

ALBANIA IN THE BERLIN PROCESS: MONITORING THE CONNECTIVITY AGENDA

Monitoring Report
March 2021



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LIST OF ACRONYMS

CA	Connectivity Agenda
EBRD	European Bank for Reconstruction and Development
BOT	Build-Operate-Transfer
CEF	Connecting Europe Facility
SEE	Southeast Europe
ERP	Economic Reform Programme
AIC	Adriatic-Ionian Corridor
NSPP	National Projects List
PPP	Public-Private Partnership
EIP	Economic and Investment Plan
NSDI	National Strategy for Development and Integration
TEN-T	Trans-European Transport Networks
WBIF	Western Balkans Investment Facility

INTRODUCTION

The purpose of the project “Preparing and Supporting Albania for the EU Accession Process - ALBE” is to regularly monitor the progress of the Connectivity Agenda projects implemented in the context of Berlin Process in Albania. Additionally, this Project aims to analyze the advantages for the Albanian economy - through the opportunities provided for improving transport and energy connections with and between Western Balkan countries and Europe - as well as the problems accompanying this process.

The projects that Albania has benefited under the Connectivity Agenda are still in the early stages of development and, in general, there is little public information on their progress and impact in the country. Therefore, this Project aims at increasing transparency, fostering debate, and providing recommendations for the improvement of monitoring during the implementation phase, and the utility of the projects in terms of increasing the added value to the local economy and improving the quality of life of Albanian citizens.

ALBE Project is an innovative effort in contributing to the development of a methodology focused on the impact of policies and measures in practice and factoring the regional dimension. This analysis is conducted within the institutional framework of the Berlin Process, launched in 2014 and which is symbolically closing its first cycle at the Berlin Summit in autumn 2021.

EXECUTIVE SUMMARY

Until 30 November 2020, Albania has benefited six projects in the field of infrastructure under the Connectivity Agenda. These projects have reached overall value of EUR 460 million¹ and cover the following sectors: *road, rail transport, energy, digitalization and maritime connectivity*. However, by the end of November 2020, the execution of works had not commenced in any of the projects, though some progress in terms of procurement procedures has been noted.

Out of the six Southeast European (SEE6) countries, Albania is the only to have received funding for projects in digital infrastructure and maritime connectivity. Besides the lengthy bidding procedures similar to the other countries of the region, the implementation of projects in Albania is delayed and, in some cases, there have been requests to change the initial approved project. The bidding process for Tirana-Durres-Rinas Railway, approved in 2016, was postponed for at least one year² and only by the end of October 2020, the winner of the international tender was awarded.³ Albania-North Macedonia Power Interconnection Line (I): Albanian Section was approved in 2015, but it is yet in the tendering phase, whereas work has started in the Macedonian Section. The rehabilitation of Durres Port, Quay 1 and 2 (for goods), is a project approved in 2018, but its status is pending and its future is uncertain. Initially, the government aimed at replacing the rehabilitation target – from quay 1 and 2, to quay 3 and 4. However, in December 2020, the government disclosed a plan intending to make Durres Port a tourist port⁴ and the Parliament adopted a special Law No. 145/2020, “On Economic

¹ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/brochure_wb_connectivity_agenda_en.pdf

² https://www.infrastruttura.gov.al/wp-content/uploads/2019/10/STD-Open-Tender-Two-Stage-WORKS-Albanian-Railways- HSH_30102019.pdf

³ <https://webcache.googleusercontent.com/search?q=cache:VIRJtSundYcJ:https://www.ebrd.com/documents/procurement/rehabilitation-of-the-durres.pdf%3Fblobnocache%3Dtrue+%&cd=2&hl=en&ct=clnk&gl=al>

⁴ <https://www.infrastruktura.gov.al/balluku-ndertimi-i-marines-se-jahteve-kthen-durresin-ne-qender-te-rendesishme-turistike/>

Cooperation between the Albanian Government and the Government of the United Arab Emirates” in favor of promoting private investment for this purpose.⁵

Another important project, yet in its initial phase, is the Adriatic-Ionian Road Corridor, with a value between EUR 2.4 and 2.7 billion, excluding VAT. With regard to this project, there are two major considerations. Firstly, some segments that were attempted to be awarded under a Public-Private Partnership (PPP) resulted with a 30-40% higher cost than estimated in the feasibility study. One of these segments is already awarded under PPP making the institutional donors to withdraw the grant approved for the feasibility study of the respective segment. Secondly, a detailed analysis about the Corridor's economic utility in the territory it is crossing, its impact on increasing the country's competitiveness and its contribution to the added value in the priority sectors, is still missing.

Meanwhile, at the Western Balkans summit in Sofia, in November 2020, the Tirana By-Pass project was approved. The project value is EUR 150.9 million,⁶ and it is part of the two road corridors: Adriatic-Ionian Corridor and Corridor VIII.

Considering the efforts for the reconstruction and the assistance promised following the earthquake of 26 November 2019, and in the context of the preparation of the Economic Growth and Investment Pact, the Albanian government should give priority not only to the infrastructure projects connecting the country to the European networks but should also identify and balance the socio-economic development needs with the country's funding opportunities. The economic crisis caused by the efforts to curb the spread of coronavirus, requires much more good management of interconnection infrastructure projects and of spent funds.

Moreover, geo-strategic assessments and the impact on local economy, as well as the practical benefits for small businesses affected and/or benefiting from the project track- these businesses that make up 84% of the companies in the country- should clearly draw a benefit from the Connectivity Agenda.

The global crisis caused by Covid-19 is reshaping the global value chains, while international enterprises aim at cutting production and transport costs. Due to its geographical location, Albania can benefit directly from these developments. Therefore, the geo-strategic priorities should also be considered in relation to new pandemic-related developments.

Methodology

This study is an update of the previous monitoring report of the Connectivity Agenda, published in March 2020. Its publication coincides with the completion of the first cycle of the Berlin process marked by the return of the Western Balkans Summit in Berlin.

The methodology of the first report and its update are based on desk *research*, interviews with stakeholders directly or indirectly engaged in the Connectivity Agenda Projects and it includes a comparative analysis on the costs and utility of the specific projects.

⁵https://www.parlament.al/Files/ProjektLigje/20201211143011Ligji%20me%20marreshjen%20per%20emiratet_compressed.pdf

⁶ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/brochure_wb_connectivity_agenda_en.pdf

I. INFRASTRUCTURE PROJECTS UNDER THE WESTERN BALKANS CONNECTIVITY AGENDA

The Connectivity Agenda (CA) is considered as one of the main EU assistance mechanisms for boosting economic growth in the Balkan countries and for speeding up the region's economic convergence with the EU countries.

