



Albania Country Strategy

2020-2025

Approved by the Board of Directors on 12 February 2020



European Bank
for Reconstruction and Development

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Glossary of Key Terms

AASF	Albania Agribusiness Support Facility	ILO	International Labour Organization
ABI	Annual Business Investment	IPA	Instrument for Pre-Accession Assistance
ASB	Advice for Small Businesses	MSME	Micro, Small and Medium Enterprise
BAT	Best Available Technology	NPL	Non-Performing Loan
CoO	Country of Operation	ODA	Official Development Assistance
CSO	Civil Society Organization	PFI	Partner Financial Institution
E&S	Environmental and Social	PPP	Public Private Partnership
EBRD	European Bank for Reconstruction and Development	PR	Performance Requirement
EIA	Environmental Impact Assessment	PTI	Portfolio Transition Impact
EIB	European Investment Bank	R&D	Research and Development
ESIA	Environmental and Social Impact Assessment	SECO	Swiss Secretariat for Economic Affairs
ETI	Expected Transition Impact	SEE	South-Eastern Europe
EU	European Union	SME	Small and Medium Enterprise
FDI	Foreign Direct Investment	SOE	State-Owned Enterprises
FI	Financial Institution	TA	Technical Assistance
GCAP	Green Cities Action Plan	TAP	Trans Adriatic Pipeline
GET	Green Economy Transition	TC	Technical Cooperation
GVC	Global Value Chain	TFP	Trade Facilitation Programme
H&S	Health & Safety	TPES	Total Primary Energy Supply
HR	Human Resources	TSO	Transmission System Operator
ICA	Industry, Commerce & Agribusiness	VET	Vocational and Educational Training
ICGI	Investment Climate and Governance Initiative	WB	World Bank
ICT	Information and Communication Technologies	WBIF	Western Balkans Investment Framework
IFC	International Finance Corporation	WEF	World Economic Forum
IFI	International Financial Institution		

Albania's commitment to and application of the political principles stated in Article 1 of the Agreement Establishing the Bank continued since the adoption of the previous Country Strategy, in line with its efforts towards implementation of the comprehensive EU approximation agenda. This serves as the main external anchor for reforms, including as regards the strengthening of governance and the rule of law, where serious challenges remain.

In the past four years the country showed an upward trend in GDP growth, primarily consumption-led, and a recovery in investments as a result of two large FDIs in the energy sector. To speed up convergence to EU income levels, Albania needs to increase productivity, shifting the growth model away from consumption to investments and exports, especially in view of unfavourable demographic developments, both in terms of emigration and rapid urbanization in Tirana. Improved business climate is needed to support diversification and attraction of FDI, particularly in sectors like tourism, manufacturing and agribusiness, to enable sustainable economic growth.

Transition gaps remain large across the six transition qualities of a modern market economy, as defined by EBRD. Governance and competitiveness would benefit from tackling the wide-spread informal economy, as well as strengthening institutions. Low labour costs support competitiveness but the economy is held back by skills shortages and mismatches, uncertainty over land and property rights, lack of know-how and business sophistication, low investment in R&D, and weak innovation capacity. The financial sector continues to have high levels of euroisation and is dominated by well capitalised and liquid banks, with relatively high NPLs and low credit to the private sector, while capital markets remain undeveloped. Despite significant investments in roads over recent years, transport networks remain in need of further substantial upgrades. Public sector counterparts require strengthened investment planning and implementation capacity, including on PPPs. The country's electricity generation continues to be almost entirely reliant on hydropower and urgently needs diversification to mitigate exposure to climate change. Scaling up energy and water efficiency investments, substantial improvements in waste management, and investing in the circular economy are other key components in the country's green economy transition.

The Bank is well placed to address key transition gaps, by financing well-targeted investments and assisting reform efforts in close cooperation with the EU, other IFIs and donors. Focus on strengthening governance should support better planned and managed public sector investments, as well as assist the commercialisation and restructuring of SOEs. In the private sector, it should contribute to improved business climate and to enable higher formalisation, diversification and FDI attraction. The Bank will also assist in addressing climate change vulnerabilities (particularly by diversifying electricity generation sources), infrastructure upgrades, and improvements in domestic and regional connectivity, including through WBIF.

The Bank will pursue the following key priorities in Albania in 2020-2025:

- *Support governance improvements across the economy;*
- *Enhance private sector competitiveness and inclusion through wider access to finance and skills;*
- *Strengthen energy diversification and low-carbon transition.*

Albania - EBRD Snapshot

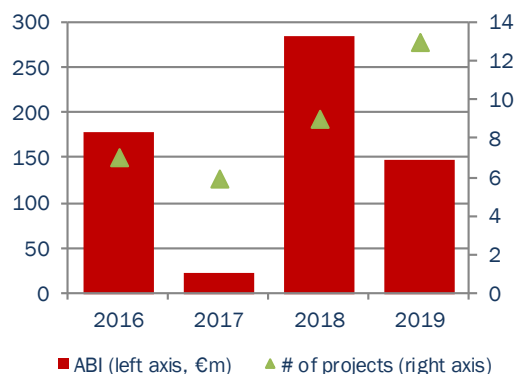


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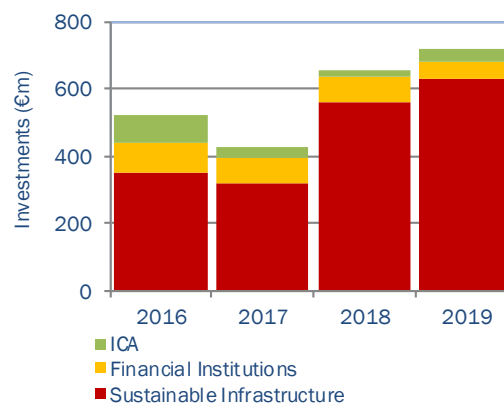
EBRD Investment Activities in Albania (as of December 2019)

Portfolio	€722m	Active projects	46
Equity share	2%	Operating assets	€420m
Private Share ¹	56%	Net cum. Investment	€1,397m

