

**Draft for Discussion**

**Private Sector Development in Education**

in

**South East Europe**

**COUNTRY REPORT**

**ALBANIA**

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## Foreword

The Kosovo crisis has brought to the forefront the urgent need for sustainable development, lasting peace, prosperity and stability in South Eastern Europe. It has, moreover, placed education at the forefront of the bridging process that will afford South Eastern Europe equal socio-economic opportunities in the 21<sup>st</sup> century to that of other European nations. However, although the education systems of South Eastern Europe were a 'good fit' with the planned economies of authoritarian political systems, they are a 'bad fit' with the global economic structure of open political systems. To make matters worse, budget pressures on the education sector in conjunction with the increase in price for some education inputs, have led to less public funds for education.

Private sector development in education in South Eastern Europe needs to be seriously considered. Within education there are many private sector investment possibilities, including primary and secondary schools, vocational schools, and universities, as well as supporting activities such as textbook publishing, student loan financing, and computer learning centers.

This study then aims to analyze the current role of private sector activity in the education sector and to project the outlook for private sector investment in education in South East Europe (specifically in: Albania, Bulgaria, Croatia, the Former Yugoslav Republic of Macedonia and Romania). Information currently available from national, regional and international sources will be drawn upon to review the existing structure of private sector participation in the education sector along a number of dimensions including: the present level of private activity; the structure (legal status, size, etc) and kinds (level and focus area/s) of private institutions currently operating; key drivers and expected growth areas for private education; and key issues and constraints faced by the private education sector.

The main source of data for this study is interviews and meetings with government officials, senior politicians, businessmen and women, educationalists, researchers, NGO representatives, directors of educational institutions, bank managers, and others. This data is supplemented by: (a) published data provided by the World Bank, IFC, OECD, UNDP and other national and international organizations; (b) unpublished information provided by public and private local and international organizations; and (c) background information provided locally by government agencies. Information gathered will be used to: (a) analyze the legal and regulatory framework; (b) create an inventory of market opportunities in private education; and (c) develop a regional, on-line information platform for education investment exchange (<http://edco.orama.net>).

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The findings of this study will be presented at a regional forum in Athens, Greece in June 2002, at which a platform for discussion on policy issues and investment opportunities in education will be established.

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## ABBREVIATIONS

AEDA	Albanian Economic Development Agency
AEDP	Albania Education Development Project
DM	German Marks
EBRD	European Bank for Reconstruction and Development
ECT	Education Credit Transfer
EU	European Union
FIAS	Foreign Investment Advisory Service
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GEHS	General Education High School
GPRS	Growth and Poverty Reduction Strategy
GTZ	Agency for German Technical Co-operation
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
INSTAT	Institute of Statistics
IPR	Institute of Pedagogical Research
LSMS	Living Standard Measurement Survey
MES	Ministry of Education and Science
MLG	Ministry of Local Government
MLSA	Ministry of Labor and Social Affairs
MOF	Ministry of Finance
MTEF	Mid-Term Expenditure Framework
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
PEIR	Public Expenditure and Institutional Review
PS	Profession School
RDA	Regional Development Agency
SAA	Stabilization and Association Agreement
SCHS	Socio-Cultural High School
SME	Small and Medium Size Enterprise
THS	Technical High School
UNDP	United Nations Development Program
UNESCO	United National Educational, Science and Cultural Organization
UNICEF	United Nations International Children's Emergency Fund
USA	United States of America
VAT	Value Added Tax
VET	Vocational Education and Training
WTO	World Trade Organization

**Currency** = lek (ALL)

**Exchange Rate** = 143.08 leke per USD (March 2002)

(Note: 'Leke' is the plural of 'lek'.)

## INTRODUCTION

1. Private education in Albania – both for-profit and non-profit - is growing steadily and rapidly at all levels (pre-primary, primary, secondary and post-secondary). According to a study carried out in rural Albania in 1995,<sup>1</sup> almost all those interviewed “*believed that the new private schools that have emerged in most cities offer superior education.*” The Law on Pre-University Education in Albania (which covers both public and private education) provides the legal framework (along with the licensing procedures, rules and regulations) for the opening of private schools at all levels of pre-university education. Furthermore, the new Law for Tertiary Education (2000) allows for the establishment of private universities. However, if as expressed by MES officials, private sector activity is to continue to grow in a controlled and regulated environment, it will be necessary to establish within the Ministry of Education and Science (MES) a separate body/directorate to deal with this sector. Furthermore, it will also be necessary to re-examine the new Law on Tertiary Education in order to clarify procedures for the establishment of private universities, along with accreditation and quality control provisions.
2. According to the MES, since only 35 percent of pre-school education is covered by the State, there is a great need for private investment in this area. Furthermore, as the MES would like to increase secondary vocational/technical education from its current enrollment rate of 20 percent (of all students enrolled in secondary school) to 50 percent - but does not have the resources to do so, private investment in this area is warmly encouraged by the MES. Public-private partnerships also need to be examined closely in order to address equity issues and to stimulate investment in areas of priority to the MES. Nevertheless, as expressed by government officials and representatives of multinational companies there is great demand (and therefore great potential for development and investment) for in-company and executive training especially in the areas of: banking, construction management, computing and interactive technology, marketing, and business administration, accounting and related fields.<sup>2</sup>

## COUNTRY BACKGROUND

3. Albania, with a total area of 28,748 sq.km. is one of the smallest of the Balkan countries. It borders Greece, the Former Yugoslav Republic of Macedonia (FYROM) and Serbia-Montenegro.
4. In 1997, 52.1 percent of Albania’s population was estimated to be under 24 years of age making it the country with the youngest population in Europe.<sup>3</sup> In July 2001, Albania’s population was estimated at 3.5 million with a growth

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<sup>1</sup> In *Education in Albania: Changing Attitudes and Expectations* by N. Dudwick and H. Shahriari. The World Bank, February 2000.

<sup>2</sup> Discussions with representatives of foreign companies and the Commercial Attaché of the Greek Embassy revealed that companies are finding it difficult to locate qualified and skilled staff for the new businesses and industries currently developing in Albania.

<sup>3</sup> In *Albania: Filling the Vulnerability Gap*, by G. La Cava and R. Y. Nanetti, The World Bank, 2000.

rate of 0.88 percent.<sup>4</sup> 29.53 percent of the population is aged 0-14 years, 63.48 percent 15-64 years, and 6.99 percent 65 years and over. According to the CIA World Factbook, 95 percent of the population is Albanian, 3 percent Greek and 2 percent comprising of Vlachs, Roma, Serbs and Bulgarians.<sup>5</sup> Of these, 70 percent are Muslim, 20 percent Albanian Orthodox, and 10 percent Roman Catholic.

5. The Mid-Term Strategy of the MES states that there are 60,000 Greek minority inhabitants living in Albania, settled mainly in Saranda, Gjirokastra, and Delvina, 4,697 Macedonians settled in the villages of Prespa and 1000 Montenegrins settled near Shkodra. However, it should be noted that different levels of attention have been given to meeting the educational needs of Albania's distinct ethnic groups and minorities. In 1994 for example, the Albanian Parliament approved the *Educational Law on Ethnic Minorities with Special Emphasis on the Greek Minority*. This legislation created the framework for equal schooling opportunities for Greek minority children to be educated in their mother tongue (Greek) regardless of their place of residence. However, in practice, it has been difficult to implement this Law by catering for the educational needs of all Greek minority children especially in areas where there are scattered concentrations of minority children. The Government of Greece has therefore, funded instructional materials<sup>6</sup> for students in Greek minority schools and the training of teachers serving these students.
6. Literacy currently stands at about 93 percent (1997 est.), although prior to World War II, an estimated 85 percent of the country's population was illiterate as there were a very limited number of elementary and secondary schools in Albania, while higher education was totally lacking.<sup>7</sup> In the late 1940s, the Government undertook to universalize primary education and, in the 1950s, to develop secondary schooling and establish Albania's first institutions for higher learning. The First Education Reform took place in 1946, which laid the foundations for *a new education system based on democratic and socialist principles*.<sup>8</sup> In 1963, the law "*On the Reorganization of the Education System*" was approved, changing compulsory education from 7 to 8 years. New subjects were introduced into the elementary curriculum (such as civic education and home economics) and more attention was paid to skill development in secondary schools. The education system was reformed further in 1969 and the Institute of Pedagogical Research was established in 1970. By the period of political and economic transition in 1991 therefore, Albania's education system resembled other centrally planned European economies in its structure and universal basic education coverage.<sup>9</sup>

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<sup>4</sup> It should be noted that the population of Albanians living in neighboring countries (i.e. 3 million) just about equals the number living inside its borders (3.5 million). (In *Albania – Filling the Vulnerability Gap*, by G. La Cava and R. Y. Nanetti, The World Bank, 2000.)

<sup>5</sup> 1989 estimate. (CIA World Factbook 2001.)

<sup>6</sup> Providing the textbooks for the subjects taught in the Greek language (e.g. language, literature, geography, history).

<sup>7</sup> At that time, there were only 654 schools and 1550 teachers. (Mid-Term Strategy of the MES.)

<sup>8</sup> Mid-Term Strategy of the MES.

<sup>9</sup> The 1996 Living Standard Measurement survey found that about 45 percent of the population aged 25 to 35 had completed at least upper secondary education.

7. In 1990, Albania - one of the last countries of Eastern Europe to launch the transition to democracy - ended 44 years of communist rule and established a multiparty democracy. According to the CIA World Factbook, "*the transition has proven difficult as corrupt governments have tried to deal with severe unemployment, a dilapidated infrastructure, the collapse of a fraudulent nationwide investment scheme, widespread gangsterism and massive refugee influxes from neighboring Kosovo.*"<sup>10</sup>
8. The transition (from communist rule to democracy) was accompanied by rioting that bore heavily on the school system. According to the Mid-Term Strategy of the MES, between 1990-1992, 5330 school buildings (30 percent of existing pre-schools and 55 percent of basic/compulsory schools) were burned or demolished and a number of other educational institutions (e.g. kindergartens, schools, dormitories) were taken by force and used for other purposes. In 1997, the Albanian schools were targeted again during the riots that broke out as a result of people losing their investments after the collapse of the financial 'pyramid schemes' with losses, according to the Mid-Term Strategy of the MES, calculated at more than \$ 35 million.<sup>11</sup>
9. Poor by European standards, being both economically and technologically underdeveloped, Albania is making the difficult transition to a more open-market economy. The economy rebounded in 1993-95 after a severe depression accompanying the collapse of the previous centrally planned system in 1990 and 1991. However, a weakening of government resolve to maintain stabilization policies in the election year of 1996 contributed to renewal of inflationary pressures, spurred by the budget deficit which exceeded 12 percent of GDP.
10. The collapse of the financial pyramid schemes in early 1997 - which had attracted deposits from about 500,000 Albanians - triggered severe social unrest which led to more than 1,500 deaths, widespread destruction of property (including hundreds of schools), and a 7 percent drop in GDP.<sup>12</sup> The new government, installed in July 1997, took strong measures to restore public order and to revive economic activity and trade.

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<sup>10</sup> With the help of international aid, the high costs of receiving and returning refugees from the Kosovo conflict, has been defrayed.

<sup>11</sup> According to a recent study, discussed in *Education in Albania: Changing Attitudes and Expectations* by N. Dudwick and H. Shahriari, people destroyed schools and other public building as they were then considered part of the hated 'old system' since "[p]rior to the socialist period, the only public space in villages was located in peoples' homes, in the form of a room for receiving male guests. It was only under Hoxha that "public" buildings, such as schools and community building, or "houses of culture," were built. Schools also served as a venue for Communist Party organizing meetings and polling stations. Given the association of the school buildings with Hoxha's hated regime, many informants interpreted the destruction, vandalism and looting of schools in 1991 and again in 1997 as a manifestation of the populations' accumulated hatred for the dictatorship."

<sup>12</sup> CIA World Factbook. According to the same source, GDP was growing at a rate of 8-9 percent until the 1997 recession.

11. The economy's response to macroeconomic stabilization and reform has been impressive. According to the FIAS Diagnostic Study,<sup>13</sup> GDP expanded by an annual average of over 9 percent from 1993 to 1996 and 8 percent in 1998 and 1999 after having contracted by nearly 40 percent between 1990 and 1992. GDP fell by 7 percent in the wake of the crisis in 1997, and it is estimated that 21,000 enterprises closed during, or as a result of the crisis.<sup>14</sup> Despite heavy migration from the rural to the urban areas leading to high activity in the construction sector in Tirana, mainly in the building of private houses,<sup>15</sup> the share of agriculture still represents over 50 percent of GDP. Although most agricultural land was privatized in 1992, substantially improving peasant incomes, the industry and service sectors have been increasing their share in the national economy. Nevertheless, the economy continues to be bolstered by remittances of some 20 percent of the labor force that works abroad (mostly in Greece and Italy), which supplement GDP and help offset the large foreign trade deficit, and from the "grey" economy that comprises the major share (currently representing an estimated 60% of GDP<sup>16</sup>) of economic activities in the country.
12. Albania's success at achieving macroeconomic stability was heavily influenced by the priority given by the Government to maintaining fiscal discipline. Furthermore, during the 1990s the Government's economic transformation program was supported by large inflows of grants and concessional loans.<sup>17</sup> Foreign aid, along with private transfers, was instrumental in reducing exchange rate volatility and current account deficits, and in building up foreign exchange reserves.
13. Despite progress in achieving macroeconomic and financial stability, Albania continues to have one of the lowest levels of per capita income in Europe. Per capita GDP in Albania is lower than the average for Southeastern European transition countries, and significantly below the average for Central European transition countries.<sup>18</sup> UNDP's human development index places Albania 100<sup>th</sup> (based on 1997 data) out of 174 countries ranked, significantly below the rankings for other transition countries in Southeastern (55-73) and Central Europe (33-47). UNICEF's Report on the State of the World's Children for the year 2000 ranks Albania 90<sup>th</sup> out of 175 countries with respect to under-five mortality rate (based on 1998 data).
14. According to the *Interim Poverty Reduction Strategy Paper* (May 3, 2000), poverty in Albania is relatively high and multidimensional. It is defined in terms of low income and/or consumption due mainly to limited job opportunities and low incomes, particularly in agriculture. But poverty in

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<sup>13</sup> FIAS Albania Diagnostic Study, Foreign Investment Advisory Service, IFC and The World Bank, February 2001.

<sup>14</sup> Ibid.

<sup>15</sup> Mid-Term Strategy of the MES, 2000.

<sup>16</sup> FIAS Albania Diagnostic Study.

<sup>17</sup> Government policies and foreign assistance were particularly critical in helping Albania weather the storm in the aftermath of the 1997 "pyramid" crisis and the 1999 Kosovo crisis.

<sup>18</sup> Albania – Interim Poverty Reduction Strategy Paper, May 3, 2000.

Albania not only manifests itself in low income for part of the population, but also in limited access to and poor quality of basic services like education.

15. However, significant differences exist between rural and urban areas. A study based on the 1996 Living Standard Measurement Survey (LSMS) data, conducted in the areas outside Tirana, suggests that poverty in Albania is a rural phenomenon with almost 90 percent of the poor residing in rural areas and 60 percent of the heads of poor households being self-employed in agriculture. The incidence of rural poverty was found to be five times higher than urban poverty and is highest in the North of Albania, where a large portion of families own less than 0.5 hectare of land each. Other results of the LSMS study indicate that poor families tend to be young and that poverty is strongly linked to education. The poverty rate drops as the age of a household head rises; poverty is almost 10 percent higher for households with heads 16 to 35 years of age than for households with heads aged 64 and above. Households headed by people who are illiterate or have basic education are 20-30 times more likely to be poor than households headed by university graduates. Especially in rural areas, the poverty rate is minimal where household heads have migrated and returned home; the poverty rate is slightly higher where household heads abroad are currently sending remittances. It should be noted that remittances constitute a major informal safety net.
16. Repeated crises (e.g. the collapse of the financial ‘*pyramid*’ schemes in 1997, the Kosovo crisis in 1999), as well as large external and internal migration have contributed to the weakening of social cohesion and traditional family and community based safety nets, leading to increased vulnerability and social exclusion of different groups of the population. The economic downfall in 1997 (caused by the *pyramid scheme* crisis) for example, led to the development of significant pockets of urban poverty.<sup>19</sup> Slum-like communities have formed around Tirana (with an estimated 800 street children<sup>20</sup>) and other major cities, lacking urban infrastructure and services. Children from these communities for example, often have to walk for about an hour to reach school.
17. It is hoped that such problems related to poverty will be alleviated through the comprehensive economic development strategy, the *Growth and Poverty Reduction Strategy* (GPRS), which is the first for Albania and currently underway. The GPRS will help the Government improve the effectiveness of its policies as well as contribute to Albania’s aspiration to move towards a Stabilization and Association Agreement (SAA) with the EU by raising the level of development for the entire country and closing the gap between Albania and other European countries. The GPRS is closely linked with the

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<sup>19</sup> The urban population has increased a total of 11.8 percent since 1990 and now equals 46 percent of the nation’s total. Urbanization has been most severe in Tirana, the capital city, where the population increased an estimated 19 percent in just over 10 months (January 1 – November 1, 1997). By the year 2002, the population may well be more than half urbanized. (ECA Social News, January 14, 1999)

<sup>20</sup> Parents working abroad often leave their children with grandparents or relatives who in some cases are not able to take adequate care of them. (Albania – Interim Poverty Reduction Strategy Paper, May 3, 2000.)

*Medium-Term Expenditure Framework* (MTEF)<sup>21</sup> so as to ensure that GPRS policy objectives are translated into appropriate public expenditure decisions. The Ministries of Education, Health, Labor and Social Affairs, Public Works, Transport, Agriculture and Public Order are involved in this process, although civil society participation has been encouraged, along with dialogue with the private sector.

18. Moreover, one of the key elements for poverty reduction as listed in the *Albania - Interim Poverty Reduction Strategy Paper* (May 3, 2000), is human development. As such, the Government aims to promote human development through the design and implementation of comprehensive and integrated strategies in health, education, child poverty, and labor market and social protection sectors.
19. Specifically for education, the Government aims to increase enrollment in basic and secondary education. In basic education, the government will undertake an analysis of the recent decline in gross enrollment rates.<sup>22</sup> It will also review the structure of the secondary education system in order to make it more appropriate to current demands in the labor market and identify measures for improving the quality of secondary schooling.<sup>23</sup> For the entire education system, the Government will adopt more appropriate curriculum standards, improve arrangements for the supply of textbooks, and address issues of the quality of teaching staff. It will also explore how to improve the integration of internal migrants into the education system. Furthermore, the Government will use its school-mapping database to rationalize the allocation of resources for school rehabilitation and construction.<sup>24</sup>
20. For labor market and social protection, the Ministry of Labor and Social Affairs (MLSA) will examine the possibility of implementing public programs focusing on poor communities, particularly in rural areas, and of strengthening job counseling and job search assistance for the unemployed. According to the *Poverty Reduction Strategy Paper (2000)*, currently 18 percent (or about 239,000 people) of the workforce is officially registered as unemployed.<sup>25</sup> The 1999 MLSA statistics moreover, show that unemployment is greatest among young people (aged 21-34 years) and represents 45.5 percent of all unemployed. Unemployment is 41.5 percent of the total number of unemployed for those over 34 years and 13 percent for those younger than 21 years.<sup>26</sup> Well-targeted, demand-driven training programs therefore, will

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<sup>21</sup> The MTEF is one of the principal instruments for operationalizing the Government's GPRS.

<sup>22</sup> In 1989, school expectancy in Albania was 11.6 years; by 1998 it had dropped to 9.5 years – an average loss of two years of schooling in about a decade. By 1998 the average Albanian child could expect to complete 6 years less schooling than the average OECD child (15.4 years) and less than in other economies in transition. (Berryman, 2000)

<sup>23</sup> Currently, Albania lacks learning standards based on national or international assessment of student learning. Quality is therefore difficult to measure. However, if the quality of educational inputs affects the quality of educational outcomes, current quality does not seem to meet even bare minimum standards, let alone standards that will ultimately be required by a modern economy. (Berryman, 2000)

<sup>24</sup> Albania – Interim Poverty Reduction Strategy Paper. May 3, 2000.

<sup>25</sup> However, unemployment may be as high as 25% as many of those unemployed (especially in rural areas) are not registered.

