Assessment of the implications of the NUTS II delineation proposed by the Government of Albania on the Regional Development Programme Northern Albania

DRAFT

Shkodra, June 2011

Regional development Programme Northern Albania

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Abbreviations

ADA	Austrian Development Agency
DCM	Decision of Council of Ministers
DSDC	Department for Strategies and Donor Coordination of the Office of Prime Minister
EC	European Commission
ESA	European System of Accounts
EU	European Union
EUROSTAT	Statistical Office of the European Union
FAE	Foreign Active Enterprises
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoA	Government of Albania
GVA	Gross Value Added
INSTAT	Albanian Institute of Statistics
ISD	Integrated Support for Decentralization programme
LAG	Local Action Group/s
LGU	Local Government Unit
MoI	Ministry of Interior
NUTS	Nomenclature d'Unités Territoriales Statistiques
OVI	Objectively Verifiable Indicator
RD	Regional Development
RDA	Regional Development Agency
RDP	Regional Development Programme Northern Albania
SCO	Swiss Cooperation Office
UNDP	United Nations Development Programme

Executive Summary

Regional Development Programme Northern Albania, funded jointly by the Austrian Development Cooperation and the Swiss Cooperation Office is a 4 years programme, implemented in the qarks of Shkodra and Lezha, in strong partnership with the two respective qark councils, the Ministry of Interior and DSDC. The overall aim of the RDP is to "*contribute significantly to an equitable social and economic development in Shkodra and Lezha regions (overall objective) while improving 'equal access of citizens to quality public services and economic opportunities, in particular in disadvantaged areas through strengthening Qark institutions' (programme purpose).*" Achieving this objective is closely linked to Albanian aspirations to become a candidate country and subsequently a member state of the European Union.

Related to the future accession are the financial resources that Albania would be able to access to accelerate the development of a variety of fields. The key factor enabling the country to harness these financial resources will be the absorption capacity of Albania. RDP needs to focus its activities on contributing to further development over time of institutional framework for regional development and building relevant human resources capacities. The report provides an overview of the NUTS II concept, purpose, criteria and implications. The discussion on consequences to Albania, to the regional development, to the RDP and to Shkodra and Lezha qarks, is done in parallel to the description of the European concept of NUTS II.

The conclusions and recommendations contained in this report could be summarized as follows:

- From the equity point of view, the data on consumption remain a good indicator for measuring disparities between the regions and sub-regions. These GVA data can be taken into account for creating actions (within regional development) that reduce disparities among households (also areas) and thus reduce poverty.

- The regional accounts shall be established on qark basis. This is very positive for informing the national policy makers and the regional policy processes at the qark level. The qarks which constitute the NUTS III level. This level is in fact more precise in identifying the gaps or disparities than the NUTS II level and enable for more targeted approaches. Therefore there is no need for planning at NUTS II level (or creating the so called *planning regions).*

- Programming and initial EU funding allocation will be done by the central level according to specific programmes – therefore, **programming** will become a challenge at the centre. Regional and sub-regional challenge will be to prioritize, monitor/evaluate and harmonize regional priorities (bottom-up process) with central level programmes and sectoral priorities (top-down process). Future project design and implementation will be done by partnerships of LGUs, NGOs or LAGs with the assistance of RDAs but qarks need to be able to negotiate for funding reaching the sub-regional level (NUTS III).

- EU funding from EPA will also be allocated by the central level to the regions (or sub-regions).

- Capacity building to access and manage EU funds is a key issue. Designation of NUTS alone is mandatory at some point but not sufficient. It is the absorption capacity, which will determine how much funding eventually reaches Albania.

1. Introduction

Regional Development Programme for the Northern Albania is a 4 years programme, implemented in the regions[1] of Shkodra and Lezha, in strong partnership with the two respective regional councils, the Ministry of Interior and DSDC. The programme is supported by the Austrian Development Agency and the Swiss Cooperation Office in Albania, and it is implemented by the consortium of three organizations, namely OAR, Austria, Intercooperation, Switzerland, and Co-PLAN, Albania. The overall aim of the RDP is to "*contribute significantly to an equitable social and economic development in Shkodra and Lezha regions (overall objective) while improving 'equal access of citizens to quality public services and economic opportunities, in particular in disadvantaged areas through strengthening Qark institutions' (programme purpose).*"

RDP has 4 main pillars that correspond with its expected results. Given that qark councils constitute the main target of this project, the pillars are shaped to contribute to the strengthening of the role of qark councils within the decentralization framework in Albania, the strengthening of qark councils capacities to carry out regional development (as it is stipulated in several national strategic documents), and to the improvement of the decentralization and regional development policy framework.

RDP implementation started at the end of January 2011 and the project's Inception Phase would be finalised at the end of July 2011. The purpose of the Inception Phase is to help the project team to understand better the context, and to use this "new" knowledge for refining the project intervention logic. This refinement should adjust the project to achieve the expected results in a meaningful fashion and thus to ensure successful implementation of the project. As part of the Inception Phase, a series of six in-depth assessments have been undertaken by the project team. These assessments include the following: poverty assessment, institutional/capacity development assessment, regional planning assessment, RDP fund assessment, gender assessment and an assessment on the implications of the NUTS II delineation.

This report is about assessing the implications of the NUTS II delineation scenario that has been proposed by the Government of Albania, on the RDP implementation, on the future development of Lezha and Shkodra qarks as well as on the regional development in Albania in general. The report provides an overview of the NUTS II concept, purpose, criteria and implications. The discussion on consequences to Albania, to the regional development, to the RDP and to Shkodra and Lezha qarks, is done in parallel to the description of the European concept of NUTS II. The report goes briefly through the description of the statistical dataset to be prepared under the European System of Accounts 1995 (ESA 95). Findings would be discussed at the Planning Workshop to arrive at a clear recommendation for the RDP implementation.

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[1] Instead of region, in order to comply with the Albanian terminology and understanding of the territorial area of the sub-national government (otherwise and legally known as the local government of the second level), the authors shall use the word "qark". Whenever the government and the respective administrative structure that operates at the qark level is described, the authors shall use interchangeably "qark council" or "regional council".