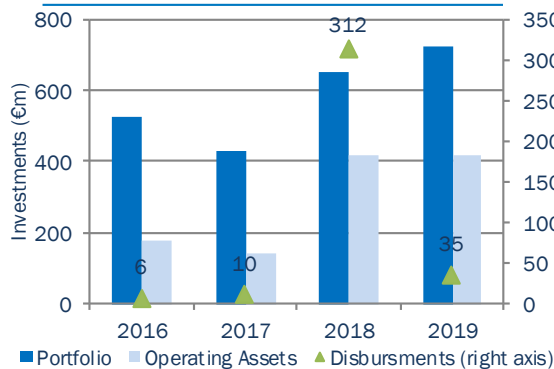
ABI and Operations



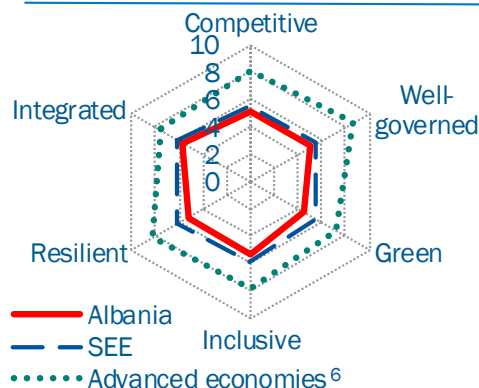
Portfolio Composition



Portfolio Dynamics



Transition Gaps²



Albania Context Figures

	Albania	Comparators
Population (million) ³ (2018)	2.9	BIH (3.5) North Macedonia (2.1) Serbia (7.0)
GDP per capita (PPP, USD) ³ (2018)	13,327	BIH (13,583) North Macedonia (15,715) Serbia (17,552)
Global Competitiveness Index (WEF) (2019)	81st (out of 141)	BIH (92) North Macedonia (82) Serbia (72)
Unemployment (%) ⁴ (2018)	15.1	BIH (26.1) North Macedonia (22.3) Serbia (13.1)
Youth unemployment (%) ⁴ (2018)	32.7	BIH (55.5) North Macedonia (47.2) Serbia (31.3)
Female labour force participation (%) ⁴ (2018)	47.0	BIH (35.1) North Macedonia (42.5) Serbia (45.6)
Energy intensity (TPES/GDP) ⁵ (2017)	0.17	BIH (0.4) North Macedonia (0.2) Serbia (0.4)
Emission intensity/GDP (kgCO ₂ /10' \$) ⁵ (2017)	0.3	BIH (1.2) North Macedonia (0.6) Serbia (1.1)

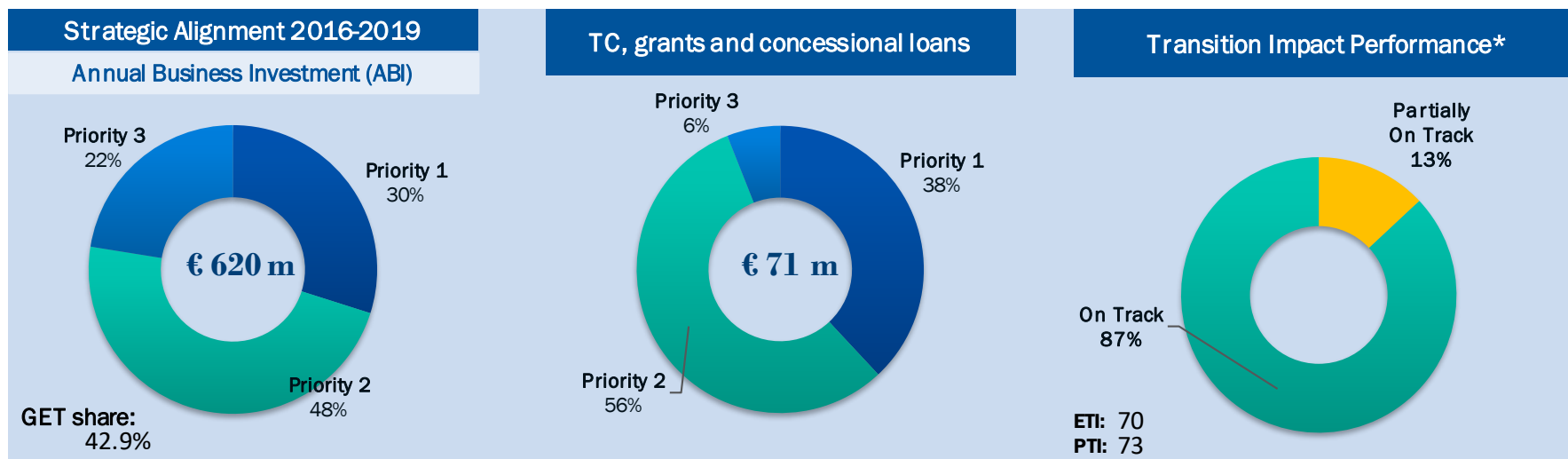
¹ Cumulative Bank Investment: 5 year rolling basis on portfolio. ² Cf. EBRD Transition Report 2018-2019. ³ IMF WEO. ⁴ International Labour Organisation estimate. ⁵ IEA's Energy Atlas. ⁶ Canada, Czech Republic, France, Germany, Japan, Sweden, United Kingdom and United States

1. Implementation of Previous Strategy (2016-2019)



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1.1. Key Transition Results achieved under previous Country Strategy



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



* Transition impact performance reflects how likely projects are to achieve the transition impact expected of them at signing. Calculated based on active mature (> 2 years) portfolio.

PUBLIC

1. Implementation of Previous Strategy (2016-2019)



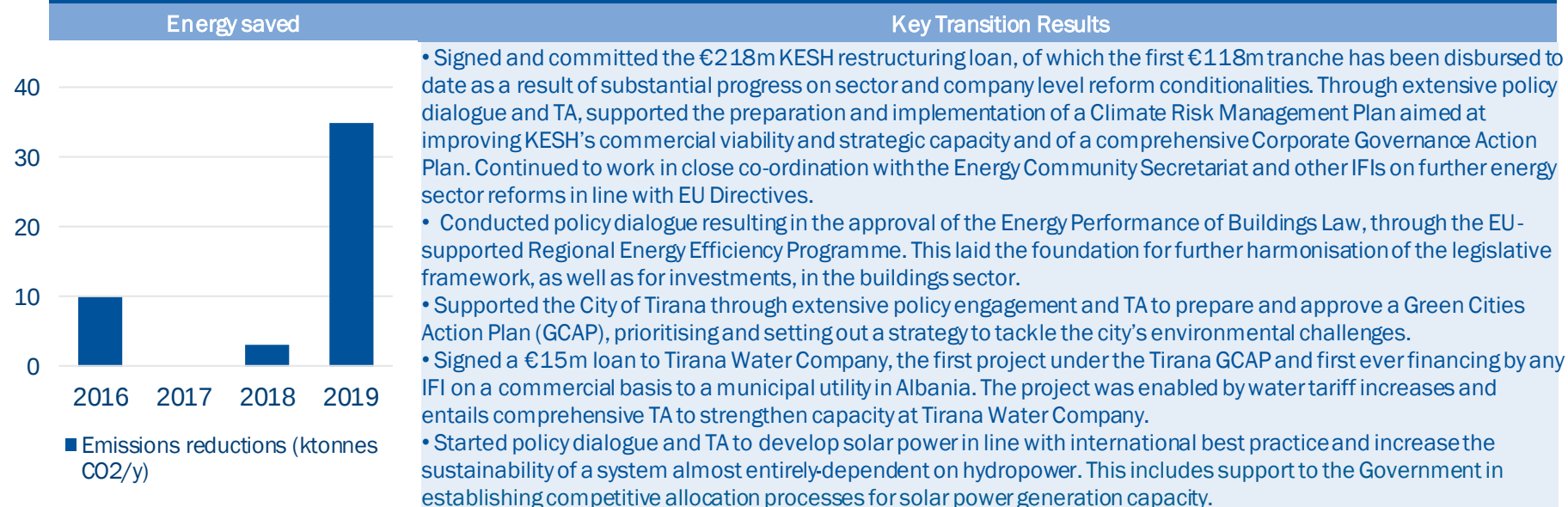
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1.1. Key Transition Results achieved under previous Country Strategy

Priority 2: Expand markets by strengthening regional linkages



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



1. Implementation of Previous Strategy (2016-2019)



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1.2. Challenges to Implementation and Key Lessons

Context for implementation: Albania continues to have large transition gaps. Low value-added production accounts for much of the economy and financial intermediation remains limited. EU approximation is the main external anchor for reforms, including as regards the strengthening of governance and the rule of law, where serious challenges remain. Although progress in the business environment reform has been mixed, economic growth has been robust and driven by two large energy related FDIs. Banking sector consolidation has also progressed during the strategy period. The confidence in the banking sector increased as NPLs declined and banks remain well capitalised and highly liquid.