<sup>26</sup> Country Report: Albania. Stability Pact for South East Europe. October 30, 2000.

continue to be implemented, with special focus on the training and retraining of workers who have been made redundant by privatization, structural changes, and the like.<sup>27</sup>

21. However, high levels of unemployment and widespread incidence of poverty have resulted in increased demands on the social benefit programs. Currently, approximately one million people are living in poverty (of which half a million are pensioners) with incomes of \$ 10-40 per month. More than 140,000 families, amounting to an estimated 400,000 family members, currently receive social benefits averaging \$ 15 per month. Total expenditure on social safety net is estimated at 8 percent of GDP.<sup>28</sup>
22. As noted by Berryman (2000), *“the data [on unemployment by education level] show that although having completed tertiary education strongly reduces the probabilities of being unemployed, the probabilities for those who have completed secondary education are high and virtually the same as the rates for those who have completed basic education only. In other words, estimated returns to education and unemployment data suggest that investing in secondary education does not buy much”*. Berryman also points out that *“[t]he analyses of returns to education for Albania indicate that the economy has not yet matured to that point where employers need higher levels of skill and knowledge. As Albania becomes a full-blown market economy and integrates into the global economy, employers will demand different and higher levels of skills and knowledge, altering the standards that Albania’s education system must meet.”*
23. Albania’s economic situation therefore, has important implications for the education and training system. At present, severely constrained public finances cannot simultaneously operate the education system and address all the urgent and widespread school rehabilitation needs. The current stock of skills and knowledge of the labor force (and the schooling system that helped shape it) still reflect Albania’s economic and political past and its extreme isolation from the outside world. Aside from the emerging service sector and privatized agricultural activity, Albania’s future industry and occupational profiles are generally unclear, making it difficult for the Government and individuals to make informed investment decisions about work-related education and training. In this context, Albania is working to keep intact the delivery of high-quality general education - the foundation of a well-prepared and flexible labor force - and to begin realigning technical and higher education to the country’s new environment.
24. However, as noted in the *Public Expenditure and Institutional Review (PEIR)*,<sup>29</sup> the quality of government expenditures has deteriorated. Specifically, *“[t]here have been low levels of spending on health and education, which are particularly important for low-income families”*. Furthermore, *“[e]ducation expenditures have fallen to just over 2.5 percent of*

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<sup>27</sup> Albania – Interim Poverty Reduction Strategy Paper, May 3, 2000.

<sup>28</sup> Stability Pact – Albania - Status/Progress Report. Working Table II. Istanbul, 16-17 October, 2000.

<sup>29</sup> The PEIR focuses on public expenditure management and is at the core of the Government’s program to strengthen the capacities and increase the accountability of public institutions.

*GDP compared to an OECD average of 4.8 percent of GDP, and children from higher-income groups benefit disproportionately at all levels of education, except basic education”*.<sup>30</sup>

25. The Government therefore, intends to give greater priority to the education sector in the allocation of public financing, recognizing that Albania’s future economic prosperity depends on the skills of its population. Measures aimed at improving the quality and effectiveness of education services and establishing a modern education system that will serve the needs of Albania consistent with European standards, include: (a) reform of education financing through the introduction of capitation-based funding so that resource allocation better reflects education demand; (b) improved institutional capacities for the administration of education services; (c) the restructuring of the secondary education system; (d) rehabilitation of school facilities, especially for primary education; (e) substantial investment in teacher training and retraining; and (f) reforms in university education to reflect better the new skill demands in the economy.<sup>31</sup>
26. However, as noted in the Mid-Term Strategy of the MES, unless demographic changes (e.g. internal migration of the population as well as emigration, and changes in birth rates) are better documented, designing and regulating education needs at local and regional levels will be difficult.

## **THE EDUCATION SECTOR**

### **The Regulatory Framework**

27. The right to education is defined by the Albanian Constitution, where it is also described as a national priority. Article 3 of the Law for Pre-University Education states that: *"Citizens of the Republic of Albania enjoy equal rights to be educated at all levels of education stated by this law, regardless of social status, nationality, language, gender, race, political convictions, health and economic level."* Minority education has also been taken into consideration in this Law. Article 10, for example, states: *"In compliance with the law, the members of national minorities have the possibility to be taught and to learn in their own language, and to learn about their history and culture within the framework of the school curricula"*.
28. According to the Albanian Constitution, educational policy is determined by the Government and passed by Parliament. Most initiatives for education laws originate at the MES and are then examined by the Parliamentary Committee of Education and Culture. However, it is the Council of Ministers that has the highest authority in the country and as such, defines education policies, which are then implemented by the MES. The MES, along with provincial or municipal authorities, ensure that the rights of citizens in terms of the law of education are respected.

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<sup>30</sup> Albania – Public Expenditure and Institutional Review. A Briefing Note. Prepared for the Consultative Group Meeting by the Europe and Central Asia Region of the World Bank. March 1, 2001.

<sup>31</sup> Summary of the Public Investment Program. Prepared by the Government of Albania. Albania Consultative Group Meeting, March 1, 2001.

29. The MES is responsible for primary, secondary and tertiary education and training; the Ministry of Health for pre-school education; and the Ministry of Labor and Social Affairs for the training of unemployed.
30. The fundamental legal basis for education is the Pre-University Education System Act of 1995, which covers pre-primary, primary and secondary education. This Act provides the legal framework for both public and private education at pre-university level. The new Law on Higher Education (1999) aims to regulate the activities of universities and their faculties, as well as to provide the legal framework for the operation of private universities and colleges.<sup>32</sup>
31. In March 2000, the MES released the *Mid-Term Strategy* (already noted above) for the reform of the education system of Albania. This document states that the ultimate goal of the education system is more effective education for all and that this can only be achieved by increasing the efficiency of the system. As such, priority is placed on developing the infrastructure of education, reforming the structures of education and training, retraining of principals and teachers, and improving the quality and production of textbooks.
32. The Albanian educational authorities have expressed their strong political commitment to support and improve the education and training sectors. In doing so, emphasis has been placed on encouraging private participation in education and the development of a network of private schools.

### **Structure of the System**

33. The education system comprises: pre-school level (age 3-5); basic/compulsory education lasting 8 years and divided into two cycles: Grades 1-4 (age 6-9/10) and Grades 5-8 (age 10/11-14); high school education Grades 9-12 (age 14-17) with academic (leading to tertiary education) or professional orientations (leading to the labor market); higher non-university education; and higher university education. One year after high school, students have the opportunity to undertake vocational training courses for various professions, languages and computing. The certificate received for this one year, is awarded by the MES. If the course of instruction is less than 9 months, the certificate is awarded by the MLSA.
34. The governance of Albania's education sector is highly centralized and vulnerable to turbulence in its political leadership. It is divided into four levels – *the central level*, which includes the legislative and executive bodies as well as national institutions (e.g. the Parliament, the Council of Ministers, the Ministry of Education and Science and its subsidiary institutions such as the Institute of Pedagogical Research (IPR), the Textbook Publishing House, the Textbook Distribution Enterprise), and the Ministry of Local Government (MLG) which was created in 1998 and not only represents the interests of local governments, but also plays a role in the budget planning and execution

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<sup>32</sup> The procedures for establishing private universities were approved by Parliament in 2001.

process, monitoring the way resources are allocated and used by municipalities and communities; *the regional level*, which includes the prefectures;<sup>33</sup> *the district level*, which includes the Educational Directorates (which are agencies of the MES at the district level), and the Municipality/Community Council (which acts like a small Parliament approving for example the budget for the municipality) and is responsible for the maintenance of school-buildings<sup>34</sup>; the District Council (which is the second autonomous level of government)<sup>35</sup>; *and the school level*, which includes the teachers' council, the parents' council, the school board<sup>36</sup> and class council. However, as noted in Berryman (2000), “[l]ocal governments have very limited power; schools have less; and parents and communities primarily enter the process through private financing”.<sup>37</sup>

35. Furthermore, according to the OECD review of the education system of Albania, the organizational structure of the education system is weak and the MES is incapable of influencing school funding, or using existing resources more effectively. One of the main reasons for this is that the District Finance Offices are subordinate to the Ministry of Finance (MOF) and merely deliver money according to the decisions of the MOF. The local government therefore, does not have much influence on the resources for education and as a consequence, does not have either the power or the funds to effect changes in the public educational system. Likewise, schools and their stakeholders, while in principle possessing a new management structure and have been given increased management responsibilities, have not been given either an operational budget or the power to make decisions in key areas of management such as teacher recruitment and evaluation.<sup>38</sup>

36. Nevertheless, broad consensus has been achieved on the need to decentralize central government competencies and powers. One of the major cross-cutting policy initiatives for example, that are expected to have a significant impact on sector resource allocations and spending plans for the 2002-2004 Medium-Term Expenditure Framework is the Government's decentralization strategy. According to the Public Expenditure and Institutional Review (2001), *Albania's decentralization strategy proposes an ambitious program of devolution of service delivery responsibilities to local governments. The phasing of the decentralization is currently being worked out together with the supporting arrangements for intergovernmental finance.*<sup>39</sup>

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<sup>33</sup> Prefectures do not have distinct responsibilities in the field of education, but rather, monitor that all government agencies in the districts conform to the law.

<sup>34</sup> And has a budget assigned for that purpose.

<sup>35</sup> Each District Council has one person in charge of education, but no budget for education.

<sup>36</sup> The MES has passed a regulation requiring all schools to have a *school board* with the aim of involving the whole community, including the business community, in the problems of the school. The *school board* focuses its activities on collecting additional financial resources for the school.

<sup>37</sup> Albania's Education sector: Problems and Promise. Sue E. Berryman. Human Development Sector Unit. Europe and Central Asia Region. The World Bank. May, 2000.

<sup>38</sup> OECD Thematic Review of National Policies for Education - Albania.

<sup>39</sup> Albania – Public Expenditure and Institutional Review. A Briefing Note. Prepared for the Consultative Group Meeting by the Europe and Central Asia Region of the World Bank. March 1, 2001.

## Participation and Enrollment Rates

37. More than 45 percent of the population is of school age and according to the *Mid-Term Strategy* of the MES about 35 percent of the population is included in the compulsory 8-year education.
38. Since the transition however, gross enrollment rates have declined at all levels of education, except for higher education where participation rates of regular, full-time students have remained relatively flat during recent years and those of *external*<sup>40</sup> students have increased substantially. Declines in basic education enrollments are of particular concern as they account for the dramatic fall in secondary enrollment rates and consequently, the severe decline in secondary enrollments will also ultimately hinder the economic development of Albania.<sup>41</sup>
39. According to the Albanian Institute of Statistics, enrollment rates in education, especially for children from rural areas (particularly at the secondary level) have fallen since 1990. As a result, the expected duration of schooling of children has dropped to below 10 years, which is extremely low by international standards.<sup>42</sup> This drop occurred against the background of a decline in public expenditures on education from 3.8 percent of GDP in 1995 to 2.8 percent of GDP in 1999, much below the level in neighboring countries. The declining enrollment rates reflect a deterioration in the quality of education, the diminishing relevance of traditional forms of vocational and technical training, as well as the increased opportunity costs of attending school. During the last ten years about 3 percent of children have dropped out of school each year, which means that illiteracy, which had been virtually eradicated in Albania, could be rising again. There are also serious concerns about the quality of education. In some urban areas the number of pupils per classroom now exceeds 40, while especially in rural areas the percentage of unqualified teachers is quite high. In addition, many schools still are in poor condition (leaking roofs, missing windows, no heat).<sup>43</sup>
40. According to Berryman (2000), “[f]amily poverty constrains participation after basic education. Poor families, [with incomes of about \$ 10-40 per month<sup>44</sup>] although even willing to borrow money, have trouble paying for their children’s school supplies and textbooks [which can amount to \$ 8-15 per

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<sup>40</sup> ‘External’ students do not attend lectures, but rather study on their own and sit for the same exams as regular students.

<sup>41</sup> Since the number of basic education schools increased across the last decade - in total and in both rural and urban areas - supply does not seem to explain the decline in enrollment rates for basic education. Data from the 1996 Living Standard Measurement Survey (LSMS) identify two demand factors. Thirty-five percent of those Albanian students between 10 and 14 years of age who had left school did so for reasons related to inadequate family income. Almost a fifth had left because of perceived low educational quality. (Berryman, 2002)

<sup>42</sup> This is 6 years lower than the OECD mean of 15.4 years, and lower than in other economies in transition such as for example the Czech Republic, Hungary and Poland. (Financing, Efficiency, and Equity in Albanian Education. G. Palomba and M. Vodopivec. The World Bank. March 2000)

<sup>43</sup> Albania - Growth and Poverty Reduction Strategy. Progress Report prepared by the Government of Albania and the World Bank. February 2001.

<sup>44</sup> Stability Pact – Albania: Status/Progress Report. Working Table II. Istanbul 16-17 October, 2000.

child per year depending on the level<sup>45</sup>] and especially if they have more than one child in school simultaneously. They cannot finance the private tutoring that is becoming necessary for their children to gain access to universities [which ranges between \$ 2-5 per session depending on the level<sup>46</sup>] and even if their children do gain a university place, they cannot afford the formal and informal costs of university [which can be as high as \$ 40 per month<sup>47</sup>].”

41. A disproportionate number of the poor live in rural areas. Enrollment rates are therefore significantly lower in rural than in urban areas. The supply and quality of educational services are also worse in rural areas, which further reduces demand. However, rural populations are migrating to Albania’s cities and peri-urban areas. Thus, schools in the cities and peri-urban areas have to deal with the effects of rural-urban differences in the families’ demand for education and the poorer quality of preparation that rural students bring with them.
42. As can be seen from **Table 1** below, gender is not a factor in participation at pre-tertiary levels. However, at the tertiary level female participation exceeds that of male participation.

**Table 1: Participation in education – basic, secondary and tertiary - by gender**

1999/2000	N° of all students	%	Girls in n°	Girls in %
Basic education	548, 684	80	263, 306	78
Secondary education – general and VET	104, 946	15	50, 673	15
Tertiary education	39, 848	5	23, 760	7
<b>TOTAL</b>	<b>693, 478</b>	<b>100</b>	<b>337, 739</b>	<b>100</b>

*Source: MES - Directory of Statistics, 2000.*

43. According to the Mid-Term Strategy of the MES, there are (officially) two minorities in Albania – the Greek and the Macedonian. **Table 2** shows the participation in *minority education programs* of these two ethnic groups.<sup>48</sup>

**Table 2: Participation in education – pre-school, secondary, tertiary -by ethnic group**

Ethnic Group	Pre-School		Basic		Secondary		Tertiary*	
	n°	percent	n°	percent	n°	percent	n°	percent
Greek	440	66	1,670	75	81	31		
Macedonian	222	34	554	25	177	69		
<b>Total</b>	<b>662</b>	<b>100</b>	<b>2,224</b>	<b>100</b>	<b>258</b>	<b>100</b>		

*Source: MES - Directory of Statistics, 2000.*

\*No data available

<sup>45</sup> As revealed by parents interviewed.

<sup>46</sup> Ibid.

<sup>47</sup> Ibid.

<sup>48</sup> *Note:* Table 2 shows participation of minorities in *minority education programs* only (i.e. Greek and Macedonian students may attend regular programs as opposed to *minority programs*). As revealed by those interviewed, the sharp decrease in the number of Greek minority students in minority programs at secondary level may be due to the fact that many prefer to continue their schooling in Greece; whereas the increase in the number of Macedonian minority students participating in minority programs at secondary level may be due to their preparation for university attendance in FYROM.

44. Enrollment trends for pre-school participation over the past ten years have shown a definite decline from 130,007 (58 percent of the 3-5 year age cohort) in 1990/91 to 80,337 (35 percent of the 3-5 year age cohort) in 1999/2000 (with slight increases during 1995/96 and 1996/97).<sup>49</sup> Some of the main reasons of the reduced number of children are: reduced number of pre-schools due to destruction of schools, increased number of jobless mothers, increased need for help in the family and family emigration.<sup>50</sup>
45. Enrollments in basic/compulsory education decreased during the first three years of the past decade, from 557,127 students in 1990/91 (representing 100 percent of the 6-13/14 year age cohort<sup>51</sup>), to 526,000 in 1992/93 (representing 97 percent of the age cohort), followed by a slight increase from 1994-1998 and decreasing again to 543,967 students in 1999/2000 representing 92 percent of the 6-13/14 year age cohort. This decrease is related to: internal migration and emigration; inefficiency of the local authorities to make sure that all 6-13/14 year olds are in school; exploitation of children (for selling and begging); and family need to work the farmland.<sup>52</sup>
46. The decrease in secondary education enrollments is more evident, dropping almost 50 percent during the past decade from 206,000 students in 1990/91 (representing about 80 percent of the 14-18 year age cohort) to 90,000 in 1995/96, and increasing slightly to 102,971 in 1999/2000 (representing 41 percent of the 14-18 year age cohort).<sup>53</sup> This decrease is mainly due to the lack of students in vocational schools. Interestingly, in 1990, before democratic changes took place in Albania, 78 percent of the total number of students in secondary education, were in vocational schools. Whereas in 1998/99, only 15 percent were in such schools.
47. Although tertiary education enrollments increased during the first seven years of the past decade from 10 percent in 1990 (i.e. 21,645 students) to 15 percent in 1997 (40,125 students), this figure has not changed in the last three years and represents only 7 percent of the relevant age group (18-22 years).<sup>54</sup>
48. The dropout rate from Grade 8 in 1998/1999 numbered 15,232 students – 2.8 percent of those in school.<sup>55</sup>
49. According to the MES, planning for the future is difficult because of lack of knowledge regarding the numbers of students in the country. It is hoped that after the 2001 census<sup>56</sup>, it will be possible to know how many dropouts there are - or how many *potential* students are not in school.<sup>57</sup>

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<sup>49</sup> Pre-school enrollments in Albania have never been 100 percent of the age cohort. (Mid-Term Strategy of the MES).

<sup>50</sup> Mid-Term Strategy of the MES

<sup>51</sup> Ibid.

<sup>52</sup> Ibid.

<sup>53</sup> The MES hopes to increase the number of students in secondary education by 2-3 percent.

<sup>54</sup> This percentage is the lowest - and below half of the average - of all transition countries.

<sup>55</sup> Mid-Term Strategy of the MES.

<sup>56</sup> 2001 census data currently unavailable at the time of writing this report.

<sup>57</sup> According to the Mid-Term Strategy of the MES, non-attendance in rural areas is mainly due to parent needing their children to stay home and work on the farm.

## **Pre-School Education**

50. Pre-school education is under the jurisdiction of the MES but availability of places at state pre-schools can only cater for 35 percent of the pre-school age cohort (3-5 year olds). Children from 0 to 3 years old attend nursery schools/day-care centers, which are under the jurisdiction of the Ministry of Health. The nursery schools have never been considered part of the educational system. There were 70 public/state nursery schools in 1990 and now there are 40.
51. According to the Directory of Statistics of the MES, in 1997/98 there were 2,408 state/public pre-schools, in 1998/99 2,330, and in 1999/2000 only 2,111. This means that only 35% of the age cohort (3-5 year olds) is catered for since the state stipulates that each group of children should be no more than 25 children but, in what is considered good kindergartens, there are often many more children than that in a group and in some case reaches 50 children in the 3 to 4 year age group. In some 5 to 6 year old groups, there are up to 54 children in a group.
52. Many parents would like their children in both nursery school and kindergarten but there are insufficient places at public/state institutions. Aside from the lack of spaces, unemployment and poverty also prevents parents from being able to send their children to kindergarten.<sup>58</sup> However, there is no data available on the number of children that cannot attend pre-school.
53. However, a common phenomenon in all Eastern European counties during the past decade has been the closing down of kindergartens and the reduced enrollment and attendance rates. In Albania, 31 percent of state/public kindergartens have closed in the last decade with significant effects as the number of 3-5 year olds attending pre-schools decreased by 35 percent.
54. Nevertheless, the Mid-term Strategy of the MES stresses the importance of pre-school education but also points out that the loss of many kindergartens has been due to the 1992 and 1997 crises where many kindergartens were destroyed or occupied and turned into residences or local government offices. For example, the total number of kindergartens decreased from 3,426 in 1990 to 2,330 in 1998; the number of kindergartens in villages decreased from 2,622 in 1990 to 1,448 in 1998; and those with food decreased from 665 in 1990 to 97 in 1998.<sup>59</sup> In the remote rural northeast areas moreover, many kindergartens have closed down due mainly to migration to the urban areas. Actually, the northeast is listed in the Mid-Term Strategy of the MES as having the lowest number of children enrolled and attending kindergarten.
55. The demand for kindergartens providing food is increasing but cannot be met through the state/public system. The number of kindergartens with food

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<sup>58</sup> Due to costs for food and supplies which, according to parents interviewed, can range from \$ 4-8 per month.

<sup>59</sup> Mid-Term Strategy of the MES.

totaled 97 in the urban areas and 0 in the rural areas in 2000. This is a drop of 665 in the urban areas and 351 in the rural areas compared to 1990 data.<sup>60</sup>

56. The central government makes all decisions about the pre-schools, concerning budget, staff and curriculum. The local municipalities still have very little decision-making power regarding education issues. However, available State funds are insignificant compared to the needs. The calculated financial needs for infrastructure and equipment far exceeds available State funds assigned to pre-school education. For this reason, initiatives for private enterprise are warmly encouraged.<sup>61</sup>
57. New teaching methods have been piloted in the pre-school system. These include joint projects between the MES and the *Regio Emilia* schools (supported by UNICEF) and the *Step by Step* model (supported by AEDP). Furthermore, existing pre-schools have been strengthened by the rehabilitation of damaged buildings and the construction of new pre-schools. However, as teaching materials and toys for pre-schools are in short supply, equipment is provided mainly by foreign donors.
58. Pre-school teachers<sup>62</sup> are trained at university level, 3-year teacher colleges. These were first opened in 1994 along with departments for pre-school teacher preparation. Three universities provide such training but there is no pre-school teacher training in Tirana. Elbasan University graduates 60 pre-school teachers a year. In-service training is not done by the universities at present although Elbasan University has asked the MES for permission to organize such training.