Likewise, CA is one of the key priorities of the Western Balkan countries. The work of local institutions is focused particularly on the preparation for funding and implementation of concrete investment projects in regional transport, energy, and digital interconnection infrastructure, as well as adopting and implementation of EU technical standards in the region.

In 2015, the European Commission allocated a EUR 1 billion budget in grants until 2020, under the Instrument for Pre-accession Assistance (IPA) to support the Connectivity Agenda. These grants are expected to attract up to EUR 3.2 to 4 billion investments, which in turn are expected to create more than 45,000 jobs.

In October 2020, the European Commission adopted the Western Balkan Economic and Investments Plan (EIP).⁷ The purpose of the EIP is to mobilize up to EUR 9 billion in grants and up to EUR 20 billion in loans from the New Western Balkans Guarantee Facility. The EIP focuses on transport and energy connectivity, the green transition - the decarbonization of energy production, in particular - and the digital transformation. This plan includes also a new "Green Agenda" for the Western Balkans.

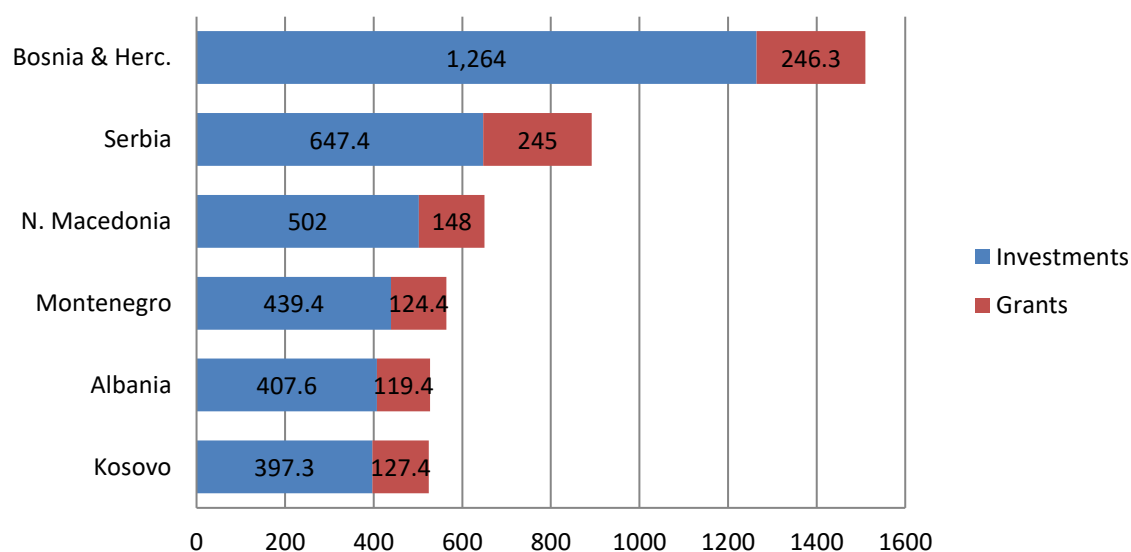
In terms of CA 2015-2020 programme, the European Union has kept, by October 2020, the commitment to provide EUR 1 billion in grants and EUR 124 million in technical assistance for project preparation, which have attracted EUR 3.7 billion investments for 45 projects and opened more than 45,000 jobs.⁸

The graph below presents the Western Balkan beneficiary countries according to the grants and investments withdrawn:

⁷ https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1811

⁸ Source: WBIF - (*Western Balkans Investment Facility*) The Western Balkans Investment Facility is a regional structure established to support EU enlargement and socio-economic development in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia.

Graph 1. CA: Total Infrastructure projects amounts benefited per country 2015-2020 (million Euro)



Source: WBIF

CA projects are coordinated under the Western Balkans Investment Framework (WBIF) which provides funds and technical assistance for strategic investments. The WBIF is a joint initiative of the EU, international financial institutions, bilateral donors and the governments of the Western Balkan countries.

The energy and transport networks of the six Western Balkan countries are considered, in the context of CA, as an indicative extension of the Trans-European Transport Network (TEN-T) and Energy Network (TEN-E). This also includes the core network, the core network corridors, and the pre-defined priority projects for investments in infrastructure. Extending the core network corridors to the Western Balkans ensures a closer connection and integration with the EU, as well as the basis for leveraging investments in infrastructure. The WBIF and Connecting Europe Facility (CEF) are serving to this end. The Adriatic-Ionian Highway connects Albania with the TEN-T Mediterranean Corridor.

In October 2020, Albania has received about 11% of CA projects (from 7% at the end of 2019), thus improving its position due to the adoption of two new projects at the Sofia Summit: i) the Rehabilitation of Fierza HPP and ii) Tirana By-Pass. Albania has also the broadest sector-based distribution (*including transport, energy, and digital sector*).

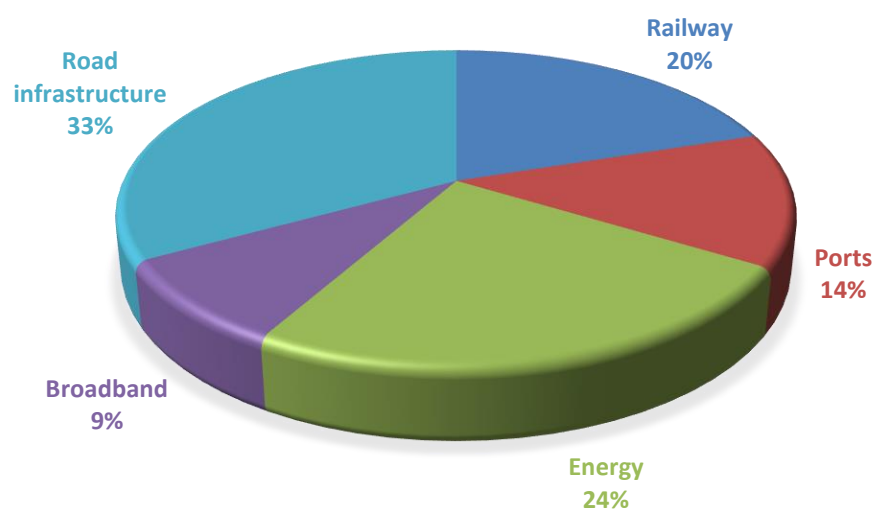
In addition to technical assistance support, Albania has received funding for six infrastructure projects: i) Tirana-Durres-Rinas Railway; ii) Rehabilitation of Durres Port - Quays 1 and 2; iii) Albania-North Macedonia Power Interconnection Line (I) - Albanian Section; iv) Broadband Infrastructure Project; v) Rehabilitation of Fierza HPP; and vi) Tirana By-Pass Project.

