

Albania – Building Competitiveness from the Ground Up



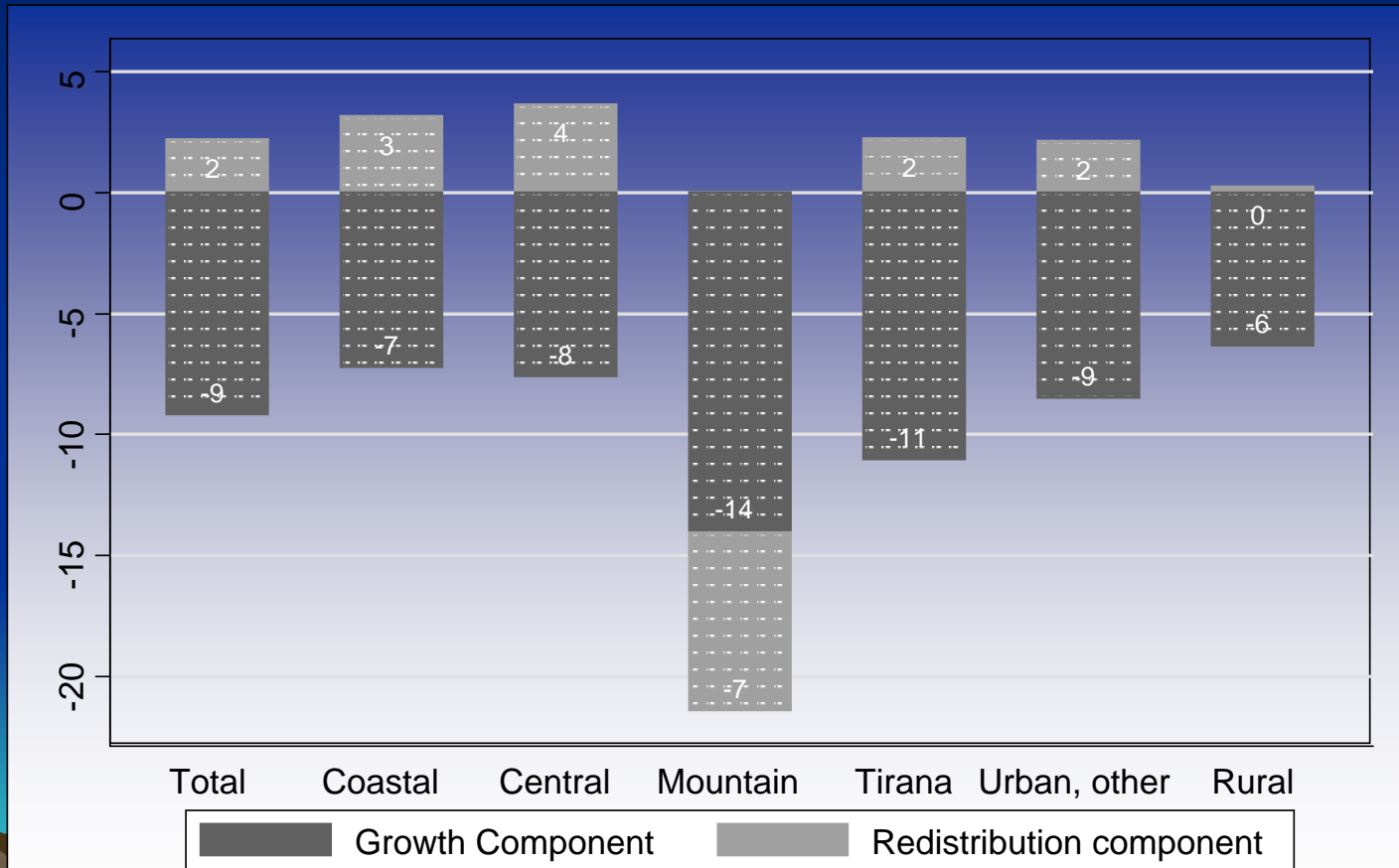
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Sustained growth and poverty

- Sustained economic growth over the past decade has delivered increasing incomes and poverty reduction.



Source: LSMS 2002 and 2005.