### **Basic/Compulsory Education**

59. Basic/Compulsory education comprises of Grades 1-8 and caters for the 6-14 year age cohort. It is divided into: (a) lower grades (Grades 1-4); and (b) upper grades (Grades 5-8).
60. In 1998/99 there were 1815 8-year (Grades 1-8) schools and in 1999/2000, 1828, (out of which 1525 were located in rural areas) and 1433 4-year (Grades 1-4) schools (out of which 1324 were located in rural areas). Presently, 212 of the 8-year schools are combined with secondary schools (189 of which are located in rural areas).
61. Despite the fact that Grade 1-8 attendance is compulsory, statistical figures show an enrollment of only 92 percent of the relevant age group and a drop-out rate of approximately 3 percent. According to the statistics of the MES, the number of drop-outs from the 8-year education increased from 21,710 in 1990 to 34,232 in 1991 and decreased to 21,532 and 20,939 in 1992 and 1993 respectively. In 1994 and 1995 the number of drop-outs was almost constant

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<sup>60</sup> Ibid.

<sup>61</sup> Discussions with MES officials revealed that the MES is keen to facilitate (in terms of procedural arrangements rather than funding capability) the establishment of private kindergartens.

<sup>62</sup> Currently, there are over 4,000 pre-school teachers. 90 percent of these have secondary education qualifications and only 10 percent higher education qualifications.

at 17,134 and 17,162 respectively, increasing to 18,300 in 1996 and decreasing to 16,779 and 16,730 in 1997 and 1998.

62. One of the major problems in urban areas is the ever-increasing number of students due to internal migration. As a consequence, urban schools are over populated and are forced to operate on two- and even three-shifts. The number of students in a class is a concern in urban areas as it often reaches more than 40 students per class. Lack of sufficient number of qualified teachers and classrooms impose double and triple shifts. Rural schools on the other hand, are under-populated and forced to operate *collective or combined classes*<sup>63</sup> due to the limited number of students in some classes. It should be noted here that according to the Mid-Term Strategy of the MES, more than 95 percent of students finishing basic/compulsory school in rural areas do not continue on to secondary school.<sup>64</sup>
63. Children with special needs tend not to be integrated in ordinary schools but are in special schools.<sup>65</sup> These schools cater for children aged 6 to 14, but children over the age of 18 can stay on in the centers.
64. Innovations of the curricula for primary and secondary education have been applied from the 1997/98 school year. Such innovations include the reduction of school curricula (for example, subject/topics covered) and teaching time (number of lessons), as well as the rearrangement of the curricula content.<sup>66</sup> Some subjects like civic education, history, literature have been completely changed. Furthermore, extra-curricula activities and elective subjects are being re-examined. All pre-university schools from the school year 1998/99 have five school days per week. However, although all these innovations are considered as positive, a study undertaken by Dudwick and Shahriari (2000) showed that informants continued to criticize the curricula for being “overloaded, and too rigid to allow students to develop their own preferences or abilities”. They also felt “it did not reflect demands of the market economy”. Furthermore, this study showed that “senior students felt that only half the 15 classes should be mandatory, and that students should be able to choose the remaining classes”.<sup>67</sup> According to a survey undertaken in

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<sup>63</sup> Such classes constitute 31 percent of the total number of classes in the 8-year education system and 10 percent of the total number of students at this education level. During the school year 1998/99, 252,325 students out of the total 292,070 students in Grades 1-4 had lessons in separate classes, whereas 39,745 students had lessons in combined classes.

<sup>64</sup> This is mainly due to the fact that secondary schooling is not compulsory and children in rural areas need to work (e.g. help cultivate the family's land) to supplement the family's income.

<sup>65</sup> According to the "98 Annual Report" from the Ministry of Labor and Social Affairs (published in 1999) there are seven centers for mental and physical development in the entire country – 5 of which are residential and 2 day-centers. The total capacity of all the centers is 250 beds but the request for placements is much greater.

<sup>66</sup> Albanian children spend 40-60 hours per week in kindergarten, five days a week. Basic education/compulsory school students spend 5 days a week in school and have an average weekly load of 25 classes. The school year is 34 weeks and each class session is 45 minutes for pre-university level education. Secondary school students spend five days a week in school and have 28-30 classes per week. The school year is 35 weeks for the general education high schools and 38 for the vocational/professional schools. (Mid-Term Strategy, MES, 2000.)

<sup>67</sup> Dudwick, N. and H. Shahriari, Education in Albania: Changing Attitudes and Expectations. The World Bank. February 2000.

Albanian schools in 1992 moreover, showed that “the Albanian school assigns to the 9 year olds, that is, third year elementary school students, more homework than the average homework load of 79% of the countries it is compared to, and to the 13 year olds more than 56% of these countries”.<sup>68</sup>

65. Teachers of basic/compulsory education are trained at universities. According to statistics of the MES, about 47.8 percent of the teachers have high school education and 52.1 percent have higher (university) education. However, the number of teachers with higher education or professional high school education is decreasing.

## Secondary Education

66. Secondary education is comprised of: 4-year General Education High Schools (GEHS); 5-year Technical High Schools (THS); 3-year Professional Schools (PS); 4- or 5-year Social-Cultural/Specialist High Schools (SCHS) for the arts, sports, languages, pedagogy; and 5-year General Education Evening/Part-time High Schools.<sup>69</sup>
67. According to the Mid-Term Strategy of the MES, secondary education in the past was considerably oriented toward technical and professional rather than general education. In 1950 for example, there were only 6 GEHS and 17 THS and in 1990, 47 GEHS and 466 THS/PS. Most of the THS/PS (362 in number) were agricultural schools located in the rural areas mainly and a smaller number of provided technical industrial education. In 1990, 78 percent of the secondary schools were agricultural or professional, 10 percent focused on professions related to industry (mechanics, electronics, nutrition, textile, confectioneries, and forestry) and only 12 percent on general academic education.
68. However, during the first half of the past decade, general education increased dramatically, with an opposite effect on technical/professional education. In 1998/99 for example, the number of GEHS had increased to 331 (of which 239 were in rural areas) and the number of THS and PS had dropped to 63 (4 of which are in rural areas).<sup>70</sup>
69. Presently, technical/professional or *Vocational Education* (VET) does not play an important role in the context of secondary education in Albania – nor is there continuity between initial VET (which is under the jurisdiction of the MES) and further/adult training (which is under the jurisdiction of the Ministry of Labor and Social Affairs). Currently, there are only 43 VET schools, of which 30 are 3-year vocational schools and 13 5-year technical schools. The percentage of students in VET programs has dropped to 15 percent of the total number of students in secondary education. As expressed by officials of the MES, the MES would like to increase participation in VET to 50 percent of the total number of students in secondary education and as

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<sup>68</sup> Mid-Term Strategy of the MES.

<sup>69</sup> Ibid.

<sup>70</sup> 9 of which were combined GEHS/THS schools.

such, would like to see private VET schools - with content supervised by the MES - increase in number.<sup>71</sup>

70. Both general and vocational education has undergone basic changes in terms of both content and structure. The objectives of these reforms are: to reduce the curriculum content (which is overloaded) and to adapt the curriculum to include new developments in science and technology, new market economy, as well as changes in social relations. In the future, general education schools will have two directions after the second year - a humanitarian direction and a natural sciences direction. Such changes are currently being piloted in 11 schools. The establishment of three- or five-form *combined* general/vocational secondary schools is also being piloted.<sup>72</sup>
71. Interestingly however, the study undertaken by Dudwick and Shahriari (2000) revealed that those interviewed did not particularly embrace the new educational ideology propounded by education reformers “that schools should train young people to think critically and provide the kind of knowledge that could be applied in a range of situations. Rather, they expected school to provide specific training for specific jobs. Some reminisced nostalgically about the past, when students moved smoothly from school to university to job.” Furthermore, the study showed that there was “general consensus among informants, particularly those in depressed rural areas, that schools should offer much more in the way of practical courses to prepare young people for employment work as waiters, salespersons, or computer operators.” It is also noted, that students felt that “even when qualified teachers taught more practical courses, they lacked the experience to provide real hands-on training. Even more critically, most schools, especially rural ones, lacked computers. Or if they had computers, they were old and often used as little more than typewriters.”<sup>73</sup>
72. One of the major problems however that secondary education in Albania faces is the increased percentage of students in urban secondary schools and the decreasing percentage of secondary school students in rural schools.<sup>74</sup> Furthermore, the percentage of those completing secondary education in urban areas compared to those completing secondary education in rural areas changed from 60 percent in urban and 60 percent in rural areas in 1990/91 to 68 percent in urban and 32 percent in rural in 1998/99.<sup>75</sup>

### **Tertiary Education**

73. There are 11 public higher education institutions in Albania – 8 of which are universities – Tirana University, Tirana Polytechnic University, Tirana

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<sup>71</sup> It should be noted that although the MES supports the development of private VET schools (as the MES does not have the financial means to facilitate an increase in participation in public VET schools), this “support” is not expressed in terms of *financial* support.

<sup>72</sup> Mid-Term Strategy of the MES.

<sup>73</sup> Computers and informatics has been introduced in all four grades of the general high schools. (Mid-Term Strategy of the MES)

<sup>74</sup> 40 percent of the secondary student cohort was registered in urban secondary schools in 1990/91 and 60 percent in rural; in 1996/97, 71 percent was registered in urban schools and 29 percent in rural.

<sup>75</sup> As noted by G. Palomba and M. Vodopivec (2000) however, it fell much more for rural vocational schools: from 49 percent in 1990 to only 2 percent in 1998.

Agricultural University, Elbasani University, Shkodra University, Korca University, Gjirokastra University and Vlora University – the other three – the Academy of Arts, the High Institute of Physical Culture and the Institute for Nursing - are non-university tertiary institutions.<sup>76</sup> It should be noted however, that in 1990 there was only one university and seven higher pedagogical and agricultural institutes in Albania.

74. Legislative reform of Higher Education occurred in 1994 with the approval of the Law for Higher Education. In 1999 a new Law for Higher Education was approved by Parliament, which gives more autonomy to universities and takes into account private provision of higher education and the extension of higher non-university education.
75. In the last decade there is an increased demand for higher education in Albania with 20,000 applicants annually, of which only 7,000 are accepted. Admission to university moreover, is highly selective since all students with a secondary education diploma (i.e. those that have completed General Gymnasium or a 4- or 5- year vocational school) have the right to take the university entrance examination. In order to cater for this demand, the MES is considering: (a) increasing the annual university intake quota by 500-1000; and (b) diversifying the higher education system by developing the non-university higher education system.<sup>77</sup>
76. Furthermore, there is interest in modernizing the curricula. Many new courses have been added to university curricula and many traditional courses have been adapted to meet the demands of the new market economy. University departments have therefore, quadrupled in number since 1990 in order to meet this need. However, this increase in demand for higher education has not been accompanied by an increase in full-time teaching faculty - nor in the necessary infrastructure. Buildings are over-crowded and in need of repair, and technical equipment and laboratories are in short supply. As a result, universities have been forced to hire outside the higher education system (many times, untrained and unqualified teaching staff). According to 1998/99 data provided by the MES, half of the academic staff of 7 (out of the 11) higher education institutions are unqualified.<sup>78</sup> Staff training therefore, remains a priority.<sup>79</sup>
77. 'External' study, otherwise known in Albania as *correspondence* study (as students do not attend lectures<sup>80</sup>) has developed as a way to increase student numbers in higher education at low cost since fewer teaching professors are required to cater for such students. In some institutions (for example, Shkodra, Elbasani and Gjirokastra), *correspondence* students have always outnumbered full-time regular students. It is obvious from the Mid-Term Strategy of the

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<sup>76</sup> Non-university higher education lasts not less than two years and not more than three.

<sup>77</sup> Currently, non-university higher education is realised in post-secondary institutions. The studies last not less than two years and not more than four years.

<sup>78</sup> That is, their qualifications are not of the same level or standard as full-time professors hired in the past.

<sup>79</sup> Through the EU TEMPUS Project, 914 individual scholarships were provided to train academic staff in Albania and abroad, representing a budget of about \$ 130 million during the past decade.

<sup>80</sup> They study on their own and sit the exams with the full-time students. They also have limited access to facilities and teaching staff.

MES that *correspondence* students are not respected as much as full-time regular students (as this form of study is considered inferior). Nevertheless, both full-time regular students and *correspondence* students are evaluated in the same way and receive the same kind of diploma upon graduation. The MES is concerned about this since in 1997/98, 8000 students studied Law at the universities of Tirana, Elbasani and Shkodra out of which, 6400 were 'external' students (i.e. did not attend lectures).<sup>81</sup>

78. A major concern of higher education in Albania is the large number of academic staff leaving the country. For example, during the ten-year period 1990-1999, 1,027 teaching professors left the country (an average of 6.5 percent per year). This figure, according to the Mid-Term Strategy of the MES, represents 60 percent of the actual number of full-time professors in the academic year 1999/2000. This of course has consequences not only on the higher education system but also on the development of the country as a whole.
79. The distance education system was established in 1998 (according to European and international standards) under the National Center for Distance Education and the Distance Education Departments of the University of Tirana, University of Shkodra and Polytechnic University of Tirana. Distance education has so far focused on training in economic and social fields at the post-university level. Close to 100 students were enrolled on these diploma programs in the summer of 1999, with requests for access to the programs increasing dramatically in September 1999.
80. A general fee for higher education was introduced in 1999/2000 and is to be paid by *all* students. Currently, this fee is very low (about \$ 15 per year) and does not cover the cost of higher education. Beyond this general fee applied for all students, universities can enroll 10 percent of the total number of students as tuition-paying students.<sup>82</sup> Therefore, there are currently non-tuition paying students (but who pay the general fee that was introduced in 1999/2000 as mentioned above) alongside tuition-paying students (who pay full tuition of about \$ 1000-1500 per year depending on the course of study). Universities moreover, will be able to use up to 90 percent of the amount from these fees for internal purposes as deemed necessary. It should also be noted, that there is a tendency to increase the general fee gradually and to apply fees for different services offered by higher education institutions.
81. There is also a Student Grant System applied throughout the higher education system.<sup>83</sup> These grants (of about \$ 45 per month distributed to about 1000 students) are awarded to: (a) students from families with low incomes; (b) the "best" students; and (c) students of mathematics and physics in the Natural

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<sup>81</sup> Law is used as an example as it is these students that will be the future judges of the country and will decide the legal framework of Albania.

<sup>82</sup> These are generally students who want to attend university but were unsuccessful on the university entrance exams in obtaining a state-sponsored place. As the university entrance exams are extremely competitive, it can be deduced that those students successful on these exams (and therefore receiving state-sponsored places at university) are of higher calibre.

<sup>83</sup> Amounting to about 20 percent of recurrent education expenditures. (MES, 2000)

Sciences Faculty of the University of Tirana. Furthermore, Albanian students studying abroad within the framework of bilateral agreements with foreign countries receive a supplementary grant if the grant from the foreign country does not cover the essential needs of the student. Grants are also offered to foreign students coming to study in Albania within the framework of bilateral agreements, as well as privately.

82. A National Agency for Accreditation of Higher Education was established in 1999. It is envisaged that higher education institutions will be evaluated and accredited by the Agency. However, it has not as yet become operational.
83. The creation of a National Bureau for Recognition of Foreign Diplomas has been discussed and it is envisaged that each higher education institution will have an Office for the Recognition of Foreign Diplomas.

## **Textbooks**

84. Up to recently, the Textbook Publishing House (TPH) carried out the development and publication of all the textbooks for pre-university education, while the Publishing House of University Textbooks prepared texts for the university education system. Their distribution is undertaken by the State Textbook Distribution Enterprise (TDE).<sup>84</sup> Tenders for publishing and printing are held by the TDE and textbooks may be printed by different printing houses (state or private) that apply for a tender for one or some titles, depending on their technical capacities.
85. State support in order to keep the price of school textbooks low is to continue for a number of years, although the MES has followed a policy of gradually increasing the price so that in a few years the price of textbooks will be completely liberalized. At present, parents pay \$ 8-12 per year for textbooks for basic/compulsory education and \$ 12-15 per year for secondary education.
86. The need for school text books at both pre-university and university level has been and remains great. The lack of sufficient funds from the State budget prevents publication of some titles especially those for vocational and artistic high school education. Priority however is given to the lower grades.<sup>85</sup> The MES funds available for textbooks changes every year according to financial conditions of the state budgets and negotiations with the MOF. Moreover, because textbook printing costs change every year based on the market prices, the percentage of cost subsidizing has also changed from year to year. Parents are expected to pay for student's textbooks and with their payment cover the remaining deference in the textbooks cost. In the year 1999-2000, the subsidy will fund 55.5 percent of the total cost of each textbook.<sup>86</sup> On average, the

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<sup>84</sup> However, these agencies are in the process of being privatized as part of the World Bank Education Reform Project.

<sup>85</sup> According to information provided by the MES, in 1998-99 for example, 95 percent of the obligatory textbooks for basic/compulsory education were published by the TPH, meeting the demands of the entire basic/compulsory education sector for school textbooks, and only 70 percent of the total amount of textbooks needed/obligatory for secondary education, were published.

<sup>86</sup> However, a large part of the subsidy is used to pay VAT on the textbooks.

State has invested about \$ 1.7 million for school textbooks from 1995-2000 (except for 1997 when only about \$ 1 million was invested).

## Teachers

87. Qualified teachers are leaving the profession due to low salaries as well as lack of status. Furthermore, they lack motivation as they must teach according to the textbook and do not have an opportunity to be creative.
88. There are no national standards or requirements for pre-service teacher training. The goal is therefore to establish standards for teacher training on a national basis that the teachers' qualifications should meet.
89. In-service training courses for teachers are provided by the MES in collaboration with NGOs. 17 percent of all high school teachers benefited from in-service teacher training of up to 3 months during the 5-year period 1994-99, 24 percent from up to one month, and 53 percent from one-week training programs.
90. One of the major problems of the education system is the difficulty it faces in attracting qualified teachers. Based on the statistics provided by the MES, the number of teachers with higher education or professional high school diploma is decreasing. At all levels 22 percent of teachers are unqualified. At the upper grades of 8-year education sector, this percentage increases to 33 percent. In the 1998/99 school year 90 percent of pre-school teachers, 50 percent of 8-year-school teachers and 43 percent of secondary school teachers did not have appropriate qualifications. This is even more pronounced if one compares rural to urban teacher qualifications. For example, in the 1997/98 school year, in the 8-year schools 70.3 percent of the teachers in urban schools were qualified as compared to 44 percent of teachers in rural schools.
91. According to Dudwick and Shahriari (2000), teachers currently earn between \$ 50 to \$ 95, depending on the level they teach, years of service and location. However, it should be noted, that this amount only covers 30-40 percent of their monthly living expenses. As noted by Palomba and Vodopivec (2000), in 1989, the salary of a basic education teacher with 15 years of service was 35 percent *above* the public sector average, while in 1997 it was 8 percent below the average. Berryman (2000) however, confirms that the price for teachers in Albania mirrors similar changes throughout the ECA region, since “[t]he salary of Albanian teachers expressed as a percentage of per capita GDP is below the comparable ratio for developed economies”.<sup>87</sup>
92. Teacher salaries are defined by the Council of Ministers and disbursed by the local government – although the local government does not play a role in defining salaries. At present, teacher salaries (which can be supplemented by a 5 percent bonus received by the school principal twice a year<sup>88</sup>) are considered

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<sup>87</sup> For a primary school teacher with no experience, for example, this ratio is 0.81 in Albania, but averages 1.0 for OECD economies. (Berryman, 2000)

<sup>88</sup> As an incentive to work in rural areas, Albanian teachers can earn a bonus of up to 30 percent, which exceeds the bonus available in OECD countries. (Palomba and Vodopivec, 2000)

to be low in comparison with opportunities in the private sector (with salaries usually double that of the public sector). However, teachers remain in the public sector because of the stability of the employment.<sup>89</sup>

93. Such low salaries have forced many well-qualified teachers to leave the public school system and either start their own business (for example, open their own school), seek posts in private schools or undertake tutoring alongside their teaching-post in order to supplement their salary. Many have also emigrated.
94. Lack of textbooks, materials and equipment means that teachers are working under great pressure and difficulties. The poor road infrastructure especially in rural areas and lack of public transport make even commuting to school difficult. Most school buildings, especially in rural areas, are in a very bad condition, with broken windows, crumbling walls and poor sanitation.<sup>90</sup>

## Financing

95. As already noted above (see par. 9), Albania has a very high proportion of young people. Almost half (46 percent) of the Albanian population is between the ages of 5 and 29.<sup>91</sup> This in turn has put a great deal of pressure on educational expenditure.
96. Although education is seen as a major instrument of reform in the reduction of poverty and the decentralization of powers,<sup>92</sup> the State budget does not cover the needs of the educational system.<sup>93</sup> Schools are therefore dependent on funding provided by parents and other private sources (e.g. donations, international organizations, the diaspora).<sup>94</sup>
97. Even though the amount the Government assigns to education *as a share of total public spending* is increasing in relation to GDP, the sum is low (compared to the OECD mean for the past decade of 12.6) because GDP remains low. For example, *spending on education as a share of total public spending* rose from 6.8 percent to 9.6 percent between 1990 and 1994, stabilized from 1995 to 1997 at around 11.4 percent and then dropped dramatically in 1998 to 7.8 percent, rising to 9.7 percent in 1999 and around the same level in 2000.<sup>95</sup> Until 1998 therefore, education appears to have been a higher public fiscal priority than indicated by its percentage of GDP.

