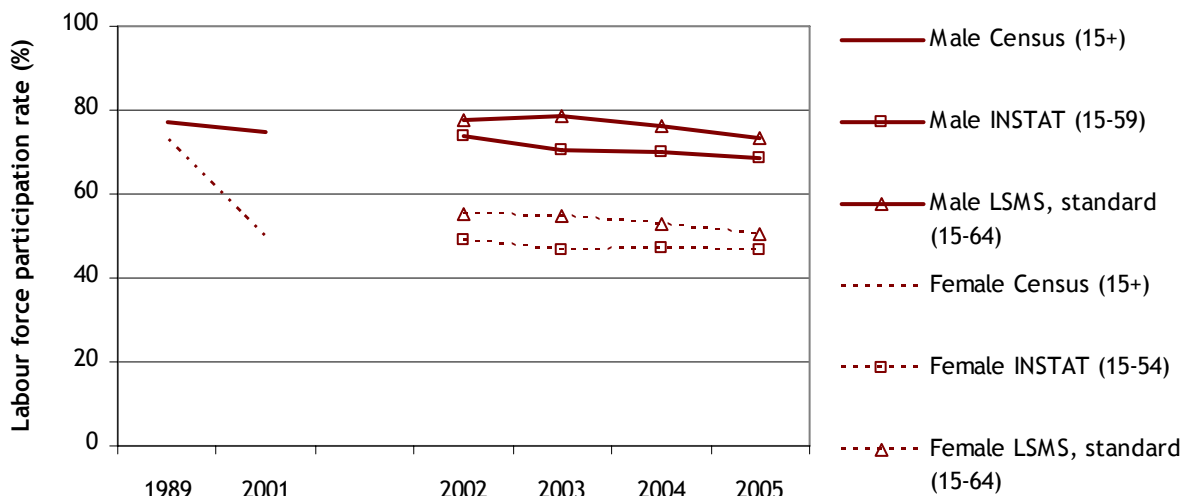
The Ministry of Health aims to continue this downward trend in infant mortality, which remains among the highest in Europe by focusing on:

- the Family Planning Programme in collaboration with United Nations Population Fund (UNFPA) and the creation of a reproductive health department at the Institute of Public Health;
- implementation across the country of the Programme for the Management of Child Illnesses in collaboration with UNICEF; and
- the Extended Vaccination Programme under a contract signed with UNICEF and the introduction of new vaccines against epidemic parotitis and Haemophilus influenzae type b.

The Ministry of Health is integrating health service structures across the three levels of health care, improving the quality of service through unification of protocols, and increasing the technical capacities of staff through continuous training.

6.5 GENDER

Labour force participation rate



Source: INSTAT.

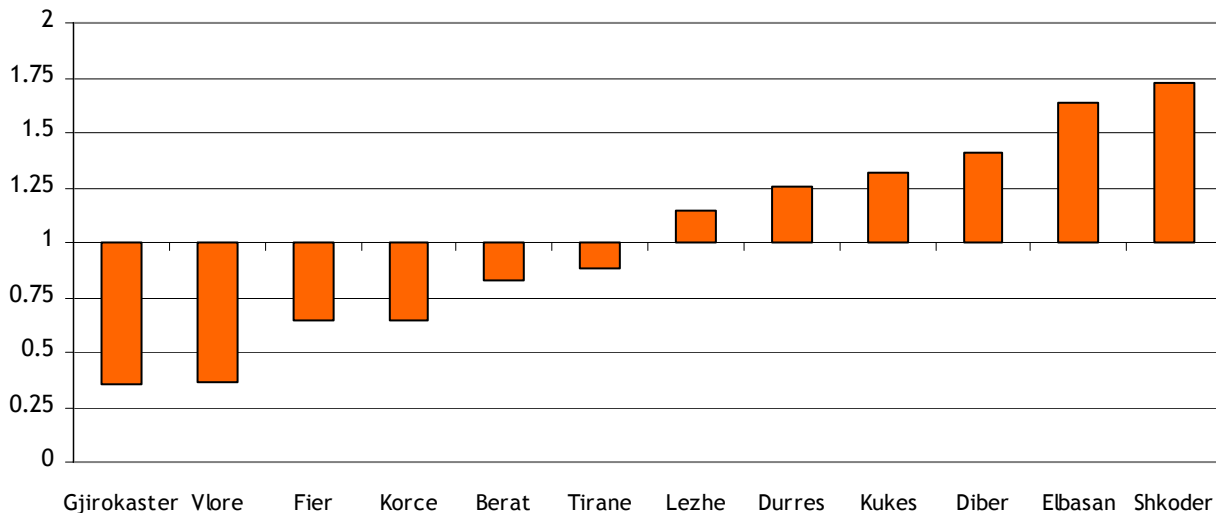
The labour force in Albania (people aged 15 years and above who are either employed or unemployed but actively looking for work) was calculated to be 1.3 million in the 2001 Census, which is 15% lower than in 1989. Between 1989 and 2001, the workforce lost more than 25% of women and 5% of men. In addition, in 1989, there were only slight differences in labour force participation between men and women. By 2001, gender equality had disappeared, as only half of the adult women were active in the labour market and the proportion of inactive women had doubled. Labour force participation among men remained roughly the same, but its composition changed as the share of the employed fell (61% relative to 71% in 1989) and the share of unemployed rose (14% relative to 6%). The size of the male labour force was reduced in absolute numbers as a result of emigration.

