Instruments for the regional sustainable development in Albania - Instruments for supporting the implementation of regional development policy

PhD (C.) Manjola Duli

Abstract

Regional development is a cross-cutting issue. The current approach to regional development in Europe is place-based, in which multidimensional analyses are carried out and strategies and policies developed in relation to territorially defined socio-economic and environmental factors. In our study we have largely followed this approach, looking at long-term changes in a wide set of development indicators across Albania. As a result several regional typologies are presented as well as broad recommendations for regional development policy formulation. Albania has two levels of governance: national, county (qarks) and local (municipalities). Directly elected bodies exist at central and local levels. Qark councils consist of delegated representatives from local units. Albania's territory is organized into 12 counties and 61 local government units. There are neither administrative nor self-governing regions in Albania corresponding to NUTS 21 level classification. Qarks are the equivalent of NUTS 3 level. Currently in Albania there is no clear definition of a development region. In general it is perceived that qarks can be considered an appropriate level at which regional development is analyzed, promoted and monitored. Although we have followed this concept, both due to data available and no better practical alternative, there are clearly other possibilities which could surface in the medium-term perspective, for example:
NUTS 2 delineation for Albania could lead to a situation when development issues will become also relevant at the macro level – practically the number of NUTS 2 regions in Albania could vary between 2 and 3 unless the country is allowed to stay one region;
Territorial and administrative reforms could lead to a much smaller number of LGUs both at the basic municipality level and the qark level, especially that from a general RD perspective some of the qarks represent very small units, both in terms of population and size of the regional economy.
As Albania is in its early stages of integration into the European Union, there is clearly a need to develop a domestic socio-economic cohesion (regional development) policy. This can only be done through detailed studies of the current situation, the prevailing development trends and patterns, and consequently a wide discussion on how to best stimulate regional development actions.

Keywords: regional, development, Albania, instruments.

Introduction

Regional disparities in Albania are currently not extreme and non-uniform. While the country has several large structural development gaps in relation to the European Union and other candidate and potential candidate countries, internal disparities are considered moderate. Of course there are acute differences between Tirana and the least developed qarks of Diber and Kukes. However, due to the intensive migratory adjustments over the last two decades as well as government's and donors' interventions, the amplitudes between development indicators are not extreme.

In terms of external development disparities I have observed:

- High divergence in economic development in comparison to other European countries (very low GDP per capita);
- Several large development gaps (between Albania and EU member states as well between

  Albania and other candidate and potential candidate countries) in various indicators, not only GDP but also employment share in agriculture, access to services and infrastructure, etc;
- Outdated economic and spatial structures (extremely high employment in agriculture, low urbanization);
- High unemployment level combined with large external and internal migration flows leading to transfers of social and economic problems in space.

In terms of internal development disparities the following features are evident:

Clear regional differentiation if the extremes are looked at: the most developed – qarks of Tirana and then Durres and the least developed (disadvantaged) – Diber, Kukes. There is as well a "grey area" in between – good on some indicators, bad on others, experiencing different trends Migration seems to be a critical issue, especially in relation to high pressure on infrastructure and services in attractive areas and depopulation of some areas leading to inefficiency of infrastructure and services (schools, health centers, roads, water supply, etc.).

- Extreme differentiation on local municipality levels (as measured by local own revenues, and in the past by poverty indicators) In order to exemplify the realities of regional development patterns and challenges we present a snapshot of my findings in this summary section while more analytical insights are offered in chapters that follow.

Sustainable development

Social, economic and spatial disparities, either at regional or local level, in Albania have services and infrastructures as a crosscutting component. Access to services and infrastructures can be used to show level of development, wealth and also sustainable use of resources in the provision of services to the citizens. Access to services is also correlated with the efforts made by local governments in supplying them, as well as with the support of the central government. Thus on one hand we can understand the real financial power and autonomy of the local governments and on the other we can make assumptions on the priority development areas and the subsidies` and equalization policies of the national government.

Not all of the services are discussed in this part of article. This is due to their "crosscutting" characteristics. Thus, some of the services (health and education) are discussed as a social dimension. This chapter deals with: environmental pollution (caused by economy and infrastructures – waste disposal, air pollution, and water pollution, access to water supply and sewage system), the mobility patterns and network (public and private), access to communication services (internet, telecommunication). Quality and access are the two aspects that tend to be evaluated for each of the topics discussed below.