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<sup>89</sup> Mid-Term Strategy of the MES.

<sup>90</sup> Education in Albania: Changing Attitudes and Expectations, N. Dudwick and H. Shahriari. The World Bank, February, 2000.

<sup>91</sup> The OECD average is 35 percent.

<sup>92</sup> Growth and Poverty Reduction Strategy, Progress Report prepared by the Government of Albania and the World Bank, February 2001.

<sup>93</sup> Total spending per student for example in 1998, was 12,392 lek (approximately \$ 85) for pre-school, 14,516 lek (approximately \$ 100) for compulsory education, 20,957 lek (approximately \$145) for secondary, and 86,519 lek (approximately \$ 595) for tertiary education. (Statistical Office of Albania)

<sup>94</sup> The Albanian Government received over \$ 100 million from donor countries in 1998-99 for education investments and assistance. The share of foreign aid to the education budget has gone from about 3 percent in 1995 to about 8 percent in 1997-98. However, lack of co-ordination of donor contributions has greatly affected the efficiency of such funds.

<sup>95</sup> *Financing, Efficiency, and Equity in Albanian Education*. G. Palomba and M. Vodopivec. The World Bank, March 2000.

98. However, if one looks at the indicators showing public spending on education as a percentage of GDP during the past decade, it is clear to see that government expenditure on education has been decreasing both in absolute and in relative terms. As noted by Berryman (2000) and Palomba and Vodopivec (2000), except for the three years 1990, 1991 and 1995, total public spending for education decreased by 35 percent, enrollments by 15 percent and spending per student by 20 percent. Public spending on education as a share of GDP has steadily fallen from 4 percent of GDP in 1989 to 2.6 percent in 1999 even though real income in 1999 was similar to that of 1990.<sup>96</sup> Education spending as a share of GDP therefore has been lower in Albania than in other countries in transition (i.e. Eastern Europe and Central Asia region) and well below neighboring countries such as FYROM. The decreasing public commitment to education with spending being cut back disproportionately as GDP falls and more than other economies in transition suggests that education in Albania is indeed being treated as a “luxury good”.<sup>97</sup> Nevertheless, discussions with officials of the MES reveal that proposals suggest raising both the percentage of GDP allocated to education<sup>98</sup> and the very low salaries of teachers (by 10-20 per cent).
99. During the same period, the share of total public expenditure on education investments (such as construction and rehabilitation of school buildings) has remained relatively stable, especially in the last half of the 1990s. However, poor initial construction and two countrywide episodes of school vandalism, coupled with virtually no preventive maintenance for schools, has resulted in a seriously deteriorated infrastructure that will cost millions of dollars to rehabilitate.<sup>99</sup> Furthermore, the need for suitable infrastructure has also been exacerbated due to the mass migration of populations to major cities. Over the last ten years, for example, the population of Tirana has tripled making it necessary to build new schools and other education facilities. According to the Mid-Term Strategy of the MES, it is forecasted that by 2005 the needs for investment in school infrastructure in Tirana (and the surrounding district) *alone* will amount to between \$ 36 - 40 million.
100. The Government’s education investment budget however, relative to the accumulated costs for rehabilitating and constructing schools, is completely inadequate. According to Berryman (2000), the independently estimated rehabilitation bill is now about \$ 270 million. Funding has therefore been sought from the donor community and as such, the share of foreign aid to the

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<sup>96</sup> As Berryman (2000) points out, school participation rates are key in determining the level of public finance for education. So, if enrollment profiles in Albania were similar to those of OECD countries and variables such as cost per student and school-age population are held constant, spending as a percentage of GDP in Albania would increase 1.6 percent (in 1997) and adding that to the 3.3 percent actually spent would bring total Albanian educational spending (for 1997) to 4.9 percent of GDP, which is closer to the 5 percent for OECD countries. Nevertheless, even if differences in enrollment patterns between OECD countries and Albania are taken into account, expenditure on education in Albania is still below the average for OECD countries.

<sup>97</sup> *Financing, Efficiency, and Equity in Albanian Education*. G. Palomba and M. Vodopivec. The World Bank, March 2000.

<sup>98</sup> The percent of GDP was not disclosed.

<sup>99</sup> Mid-Term Strategy of the MES.

education budget has gone from about 3 percent in 1995 to about 8 percent in 1997-1998.<sup>100</sup> According to the Mid-Term Strategy of the MES, \$ 40 million was required during the 2-year period 1998-2000 to cover the expenses for the construction and rehabilitation work in 520 schools (180 new schools and 340 rehabilitation) at basic/compulsory level. Moreover, 27 new schools (12 in Tirana, 4 in Durres, 4 in Vlora, 2 in Shkodra and 2 in Elbasan, 2 in Fier and 1 in Saranda) are needed to cope with the ever-increasing concentration of populations in these areas and a further \$ 10 million is needed to cover the expenses of equipment for schools. The World Bank has approved a \$ 12 million equivalent credit for an education reform project in Albania with one component (about \$ 7.8 million<sup>101</sup>) funding the development of building and design guidelines for schools and furniture and the rehabilitation of about 35,000 school places or about 5,500 schools.<sup>102</sup> The Greek Government has provided \$ 4.5 million for school infrastructure and the Italian Government, \$ 3.0 million. Over \$ 30 million is therefore still required to meet construction needs.<sup>103</sup>

101. However, there are a number of shortcomings in the budget management process. Beyond the fact that the MES has no budget management capacity since the budget is the responsibility of the Ministry of Finance, further problems arise because: (a) budget preparation is based on outdated budget norms; (b) policy, programming, and budgeting functions in line ministries are not fully integrated; (c) there is little policy debate on spending decisions;<sup>104</sup> (d) budget execution by the Treasury is far from effective; and (e) budget monitoring pays little attention to the implementation of budget program and activities. Budget performance is also hampered by the short time-frame or horizon of the annual budget and the separate investment and recurrent budget planning processes.<sup>105</sup>
102. In 2000, the Government introduced a Medium-Term Expenditure Framework (MTEF), which aims to improve the linkage between policy planning and the allocation of resources and to create a more consultative process for budget formulation and decision-making. In this MTEF, the cost-effectiveness of public expenditures in education has been highlighted along with the need to further consider aspects of commercialization (that is, the subcontracting of certain services through public-private partnerships) and cost recovery of key services.
103. Although the allocation of recurrent expenditures among the different levels of education (63 percent allocated to basic/compulsory education, about 8 percent to pre-school, 16 percent to secondary, and 13 percent to tertiary) appear reasonable and relatively comparable to that for OECD nations,<sup>106</sup> data

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<sup>100</sup> *Albania: Issues and Challenges in Education Governance*, The World Bank, 2000.

<sup>101</sup> Information provided by the MES.

<sup>102</sup> Mid-Term Strategy of the MES.

<sup>103</sup> Information provided by the MES.

<sup>104</sup> New budgets are simply based on the previous year's budget, modified by changes in circumstances and inflation.

<sup>105</sup> *Albania: Issues and Challenges in Education Governance*. Y. Dethilleul et als. The World Bank, February 2000.

<sup>106</sup> Berryman (2000) and Palomba and Vodopivec (2000).

showing spending per student show a rather unequal distribution across different levels of education with tertiary education in Albania absorbing an unusually high share of per capita resources - reflecting different emphases on education across levels and as such, government priorities among levels. In 1998 for example, spending per child at the pre-school level was 85 percent of the unit cost of a student at basic/compulsory level; spending per student at secondary level was 1.44 the cost at basic/compulsory level and for tertiary level it was 5.96 times higher than for basic/compulsory education.<sup>107</sup> International comparisons show that spending per student in pre-school and secondary school in Albania roughly reflects the OECD country mean, but that for tertiary education is far higher in Albania than in other comparable countries, and more than double the OECD country mean.

104. The recurrent budget absorbs the declines in total education expenditure. In 1998 wage expenditures constituted 83 percent of the total recurrent budget, 8 percent more than the average for OECD countries. This left 17 percent of the recurrent budget to cover all other costs related to the running of the system (such as utilities, textbooks, teaching materials, school maintenance, scholarships, welfare services, and in-service teacher training).
105. A significant amount is allocated by the Government for student scholarships. During 1997-98 about 1,800 secondary students (about 2 percent of the overall pre-university student population) and 4,096 university students (about 22 percent of the overall student population) received scholarships.<sup>108</sup>
106. Although the principal source of financing of basic/compulsory education is the State budget, all schools have in addition, the capacity to generate their own revenue by offering services, renting the facilities to third parties, or by parental and community contributions.<sup>109</sup> Parents' contributions in cash (which in one school in Tirana amounts to about \$ 1-7 a month) and in-kind (e.g. heaters, light bulbs, window glass, and other items) are an important source of assistance for schools. Some schools manage to pay for extra security staff and minor repairs with such funds. Oftentimes, the parents pay some recurrent costs such as security, or heating during the winter, the custodian, part of the cost for textbooks and in many cases, equipment and teaching materials. However, as noted by Dudwick and Shahriari (2000), this assistance is not always systematic, nor substantial and the magnitude of this contribution varies by school, area and of course, the financial means of parents. Usually, urban families are able to contribute more, accentuating inequities already promoted by "the absence of a financing formula and a transparent mechanism for allocating funds across and within districts."<sup>110</sup>

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<sup>107</sup> However, there are great variations among districts in student unit costs, ranging from \$ 56 in Tirana to about \$ 150 in the municipality of Gjirokaster. (*Albania: Issues and Challenges in Education Governance*, 2000).

<sup>108</sup> Mid-Term Strategy of the MES.

<sup>109</sup> Ibid.

<sup>110</sup> *Albania: Issues and Challenges in Education Governance*, 2000.

107. Universities (as already noted above<sup>111</sup>) are able to use for internal purposes they deem necessary up to 90 percent of the amount received from fees. Likewise, state-owned/public training centers are also allowed to use up to 90 percent of generated profits from their services.<sup>112</sup>

## THE PRIVATE EDUCATION SECTOR

108. Private education in Albania was re-established in 1995 and since then continues to grow at a rapid rate.<sup>113</sup> With the economic situation of Albanian families becoming more favorable, parents are eager to provide a better education for their children. As noted by Dudwick and Shahriari (2000), “[t]his, coupled with the widespread and deep demoralization concerning public schools, has led to the high demand for private education” since many public schools lack facilities such as “functioning sanitary installations and/or proper heating facilities in the winter.” Furthermore, public schools are overcrowded – especially in urban areas – where class numbers often reach 50. Private school classrooms on the other hand, have 20-25 students and on the whole, offer more security and safety. The study undertaken by Dudwick and Shahriari (2000) moreover, shows that “[m]ost people believe that the new private schools that have emerged in most cities<sup>114</sup> offer a superior education.” Above all, parents are recognizing the financial and other returns that accrue from investing in a good education, resulting in high demand and long waiting lists for private schools.<sup>115</sup>
109. According to information provided by the Albanian Institute of Statistics,<sup>116</sup> private education has increased in the last 3 years with 1.2 percent of the total number of students enrolled in education. In 1997-98 it was only 0.17 percent. The number of private schools has risen from 0.25 percent to 2.5 percent (of the total number of schools) in the same period and the number of teachers in private schools from 0.44 percent to 1.7 percent. In 1997/98 for example, the number of children registered in private pre-schools was 395 or 0.5 percent of the total number of children in pre-school catered for by 25 teachers; the number of students in private eight-year schools was 1843 or 0.33 percent of the total number of students at this education level catered for by 89 teachers; and in private secondary schools there were 1149 students or 1.2 percent of the total number of secondary school students catered for by 56 teachers.

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<sup>111</sup> See par. 85.

<sup>112</sup> For the most independent, well-organized and equipped public training centers, this constitutes a considerable amount compared to what they receive from the State.

<sup>113</sup> Article 57 of the Constitution states that students can be educated in public and non-public institutions at all levels which are created and function according to the relevant laws.

<sup>114</sup> More than 50 percent are located in Tirana since this is where the people with disposable incomes capable of paying the high tuition fees, are located. (Dudwick and Shahriari, 2000)

<sup>115</sup> Analyses by Palomba and Vodopivec (2000) of the estimated returns to education, show that private returns (estimated at 13 to 16 percent) for basic education are relatively high and for secondary education (2 to 4 percent) and tertiary education (2.5 percent), very low. Social returns are even lower with about 11 percent for basic education, about 2 percent for secondary, and 1 percent for tertiary education. Such returns to education (except for basic education) are extremely low compared with other low- and middle-income countries in Europe, the Middle East and North Africa. However, returns to education will presumably increase as growth and economic opportunities increase.

<sup>116</sup> Albania in Figures, INSTAT, 2000.

110. Data provided by the MES and the Albanian National Observatory<sup>117</sup> moreover, shows that in 1999 there were only 7 private nursery schools for children aged 1-4 years and 2 kindergartens for children aged 5-8 years. However, data provided by the MES shows that by the end of 2000<sup>118</sup> there were 40 kindergartens (33 in the cities and 7 in the smaller towns) with 133 teachers and administrators catering for 2,543 children (representing 3-4 percent of the 3-6 year old population); 43 basic/compulsory education schools with 4,347 students employing 248 Albanian teachers and 28 foreign teachers; and 16 general education secondary schools with 1,295 Albanian students and 2 foreign students, 106 Albanian teachers and 78 foreign teachers. There are also 2 basic/compulsory education (Grades 5-8) schools with 370 students, 17 Albanian teachers and 4 foreign teachers; and 8 secondary religious schools with 680 students and 52 Albanian and 16 foreign teachers.
111. There are currently no private universities or colleges in Albania, although there have been a number of enquiries (from the Vatican, the United States and Greece) at the MES in the last 2-3 years.
112. Equity issues however, are of concern since the tuition range is high at \$ 50-80 per month for pre-school, \$ 80-150 per month for Grades 1-8 and between \$ 100-150 for secondary<sup>119</sup> compared to the average salary (which is about \$ 100 per month). Interestingly, and perhaps of social interest, is the fact that generally, the parents with money to pay for private education are not those of the so-called “*intellectual*” class (i.e. parents with university qualifications).
113. Of concern to owners of private education institutions is the high VAT tax of 20 percent, which they must pay just as any other business. Although educational institutions can be established (by law) as for-profit or as non-profit legal entities, in practice (and from what was stated by directors of private schools established as non-profit entities) there seems to be no distinction in the tax law at present that relieves non-profit entities of the 20 percent VAT.<sup>120</sup>
114. One of the biggest challenges the MES currently faces however, is regulating the private education sector as is evident from the following commentary by Elira Hanga of the Albanian Telegraphic Agency<sup>121</sup>: “*The private unlicensed educational institutions are not yet made evident in Albania though the Ministry of Education has demanded from the district educational departments to control the documents of these schools. But the educational departments have not yet presented the necessary information on the*

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<sup>117</sup> Statistical Data for Background Purposes of OECD Review, CEPS, December 2000.

<sup>118</sup> Four months later these figures had changed dramatically. List of private schools provided by the MES showed that in April 2001, there were 46 private kindergartens, 46 basic/compulsory education schools, and 26 private secondary schools.

<sup>119</sup> The most expensive school was the Italian school that cost \$ 400-500 per month. However, it closed in 2000 due to low quality and high tuition.

<sup>120</sup> Interestingly however, the General Director of the Ministry of Finance, General Tax Department, confirmed that “non-profits are exempt from VAT”.

<sup>121</sup> See <http://www.ata-al.net/>

*unlicensed institutions. According to specialists of the private education in the Ministry of Education, the majority of the districts have not yet answered with regard to the control they must exert, while some of them have not accepted that there are unlicensed private schools functioning in their districts. "Nevertheless", specialists say, "there are signals that there are educational institutions carrying out their activity without a license and most of these kinds of schools are in the capital." The non-public education in Albania developed after the 90s with the adoption of the law on Private Education. So far, the Ministry of Education has licensed the activity of about 135 private secondary and eight-year schools and about 29 foreign language schools and various specialities. According to the Ministry, there is a great number of unlicensed schools not controlled by the Ministry."* (November 30, 2000)

115. The Law on Pre-University Education in Albania covers both public and private education and provides the legal framework, along with the licensing procedures, rules and regulations, for the opening of private schools at all levels of pre-university education. All private schools must be licensed and accredited by the MES.<sup>122</sup> If a school is to be established as a foreign, bilingual and/or religious school then it must get approval from the MES *and* the Council of Ministers.
116. The MES inspects all private institutions and has the right to remove the license if the school does not meet standards set by the MES or to close a school that is operating without a license.<sup>123</sup> There is a penalty (of about \$ 1,500 for pre-school to secondary school level and \$ 1,200 for education/training centers) if a school opens without a license. Nevertheless, there are a large number of private schools operating without a license. Many of these were set up during the transition period, but some have been set up since then due to the long waiting period (which can be between 3 to 6 months) to get approval from the MES. The MES is now trying to regulate this situation but as there is no separate body/directorate within the MES dealing with the private sector, both human and physical resources are wanting.
117. Private schools must submit detailed curricula, along with documents describing school activities, the qualifications and experience of teaching and other staff, and facilities for approval by the MES. Once the license is granted, although the MES frequently sends inspectors to the school to check on classroom activities, teacher preparation and testing procedures, private schools suffer less from ministerial control than public schools.
118. All private educational institutions in Albania are self-financing – that is, their costs are met mainly through tuition and in some cases, donations from parents,<sup>124</sup> the community or Albanians living abroad. The Albanian Government does not contribute to the financing of private education, neither

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<sup>122</sup> And can be set up as for-profit or non-profit institutions. They can be set up as sole proprietorships, foundations, associations, or limited companies.

<sup>123</sup> The MES approves only non-religions and foreign language schools. For religious schools, the MES gives its opinion to the Government, which gives the approval.

<sup>124</sup> *Donations from parents* is defined as money – beyond tuition fees - given to support the school.

nationally nor locally. Most private *foreign*<sup>125</sup> schools, receive funding from the foreign governments and/or religious orders.<sup>126</sup> The Albanian Government does not fund or finance private institutions (and nor does it intend to). However, according to one MES official: “Although the Albanian Government does not finance private education, it must be noted that teachers are prepared through the public sector and textbooks used by private schools are not only written and funded by the State, but also given freely to all schools (including private schools). The Albanian Government therefore, is financing private schools *indirectly*.”

119. The private education sector hires the best teachers of the public education system. Better working conditions (including salaries) provide greater motivation and so these teachers excel even more.<sup>127</sup> However, this has started to affect the quality of teaching in the public education system. On the one hand, the ‘best’ teachers are being taken away from public schools, but on the other, public school teachers are starting to demand better working conditions in the public school system.
120. According to the MES, private schools have helped to lower: (a) public education expenditures (especially in terms of investment expenditure for school construction and rehabilitation; (b) the number of the students in the public schools (which are overcrowded especially in the cities); and (c) the number of unemployed teachers (for which there is no shortage with 4000 unemployed but qualified teachers available in Albania). The Mid-Term Strategy of the MES states that: “*About 70 private schools were opened during these years which reduced the public expenses of education, affected student over-crowded classrooms by reducing the number of students per class in public schools, and employed hundreds of unemployed teachers, and introduced the competition elements in the pre-university education system*”.
121. Above all, as noted by the MES, private schools have facilitated competition between the public and the private schools (for the betterment of public schools) and as such, the MES is very keen to see initiatives in the non-public education sector expand, as it is believed that such developments have a positive influence on overall education provision in Albania.
122. The curricula of private schools are regulated by the MES - that is, private schools must use the same curricula as that used by public schools. Although private schools are permitted to supplement the curricula if they so desire, there are some courses that must be taught by all private schools with the same syllabus and textbooks as those use by the state schools. These subjects include: Albanian language and literature, Albanian history and geography.<sup>128</sup> Some foreign schools, such as the Greek private school in Tirana “*Hellenic-*

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<sup>125</sup> That is, schools whose language of instruction is other than Albanian or which offer bilingual instruction.

<sup>126</sup> Such as the Turkish, Italian and Greek Governments and/or the Muslim, Greek Orthodox and Catholic religious orders.

<sup>127</sup> Many private school owners pay teachers part-time salaries so that they pay lower taxes. The MES is therefore trying to pressure school-owners into hiring teachers on a full-time basis.

