



REPUBLIC OF ALBANIA
COUNCIL OF MINISTERS

National Strategy for Development and Integration

2014-2020

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1. Background and Purpose of the NSDI

This second National Strategy for Development and Integration (NSDI II) presents our national vision for the social and economic development of Albania over the period 2014 to 2020 and explains how we plan to achieve this vision through government policies and actions, aiming to bring Albania to the point of European Accession.

The NSDI II follows on from the inaugural NSDI I which covered the period 2007-2013. Both strategies are integral component of Albania's Integrated Planning System (IPS) which was established in 2006. The IPS combined policy, planning and budgeting processes in Albania and incorporated three principal components: *the national and sectoral strategies* process providing guidance to high level policy making; the *European Integration* process describing planning arrangements and resource requirements for achieving objectives under the European Integration agenda; and *the medium-term budget process* detailing short and medium term planning and financing arrangements for the delivery of policies by each government ministry and agency¹.

This NSDI II document is organised in two main parts. Part I presents **Government's vision** for what we wish to achieve as a nation over the next six years and explains plans and assumptions for the fiscal framework that will provide financing for our policies over this period. The vision for NSDI II incorporates three main components:

- An Albania ready to become a full member of the European Union.
- Strong and sustained economic growth for Albania
- Transforming growth and enhanced wealth into improved well-being for all citizens in a fair and cohesive society.

Following this short introduction, Section 2 of Part I describes the evolution of Albania's economic development over the period 2007 to 2013, providing information on the economic context for the beginning of NSDI II. Section 3 of Part I presents details of our vision for NSDI II, including: our aim to be ready for European Accession by 2020 (Section 3.1); what we plan to put in place to achieve strong, sustained and environmentally-friendly growth (Section 3.2); and what we plan to do to transform greater wealth into enhanced well-being (Section 3.3.). Section 4 then presents details of the financing framework for the NSDI.

The 'vision' that is presented in Part I looks at the actions we believe are necessary across a range of *policy areas* for the public and private sectors together, along with development partners, non-government organisations and civil society to deliver growth and well-being for a European Albania. A small number of high level Strategic Goals are identified for each of these policy areas.

Part II presents detailed sector plans for NSDI II that will drive our vision forward over the period to 2020. Plans for each sector are structured into four components:

- *Improving Good Governances and Rule of Law*, which forms the foundation for the detailed planning of NSDI II and is presented as Section 1 of Part II.
- *Growth through Fiscal Stability and Increased Competitiveness*, which is Pillar I of the detailed planning for NSDI II and is presented as Section II of Part II.
- *Sustainable Growth through Efficient Use of Resources*, which is Pillar II of the detailed planning of NSDI II and is presented as Section III of Part II.

¹ *Public investment management and donor coordination arrangements* are also subsumed within these three main components of the IPS.

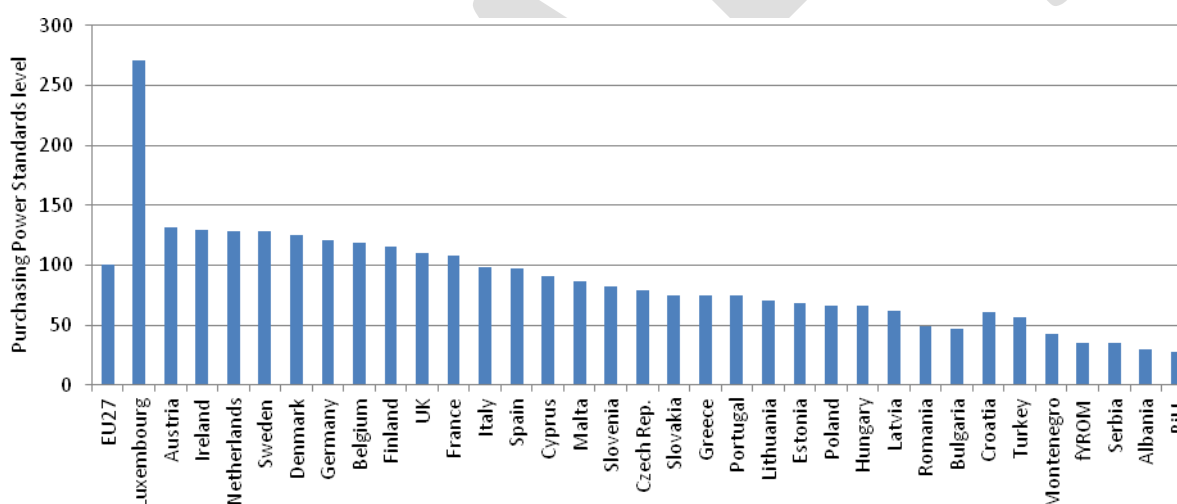
- *Investing in People*, which is Pillar III of the detailed planning of NSDI II and is presented as Section IV of Part II.

2. Albania's Economic Development Trends 2007-2013

Albania has continued to pursue liberal economic policies since 2007 as well as closing the infrastructure gap with neighboring countries. At the same time Albania has been able to maintain macroeconomic stability, boost exports and make significant progress in improving the business climate through energetic regulatory reform.

Albania has performed relatively well over the last past five years. The country has steered clear of recession, maintaining positive real growth rates despite exposure to the crisis-stricken European economic area (Greece and Italy in particular) and its proximity to other contracting regional economies. Albania qualifies as a lower middle income country, with GDP per capita equal to EUR 3,415 in 2012, some 28% above EUR 2,669 in 2007. Real GDP growth slowed from a peak of 7.5% in 2008 to a more modest 1.6% in 2012. Demand (both external and domestic) weakened over the period due to the unfavourable worldwide economic climate and a difficult domestic political environment.