Data on environmental aspects refer to the environmental status reports prepared annually or biannually by the Ministry of the Environment. An attempt to distribute and interpret these data geographically and administratively has been made by the experts analyzing disparities in this chapter. The rest of the indicators such as road density, travel time and distance and communication are taken from the "Indicators at Prefecture Level" prepared by INSTAT.

Regional Environmental Aspects

Data on solid waste refer to the "Environmental Status 2014" report prepared by the Ministry of
Environment. The following information show the waste generated in qarks in tons per capita. The urban waste at country level increased from 0.17 ton/capita in 2003 to 0.21 ton/capita in 2013 (by 30%). The waste generation increase is especially high in Gjirokaster (over 100%), Vlore (79%), Shkoder (71%) as well as Tirana (35%). For other distant and mountainous regions there is a signifi cant decrease: Diber (-26%), Korce (-22%). Lezhe (-17%) Kukes (-7%)and Berat (-3.5%). The correlation analysis shows that this pattern is strongly linked to urban population share (r = 0.88).
Other consumption, poverty, access and economic indicators show that the better the economic conditions, the higher the urban waste generation (correlation above 0.75). Six qarks (Diber – 39%, Kukes, Lezhe, Korce, Elbasan, Berat – 73%) are ranked at less than 75% of the national average in 2008. All of these qarks have a urban population of below 50% and in five of them below 36%. A significant differentiation is made clear: 5 qarks above the national average, with 2 outstanding qarks: Tirana – 144% and Vlore – 172%. The main cause for higher urban waste generation is increased urbanization and non-agricultural economic activities. While regions will be seeking to increase value added in their economies by promoting nonagricultural sectors development, it will also lead to a greater waste generation and thus negative impact on the environment that need to be addressed by public policies.

Pollution of waters mirrors the type of human activities and natural phenomena in a specific c area. The Ministry of Environment reports annually on the state of environment in Albania, and pollution of both surface and underground water is one of the main environmental aspects monitored regularly. There are six official river basins in Albania, but for monitoring purposes, a more detailed classification is done, consisting of ten basins. Tirane, Durres, Shkoder, Kukes, Gjirokaster, Fier, Berat, and Korce correspond almost entirely in terms of area with one river basin only, while the rest of the qarks are located on more than one river basin.
Underground water in each basin is monitored for mineralization, hardness of water, Ph, plant nutrients (NO_3 and NH_4 and NO_2) and inorganic pollutants such as heavy and toxic metals. Regarding (heavy) metals, all indicators are below the norm in all basins. Relatively high values, above the norm (Albanian and EU), are observed for plant nutrients and hardness of the water. Pollution for these indicators is found in:
• Mati basin that corresponds with the area of Lezhe and Diber qarks – the Mati river is overexploited in the Lezhe part with construction material excavation; in the Lezhe area agriculture activities due to good land are going on as well as a lot of informal

settlements in the agriculture area;
• Erzen basin, which corresponds fully with the Tirana and Durres qarks area – the type of pollutants is closely linked with: intensive construction works, construction material extraction from the river, numerous informal settlements – lack of sewage system, lack of wastewater treatment plants, lack of landfills (so far dumpsites discharging leachate into soil), industrial activities discharging industrial waste water into soil – could be considered as scoring the lowest;
• Shkumbin basin – polluted by agriculture, wastewater discharge into the river, informal
settlements and inherited industrial pollution in Elbasan;
• Seman basin in the areas of Korca and Fier (Lushnje) – polluted by agriculture, wastewater
discharge into the river, informal settlements and construction material extraction in the river.
In terms of surface water pollution, the most important is the monitoring of the rivers in 35 stations. Monitoring is done for more indicators than for the groundwater due to direct discharge of pollutants into rivers.
In general the following observations are made:
• Water for rivers Drin and Mat penetrating the qarks of Diber, Kukes, Shkoder and Lezhe, score
the best – good quality of water, though in certain areas there is discharge of wastewater and construction material extraction;
• Medium to good quality is found in the rivers crossing Berat, Korce, Elbasan,Gjirokaster; Vlore mountainous area;
• Worst scoring in terms of quality and high pollution are rivers in Tirana, Durres, and Coastal area in Vlore, and Fier – all with direct urban and industrial wastewater discharge, no waste water treatment plants, intensive construction activities, high urbanization and high waste generation, large informal settlements.
The level and type of pollution as described shows that the main contributors to surface and
underground water pollution in Albania are: the extraction of the inert materials for construction from the river shores; discharge of wastewater directly into rivers and lakes from almost all settlements along the rivers (so far only two treatment plants are built in Albania, and these are only for local use); leaching from the dumpsites into rivers and underground water; over construction of "septic tanks" (without following standards for septic tanks) in settlements located in cities' outskirts.