<sup>128</sup> The program of private kindergartens is approved by the MES but not regulated by it.

*Albanian College of Tirana*” (see **Box 1** below) offer a bilingual curriculum with some subjects taught in Albanian and some in Greek.

**Box 1: CASE STUDY – Hellenic-Albanian College of Tirana**

The Hellenic-Albanian College of Tirana opened in September 1998, with Grade 1 of the basic/compulsory school (and each successive year has added another Grade) but preliminary work had started in early 1997. There are currently about 250 students studying at Hellenic-Albanian College of Tirana in Tirana and the School has so far just broken even with the tuition fees (of \$ 100 per month).

Initially, the school was housed in rented facilities but Hellenic-Albanian College of Tirana intends to build a campus with a kindergarten, primary and secondary schools, swimming pool, playing fields, etc. For this purpose, *Hellenic-Albanian College of Tirana* has purchased land to build a school on the outskirts of Tirana. However, this has been a complicated process, as according to the law land cannot be bought – it must be leased for 30 years and only when the value of the land is three times more than the purchase price, can it be owned. This law applies only to foreigners and has been designed to restrict foreign ownership only to those who are seriously interested in investing. The land *Hellenic-Albanian College of Tirana* has leased and intends to build is 66,000 sq.m. and cost about \$ 1 million. The building investment will exceed \$ 5 million.

Developing the curriculum was a long process as the Albanian curriculum (as approved by the Albanian MES), had to be kept. The curriculum of the *Hellenic-Albanian College of Tirana* School in Tirana therefore, was based on the Albanian curriculum but adapted and enriched. All details of the curriculum had to be approved by the Albanian MES. The Albanian program was evaluated by the *Hellenic-Albanian College of Tirana* team of teachers charged with the task of developing the curriculum, to see which parts would be kept as they were, which adapted and which enriched. There were continuous changes to the curriculum in the first 2 years in order to better meet the needs of the students. The whole curriculum - along with *how* the Greek language would be taught - had to be presented and approved by the Albanian MES (every time there was a change to the curriculum). All books for the courses/lessons beyond the Albanian curriculum are sent from Greece. For the lessons that correspond to the Albanian curriculum, the books provided by the Albanian MES are used. The *Hellenic-Albanian College of Tirana* school program runs for two hours beyond that of state/public Albanian schools. However, this has been warmly welcomed by both children and parents. Albanian parents put great emphasis on educating their children and children are highly motivated.

There is a long waiting list and parents are eager to enrol their children. There are children at the *Hellenic-Albanian College of Tirana* School in Tirana of all socio-economic backgrounds. It should be noted that the school does not just cater for children of Greek background; on the contrary, it is open to children of all ethnic and religious backgrounds and places emphasis on multiculturalism and diversity as a positive reality of Balkan society. The *Hellenic-Albanian College of Tirana* selection committee selected the teachers, but these had to be selected from those already licensed by the Albanian Ministry of Education and Science (MES). The Albanian teachers hired to work at the *Hellenic-Albanian College of Tirana* School in Tirana get twice as much as what Albanian teachers get at public/state schools in Albania.

*Hellenic-Albanian College of Tirana* is in the process of looking for a loan – a large loan of around \$ 25 million – as it also wants to build three more branches in Greece (in Patras, Ioannina and Komotini).

Source: Interview with School Officials

123. Private training centers (for business studies, computers, etc.) are also multiplying rapidly especially in Tirana as the market demand is very high and the capacity of the existing centers is very low. There are currently 31 private training colleges, some of which have NGO status and receive funding from

foreign donor institutions. INKUS (see **Box 2** below) was the first training center licensed by the Ministry of Labor and Social Affairs.

### **Box 2: CASE STUDY - Inkus School**

INKUS started in 1996, with a credit loan of 3000 \$ from the Albania Development Fund, as the first Albanian private training center in Albania. It operated out of a small rented apartment (one room) and the main courses offered were computer, foreign languages and secretarial skills. (INKUS also provided other services such as: organizing study abroad situations for students, typing, photocopying, translation, etc.) The students liked the courses and the quality of teaching at INKUS and the center quickly became well known. In 1997 because of the small capacity of the facility and the great demand from students, INKUS moved to a bigger apartment, where two language-labs were set up, along with a computer room with (2 computers). In 1998, INKUS was licensed by the Ministry of Labor and Social Affairs as first accredited private training center. However, as the center was only being used in the afternoon, it was soon decided that the center should become an Education, Training and Community Center in order to make better use of the facilities. Therefore, in September 1998 INKUS moved to a new location, a villa with 5 rooms, a garden and other facilities. Here, the First Private High School in Albania licensed from Ministry of Education and Sciences, was established. The School started with only with one class and 9 students!

The school program is very demanding. The school is called “*Liceu Linguistik INKUS*”. The curriculum is based on the Albanian Foreign Language Gymnasium model and some European experience. As the reputation of the School and Training Center grew, more students registered and in 1999, there were an additional 30 students. As INKUS was interested in creating a network of education/training centers across the country, from 1998 branches of the INKUS Training Centers were established in Shkodra, Elbasan, Burrel, Lezha, Ballsh, Vlora. In 2000, INKUS moved again in a new, larger, facility (owned by INKUS) providing more space and a location (and presence) that inspires. In 2000 INKUS opened high schools in Elbasan and Shkodra and had 70 students in Tirana and 20 in Elbasan and Shkodra.

The *Inkus Liceu* was the first private Albanian high school to open in Albania. The other private high schools (such as Turkish College, the Italian College *Galileo Galileo*) are foreign high schools. There is great demand especially in Tirana where the market is very large (with a population of over one million) for private education. The private secondary education market has much room for development. INKUS targets the higher socio-economic class, who are very willing and eager to pay for the best education their money can buy. Its mission is to create an elite class of intellectuals who will be the future leaders of the country. Most of the parents of the students of INKUS run their own private business and assures payment of tuition fees. The INKUS High School charges \$ 150 per month. This price includes registration, learning materials and uniform. The “Turkish College” charges the same, although the Italian College, “*Galileo Galileo*” was far more expensive at \$ 400-600 per month (this was one of the reasons it closed down. As demand is very high, the INKUS High School is not concerned about competition.

The INKUS Training Center charges 13,000 lek for 3-month programs – a very reasonable and very competitive price compared to other similar centers like, Wisdom, Lincoln, and International Language Centre. The school environment is very comfortable – spacious, gardens, restaurant and sports facilities. The main building is very well located in the centre of Tirana very close to the Parliament of Albania. Teachers at INKUS are paid by the class-hour (500 – 650 lek per 45 minute class-hour), which is the highest amount paid per hour presently in Albania. From the experience side the staff is very carefully selected. Most of them are with more than 15 years experience and with interesting backgrounds.

Source: Interview with School Director

124. Although a database on training courses organized by National Employment Service (NES) has been created, a database of training offered by private

training centers or NGOs does not yet exist.<sup>129</sup> However, the NES through its Vocational Training Department is now attempting to introduce a procedure for data collection of courses and participants of private training centers and NGOs. Moreover, the statistics unit within the NES uses data provided by Regional Labor Offices to try and give an account of the occupation and training gaps that exist throughout the country, but so far it is obvious that this information has not been used to meet training needs or for manpower planning since the courses that are currently provided are almost the same as those that were offered 7 years ago when vocational training centers first started. To make matters worse, not only is there no organized system or program for the training of trainers, but the instructors themselves design the curricula based on their own experience and discretion

125. Nevertheless, the private training system manifests greater flexibility in training provision than the public/state system. However, the demand for courses offered by these private agencies is greater than their training capacity, in terms of the number of people trained and range of skills delivered. Most courses offered are in management, although banking/finance and accounting seem to be popular, followed by secretarial skills and office management. However, due to the lack of training capacities in these fields and the great requirements for capital investments and more expensive equipment and learning materials, there is a great mismatch between demand (i.e. training needs) and supply (i.e. training courses offered).
126. Post-secondary education centers offering courses of 3-9 months duration are under the jurisdiction of the MES. Post-secondary training centers on the other hand are under the jurisdiction of the MLSA – although the delineation between what the MES approves and what the MLSA is not well defined. Nevertheless, in order to obtain a license to operate as a training center from the MLSA, one must: (1) apply to the NES in order to have the training activity recognized; (2) supply a copy of court registration of the center; (3) provide authorized (by notary) proof of the current tax license to the Notary; (4) provide details of the training program along with curriculum vitas of the teaching staff; (5) provide authorized (by notary) proof of ownership, or rental of the building where the training courses will be organized; (6) provide details of the didactic equipment necessary for training realization; (7) provide promotional materials that will be sent to the Regional Labor Offices; (8) provide a profile of the company that will be implementing the training; (9) supply authorized (by notary) proof of social insurance agreement for the teaching staff; (10) provide authorized (by notary) proof of suitability from the health authority; (11) provide a copy of the books used on the training courses; (12) provide information about the cost of each training course; (13) provide a sample of the Certificates to be awarded/issued by the center; and (14) pay the tariff necessary in order to receive the license to operate from the MLSA.
127. Although the decision of the Council of Ministers of March 22, 2001 (Law No. 156) supplements the 1999 Higher Education Law and permits the establishment of private, non-public higher education institutions, there are

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<sup>129</sup> Such information is provided periodically by different private agencies and institutions.

currently no private universities or colleges although there is expressed interest by a number of foreign (e.g. Greek, Italian and American) higher education institutions. Nevertheless, the procedures for the establishment of private universities and colleges (along with accreditation and quality control issues) are still to be defined.

128. Even though Albania has a long tradition of “external” university study (or as it is known in Albania, “correspondence” study),<sup>130</sup> distance education (as it is currently understood and practised in the EU and elsewhere in the world) has only recently been established in Albania. The National Center for Distance Education (see **Box 3** below) oversees developments in this area.

**Box 3: National Center for Distance Education**

*The development of distance education in Albania is relatively new. The last 4 to 5 years however, have seen significant developments in distance education, both within government policies, institutional policies, human resource development and in the development of accredited distance education programs. National policies and developments are co-ordinated by the National Board of Distance Education, which was established in 1997. The Board is chaired by the Vice-Minister for higher education and has representatives for the major higher education institutions in Albania. The Minister of Education and Science in 1998 issued a new regulation, according to which higher education institutions can develop and deliver accredited distance education programs as part of their normal activities. The long-term goal is to replace the old and rather ineffective system of correspondence courses with new distance education programs and methods. The 1998 regulations complement other regulatory initiatives in the area of distance education.*

*The National Centre for Distance Education (NCDE) was established in 1994 with the specific task of co-ordinating activities for distance education. The NCDE has organized several train-the-trainer activities, both within Albania and abroad. National seminars have been organized annually since 1997. Fifteen distance education tutors participated in a comprehensive 1-month training program at Politecnico di Torino, Italy, in 1997. Faculty members of the University of Tirana and Shkodra University have participated in training seminars organized by the faculty of Economics in Ljubljana, Slovenia. The 1999 train-the-trainers program LOLA had 20 participants from Albania. The NCDE has initiated the development of an online course administration and information system, which will support Internet-based course information and other cross-institutional course delivery services.*

*Two 3-year ODL diploma programs in Automation & Informatics and Telecommunications Engineering have been offered since 1997. The programs - based on audio-visual learning materials and textbooks developed by Italian universities within the Nettuno Consortium - are approved by the Ministry of Education and Science. The Ministry of Education and Science has approved that the Polytechnic University of Tirana, which is academically responsible for delivery, tuition and examinations, charges each student an annual fee of approximately 250 Euro. Close to 100 students were enrolled on these diploma programs in the summer 1999 and requests for access to the programs increased dramatically in September 1999.*

*Source:* MES

129. There is already a well-developed foreign-language private tutoring market (both institutional and individual), although mathematics tuition and

<sup>130</sup> As defined earlier (see par. 82 above).

preparation for university entrance exams are also high in demand. Public-school teachers are able to use their positions in the state school system to create a “market” for their services, either by creating a reputation of excellence, or by overly threatening to fail students. Tutoring provides an affordable alternative to expensive private education, but has the potential to accentuate inequities.

130. Private tutoring helps to supplement teachers’ income. On average, teachers charge between \$ 3-5 an hour and provide two one-hour lessons a week. Teachers of mathematics, chemistry, biology, physics, and foreign language have the greatest opportunity tutor privately, mainly to students in their last two or three years of high school who are preparing for university. In some cases, this practice has led to abuse. As noted by Dudwick and Shahriari (2000), some students and parents accuse teachers of exploiting their position by pressuring students in their own classes to enroll for private lesson.

131. The First National Conference on Private Education in Albania was held in 2000. (See **Box 4** below for summary of conference outcomes).

#### **Box 4: Summary Outcomes of the First National Conference on Private Education**

This conference was held in the summer of 2000 and was organized by the Ministry of Education and Science (MES). Participants included representatives of non-public education institutions, some post-secondary non-public training institutions, Regional Education Directors (of regions where such non-public institutions are functioning), representatives from the MES and other institutions.

##### **Topics discussed included:**

- Development and consolidation of non-public schools and training institutions.
- Overview and prospects for pre-university, non-public education.
- Effective pre-school education.
- Montessori pedagogy.
- Ensuring continuation from kindergarten to elementary school.
- Extra-curricular activities.
- The education of the whole person as the central purpose of the school.
- Teacher independence (e.g. in the design of teaching plans) in non-public schools.
- Value creation as a product of serious work and ability of the pedagogical team.
- New developments in education science and social sciences.
- Opinions on the juridical status and financial problems of non-public schools.
- Questions on evaluation of the education provided by non-public schools.
- The necessity of support and control by state institutions.
- The school as a center of civil society education.

##### **Conclusions:**

- Non-public schools and training institutes must be supported to ensure their further development.
- Non-public education is another education alternative and competition with state/public education will bring about the development of state/public schools.
- It is necessary to work on the equivalence issues between public and non-public institutions.
- Some control and co-operation on teaching methods of non-public schools by the state.
- Non-public school-teachers must undergo compulsory training.
- An evaluation system must be set up to evaluate the work of non-public schools.
- There needs to be constant monitoring of approved institutions.
- Exchange of experience between public and non public schools must be facilitated.
- Rules and criteria for students and teacher selection must be developed.
- The legislation governing non-public institutions needs to be re-evaluated.
- A Union or Association of non-public institutions needs to be established.

*Source:* Ministry of Education and Science, 2001

132. The MES would like to see further private sector development of: (a) private pre-schools (since the State can only, at present, support the pre-school education of 35 percent of the pre-school age cohort); (b) private technical/vocational secondary education (since although the goal of the MES is to increase secondary vocational/technical education from its current 20 percent participation to 50 percent, the State does not have the financial resources to do so);<sup>131</sup> (c) post-secondary technical/vocational and professional training institutions (for continuing training, specialization and retraining); and (d) private tertiary education (especially where branches of foreign institutions or collaborations between local and foreign institutions are established).

## INVESTMENT CLIMATE

### General Characteristics

133. The economy of Albania is in a process of profound transformation towards a market economy and integration within the global economy. Completing this transformation (and perhaps accelerating it) is vital to the stability of both Albania and the region. This transformation however, entails establishing the basic macro policies, a liberal international trade regime and industrial policies and measures to induce, support and assist in the restructuring of industrial enterprises. The Government has already embarked on broad-based reforms and is committed to a comprehensive economic and financial program that will foster transition to a market-based economy notwithstanding the exceptionally difficult starting conditions. This will entail a careful balance of essential macroeconomics and institutional policies.
134. During the socialist period and until 1990, Albania was listed as an industrialised country as the share of industry by large to medium-sized state-owned enterprises had been increased. Furthermore, a diversified industrialized base had been developed between the early 1960s and the late 1980s, with chemicals, electricity generation and engineering having priority.<sup>132</sup> Chemicals were developed as an adjunct to mining and to provide fertiliser for agriculture. Engineering grew at a rate several times greater than that of industry as a whole, with the main focus on producing spare parts for the many types of foreign-made machinery upon which most of the country's industry relied.
135. After the collapse of the planned economy in 1990, the Albanian economy suffered greatly. Industrial activity came to a virtual standstill. From a high in 1989 of 325,000, the number of workers employed in industry fell to 250,000 in 1992 and to 126,000 in 1993. Industrial output fell by 74 percent between 1990 and 1994, when it contributed 13 percent of GDP (compared with 37 percent in 1990). As a consequence of the near collapse of industry, the urban industrial centres, once the prime engines of the economy, lost their economic

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<sup>131</sup> According to the Mid-Term Strategy of the MES, analysis of the public sector expenditure strategies has shown that vocational training is better suited to the private sector.

<sup>132</sup> Albania has the capacity to produce small ships, tractors, passenger coaches, mining equipment, agricultural tools, various consumer goods including textiles, garments and footwear, cooking stoves, other household items including furniture and sanitary products, bicycles and printed paper.

base and unemployment increased substantially to an estimated 25-30 percent, especially due to the drastic reduction of the number of employees in the state sector.

136. Despite the steep decline in the 1990-1992 period, the significant macro-economic and policy reforms initiated by the Government in 1992 generated tangible benefits. As a result of mainly the recovery in agriculture<sup>133</sup> and services sectors, the GDP posted a healthy growth of around 9 percent during 1993-1996. Inflation decreased tenfold to almost single digit levels and fiscal deficit was cut from 44 percent of GDP in 1991 to around 13 percent of GDP in 1995.
137. However, just as Albania was getting back on its feet, the collapse of the pyramid investment schemes in 1997 triggered widespread civil disturbances. Reform programs were no longer a priority. The economy therefore contracted, growth declined, inflation rose to 42.1 percent and unemployment increased to dramatic levels. Fortunately, the adverse impact from the civil disturbance on the industrial sector was moderate and industrial plants were reactivated in the second half of 1997.<sup>134</sup>
138. Most importantly, the collapse of the pyramid schemes impoverished many households, eroding purchasing power and savings and resulting in an immediate increase of the registered unemployed by about 15 percent.<sup>135</sup> Moreover, as was to be expected, the onset of anarchy reduced foreign confidence and consequently foreign aid. Furthermore, it disrupted trade, reduced tax income and led to high inflation and a consequent depreciation of the national currency (Lek).
139. Fortunately, the donor community came to the assistance of Albania to launch a post-crisis recovery program. The donor conference held in Rome during July 1997 agreed to assist the country to recover from the adverse effects faced by the civil disturbances. The recovery program was developed around three main themes: (a) governance, institution building and civil society; (b) economic and social policies; and (c) reviving economic activities.

### **Government Commitment to Change**

140. A great deal of progress has been made in a relatively short time, and the most important elements of a market-based economy are already established. The domestic economy is growing strongly since the pyramid scheme crisis of 1997, reflecting improvement in all sectors of the economy. The government is committed to accelerating economic reforms and is sticking closely to the targets agreed with international institutions (such as the IMF), resulting in low inflation, a stable exchange rate and a comfortable level of foreign reserves.

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<sup>133</sup> Today, Albania can be considered largely as a rural economy. Agriculture predominates and accounts for 60 percent of the country's output. Industry, on the other hand, combined with construction, accounts for 20 percent of national output.

<sup>134</sup> The decline in the industrial output attributed to the disturbance in 1997 was around 6 percent.

<sup>135</sup> Official registered unemployed figure rose by 40,000 in 1997 to 200,000. This unemployment figure corresponds to 13 percent of the non-farm labour force in the country.

141. The priority of the Government of Albania is to integrate its economy as quickly as possible in the global market economy and has, as such, been strengthening its ties with the rest of the world by concluding bilateral economic, trade and industrial agreements.<sup>136</sup> Furthermore, it has recently become a member of the World Trade Organization (WTO) and is working towards an association agreement with the European Union.
142. The areas of tax reform and privatization are the most important areas of economic reform. Since the transition to a market economy the Government of Albania has taken many steps to complete a fiscal package that is in line with international norms. The first step was to complete the legislation and to introduce the new tax system, which includes profit tax, income tax, excise tax, VAT, etc. According to the fiscal data, the effective implementation of such taxation system has made the tax revenues become one of the principal sources of budget revenues. The *Law On Tax Procedures in the Republic of Albania* moreover, was approved and entered into force on March 13, 2000. Although it has produced good results in the realization of tax revenue, through the improvement of procedures related to tax registration, collection and payment, tax and duty concessions for education/training activities has not been taken into consideration. **Appendix 1** provides an outline of the *Main Elements of the Tax System Currently Affecting Albanian Businesses*.
143. Most importantly, the Government has introduced an anti-corruption package to help reduce fiscal tax evasion and ease the associated problems with corruption.<sup>137</sup> This anti-corruption package, in addition to the fiscal package, has led to a substantial improvement in the collection of customs revenue.<sup>138</sup>
144. A great deal of progress has also been made in the area of privatization. Privatisation in Albania started with the implementation of Law No. 7512 of 08/10/1991 and the privatisation of the trade and services networks. This was followed by the privatisation of small and medium enterprises and the mass privatisation program for large enterprises. By the end of 1993, all former state-held "units" employing fewer than ten people, had been privatised.<sup>139</sup> Privatisation is no longer viewed as the mere act of divesting the state role and transferring the assets to the private sector and the employees. Rather, it is viewed as enhancing growth, increasing economic efficiency, increasing market efficiency, promoting competitiveness and attracting foreign capital.<sup>140</sup> For this reason, the Law "*On competition*" (No. 8044 dated 7/12/1995) has

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<sup>136</sup> Such agreements have already been concluded with 30 countries and an additional 15 are being negotiated.

