



# OFFICIAL DOCUMENTS

REPUBLIKA E SHQIPËRIË  
MINISTRIA E FINANCAVE

**GENERAL PUBLIC DEBT DIRECTORATE  
BORROWING DIRECTORATE  
AGREEMENTS DIVISION**

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Tirana, on 6/12 ...../...../2016

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**To:** Dr. Jim Yong Kim  
*President*  
*The World Bank*  
*1818 H Street, N.W.*  
*Washington, D.C., 20433*

**Subject:** Letter of Development Policy  
Albania Competitiveness Development Policy Lending

Dear Mr. Kim:

This is to request, on behalf of the Government of the Republic of Albania (GoA), a Competitiveness Development Policy Lending of USD 70 million to support the government's strategy to enhance Albania's competitiveness in order to achieve higher and more inclusive growth. The GoA appreciates the long-standing partnership and cooperation with the World Bank Group on a range of development issues over the last two decades. This letter presents the macroeconomic context and background and summarizes critical aspects of the program that we are committed to undertake over the short and medium term to implement reforms that will attract and retain investment, make it easier to do business and facilitate trade.

Government Program and Structural Reform Priorities in 2016 - 2018

Our main economic objectives over the medium term are to restore robust and sustainable growth that would improve the living standards of our citizens; reduce the macroeconomic risks associated with the rising public debt; and mitigate the financial sector risks so credit can flow again.

We are fully committed to go through several deep reforms during the medium term 2017 - 2020 and achieve the following goals:

- We are committed to putting our public finances on a sustainable path and lowering public debt over the medium-term. We have begun the process of fiscal consolidation since 2014, with the goal to achieve a reduction in public debt. By 2020, we aim to bring public debt down to 60 percent of GDP from about 71 percent in 2013. In 2016 we are reaching a positive primary surplus by at least 0.4 percent of GDP, higher than was initially targeted. In 2017 budget, despite an Election year, we are continuing the fiscal adjustment, targeting the highest primary balance ever in the post-communist period by 0.7 percent of GDP and the lowest deficit level by 2 percent of GDP. Therefore the debt is going to be reduced by around 3 percentage points of GDP in 2017. We remain cautious about the uncertainties ahead, particularly the risks related with the economic

developments in the Eurozone, and we stand ready to make the adjustments necessary to ensure that fiscal consolidation is preserved. Earlier this year we presented several key legal improvements in the medium-term fiscal framework and public financial management including debt reduction fiscal rule, which were closely consulted with our international partners, including the World Bank and the IMF.

- We are committed to taking a proactive role in reforming the business climate to support robust and sustainable growth. As we have now resolved the problem of arrears, we plan to ensure that other business complaints are addressed. Strengthening the revenue administration; fighting the informal economy to reduce the competitiveness distortions; reducing redundant regulatory and procedural hurdles faced by the business community are some of the key measures in this regard.
- Albania's long-term goal is to join the European Union. As outlined in the European Commission's 2015 Progress Report for Albania, we have adopted key judicial, public administration and parliamentary reform measures that would allow us to make progress toward EU accession. In particular, the justice reform is now set on an irreversible positive path. We have also made strides in the fight against corruption and organized crime. We intend to further strengthen the independence and efficiency of the justice system, the fight against corruption and organized crime, and reforms in public administration and the constitutional amendments approved unanimously by the Parliament in July of this year is a fundamental step in this direction. We plan to progress quickly with other laws necessary for a successful implementation of the justice reform which than will open the door for negotiations with EU to advance in the integration process.
- Another main goal we are committed to achieve, with the highly appreciated assistance of World Bank, is maintaining a stable financial system, and improving the supervisory framework. We are implementing a comprehensive strategy to further reduce NPLs. The plan integrates and sequences reforms in the areas of supervision, regulatory enforcement, debt restructuring, and insolvency. We have already submitted legal changes to Parliament to better protect financial collateral and to strengthen property rights over real estate, amended regulations to facilitate write-offs and collateral management, and formulated an action plan for handling the 35 largest holders of NPLs (that account for around 50 percent of the NPLs). Going forward, the NPL strategy envisions simplifying and clarifying the bankruptcy law, as well as amending several other pieces of legislation such as the Civil Procedure Code and the Private Bailiff's Law in order to increase the efficiency of the NPL resolution process (SBs).
- Bank of Albania has made significant strides in improving its supervisory vigilance. Although Greek banks account for around 13 percent of total assets, the banking system weathered the financial turmoil in Greece last summer with minimal spillovers. The authorities adopted the Basel II framework in 2015 strengthening the banks' risk management practices. With about 70 percent of assets concentrated in the four largest banks, the authorities have been monitoring closely systemic institutions. The crisis management framework has been improved, including by preparing a new bank resolution law. The BoA also joined the European Banking Authority College in 2015, which will enable better coordination with foreign supervisors.
- Nonbank supervision has been substantially strengthened. The non-banking sector in Albania is relatively small at around 10 percent of GDP, but has seen rapid growth over the past few years. Five investment funds in particular have expanded rapidly, currently accounting for about half of this sector. The low interest rate environment is leading to increased appetite for savings instruments in the non-banking sector. In June 2015, we approved new regulations on liquidity requirements and asset valuation for investment funds. All vacancies on the executive board of the Albanian Financial Supervisory Authority (AFSA) have now been filled, after some delays.