It is important to keep in mind that the notions of employment and unemployment have changed since 1989 and are not easily comparable. However, the drop in the female participation rate is unambiguous. Despite the high emigration rate of men, it appears that women have not substituted them in the domestic economy, not even in rural areas or agricultural activities. Female employment decreased mostly in urban areas for several reasons: the closure of factories, the increasing significance of male-oriented activities, such as trade and construction, and internal migration to urban areas. Women face more problems entering the urban labour market in the current economic environment.

Measuring employment is fraught with difficulties in the context of a census, as it is not possible to ask the detailed questions necessary. In the absence of a labour force survey, INSTAT has two other methods at its disposal to monitor employment trends. According to the official method, which is based on a combination of administrative data and assumptions, the male labour force participation rate (calculated for the male population aged 15-59 years) is 69% or 22 percentage points higher than the female labour force participation rate (calculated for the female population aged 15-54 years). According to the method based on the LSMS household survey, female labour force participation exceeds 50%. In both cases, the LSMS measure is higher because it includes a larger working age population and is better suited to identify informal employment. Under the LSMS definition, the gender gap in labour participation rates is slightly larger.

6.6 REGIONAL INEQUALITY

Infant mortality rate by region



National average = 1

Source: INSTAT.

Balanced regional development is a government priority. The range of regional issues that requires attention is large and inequalities emerge at different levels. The graph above presents one dimension of regional inequality; the infant mortality rate. The national long-term trend was presented in section 6.4.

In this case, the numerator is the number of deaths of children under the age of one year in years 2002 and 2003 for each region; the denominator is the number of live births in years 2001 and 2002 for each region. The reason that two years have been averaged is that, with such relatively rare incidents, small variations across years can distort the indicator. The graph presents the regional infant mortality rate standardised relative to the national average. It shows that, whereas in some regions, such as Gjirokaster and Vlore, the infant mortality rate is less than half of the national rate, in others, such as Elbasan and Shkoder, the infant mortality rate is more than 150% the national rate. The worse-off region has five times the mortality rate of the better-off region. A new problem is presented by the suburban communities in large cities such as Tirana and Durres. A study by the Institute of Public Health showed that the incidence of diarrhoeal diseases and acute respiratory infections in these suburban communities is higher, not only compared with the Tirana and Durres urban areas, but also compared with the zones where the inhabitants originally came from.

The government aims to allocate funds to local governments in an objective and transparent way, in order to narrow the existing regional disparities. In addition, the basic policy for reducing these disparities remains the distribution of health services across the national territory and the continuation of public health programmes for the whole population. Actual policies in this direction include:

- higher remuneration for health personnel working in rural zones;
- health infrastructure in poor and less favoured areas;
- training programmes for community health workers in less favoured areas;
- better planning of human and other health resources.