Implementation Challenges

- Corruption and informality remain key impediments to business development and foreign investment. Weak law enforcement and unclear property rights also affect the tourism and agribusiness sectors, which are key drivers of economic growth.
- Access to finance remains constrained. Although banks have high liquidity, credit growth is weak.
- Private sector competitiveness and regional integration are hampered by the poor state of transport infrastructure.
- Long-term sustainability in the energy sector will require ambitious reforms, including greater operational discipline by SOEs.
- Diversification of the energy mix (currently dominated by hydro) is urgently necessary to increase the system's resilience.
- Municipal service provision is inadequate while the sector remains highly centralised.



Key Lessons & Way Forward

- Strong focus on governance, business climate improvements, and engagement with the private sector are needed in close alignment with the EU, other IFIs, and donors. The Investment Climate and Governance Initiative can be an effective tool for extensive policy engagement in this area that can deliver tangible results.
- The Bank can help unlock additional lending, including through unfunded risk-sharing products.
- Significant investments, to be supported under the WBIF, are still needed to upgrade the road network, develop the full potential of the country's ports and airports, and re-establish a functioning railways system.
- Policy engagement and investments in the energy sector in cooperation with the Energy Community Secretariat and other IFIs can achieve significant results and attract FDIs.
- The Bank is well placed to support development of the market for other renewables (particularly solar), while TAP could create opportunities for gas-fired generation.
- The Green Cities initiative in Tirana provided a strong platform for investment in municipal infrastructure.

2. Economic Context



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2.1 . Macroeconomic Context and Outlook for Strategy Period

Albania - Main macroeconomic indicators

	2014	2015	2016	2017	2018
GDP growth (% y-o-y)	1.8	2.2	3.3	3.8	4.1
CPI inflation (% avg.)	1.6	1.9	1.3	2.0	2.0
Government balance (% of GDP)	-5.2	-4.1	-1.8	-2.0	-1.6
Current account balance (% of GDP)	-10.8	-8.6	-7.6	-7.5	-6.7
Net FDI (% of GDP) [neg. sign = inflow]	-8.1	-8.0	-8.7	-8.6	-8.0
External debt (% of GDP)	69.5	74.4	73.5	68.7	65.2
Gross reserves (% of GDP)	22.0	28.1	27.5	25.9	26.4
General government gross debt (% of GDP)	70.0	72.7	72.2	70.0	67.2
Unemployment (% pop)	17.9	17.1	15.2	13.8	12.3
Nominal GDP (\$bn)	13.2	11.4	11.9	13.1	15.2

Source: National authorities, IMF and EBRD calculations

- **GDP growth has halved after the crisis and has been primarily consumption-led.** Post-crisis economic growth decreased to below 3 per cent, from above 6 per cent in 2000-2008. Growth over the past 10 years was mainly driven by household consumption, followed by net exports, while investment contribution was negligible. However, in the past four years there is an upward trend in growth, and also in investments (albeit concentrated in two large energy related FDIs).
- **Further catch-up is likely in the short term, but at a slower pace.** Growth stepped up to 4.1 per cent in 2018, primarily as a result of good hydrological conditions and, consequently, higher electricity production. Also, tourism became an increasingly important contributor to economic growth. The economy is projected to expand at 2.8 per cent in 2019, driven mainly by private consumption, and to accelerate to 3.5 per cent in 2020, helped by the previous year's low base in power generation and under the assumption of further growth of tourism and investment in transport infrastructure. However, downside risks remain, associated with the economic slow-down of Italy and the rest of the Eurozone, another delay in starting the EU membership talks and internal risks (high public debt with liabilities stemming from unsolicited PPPs, and prolonged political instability).
- **To speed up convergence to the EU income levels, Albania needs to increase productivity, shifting the growth model away from consumption to investments and exports.** Albania's real GDP per capita is less than one third of the EU average and less than half of that of the new EU member states. Faster convergence demands higher productivity, especially in view of unfavourable demographic developments. Improved business climate (including through strengthening institutions and rule of law), enhanced infrastructure, removing uncertainty over land and property rights, as well as tackling labour shortages and strong emigration would support much needed private sector development.

2. Economic Context

2.2 . Key Transition Challenges



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Competitive (5.0)

- Wide-spread informal economy, creating unfair competition
- Low labour costs...
- ...but also low productivity, due to skills shortages and mismatches, lack of know-how and business sophistication, low investment in R&D, weak innovation capacity of the economy
- Low level of economic diversification
- Weak integration in GVCs
- Unfavourable business environment: 82nd out of 190 countries in the ease of doing business (WB 2020)
- Difficult access to finance, especially for MSMEs

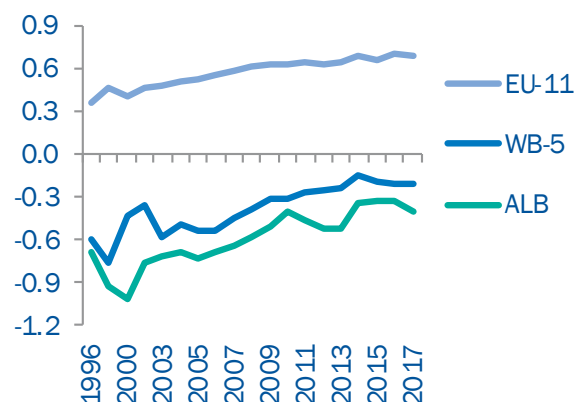
Ease of doing business (rank)



Well-governed (5.1)

- Weak rule of law, weak and inefficient judiciary, and inconsistent implementation of laws and regulations
- Judicial reform under way, but slow and leading to a backlog of cases
- Weak property rights, especially regarding land titles
- Weak contract enforcement and large regulatory burden on businesses
- Tax evasion, one of the lowest government revenues in Europe
- Limited capacity in the public administration and responsiveness to business needs
- Weak corporate governance framework

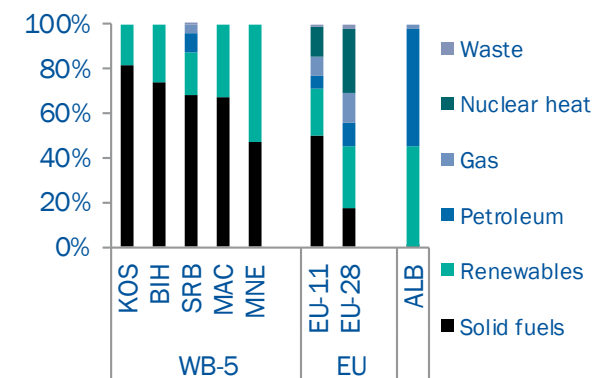
Rule of law (from -2.5 to +2.5 best)