Regional Water Supply Aspects

Data on access to water system are relevant to poverty, overall development, social exclusion and quality of infrastructures. However, the data is not sufficient enough as to present a full picture given that it is derived from only 2 surveys of INSTAT, which provide information at Qark level: Repoba 2011 and HBS 2012. Water access is still a problem issue: nearly ¼ of population does not have access to water supply system. The regional differentiation is relatively low – between 62% and 90% (or between 81% and 119% of the average) and the max/min ratio is 1,5. Korce (92%), Tirana (90%),

Vlore (87%), Gjirokaster (86%) score the best 18, while Diber (62%), Berat (69%), Durres (71%), Elbasan (71%) score the lowest. Also, a very low general improvement has been noted: 3% increase for 2001-2007 (2, 5 percentage points – from 74,5 to 77%), with significant differentiation between qarks. The improving qarks are Gjirokaster (+40%), Kukes (+12%), Lezhe (+11%), Tirana (+10%), while the worse are Fier (13%), Berat (-11%), Durres (-10%), Elbasan (-9%), Diber (-3%).

The quality of the water supply and access to the system is linked to water reform initiated in Albania after the year 2005, once water supply was decentralized and allocated to local government units as an exclusive service. The real transfer of water systems has in fact started around 2014 and it is not yet completed. The LGUs are not able to cover capital investments and most of the funds go for operation and maintenance of old and inefficient systems. It is also difficult for private operators to enter a subsidized market (WB PSIA 2004).

Another reason for low access to water supply is urbanization and dynamic demographic changes. The infrastructures and services supply has not followed the demographic dynamics. Moreover, informal settlements established at the cities` outskirts normally have no access to services. On the other hand, both informal settlements and several families living in areas with detached houses misuse water sources (improper consumer attitude), thus leading to: "false low network coverage" that is not covered by tariff s; unsatisfactory water quality due to inadequate sanitary conditions of water sources as a result of sewage infiltrations (septic tanks) and high number of individual wells; presence of water borne diseases such as diarrhea, etc.

 Finally, the lack of proper databases on water networks negatively impacts both, the investment and maintenance programs of the water companies on one hand and the government policies supporting modernization of the water sector on the other. Categorization of the qarks with respect to water network shows the following:
• The best supplied qarks are Korce, Tirane, Vlore and Gjirokaster – mainly due to differentiated progress of the reform, and specific donor support for water systems;
• The medium coverage qarks are Fier (worsening), Kukes (improving), Lezhe (improving) and Shkoder (investments have increased during the last 2-3 years);
• The worst scoring qarks are: Diber, Berat, Durres and Elbasan – unsuccessful management, while the situation is also worsening.

Regional Transport Aspects

Transport and thus movement of products and people play an important role in increasingly specialized economies, and are an important factor hindering or fostering regional development. In order to give a good picture of regional transport and mobility the following aspects have been analyzed: the road network, travel time from different settlements to the major qark urban centers, distance from different settlements to the main national road axes, travel distance to the main airport19, and transportation measured in cars per 1000 of population.

The data on road network are based on INSTAT publications "Indicators at Prefecture Level 2006-2012". These data are organized in two main groups20, namely: roads administered nationally and rural roads or "sub-national roads".