Graph 1. GDP per capita 2012 (PPS²) EU 28 and Albania's comparator countries



Source: EUROSTAT (estimates)³

Prudent fiscal and monetary policies over the period has meant that Albania has managed to retain a B+ rating from Moody and Standard & Poor⁴ since 2008, faring better that almost all other countries in the region.

Table1: 2009 – 2012 GDP growth in Western Balkans

	2009	2010	2011	2012
<i>Gross domestic products (in real terms, annual change)</i>				
Albania	3.3	3.5	3.0	1.6

² Purchasing Power Standards is applied by EUROSTAT. The Purchasing Power Standard (PPS) is an artificial currency unit that eliminates price level differences between countries. Thus one PPS buys the same volume of goods and services in all countries. This unit allows meaningful volume comparisons of economic indicators across countries.

³ (http://europa.eu/rapid/press-release_STAT-13-98_en.htm)

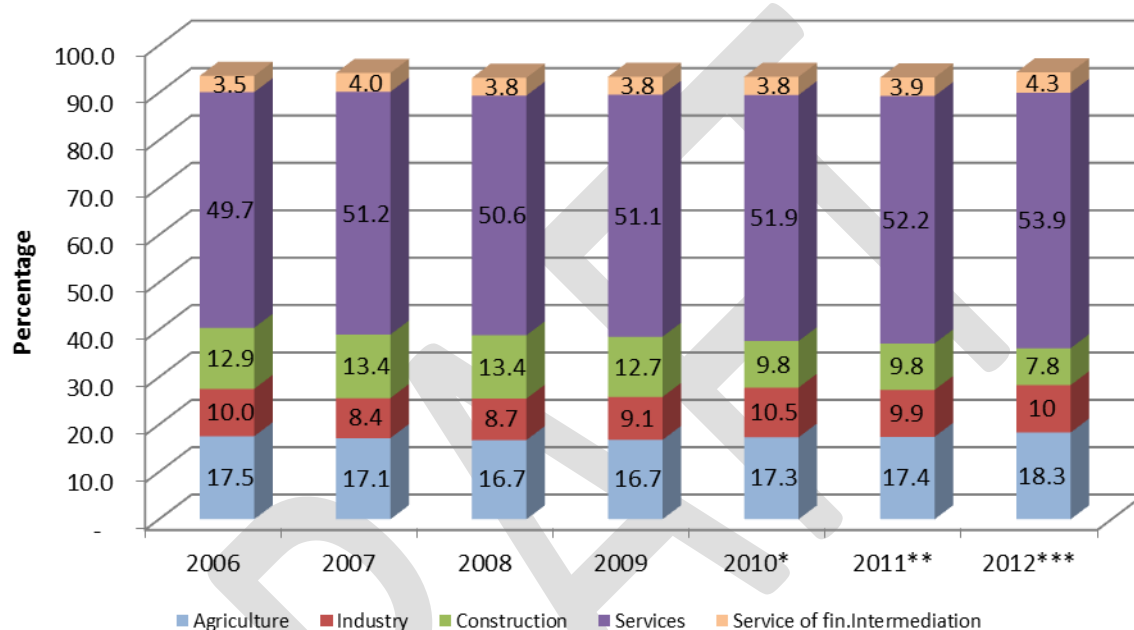
⁴ South East Europe Regular Report No. 3 (World Bank)

BiH	-2.9	1.4	1.0	na
FYROM	-0.9	2.9	2.8	-0.3
Montenegro	-5.7	2.5	3.2	-0.5
Kosovo	2.9	3.2	4.5	na
Serbia	-3.5	1.0	1.6	-1.7
SEE6	-1.8	2.2	-0.6	-0.5

Source: South East Europe Regular Economic Report, World Bank.

The services sector is main component of the economy, accounting for over half of Albania's GDP. It has registered steady growth over the period (from 51.2% of GDP in 2007 to 61 % in 2012⁵). It also attracts most of the credit from the banking sector.

Figure 1. GDP composition by sector 2006 - 2011⁶



Source: INSTAT, Ministry of Finances

Performance in agriculture, the second largest sector 18.3% of GDP in 2012), has also been strong, achieving 5.4% real growth during 2012. Despite the low concentration of enterprises in agriculture (only 1.8% of the total), this sector remains the largest employer, accounting for 54% of total employment in 2012. The sector has recovered momentum over the last two years in response to the Government's agriculture support policies, after having contracted to 16.7% of GDP in 2008 and 2009. Industry's contribution to GDP grew from just over 8% in 2007 to 10% in 2012, mostly through improved performance in extracting and mining, while manufacturing (especially textiles) has slowed down due to weaker demand from Greece and Italy.

The construction sector has shrunk substantially over this period, falling from 13.4% of GDP in 2007 to some 7.8% of GDP in 2012, mainly due to market saturation and reductions in public investment. Manufacturing accounted for some 10% of GDP in 2012, a 7.4% increase in real terms over the previous year, while extracting industries accounted for 2.5% of GDP in 2012 registering a real increase of 33.4% compared to 2011.

Overall growth has been driven mostly by external demand since 2007, with exports accounting for 15.6% of GDP in 2012 compared to 10% in 2007.

Growth has resulted in greater well being. The 2013 Human Development Report ranks Albania 70 out of 187 countries on the Human Development Index (HDI) - an index comprised from information on longevity, health, access to knowledge and the standard of living - which places Albania in the 'high' human development

⁵ Source: INSTAT, quarterly GDP data

⁶ *2010 Semi final and 2011** flash data, 2012*** Ministry of Finance Estimation

category. A recent study from the Boston Consulting Group⁷ shows that Albania has been outperforming the average of other countries in converting wealth and recent growth into well-being.