Table 1. Infrastructure Projects benefited by Albania under the CA, until 31 December 2020 (million Euro)

No.	Project	EU-Grants	EBRD loan	KfW loan	National contribution	Total
1	Railway Tirana-Durres-Rinas	38.4	36.9		16.2	91.5
2	Rehabilitation of Durres Port Quay 1 and 2	28.1	25		9.3	62.4
3	Albania-North Macedonia Power Interconnection Line (I): Albanian Section	15.4	50		4.6	70
4	Broadband Infrastructure Project	11.2	24		4.8	40
5	Tirana By-Pass	34.4	109.2		7.3	150.9
6	Rehabilitation of Fierza HPP	8.4		27.2	7.1	42.7
	Total	135.9	245.1	27.2	49.3	457.5

Source: WBIF

Graph 2. CA - Distribution of infrastructure projects by sector

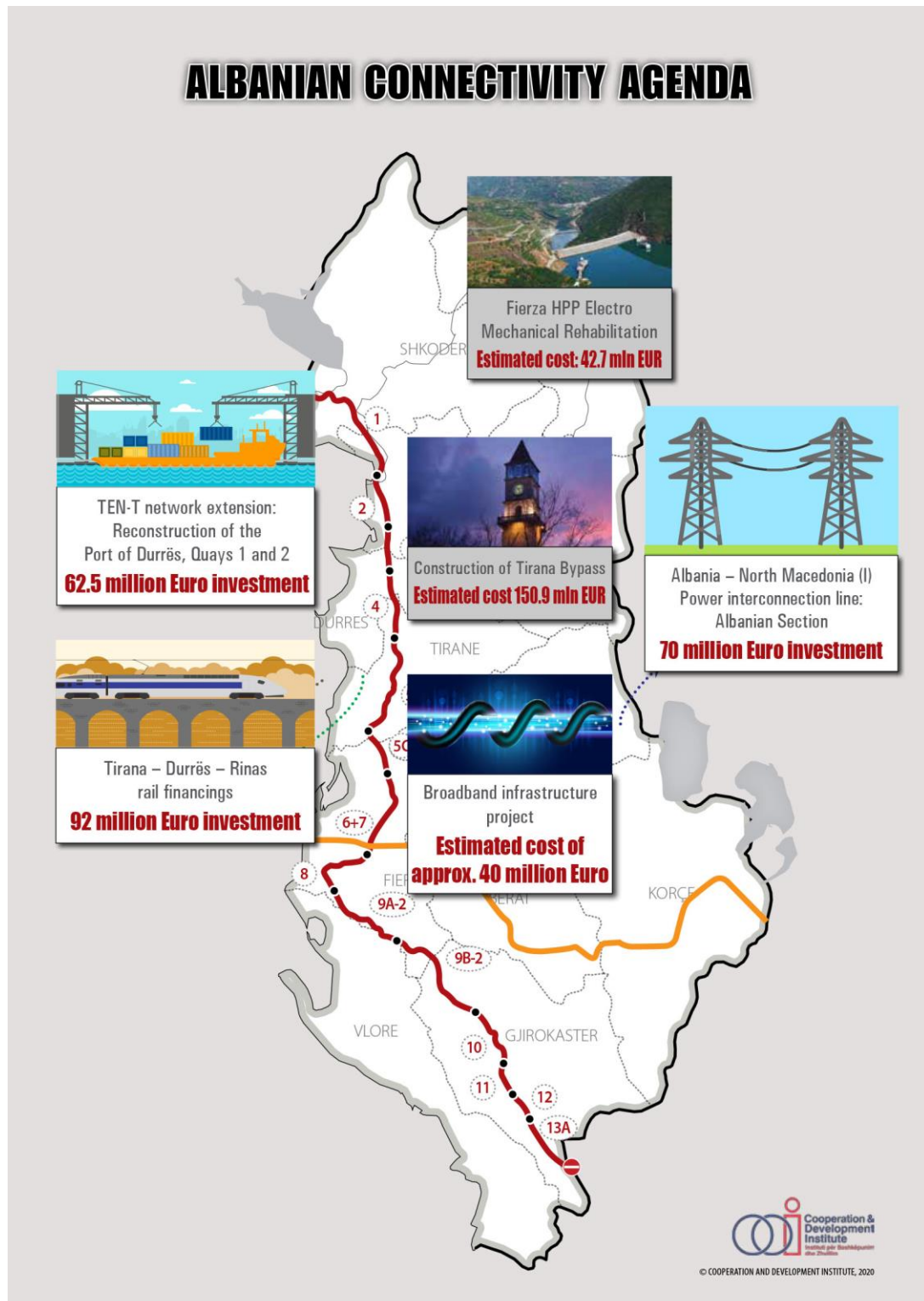


Source: WBIF

II. SIX ALBANIAN INFRASTRUCTURE PROJECTS UNDER THE CONNECTIVITY AGENDA

Until November 2020, Albania has received grants and loans for six infrastructure projects, in the context of CA. Meanwhile, the Trans Adriatic Pipeline (TAP) - the largest interconnection project in the region with a value of EUR 1.5 billion investment for Albania's part- is successfully completed and has started operation.

Maps 1. Albanian Infrastructure Projects under the Connectivity Agenda - November 2020



II.1. Tirana-Durres-Rinas Railway (Mediterranean Corridor)

Total cost: EUR 92 million

The project was approved in 2016. Its purpose is to rehabilitate 34.5 km of railways between Tirana and the Durres Port, as well as the construction of 7.4 km of new railways between Tirana and Mother Teresa International Airport, in Rinas. This is a particularly important project for Albania that will create economic opportunities, including sustainable tourism, and enable "green" movement within the largest urban areas in the country.⁹

After postponing it for nearly two years, the EBRD¹⁰ (European Bank for Reconstruction and Development) awarded on 27 October 2020 the Italian company INC S.P.A. as the winner of the tender for implementing the Tirana-Durres-Rinas Railway Project. The Italian INC S.P.A offered the lowest bid of EUR 69.7million. The two other bidders, the Indian company STS-KALPATARU (KPTL) J.V offered EUR 92.29 million, while the Chinese company SINOHYDRO-EEB J.V.A offered EUR 92.53 million.