2. NUTS II and the case of Albania

2.1 What is NUTS II?

NUTS is the abbreviation of "Nomenclature d'Unités Territoriales Statistiques" and it is a classification introduced by the European Union, to arrive at a standardized delineation of sub-national regions in the European Union for three main purposes:

1. Collection, elaboration and harmonization of EU regional statistics,
2. Socio-economic analyses of regions in a EU perspective,
3. Framing of the EU Regional Policies and allocation of development funds.

However, it must be made clear that *the terminology of "NUTS" is used only for member states of the European Union*. If the country has not yet adhered to the EU, as it is the case of Albania[2], a label *"statistical units"* should rather be used instead of NUTS.

The NUTS classification involves three hierarchical levels as well as two levels for local administrative units (LAU). Member States can have the latter, where they consider it necessary[3]. The three major levels are:
- NUTS I – major socio-economic regions,
- NUTS II – basic regions for the application of regional policies (cohesion reports are prepared at this level),
- NUTS III – small regions for specific diagnoses.

Each of the levels is within indicative minimum and maximum population thresholds.

Table 1: EU guidelines on NUTS classification population thresholds

Level	Minimum number of inhabitants	Maximum number of inhabitants
NUTS I	3 million	7 million
NUTS II	800.000	3 million
NUTS III	150.000	800.000

Source: Regulation EC no.1059/2003

2.2 Statistical Requirements - ESA 95

The European System of National and Regional Accounts (1995 ESA, or simply: ESA) is an internationally compatible accounting framework for a systematic and detailed description of a total economy (that is a region, country or group of countries), its components and its relation to other

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[2] In this report, for ease of terminology, the authors will use the "NUTS" label. However, it should be noted that this is not to be formally used until a country becomes a member state of the EU

[3] (EC) No 1059/2003

total economies. ESA 95 has been adopted in the form of a Council Regulation dated 25 June 1996. All EU member states are required to comply with the European System of Accounts 1995 (ESA95), which includes Regional Accounts. ESA 95 is currently being updated, and the requirements are also changing. The results of this joint effort by the European statistical system and respective Statistical institutions of the member states *will be an essential tool for formulating and implementing the entire range of European Community policies, whether economic, agricultural, regional, social, commercial or environmental.* The ESA framework can be used to analyze and evaluate: the structure of a total economy, specific parts or aspects of a total economy, the development of a total economy over time and a total economy in relation to other total economies. However, the most important reason for using ESA framework is extending monetary support to regions in the EU: *the expenditure for the Structural Funds of the EU is partly based on regionalized national accounts figures;* Under ESA 95, a country should provide the GVA (Gross Value Added)[4] figures at NUTS II and III level and then it is the Eurostat that takes the national GDP figures of the countries and uses the respective regional GVA to allocate the national GDP to regions proportionately to GVA. It is the Albanian Institute of Statistics (INSTAT) that is leading the process for ESA 95 data collection and will provide the dataset required (such as GVA, employment etc.,) at the NUTS II and NUTS III level to Eurostat.

2.3 Stages of the Process in Albania

At the moment, Albania is still a **potential candidate** country of the EU. As soon as it receives the status of a candidate country, it will hold discussions with Eurostat about its regional classification for statistics as per the Decision of the Council of Ministers (DCM) no. 1037, date 15.12.2010 for the Implementation of the nomenclature "Albania in (3) three NUTS II regions". Once becoming a candidate to the EU, the agreed Albanian classification of "statistical regions" shall facilitate the collection of comparable regional statistics over the entire accession process. To establish the NUTS regions and/or assess any changes proposed by the states, Eurostat takes into account the provisions in the NUTS Regulation, in particular the population thresholds referred to in Article 3.2. of EC 1059/2003 Regulation. Changes to the NUTS classification/delineation are limited to a frequency of every three years at the most. *However, the fundamental approach is to keep the NUTS classification as stable as possible in order to maintain continuity in statistical time series*. Experience with other candidate countries has shown that the duration of EU discussions with the candidate country will depend on the country's proposal and the extent the latter complies with the following criteria:

- For the definition of territorial units the delineation should essentially be based on existing administrative units[5] within the country. This is a normative criterion. For practical reasons,

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[4] "GDP is normally measured at market prices and it is equal to GVA plus taxes on products minus subsidies on products. GVA is the value generated by any unit engaged in production and the contribution of individual sectors or industries in GDP. It is measured at basic prices, thus excluding taxes and subsidies on products. GVA and GDP are therefore similar, but valued differently, i.e. at basic prices and market prices respectively." Virdee, D. and Girejko, R., (2010), "*Albania Regional Accounts*", Integrated Support for Development, UNDP project.

[5] "Administrative unit" shall mean a geographical area with an administrative authority that has the power to take administrative or policy decisions for that area within the legal and institutional framework of the Member State.

the NUTS II delineation ought to be based on the administrative divisions applied in the country;

- The average size of this class of administrative units in a Member State shall lie within the population thresholds referred to in Table 1 of this report;
- If for a given level of NUTS, no administrative units of a suitable scale exist in a candidate state, then this NUTS level shall be constituted by aggregating an appropriate number of existing smaller contiguous administrative units. This aggregation shall take into consideration such relevant criteria as geographical, socio-economic, historical, cultural or environmental circumstances;
- These "non-administrative units" shall lie within the population thresholds referred to in Table 1;

The final classification of NUTS regions is to be adopted at the time of the accession.

2.4 Why Albania should designate the NUTS regions?

EU Statistical Regulations (including NUTS) have a legal status and are treated as laws that require compliance, and therefore, are theoretically enforceable by courts. This constitutes one of the reasons why the NUTS delineation in the EU member states, and the ones aspiring to be part of the Union, must be performed.

Second, the NUTS delineation serves the EU as an orientation for implementation of its policies and allocation of funds. When a country becomes a member state of the Community, the Structural Funds are distributed at the NUTS II level, under the (Objective 1) Convergence objective. The NUTS III level includes the areas eligible under other priority objectives. It is the level of the GDP value per each NUTS II region that will determine the eligibility of the region to benefit from the development funds over time. Regions at level 2 of the NUTS classification, whose GDP (Gross Domestic Product) per inhabitant is less than 75% of the Community average (i.e. so far comparison is made with EU27, whose average GDP is considered as 100%), are eligible for funding under the Convergence objective (Objective 1 out of the three objective of the Structural Funds). IPA funds for regional development, theoretically, are also made available based on the delineation of the statistical areas – the future NUTS II.