Stable, low inflation and a flexible exchange rate have helped Albania ride out the international crisis over the past five years and have facilitated the recent expansion of exports. A prudent monetary policy has kept annual inflation low (between 2% and 4%). The Lek appreciated slightly against the Euro in 2012, after a relatively moderate depreciation over the previous four years, and depreciated against the US currency over the period as a result of fluctuations in the international market.

Prudent public expenditure over recent years has contributed to a reduction in the budget deficit, which was 3.1%, 3.5% and 3.7 % of GDP in 2010, 2011 and 2012 respectively, after reaching a peak of 7% in 2009. Public debt expanded from 53.4% of GDP in 2007 to 61.5% in 2012, representing an increase of 8.1 percentage points. This compares with an average increase in public debt of 11.3 percentage points in CEE and Western Balkans countries. Total debt service (interest and re-payments) stood at 3.9 % of GDP in 2012 against 3.1% in 2007.

The Balance of Payments has strengthened over the last five years. The Current account deficit narrowed to 10.5% of GDP in 2012, after reaching a peak of 15.6% in 2008, mainly due to a rebound in export performance, from 2010. A stock of foreign reserves equivalent to around 4 months of imports has been broadly maintained over the period.

Figure 2. Current Account Deficit 2008 – 2012 (in % of GDP)

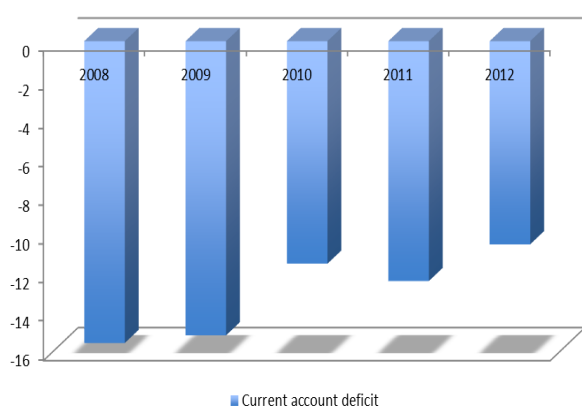
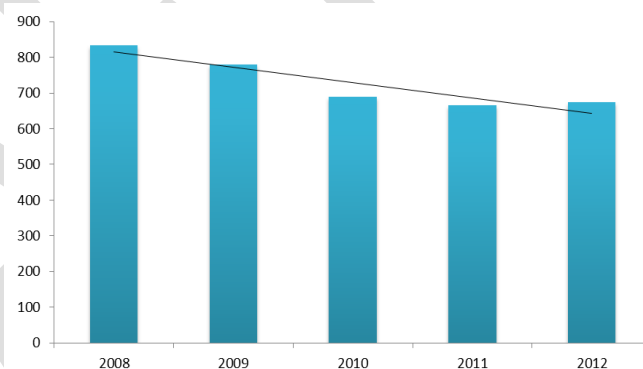


Figure 3. Remittances 2008 – 2012 (in mln EUR)



Source: Bank of Albania

Remittances, equivalent to around 6.9% of GDP in 2012, have helped to sustain domestic demand and have also helped to alleviate poverty in Albania. Inflows of remittances steadily declined by approximately 30% from EUR 952 million in 2007 to EUR 665 million in 2011, before rebounding to an estimated EUR 675 million in 2012.

FDI outpaced remittances for the first time in 2010, thus constituting a major source of financing for the current account deficit, whilst contributing to the creation of over 8,400 job opportunities over the period 2007 to 2011. FDI was equivalent to EUR 745 million in 2012 (a similar figure to that of 2011) after reaching EUR 793 million in 2010. FDI funds have flowed predominantly into extractive industries, energy, the financial sector, services and telecommunications, with around 70% originating from EU countries.

Albania's sustained performance in attracting FDI resulted from efforts to restructure the economy and complete the privatization of public enterprises in strategic sectors, together with policies to grant concessions in the energy and mining sectors. Cumulative FDI over the period to 2007-2012 amounted to EUR 4.855 billion. Albania ranked 18th out of 141 countries with regards to FDI inflows in 2010⁸. This represented a rise of 50

⁷ From Wealth to Well-Being, The Boston Consulting Group, November 2012. The study analysed 150 economic worldwide.

⁸ UNCTAD Raporti Botoror per Investimet 2012

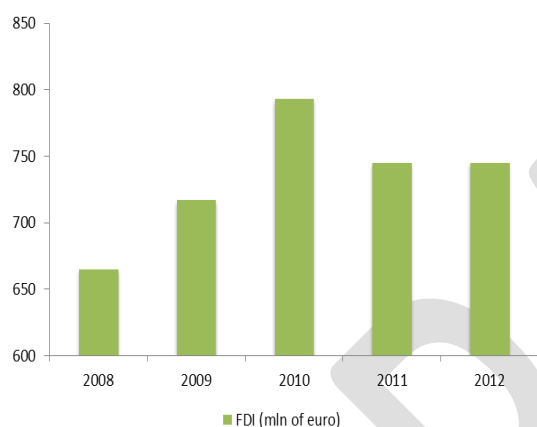
places over its 2005 ranking. FDI in Albania in 2011 accounted for 32.1% of Gross Fixed Capital Formation, more than double the 2007 figure of 16%, a regional performance bettered only by Montenegro.