Table 2. Bidders for Tirana-Durres-Rinas Railway Project (Mediterranean Corridor)

Bidder	Bid offer
INC S.P.A.	EUR 69.7 million
STS-KALPATARU (KPTL) J.V	EUR 92.29 million
SINOHYDRO- EEB J.V.A	EUR 92.53 million

Source: EBRD

The total project cost is estimated at EUR 92 million.¹¹ This amount includes the value of contract with the company winning the works tender, the cost of project preparation, implementation, and supervision (*funded by the WBIF grant*), and the cost of expropriation and VAT (*to be covered by the Albanian Government*).

The project was initially planned to terminate at the public Transport Terminal in Tirana (*where the Bus Terminal is nowadays*). However, due to the loss of passengers from the displacement of the Train Station, it was decided that to extend the railway with several kilometers. Therefore, the Passengers Terminal will be close to the old Train Station, about 200 meters from the current parking area. The next steps to be taken for the implementation of this project in 2021 include the finalization of the detailed engineering project and commencing of works.

⁹ Interview made in the context of this project with Mr. Matteo Colangeli, Head of European Bank for Reconstruction and Development (EBRD) Office in Albania. Interview conducted by email on 15 January 2021.

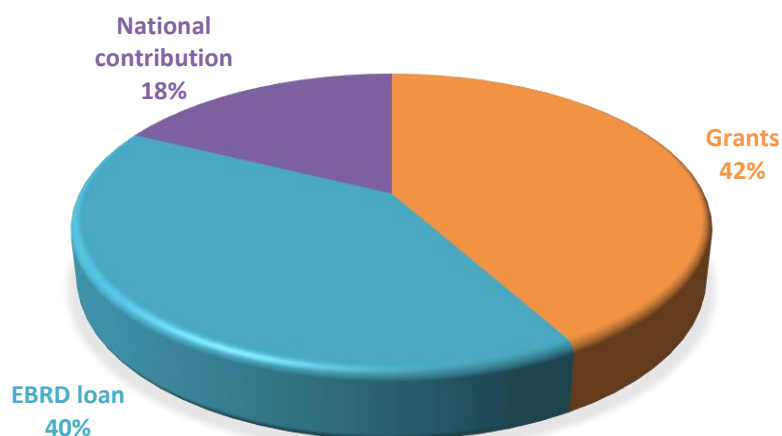
¹⁰ <https://webcache.googleusercontent.com/search?q=cache:VIRJtSundYcJ:https://www.ebrd.com/documents/proucurement/rehabilitation-of-the-durres.pdf%3Fblobnocache%3Dtrue+%amp;cd=2&hl=en&ct=clnk&gl=al>

¹¹ Interview made in the context of this project with Mr. Matteo Colangeli, Head of European Bank for Reconstruction and Development (EBRD) Office in Albania. Interview conducted by email on 15 January 2021.

This project is in line with the two other interventions planned in Corridor 8 and Adriatic-Ionian Corridor in Albania, as follows:

- Road 2: Durres- Vorë- Shkodra- Hani Hotit/ border with Montenegro (140 km);
- Corridor 8: Durres -Vlora- Pogradec /border with North Macedonia (137 km).

Graph 3. Funding of Tirana-Durres-Rinas Railway



Source: WBIF

II.2. Rehabilitation of Durres Port, Quay 1 and 2

Total cost: EUR 62.3 million

The project for the Rehabilitation of Durres Port, Quay 1 and 2 was approved in 2018. The purpose of this project is to rehabilitate Quays 1 and 2 at West Terminal of Durres Port, a port that handles all cargo loads in Albania, including minerals and cereals.

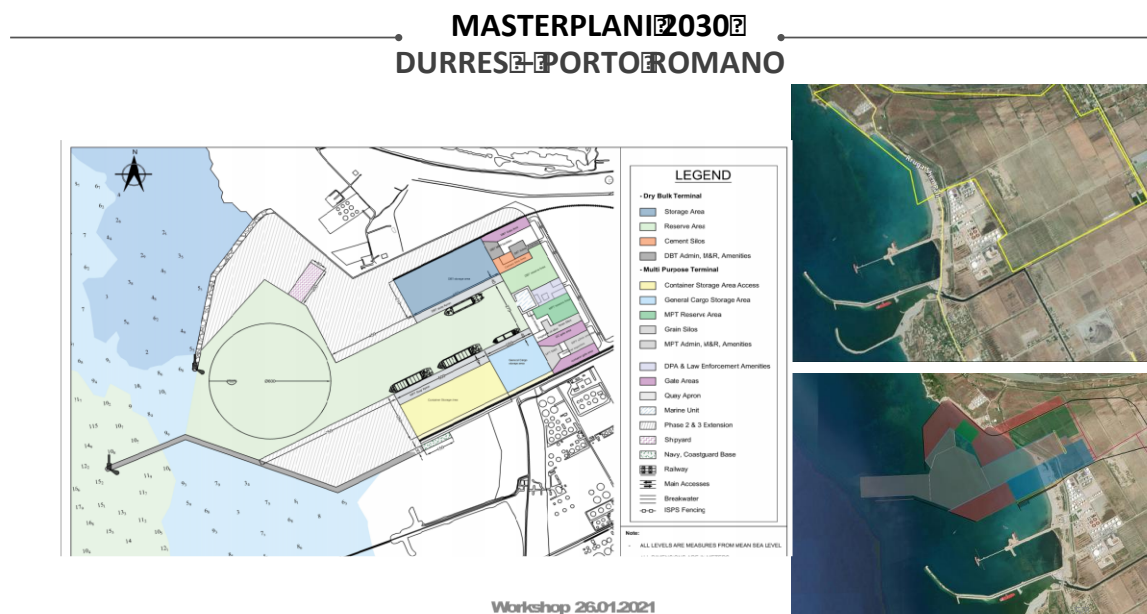
The project is still in its initial stages, following WBIF's approval. Initially, the project was pending because of Albanian government's initiative to displace the project from rehabilitating Quay 1 and 2, to rehabilitate Quays 3 and 4 instead.