The above argument is sufficient for a country like Albania, which is aspiring to access EU, to decide including NUTS subdivision as a mandatory action in its policies. However, the experience of other countries has also shown that *for the programming and allocation of IPA funds in pre-accession countries and the programming and allocation of resources from the structural funds in the first programming period in new member states, **the NUTS level data have almost never been taken into consideration**. This is not to say that NUTS are not needed in reality. On the contrary, it simply shows that the regions of a country are fully and practically eligible to access EU funds **directly**, when NUTS are designated and capacities to access and manage funds are also in place. So, in the initial phase, while the regional indicators/accounts shall be used to classify the eligibility or regions/country for the appropriate objective, as a matter of fact the access to fund shall happen at national level. Institutional and operational capacities are the key reason behind this trend.

2.5 NUTS II Scenario for Albania

2.5.1 The Decision of the Council of Ministers

New member states negotiate their NUTS structure bilaterally with Eurostat before accession, and the agreed structure formally becomes a part of the Regulation (or Accession Treaty) when a country joins the EU.

The Government of Albania has already prepared a proposal. The DCM no. 1037, dated 15.12.2010 for the Implementation of the nomenclature "Albania in (3) three NUTS II regions", as per the Nomenclature of the territorial units for the statistics (NUTS) of the European Union, states that the three (3) NUTS II regions in Albania are:

a) North, meaning qarks of Durrës, Shkodër, Lezhë, Dibër and Kukës;
b) Centre, meaning qarks of Tiranë and Elbasan;
c) South, meaning qarks of Berat, Korcë, Fier, Vlorë and Gjirokastër.

The population of Albania (estimated at around 3.2 million in 2009[6]) certainly justifies the existence of 3 (three) NUTS II units, while the whole country is one NUTS I region. Each qark is considered a NUTS III, thus belonging to the third level of NUTS classification.

Table 2: Population at NUTS II level proposed in Albania (according to 2009 estimates)

Level	Population	%	Area (km^2)	%	Inhabitants/km^2
North	926,381	29%	10,908	38%	85.7
Centre	1,149,990	36%	2,418	17%	235.7
South	1,118,046	35%	12,989	45%	86

Source: INSTAT 2011 (Regional Accounts in Albania)

INSTAT, the line ministries and the central institutions are charged with implementing this decision and have prepared the first GDP per capita and GVA figures at NUTS II level. Another important issue in the NUTS delineation discussion in Albania is the necessary timeframe of that decision, which is related to the provision of per capita GDP data at NUTS II level. The obligation of the GoA has been to provide these data within 2011 (i.e. within 5 years after the Interim Agreement on Trade and Trade-related Aspects entered into force). In June 2006 a Stabilisation and Association Agreement (SAA) between the EU and Albania was signed but **it entered into force in April 2009**. At that time, the SAA **superseded** the Interim Agreement on Trade and Trade-related Aspects, which entered into force in December 2006.

An excerpt from Article 71 Paragraph 7 of the SAA between EU and Albania clearly states:

*Within **five years from the date of entry into force of this Agreement**, Albania shall submit to the Commission of the European Communities its GDP per capita figures harmonized at NUTS II level. The authority referred to in paragraph 4 and the Commission of the European Communities shall then*

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[6] INSTAT estimate prior to Census 2011. The Census data, which are expected to be published in end 2011 or beginning 2012, might also show a different picture.

jointly evaluate the eligibility of the regions of Albania as well as the maximum aid intensities in relation thereto in order to draw up the regional aid map on the basis of the relevant Community guidelines.

Therefore, the new deadline for the provision of information at the proposed NUTS II level is December 2014. It is at that time that the delineation of NUTS II regions in Albania would actually become relevant. A potential danger related to the early (2010) adoption of the NUTS delineation is related to the fact that the country is facing a national census at the end of 2011. The outcome of the population census shall provide much more reliable population figures both for Albania as a whole (if population is below 3 million than 1 NUTS II region could be a real option) and for the qarks (this could have important implications for the configuration of multiple NUTS II regions).

However, the first publication of INSTAT on regional accounts was made available in the second half of 2011. It contains GDP and GVA data, at national and regional level (for all three NUTS levels) from the year 2000 to the year 2009. However, it does not make predictions for the future trend of regional GDP (crucial to political decision-making on when Albania or the NUTS II regions become eligible for the different objectives/funds). On the other hand, the publication lists some further work that need to be done to improve the regional accounts and also to show how the information need to be gathered and analysed.

2.5.2 Statistical versus administrative regions

The political, administrative and institutional context must be recognised and followed. In many cases, for practical reasons, the NUTS classification is based on the administrative subdivisions in a given country. In the case of Albania, due to size, qarks are eligible only for NUTS III classification. This means that NUTS II shall be formed based on the aggregation of adjacent (contiguous) qark territories. In fact, this has been the case with the above proposal of GoA based on the 2008 population estimates. *It must be pointed out that the criteria for the non-administrative units are typically applied in a more restrictive fashion as compared with delineation based on administrative regions.* This was for example the case of Croatia, whose two proposals of the level 2 (non-administrative) regions did not comply with the size criteria, and also the case of the FYROM, **(Report (EC) 1059/2003) and essentially would not be met with formal approval.** A variety of international experience of the ten EEC transition countries, which have joined the EU in 2004, is presented in **Annex 1** to this report.

The NUTS classification is reviewed and possibly updated when needed once in every three years. However, the EU has the tendency to keep a constant division in order to maintain continuity of comparable time series of data and avoid certain statistical breaks in data. Eurostat and the Commission Directorate responsible for the NUTS structure, is increasingly reluctant to accept changes without strong justification, particularly driven by administrative change. Given that in Albania there is an ongoing debate on a future/potential territorial and administrative reform, it might also happen that the proposed NUTS II subdivision goes through a reconfiguration process in the future. It is however very difficult to predict when this may take place, because while the debate on territorial reform is quite salient, for a number of years it remains just a debate, without specific legislative actions to follow. Political willingness to push for the change seems to be often hampered

by some repeated strong political divergences in Albania. This creates an environment where the interests and attention of both the government and the political class constantly shift away from the key issues of territorial governance and administration.