Table 2. FDI 2005 – 2011 in the Western Balkans

	2005-2007	2009	2010	2011
FDI (as a % of GFCF)				
Albania	11.7	24.9	31.2	32.1
BiH	25.5	6.3	6.3	12.6
FYROM	32.6	10.9	12.2	16.2
Montenegro	-	207.6	130.0	67.8
Serbia	-	20.0	14.7	23.9
SEE6	24.1	23.1	12.6	19.3

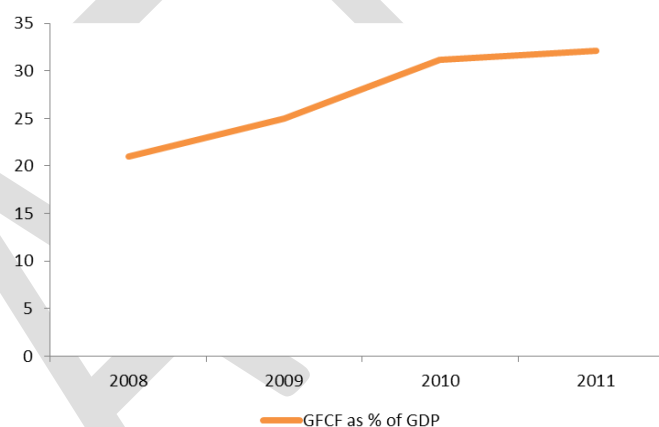
Source: UNCTAD WRI 2012

Figure 4. FDI 2008 – 2012 (in mln EUR)



Source: Bank of Albania

Figure 5. Gross Fixed Capital Formation (in % of GDP)



Source: UNCTAD World Investment Report 2011

The main sector to attract FDI has been industry (43.3% of the total) followed by the financial sector (19.7% of the total) and telecommunication (11.2% of the total). The electricity sub-sector started to attract substantial FDI in 2009 with the unfolding of concessions for hydropower plants and wind farms, accounting for 10% of total FDI over the period 2007 to 2011.

Table 3: FDI inflows by main economic activity (million of Euro)

Activities	2006	2007	2008	2009	2010	2011
Agriculture, hunting, fishing	2	2	-54	-9	0	-
Construction	8	51	147	19	44	-
Industry	69	56	369	300	394	351
Electricity and gas	0	4	2	143	88	103
Telecommunications	62	196	-61	84	97	67
Financial intermediation	30	136	167	120	138	110
Distribution, other services	88	25	95	59	33	111
TOTAL	259	480	665	717	793	742

Source: Foreign Direct Investment Report, Albania 2011 UNDP

Albania's trade performance has been strong, with trade volumes growing by a total of 56.6% through to the end of the period. The export/import ratio has grown steadily to about 40.3% in 2012, indicating a significant improvement in the country's trade position. As a result, the trade deficit narrowed by 13% in 2012 compared to 2007. Albania's trade openness index averaged around 90% of GDP over the period.

Figure 6: Trade balance 2007-2012 (in mln Lek)

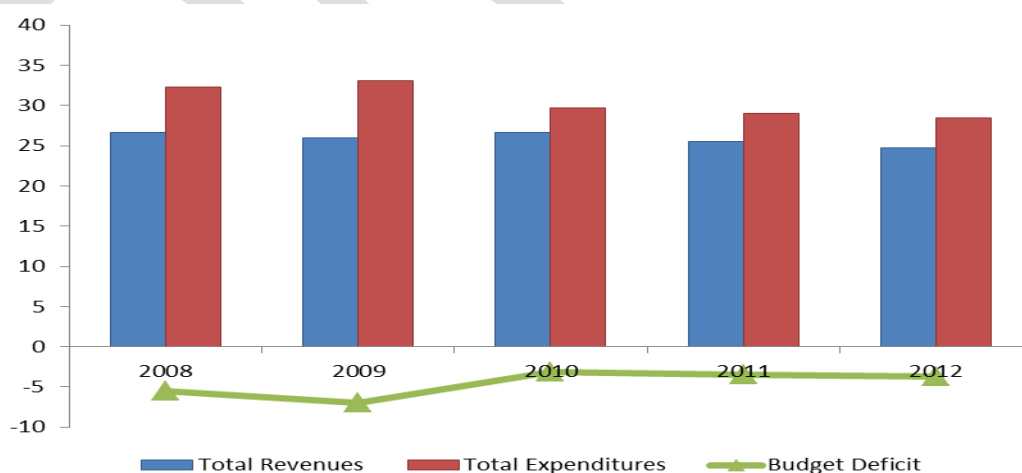


Source :INSTAT

Exports grew by 66% in 2010 compared to 2009, mainly due to minerals, fuels, and electricity and construction materials. Despite unfavourable economic conditions in the traditional markets of Greece and Italy, exports of textiles and footwear also grew, albeit at a slower pace, indicating that exporters have begun to penetrate alternative markets. Imports of machinery and equipment remained substantial over the period 2007 to 2012, accounting for some 20% of total imports. This indicates a strengthening of Albania's overall production and technology base.

Aggregate components of public finance have strengthened, with domestic revenue rising at an average annual real rate of 2.3% from 2008 to 2012. Total revenue in 2008 rose by 11.1% in real terms but the impact of the international financial crisis resulted in revenues growing on an average of 1.8% in 2009 and 2010 but, although growing in nominal terms, they declined by an average of 1.7% in real terms in 2011 and 2012. Public spending increased at an average annual real rate of 3.4% over 2008 to 2012, peaking in 2008 at 18.8 per cent. The policy pursued since 2008 has been uneven on an annual basis in real terms on a declining trend (including a real fall in 2010 and 2012), but has nevertheless been sufficiently expansionary to underpin Albania's avoidance of recession during the global crisis, compensating partially for a slow-down in private domestic demand.

Figure 7: Budget Performance 2008 – 2012 (in % of GDP)



Source: Ministry of Finance, Macro and Fiscal Framework 2012 - 2014

Fiscal expansion has been driven by consistent increases in wages and pensions and **a large increase in capital spending, which reached 8.7% of GDP in 2008** and 5% of GDP over the period 2009 to 2012. Public expenditure has focused particularly on Transport, Health and Education. There have been major efforts to close Albania's infrastructure gap, especially through significant improvements in road infrastructure, with the

transport sector regularly absorbing well over 50% of total capital expenditures. The Durres – Kukes road, substantial improvements in Corridor 8 with the Tirana-Elbasan road and the soon to be completed Tirana – Vlora road will significantly reduce times and costs for business and tourism and will assist Albania in exploiting the economic advantages of its geographical location. Spending on Health and Education individually, has remained between 2 to 3% of GDP during the period 2007 to 2012, aimed at improving infrastructure in these sectors and the quality of services, in part through increasing wages for teachers, nurses and doctors. Spending on social protection in 2012 rose by a real 16.7% compared to 2007 and represented x% of GDP.

