

## **DISCUSSION on: “Albania: The future path to sustainable development”**

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This paper could just as easily have been entitled “The role of institutions on the prosperity of Albania”. The authors conclude a number of strengths and weakness for sustainable economic development in Albania. I agree. Our country, thanks to God, with a favourable geography position and with good natural resources needs only management skills and commitment to strong institutions in order to achieve a higher living standard. Over ten years in transition, both pessimism and optimism for the future are created. However, some positive shifts in economy and society have created some belief, that basis for the future sustainable development is going to be formed. One of the more creative definitions of sustainable development builds on three kinds of capital: economic, physical, and social/human. From this perspective, which is used by the World Bank, sustainable development entails passing on to future generations an equal or preferable enhanced stock of economic, social and human capital. This definition is a derivate of Brundtland Commission 1997 definition – “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. Thus, the role of institutions achieving this goal is of paramount importance.

Albania, as a country that during these transition years implemented policies according to the “Washington Consensus” theory requires more attention for the role of government in economic development. ‘What connected these policies was a belief that governments had played an overactive role in promoting development, taking on tasks best left to the private sector, and abusing powers best left unused. Widespread government intervention was not only unnecessary to promote growth, it was the chief barrier to achieving that growth’. Being part of this philosophy, the first years of transition in Albania towards the market economy has been associated with a misunderstanding belief “freedom to do everything besides respecting the rules”. The role of state has been misunderstood influencing the quality and effectiveness of the institutional development, as authors have mentioned.

What we have to know is if the current institutions in our country are in that stance that will help economic development. The authors have shown a clear picture about the role of institutions in economic development using academic literature and experiences in other countries with similar living standards compared with Albania. The authors, referring to the National Strategy for Social and Economic Development (NSSD), note that there is enough room to be done for institution building in Albania. There is to be noted that it is an important step that Albania has identified its weaknesses and measures with a writing document.

The importance of institutions quality on economic development can be summarised by using Douglas North definition “It is the mixture of formal and informal rules and enforcement characteristics that shape a society’s incentive structure”. The NSSD, MTF and other development documents undertaken by Albania institutions are the first sign for a sustainable economic growth. The ability of institutions to design policies for a medium term period can be seen as a measure of institutions quality.

As authors note, the fiscal policy has played an important role on economic growth. Its implications on economic growth are derived from tax reforms and expenditure reforms. The allocation and the quality of government expenditure will be an important factor pursuing economic growth. Increasing the level of investment on priority sectors and reducing the level of financing the budget deficit by household savings will foster economic growth.

Because of short time period, it is difficult to measure the impact of fiscal policy on economic growth in Albania. According to theory of growth there seems that growth rate will continue to be satisfactory in the future. The Harrod-Domar model posited a concrete and linear relationship between investment and growth rates worldwide. The data on investment growth rates support this relationship; the level of investment in Albania will continue to be higher. The Solow-Swan neoclassical growth model predicted that growth rates were dependent, not on investment, but the rate of technological change. Lucas’ (1988) formal model argued that human capital was the significant factor determining growth rates worldwide, while Rebelo (1990) suggested that, if countries invested in labour-augmenting human capital, returns on physical capital would not diminish, allowing growth to continue forever. This model has emphasized the importance of education.

The authors note that two of the main factors behind the economic growth over transition period have been the high inflow of expatriate remittances and the growth in tourism income. What to my mind the authors do not bring out sufficiently is whether these factors will remain important to foster economic growth in the future. I conclude with a brief analysis of why the current tourism situation is unlikely to guarantee a sustainable economic growth and what policies are needed to maintain the other key drivers of growth as are high level of expatriate remittances.