2.5.3 Description of the current scenario of NUTS II proposal for Albania

Albania's proposal is for the three NUTS II regions, namely the North, the Centre and the South, already presented in section 2.5.1 and in the table 2. Therefore, it is the SAA that practically defines the time when Albania's proposal shall be presented to Eurostat and not, as some suggest, once Albania becomes a candidate country for the EU. Then, discussions would be held in order for Eurostat to verify that all the criteria are met and the final adoption of the NUTS classification will happen only when Albania becomes a member state. Until then, there is a great number of statistical indicators to be generated at the level of the three NUTS II and also NUTS III (i.e. qark). The first obligation is to produce the GVA at NUTS II level within 2014, while an initial response to this obligation is made available as of 2011.

The scenario is as follows: the process starts certainly with the qark (NUTS III) level and the data are then aggregated at NUTS II level. For the moment, INSTAT has already started with calculations at the qark level in order to produce the GVA and GDP for the future three statistical units. These data have been made public by this institution in the second half of 2011. The current absence of (future) trend analysis within these statistical units, makes it difficult to predict their future eligibility for structural funds over time. There is a need to consider which areas are likely to have most rapid growth and which are likely to continue to have relatively low GDP per head for some time. On the other hand, the initial calculations of the regional accounts need further improvement and enlargement (as stipulated in the INSTAT report), while the Census of 2011 could also lead to a different trend analysis from the one it can be done based on current INSTAT data.

For the time being, one could refer to the analysis that the UNDP ISD project made on economic regional disparities between the qarks[7]. This analysis shows that the qark of Durrës is ranked in the group of secondary growth poles (the second after Tirana, as the national economic growth centre), while Dibër and Kukës (as qarks of the same NUTS II region North) have the lowest economic performance. Shkodra and Lezha are ranked higher than the latter (i.e. labelled as those with mixed economic performance), however, they have the lowest values of the mid-range group of qarks where they belong (thus, Kukës and Dibër are immediately after Shkodra and Lezha). Of course this is a classification of overall typologies of economic performance and development of the qarks, and it is based on the employment ratios, some estimated GDPs[8], the FDI, strength of economic sectors,

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[7] "Regional Disparities in Albania", 2010, Integrated Support for Decentralization – Working for Regional Development, EU and UNDP co-funded, implemented by UNDP in partnership with the Government of Albania.

[8] These are not official GDP figures as at the time that ISD prepared the regional disparities analysis (2009), INSTAT had no official data on GDP per capita per qark. For this reason, the ISD project calculated GDP per capita per qark, by using indirect data, i.e. consumption shares, combined with credits to businesses and employment in non-agriculture private sector. Details on the formula are found in the publication "Regional Disparities in Albania". We shall make use of these estimated GDP figures in this report, though we remain aware that the figures can also distort the real situation and that a final assessment of the proposed NUTS II scenario can only be made based on official INSTAT GDP figures, whenever these shall be made available.

etc. - indicators that are calculated separately for each qark. Based on the ISD data, in 2007 Durrës generated 10.8% (9.3% as per INSTAT report 2011) of the national GDP[9], Dibër 2.6% (2.8% as per INSTAT), Kukës 1.8% (2.3% as per INSTAT), Lezha 3.9% (3.6% as per INSTAT) and Shkodra 7.3%[10] (5.9% as per INSTAT). If we look at the data (regional disparities report makes use of INSTAT data) on employment per economic sector in 2008, Durrës Shkodra and Lezha have employment in private agriculture sector below 50%, while Dibër (55.8%) and Kukës (65.8%) are both above. In terms of FDI, ISD based its analysis on the data of the National Centre for Business Registration, estimates of Foreign Active Enterprises per 10,000 inhabitants. Shkodra, Lezha, Dibër and Kukës have indexed values of FAE below 34% compared to the country average (100%) for 2008, while Durrës stands at 106%[11]. Last but not least, it is also interesting to look at the data on newly created enterprises between 2001 and 2008, where the national increase is 4.5 times, while Shkodra, Lezha and Kukës have an impressive growth of approximately 15 times and Dibër 9 times. The reason for the latter could partially be the improvement in public investments for these regions and increased physical access to Tirana, especially after 2005.

We have referred to the INSTAT estimations of regional GDP per capita for building a potential scenario for GDP performance in the next 15 years, if the proposed NUTS II subdivision of Albania is eventually approved by the EU. The hypothesis we want to check is whether Albania and the three proposed NUTS II regions shall reach the 75% of the EU average GDP in the next 15 years, and what could be the difference between the three regions. Some assumptions of growth have been made, and population projections are not based in Census 2011, but on the formula used by INSTAT based on Census 2001.

Table 3: Projections of regional GDP per head in PPS, EU 27 = 100

NUTS II	2009	2014	2019	2024
Tirana and Elbasan	35.8	54.1	82.0	124.5
Durrës and the North	23.9	30.8	41.4	55.6
South	23.1	31.0	41.7	56.0
Albania	**27.6**	**39.2**	**56.0**	**80.4**

The above table with estimates is also presented graphically in Graph 1. The forecast shows that Albania shall have a GDP higher than the 75% of the EU average, only after some 13 years from now (2011). By 2019, only Tirana and Elbasan region (the Centre), shall have a regional GDP that is higher than the 75% of the EU average. Possibly by 2024, all of the regions shall surpass the 75% of the EU average threshhold. However, the forecast is based on certain trend assumptions, and it does not

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[9] Please, compare also with Tirana, which generated 36.1% based on ISD calculations, or more precisely based on INSTAT calculations for 2007, it generated 38.4% of the national GDP. In case of GDP we are referring both, the ISD estimations and INSTAT figures, because the official figures are those of INSTAT, but all the other indicators and the reasoning are employed by the ISD report on regional disparities (also based on INSTAT). Thus, in order to be as much consistent as possible we shall refer both sources.

[10] Kukës and Dibër and Gjirokastra have the three lowest contributions in 2007, based on INSTAT report for regional accounts in Albania, 2011.

[11] Shkodra 34%, Lezha 19%, Kukës 14% and Dibër 13% (this is the lowest value).

consider the risks that might evolve due to possible regional (Balkan) economic crisis (the case of Greece, etc.).