Green (4.4)

- Almost complete reliance on volatile hydro generation with potentially adverse effect on security and cost of energy supply
- Potential in other renewables (solar, wind)
- Inefficient use of energy, with high distribution losses
- Energy intensity below WB-5, but above EU average
- Transport sector as main final energy consumer
- Inadequate waste management, uncontrolled landfills, limited recycling
- Limited sewerage and wastewater treatment
- Air pollution in urban areas

Primary energy sources



2. Economic Context

2.2 . Key Transition Challenges



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Inclusive (4.8)

- Still high, double-digit unemployment, especially for youth
- Strong emigration and rapid urbanization in Tirana
- Gender employment gap narrowing
- Vulnerable groups: youth, women, low-educated
- Underdeveloped Vocational Education and Training
- Low tertiary education attainment rate
- Skill-mismatches for highly educated
- Weak financial inclusion of men and women, with less than 40 per cent of 15+ population having a bank account

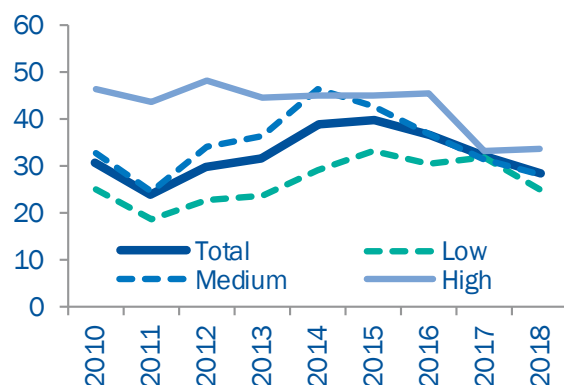
Resilient (5.3)

- Under-developed financial system, dominated by banks
- Well-capitalised and liquid banking sector, but still relatively high NPLs and low credit to private sector
- High financial euroisation (over 50 per cent)
- High exposure of banks to sovereign debt
- Undeveloped capital markets, limited almost exclusively to government securities
- Lagging behind SEE in domestic and inter-country energy connectivity, private sector participation and legal framework
- More advanced than SEE in energy sector restructuring and unbundling

Integrated (5.7)

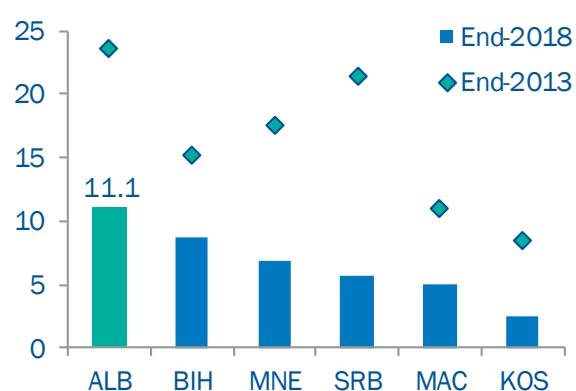
- Low trade openness, except for services
- Goods exports concentrated in both products and markets
- Main export products: low-value added, labour-intensive products and raw materials
- Largest exporter of crude oil in SEE
- Low FDI stock: more restrictions on FDI than in other Western Balkans countries
- FDI targeting primarily natural resources and energy sectors
- Inadequate transport infrastructure, especially railroad
- Low reliability of water supply; high share of non-revenue water (67 per cent)

Youth unemployment by education level (%)



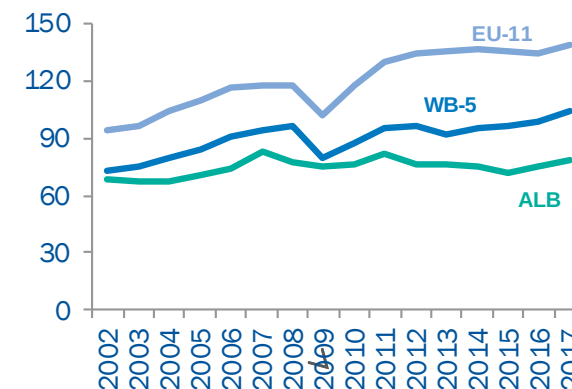
Source: INSTAT

Non-performing loans (%)



Source: IMF and national authorities

Trade (% of GDP)



Source: WB World Development Indicators

3. Government Priorities and Stakeholder Engagement

3.1. Government Reform Priorities

- **Energy:** Further liberalization and diversification of the energy market focusing on renewables, unbundling of distribution and supply, establishment of an Albanian Power Exchange, investment in the grid and generating assets, reduction of distribution losses and improvement of bill collection, development of an institutional framework for the gas sector.
- **Transport:** Rehabilitation of the railway segment Durrës-Tirana-Rinas Airport, as a first step towards the establishment of a competitive and reliable rail system. Development of additional regional airports, of which at least one in the south of the country. The upgrade and rehabilitation of the country's road network to unlock economic development, including in tourism. Continued investment in the modernization of Port of Durrës.
- **Agribusiness:** Consolidation of agricultural land to create competitive and economically viable farms and promote access to finance.
- **Tourism:** Development of coastal and inland cultural heritage tourism through investment in enabling infrastructure and private sector competitiveness. Particular focus on the attraction of FDI and development of the agro-tourism segment.
- **Environment:** Reform of the water and waste water sector, improving service quality and payment discipline. In the waste management sector, closure of illegal dumpsites, development of proper landfills as well as incinerators in Tirana and some regional centres.
- **Investment climate and reduction of informal economy:** i) Full implementation of the justice reform; ii) Strengthen land and property rights; iii) Reduction of regulation for businesses and increase in the share of public services provided online iv) Provision of a single transparent investment legal regime to improve governance and predictability.
- **Digital economy:** Development of regional broadband infrastructure by launching pilot projects in rural and remote areas; and establishment of synergies with infrastructure for other utilities.
- **Fiscal:** Reduction of informality and introduction of further fiscal consolidation measures to meet the medium-term target of reducing public debt to below 60% of GDP in 2021; strengthening tax administration; and broadening the tax base.
- **Social Policies and Employment:** Improvement of the quality and coverage of Vocational Education and Training while ensuring linkages with the labour market. Modernisation of public employment services, increasing employment of targeted inclusion groups.

3.2. EBRD Reform Areas Broadly Agreed with Authorities

- **Energy** – strengthen the sustainability of the energy sector through continuing reforms in line with EU acquis, raising governance and skills at SOEs, and enabling diversification of energy sources via investments and technical assistance.
- **Investment Climate** – support investment climate improvements, including the reduction of informality and of the compliance burden for businesses. Help micro and small enterprises grow through access to finance and skills, with focus on raising governance and financial transparency.
- **Tourism** – raise tourism competitiveness through enabling investments in infrastructure and building capacity. Address key bottlenecks: access to finance, know how, and skilled workforce.