Albania faces regional competition in tourism from, for example Greece, Croatia, Turkey and Montenegro all of which have much more advanced infrastructure development for tourism and similar natural beauty to Albania. Therefore tourism is unlikely to be an important source of growth over the short run and medium run. Another interesting finding during this year is that the number of Albanian tourists going abroad has increased. To my mind the key problem is the lack of infrastructure, both in physic and human capital. The role of government should be to improve this infrastructure not through the level of public expenditure but also working closely with the private sector in improving the quality of service. This will be important for the longer term development of tourism.

Maintain the high inflow of expatriate remittances as a main factor for economic growth is expected to be a problem in the future. It is clear that this factor has been playing an important role for economic development in Albania, and nobody wants it to lose this role. The behaviour of different generations within expatriate families tells that with other things unchanged the level of expatriate remittances will decline in the future. All other things equal, this conclusion means that the economic development will suffer. Hence, what can we do to maintain this level high?

As emigrants are creating their own family in their host countries the level of remittances will decline. There are two possibilities to offset this negative impact, one to promote emigrants to come back in Albania and to benefit from their financial, human and social capital or the second, actively promoting the continued exportation of human capital. My suggestion is that we have to promote the second one and the first one will be a result. Reducing youth unemployment through emigration will reduce social problems in short run and as some of these individuals return with improved human and social capital will help economic development in the long run. It is important to remember that the export of human capital, the same with other goods, is faced with competition in world market. Thus, the first step should be to create an appropriate education policy in Albania to optimise the use of emigration for Albania's economic and social development. This conclusion brings out again the importance of education.

The education system looks to be the Archimede's Lever for socio-economic development. One issue to address is what level of education are we going to focus on? Are we going to emphasise pre-university or university education? Irish experience in promoting university education and postgraduate studies is a good example. The Irish Government provided a level of education, which prepared many of its citizens to emigrate successfully into an overseas labour market and also to be able to benefit from overseas graduate and post-graduate facilities. This was a key factor influencing economic growth in this country. In Albania, the number of students studying abroad coming back is still low, but it is important to note that in the last year the performance is improved.

Also, it is important to know the weakness and strengths of our education system and after that to formulate the necessary policies. It may be more beneficial to focus on pre-university education, or in professional education, for example learning the foreign languages or specialised on tourism services. It does it mean that the government has to increase the amount of money towards the education sector, but it requires the development of an education strategy with clear objectives. The education system in these years has been treated with priority, but more work has to be done.

As an indication of priority in the Medium Budget Program 2004-06 is noted "Spending on education is projected to increase from 3.0% of GDP in 2004 to 3.1% of GDP in 2006. The scope for increasing investment in education is expected to be quite limited as the level of donor financing to the sector is projected to fall as a number of major projects are

completed.” This treatment for education sector is seen as a fulfilling tasks highlighted on NSSED.

The MTBP 2004-2006 continue with:

“The strategy under NSSED of targeting higher wagebill increases for health and education will be continued. Salaries in these sectors are therefore due to increase proportionately faster than in other sectors over these two years. In all public services additional funds will be made available to support pay restructuring.”

The aim of Public Expenditure Management Reform in Albania is three fold: (i) to achieve fiscal stability – that is successfully achieved; (ii) ensuring strategic reallocation of resources – education spending as a percentage of GDP, compared with the countries in the region, is too low. This is changing as illustrated in the above two paragraphs and shows government commitments to this; and (iii) increasing efficiency and effectiveness of expenditures – this is the current challenge of Albania Government. This will require, for example, development of a clear education strategy which will address such issues as optimising Albania’s benefits from emigration as a source of growth.

Thus, it is clear that the Government is trying to design good policies for education sector. Apart from the Government policies in the last years, the young generation is seeing with much interest investing in human capital. This conclusion derived by an increasing number of competitors in university entering, a consideration number studying abroad and increasing number in our universities.

Finally, the authors note that Albania is ‘on course’ in relation to integration but it would be interesting to have analysed its implication on economic development. Of course, the integration process is seen with much interest from Albania but in meantime it poses major challenges. The main challenge will be the creation of competitiveness in integration market.