Graph 1: NUTS II GDP scenarios for Albania in the period of 2009 – 2024
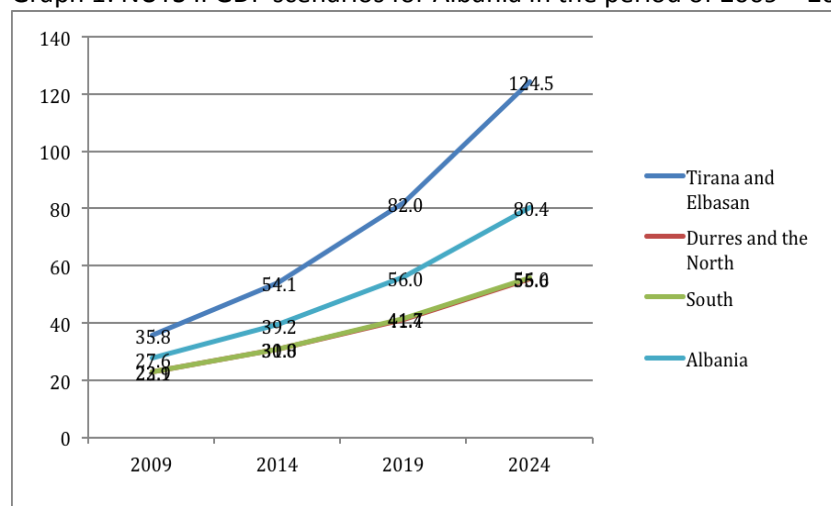
Source: INSTAT, Regional Accounts in Albania, 2011

3. Potential NUTS II implications for RD in Albania and the Qarks

NUTS delineation in Albania is a political and technical action of great importance for the future integration in the European Union. This is so, not merely for the comparison purposes between Albanian and other EU regions, but because one of the crucial aims of the NUTS classification is the framing of the Community's Cohesion Policy and allocation of development funds (for the member states). In this respect and keeping in mind that the processes for finalizing and approving NUTS classification take considerable time, it is very positive that Albania has already engaged and made a proposal to EU on the statistical regions that are supposed to match with the future NUTS II in Albania.

The NUTS subdivision preferably fits with the existing administrative regional subdivision. However, in countries where the latter are too small, a merge of the administrative regions is made to come to an eligible NUTS classification. This is also the case for Albania. NUTS III correspond with qarks that are administrative subdivisions, while NUTS II are created out of a statistical merge of two or more qarks. In this case, the NUTS II regions are created for statistical, planning and policy purposes, and are not administrative regions. From this point of view, the proposed NUTS II subdivision in Albania should not have any consequence/implication either on the qark councils, or on the local government structures in general. Nevertheless, as territorial reform and regionalization of Albania are, since several years, important topics of the political agenda (though politically very sensitive and thus always postponed in terms of practical action), if these enter the implementation stage of the policy cycle, it is important to consider the following:

- Shall Albania match these future administrative regions with the currently proposed NUTS II regions (assuming this proposal is approved by EU), or it will rather change its NUTS II classification to fit with the future administrative regions?
- If the future administrative regions were to correspond with the currently proposed NUTS II regions, then definitely there will be implications for the qarks that constitute these NUTS II regions. These implications could include:
    - *political and administrative*: Durrës or Shkodra hosting the administrative centres – on which criteria shall this decision be made and what about the political representation of the areas (qark, or municipal/communal level)?;
    - *cultural:* administrative centre located in the north or south – Durrës and the northern areas do not share cultural or historical ties;
    - *economic and social*: development levels vary substantially between Durrës and the other qarks – there is a risk of creating growth poles (Durrës), rather than having regional development that considers simultaneously efficiency and equity. Even in the best case scenario, where the whole coast from Shkodra to Durrës is considered a growth pole, the rest of the region is substantially large to live on subsidies, or be left apart to undergo economic and social depression;
    - *environmental and spatial*: the four northern qarks share 2 adjacent river basins, where Shkodra, Lezha and Kukës are in the Drini basin, while Dibër is located in both Drini and Mati basins. Durrës, on the other hand is located in Erzeni-Ishmi river basin together with Tirana. Natural features and also economic development and potential pollution over these watersheds are extremely different.

European Union administers its cohesion policy and respective funds through the NUTS II classification. As a rule, when the GPD of a NUTS II region surpasses the threshold of the 75% of the EU average, less support shall be made available from the EU-Structural Funds (the region shall move away from the Convergence objective, which has more than 80% of structural funds and become eligible for the other two objectives – competitiveness and territorial cooperation). Of course this statement is made under the currently prevailing policy context, where Albania is far below the 75% of the EU average and would qualify for support under the "Convergence" objective (objective 1). Within the cohesion policy, the "Convergence" objective includes 81.5% of the structural funds. If the NUTS II region surpasses the 75% of the EU average GDP, it becomes eligible for funds from the "Regional Competitiveness" objective, which currently constitute 16%[12] of the structural funds.

It is crucial for a country to decide on its NUTS II classification (apart from the criteria set by the EC regulation) based on the above criteria. Tirana and Durrës are nowadays the economic engines of the country. Having them for example in one NUTS II and assuming that their development shall maintain the same or higher pace, means that eligibility for funds under the "Convergence" objective shall have a shorter life-span. Possibly to avoid this, GoA has assigned Durrës and Tirana into two separate NUTS II regions, and associated both of them with much poorer qarks. Generally, from the point of view of funds availability, this would be a good way to increase the period of benefiting from "Convergence" funds. However, from the regional point of view, it remains to be

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[12] http://ec.europa.eu/regional_policy/how/index_en.cfm

analysed and discussed. By combining into one region Durrës and the North qarks, and leave the South separately, the development impact will depend very much on whether growth is concentrated in certain specific areas within these two regions (growth poles and thus higher disparities) or is spread more evenly (regional equity). For example, if Durrës happens to grow rapidly and the rest of the respective NUTS II region does not, then eligibility for structural funds could last longer (positive aspect), but absorption capacity would be questionable (most probably low) compared to other NUTS II regions in Albania or in the Balkans. Time of eligibility for funds is important, but real absorption ability would depend on the institutional capacities of the region/qark councils to manage EU funded projects, thus on a harmonised development rather than growth poles.