3.3. Key Messages from Civil Society to EBRD

- **Sustainability** – Support to renewable energy is regarded as a priority both at level of policy dialogue and investment, both at industrial and residential levels (e.g. use of solar panels).
- **Governance** – Concerns were expressed over the implementation of the Law on Bankruptcy, especially in relation to NPLs, impact of anti-informality campaigns on small businesses and the overall potential impact of political instability on the economy. The EBRD is also expected to promote fair competition and prevent the creation of monopolies.
- **Role of civil society** - CSOs can be a partner for the EBRD in the identification and implementation of projects at municipal level as well as to support women's entrepreneurship.

4. Defining Albania Country Strategy Priorities



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What needs to change? (Country Diagnostics)



Can it be changed? (Political Economy)



What can the Bank do? (Institutional Capabilities)

Strategic Priorities (2020-2025)

What We Want to See in 2025

Support governance improvements across the economy

- Commercialisation and restructuring of key SOEs; Strengthen the corporate governance of firms
- Improve the quality of institutions; Strengthen the rule of law

Enhance private sector competitiveness and inclusion through wider access to finance and skills

- Increased competition through entry/consolidation and levelling playing field; Increased access to finance and entrepreneurship
- Improved business skills, standards and business sophistication; Access to skills development (incl. skills mismatch reduction) leading to employment opportunities
- Increased access to infrastructure unlocking economic opportunities for inclusion target groups

Strengthen energy diversification and low-carbon transition

- More diversified energy with reduced vulnerability to climate change
- Reinforced networks for domestic and regional connectivity

- Implementation capacity for infrastructure investments is low while infrastructure requires significant rehabilitation and expansion.
- Poorly designed and unsolicited PPPs were awarded in the past.
- Weak rule of law and capacity in the judiciary system limit private sector development.
- Almost one third of population does not have access to safe and clean water.

- Private sector development suffers from wide-spread informality and low competitiveness.
- Main export products are low-value added, labour-intensive products and raw materials
- Severe skills mismatches, including for highly educated youth, are exacerbated by strong emigration due to poverty, lack of jobs and low-quality education. Despite labour shortages, unemployment remains high.
- Albania has one of the lowest stocks of FDI in Europe, particularly low in manufacturing, and is the least integrated in global value chains in SEE.

- Electricity generation remains almost entirely reliant on hydropower, posing financial risks related to expensive energy imports in periods of low rainfall.
- Investments in energy efficiency are low.
- Vulnerability to climate change is significant.

- Infrastructure investment needs and accompanying reforms are well recognised. Road tolling introduced in September 2018.
- The authorities are ready to work closely with IFIs to proceed with infrastructure investments.
- Progress with the implementation of Investment Council proposals.

- Government measures against informality, including online tax filling and anti-informality campaigns, yielded some positive results.
- Export of services (mostly thanks to tourism) increased fivefold since early 2000s, and accounts for one fourth of GDP, a larger share than that in EU-11 or WB-5.
- Recognised need for skills upgrades but education quality remains low; similarly little action is taken to manage the brain-drain.
- Two major energy projects resulted in a significant increase in FDI stock in the last three years, although overall level still remains very low.

- Efforts are ongoing to liberalise electricity market, diversify sources of generation, unbundle distribution and supply, and strengthen regional integration.
- GCAP with Tirana agreed and first non-sovereign municipal transaction enabled by water tariff increases already signed.

- Extensive experience in preparing and implementing infrastructure investments, at national as well as subnational levels across the region.
- Strong emphasis on governance improvements for EBRD clients, including financial and operational as well as corporate governance action plans.
- Selected policy advisory services under ICGI.

- Strong focus on supporting the private sector through a combination of financing, advisory support and policy engagement to enhance the business environment
- Well developed financial and advisory support for private sector clients, including direct finance as well as indirect financing and risk sharing through financial institutions, and ASB. Investment focused approach to skills development and job creation.
- Supporting clients to implement work-based learning and high quality on-the-job training to strengthen employability and close skills gaps

- Supporting diversification of electricity generation, particularly in solar, wind and gas.
- Increasing focus on the expansion of green networks to ensure energy security in intermittent renewable energy systems.
- Promotion of sustainable and smart cities, including Green Cities Programme.

5. Activities and Results Framework

Priority 1: Support governance improvements across the economy

Key Objectives	Activities	Tracking Indicators (Outcomes)
Commercialisation and restructuring of SOEs; Strengthen the corporate governance of firms	- Restructure selected SOEs in energy, transport and water/waste water; improve their corporate governance and business practices. - Support the development of gas sector, including capacity building in newly created gas TSO Albgaz, and policy engagement on regulatory framework.	- Policy recommendations accepted and implemented by relevant authorities and stakeholders - Corporate governance of supported firms improved (number of firms/ qualitative account)
Improve the quality of institutions; Strengthen the rule of law	- Finance for infrastructure while strengthening related institutional framework and procurement practices. - Continue to support the Investment Council and, through well-targeted TA, the implementation of its recommendations, including support for the competition authority and a reform of business inspections. - Support implementation of the justice reform-through judiciary trainings.	- Legal/institutional/regulatory improvements in the areas of investment climate and governance - Number of judges / officials trained

5. Activities and Results Framework

Priority 2: Enhance private sector competitiveness and inclusion through wider access to finance and skills

Key Objectives	Activities	Tracking Indicators (Outcomes)
Increased competition through entry/consolidation and levelling playing field; Increased access to finance and entrepreneurship	- Finance private companies through funded and unfunded facilities, including credit lines, risk sharing, and trade finance, as well as directly across all sectors. - Support the economic inclusion of women, youth and regions through dedicated financing, advisory activities as well as promotion of inclusive procurement. - Improve capacity of PFIs, through TA, to unlock lending to the private sector. - Continue with the implementation of the AASF, to improve access to finance for the agribusiness sector, including through TA to PFIs.	- Number/volume of loans extended to MSMEs by partner financial institutions (including by inclusion target groups) - Number of clients reporting increased turnover / employment
Improved business skills, standards and business sophistication; Access to skills development (incl. skills mismatch reduction)	- ASB to improve performance and standards of SMEs, as well as their investment readiness. ASB will support capacity building of SMEs in the area of financial management and reporting, business skills across priority sectors and inclusion target groups. Support the growth of high potential SMEs, combined with access to finance. - Assist in setting up a tourism sector skills council involving key stakeholders, both public and private, including to strengthen relevant Vocational Education and Training.	- Number of clients that improved standards as targeted (including by inclusion target groups) - Total number of people receiving improved skills (including by inclusion target groups)
Increased access to infrastructure unlocking economic opportunities	Finance tourism enabling infrastructure, such as water and wastewater, roads, and municipal services, in cooperation with the EU, other IFIs and donors, ensuring inclusive, gender responsive design of key services.	Net increase in infrastructure usage and/or capacity