<sup>137</sup> This is vital to Albania's economic growth, since unless domestic accountability mechanisms are designed and implemented over the medium term, it will be difficult for Albania to fight corruption, encourage high levels of investment - including foreign direct investment, maintain fiscal discipline and ensure that resources are used efficiently and transparently for promoting growth and reducing poverty.

<sup>138</sup> The results of the first quarter of 2000 have exceeded the projected increase in the rate of revenues.

<sup>139</sup> Currently, more than 75 percent of national wealth is privatized including: 96 percent of agricultural land, 100 percent of services, 100 percent of agricultural equipment, 100 percent of road transport.

<sup>140</sup> Approximately 76 percent of Albania's workforce is now engaged in private business.

been adopted. This Law explains the rules for the market economic operators, concerning their rights and obligations with regard to fair competition. However, the implementation of the Law requires the establishment of an independent institution, which so far is lacking.

145. Substantial progress has also been made in improving public expenditure management and providing an enabling framework for accounting and auditing activity. A treasury system has been established and the *Organic Budget Law*, which sets out rules and regulations for budget preparation, formulation and audit, has been adopted.<sup>141</sup> Furthermore, projects by EU-PHARE and *La Compagnie Nationale des Commissaires aux Comptes* (since 1994), and the Institute of Chartered Accountants of Scotland (since 1996) have helped to develop appropriate legislative acts including laws *On Commercial Companies*, *On Accounting*, and the *New Charter of Accounting*.<sup>142</sup>
146. However, the Government needs to continue implementing key reform measures that have been initiated in recent years. These reforms include: completing enterprise privatization and restructuring; bank privatization; improving the regulatory framework for the financial sector; improving governance; and strengthening the legal and judicial system. Implementation of these reforms will improve the overall climate for growth and development.
147. The relative stability of the Lek has been and is already one sign, among others, that Albania's efforts to exercise fiscal and monetary control, and more generally to ensure macro-economic stability, is successful.

## **Regulatory Framework**

148. Nevertheless, legal shortcomings and regulatory confusion continue to stifle economic growth and to limit investment. The role of business and good business management in the process of building a burgeoning economy still needs to be understood by the Albanian society and the private sector.<sup>143</sup> Primarily, this concerns governmental institutions whose organisational structure contains either departments responsible for the preparation of legislation and the regulatory framework for the private sector or units dealing with the implementation of the regulatory framework.
149. For this reason, the Albanian Government since 1997/98 has set as a top priority the establishment of a structured, permanent and professional civil service.<sup>144</sup> A training institute is required however, to build up the capacities needed by such a professional civil. As can be seen from the extracts of a

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<sup>141</sup> However, adequate institutional arrangements for making policy decisions regarding the budget have not yet been established, which negatively affects budgetary performance.

<sup>142</sup> These laws are based on EC Directives and the French legislation.

<sup>143</sup> Most Albanians are not aware of the basis of legislative changes being undertaken to build the market economy.

<sup>144</sup> This was part of the State Institutions and Public Administration Reform (SIPAR). The implementation of SIPAR however requires, among other things, a heavy involvement and investment in transferring knowledge and skill to actual and future civil servants. A training component is therefore vital to the success of SIPAR.

UNDP evaluation document produced in 1999 (see **Box 5** below), the Institute of Management and Public Administration (IMPA) that was established by a decree of the Council of Ministers (No.366) in 1993, has proved to be inefficient as a training body for the civil service. A new institute is therefore required.

**Box 5: Extracts from a 1999 evaluation document**

*“The main objectives of the IMPA were to assist in developing efficient management and entrepreneurial behaviour of the civil service through training consultancy and action research.”*

*“IMPA has organised training courses and consultancies in both the private and public sector. The main scope of those training activities has been the introduction of new concepts, methods and principles of management in business and public administration. The audience of these courses have been people from public administrations like directors; other managers and experts in different sectors; and people from the private sector like directors of businesses and experts in different profiles in those businesses (finance, accountability, management, marketing, etc.).*

*“The main subjects on which IMPA has provided training for the public sector have been ‘Public Management’, ‘Efficiency in the Public Sector’, ‘Selection and Training of Employees in Central and Local Government Institutions’, etc.”*

*“Concerning the private sector, IMPA has offered courses on “Financial Management of Enterprises and Business”, ‘Management of Marketing’, ‘Accountability and Auditing’, ‘How to Start a Business’, “Operational Management”, ‘Human Resources Management’, etc.”*

*“A fundamental issue, which affected IMPA’s activity and results, was the absence of a strategic plan on governance issues in Albania. Apart from that, there was no policy developed or a strategic plan for training. This strategic plan for training should have been written based on the strategy of the Albanian Public Administration.”*

*“In the case of public administration, IMPA’s activities should have been linked intimately with the work on administrative reform which was led by the Department of Public Administration at the Prime Minister’s Office, encompassing not only training but also activities in consultancy and research. On the other hand, a regular consultation with government institutions about their specific training needs would have been very productive.”*

*“The new institute will be closely related and focused on the process of public administration reform and its activity will directly support this reform. The target groups of training are going to be the civil servants especially those who will be members of different task forces for public administration reform. This institute will provide initial training, periodical training, promotional training, and special training. These training will be very much based on the demand and it is going to be a very strong cooperation between the Department of Public Administration and the Institute of Training for Public Administration. This is an important precondition for the success of this institute.”*

*Source:* UNDP

150. The legal basis of any Albanian company is established by Law No. 7638, dated November 19, 1992, entitled, *"On Commercial Companies"*. According to this law there are four forms of companies: partnerships, limited partnerships, limited liability companies and joint stock companies. Generally, a company is created when at least two persons agree to create it. However, according to the Albanian law, companies can exist also as sole proprietorships.<sup>145</sup>
151. Almost all enterprises in Albania can be defined as Small-Medium Sized Enterprise (SME) since only 0.2 percent of companies have more than 100 employees.<sup>146</sup> During 1997-1999 many laws were amended or adopted that

<sup>145</sup> Albanian American Trade & Development Association.

<sup>146</sup> **Appendix 2** provides ‘*Summary of Survey of SMEs in Albania, 1999*’.

influenced SME development. Frequent changes in the legislation framework have created an unpredictable environment. According to INSTAT, 52 percent of Albanian enterprises are in the trade sector, only 10 percent in industry and nearly half of all enterprises are concentrated in the Tirana – Durres – Elbasan corridor.

152. As can be seen from **Table 3** (see below), the number of active enterprises almost doubled each year between 1991 and 1994. However, in 1995 only half of the enterprises remained active and in 1996 the trend continued downward. As expected, the crisis in 1997 greatly affected active enterprises and more than half of those existing in 1996 were forced to close down. Renewed political and economic stability in 1998 however, gave entrepreneurs confidence to once again invest in private enterprise. Such enterprises therefore grew from just under 3000 in 1997 to almost 5000 in 1998 and over 6000 in 1999.<sup>147</sup>

**Table 3: Active enterprises from 1991-1998**

SIZE	1991	1992	1993	1994	1995	1996	1997	1998
ONE	1,458	3,835	6,630	12,914	6,511	6,154	2,443	4,211
2 TO 10	465	1,222	2,130	3,235	1,536	1,169	450	559
MORE THEN 10	20	85	244	246	73	44	12	8
<b>TOTAL</b>	<b>1,943</b>	<b>5,142</b>	<b>9,004</b>	<b>16,395</b>	<b>8,120</b>	<b>7,367</b>	<b>2,905</b>	<b>4,778</b>

*Source:* INSTAT

153. Nevertheless, the most important difficulties in starting and running a business in Albania are reported to be: obtaining finance; unfair competition; and administrative bureaucracy. However, the registration and licensing procedures are not believed to be difficult or expensive.<sup>148</sup>
154. In addition to the forms of business enterprise created under the Albanian Company Law, a foreign investor may operate in Albania through a branch. The branch must also be registered in the Office of Registration of Companies in the District Court of Tirana. A branch operates much like a commercial company in the same manner as an Albanian company.
155. Apart from the costs associated with registration procedures and those of lawyers in drafting the articles, other costs include the fees paid in different offices involved in the registration of a company. These include: fees paid at the Office for the Registration of Companies in the District Court of Tirana; fees for the registration at the Chamber of Commerce (this is an annual fee); and fees paid at the Tax Office including a local tax. Other costs are related to payment of notaries and translation (if the documents are in a language other than Albanian language), and those associated with opening a bank account.

<sup>147</sup> Even though the firms' turnover is very small. 48 percent of the enterprises have a turnover of up to \$ 50,000; 38 percent from \$ 50,000 to \$ 125,000; 18 percent up to \$ 600,000; and 2-3 percent up to \$ 1million. (Medium Term Strategy for the Development of Small and Medium Size Enterprises, Ministry of Economic Co-operation and Trade, September 2000)

<sup>148</sup> **Appendix 3** provides an outline of the 'Registration and Licensing Procedures for Businesses Operating in the Republic of Albania'.

156. The foreign investment law moreover, provides for national treatment of foreign investors, without the use of quantitative restrictions, local content requirements, trade-balancing requirements or foreign exchange restrictions.

### **Public Promotional Institutions**

157. According to Council of Ministers (Decision No. 442, dated July 16, 1998), the former *Center for Foreign Investment Promotion*, was transformed into a joint stock company with 100 percent state-owned capital, and named the *Albanian Economic Development Agency* (AEDA). The objective of this Agency is the promotion of the country's economic development. An important element of the Agency's work is providing foreign investors with information, both on demand and by publications on economic trends and specific subjects, as well as legislation. However, due to lack of funding, the Agency is not realizing its objectives.
158. There is also a network of Regional Development Agencies (RDAs). Since 1999, these Agencies operate independently as private agencies, offering consulting and training services to businesses.<sup>149</sup> RDAs collaborate with local authorities in preparing different economic studies and analyses of projects for the region's economic development. In 1999, the National Center for RDAs (NCRDA was established) as a co-ordination center for the network of RDAs.
159. On February 17, 2000 and with the Order of the Prime Minister (No. 55), the *Business Advisory Council* was established. The main objective of the Council is to provide continuous dialogue between the Government and the business community regarding legislation that directly affects businesses. The Council functions as an adjunct to the Ministry of Economic Cooperation and Trade and its chairman is the Minister of the Ministry of Economic Co-operation and Trade.

### **Chambers of Commerce**

160. The network of the Chambers of Commerce is very broad. There are 35 chambers of commerce all over the country, but there is a lack of quality and quantity of services offered in response to the needs of their members. Within the Chambers of Commerce network, there are special training programs for the benefit of the SMEs. Such training has been provided by Albanian experts, as well as by experts from institutions abroad (e.g. in Italy, Holland, United States, Italy and Greece), which also facilitate placements for practical training/experience.<sup>150</sup>
161. Membership to a Chamber is obligatory for registered businesses (regardless of the nature of the business). Registered physical persons with a turnover of less than 250,000 Lek are not required to join. There is however, some doubt whether all those required to join have done so, since the figures in some areas

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<sup>149</sup> In 1998-99 the RDAs trained 2,500 persons throughout Albania: 60 percent from the private sector and 40 percent from local and central government institutions. Furthermore, the RDAs facilitated the training abroad for 240 persons in collaboration with the SME Organization of Greece, *EOMMEX*.

<sup>150</sup> The duration of these placements usually range from 2 weeks to 2 months.

demonstrate significant under-representation. The Ministry of Economic Co-operation and Trade supervises the Chambers with respect to legal provisions regulating their activity.

162. Other business associations include: the Union of Albanian Businessmen; the Union of Investors; the Foreign Investors Association; the Agricultural Association; the Italian Entrepreneurs Association; the Greek Entrepreneurs Association; and several joint associations between Albania and other countries.

## Foreign Investments

163. The most important law, which provides a number of basic guarantees and protection for foreign investors is Law No.7764, dated November 2, 1994, *On Foreign Investments*. According to this law, all foreigners, either legal or physical persons, have the right to engage in different economic activities in Albania. Foreigners either physical or legal persons, who intend to invest in Albania, have no need to request permission or authorization. Foreign investors have the right to transfer out of Albania all funds in the original currency and any article related to their investment.
164. **Table 4** shows the level of FDIs in Albania for the period 1992-1999, which amounts to about \$ 458 million. These investments have been carried out in the trade, industry, transport, services and construction sectors, in joint ventures as well as foreign companies (see **Table 5** below). The most active foreign investors are the Italian and Greek investors.

**Table 4: FDI in USD Million**

YEAR	1992	1993	1994	1995	1996	1997	1998	1999
<b>TOTAL</b>	32.0	45.0	65.0	89.0	97.0	42.0	45.0	43

*Source:* EBRD 1999 Transition Report

**Table 5: Number of Joint Ventures and Companies Wholly Owned by Foreigners**

Sector	Joint Ventures	Foreign Companies	Total	% of Total
AGRICULTURE	26	7	33	1.36
TRANSPORT	64	48	112	4.62
CONSTRUCTION	71	53	124	5.12
SERVICES	77	67	144	5.95
INDUSTRY	292	123	415	17.13
TRADE	1002	592	1594	68.80
<b>TOTALS</b>	<b>1532</b>	<b>890</b>	<b>2422</b>	<b>100.00</b>

*Source:* INSTAT, 2000

165. The *Albanian Guarantee Agency* (AGA), a statutory corporation owned by the Government of Albania, has been set up with the aim of providing security and protection against losses arising from political risks, thereby providing confidence to potential investors in Albania. The International Development Association of the World Bank has approved a credit of \$ 10 million to the Albanian Government under its private sector recovery project. This money will support a political risk guarantee facility to be administered by the Albanian Guarantee Agency (AGA) and will provide guarantees to private sector entities that have financial exposure in Albania for a productive purpose. The specific aim is to promote productive activities by increasing the

volume of goods and services produced/provided in the Albanian economy. For an activity to be eligible for support under the guarantee facility therefore, it must be able to contribute to “productive” activities in the country.<sup>151</sup>

166. Albania has signed an agreement on the Protection and Promotion of FDIs with 30 countries as well as the Avoidance of Double Taxation agreement with 14 countries.

### **Donor Support and SME Development**

167. There are 13 main donors using co-operation agreements with the Government that have been supporting private sector development in Albania.<sup>152</sup> However, these contributions are not monitored by any state institution, which makes co-ordinating funds received, very difficult if not impossible.
168. The main donors committed to private sector development in Albania are presently focusing on specific projects and programs:
- UNDP/UNIDO is involved in two projects: (1) the establishment of two business centres (in Fier and Berat) and providing technical assistance for the policy component; (2) the second is related to the reconstruction of SMEs after the privatisation process.
  - GTZ is involved in technical assistance in connection to a 7.5 million DM (\$ 3.3 million) credit line and providing support for regional development agencies.
  - The Italian Government has committed funds for 5 billion Italian lira (\$ 2 million) in credit lines and 1 billion lira (\$ 400,000) in grants, but until now there has been no actual disbursement of funds.
  - The Greek Government has committed \$ 12 million in credit lines to support Albanian and Greek companies destroyed during the 1997 crisis. Moreover, under the proposed *Hellenic Development Plan for the Reconstruction of the Balkans* (see **Box 6** below) the Greek Government has made available 100 billion GRD (approx. \$ 250 million), for the period 2000-2004, of which 17 percent has been allocated to Albania.
  - There are also some special projects, for example: the Albanian Reconstruction Equity Fund (AREF) has a credit line of \$ 15 million from the Italian government and EBRD, to invest in businesses.
  - The Albanian Development Fund (especially in rural areas) has financing up to \$ 10,000.
  - FEFAD – German Bank has up to \$ 100,000 for credit lines.
  - IFC is involved in financing projects up to \$ 2.5 million.
  - Rural Financial Fund, a World Bank Foundation intended to create Co-operative Banking System in Rural Area as a sustainable self financed institution

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<sup>151</sup> However, how “productive” is defined is still vague.

<sup>152</sup> There are some NGOs also contributing to private sector development but not through (official) co-operation agreements with the Government.

- ‘BESA’ Foundation, a World Bank Foundation giving loans to micro and small businesses in urban areas.

**Box 6: Hellenic Plan for the Economic Reconstruction of the Balkans (2000-2004)**

*According to the Hellenic Plan for the Reconstruction of the Balkans (HPERB), put forth by the Ministry of National Economy, General Secretariat for International Economic Relations, in September 1999, the Hellenic Government (for the period 2000-2004) has made available 100 billion GRD (\$ 250 million), which constitutes 0.043 percent of its GNP for the corresponding period. 17 percent of this amount has been allocated for development in Albania for three categories – social infrastructure (\$ 17.84 million will be allocated for social infrastructure projects in Albania during the period 2000-2004), economic infrastructure and production sectors. Social infrastructure concerns the areas of education, health and housing.*

*In the area of education, it is anticipated that funds will be made available for the design and construction of school building. Apart from infrastructure, it is anticipated that training equipment will be supplied and scholarships will be granted to scientists in these countries.*

*Source:* Hellenic Ministry of National Economy

169. A number of donors provide credit lines for private sector development. These credit lines are considered to be attractive to SMEs, but problems in the implementation of these are caused primarily in the weak banking system.<sup>153</sup> Furthermore, a more liberal credit policy needs to be developed since although there seems to be plenty of money available from different credit lines - either via banks or aid-sponsored NGOs, SMEs appear to lack the ability to qualify for credit at the rates of interest and criteria for which collateral is set. The Government is therefore taking steps to alleviate the present gaps and lending problems by expanding present (micro-banks/development fund) and/or initiating new credit tools, such as an SME loan guarantee fund/seed capital/leasing etc.
170. **Appendix 4** shows the history of external assistance to the private sector in Albania. Results from research and published documentation show that, from 1992 to 1998, over \$ 177 million have been committed and \$ 86 million were disbursed. About 62 percent of the total committed funds came to Albania in the form of soft loans to the Government. Grants represent about 32 percent and direct commercial loans for co-financing private investment about 5 percent. These types of finance are translated into ‘Development Projects’ – mainly funding for SME credit lines and associated technical assistance. This represent about 79 percent of total

<sup>153</sup> One factor to be considered is that the funds for credit lines come to the government as soft loans but are then disbursed to the banks to be used as commercial credit in order not to distort normal banking practice and not undermine the use of the banks’ own lending capital. As a result the major part of the finance for credits is converted into commercial funds. Interestingly, although there is a large supply of funds for credits, there is a low demand and still high expressions of SME credit needs. Furthermore, there is minimal use of credit lines, and high reliance on own sources. However, the larger the investment the greater the use of outside sources. 688 out of 841 enterprises (82 percent) want a further loan. Of these, 594 companies want up to \$ 50,000 (35 percent) or up to \$ 120,000 (another 35 percent). Over half need further loans for investment and not working capital. The major constraint in seeking loans is simply the availability of credits and the level of interest. Moreover the lack of regional credit access also prohibits some SMEs from obtaining a loan.

funds (of this figure 45 percent has been disbursed). ‘Technical Assistance’, including institutional support, and assistance to entrepreneurs in various ways, represent about 14 percent of total funds with a disbursement rate at 79 percent of committed funds. The ‘Commodity Aid’, represents about 7 percent of total funds committed, with disbursement rate at 29 percent. However, donor co-ordination needs to be improved in order to avoid duplication.

171. Of interest is the new IFC facility ‘*South East Enterprise Development*’ (see **Box 7** below) providing \$ 35 million in technical assistance for SME development (capacity building) with the aim of developing a private marketing force. SEED works with consulting firms and forms partnerships in order to help the client to improve by helping to pay for local staff. For example, if the investment is \$ 30,000, the client pays \$ 200-300 for every 5 staff.