As we notice from the table below, the regional GDP in 2009 at its lowest level for the North region (NUTS II level). At NUTS III level, Dibër and Lezhë have the lowest GDP in 2009, not only within the North region, but also at national level. These data show as a consequence that a slower growth of the region is expected, giving it the possibility to benefit from the structural funds for a longer period, until it reaches the 75% of the EU GDP. INSTAT data show that GDP growth per year (real economic growth from 2000 to 2009) for the North is 5.7% as compared to 6.3% for the Centre and 5.0% for the South. Nevertheless, the bases of the calculation (qark and NUTS II GDP for 2000 and the annual ones until 2009) are lower for the North than for the other 2 regions. The regional GDP estimates from INSTAT, show the Albanian GDP at the level of 27.6% of the EU average GDP for 2009. Our forecasts show that the closest dates for reaching the 75% are 2019 (the Centre) and 2024 (Albania). Inclusion of the qark of Durrës into the north region ensures some equity among the NUTS II regions, but on the other hand it splits Tirana and Durrës, which are the strongest economic ties in the country. The latter may be dangerous for the overall economic performance of Albania.

Table 4: GDP levels in the qarks of the Northern Region, and at NUTS II level

Qark	GDP p.c in Euro
Durrës	2,566
Dibër	1,876
Kukës	2,537
Lezhë	2,041
Shkodër	2,175
North	2,268
Centre	3,540
South	2,283

Source: INSTAT, Regional accounts in Albania, 2011

Finally, the regional statistical accounts in Albania are and shall be delivered by INSTAT on the qark (NUTS III) and NUTS II basis. This also means that disparities can be measured and addressed at qark territorial level. The qark councils are not expected to generate statistics for these accounts, unless otherwise required in the future by the GoA and INSTAT. If that were to happen, qark council would have a delegated function to perform and of course some capacity building should be delivered prior to carrying out the function.

Nevertheless, the above discussion on implications remains very hypothetical. First of all, Albania has to become a member state to benefit from structural funds, and only then the whole GDP discussion becomes practical for any decision-making. Of course, regional statistics have to be generated as of now, but the benefit from structural funds based on the regional GDP, remains a long-term issue and thus very hard to predict. As of now, major efforts should be put into improving the institutional framework and strengthening capacities for managing and implementing IPA funds. ***It will be the pace of absorbing and <u>using</u> IPA money that will determine Albania's progress toward the EU accession and consequently, to the earliest funding that becomes available right after the accession takes place - the EU structural funds.*** It would be at that moment that the GDP of each of the NUTS II regions, in relation to the regional average of EU GDP, would define the regions' eligibility for the structural funds and also the length of time for the availability of these funds for a respective region. However, it needs to be mentioned that the experiences of many countries differ from one another. Most likely, for Albania it would depend on the individual performance and progress on the way towards the EU integration under many relevant chapters, in addition to all the statistical requirements. At the same time, it is obvious that numerous additional criteria would also have to be fulfilled for the future integration. Adding to the uncertainty is that the whole discussion of benefiting from the structural funds is based on the current EU policy context, and this context may very well change before the year 2024 when Albania shall reach the 75% of the EU average GDP (based on the current estimates and forecasts burdened by possibly high margin of error).

Last, but not least, the statistical accounts shall be generated at the qark level and this is beneficial from the point of view of shaping domestic regional policies that aim to decrease disparities among qarks. However, data generation remains with INSTAT and so far no role is foreseen for qark councils.

4. Recommendations

4.1 General recommendations

The delineation of NUTS II regions in Albania as proposed by the government follows the EU criteria related to population numbers in each of the NUTS II regions. Given the size of the qarks in central Albania, there is hardly any other option. Nevertheless, the situation may change when the results of the anticipated 2011 national census do come in. In particular, the census may create other options, such as Albania becoming a single NUTS I and at the same time NUTS II region. This could create new options for directing resources to those areas that need them most in the context of poverty alleviation or development of certain sectors.

Data on consumption remain a good indicator for measuring disparities, By adding also the regional GDP and GVA, as well as data on employment and poverty (if the latter shall be provided also at qark level), RDP can have a more sound bases for creating actions (within regional development) that reduce disparities among households (also areas) and thus reduce poverty.

There is no need for strategic planning (and therefore for the so-called planning regions) at NUTS II level. This would create a weak virtual structure superimposed over the qarks, which by themselves need strengthening. The regional accounts shall be established on qark basis. This is very positive for informing the national policy makers and the regional policy processes at the qark level.

Programming and the initial EU funding allocations will be done by the central level according to specific programmes – therefore, programming will become a challenge at the centre (national government). **Regional and sub-regional challenge will be to prioritize, monitor/evaluate and harmonize regional priorities (bottom-up process) with central level programmes and sectoral priorities (top-down process).** Future project design and implementation will be done by LGUs, or possible LAGs with the assistance of RDAs, but qarks need to be able to negotiate for funding reaching the sub-regional level (NUTS III).

RDP work goes in line with this philosophy. The proposed institutional framework for regional development and the re-defined strategic role of these institutions would be fully consistent with anticipated needs and requirements of regional development under evolving circumstances.

Over the period of next several years there will be a need for new or modified legislation (both primary and secondary). RDP would suggest a gradual change over time and not related to NUTS directly, but rather to make the governance framework more conducive to regional development under the NUTS system. Also, rework of the central level procedures for resource allocation (eg. the Regional Development Fund allocation procedures) would have to be undertaken to strengthen the regional character of the projects slotted for funding. EU funding from IPA will also be allocated by the central level to the regions (or sub-regions).

Capacity building to access and manage EU funds is a key issue for Albania. Designation of NUTS alone is mandatory at some point, but not sufficient. It is the **absorption capacity**, which will determine how much funding eventually reaches Albania. RDP will focus its activities to develop these capacities in Northern Albania.

4.2 Recommendations for the RDP intervention logic

The conclusions from this assessment show that RDP shall be affected from the NUTS II delineation to a lesser extent than from other subjects that are dealt with in the other assessments of the inception phase. However, based on the above recommendations, we can propose the following regarding the RDP intervention logic.