Out of all projects selected in the Western Balkans for the period 2015-2019, this is the only project whose status of works remains "to be confirmed". The uncertainty of its implementation is due to the government's recent decision to change the destination of Durres Port.

In December 2020, the Ministry of Infrastructure and Energy (MIE) announced that the Albanian Government had signed a cooperation agreement¹² with the Government of United Arab Emirates aimed at transforming the Durres Port into a tourist area dedicated to passengers and yachts. The EUR 2 billion forecast investment will be implemented by the United Arab Emirates-based EMAAR Group.

¹² <https://www.infrastruktura.gov.al/balluku-ndertimi-i-marines-se-jahteve-kthen-durresin-ne-qender-te-rendesishme-turistike/>

According to the master plan designed by the Albanian Government, the cargo port will be relocated to Porto Romano area. However, the master plan, the corresponding cost and the funding method (i.e budget funds, donors' funds or public-private partnership projects) are not public, yet.



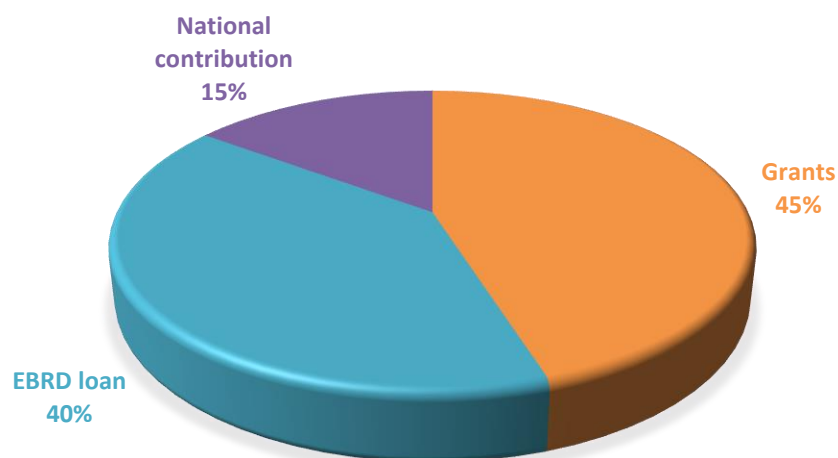
Illustrative photo of Porto Romano Area

Changing the destination of the Durres Port is expected to affect the rehabilitation project of Quays 1 and 2 and the corresponding financial benefit in the context of CA. However, the EBRD does not consider it impossible to obtain new funding for the future destination in Porto Romano.

"The EBRD is the leading International Financial Institution in this project and has supported Albania in attracting grants for investment and technical assistance from the Western Balkans Investment Facility (WBIF). We would also consider the possibility of a sovereign funding for the Project, if it is requested by the Albanian authorities. However, this depends on the government's strategic decisions on the future destination of Durres Port."¹³

¹³Interview with Mr. Matteo Colangeli, Head of European Bank for Development and Construction (EBRD) Office in Tirana. Interview conducted by email on 15 January 2021.

Graph 4. Rehabilitation of Durres Port – Quays 1 and 2



Source: WBIF

According to the preliminary data, the Ministry of Infrastructure and Energy has made a feasibility study about the relocation of Durres Port to Porto Romano, but there is no detailed concept study, yet.

Currently, Durres Port is in non-competitive position in the region because of several technical constraints, such as the limited depth of the quays ranging from 7.5 to 11 m, as well as the maximum processing capacity of the Containers Terminal.

Both these factors, coupled with other operational limitations, with the vessel volume increasing trend, the multi-modality challenges, including logistical connections (*lack of railway, unfinished road segments*), make this terminal non-competitive compared to other Containers Terminals in competitive ports, in particular the Thessaloniki terminal.¹⁴

Despite the limitations, a swift relocation of Durres Port would not give the necessary time frame for accommodating the Port activities and could affect the operation of the existing lines. The management of transitional period, depth of Porto Romano, the capacities of the new terminal, the security parameters, the infrastructure connections, etc. remain key conditions that require a thorough study.

II.3. Albania-North Macedonia Power Interconnection Line (I): Albanian Section

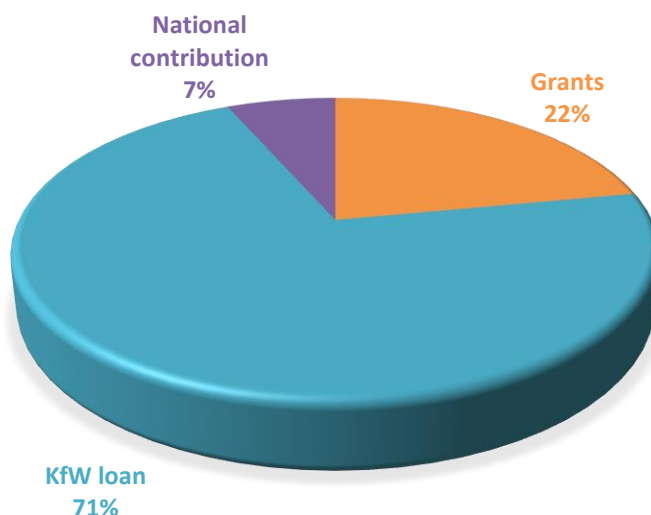
Total cost: EUR 70 million

The project was approved in 2015. The objectives are: i) constructing a 400 kW transmission system connecting Fier with Elbasan and thereafter with North Macedonia; ii) constructing a new substation in Elbasan; and, iii) increasing the capacity of Fier substation.

¹⁴Interview with engineer Osman Metalla, professor at the University of Durres. Interview conducted by email on 20 January 2021.

The project is currently in the phase of opening the tender for the selection of contractors to award the contracts, according to the respective lots.¹⁵ The works are expected to start by the end of 2021 and be completed by the end of 2022. The project is delayed compared to the Macedonian section, where works have already started since September 2017.