The Albanian banking sector has coped well with the world financial crisis. As a result of sound supervision from the Bank of Albania, the sector has followed prudent bank management and tight lending policies. The banking sector has further consolidated its position as the main financial intermediation instrument in Albania. It remains highly concentrated in 2012, however, with the 5 largest banks (out of 16) accounting for some 67.8% of total credit and around 74.4% of total deposits.

The volume of credit in Albania in 2012 amounts to 41.2 % of GDP. Credit growth has been more constrained recently, mirroring the tight lending policy adopted by second level banks and uncertainties related to the financial crisis in neighbouring countries. Consequently, credit for investment¹⁰, which accounted for some 50.6% of total credit to the economy in 2012, grew only moderately by a real 1.3% in 2012 compared to previous years' increases of more than 5 times. This trend is likely to have been positively influenced by a continuous lowering of the base rate by the Bank of Albania, which by the end of 2012 stood at 4%. The credit portfolio of banks remains dominated by foreign currency loans which account for 64.4% of total lending to businesses. A tendency towards loans in domestic currency has started to become apparent recently.

Reforms undertaken over the period 2007 to 2012 have substantially improved competitiveness of the Albanian economy. The Global Competitiveness Index 2011 – 2012¹¹ ranks Albania at 78 out of 144 economies, an improvement of 10 places compared to the 2010 – 2011 ranking. In addition, *Albania's efforts to improve the business climate have been recognized in the Doing Business* reports, with Albania ranking 82 out of 183 economies in 2012 maintained for the third consecutive year. Among other things, this reflects a strengthening in the quality of our institutions, including tax administration arrangements, enhancement of land registration and facilitating company registration through initiatives such as a one-stop-shop for company registration, single company identification numbers and online registration.

Table 4: Albania Ranking in Doing Business Reports 2007 - 2013

ALBANIA	2007	2008	2009	2010	2011	2012
OVERALL COUNTRY RANKING	120	136	86	82	82	82
EASE OF DOING BUSINESS						
1 STARTING A BUSINESS	121	123	67	46	45	61
2 DEALING WITH CONSTRUCTION PERMITS	161	168	170	173	170	183
3 REGISTERING PROPERTY	76	82	62	70	72	118
4 GETTING CREDIT	48	48	12	15	15	24
5 PROTECTING INVESTORS	162	165	14	15	15	16
6 PAYING TAXES	125	118	143	138	149	152
7 TRADING ACROSS BORDERS	101	70	77	66	75	76
8 ENFORCING CONTRACTS	99	74	89	91	89	85
9 CLOSING A BUSINESS	89	178	181	183	183	64
10 EMPLOYMENT OF WORKERS	113	109	108	105	-	-
11 GETTING ELECTRICITY	-	-	-	-	-	154

Source: Doing Business Reports, World Bank

The business climate in Albania improved significantly over the period. Barriers to entry have been significantly reduced with the simplification of business registration and licensing procedures. Both the fiscal burden and labour costs have been reduced through adoption of a flat rate corporate income tax rate of 10% and a reduction in social insurance contributions to 15%. Business operation has been simplified through e-government reforms, including on-line tax filing, public procurement and business registration and licensing and through the use of the ASYCUDA system at all customs points since 2010.

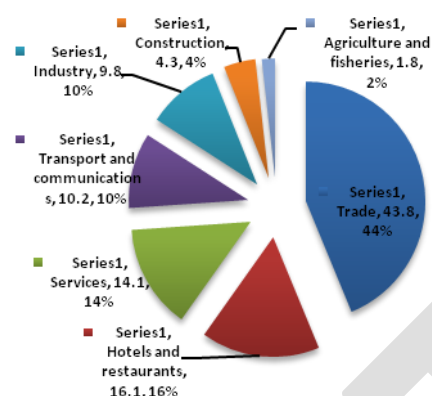
⁹ In terms of Albania's position from the top, our performance deteriorated slightly, with a fall in rank from 82 to 85 over the period 2009 to 2013. The number of countries included in the survey in 2013, however, was 185 compared to 178 in 2009. A standardisation of ranking between 2009 and 2013, therefore, would show a relatively higher ranking for Albania in 2013 compared to 2009.

¹⁰ This component is composed of purchases of Machinery and Appliances and Real Estate. Source: December Statistical Report, Bank of Albania

¹¹ World Economic Forum, GCI measures progress made in basic requirements, efficiency enhancers and innovation and sophistication factors

The structure of Albanian economy in 2012 continues to be dominated by small and medium enterprises – micro enterprises with 1 to 9 employees account for 95.3% of total active enterprises. SMEs' contributes to some 73% of GDP, whilst accounting for around 71% of total employment.

Figure 8. Enterprises by Economic Sector



Source: INSTAT ASN 2011

The number of active enterprises has increased by 30% in 2012 compared to 2007. Most enterprises operate in the commerce sector, accounting for 43.4% of the total of 106,503 active enterprises, followed by hotels and restaurants, which constitute 16.2%. “Other” services account for 15.5%. More than 50% of all enterprises are concentrated in the Tirana – Durrës region, the area with the highest development potential of the country. Businesses in these sectors are dominated by domestic entrepreneurs, but, in the recent years, the presence of international enterprises has been noted, mainly as result of tourism sector development.