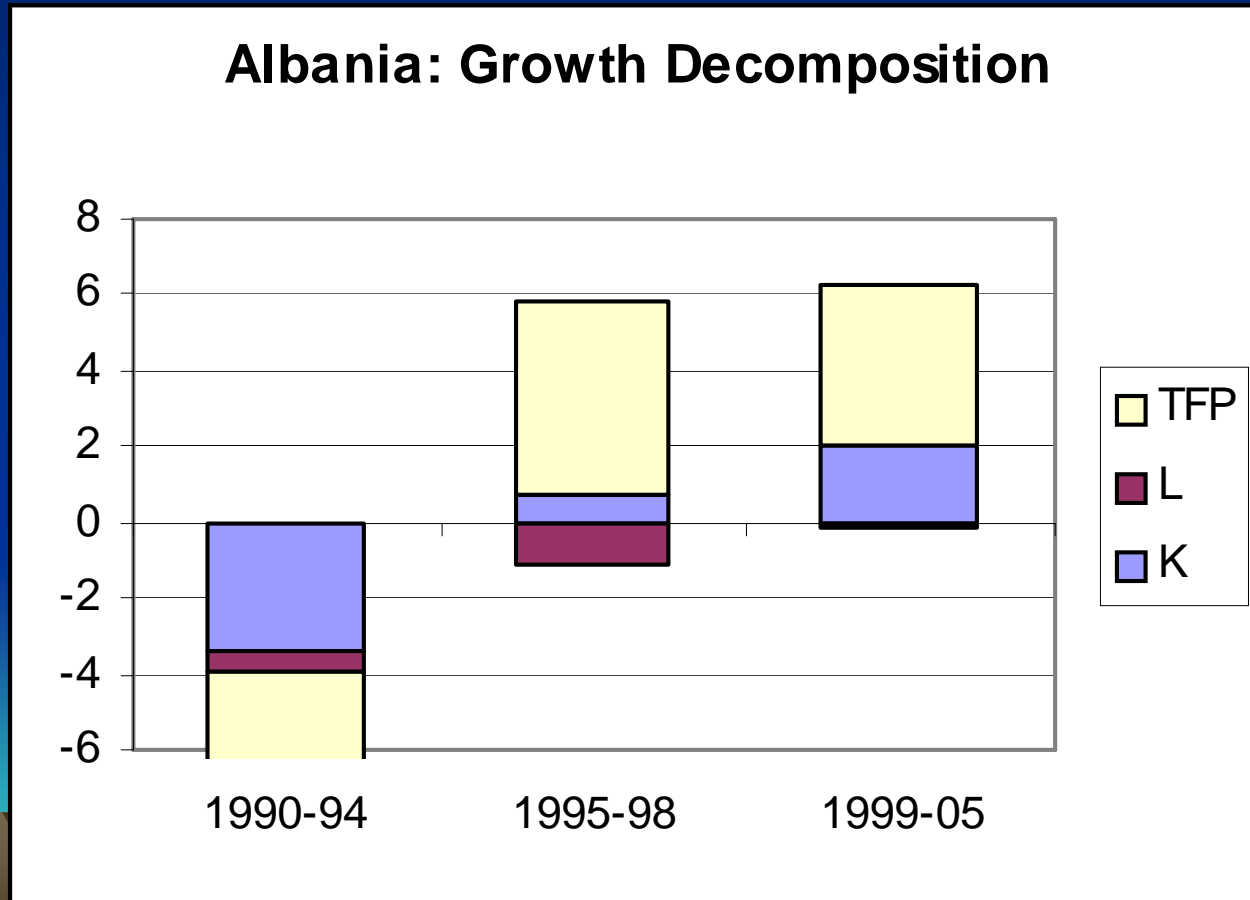
Albania at a crossroads

- However, constraints to sustaining that growth are emerging.
- Continuing the strong macroeconomic management will be more challenging, but the track record and prospects are good.
- Persistence on structural reforms will remain an important part of any successful development effort.
- In the short term the emphasis is clear, but the medium term strategy may need some refinement.



Challenges and opportunities (1)

- Growth has been driven by productivity gains: 6.1% TFP growth was the main component of GDP growth of 6.3% (1993-2003)
- But such high gains in productivity are already slowing down



Challenges and opportunities (2)

- Sustaining growth will require increasing both capital and labor accumulation, and expanding exports.
- Private investment though increasing, remains low with periodic bursts in privatization and private participation in infrastructure
- Labor participation remains low and unemployment high, masking as a mismatch between wage rates and productive structures
- Exports are picking up but are still concentrated in unskilled labor and natural resource intensive products
- Services, including tourism, show a lot of potential but will require careful management to preserve natural and cultural assets



A “ripening” business environment

- Strong tradition of pro-business government.
- Good macroeconomic management with stable fundamentals
- An increasingly open economy and deepening financial sector
- Strategic location, good natural resources, reasonably educated labor force.
- Key constraints are in infrastructure, regulatory framework and delivery of public services (including judicial services, planning and land management, etc) and skills



“Cultivating” the infrastructure

- Energy shortages being addressed through reform, privatization, public and private investments in generation, integration into regional market
- Telecom services have been and will improve with privatization
- Water supply remains problematic, but reforms are underway to support improving efficiency with some evidence of success.
- An extensive program in road construction underway, with improvements in management and maintenance of the network
- Ports and airports – again private participation in the airport has already yielded results and will be expected to do so in ports.