Annex 1 Selected monitoring indicators

Table A1.1 Main objectives of the National Strategy for Socioeconomic Development

Objective (unit)	Actual					Target
	2001	2002	2003	2004	2005	2006
Growth						
GDP <i>per capita</i> (\$)	1339	1456	1883	2414	2673	2660
GDP growth rate (%)	7.1	4.3	5.7	6.7	5.5	6.0
Budget deficit as proportion of GDP (%)	6.8	6.0	4.8	4.9	3.4	5.0
Inflation rate (%)	3.1	5.2	2.4	2.9	2.4	3.0
Poverty						
Absolute poverty headcount rate (%)		25.4			18.5	20.0
Extreme poverty headcount rate (%)		4.7			3.5	3.0
Unemployment rate (%)	16.4	15.8	15.0	14.4	14.1	12.0
Health						
Infant mortality per 1000 live births	17.4	17.5	15.5	15.1	14.7	15.0
Maternal mortality per 100,000 live births	22.7	25.9	21.3	12.0		15.0
Education						
Literacy rate of people aged 15-24 years (%)	98.4					98.8
Ratio of literate women to men aged 15-24 years						
Urban areas (%)	90					
Rural areas (%)	87					
Basic education completion rate (%)	97	98	98	97		99
Secondary education net enrolment rate (%)	38	42	50	51	53	50
Share of vocational enrolment in secondary education (%)	16	16	16	16		30
Average number of years of schooling	9.5		10.5			10.8
Governance (0-100)						
Voice and accountability		47.5		48.1		
Political stability		29.7		16.5		
Effectiveness of governance		37.3		40.9		
Regulatory quality		42.9		48.3		
Rule of law		17.9		25.1		
Control of corruption		23.5		29.1		

Table A1.2 Millennium Development Goals, selected indicators

Millennium Development Goals and indicators	Source	2001	2002	2003	2004	2005	Target 2015
MDG 1: Eradicate extreme poverty, hunger and other dimensions of poverty							
Share of poorest 20% in national consumption (%)	LSMS		12.7			8.2	
Absolute poverty headcount rate (%)	LSMS		25.4			18.5	13.0
Extreme poverty headcount rate (%)	LSMS		4.7			3.5	0
Prevalence of underweight in children under 5 years (%)	LSMS		14.0				8.0
Unemployment rate (%)	INSTAT	16.4	15.8	15.0	14.4	14.1	10.0
MDG 2: Achieve high quality basic universal education							
Net primary education [1-4] enrolment rate (%)	INSTAT		92.5	94	95	89	100
Net basic education [1-8] enrolment rate (%)	INSTAT				93	94	100
Primary education [1-4] completion rate (%)	INSTAT		88			98	
Basic education [1-8] completion rate (%)	INSTAT		98	98	97	98	
Primary education [1-4] dropout rate (%)	INSTAT		2	2		0.5	0
Average number of years of schooling	INSTAT			10.5			13.5
MDG 3: Promote gender equality and empower women							
Ratio of females to males in primary education [1-4]	MES			0.94	0.93	0.93	1
Ratio of females to males in lower secondary education [5-8]	MES			0.92	0.94	0.94	1
Proportion of seats held by women in national parliament		5.7	5.7	5.7	5.7	7.1	30.0
Share of women in non-agricultural wage employment (%)	INSTAT		32.6			32.4	50.0
MDG 4: Reduce child mortality							
Infant mortality per 1000 live births	MH		17.5	15.5	15.1	14.7	10.0
Under-5 mortality rate per 1000 live births	MH		20.1	20.7		19.0	10.0
Proportion of children vaccinated against measles (%)	MH		95	94		97	95
MDG 5: Improve maternal health							
Maternal mortality per 100,000 live births	MH		25.9	21.3	12.0	23.0	11.0
Proportion of first prenatal visits by first trimester (%)	MH		42	47		60	70
MDG 6: Combat HIV/AIDS and tuberculosis							
Adult (15-49) HIV prevalence rate	MH					<0.1	
Number of persons voluntarily taking an HIV test	MH			250	350	1000	50,000
Tuberculosis notification rate per 100,000	MH			20	20	18	
Tuberculosis mortality rate (%)	MH			4.5	3.5	3.5	2.5
MDG 7: Ensure sustainable environmental development							
Land area protected to maintain biological diversity (%)	MEFWA		3.6	5.8	6.3	8.3	
Land area covered by forests (thousand hectares)	MEFWA		991			1041	
Population with access to safe drinking water (%)			69.0	75.4		81.3	98.0
Population with access to improved sanitation (%)			63.8	68.3			95.0