Graph 5. Albania-North Macedonia Power Interconnection Line



Source: WBIF

II.4. Broadband Infrastructure Project

Total cost: EUR 42-48 million

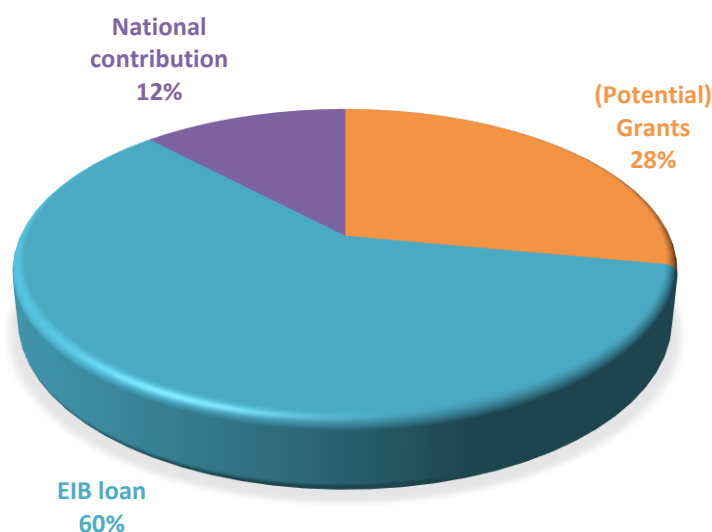
The digital and *broadband* infrastructures are part of the digital integration pillar of the Multi-annual Action Plan for a Regional Economic Area (MAP-REA) in the Western Balkans. WBIF approved the digital infrastructure as a priority sector in December 2017. The Broadband Infrastructure Project was approved in 2019. It aims at preparing the feasibility study and development plan for efficient and smart investments in broadband infrastructure across the country.

WBIF has allocated a EUR 520,000- grant to the project of the Albanian Government. In the meantime, the first draft of this study is completed. The project is still in its preparatory phase according to the status updated by WBIF.¹⁶

¹⁵ <http://ata.gov.al/2020/12/24/nga-linja-e-interkonjeksionit-me-kosoven-dhe-magedonine-e-veriut-te-hec-i-i-skavices-rama-hapem-rrugen-e-nje-transformimi-rrenjesor-ne-energjitike/>

¹⁶ <https://www.wbif.eu/project/PRJ-ALB-DII-001>

Graph 6. Broadband Infrastructure Project



Source: WBIF

II.5 Tirana By-Pass

Total cost: EUR 150.9 million

Tirana By-Pass is one of the projects approved at the Sofia Summit 2020. This investment project plans the construction of a 21.5 km ring around the capital, which includes four intersections, a bridge, underpasses, and overpasses. At the same time, the by-pass is part of two road corridors crossing the country: Adriatic-Ionian Corridor connecting Trieste, in Italy, with Kalamata in Greece, and Corridor VIII connecting Macedonia with Albanian territory with exits in Durres Port and Adriatic Sea.

This project reached the value of EUR 150.9 million. The European Union will allocate EUR 31.9 million, the EBRD will provide an EUR 109.2 million - loan, 2.5 million will be in grants, while the Albanian government's contribution will be EUR 7.3 million.

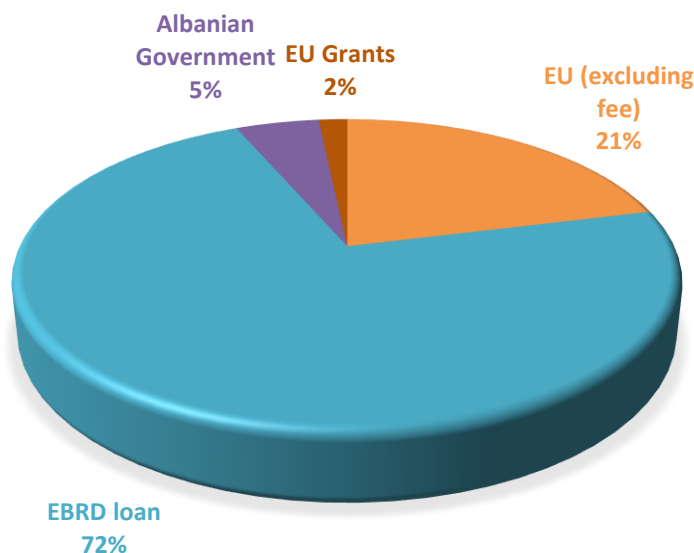
The new By-Pass will be constructed in the most populated zone and node of the country's road system. It will connect the roads already under construction, such as the Tirana - Durres with Tirana-Elbasan highway. This By-Pass is expected to reduce the traffic, pollution, and accidents, and to facilitate the transit traffic influx from other parts of the country.

The project preparation activities, including the finalization of the detailed engineering project,¹⁷ are funded by the Western Balkans Investment Facility (WBIF) funds. The EBRD is the leading international financial institution in this project and has supported Albania in successfully applying for investments and grants for the relevant technical assistance. The EBRD is also working on a potential sovereign

¹⁷Interview with Mr. Matteo Colangeli, Head of European Bank for Development and Construction (EBRD) Office in Tirana. Interview conducted by email on 15 January 2021.

loan to contribute to the funding of this project. "If all parties work together efficiently, the funding will be approved. The construction of Tirana By-pass can start in 2022."¹⁸

Graph 7. Tirana By-Pass



Source: WBIF

II.6 Rehabilitation of Fierza HPP

The project for the rehabilitation of Fierza Hydro-power Plant is the second Albanian proposal approved at the Sofia Summit. The total value of the project is EUR 42.7 million EUR 27.2 million out of the total is a loan from the German Development Fund KfW, EUR 8.4 million is EU funding and EUR 7.1 million is from Albanian government.

Fierza hydropower Plant is currently the most important generating unit of the electrical power system generating on average 1328 GWh/year and plays the role of the 1-year Cascade Regulator. The aggregates of Fierza hydropower plant were installed about 40 years ago and have undergone only partial rehabilitation. In 2004-2006, two rotors of two turbines were replaced, while the two rotors of the other two turbines and the four generators are not rehabilitated. The aggregates and electro-mechanical systems are technically depreciated.¹⁹

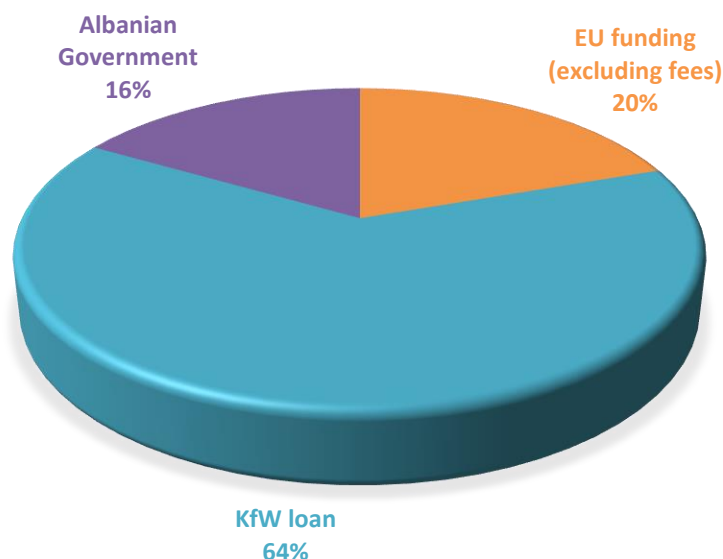
The realization of this investment will enable increasing the electrical power generation resulting from increasing production efficiency by at least 4%, decreasing periodic maintenance expenses, increasing technology readiness level, and increasing power plant lifespan by at least 25 years.