Table 5: Proposed modifications/detailing for the RDP intervention logic

RDP expected results	Activity/Output	OVI
ER 1: Effective institutional framework for decentralization, supported.	Prepare a policy document on the revised role of qarks and supporting institutions for Regional Development;	The practice of of prioritization, harmonization, monitoring and evaluation of regional and sub-regional priorities in line with EU funding is adopted by the

	Provide policy recommendations on the revision of the existing RDF, to introduce processes of prioritization, harmonization, monitoring and evaluation of regional and sub-regional priorities in line with EU funding.	RDF and one legal act that on either the revised role of qarks or on regional development.
ER 2: Capacities of qark councils and local stakeholders for RD are strengthened.	Provide training and coaching on the role of LGUs, qark (sub-regional) and NUTS II regions in the administrative context of Albania, to qark councils, the future RDA and selected LGUs.	The two qark councils have prepared at least 1 social economic analysis by making use of the regional accounts (indicators);
ER 3: Comprehensive and harmonised regional development planning, budgeting and monitoring processes are developed and institutionalised.	Coach the two qark councils and selected LGUs in the prioritization, harmonization, monitoring and evaluation of regional and sub-regional priorities in line with EU funding, the domestic needs and the opportunities provided by the RDF.	An action plan for both the regional development concepts of both qarks, is adopted by the qark councils and under implementation;
ER 4: Bottom-up endogenous regional development is tested and accelerated through project initiatives and effective implementation.	Select projects for the implementation under window 1 and 2 of the RDP fund, by using also regional accounts (indicators) as criteria for success.	At least 1 indicator from the regional accounts is included in the projects selection criteria.

5. Annexes

5.1 Regionalization as part of the EU accession strategy[13]

The main challenge for the pre-candidate and candidate countries is to be prepared to join the EU under the best possible conditions. This means meeting all requirements regarding EU law enforcement, attaining a sufficient level of competitiveness and being able to take best advantage of EU structural funds granted to help the country to upgrade its economic potential and smooth the restructuring process. It is clear that those countries that have joined the EU in 2004, including Hungary, Lithuania, Poland and Slovakia, have been treated as Objective 1 (currently Convergence Objective) regions, according to the EU general regulation on structural funds (1260/1999, June 21, 1999). Objective 1 was aimed at promoting the development and structural adjustment of economically backward regions. It covered all regions corresponding to level II of the EU's nomenclature of statistical territorial units (*Nomenclature des Unités Territoriales Statistiques* or NUTS) where the GDP per capita in terms of purchasing power is lower than 75% of the EU average for the last three years. **The need to define regional statistical units in the candidate countries in accordance with EU terminology, upon which the allocation of structural funds for the regional policy is based, has no necessary implications, in law or in fact, for the reform of government levels**, as discussed in the section below. Indeed, the true challenge is not the regional organization, but the functional capacity for programming, which is required for the implementation of structural funds. Programming should create opportunities to finance projects, and this in turn and indirectly may have implications on governance in order to support initiatives.

Regional Development Policy and Regional Units

The EU regional development policy is based on the NUTS hierarchy of statistical territorial units, with three regional levels and two local levels. Among regional levels, NUTS I corresponds usually to large areas within a country, or the national level for smaller countries (Luxembourg, Denmark, and Ireland) and Sweden. NUTS II corresponds to the larger regional level and NUTS III to a smaller regional level. Data is collected and compiled for each level, in order to provide a set of indicators that are calculated in each country on the basis of comparable statistical units. The NUTS classification has no legal value *per se*, although it has been used since 1988 for the implementation of structural funds. Among local levels, NUTS V corresponds to the municipal level, which is very much heterogeneous among member states, and NUTS IV exists only in some countries (Greece, Ireland, Luxembourg, Portugal, Finland and the UK).

There is no need and no obligation in EU law, to determine the statistical units on the basis of existing administrative divisions or, conversely, to make administrative units coincide with the statistical units. According to Eurostat, the NUTS is based on normative and analytical criteria; this means that administrative divisions are taken into account and may be combined with geographic

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[13] This Annex provides an international perspective on the NUTS classification with particular focus on the pre-accession experience of the CEE countries which joined the EU in 2004. The text is an edited and updated version of an excerpt from "Regionalization for Development and Accession to the European Union: a Comparative Perspective" by Gerard Marcou, published in 2002 by the Open Society Institute – Local Government and Public Service Reform Initiative.

and socio-economic criteria. However, for practical reasons regarding data availability, the design of statistical units typically follows the borders of existing administrative units, and is usually revised following an administrative reform in the respective country.

As a result, in Germany, each *Land* is a NUTS I unit, and the NUTS II level is below the level of the *Land* (*Regerierungsbezirke*, but in four smaller *Lander*). There are 40 NUTS II units in Germany and 441 *Kreise* are NUTS III units. In Belgium, each constitutional region is a NUTS I unit, and the eleven provinces, which are not larger than the French *départements*, are NUTS II units. In France the NUTS II level corresponds strictly to the regions as administrative units vested with self-governing rights, whereas *départements* are NUTS III units. In Sweden, the NUTS II level (of which there are eight) is larger than the county level (21); whereas in the Netherlands it strictly corresponds to the provinces (12), which are not larger than French *départements*. Denmark as a whole is at the same time both a NUTS I and a NUTS II unit (three in the past), whereas each province (*Amtkommunen*, 15) is a NUTS III unit; the UK is divided into 36 NUTS II units, which are groups of counties (or regional subdivisions in Scotland and Wales). These examples are enough to see that these statistical units are indeed very different in size, and, as everybody knows, the larger the statistical units, the smaller the disparities between them.

The NUTS map is therefore for each member country not only a purely statistical question, but also a political issue, with implications for the allocation of structural funds. The NUTS II level is used for allocating structural funds according to Convergence Objective (formerly Objective 1) criteria, whereas the NUTS III level is used for allocating structural funds according to Regional Competitiveness and Employment Objective (formerly Objective 2) criteria. But depressed areas will weigh down statistical indicators much more if they are included in smaller territorial statistical units.

It is interesting to compare the administrative map and the NUTS II map of the recent candidate countries, taking into account the legal nature of the intermediate level of government. The table below summarizes this observation for the ten CEE countries, which have been the candidates to join the EU in 2004. It is reasonable to focus on the NUTS II level, since all candidate countries enjoy Convergence Objective (formerly Objective 1) benefits.