Millennium Development Goal 1: Eradicate extreme poverty, hunger and other dimensions of poverty

- Target 1: Halve between 2002 and 2015, the proportion of people living in extreme poverty
- Target 2: Reduce between 2002 and 2015, the proportion of people who suffer from malnutrition
- Target 3: Reduce unemployment, between 2002 and 2015, to reach EU standards
- Target 4: Establish an open trading and financial system for inclusive economic growth
- Target 5: Make information and communication technologies available
- Target 6: Increase availability of electricity for all

The 2005 LSMS data revealed significant progress toward poverty reduction that will allow Albania to meet its targets. The growth pattern has succeeded in pulling thousands of people out of poverty. Poverty reduction has been more significant in Tirana, in urban areas (compared to rural areas) and in mountainous areas (compared to coastal and central areas).

However, unemployment is still high and distribution has worsened. The share of the poorest fifth of the population in total consumption was four percentage points lower in 2005 than in 2002. There is a risk that poverty, though decreasing, may become rooted in some niches and that exclusion could become a real problem. This would call for policies to address exclusion:

- provide people with access to rights, resources, and opportunities through policies which complement the growth enhancing policies and focus on vulnerable groups (those in disadvantaged areas, Roma and Egyptians, youth, vulnerable women etc.); and
- promote social economy that combines social goals with the business spirit

Growing concerns over distribution call for a monitoring system that pays more attention to exclusion. The social inclusion crosscutting strategy, which is currently under preparation, is introducing a set of indicators borrowed from the European Union that will allow a closer look at the twin issues of poverty and distribution.

Millennium Development Goal 2: Achieve high quality basic universal education

- Target 7: Primary school attendance of both boys and girls ensured 100% by 2015
- Target 8: Implementation of measures to assure improved quality of primary education
- Target 9: Approximation of financial indicators for primary education in line with OECD countries

Net enrolment rates for Grades 1-4 (89%) and Grades 1-8 (94%) for year 2005 show that Albania is not on track to meet the MDG targets and corrective actions are needed. On the other hand, the completion rate (in other words, the proportion of pupils who start Grade 1 and reach Grade 5) (98%) and the dropout rate (0.5%) in primary education are on track.

The problem of enrolment in primary education calls for policies to address exclusion. This would require redesigning education service provision according to demographic changes in both rural and urban areas and to pay attention to vulnerable groups. It also calls for improvements in the design of indicators to enable the situation of vulnerable groups to be monitored.

There are no quantitative data on education quality in primary schools but anecdotal evidence suggests it is becoming an issue of real concern, especially in rural areas. Weak teacher accountability contributes to the problem and calls for further progress with the decentralisation reform. The envisaged increase in public expenditure for education should be used to also finance teaching materials.

Millennium Development Goal 3: Promote gender equality and empower women

- Target 10: Eliminate gender disparities in primary and secondary education preferably by 2005
- Target 11: Eliminate gender disparity in elected organs and decision making positions

Following the 2005 parliamentary election, the number of seats held by women increased somewhat, although not by enough to be confident that the 2015 target of 30% female members of Parliament can be met. Insufficient representation of women in politics as a gender issue has not yet become a public issue. There seems to be insufficient public awareness of the issue of targeting girls that are out of school. A mentality discriminating against girls who wish to attend school still exists in rural areas and no targeted programmes exist in rural areas to reduce inequalities.