**Box 7: Southeast Europe Enterprise Development (SEED)**

*SEED is a newly established, multi-donor initiative, managed by the International Finance Corporation/World Bank Group and co-financed by: Austria, Canada, Greece, the IFC, the Netherlands, Norway, Slovenia, Sweden, Switzerland, and United Kingdom. It was launched in the summer of 2000 to support the development of SMEs as well as individuals and institutions that serve the needs of SMEs in Bosnia and Herzegovina, Albania, FYR of Macedonia and specific projects in Kosovo. SEED has about \$ 20 million in funding commitments to date, leaving about \$ 13 million of funding to be secured over the 5-year life of the initiative.*

*SEED, previously known as the Balkan Enterprise Facility will support the development of Small and Medium Enterprises (SMEs) as well as individuals and institutions that serve the needs of SMEs and will enhance the broader enabling environment in which all of these stakeholders operate. SEED will implement its mandate through tailored, enterprise- and organization-specific technical assistance, capacity building programs, training courses and research/policy interventions. In order to implement its mandate fully, SEED proposes to embrace three strategic targets of assistance:*

**1. Enterprise-Level Investment Services**

*The goal of SEED is to target companies for sustained, market-based competition. If an SME can define its business in these terms, then and only then is it ready for financing. SEED will attempt to identify clients that are near this goal. In such cases, SEED will actively try to match the company with appropriate investors and financiers immediately. For those SMEs that need to strengthen their performance, SEED will assist in that development prior to seeking financing. Once financing is obtained for an SME, SEED will also make available post-financing support in order to help the company leverage and manage its investment most advantageously.*

**2. Capacity Building of Enterprises and Institutions serving SMEs’ Needs**

*In order to promote business advocacy or association for the sole purpose of supporting business interests, SEED will: (a) promote partnering with local associations of business owners and building the capacity for these associations to expand and function more effectively and independent of donor support; (b) implement training and technical assistance programs to local business service firms which will help with the professional development of SMEs and contribute to the creation of a business consulting sector; (c) implement core training programs for client SMEs designed to enhance overall business competitiveness by facilitating improvements in key areas of the enterprise – financial management, marketing and distribution, streamlined and environmentally-friendly production, corporate governance, etc; (d) facilitate knowledge sharing among SMEs and SME service providers through in-person “business-roundtables” and internet-based*

exchanges; and (e) promote the development of women-owned/operated businesses through targeted support for women business association development.

### **3. Improvement of the Business Enabling Environment**

*In order to improve the business enabling environment, SEED will support legislative and tax reform benefiting SMEs, administrative and regulatory reform to help reduce heavy bureaucratic burden on SMEs, organize and disseminate relevant business information, promote regular dialogue between local business representatives and government, engage in special projects (e.g. trade fairs, development of a credit bureau, etc.)*

#### **ALBANIA and SEED**

*In Albania, the IFC is investing in a Loan Guarantee Facility. SEED has negotiated a local agent contract where it will oversee the issuing, and the regular supervision of the Guarantee. The role of SEED is central to the implementation of this Guarantee. The Facility will allow SEED to operate closely with the companies in the loan portfolio and potentially form direct client relationships for further developmental assistance.*

*Source: SEED Brochure*

## **Consulting Companies**

172. Consulting companies have only recently started operating in Albania. They range from small local companies to several large foreign companies, which are auditors to most of the major banks (foreign or local), large businesses (especially foreign) and principal donors. They operate mainly from Tirana or close to the city. The number of clients they have is small, the median shows 105 people, and the tariffs on various services do not change more often than once in a year. Legal advice, advice on taxation and training activities seem to be the most frequent services provided by private consulting companies.<sup>154</sup>

## **Banking**

173. Bank privatization is underway with some major deals to be completed in 2000, including the National Commercial Bank and the Savings Bank.
174. There are twelve licensed banks in Albania, of which ten are private and two are in the process of being privatised. The greatest increase in the establishment of banks was from 1997-1999. However, according to the Medium Term Strategy for the Development of Small and Medium Size Enterprises (2000), “*only the - still public - Savings Bank operates in all districts of Albania. All other banks state that they are planning to extend their activity to other regions. But in reality this will be rather limited.*” **Appendix 5** provides information about financial institutions in Albania in terms of size of credits, collateral requirements, interest rates and any grace period on repayment.
175. Most banks are reluctant to provide information on credit lines. To give or not to give credits is a fundamental dilemma to all the existing public and private banks. Public banks that are in the process of privatization have suspended their credit lending activity. Private banks, though they hesitate to give information, have available funds for credit, but they do not trust entrepreneurs. Consequently, for most banks, banking deposits, money

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<sup>154</sup> Medium Term Strategy for the Development of Small and Medium Size Enterprises. Ministry of Economic Co-operation and Trade (Competition and Trade Policy Department). Government of Albania. Revised in September 2000.

exchange, money transfer, credit cards, etc. remain principal services. Requirements on collateral are high, interest rates variable but reasonably high and grace period limited. However, there are institutions, other than banks, that give credits to SMEs. Their legal status is not defined – although most operate as non-profit organizations, foundations or state agencies. In March 1999, a *Set of Regulations* was issued by the Bank of Albania in order to regulate the activities of such lending institutions.<sup>155</sup>

176. Interestingly however, according to the Albanian Chamber of Commerce and Industry, “bank deposits of the citizens have amounted to over 180 million lek [\$ 1.23 million]”.....“these are savings of individuals or various firms that, unable to find a more profitable activity than the bank interest rates, deposit their money in banks.”

### **Stock Exchange**

177. Interestingly, according to information provided by the Director of the Albanian Chamber of Commerce,<sup>156</sup> “there is no stock exchange.” However, according to the *EBRD Albania 2000 Investment Profile* “a stock exchange was established in May 1996, but trading is negligible, limited to government bonds, treasury bills and privatization vouchers” and “the stock exchange hopes the law on investment funds will help channel money into legitimate well-regulated funds. There are also hopes to bring some of the foreign exchange market (presently conducted largely on the streets) onto the stock exchange, to help establish some order in the foreign exchange market.”

### **Land Ownership**

178. According to the Albanian Constitution, the right of private ownership is guaranteed. According to the law “On the Acquisition of Land” (No. 7980/27.07.1995), foreign investors are entitled to lease land in state-owned areas and they may buy state-owned non-agricultural land provided that the value of investment is at least three times higher than the value of the land. The value of such land is determined by the Council of Ministers.
179. In order to build a school, the proposal must be presented to the municipality, along with the request for land for construction. The municipality then provides directions as to the obtainment of license/s needed. There are no restrictions on the acquisition or leasing of privately owned land.

## **POLICY RECOMMENDATIONS**

180. Albania’s future economic prosperity depends on the skills of its population. The establishment of a modern education system therefore, that will not only serve the needs of Albania, but will also be consistent with European (and international) standards, is vital. Consequently, greater priority needs to be given to the education sector in order to improve the quality and effectiveness of Albania’s education services, currently hindered by the grave state of the

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<sup>155</sup> That is, they now have to be licensed by the Bank of Albania.

<sup>156</sup> December 5, 2000.

education sector's financing, governance, management and accountability infrastructure.

181. The Government needs to recognize moreover, that a strong private sector is necessary if it is to meet its educational and broader social and economic objectives. It will therefore need to adopt an *active* policy stance toward private sector involvement in education that is designed to: (a) create a streamlined and more enabling regulatory framework conducive to private sector development; (b) improve the targeting of Government spending; and (c) establish a strong and effective regulatory framework for monitoring performance and raising standards. In doing so, it will need to introduce reforms to some of the key policy levers such as the funding, taxation and quality assurance processes. A paper entitled *The Third Wave of Privatization: Privatization of Social Sectors in Developing Countries* (1996)<sup>157</sup> would serve as a useful guide to the Government as it provides practical information for policymakers and practitioners in their efforts to enhance private sector participation in the social sectors (e.g. education and health). As noted in this paper: “*It must be kept in mind that an enhanced role for the private sector does not necessarily imply a smaller role for the state.... Rather, the opposite is the case. The state must continue to play an important role. The key difference lies in the nature, rather than the degree, of the state's intervention. Specifically, the Government's role of being the principal financier and producer of education services needs to be changed.*”
182. An increasing number of developing countries have undertaken privatization programs as a key component in their effort to restructure and modernize their economies. Initiatives to increase private sector involvement in education can take the form of private financing, private management, private ownership, or a combination of the three. Accordingly, the degree of private sector involvement can vary from complete ownership, financing, and management to a more limited private sector role such as cost recovery via user charges. Between these two extremes lies a range of possibilities that depend on varying degrees of private sector participation. Above all however, initiatives to increase private sector involvement in education should be with the goal to improve efficiency and equity.
183. The private sector can therefore serve as an important ally to the MES in achieving its policy objectives for education reform (as stated in its *Mid-Term Strategy*), and to the Government in achieving its overall country objectives for comprehensive economic development as stated in the *Growth and Poverty Reduction Strategy* (see par. 22 above). It is moreover, difficult to see how the Government will carry out the measures stated in the *Public Investment Program* to improve the quality and effectiveness of education services and establish a modern education system (see par. 30 above), *without* the input of the private sector to offset some of the costs since it is clear that the Government has neither the financial means nor the capacity to do so. Albania's severely constrained public finances cannot simultaneously operate

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<sup>157</sup> Torres, G. and S. Mathur. *The Third Wave of Privatization. Privatization of Social Sectors in Developing Countries.* The World Bank, Washington, D.C., 1996.

the education system and address all the urgent and widespread rehabilitation needs of the country. Moreover, it has led to increased private costs for participation in education.

184. The Government should look to the private sector as a collaborator rather than an added administrative burden since “[t]he private sector can inform, challenge and potentially re-engineer the public sector”.<sup>158</sup> Furthermore, as noted in the very useful resource for policymakers, *Contracting for Public Services: Output-based Aid and its Applications*, what the Government needs to consider is: “how to deliver and target public services in ways that promote efficiency and innovation, increase accountability for performance and – in a world of limited budgets – leverage public resources with private financing”<sup>159</sup> In doing so, however, some administrative reforms will be necessary. For example, a separate directorate needs to be established at the MES, appropriately staffed, that would in the long-term not only register, evaluate and license private education providers, but would formulate strategic approaches, with the goal of incorporating the private education sector - *as an integral component* - within the overall education reform framework of the MES. Such strategic approaches could include financing arrangements and incentives to promote all levels of private education from pre-school to tertiary and the introduction of funding to the private sector with a view to reducing the state’s unit costs for education.
185. In the long term moreover, the Government will need to shift the balance of the tools used in achieving its policy objectives from complete *ownership* of education products and services (e.g. owning the school), to *purchasing* such products and services (e.g. providing vouchers), while at the same time focusing on regulating the market (e.g. ensuring quality, safety, etc). However, moving to a system focused less on ownership will need to be carefully and strategically planned, since use of other policy instruments requires that there be an infrastructure (e.g. for targeted expenditure, funding mechanisms, quality control, etc.) in place and this is not the case at present.
186. Nevertheless, it is important at this stage that the Government show that it is positively inclined toward working *with* the private sector in solving at least some of the problems the education system currently faces. One of these problems - that of overcrowded, urban, public-school classrooms - could serve as the first step in this direction. For example, the Government could provide per capita funding or vouchers for public-school students in overcrowded classrooms to attend private schools (where such classroom spaces are available). Needless to say, this will be far more cost-efficient for the Government than building new schools to cater for increased demand (especially in urban areas where overcrowded classrooms have become the norm) and funds that would have been used to build new schools, could be utilized to rehabilitate and upgrade existing schools.

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<sup>158</sup> Tooley, J. *The Global Education Industry: Lessons from Private Education in Developing Countries*. IEA and IFC, London, 1999.

<sup>159</sup> *Contracting for Public Services: Output-based Aid and its Applications*. P. J. Brook and S. M. Smith, Eds. The World Bank, Washington, D.C., September, 2001.

187. Research will however, need to be commissioned to calculate total per-student costs in both the public and private sectors (including operating costs, teaching and related costs, the cost of capital, etc.). This will not only provide a benchmark for setting of a subsidy level to provide per capita funding or vouchers, but it will serve to re-evaluate the financing formulas currently in place in order to increase transparency in allocating resources. The funding-system as a whole moreover, needs to be reviewed in order to improve the delivery mechanism and targeting criteria - such as the characteristics of students (e.g. socio-economic status, ability to pay) or region (as a proxy for socio-economic status) – in order to address equity issues (especially with regard to rural poor students). In achieving an improved funding system however, the Government’s capacity to manage resources will also need to be improved.
188. Nevertheless, a move to a demand-side financing system (i.e. use of vouchers, stipends, and capitation grants) targeted on the basis of characteristics other than who owns the provider is important not only to the long-term sustainability and growth of the private education sector, but more importantly, as a tool for the Government in the long-term sustainability of the reform process. Demand-side financing therefore, is a pragmatic choice for the Government of Albania for introducing needed reforms according to local needs and available resources. It is moreover, the key to building effective partnerships between the private sector and the State and to opening up access to private schools to those with fewer financial resources, while at the same time recognizing the financial constraints that the Government is facing. A useful resource on demand-side financing is *Decentralization of Education: Demand Side Financing* (1997), which is designed to assist policymakers and practitioners in developing countries interested in exploring alternative financing mechanisms.<sup>160</sup>
189. Moreover, the institutional and regulatory framework for private education needs to be strengthened in order to ensure quality and safety. The Government’s inspection and review processes are inadequate (if not non-existent) and often fall below the minimum expectations of the community. The MES admits that there are insufficient resources being put into monitoring the quality of delivery in private schools and have noted the need to re-evaluate licenses granted especially during the transition period (in the early 1990’s) since licensing procedures and criteria at that stage were not well-defined. Furthermore, many private providers established private schools (again, during the transition period) without a license and the MES has expressed the need for these to be licensed or to be closed down. Of course, this will be a difficult task for the MES (with current resources – both physical and human) as the private education sector is growing at an impressively fast rate (e.g. it grew by 77 percent in less just one year<sup>161</sup>).
190. However, the Government could again work *with* the private sector in ensuring quality. For example, quality assurance functions could be provided

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<sup>160</sup> Patrinos, H. and D. Lakshmanan Ariasingam. *Decentralization of Education: Demand-Side Financing*. The World Bank, 1997.

<sup>161</sup> From July 2000 to July 2001.

by the private sector, with the Government continuing to play a role in terms of guaranteeing that quality is promoted in the sector. In this respect, the recognition of private quality assurance bodies to monitor the education sector could be explored in the long term. In the short term however, an association of private education providers (which is currently lacking)<sup>162</sup> could play an important role in developing a broader, more sophisticated set of performance indicators that could be used to provide information to parents and to schools on school performance.

191. Beyond assisting the Government in its efforts to control quality, an association of private education providers could be actively engaged in helping to shape Government policy on private education more generally. Such an association (or associations) moreover, could sensitize banks and other financing agencies about the needs of the private education sector (e.g. providing credit lines for private education investors and student loans.). For example, as fees have been introduced at the tertiary level, it would be advisable for the Government to consider providing a student loan scheme with the help of the private sector (e.g. private banks and/or other financing agencies), as a way to overcome the capital market failure in meeting this need and to ensure that students continue to have access to advanced training and education. The *Southeast Europe Enterprise Development (SEED)* agency would be a good resource for such a venture since it has already helped (through the provision of technical assistance) resolve the issue of access to capital for a private education investor by facilitating a credit line through a private bank.<sup>163</sup> Access to capital moreover (and at interest rates conducive to the education business) is an issue that will require particular attention in the medium and long term so that the expansion of the private education sector is not constrained and private education providers do not continue maintaining tuition fees at levels that are affordable only to the wealthy, thus, exacerbating the issue of equity even further.

192. Furthermore, the private education sector could be stimulated through the provision of education specific tax and duty concessions. Currently, all private education providers pay VAT of 20 percent just as any business and regardless of their status as for-profit or non-profit, although there seems to be some “confusion” in the implementation of the tax law.<sup>164</sup> Here again, an association of private education providers could play an important role in consulting with the MES and the Ministry of Finance to design a framework (for tax and duty concessions for private education providers) that is conducive to the development of the sector. In the long term moreover, tax concessions might be considered for tuition fees paid by parents. However, this will need to be

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<sup>162</sup> The establishment of an association or union of private education providers is one of the recommendations expressed during the First National Conference on Private Education held in the summer of 2000 in Tirana.

<sup>163</sup> SEED has facilitated the a loan of over \$ 200,000 for the INKUS school through the American Bank of Albania at a more favorable interest rate than commercial banks (of 5% as opposed to 7-8%).

<sup>164</sup> Although, as indicated by the General Director of the Taxation Department of the Ministry of Finance, according to the law, non-profits organizations and NGOs are exempt from VAT. In practice, however, the opposite seems to be the case since directors of educational institutions with non-profit/foundation status that were interviewed, stated that they are obliged to pay VAT of 20%.

weighed against reforms in the tax system generally, and the sophistication level (i.e. monitoring, etc) attained.

193. Nevertheless, the composition of a *White Paper on Education in Albania* would be helpful in documenting public-private partnerships as a necessary ingredient in the reform of the education system of Albania. Such a document would guide short, medium and long term goals and objectives for education and training in Albania, placing the private education sector at the forefront of economic and social development.

## **EDUCATION INVESTMENT OPPORTUNITIES**

194. There is considerable potential for growth in the private education sector in Albania. Beyond school-level education (i.e. kindergarten, primary and secondary schools), other potential growth areas include: the tertiary sector (i.e. university education and non-university education and training), private student loan provision, provision of ancillary services in schools, private review and quality assurance, teacher training, and construction and maintenance of school buildings.
195. With around \$ 450 million a year circulating in the informal market (as estimated by the Albanian Chamber of Commerce and Industry), coupled with fact that Albanian parents and students are becoming more sophisticated consumers who demand more out of the education system and are dissatisfied with the public schools (see par. 113 above), the potential for expansion in the private education sector is very promising.
196. The private sector moreover, has the capacity to mobilize additional resources both for recurrent expenditure and for capital investment in education and therefore enable a channeling of a greater proportion of national income into the educational system as a whole. Consequently, investors (local and international) need to be mobilized as education projects in Albania have the potential of providing a good return for the investment (and at least better than bank interest rates). As pointed out above (see par 185), bank deposits of Albanian citizens currently amount to over \$ 1.23 billion. These are savings of individuals or various companies that deposit their money in banks, as they are unable to find a more profitable activity than the bank interest rates.
197. Moreover, the Albanian *diaspora*<sup>165</sup> need to be mobilized to invest in education projects in Albania. According to the Albanian Chamber of Commerce and Industry the money sent by Albanian emigrants to their families in Albania, is an amount estimated at about \$ 500 million per year. Furthermore, international investors – especially Greek investors - should consider the education/training market in Albania as a viable investment area. With over 200 Greek companies (including banks) for example, currently operating in Albania and requiring skill upgrading of local staff and managerial personnel, the potential return on investment in education/training targeting Greek companies *alone*, would be a very profitable venture.

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<sup>165</sup> That is, those Albanians living abroad.

198. Specific areas with the greatest potential include:

- **Provision of pre-school education.** Great potential exists in the pre-school education sector since only 35 percent of the age cohort (3-5 year olds) is being catered for by the State. Pre-school education (ages 3-6 years) is not compulsory and nor is it possible for the State to provide for all children of this age group.<sup>166</sup> However, as political and economic stability becomes the norm, more and more parents are seeking pre-school places for their children.
- **Provision of extra-curricula activities for children and community programs for adults.** Since all public/state schools are permitted to generate added income (for services, rent, etc.), great potential exists for public-private partnerships to develop programs for the community (e.g. programs for adults and extra-curricula activities for children). One complaint often heard in Albania is that the school is divorced from the community. By facilitating such public-private partnerships therefore, the school would not only have the opportunity of generating additional income for the betterment of the school, but more importantly, it would become integrated within the community and serve as a *community education center*.
- **Provision of VET secondary schools.** VET secondary schools are presently under represented in both the private and the public sectors. As noted above (see par. 74), the percentage of students in VET programs has dropped to 15 percent of the total number of students in secondary education. This, coupled with the fact that the majority of young school leavers - about 60 percent of Albanian youth - do not attend any further formal education or training (which means that industry receives more and more untrained workers causing problems in terms of product quality and diversification), and that unemployment among youth continues to grow (currently representing 45.5 percent of all unemployed<sup>167</sup>), the consequences for the economic development of the country are dramatic. However, as one of the priorities of the *Growth and Poverty Reduction Strategy* is human development (see par. 23 above), there is great potential for investment in this sector (and especially for public-private partnerships).
- **Tertiary sector provision.** Although the establishment of self-standing private universities is not advisable at present due to the high up-front cost of investment for such a venture, there is nonetheless, *great* potential for private investment in tertiary programs established as: (a) 'branches' of foreign institutions (including distance programs); (b) franchising and licensing arrangements; and (c) joint-ventures with local partners (public-private partnerships and/or private-private partnerships). Programs offering high potential returns to investment (in the short- and medium- term) include: all areas of general business studies (e.g. marketing, advertising,

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<sup>166</sup> Over \$ 700,000 are needed in 2002 to cover the needs of this sector as the State budget can only cover \$ 460,000.

<sup>167</sup> See par. 25.

management, finance, etc.) at both undergraduate and graduate level, and graduate level programs in health management, public administration, construction management, interactive technology, education management, human resource management, telecommunications, agro-business, and EU law (including international accounting procedures and taxation).