Albania has a relatively high road density (454 km/1000 km2 in 2008), but this has also negative
implications as numerous roads need to be maintained. Further, this indicator can be misleading if quality is not considered. As a matter of fact, the travel time maps and the reality check suggest high inefficiency of the road network and uneven quality across the country. Inefficiency is strongly linked to the mountainous terrain. Sub-national roads have much lower quality than national ones, while also constituting the majority of the total road network length.[1] At country level, nationally administered roads constitute 28% of the total roads (no changes between 2005 and 2012). However, at the qark level, this indicator shows some minor changes over time, with the most significant one in Kukes, decreasing from 48% to 30%. The latter has occurred due to the increase of sub-national roads, while nationally administered ones are reported unchanged. The qarks that contribute to the increase of the country average for nationally administered roads density are Elbasan, Fier, Gjirokaster and Shkoder, where national investments for primary road network focused during the last 5 years. In terms of inequalities between the qarks for "total roads", there is a significant differentiation, (max/ min ratio 3, 7).

Regional Telecommunication Aspect

Communication has improved during the period 2001-2013, though in different patterns if we compare the qarks. Three indicators have been considered: fixed telephones (no. of families that have a fixed line connection), mobiles (families where at least one person has two mobile) and internet access. Regarding fixed line telephones, there is a significant differentiation between qarks - max/min ratio is 3.2. Significantly above the average are Tirana (149%) and Gjirokaster (127%), while the worst, and significantly below the average are Diber (46%), Lezhe (48%), Kukes (53%), Shkoder (70%) and Fier (71%). Some convergence trends are also identified, but seem to be weak. The total increase for the period 2003-2008 is 12%. Most qarks report significant increase, while a substantial decrease is observed in Tirana (-17%). The telephone connections are positively highly correlated with other indicators – LGU own revenues, non-agricultural enterprises and population change. The decrease in Tirana might be dedicated to the high mobile use and good network coverage as well as the high internet use. It might also be impacted by other small companies apart from Telecom, located mainly in Tirana, which provide
fix/cable telephone connection. Further, another explanation might be the increase and densification of informal settlements around Tirana. Informal settlements are established on previously agricultural land and are inhabited by newcomers that have migrated from remote mountainous areas to the centre. Social exclusion is typical for these settlements and one of the features is lack of access to (basic) infrastructures. However, in general:
•   Costs for mobile phone are significantly higher than costs for fixed line telecommunication and internet;

[1]   Rinas as the only airport in Albania is taken into consideration for this analysis. The port of Durres and that of Vlore are excluded not only due to limited access to major commuting hubs abroad, but also given the adjacent location of Durres port and Rinas airport. *Referring to the INSTAT classifi cation, but modifi ed for the purpose of this study*

• Many areas (mountains) have poor mobile network coverage, i.e. the reliability and quality of connections is low;
• Regarding internet connection, still only 47% of internet users use internet in Albania for periods of more than 2 years, and 11 out of 12 qarks are ranked below the 75% of the average.

In terms of communication services, the following categories of qarks are observed:
• Tirana is outstanding with highest values on all indicators;
• Central and Southern qarks have a medium quality and access;
• Diber, Kukes, Lezhe, and Shkoder score the lowest.

Conclusions

Currently, the typical and most widely used financial instrument – both in Albania and in other European countries – is the grant (subsidy), a certain amount of money allocated to a beneficiary in order to make a specific investment (or to finance another activity) without any repayment obligation or other return. If the beneficiary is a public entity (municipality or government agency etc.) the asset created by the investment belongs to this entity and it is also operated by this entity. This scheme would not be fundamentally changed if – as it is suggested – in the future the RDF funding was linked as a rule to a certain co-financing by the beneficiary.

In order to generate the most possible impact of the use of public funds (or funds provided for serving public purposes) other financial instruments are to be used. The common feature of them is that the public fund is used for mobilizing private funds – by co-financing or risk sharing – and therefore the economic impact is multiplied. Most of them are sporadically available in Albania but not as a RD policy tool (The current situation in detail will be mapped and specific proposals developed soon).

The standard instruments are:
Grants, in addition to the financing of priority projects
• provided to public entities or private investors with substantial co-financing requirement (or co-financing provided to private investments) without repayment or profit sharing,
• co-financing provided to public entities or private investors with repayment or profit sharing requirement,

If the beneficiary is a private investor the owner of asset created will be the private investor and the public (the provider of the co-financing) will have no influence on the operation of the asset and will not take any risk from it.