¹⁸ Interview with Mr. Matteo Colangeli, Head of European Bank for Development and Construction (EBRD) Office in Tirana. Interview conducted by email on 15 January 2021.

¹⁹ Interview conducted for the purpose of this publication with Mr. Bennett Beci, CEO of Albanian Electricity Corporation (KESH); Telephone interview and e-mail communication, on 27 January 2021.

Additionally, the pollution levels will be reduced by avoiding the emission of 25,000 tonnes/year of carbon dioxide.

Graph 8. Rehabilitation of Fierza HPP



Source: WBIF

The projects under the Connectivity Agenda or others related to those, were not a priority in the 2019-2020 budget, except the funding of the interconnection nodes of Fier By-Pass (ALL 1.8 billion) and Tepelena By-Pass (ALL 1.5 billion).

Based on the annual investments made by the Ministry of Finance, the concession / PPP project for the compensation of Arbri Road and the funding for the construction of Kardhiq – Delvina Road received the largest share of budget funds in 2020 (ALL 2.5 and 1.1 billion respectively). Both these projects are not part of the Connectivity Agenda.

The projects of the Connectivity Agenda are not foreseen for financing either in the medium-term, except for the concession project for the construction and operation of Milot - Balldre Road (part of Adriatic-Ionian Corridor), with a total project value of ALL 31 billion.

New projects foreseen in the budget for the upcoming three-year period are as follows:

- Concession/PPP contract for the design, construction and maintenance of the Yacht Port Road;
- Oriku - Dukat By-Pass with a total value of ALL 10 billion;
- Construction of Llogara Tunnel with a total value of ALL 18.75 billion.

Only the expropriations for the implementation of Durres -Tirana railway project and the construction of the new railway to Rinas Airport are foreseen in the context of railway infrastructure (the funding is provided under the Connectivity Agenda projects, as explained above).

III. ECONOMIC AND INVESTMENT PLAN

The second phase, complementing the Berlin initiative launched in 2014, concerns the Western Balkans Economic and Investment Plan (EIP), adopted in November 2020 at the Sofia Summit.

In the context of this Plan, about EUR 9 billion will be allocated to boost the economic growth and support the reforms in the Western Balkans.²⁰ A considerable amount will be focused on improving transport and energy connections, the green transition - particularly the decarbonization of energy production - and the digital transformation.

In addition to the EU grants, the Economic and Investment Plan foresees allocating over EUR 1 billion to back guarantees that will help in lowering the cost of financing public and private investments and reducing the risk of investors. Support through the proposed Western Balkans Guarantee Facility is expected to provide up to EUR 20 billion in investments.

The investment package will be a key element for attracting public and private investments in the region from the European Investment Bank, European Bank for Reconstruction and Development and other International Financial Institutions, National Development Banks, EU Member States, Western Balkan governments, and private investors.

The plan includes a "Green Agenda for the Western Balkans" that is expected to make an important contribution to mitigating climate change, protecting the environment, and unlocking the economic potential of the green economy.

The Economic and Investment Plan identifies ten major areas for investment in six sectors:

Sector I: Sustainable transport aiming to improve the core transport corridors in the region, to make them faster and in line with EU standards. Better transport will facilitate trade and promote sustainable economic growth. The connectivity reforms and simplified border crossing procedures are essential. The three focus areas are the following:

1. *Connecting East to West;*
2. *Connecting North to South;*
3. *Connecting to the coastal regions.*

Sector II: Clean energy aiming to increase the support in the field of energy that is in line with the goal to achieve climate neutrality by 2050. Decarbonization and transition to clean energy will be essential. Energy interconnections and increased use of renewable energy sources will be treated with priority. The two focus areas are the following:

4. *Renewable energy;*
5. *Transition from coal.*

Section III: Environment and climate. The new Green Agenda for the Western Balkans will support the green transition, decarbonization, lowering of air, water and soil pollution, the circular economy and promote biodiversity, urban mobility and green transport solutions.

6. *Renovation wave;*
7. *Waste and Waste Water Management.*

Section IV: Digital future. A Digital Agenda for the Western Balkans foresees the deployment of an ultra-fast broadband to ensure universal access, lower roaming costs, develop digital skills and enhance cyber-security.

²⁰ https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1811

8. Digital infrastructure.

Sector V: Private sector. Increasing financial support to strengthen the competitiveness of small and medium-sized enterprises in strategic sectors and to promote green growth and the circular economy, under the new Western Balkan Guarantee Facility.

9. Investment in competitiveness of the private sector.

Section VI: Human capital. Supporting high quality education and training systems, employment, health, and social protection. The focus is on improving labor market participation, especially of young people and women, vulnerable groups, and minorities, particularly Roma.

10. Youth Guarantee.

IV. FROM REGIONAL ECONOMIC AREA TO COMMON REGIONAL MARKET

In addition to the approved projects of Connectivity Agenda, adopted during the period 2014-2020, and moving towards a more ambitious agenda for the economic programme and investments for the period 2021-2027, the countries of the region are working among themselves to create a regional economic area to create a common regional market.

At the Trieste Summit, in July 2017, the leaders of the Western Balkan adopted the Multi-annual Action Plan for the Western Balkans Regional Economic Area (MAP REA).²¹ The focus of MAP REA, an initiative coordinated by the Regional Cooperation Council (RCC), is to help the private sector achieve economies of scale in a market of nearly 20 million consumers, and to set the growth model for a long-term sustainable development. Its four components are:

- Promoting further trade integration;
- Creating a dynamic regional investment space;
- Facilitating regional mobility;
- Developing a digital integration agenda.