## Reforms supported by the Competitiveness Development Policy Lending

Private sector development is a priority of the Government of Albanian, and our Economic Reform Program 2016 – 2018 focuses on the reduction of the regulatory burden to business, improve access to finance through effective implementation of the National Plan to reduce the level of the NPL, contribute to the innovation and R&D through the effective implementation of Digital Agenda Strategy and enhancement of institutional capacities for research and innovation. Trade and investment, as part of an integrated regional agenda, addresses the primary needs to attract new investment through a progressive and intensive agenda on trade facilitation and effective implementation of legal instruments for promoting investment.

The World Bank's Competitiveness Development Policy Lending is supporting the Government's reforms in several of the above key areas that will contribute to increased competitiveness: (i) attracting and retaining investment; (ii) making it easier to do business and (iii) facilitating trade.

### *Attracting and retaining investment*

By consolidating our investment laws and developing a systematic mechanism to identify and address investor grievances the Government is taking the much needed steps to build Albania's image as an attractive investment destination. In this regard we have undertaken the following actions:

- We recognize that a single investment regime will improve clarity to all investors. A comprehensive investment law with clear implementing regulations will provide greater clarity on investor protections and processes associated with investment, for both foreign and domestic investors. In the first phase of the DPL operation the government has outlined its intention in a policy statement which details the country's objectives to develop a new investment law and an action plan outlining the steps for its preparation. In the second phase of the operation we aim to develop a new comprehensive investment law which will build on lessons learned from existing legislation.
- Albania faces a relatively high number of international investment disputes. This is costly, not only in legal fees, but most importantly in reputational costs, affecting further investment attraction. The Government is committed to reducing the number of investor-state disputes and increasing transparency in handling investor grievances. To help prevent investor disputes, we will establish a formal mechanism ensuring regulatory compliance across government agencies and promoting effective problem solving for investors. Such a mechanism would help prevent investor grievances from escalating into disputes by identifying them in a timely manner and attempting to resolve them early.

### *Making it easier to do business*

Under the leadership of the Ministry for Economic Development, Tourism, Trade and Entrepreneurship (MEDTTE), the Government has made improving Albania's performance in Doing Business a policy priority. We have created an inter-ministerial working group including representatives from all line ministries responsible for the areas measured by the Doing Business report. The working group has drafted an Action Plan that aims to improve Albania's performance across all DB topics in the next two years. The reform measures included in the action plan will be binding for all implementing agencies and will be used as a tool to monitor reform implementation. Below are some of the areas included in the action plan that the Government commits to as well as a few other areas of reforms which are important for private sector development:

- The Government, under the leadership of the Ministry of Urban Development (MUD) has undertaken a reform to bring about an improved construction permits regime. The MUD enacted implementation a by-law to the Law on Territorial Planning in December 2015. The by-law provides guidelines for issuing regulations before and after the preparation of the General Local Plans, describes the role of the National Territorial Council, and gives local authorities the mandate to continue to issue permits for all construction that falls outside the jurisdiction of the National Territorial Council. Further to the by-law, on February 5, 2016, the MUD issued a decision No. 734 which aims to further disseminate the provisions of the by-law to all stakeholders. The decision highlights the following key provisions related to the implementation of the Law on Territorial Planning: 1) clarifies the responsibilities of municipalities and the National Territorial Council in the issuing of permits; 2) clarifies the key provisions of the new Law on Territorial planning including a one-stop shop for development permits, the required documentation for building permits, and sets out time limits for municipal and other agency reviews of building permit applications; 3) announces the introduction of an online one stop shop platform for construction permit applications as of April 20, 2016 (both paper and electronic submissions of construction permits were available to citizens until August 31, 2016, after which electronic applications became mandatory) and the mandatory use of electronic signatures in construction permits applications; and 4) introduces clear transparency requirements for all agencies involved in the construction permitting process as well as clear guidelines for the end users to be made available on a dedicated website of the Ministry of Urban Development by December 31, 2016.
- To make it easier for businesses to connect to the electricity grid, the Energy Regulator (ERE) in cooperation with the Ministry of Energy and Industry (MEI) and the distribution company (OSHEE), are revising the process for new connections. A new Regulation of New Connections on the Distribution System proposes the elimination of four procedures currently recorded in the DB “Getting Electricity” indicator, reducing the total time for the completion of new connections by about 30 percent from 177 days in DB2016 to 134 days in DB2017. The regulation also improved the quality control of connections by requiring that the execution of works is done by licensed operators and that the energy authority carries out the supervision and testing of final works.
- As part of the Government’s deregulation agenda, the GoA has provided one single window for registration and licensing and increased the number of licenses that can be issued online. The Law 131/2015 on the National Business Center approved in November 2015 has merged the National Licensing Center (NLC) with the National Registration Center (NRC). The creation of this new National Business Center (NBC) has: (i) created a single window front office where businesses can register and get licenses; (ii) streamlined the documentation for some licenses; and (iii) expanded access to licensing services to be provided to businesses in 33 regional centers, instead of the current 10. We will continue to simplify procedures by streamlining further business authorizations.
- As part of the implementation of the Government’s consumer protection strategy, a Decision of the Council of Ministers was issued in January 2016 that creates the Market Surveillance Inspectorate under MEDTTE. The Market Surveillance Inspectorate will oversee the implementation of rules that create fair market competition and safer consumers.

### *Facilitating trade*



The Government is committed to implement a set of trade facilitation reforms which will improve business environment and regional integration. We have committed to these reforms also as part of

the Western Balkans Summit and the Berlin Process. The reform areas supported by the Competitiveness DPL are:

- The Government is in the process of implementing risk management reforms for the National Food Authority (NFA) at the policy, institutional and operational levels. NFA is introducing risk management tools and methodologies in order to reduce the number of physical inspections and laboratory tests for internationally traded goods. The adoption of a risk management policy and the establishment of a risk management unit according to international best practices is a critical step towards the goal of reduced physical inspections. We will continue to ensure effective implementation of the new risk management policy through formalized cooperation and data sharing between the NFA and Customs.
- The Government aims to make the Approved Economic Operators (AEO) program operational. In this respect, the Albanian Customs Authority is ensuring that the benefits under the AEO program are fully implementable by starting with the local clearance benefit. Customs has issued an instruction that facilitated the implementation of local clearance and has already issued this benefit to three local companies.
- We aim to make the Port of Durres an attractive destination for port users. In September 2015 the authorities simplified port regulations by reducing the time allowed for free storage from 10 to 5 days which already shows an impact on port yard operations. In the near future, the Government aims to support the professionalization of the Durres Port Authority and strengthen its corporate governance.

Finally, the Government of Albania commits that the reform momentum will continue at the same pace even during the pre-election year and we look forward to continue our excellent partnership with the World Bank.

Sincerely,

**ARBEN AHMETAJ**  
  
  
**MINISTER QE FINANCES**