- **Provision of training programs to meet labor market needs.** More and more entrepreneurs (both local and international) are having serious difficulties in finding the required skilled manpower to run their businesses properly and to cope with the new requirements of Albania regarding its integration into Europe's economy. A wide range of courses is therefore necessary since businesses in Albania have little experience in free market processes and face every kind of difficulty as a result of the drastic changes in economical activities, occupations and the fluidity of the labor market. The challenge then, is to directly link the needs of the existing and newly established enterprises, with training opportunities that address the individual possibilities of the target group. According to the *Medium Term Strategy for the Development of SMEs*, 85 percent of companies say they need further qualifications and 74 percent say they will pay for these. The existing vocational and professional training system however, seems to be unable to cope with the huge demand it is faced with – although it should be noted, that the existing high participation rates in existing training courses, are an indication of the high level of demand rather than the efficiency of such training programs. The courses already delivered either by public or private training providers are mainly supply-driven and often do not fulfill the real needs for vocational and professional training services. There is a pressing need therefore, to involve local business and trade unions in running training centers in order to facilitate the level of performance and be a source of financing. Furthermore, in designing training programs, it should be kept in mind that the Government's investment priorities for the immediate future include agriculture, construction, tourism and industry. Training programs focusing on these sectors will therefore be in great demand. Tourism, for example, is one of the main priorities of the Albanian Government as it is expected to bring in half of the country's income in the near future. Programs in tourism management, hospitality, hotel services, and the like, will be great demand. Furthermore, executive training (especially for bankers and multinational companies) and continuing professional development courses for middle managers will also be in great demand in the coming years as Albania enters the globalised economy. Furthermore, the large number of enterprises requiring pre- and post-privatisation restructuring would make a heavy demand on management consultants. At present, there are few qualified and experienced management consultants in the country. While the reliance on international consultants cannot be avoided at this transition phase, the long-term strategy should be to develop the national management consulting capability. However, none of the above will be achievable without trained trainers. The provision of training of trainer courses are therefore urgently needed as they are currently in short supply.

- **Provision of school materials, textbooks and equipment.** Due to the growing number of private schools, school textbooks, supplementary workbooks (for teachers and students), learning materials and supplies (e.g. school bags, stationery, etc.) are in great demand. Furthermore, there is investment potential for the production of books for pre-school education. Until 1990, the State Publishing House had a special department for the development and publication of pre-school books. However, since 1990, no new textbooks have been published for pre-schools. Investors might also consider the establishment of second-hand book markets and book banks – to make books available to poor students.
  
- **Rehabilitation, construction and maintenance of school buildings.** Large amounts of money have gone into infrastructure and repair of schools under the Local Development Program for the support of local communities but also through bilateral and multilateral donations. Some state buildings have also been sold-off/privatized for use as school buildings. A hotel for example, was also sold-off/privatized for use as a private school. In Shkodra, the private Turkish school has leased the building in which the school is housed, from the Ministry of Privatization. However, as the privatization process nears its end, there are few suitable buildings left to lease or buy, although the Government could consider giving some dilapidated buildings to private investors to rebuild and establish private schools, or lease them back to educational entrepreneurs and/or the State –thus building public-private partnerships. Similar partnerships could be based on the management of schools through management contracts between public authorities (e.g. municipalities) and private companies (i.e. education investors), whereby the public authorities fund the schools and the private sector manages them. The private sector moreover, would be willing to invest in school infrastructure in anticipation of a small return through efficiency savings. The largest investment needs are in Tirana and the low coast area from Shkodra to Saranda, where regional boarding schools are also needed.

## CONCLUSIONS

199. The market potential in Albania for private education is promising. The expressed dissatisfaction with the existing public schools and the inadequate provision in rural areas, present potential markets for private education and training investment at all levels – primary, secondary and tertiary. Investors however need to be flexible and ready to adapt to the changing education and training needs of the country as it progresses along the road of a globalize economy and EU accession.
  
200. Due to limited resources, the Government will need to focus more on facilitating and regulating economic activity rather than being the direct producer and provider of education/training goods and services. Furthermore, old stereotypes of purely public agencies on the one hand, and purely private for-profit companies on the other, will need to give way to public-private partnerships. Such partnerships will be crucial for the provision of quality education and training services of all Albanians.

## APPENDIX 1

### MAIN ELEMENTS OF THE TAX SYSTEM CURRENTLY AFFECTING ALBANIAN BUSINESSES (September 1999)

No.	Tax	<u>NATURE OF TAX</u>	<u>Deductions and Exemptions</u>	<u>Rates</u>
1.	Tax on incomes Law No. 8438, 28.12.1998	1.1 <i>Tax on personal incomes</i> : A scheduled tax on individual income. All residents of Albania are subject to the tax for the salaries/wages and rewards, incomes from dividends, incomes from bank interest etc; All revenue is paid into the central government budget. Enterprises withhold the tax from employees, monthly.	Exemptions: the first 10,000 lek of monthly income is exempted from paying personal income tax	Monthly income/marginal rate: 10,001-20,000: 5% of the amount over 10,000 lek 20,001-30,000: 500 + 10% of the amount over 20,000 lek 30,001-50,000: 1,500 + 15% of the amount over 30,000 lek 50,001- 80,000: 4,500 + 20% of the amount over 50,000 lek 80,001-12,000: 10,500 + 25% of the amount over 80,000 lek > 120,000: 20,500 + 30% of the amount over 120,000lek  The incomes coming from dividends, interests, rents, loans and other incomes are taxed with flat rate of 10%.
		1.2 <i>Enterprise profits tax</i> : A tax on profits on domestic and foreign physical and juridical persons, state or private that are subject to value added tax.	<i>Companies with a yearly turnover less than 2million lek (small businesses) are exempted.</i>	A flat rate of 30% of profits
<b>The law on personal incomes tax and the law on profit tax have been amended more than 5 times since 1993</b>				
2.	Small business tax Law No.7679 (3.03.1993)	Payers of the small business tax are those who are not subject to the value-added tax in the private sectors of trade, artisan and other services, etc; with a yearly turnover less than 2million lek. Flat rate tax depending on the type of the activity and on the category of the city where the business is operating. Revenues accrue to the central government.		15,000 – 100,000 lek as a flat rate tax depending on the kind of business and the city it is operating. For the businesses which realize a turnover between 2-5million lek/year plus, 4% of the turnover more than 2million lek has to be paid.

No.	Tax	NATURE OF TAX	Deductions and Exemptions	Rates
<b>The law on small business tax has been amended 4 times since 1993</b>				
3.	Social security contributions Law No. 7703 (5/11/1993)	3.1 <i>Employers</i> : All public and private employers are liable. Social security contributions fund pensions, maternity benefits, unemployment insurance, sickness benefits, and employment injury insurance	The minimum level of incomes to calculate the contributions is 6,300 lek and the maximum level is 19,900 lek.	The contribution rate to be paid by employers is 34.2% of the gross salary/wage.
		3.2 <i>Employees</i> : All employees are liable Pensioners are not exempt. In the first three years of operation under the new Law for Social Insurance the budget makes a contribution.		The contribution rate to be paid by employees is 11.7%
<b>The law on social Insurance has been amended more than 20 times since 1993</b>				
4.	Value added tax Law No.8240 (4/27/1997)	The tax is imposed on all the subjects with a yearly turnover more than 2million lek.	The businesses with a yearly turnover less than 2million lek are tax exempted.	A general 20% tax rate on all the goods supplied. 0% tax rate for all exports.
<b>VAT has changed 2 times for the general tax rate and 16 times for exemptions since 1995.</b>				
5.	Law "On foreign Investments" No. 7764 dated 2.11.1998	All foreign investors should follow the provisions of this law.	Foreign investments are permitted and are treated equally as for the domestic ones under the same conditions except for land ownership. According to the law No. 7501 dated 19.07.1991 "On the land", the land is allowed to be taken only on a rental basis by all foreign physical and juridical persons who want to use it for construction or other economic activities.	

*Source:* Medium Term Strategy for the Development of Small and Medium Size Enterprises, Ministry of Economic Co-operation and Trade, Government of Albania, December 1999.

**APPENDIX 2**  
**Summary Of Survey of SMEs in Albania (1999)**

SUBJECT/QUESTION	Percentage of Total
<b>EMPLOYMENT</b>	
1-5	34.2
6-10	21.1
11-20	28.4
21-50	9.3
51-100	3.5
100+	3.2
Female employees	47 (highest % in production sector - 57)
Female managers	8
<b>Investment Capital/Capital Employed</b>	
Up to \$50,000	40 (of which have bank loan) 3
\$50,000-\$125,000	38.5 13
\$125,000-\$600,000	17.5 16
\$600,000-\$1 million	3.8 12
<b>Source of Finance</b>	
Own Funds	78
Bank Loan	10
Special Credit	2
Leasing	2
Foreign Equity	2
Foreign Bank Loan	1
Other	5
<b>ACCESS TO LOANS</b>	
Need a loan	82
Require \$50,000 or \$125,000	70 (35.2 and 35.4)
Refused a loan	35
Availability is the worst constraint	49
<b>TURNOVER</b>	
\$50,000	48
\$50,000-\$125,000	38
\$125,000-\$600,000	11
\$600,000-\$1 million	2
<b>Machinery and Capacity</b>	
New equipment	15
Second hand but good condition	61
Very old	17
n/a	7
Need technical assistance to improve technology	77
Need technical assistance to improve quality control	85
Do not operate at full capacity (production sector)	62
Do not perform activity to protect the environment	51 (production 50)
<b>Training and Qualifications</b>	
Further qualifications needed	85
- managerial	59
- technical	32
- economic	35
- vocational	49
Problem finding qualified people	94

<b>Markets and Services</b>	
National market	64
International market	18
National and International markets	17
Need public export promotion	88
Need business services	92
of which need – business information	78
- training	71
- intermediation	48
See advantages in Industrial Estates	73
Member of Chamber of Commerce or Business Association	63
<b>LEGISLATION</b>	
Changes are too hasty	84
There is continuity and transparency	17
Business concerns are considered	18
Complicated or too complicated	78

**Total companies - 841**

**(57% production; 11% construction; 13% service; 10% trade; 9% transport)**

*Source:* Medium Term Strategy for the Development of Small and Medium Size Enterprises, Ministry of Economic Co-operation and Trade, Government of Albania, December 1999.

## APPENDIX 3

### REGISTRATION AND LICENSING PROCEDURES FOR BUSINESSES OPERATING IN THE REPUBLIC OF ALBANIA

The laws that regulate the Albanian companies are the Law No. 7638 dated 19.11.1992 “On Commercial Companies” and the Law No. 7667 dated 28.01.1993 “On the business Register”. The Trade Register is located at the Court of the first instance of the Tirana District for all the businesses that operate in the Republic of Albania.

According to the Company Law, business may be accomplished under one of two categories:

- 1 Natural person
- 2 Legal person

The legal person could be company of the following forms: Partnerships, Limited Partnerships, Limited Liability Companies and Joint Stock Companies.

**Partnership.** In the Albanian company law, the general partnership is considered an entity distinct from its partners, who themselves may be individuals or legal entities. All partners are considered merchants and are jointly and severally liable for company debts. The minimum number of partners is two. *No minimum capital* is required.

**The limited partnership** has two categories of partners, general partners and limited partners. The general partners are deemed merchants and have unlimited personal liability. The limited partners are only liable for debts to the extent of their interest in the company’s capital.

**Limited Liability Company.** the merchants are liable for the company’s debt only to the extent of their interest in the company’s capital. There is no limit on the maximum number of associates. *The minimum capital requirement* for the establishment of a limited liability company is 100,000 lek (\$ 735 equivalent).

**Joint Stock companies.** There are two types of J.S.C.: with a public offer and without public offer. *The minimum capital requirement* for a J.S.C with a public offer is 10,000,000 (equivalent of \$ 73,500 at the rate of exchange of August 1999) and for a J.S.C without public offer is 2,000,000 lek (\$ 14,700 equivalent). The par value of the shares can be freely fixed in the articles.

#### **Court registration procedure**

1. Natural persons: are required to submit at the court the request for registration. The court within a month should give the answer to the request. After the court’s approval and payment of the register tax, natural persons are registered to the Trade Register.
2. Legal person: are required to submit at the court the:
  - Foundation Act
  - Statute
  - Certificate for payment of the initial capital in the bank (in cases of real estate and other in kind contribution, the expert’s report is needed)
  - Ownership/leasing contract for the place where the company will operate

**In one-month period the court should make the decision for approving the request. One copy of the court decision should go to the Chamber of Commerce and Industry. The set of the documents to be presented for the registration procedure in the Trade Register are:**

- Copy of the court decision for creation of the company
- Contract and the Statute of the Company
- Ownership/leasing contract for the place the company will be operation
- Certificate of the registration tax

### **Licensing**

1. **Natural persons:** The documents needed for the natural persons to get the license for their activity are:

- The decision of the court
- Attestation of the Labor Office
- Attestation of the Social Support Office
- Tax for Advertising
- Tax for exercising the activity
- Tax for the building
- Tax for rented land
- Tax for cleaning
- Property tax
- Bank account and the attestation of the bank
- Permission of the service of found inspection
- Hygiene-sanitary
- Registering casse
- Registration in the Office of Control of Measuring Means
- Registration of Statistic Regional Office

2. **Legal person:** The documents needed for the legal persons to get the license for their activity are:

- Statute of the company
- Act of foundation of the company
- The decision of the Tirana Court for Legal Person
- Attestation of the Social Support Office
- Contract with the Labor Office
- Attestation of Social Security Office
- Registration in “Chamber of Commerce and Industry”
- Tax for Advertising
- Tax for Exercising the activity
- Registering Casse
- Tax for the Building
- Tax for renting the land
- Tax for cleaning
- Opening of Bank account and the attestation of the bank
- Permission of the Service of Found Inspection
- Hygiene-Sanitary Permission

### **Registration in the tax office**

1. **Natural persons:** After registration in the Trade Register the natural persons should present a request for registration in the local tax office. Within 10 days the local tax office should give the tax certificate and the fiscal code.
2. **Legal person:** After registration in the Trade Register the legal persons should present a request for registration in the local tax office. Also, they should present the court decision of the company, certificate from the trade register and the bank account. After the verification of all the above documents an one year license and the certificate form NIPT which has the identification number of person that is needed for VAT payment is provided by the tax office.

### **Re-registration**

1. **Natural persons:** The re registration procedure follows the same procedures as for new registration adding that all the documents of tax payment of the last year are required. For businesses whose activities are performed in non permanent unit it is not required the bank account certificate.
2. **Legal person:** The documents to be submitted by the legal entities, to re register the business are:
  - The old license with 2 photos of the company's administrators
  - The full address of the firm
  - The contract with the social security office
  - The contract with the labor office
  - All the bills for the tax payment during the previous year
  - The bill for the rent payment in the previous year
  - All the permissions of the previous registration should be renewed and submitted.
  - The changes in the statute and in other acts of foundation should be presented after reflected in the trade register.

Source: Medium Term Strategy for the Development of Small and Medium Size Enterprises, Ministry of Economic Co-operation and Trade, Government of Albania, December 1999.

**APPENDIX 4**  
**EXTERNAL FINANCIAL SUPPORT FOR PRIVATE ENTERPRISE DEVELOPMENT**

*In 000 USD*

	<b>DONOR /PROJECT</b>	<b>Grants, Loans, Soft Loans</b>	<b>Aid Type</b>	<b>Year of Commitment (starting from)</b>	<b>Total Budget</b>	<b>Total Disbursement</b>	<b>Intermediary Institution</b>
	USA, USAID						
1.	SME Development	G	TA	1995	5,050	5,050	Albanian American Enterprise Fund
2.	TA to enterprises	G	TA	1992	655	655	
3.	Enterprise Fund	G	D	1995	22,600	21,600	
4.	Commercial Law	G	TA	1992	2,565	2,440	
	WORLD BANK						
1.	Private Industry Recovery	SL	D	1998	10,250	2,020	Tirana Bank (\$ 4,100)
2.	Rural and Urban Micro Credit Programmes	SL	D	1993	24,548	11,415	FEFAD (\$ 4,100) and ADF
	EIB						
1.	Credit Lines for Private Enterprise Investment	CL	D	1995	5,521	2,807	Italian Albanian Bank
	EBRD						
1.	Durres Industrial Park	G	D	1998	167	115	Tirana Bank and Italian Albanian Bank
2.	SME Recovery Credit Line	CL	D	1998	4,000	-	
	ISLAMIC DEVELOPMENT BANK						
1.	Rural and Urban Micro-credit Programmes	SL	D	1996	6,155	1,063	
	EC Phare						
1.	Support for Private Sector Development	G	TA	1992	5,103	5,067	
2.	Credit Lines for SME	G	D	1993	4,750	2,000	
3.	Rural and Urban Micro-Credit Programmes	G	D	1994	3,000	3,000	
4.	Durres Industrial Park	G	D	1995	1,213	29	
5.	Southern Cost Tourism Study	G	TA	1996	1,103	-	
	UNDP						
1.	Computer Aided Design Centre	G	TA	1994	317	317	
2.	Promoting Foreign Investments in Albania	G	TA	1994	413	390	
3.	Private Sector Development and Job Opportunities in Albania	G	TA	1996	477	400	

	DONOR /PROJECT	Grants, Loans, Soft Loans	Aid Type	Year of Commitment (starting from)	Total Budget	Total Disbursement	Intermediary Institution
4.	Enterprise Restructuring & Development of Competitive Conditions	G	TA	1998	983	-	
	IFAD						
1.	Rural and Urban Micro-Credit Programs	SL	D	1994	13,110	6,985	
	ITALY						
1.	Constitutional support to SME	G	TA	1998	1,138	-	
2.	TA for SME	G	TA	1993	569	-	
3.	Credit Line to SME	SL	D	1993	2,846	-	
4.	Commodity Aid	SL	CA	1998	9,108	-	
	AUSTRIA						
1.	Regional Tourism Master-plan	G	TA	1995	208	208	
	GERMANY						
1.	Credit lines	SL	D	1995	17,620	11,789	FEFAD (7 000 DEM)
2.	Commodity Aid	SL	CA	1993	3,746	3,746	National Commercial Bank
3.	Promotion of SME creation	G	TA	1993	5,377	2,970	National Commercial Bank
4.	Support to Private Initiatives in Rural Areas	G	TA	1999	545	-	
5.	Promotion of SMEs	SL	D	1993	6,042	2,098	
	JAPAN						
1.	Private Industry Recovery	G	D	1997	455	226	
2.	Micro credit	G	D	1998	400	190	ADF
	GREECE						
1.	Private Sector Support	SL	D	1998	17,012	-	Tirana Bank ( 5 million GDR)
	<b>TOTAL</b>				<b>177,241</b>	<b>86,725</b>	

**Legend:**

TA: Technical Assistance  
SL: Soft Loans

CA: Commodity Aid  
CL: Commercial Loans  
D: Development

G : Grant  
L: Loan

*Source:* Medium Term Strategy for the Development of Small and Medium Size Enterprises, Ministry of Economic Co-operation and Trade, Government of Albania, December 1999.

**APPENDIX 5**  
**GENERAL INFORMATION ABOUT THE FINANCIAL INSTITUTIONS IN ALBANIA**

	Name of the Bank	Year of Establishment	Legal Status	Credit Line Fund (000)	Max. Credit Amount Per Client (000)	Terms of credit		
						Collateral Requirement	Annual Interest Rate	Grace Period
1.	National Commercial Bank	1995	Public	Variable	\$ 2,000	100%	35% for C in leks 13% for C in USD	Up to one year
2.	Savings Bank	1992	Public	Quarterly 200,000 lek	70 ECU 172,000 lek	100-120%	41-43% (Lek)	Max 6 months
3.	Italian-Albanian Bank	1998	Joint Venture	Variable	Variable	150-200 %	9.5% USD 14.5% in It. Lira	6 months
4.	Dardania Bank	1993	Private	Not available	-	-	-	-
5.	Islamic Bank	1992	Private	Not available	-	-	-	-
6.	Tirana Bank	1997	Private	Variable	500USD 78,000 Lek 120,000GRD	Negotiable on 150% of Real Property	10% in USD 33% in Lek	Negotiable
7.	National Bank of Greece	1996	Private	Variable	120 DEM 10,000 Lek	150% of credit	12% DEM 34% Lek	Up to 6 months
8.	International Commercial Bank	1997	Private	Confidential information	200 USD	150%	10% in USD 29% in Lek	-
9.	Alpha Credit Bank	1998	Private	Confidential information	-	-	-	-
10.	American Bank of Albania	1998	Private	Confidential information	-	-	-	-
11.	FEFAD Bank	1999	Private	120 DEM 10,000 Lek	7,000DEM 1,100 USD	150% of Credit	12% in DEM 34-36% in Lek	Up to 6 months
12.	First Investment Bank	1999	Private					
13.	Albanian Development Fund	1993	Foundation	Grand from donors	2 USD 500 Lek	House, cattle solidarity	18-24 %	1-2 months
14.	International Finance Co-operation	-	Project Management Unit	Unlimited	Up to 2,500 USD	Negotiable	Libor + 3-5%	1-3 Years
15.	Albanian American Enterprise Fund	1996	Enterprise Fund	20,000 USD	250 up to 1,500	Min. 100% of credit	Not less than 15%	6 Months

*Source:* Medium Term Strategy for the Development of Small and Medium Size Enterprises, Ministry of Economic Co-operation and Trade, Government of Albania, December 1999.

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