Employment rates have been more or less constant over the period 2007 to 2012, with unemployment averaging some 13% during this period. There has been a relative shift in employment to the (private) non-agriculture sector which increased by over 20% in 2012 compared to 2007. Employment in the public sector in 2012 fell by 6.4% compared with 2007 due to measures aimed at improving efficiency and governance. Agriculture dominates employment, accounting for 54% of the total labour force in 2012, though employment in the sector fell by 3.6% over the period 2007-2012.

Figure 9. 2008-2012 GDP and Unemployment

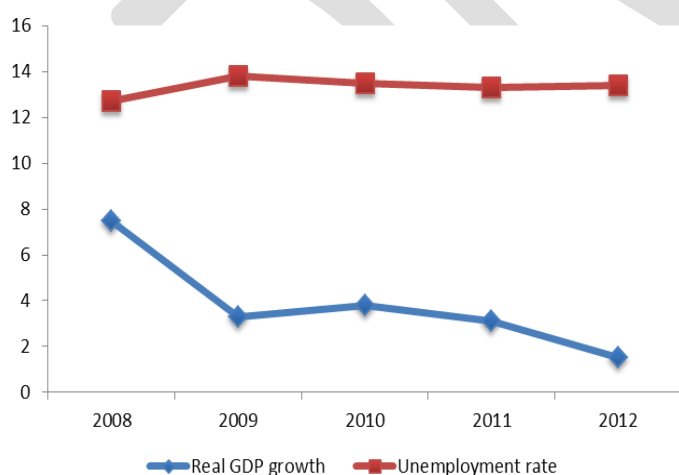
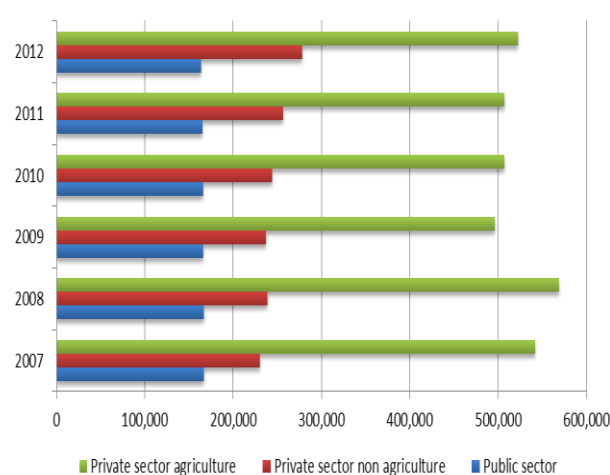


Figure 10. Labour market composition 2007 - 2012



Source: INSTAT

Despite budget constraints, wages and pensions increased substantially over the period 2007 – 2012. The average wage in the public administration rose by 36% in real terms over the period 2007 to 2012. Similarly, average urban pensions increased by 18.9% and average rural pensions rose by 61.4% over the period 2007 - 2012.

Overall, Albania has` undergone and experienced significant social change during the past decade. Albania has halved poverty over recent years (2007-2012) from 25% to 12%, with extreme poverty¹² and unemployment falling consistently. The Census of 2011 presents a population of 2.8 million, representing a decline of 8 % over the figure in the 2001 Census. Over this period the Albanian population has become substantially more urban (54%) in comparison to the decidedly more rural society (53%) population presented in the Census of 2001.

DRAFT

¹² Extreme poverty is defined as daily consumption of less than USD 1.25; poverty is less than USD 2 per day(World Bank);

3. 2020 VISION - Creating Wealth and Well-Being for a European Albania

This section presents the three components for our vision for NSDI II. Our vision is simple:

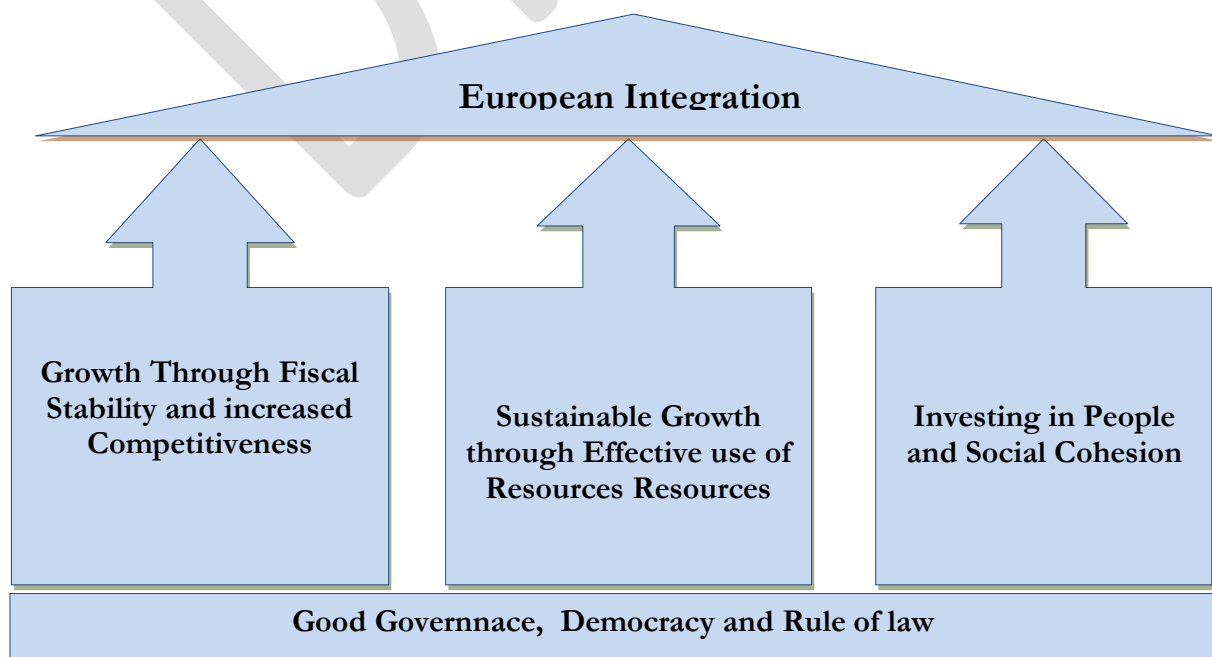
- Strong, sustained and environmentally-friendly economic growth over the period to 2020 that builds on our long record of strong growth over the last two decades.
- Using enhanced wealth from this long period of growth to establish greater well-being among our citizens in an increasingly cohesive society that caters for the needs of all Albanians, irrespective of gender, ethnic background, sexual orientation or social status.
- Being in a position by 2020 to demonstrate to our partners in the European Union that Albanian institutions and Albanian society are ready, for Albania to become a full member of the European Union.