5. Activities and Results Framework

Priority 3: Strengthen energy diversification and low-carbon transition

Key Objectives	Activities	Tracking Indicators (Outcomes)
Reduced CO2 emissions, increased energy and resource efficiency, and improved climate resilience	- Support diversification of power supply, including through financing gas and additional renewable capacity, particularly solar and wind power generation, as well as policy engagement and TA for competitive capacity allocation. - Promote green transition and support Albania in achieving its nationally determined contributions. - Finance resource and energy efficiency through credit lines, risk sharing as well as directly, alongside advisory if needed. - Continue with Green Cities Initiative in Tirana, including follow up investments, urban transport improvements, and urban regeneration. - Enhance resilience of infrastructure to climate change as part of infrastructure development projects. - ASB to strengthen advisory in energy efficiency and transition to circular economy models.	- Total CO2 reduced/avoided (ton/yr) - Total solar, wind or gas electricity capacity installed (MW)
Reinforced networks for domestic and regional connectivity	- Finance investments in energy transmission and distribution to reduce losses and expand networks, assist Albania in regional energy market integration, and continue the relevant policy dialogue. - Wider policy engagement in the energy sector, including to deepen market liberalisation and continue with power sector unbundling in line with the EU Third Energy Package and other relevant policies and activities (e.g. European Green Deal). - Finance transport infrastructure to enhance national and international connectivity.	Improved/increased infrastructure capacity (incl. total net increase in capacity, if relevant) through Bank-assisted projects

6. Mapping of International Partners' Complementarity in EBRD Business Areas



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EBRD BUSINESS AREAS

EBRD BUSINESS AREAS														
		Sectors									Cross-cutting Themes			
		Industry, Commerce & Agribusiness					Sustainable Infrastructure		Financial Institutions		Strategic Initiatives			
Indicative annual investment/ grants (2015-2019 average unless otherwise specified, excluding budget support)		Agribusiness	ICT	Manufacturing & Services	Natural resources	Property & Tourism	Energy	Infrastructure	Banking	Non-bank Financial Institutions	Green Economy	Inclusion and Gender	Local Currency and Capital Markets	Small Business
EU	107													
World Bank	76													
KfW	70													
EIB	28													
EBRD	123													

€ Area of significant investments ● Focus mostly on private sector
 P Area of significant policy engagement ○ Focus mostly on public sector

Potential Areas of Cooperation



Competitive:

Leverage grant financing from the EU and other donors to support access to finance and skills in key sectors of the Albanian economy such as tourism and agribusiness.



Integrated:

Under the WBIF umbrella and in close coordination with EIB and WB, continue supporting the development of key connectivity infrastructure.



Resilient:

Continue policy dialogue and TA supporting energy sector reforms in close coordination with the Energy Community Secretariat, WB and KfW.



Well-governed:

Through the consultation platform provided by the Investment Council, continue policy dialogue and TA supporting improved business climate in the country, in close coordination with the EU, SECO, WB and IFC.



Green:

Continue financing investments under the GCAP for Tirana, in co-operation with other IFIs and donors. Environmental investments should also be a material component of the programme on tourism competitiveness with the EU.

Note: IFI activity mapping based on publicly available information.

Note: AASF was included in both FI Banking and Agribusiness, as it is a joint project.

Significant IFI investment defined as projects exceeding 5% of annual investment and signed from 2016.

PUBLIC

7. Implementation Risks, Environmental and Social Implications

Risks to the Strategy Implementation	Probability	Effect	Environmental and Social Implications
- Slow down in the EU approximation process and related reforms - Political instability leading to lack of focus and inconsistency in Government policies - Weak capacity and frequent personnel changes in the public administration - Stalling of reforms in the energy sector limiting liberalization and investments - Development of key infrastructure projects through non competitive and poorly prepared processes - Deterioration in business environment leading to weak FDI	● ● ● ● ● ●	● ● ● ● ● ●	▪ Assessment and Management of Environmental and Social Impacts: Ensure that direct, indirect and cumulative impacts of projects and their associated facilities are appropriately assessed in accordance with the EU EIA Directive and EBRD PRs. Support clients to strengthen E&S management capacity and disclose reports. ▪ Labour and Working Conditions: Ensure clients' and relevant third party employers' HR policies and practices comply with EBRD and EU requirements promoting equal opportunities and economic inclusion, respecting labour rights, managing impacts of large scale retrenchment and preventing potential discrimination towards minority and other vulnerable groups. ▪ Resource Efficiency and Pollution Prevention and Control: Challenges remain in waste & wastewater collection and treatment, and air pollution. Support clients to comply with relevant EU Directives and improve the efficiency of industry-specific processes in line with BAT. ▪ Health and Safety: Aim to improve H&S standards across all sectors. Road and traffic safety, including risks associated with tourism projects, are priority issues and engagement with clients and other stakeholders may be required. TC funds to support these activities may be needed. ▪ Land Acquisition, Involuntary Resettlement and Economic Displacement: Ensure that effective livelihood restoration and meaningful engagement is carried out with people affected by projects requiring involuntary resettlement caused by physical and/or economic displacement in accordance with EBRD requirements, including those with no legal title. ▪ Biodiversity Conservation and Sustainable Management of Living Natural Resources: Challenges remain concerning the need to adequately consider the potential risks and impacts of project related activities to sensitive flora, fauna, ecosystem services and/or legally protected and internationally recognised areas of biodiversity value. TC funds to raise awareness concerning good international practices with both public and private sector partners is required. ▪ Cultural Heritage: Ensure appropriate assessments are carried out and clients consult with key stakeholders to protect cultural heritage. ▪ Financial Intermediaries: Ensure FI partners strengthen E&S risk management capacity and systems. ▪ Stakeholder Engagement: Support clients in developing and implementing stakeholder engagement plans and ensure transparent participatory consultation carried out as part of local permitting and ESIs.

8. Donor Co-Financing Assessment

8.1. Needs Assessment for the New Country Strategy Period

Donor funding will be required to achieve the strategic objectives of the Country Strategy, including for:

- Strengthening the investment climate and corporate governance, including through capacity building initiatives to strengthen institutions and support for judicial reforms.
- Co-investment and first loss risk cover grants, as well as implementation support to promote access to finance, including through on-lending programmes with PFIs.
- Advisory services to enhance competitiveness and support the growth of high potential SMEs.
- Grant support for Infrastructure projects which enhance domestic and regional connectivity as well as tourism potential, including in the energy, road and maritime sectors.
- Project preparation and implementation support for investments which promote green economy transition and resource efficiency, including in the renewable energy sector.