“Pruning” the regulatory framework

- Progress on streamlining **licensing regimes** and introducing regulatory analysis for new regulations
- Putting in place the tools for better **land use, management and urban planning**
- New “one stop” shop for **business registration** just opened
- Efforts to tackle corruption in **tax and customs administration**
- Introducing **technical and environmental standards** to encourage improvements in product and service quality



“Plowing” the playing field...

- Implementing a new **concessions framework** to guide public-private partnerships and a new **public procurement law** to guide public influence in the market place
- Strengthening **regulatory institutions** through independence and accountability
- Introducing **e-government** as a means to create transparency
- Improving **debt management** in view of widening access to capital markets and commercial creditors
- Tackling **informality** as a form of unfair competition



“Growing” pains

- Implementation challenges remain on all these reform efforts, as much from politicization of reforms as from capacity constraints
- Weak governance, corruption and persistent uncertainty over property rights continue to discourage investment
- Relatively high labor taxes may be limiting job growth and making labor uncompetitive for skill base
- Careful management of access to commercial financing and investment promotion initiatives will be critical for long term sustainability
- The vision of Albania’s competitive advantages in the global and European market place is still evolving



“Harvests” and “yields”

- In terms of progress on structural reforms, Albania has the potential to converge on and even overtake its neighbors, but only with consistent implementation.
- Demonstrated improvements in governance and the business environment could yield a significant and sustained jump in foreign and productive diaspora investment
- There remains strong support from development partners or addressing remaining constraints in the public sector
- In particular, the World Bank is involved, *inter alia*, in education, water, energy, land and environmental management, the business regulatory framework, and public sector reforms



For further information about World Bank activities and analysis on Albania, please visit www.worldbank.org.al

The screenshot displays the World Bank website for Albania. At the top, the navigation bar includes 'Home', 'Site Map', 'Index', 'FAQs', and 'Contact Us'. Below this is a secondary menu with 'About', 'Countries', 'Data & Research', 'Learning', 'News', 'Projects & Operations', 'Publications', and 'Topics'. The main header features a banner for 'Albania' with a search bar containing 'Albania' and a 'GO' button. A breadcrumb trail reads 'Home > Countries > Europe and Central Asia > Albania'. On the left, a vertical menu lists categories such as 'Overview', 'News & Events', 'Data & Statistics', 'Publications & Reports', 'Development Topics', 'Projects & Programs', 'NGOs & Civil Society', 'Public Information Center', 'Related Links', and 'Contact the Albania Office'. The main content area is divided into several sections: 'World Bank's Mission in Albania' with a 'Learn More' link; 'Worldwide Governance Indicators' featuring a graphic for 'A Decade of Measuring the Quality of Governance' and text stating that Albania continues to perform well on Voice and Accountability; 'Subscribe to Updates for Albania' with a form for e-mail, organization type, and country of residence; 'Country Assistance Strategy 2006-2009', 'Small Grants Program', and 'Summary: Country Brief'; 'Projects & Programs' listing items like 'Development Policy Loan (DPL) Mar. 2007', 'Transport Project Feb. 2007', 'Land Administration and Management Project Feb. 2007', 'Business Environment Reform and Institutional Strengthening Project Oct. 2006', and 'Avian Influenza Control and Human Pandemic'; 'In-Depth Analysis' listing 'Albanian Urban Sector Review, Vlerësim i Sektorit Urban në Shqipëri, Jan. 2007', 'Albania Social Insurance Review, Shqipëria, rishikim i sistemit të sigurimeve shoqërore, Dec. 2006', and 'Albania: Trends in Poverty and Inequality, Shqipëria, tendencat e varfërisë dhe pabarazisë, Dec. 2006'; 'Consultations on Anticorruption' with a text box about feedback on the Implementation Plan; and 'World Bank in Albania' with 'Our Work' and '10 Things to Know'.