Millennium Development Goal 4: Reduce child mortality

- Target 12: Reduce the under-5 mortality rate by 10/1000 by 2015

There is a clear downward trend in the infant mortality rate: from 17.5 per thousand live births in 2002 to 14.7 in 2005. If this rate of decrease is sustained, then the 2015 target will be achieved. However, it must be stressed that the infant mortality target is not ambitious enough, being well above the EU level. The rate of decrease of the under-five mortality rate is not sufficiently rapid: from 20.1 per thousand live births in 2002 to 18 in 2005. At current rates, the target, which is anyway well above the EU level of 5.4, will not be met. The proportion of children vaccinated against measles has already exceeded the target, which is well above the European average of 86.9%.

Millennium Development Goal 5: Improve maternal health

- Target 13: Reduce the maternal mortality rate by half by 2015

There is no clear trend in maternal mortality rates over time (12 per 100,000 live births in 2004 and 23 in 2005) but in general it is likely that the 2015 target will not be met, notwithstanding the fact that the target itself was set well above the EU level. The proportion of first prenatal visits exhibits the same pattern of variation over time, putting in question whether Albania will reach the 2015 target (70%).

Millennium Development Goal 6: Combat HIV/AIDS and tuberculosis

- Target 14: Halt and reverse the incidence of the HIV/AIDS virus by 2015
- Target 15: Halt and reverse the tuberculosis notification rate by 2015

Albania is still considered as a low HIV/AIDS prevalence rate country: adult HIV prevalence rate for the year 2005 is estimated to be less than 0.1%. The number of persons taking voluntarily an HIV test in 2005 (1000 people) was well below the 2015 target. By contrast, the number of condoms distributed has increased very fast. It is crucial to widen access to HIV testing by improving infrastructure and training medical staff outside Tirana. Involving the media, improving sexual education in schools, intensifying HIV awareness activities among the population, improving the legal framework, and creating a special information and management system would contribute to a more effective HIV monitoring system. As far as tuberculosis indicators are concerned, the notification and mortality rates are on track to meet agreed targets.

Millennium Development Goal 7: Ensure sustainable environmental development

Target 16: Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources

Target 17: Reduce the proportion of people without access to safe drinking water and proper sewage infrastructure

Progress has been made toward increasing the size of land area protected for biological diversity preservation. The total surface of the land area protected has significantly increased over the last years, from 3.6% of the country's surface area in 2002 to 8.3% in 2005. Nevertheless, the size of protected areas remains insufficient to ensure effective conservation of the country's biological diversity. In addition, the biological integrity of existing protected areas is being compromised by illegal hunting, fishing and logging.

The total forest area has increased by 50,000 hectares between 2002 and 2005. In 2005, the total land area under forest was 1.041 million of hectares, representing around 36% of the total. With the transfer of forest management to communes, illegal logging of forests has declined, although it still remains a problem. The government intends to continue its policy of supporting community participation in forest and pasture management.

Access to safe drinking water has also improved. In 2005, 81.3% of the population had access in safe drinking water compared with 63.8% in 2002. The monitoring system is based on the LSMS. The current trend suggests that Albania is on track to meet safe drinking water targets but the sector is suffering from the slow pace of reform.

Air and water pollution remain a problem. Dust particles in the air are 2.5-3 times higher than the European standards. Water pollution with urban liquid waste, mainly in the Adriatic Sea represents a major problem.

Millennium Development Goal 9: Establish and strengthen a good governance process

Target 19: Reform overall state systems of public administration, legislation and policies in accordance with EU standards of justice, rule of law, and market economies by 2015.

Albania has made slow progress toward improving its system of governance as shown by the six indicators of governance measured by the World Bank Institute. Governance indicators in Albania fall far below the average of South Eastern Europe, while 4 out of 6 indicators, including rule of law and control of corruption, fall below the average of category of countries at similar levels of income.

The pace of governance improvement shows that Albania is not going to meet the targets. Faster progress calls for deep reform of public institutions which in fact coincides with the challenging process of European integration.

Apart from the World Governance Indicators, there is no domestic monitoring system. There is a need to develop a system of second-tier governance indicators that will be specific and sensitive to policy actions in the short term.