Table 5: NUTS II and Intermediate Levels of Government in CEE Countries

Country	NUTS II	Intermediate or Upper Level of Government	Type of Regionalization
Bulgaria	6	28	Administrative regionalization
Czech Republic	8	14	Regional decentralization
Estonia	1	15	Administrative regionalization
Hungary	7	19 counties + 22 cities with county status + Budapest	Administrative regionalization + regionalization by existing local governments

Latvia	1	26 districts with self-governing rights + 7 cities with district rights	Regionalization by existing local governments
Lithuania	1	10	Administrative regionalization
Poland	16	16	Regional decentralization
Romania	8	41 + Bucharest	Regionalization by existing local governments
Slovenia	1	58	Administrative regionalization
Slovakia	4	8	Regional decentralization

As can be seen, there is no correlation between the NUTS II and the intermediate level of government in any of the ten countries, except Poland. Among the ten countries, only three have adopted the regional decentralization model, but the regional units were not shaped according to NUTS II. The regional units in the Czech Republic and in Slovakia deviate very much from NUTS II (only three regions correspond to NUTS II in the Czech Republic, only one in Slovakia), and in Poland, the NUTS II were based on the regional units determined in 1998 after long political struggle. Lastly, three capital cities (Prague, Bratislava and Bucharest) are treated as NUTS II.

Would it be relevant to base a new government level on the NUTS II level?

First of all, we have to remember that the NUTS was not devised as an administrative entity, even for the implementation of structural funds; **it has always had only a statistical purpose**. Secondly, in West European countries the territorial statistical units of the EU have always been based on existing territorial divisions, and not the contrary. They have been revised usually after territorial reforms, as, for example, in East Germany in the late 1990s, or in the UK after the border reform of 1996, which resulted in unitary councils in Wales, Scotland and part of England, or in Sweden after the amalgamation of southern counties in 1997–98, or in Finland after the partition of the region which included the capital city in 1997.

Thirdly, **the definition of the NUTS units played almost no role in the political debates in those CEE countries that have recently established an intermediate level of government vested with self-governing rights**. In Poland, the final division into regions resulted mainly from party politics with a view to future power-sharing, and is close to the territorial division of the country before 1975. In the Czech Republic and in Slovakia, the administrative division into regions was adopted after the definition of the NUTS units, but ignored them almost completely. Surprisingly, there has been more consideration of the NUTS units in countries where governments are reluctant to create a new administrative division of the territory, and especially to decentralize power to such a level of large territorial units. In these countries, the NUTS II level seems to be considered a possible framework for regional development planning. In Hungary, the amendment of 1999 to the Regional Development Act provided for the formation of regional councils (macro-region development councils) in each NUTS II unit, with decision-making powers for the implementation of regional

policy; similarly, county development councils were established at the county level. However, these development councils, and especially the regional councils, are not a new tier of government, but rather an assembly of representatives of institutions involved in regional development. Romania has followed a similar path: according to the Regional Development Act 1998, a regional development council was established in each of the eight NUTS II units, formed by representatives of each province as provided by the law (the head of the provincial council and representatives of the various categories of municipality). However, whereas ministers are involved in regional councils in Hungary, their Romanian counterparts are only an emanation of local governments. In Bulgaria there is only one level of local government, since the 28 regions are a subordinated level of central government (nine regions before the reform of 1999); but the Regional Development Act 1999 established a regional development council in each of the six NUTS II units. This council consists of the mayor and a representative of each municipal council of the large region, and is chaired by a regional governor appointed by the government.

Lithuania as a whole is a NUTS II unit, and its ten counties are NUTS III units. Nevertheless, there were discussions regarding the regional approach of the Directorate General enlargement for the Economic and Social Cohesion support within the PHARE programme. The Regional Development Act of July 2000 provided that "In order to attain separate objectives of the national regional development policy and to draw up and implement regional development planning documents of projects, the government may form regions from several counties or municipalities having common administrative borders...." However, an attempt by the government to reduce the number of counties from ten to five failed completely in the middle of 2001. Estonia and Latvia are also NUTS II units, but the NUTS III units were designed as groups of counties (five in each country). In Latvia the latter correspond to planning regions, and were proposed as the basis for administrative reform, but this raised strong opposition from local governments, whereas in Estonia such a path seems very unlikely.

It is possible to conclude from this review that there is generally a clear-cut divide between the approach to regional development and the approach of the territorial administrative division of the country. Poland is the only country among ten in which the regional division of the country and the NUTS II level coincide. This reflects the fact, observed in EU member states, that territorial reform is not only a response to new problems, but also a result of history, of existing legal systems and patterns of institutions, and, last but not least, of party politics.

Furthermore, there is no EU requirement regarding local government and planning institutions, and the diversity of the territorial patterns in EU member states is extreme, as illustrated by the contrast between Spain (wide regional autonomy) and Portugal (planning regions on the mainland, with co-ordination commissions led by the central government - a referendum rejected the creation of decentralized regions as provided by the constitution). Whereas member states are bound by EU law and are responsible for its enforcement within their jurisdiction, their procedural and institutional autonomy is another leading principle recognized by the Court of Justice: each member state has the exclusive authority to determine which kind of institutions will implement EU rules, whether they will be federal, decentralized or centralized authorities, or others. Provided that the obligation of the member state to ensure compliance with EU law is met, EU law has no impact on domestic institutional arrangements.

Therefore, the NUTS has no general relevance for the territorial administrative divisions of a country; on the contrary, the NUTS must rely on existing territorial administrative divisions, and to adjust to them in case of reform. The territorial administrative divisions, the number of government tiers, the status of each tier and the legal nature of its institutions always have to reconcile numerous considerations which may not be easily compatible; regional development policy and planning is only one of various responsibilities that must be allocated among government tiers, and it must be endowed with appropriate instruments. Nevertheless, the general regulations on structural funds have referred explicitly since 1988 to the NUTS as a basis for programming, and in particular the regulation stated that regions for the implementation of Objective 1 (Convergence) are regions corresponding to NUTS II, subject to economic conditions. Hence, there still persists some discussion about the relationships between these statistical territorial units and government levels.

However, to promote economic development, institutional choices should facilitate the regionalization process, defined earlier as a process creating "a capacity for independent action aimed at developing a specific area (sub-national but supra-local) through the mobilization of its economic fabric and, where appropriate, of features of local and regional identity, and through the development of its potential." It can be assumed that decentralized institutions are more likely to be successful in supporting that process, provided that they take place in an institutional framework which ensures that the central government will be able to fulfill its own responsibilities for macro-economic stability, strategic economic policy orientation and national solidarity. There is no direct requirement for decentralization in EU regulations, but **the principle of partnership, which has to be respected in allocating the structural funds and in implementing them, implies some decentralization, since subordinate authorities could not be partners.** However, the pattern and the degree of decentralization remain in the purview of domestic state sovereignty.

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