Our vision is for growth and well-being to be achieved. These outcomes are fundamental irrespective of our determination for European Union membership. Many of the underlying requirements for delivering growth and well-being will help Albania overcome any remaining obstacles to Albania becoming ready for European Union membership. All three components of our vision are important by themselves, but they are also complementary and fully supportive of one another.

As noted in Section 1, our vision will be delivered through a series of *realistic and achievable* measures in four key areas:

- Good governance, democracy and rule of law will form the **foundation** upon which our NSDI II vision will be achieved.
- Growth through fiscal stability and increased competitiveness will form **Pillar I** of the support upon which our NSDI II vision will be achieved.
- Sustainable growth through efficient use of resources will form **Pillar II** of the support upon which our NSDI vision will be achieved.
- Investing in people will form **Pillar III** of the support upon which our NSDI II vision will be achieved.

Figure 1: The NSDI 2014-2020 main pillars



Details of the practical measures to be undertaken through the foundation and the three pillars of NSDI II are presented in Part 2 of this document.

Sections 3.1, 3.2 and 3.3 of Part 1 present detailed information for each of the three main components of our NSDI II vision.

3.1. Continuing our Journey to European Accession...

...from a dream to reality...

The successful conclusion of Albania's European Integration process remains our supreme goal over the NSDI II period. Albania is a country that sees itself very much as an integral component of the European enlargement project. Our short-term ambition is to achieve Candidate Country status by the end of the NSDI I period (2007-2013) and to open negotiations on full membership shortly afterwards. Our aim is for Albania to be ready to become a full member of European Union before the end of NSDI II period.

Is this ambition a dream? NO! Not for the majority of Albanians, who regard European Integration as central to our national future, with Gallup polls consistently recording that over 98% of Albanians support European Integration. This makes Albania the most pro-European country in Eastern Europe.

Albania has developed the most European-oriented production and trade activities in the Southeast Europe economic area, with 72% of Albania's total exports during 2012 having a European destination and more than 65% of Albania's imports originated from the EU¹³. This feature of the Albanian economy will continue to expand over the coming years. Albania is also moving economically to a status that is consistent with pre-accession. Our GDP per capita increased from 7.2% of the EU average in 2003 to around 12% in 2011. Growth and competitiveness-oriented policies (including those presented in this document) will close the gap between Albanian and average EU GDP still further over the coming years, with the aim of reaching up to 35% of the EU-27's GDP per capita average by 2020 - similar to the status of the most recent EU members at the point of their accession.

We are conscious that European Integration represents not only an opportunity, but also a challenge in terms of delivering the remaining structural reforms that will be required for accession and for transition to a modern market economy as an EU member state. Albania has made substantial progress in adopting market-oriented and EU-compatible legislation and regulations, including public sector reforms, market liberalisation and creating conditions that will permit a healthy private sector to develop. Some important challenges remain ahead of us, however, such as: addressing a poorly functioning judiciary; establishing stronger public sector governance; clarifying and enforcing property rights; strengthening competitiveness; and enhancing the productivity of labour markets.

The trade liberalization component of the SAA¹⁴ ties Albania to an emerging European-wide free-trade area and provides an opportunity to boost FDI and trade flows. But the benefits of the SAA go well beyond trade. For our country to progress in getting closer to EU standards, the challenge is to create conditions for attracting more investment and to deliver growth. Our *aims* in response to these challenges can broadly be categorized as establishing: a stable and progressive legislative and institutional framework (including guaranteed property rights, a well-functioning judiciary and adequate law enforcement); continued macroeconomic and financial stability; efficient labour and financial markets; social and environmental sustainability; effective integration into European infrastructure networks with competitive cost and quality; and a dynamic business-oriented environment which facilitates the production of high value added goods and promotes the adoption of efficient processes and innovative technologies.

¹³ No other country in the region trades 2/3rd of its foreign trade merchandise with the European Union only.

¹⁴ Stabilization and Association Agreement, signed between Albania and EU

Ultimately, we strongly believe that European integration not only brings the prospect of EU membership, the process of accession itself offers a unique opportunity to stimulate growth and to enhance well-being among all our citizens. Part of the growth impact of the integration process will come from further expanding our access to EU markets and part will come from an improved investment climate from aligning Albanian policies, institutions and standards with EU best practice. This will facilitate a more qualitative and sustainable growth and an economy driven increasingly by the private sector through strengthening of competition and promotion of trade.

In conclusion, European Integration is our destination. The requirements of the journey will help create conditions for strong and sustained economic growth and for transforming the fruits of this economic growth into a better life quality for the citizens of Albania.

Indicator : Albania receives an invitation to join the European Union by 2020.