Loan related schemes
These schemes are based on the fact that private investors – SMEs in particular – have difficulties to access to funding from the market either the interest rates are too high for them or because they are too risky to be financed on standard business terms. The solution could be either:
• to reduce the cost of funding by providing subsidy to the interest payable;
• rechanneling loans provided by foreign donors/IFI with preferential rates;
• to reduce the risk of the loan provider by providing sort of guarantee for the repayment of the loan. The guarantee could be full or partial (and in this case could be shared with others).

In both cases the budget does not have to make an upfront expenditure but it is delayed or uncertain as a "below the line" obligation in the future. If other guarantors are also involved the risk taken by the budget could be even smaller.

Joint ventures schemes

The aim of these schemes is to provide co-financing and risk sharing at the same time in a newly established or ongoing business - which could not be established or could not use its growing potential – without the public participation due to lack of capital. These schemes require upfront investment, might create implied liabilities and continuous management participation and or control is needed. Depending on the risk taken this is considered as venture capital operation.

Public Private Partnership (PPP) schemes

The underlying logic is that certain investments needed to provide public services (roads, schools, prisons, airports etc.) are financed and implemented by the private investor which later provides the service directly to the public or to the municipality/ government for a fee. The fee is supposed to cover both the costs of the investment and the costs of the operation. Depending on the arrangement and the nature of the investment the fee is to be paid by the end users (in form of a road toll for example) or by the municipality/government.

The PPP schemes enable the municipality/government to build something needed for the public earlier than the public fund were available avoid the difficulties of the operation but very long term financial liabilities with huge risks are created. Quite often such arrangements are also politically questioned.

Asset development

This is a comprehensive label for various types of cooperation with the private sector (and a specific task dedicated to RED by the DCM). With the use of public funding certain assets are developed or transferred an already existing one (e.g. industrial park, a building to accommodate small businesses/start-ups etc.) for yet unknown businesses to be attracted. In another form certain (typically) infrastructural developments (road connection, water supply etc.) are funded – based on an agreement - by the public to support a specific private investment.

In these cases, the public expenditure (to be made up-front) is an investment implemented by the public (this is one of the important differences against the PPP) and usually a significant business risk is also taken (whether the developed asset will attract/generate enough business or not)

Tax credits

Tax credits are used for supporting a wide range of public policy objectives. Among those regional development, mainly in the form of fostering private investments and job creation could one of them. The most attractive features of this instrument are that the Government gives up revenues which otherwise would not be generated.

It is different from the other schemes because there is (almost) no room for individual consideration of the investment/business. The importance of the proper design of the scheme is therefore higher. The availability of the tax credit should be by definition general, but the eligibility conditions could be aligned with the regional policy objectives (what kind/size of investments or activity of the business, how many jobs created, even geographical restrictions could apply to focus on the lesser developed areas of the country). The RDAs could be authorized to investigate and certify the

eligibility to make sure the best targeting.

Considerations of selecting the financial instruments to be used

Theoretically all instruments and any combination of them could be used for supporting the regional development policy. In reality both the budgetary and the economic impact may vary and also the capacities needed are different.

- If the budgetary resources cannot be significantly increased, then instruments without up-front expenditure (interest subsidies, guaranties, PPP arrangement, tax credits) could be preferably used. The sound, in advance calculation of the implied liability for the entire lifetime of the scheme is essential.

- The loan related instruments require very specific capacities especially if the scheme makes necessary to judge the individual investment/company. Therefore, the best is to provide them through banks, though it increases the cost of the scheme.

- If the guarantee is meant to be a widely used instrument than a special institution (guarantee fund) is suggested to be established. Besides the Government the banks also might be interested in reducing their own risks and participate (a legal obligation is also an option) as "shareholders" in this and then the risks would be distributed among a lot of players. To establish such a fund/institution takes a significant time but it could have an important role in the financial system for a long time.

- Instruments which require the deep understanding of the individual businesses/projects again would need specialised capacities. This need might even stronger if the scheme involves the participation in the management of the business. The establishment of special institution or outsourcing to existing ones could be the best solution.

- The PPP arrangements are the most complex ones and almost impossible to standardise. Therefore, only rather sizable projects are worth to deal with and the Government must be ready to buy the necessary knowledge and experience (legal and financial in particular) which is needed to negotiate a favourable agreement with the investor and to invest onto the controlling capacity throughout the duration of the deal (20-30 years).

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