Selected Affordability Indicators

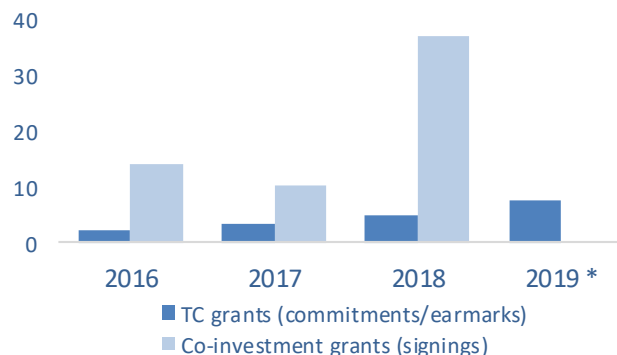
		EBRD regional percentile rank ¹
GDP per capita (PPP, current. \$) ²	13,345	31 st (CoOs)
ODA Country	YES	N/A
ODA as share of Gross National Income (%) ³	1.2	28 th
ODA per capita (\$ - current prices) ³	54.76	40 th

Sources: ² IMF (2018), ³ OECD (2017)

8.2. Potential Sources of Donor Funds

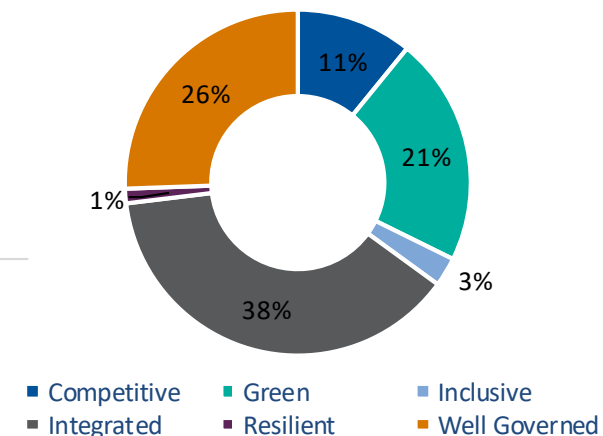
- **Western Balkans Investment Framework (WBIF)**: A joint initiative of the beneficiary governments, the EU, bilateral donors and IFIs. TC and co-investment grant support is available for priority investments across transport, energy, environment, digital, social, and private sector development projects.
- In addition to funds channelled through the WBIF, other **EU IPA** funding may also be available. Priority areas for Albania under IPA II include infrastructure, governance, legal reform, environment, competitiveness, and agricultural & rural development. Funding available under IPA III will start to deploy in 2021.
- Albania will be eligible for **Green Climate Fund** funding under the EBRD Green Cities Facility, both for technical assistance and investments in green infrastructure.
- **Albania** is a donor in its own right, and has committed up to €36m to date in first loss risk cover to enhance access to finance for agribusinesses under the AASF.
- Support from other **bilateral** donors (such as SECO, Sweden and Italy) will continue to be sought. Funds can also be channelled through **Multi-Donor Accounts** such as the Small Business Impact Fund.

Donor finance during last strategy (€m)⁴



*Preliminary estimate

Current Grant Funding Needs⁵



1. Simple percentile rank reported as the share of EBRD countries (ODA CoOs in the case of ODA indicators) that are represented below Albania.

4. 2016-2018 TC data is based on earmarks at the project level. Co-investment grant amounts are based on client signings.

5. Estimated grant funding needs are based on the operational needs reported by banking teams for PUBLIC to be started in 2019. Estimated funding needs generally exceed actual grant use as some needs may not materialise, may be delayed, or may be split into several years of fundraising efforts due to operational needs and realities.



ANNEXES

Albania's commitment to and application of the political principles stated in Article 1 of the Agreement Establishing the Bank continued since the adoption of the previous Country Strategy, in line with its efforts towards implementation of the comprehensive EU reform agenda.

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

In the period since the adoption of the previous Strategy, Albania has made further progress in democratic reform. Improvements were made in the areas considered to be among the key weaknesses in the Western Balkans countries – rule of law and public administration reform. The authorities have, in particular, embarked on a thorough reform of the judicial system designed to increase its independence, professionalism and efficiency, and increased efforts in the fight against corruption and organised crime, including measures against drug trafficking and cultivation.

The progress in democratic reforms achieved by the Albanian authorities has been reflected in respective assessments by the European Commission as part of its scrutiny related to Albania's efforts in EU approximation. In May 2019, the European Commission, having assessed that the country achieved sufficient progress in the reforms, issued formal recommendation to the European Council for the opening of the EU accession negotiations. However, at the European Council meetings in June and October 2019 no consensus has been reached on this issue. Consequently, on 18 October 2019 the European Council decided to postpone the decision and to revert to this issue again before the EU-Western Balkans Summit in May 2020.

In spite of the above-mentioned progress, significant challenges remain, including the need to establish a solid track record of investigations, prosecutions and convictions in the fight against corruption at all levels and in the fight against organised crime. Further sustained efforts are needed to improve the business environment and tackle the informal economy. The country's persistently polarised political atmosphere presents additional challenge.

Free Elections and Representative Government

Free, fair and competitive elections

Elections in Albania are generally conducted in a manner deemed by the OSCE and the Council of Europe to be largely free, fair, and competitive. The legal framework provides a sound basis for democratic elections, provided there is political will for the proper implementation. It has benefited from several waves of electoral reforms, including extensive amendments based on recommendations from the OSCE Office for Democratic Institutions and Human Rights (ODIHR) and the Council of Europe's Commission for Democracy through Law (Venice Commission). The last three general elections in Albania (2009, 2013 and 2017) were peaceful, which represented a significant achievement compared to past elections that had often been accompanied by violence.

However, procedural shortcomings and allegations of vote-buying and pressure on voters, as well as excessive politicisation continue to undermine public trust in the electoral process. OSCE/ODIHR has recommended a number of additional measures in order to bring elections in Albania further in line with OSCE commitments and international standards for democratic elections.

The last general elections, held on 25 June 2017, went, according to the OSCE/ODIHR Election Observation Mission, mostly in an orderly manner, with contestants able to campaign freely, although some procedural irregularities and omissions were observed. This included instances of proxy voting and interference by unauthorised party activists. Above all, the politicisation of election-related bodies and institutions has continued to mar the electoral process.

The final report on the 2017 general elections issued by OSCE/ODIHR offered a number of detailed recommendations for consideration by the authorities, political parties and civil society. The list of priority recommendations includes, inter alia, an appeal to undertake further electoral reform in order to take on board OSCE's recommendation and harmonize different elections-related laws; address persistent issue of vote-buying; removing restriction on the suffrage rights (age and mental health related); and guarantee the same rights for all observers.¹

The last local elections, held on 30 June 2019, took place amidst extreme political polarisation. The main opposition party boycotted them, while the President of the country decreed their postponement to a different date. The turnout was very low. The OSCE/ODIHR Election Observation Mission, while noting that the voting was conducted in a generally peaceful and orderly manner, asserted that these elections “were held with little regard for the interests of the electorate”.²

Separation of powers and effective checks and balances

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

The 140-member unicameral parliament is elected for a four-year term under a regional closed-list proportional system. Overall, some progress has been made in the functioning of the parliament, including transparency and inclusiveness of the legislative process. However, it continues to suffer from periodic boycotts by opposition members of parliament. In February 2019, most of opposition MPs unprecedentedly relinquished their mandates. In its conclusions related to Albania the EC's 2019 Communication on EU Enlargement Policy urged the opposition parties to “constructively re-engage in the democratic institutions”.³

1. OSCE/ODIHR, Election Observation Mission, Albania, parliamentary elections 25 June 2017. Final Report, p. 24-25.

2. OSCE/ODIHR, Election Observation Mission, Albania, local elections 30 June 2019. State of Democracy Preliminary Findings and Conclusions. p.1

3. European Commission, Communication from the Commission to the European Parliament and the Council, 29 May 2019, p.15.

Effective power to govern of elected officials

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

Civil Society, Media and Participation

Scale and independence of civil society

A satisfactory legal framework for civil society organisations (CSOs), which has improved significantly in recent years, including the laws related to the functioning of non-profit organisations, is in place. The process for the registration and operation of CSOs is relatively straightforward and generally in line with international standards. However, there are unresolved issues related to the definition of non-profit activities, financial reporting and taxation. In 2015, the Albanian Parliament adopted the law on the establishment and functioning of the National Council for Civil Society. The Council, which became operational at the end of 2017, is a consultative mechanism aimed at promoting the involvement of civil society in policy-making process. Cooperation between the state and CSOs has improved. CSOs are in general consulted more regularly on policy and legal initiatives than in the past. Follow-up processes, however, leave much to be desired.