Trade facilitation and signing of *the* roaming agreement are among the key achievements of MAP REA. These four components are however facing some challenges mainly concerning the market size. The market integration cannot be achieved unless there is compliance with other areas, such as transport policies, the green and circular economy with fewer and less barriers, as goods are transported within the Western Balkans.²²

At the Berlin Process Summit that took place in November 2020 in Sofia - the Western Balkans six leaders (*Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia*), endorsed the Common Regional Market (CRM) 2021-2024 Action Plan. The CRM aims to put the region on the map for global investors, thereby creating jobs and offering greater choices at lower prices for its consumers and enabling people to work throughout the region. It builds on the achievements of the Regional Economic Area (REA) and it is based on the concept of four freedoms of movement – goods, people, services and capital.

Currently, the continuation of the initial WBIF grant, for the construction of the missing broadband infrastructure in all six countries, remains as top priority. The opportunities to apply for infrastructure projects under the WBIF are under consideration, and will be dedicated only to the digital field, as the need for funding in this area remains high while the governments of the SEE6 countries cannot afford the costs.²³

²¹ https://www.rcc.int/priority_areas/39/multi-annual-action-plan-for-a-regional-economic-area-in-the-western-balkans--map

²² Mrs Pranvera Kastrati, Senior Expert on Economic and Digital Connectivity at the Regional Cooperation Council during the online seminar “Takeaways from Sofia Summit on Growth, Sustainability and Resilience in SEE6”, held on 17 November by the Cooperation and Development Institute.

²³ Florensa Harxhi, Director General, Development and Cooperation Programmes Unit, at the Prime Minister's Office, the Government of Albania during the seminar “Berlin Process in 2021: The Case of Albania, organized by the Cooperation and Development Institute on 27 January 2021.

Another new area is the industrial and innovative area, a novelty in the joint regional action plan, which is in line with the vision in national level. The Project Development Unit, with the Council of Ministers, is preparing the first draft for the innovation and start-up program aiming at promoting the start-up system at national level, but also the integration into the regional framework.

The industry, tourism and innovation are the new areas considered as a priority in the context of the development of a common regional market during the drafting of the action plan. This plan aims to promote the region as a single unit and attracting foreign direct investment to the region, adding value and exploiting the competitive advantages of each country, so that the region is promoted as a whole, in the global market.

V. ECONOMIC REFORM PROGRAMME 2021-2023

The Albanian government approved in January 2021 the Economic Reform Programme (ERP) 2021 – 2023, which presents the main macroeconomic and fiscal policies establishing a clear balance between internal forces and external threats, to enable sustainable development, employment growth and public debt reduction. Moreover, the ERP briefs the measures of priority reforms of Albanian Government in the short-term, in order to increase domestic production, promote new investments, ensure a sustainable development and increase competitiveness.²⁴

The ERP 2020-2022 foresaw eight main reforms, where the energy and transport sector was in the first sector: i) Energy and transport; ii) Agriculture, industry and services; iii) Business climate and reduction of informal economy; iv) Research, development and innovation, and the digital economy; v) Trade; vi) Education and skills; viii) Employment and labor market; viii) Social protection and inclusion.

The ERP 2021–2023 summarizes the primary structural reforms inherited from the previous ERP and makes new proposals concerning the developments after the 26 November 2020 earthquake and the consequences resulting from the outbreak of Covid-19 pandemic.

The ERP has not planned any new reform, while it continues to have the following priorities in line with the Connectivity Agenda:

- Rehabilitation and construction of the Durres-Rinas-Tirana railway segment (*Energy and Transport*);
- Construction of 400 kW Interconnection Line (Albania)– (Republic of North Macedonia), (*Energy and Transport*);
- Development of broadband infrastructure and the digital economy (*Research, Development, Innovation, and Digital Economy*).

The applications for funding that the Balkan countries to the WBIF should come from the National Priority Projects List (NPPL or NSPP). This list outlines the priority projects of each country. Before applying for project funding, each project must undergo a series of steps to mature. During this phase, the EU and various donors assist with technical assistance. The latest list of priority projects in the transport sector dates back to March 2020.²⁵

²⁴ <https://qbz.gov.al/eli/fz/2021/20/b3be06e6-4b49-406c-b3b3-5e69563107a4>

²⁵ <https://cdinstitute.eu/wp-content/uploads/2020/05/2020-05-20-Agendda-e-Nderlidshmerise-ne-Albania>

CONCLUSIONS AND RECOMMENDATIONS

Until the end of 2020, Albania has received funding in grants and loans for six infrastructure projects with a total value of EUR 460 million in road and rail transport, energy, digitalization and maritime interconnection. Albania occupies the last position in the region regarding the total value of projects withdrawn under the CA, with 11% of the total.

The specialization and distribution of the value chain in Albania and of the *supply chain* gives priority to the infrastructure investments in East-West axis through railway connections with North Macedonia, and maritime connections with Italy. The closest point and with the lowest infrastructure investment cost connecting Albania with the EU's TEN-T corridors is Bari Port in Italy. An alternative form of funding for some segments of this corridor is the *Build Operate and Transfer* (BOT) concession form. Applying the BOT method requires high expertise and local institutions specialized in the developing legal conditions, financial evaluation of the state-investor contract, and in its monitoring over the years.

In addition, to ensure a transparent and efficient implementation of CA projects, the Albanian Government should:

- Focus on setting clear priorities and accelerating the project preparation and implementation cycle;
- Review its development priorities in line with the objectives of the new Economic and Investment Plan approved at the Sofia Summit. Increasing the capacity for designing projects is a necessity;
- Unlike other Balkan countries, Albania has a combination of funding for CA projects with public private partnerships (PPPs). However, these procedures should be as competitive and transparent as possible. Based on the projects realized up to date through PPPs, their costs result higher than the donor-funded projects;
- Be more transparent in terms of both identification and development phase of CA projects, as well as with the plans for changing the prior destination. The lack of transparency in the study of the possibility to transfer some of the port operations from Durrës Port to Porto Romano area may affect the efficiency of other infrastructure connectivity projects (*e.g. railways*);
- There is a need for stronger coordination between the government and donor institutions to avoid overlaps, as in the case of designing and construction of the Skavica hydropower plant. The European Commission (EC) cancelled the technical assistance for this project after the Albanian government announced the withdrawal of this project from the Western Balkans Investment Plan's priority list, reorienting it to US funding from the International Development Finance Corporation (DFC).



ALBANIA IN THE BERLIN PROCESS:
MONITORING THE CONNECTIVITY AGENDA

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