More than 1,600 CSOs are currently registered with the tax authorities in Albania. However, there are only a handful of well-established and well-funded CSOs, mostly in the largest cities. The role of CSOs is affected by the, real or perceived, polarisation of CSOs and their leadership, which mirrors a high level of polarisation in the country in general. The civil society sector remains fragmented and overly dependent on external donor funding, while the last years witnessed the withdrawal of many foreign donors due to their reorientation towards other regions.

The right to form trade unions is enshrined in law, and labour and trade union's rights are generally respected in practice.

Independence and pluralism of media operating without censorship

Pluralism in the media, which operate freely and without censorship, has increased overall in recent years. The legal framework is largely in place and in line with international standards.

There are more than 250 broadcast outlets and 26 daily newspapers operating in Albania, which is one of the highest numbers per capita in the region (although the circulation, even if taken per capita, lags behind). Electronic media dominate the market. The main media outlet is the public Albanian Radio-Television (RTSh) with its two national channels being particularly influential in rural areas. There are several private national channels, and a large number of regional and local private broadcasters. Online portals are rapidly replacing print media.

Recent years witnessed explosive growth in Internet access. According to the International Telecommunication Union (ITU), the percentage of the population with internet access grew from 60 per cent in 2014 to 73.5 per cent in 2018. Social media is playing an increasingly important role and about 47 per cent of Albanians were active Facebook users, as of December 2017.⁴

Given the high number of media competing in a limited advertising market and the lack of transparency in their funding, media observers have raised concerns about excessive interference by business and political interests. Although there are a few journalists associations and trade unions, there is still no self-regulatory body for the media. A number of amendments have recently been made to the civil and criminal codes, which led to the removal of prison penalties for defamation, although full decriminalisation of defamation and libel have not yet been achieved.

Multiple channels of civic and political participation

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

Freedom to form political parties and existence of organised opposition

The freedom to form political parties is both guaranteed by the Constitution and implemented in practical terms, highlighted by the existence of a significant opposition able to campaign freely and oppose government initiatives. 18 political parties participated in the last general elections in Albania and five of them won parliamentary seats. The main opposition political party used to hold (prior to most of opposition MPs relinquishing their mandates in February 2019 as part of the opposition-led protests against the government) 36 per cent of seats in the parliament, and its representatives headed a number of parliamentary committees.

Rule of Law and Access to Justice

Supremacy of the law

Necessary legislative and institutional safeguards for the supremacy of the law are in place. The right to a fair trial and freedom from arbitrary arrest and detention are enshrined in the Constitution and the criminal code. Supremacy of the law has increased as a result of the going comprehensive reform of the justice system, including institutional restructuring and re-evaluation of all judges and prosecutors (vetting).

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

Independence of the judiciary

The independence and impartiality of the judiciary is guaranteed by the Constitution.

Comprehensive reform of the judiciary, which has commenced in 2016, is making progress, consolidating its independence, impartiality, professionalism and accountability. New bodies for the independent self-governance of the judiciary have been established.

Government and citizens equally subject to the law

The comprehensive reform of the system of justice is bringing positive results strengthening the principle of government and citizens equally subject to the law.

Effective policies and institutions to prevent corruption

Corruption remains a serious problem. According to the 2018 Transparency International Corruption Perception Index (CPI), Albania occupies the 99th place out of 180 countries assessed, making it one of the lowest ranking countries in South Eastern Europe.⁵

Since the adoption of the previous Strategy, Albanian authorities have intensified efforts in the fight against corruption and organised crime, including prominently in the fight against drug trafficking and cultivation. A number of successful large-scale law enforcement operations and arrests have been accomplished. However, as underlined in the latest EC's assessment, "the establishment of a solid track record of proactive investigations, prosecutions and convictions in the fight against corruption at all levels...remains a long-term challenge".⁶

According to the latest report by the Council of Europe's Group of States against Corruption (GRECO) on corruption prevention in respect of members of parliament, judges and prosecutors, published in July 2018, Albania has implemented satisfactorily or dealt in a satisfactory manner with four out of the ten recommendations contained in the Fourth Round Evaluation Report. The remaining six recommendations were partly implemented. GRECO welcomed the progress the country has made and encouraged the authorities to proceed with reforms in all remaining areas.⁷

5. Transparency International, Corruption Perceptions Index 2018

6. European Commission, communication from the Commission to the European Parliament and the Council, 29 May 2018

7. GRECO, Albania, Fourth Evaluation Round, 12 July 2018.

Civil and Political Rights

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

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

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

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

A major problem remains restitution of property confiscated during the communist regime, and the resolution of land titling and ownership. The reform of property rights is crucial for the consolidation of the rule of law, as much as it is for economic development. In 2019, the parliament adopted the Law on Cadastre, which should be conducive to concluding first registration of property titles throughout the territory of the country.

The latest assessment of Albania's track record in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) was adopted in May 2019. Statistics of this cycle are not available yet. In the previous cycle, conducted in 2014, the top two recommendations for Albania included rights of the child (33.33 per cent) and women's rights (28.07 per cent). Albania supported 97.66 per cent of the 171 recommendations made in the course of the review process.⁸

Political inclusiveness for women, ethnic and other minorities

The legislative framework for the protection of ethnic minorities is broadly in place, including the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expression. In 2017, Albania adopted the framework law on the Protection of National Minorities. Ethnic minorities actively participate in political life, including through their own political parties. They are stronger, than in some other regional neighbours integrated in the mainstream (non-ethnic based) political parties.

8. United Nations, Universal Periodic Review (UPR) Statistics

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

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

Women have a number of high-profile representatives at the national level. The government established after the 2017 general elections had roughly 50 per cent female members. The gender quotas led to an increase of women's representation in the parliament from 7 per cent in the past to 26 per cent in the current parliament. At the same time there is a disparity between the share of women among candidates for elections (40 per cent at the last general elections) and share of seats they eventually received in the parliament (26 per cent).

Freedom from harassment, intimidation and torture

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice. A delegation of the Council of Europe's European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) last visited Albania in November 2018. The periodic visit's report is under preparation. The latest report, published in May 2018 following an ad hoc visit in 2017, welcomed continued efforts made by the Albanian authorities to address the previous recommendations of the CPT and improved material conditions of detention in police establishments. Police is generally perceived as treating suspects correctly; however the CPT delegation received several allegations of physical ill-treatment in certain police stations. The Committee recommended that the Albanian authorities vigorously pursue their efforts to combat all forms of ill-treatment by the police.⁹

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