3.2.....through Sustained Economic Growth - the Vehicle for Albania's Development

Economic growth is central to our aims for Albania to be a more wealthy country. Economic growth is a fundamental part of our vision for NSDI II. For national and individual well-being to be achieved, enhanced and maintained, the *quality* of the growth we aspire to must be built on strong and stable foundations that will endure well into the future. It also means growth that Albanians enjoy today *should not be at the expense of the economic and social well-being of Albanian future generations* through the unsustainable depletion of natural resources or loss of bio-diversity.

Albania has enjoyed strong and sustained economic growth over an extended period. As a result, the economy has long since moved beyond the stage where competitiveness and growth has depended on unskilled labour and natural resources. Our labour force has become increasingly skilled, the quality of the goods and services we offer to the world (including tourism) has improved and productivity and wages have grown as a result. We now compete with that large group of countries around the world that has also moved beyond overwhelming reliance on unskilled labour and exploitation of natural resources. As Albanians become used to higher incomes, it becomes increasingly important that our productivity improves in order to compete in the world market. Improved productivity along with enhanced quality of our products and services is the key to competitiveness and to future growth. Understanding this is fundamental in determining where our effort will be focused over the NSDI II period.

Establishing short to medium term requirements for competitiveness is necessary for strong economic growth to take place but is not sufficient for that growth to be sustained over the medium to long-term, nor for it to be environmentally-friendly. Our vision is for strong economic growth to be sustained over the long term in Albania and for future generations to enjoy at least the same opportunities for growth and to access a similar variety and level of natural resources in a country where the quality of our environment has been maintained or has been improved.

Indicator 1: GDP per capita relative to the EU-27 average, increased every year with the objective to reach 35% of the EU average by 2020.

3.2.1.Strategic Goals and Priorities for Strong, Sustained and Environmentally-Friendly Growth

Strong, sustained and environmentally-friendly economic growth in Albania over the NSDI II period requires a clear vision of the circumstances through which the economic growth we seek *can and will* take

place. This vision of *our* strategic goals for growth is presented in detail throughout the remainder of the section. The most important of our **Strategic Goals** for growth are summarised below:

- Good governance and the rule of law
 - Ensuring an independent and just judiciary
 - Securing property rights
 - Addressing corrupt practice
- Infrastructure for growth
 - Developed, integrated and accessible transport infrastructure
 - An energy supply which facilitates development
 - Water supply and sewerage services accessible for all
 - Modernized ICT infrastructure and services for a “Digital Albania”
- Driving competitiveness in key growth Sectors
 - Enhanced competitiveness through higher productivity
 - Promoting FDIs and export orientation
 - Transition to innovative (knowledge-based) development model
 - Driving competitiveness and growth through high quality and sustainable tourism
 - Driving competitiveness and growth through innovation and formalisation of agriculture
 - Ensuring well-functioning labour markets
- Maintaining a stable and predictable macroeconomic environment
- Developing a well educated and healthy workforce
- Driving productivity through quality in higher education
- Harnessing the potential of financial markets
- Expanding market access for Albanian goods
- Ensuring an effective environmental policy, minimizing environmental degradation and preservation of our renewable resources

3.2.1.1. Good Governance and the Rule of Law

Albania needs stronger institutions as the foundation for competitiveness and growth, including a strong legal and regulatory framework for businesses and individuals that is effectively implemented. Achieving EU standards in public administration, ensuring transparency in the public sector and expansion of decentralization and local democracy will always remain top priorities for good governance for Albania.

We have to ensure that corruption in public office, lack of transparency and bias in the judicial system are not features associated with our public institutions. We have to ensure that private sector practice, including the existence and effectiveness of accounting and reporting standards and general corporate governance deliver transparency and trustworthiness in doing business.

Successive Albanian Governments have put much effort into strengthening our institutions in order to create a healthy business environment which is attractive to investors at home and abroad. This has been reflected in international assessments such as the International Finance Corporation’s (IFC) Doing Business report. Institutional reforms aimed should continue to aim at consolidating the justice system and observance of human rights and deepening fundamental freedoms will deepen further. Albania will aim to progress, in particular, in terms of **judicial independence** and **property rights**, both of which are fundamental for growth and competitiveness. Other areas where our institutional framework can be strengthened include **addressing instances of public corrupt practice** and **improving law enforcement**.

Ensuring an Independent and Just Judiciary

Our vision for the rule of law in Albania envisages an independent justice system that guarantees fundamental freedoms and equality for all. Perceptions of the judiciary are crucial to Albanians' experience and view of social justice as well as to foreign and domestic investors' understanding of and confidence in Albania's environment for doing business. This issue also represents one of the final hurdles to EU accession. Too many observers currently view our justice system with a lack of confidence. Their observations include issues with: efficiency of the court system; vulnerability of judges to corrupt dealings; and the full independence of the judiciary. Poor quality in some of our legislation is also regarded as an impediment.

Our aim over the NSDI II period will be to fundamentally improve Albanian and international partners' confidence in our judicial institutions by overcoming negative perceptions of our judiciary's independence, quality, efficiency and effectiveness through the following Strategic Goals:

- Consolidating public trust in the justice system through minimising corruption, enhancing transparency and good governance.
- Ensuring full enforcement of court decisions
- Guaranteeing fundamental human rights for all citizens in compliance with the Constitution, international law and national legislation
- Ensuring transparent justice and increasing access to justice information for all

Indicator : Rule of Law Index - 2nd rank Among the Highest in SEE Countries

Securing Property Rights

Our reforms will aim at safeguarding property rights and eliminating legal uncertainty as essential prerequisites to development as well as attracting foreign investment and achieving EU integration. The issue of property rights in Albania has been complex. Estimates suggest that up to one third of all buildings in Albania may be not-legalised. The lack of clear legal title has led to 'informality' in many property transactions and prevents many land and properties from entering the formal market or being used as collateral for credit.

Our aim over the NSDI II period will be to establish much greater security in property rights to give decision-makers in business the confidence to invest in Albania and to create jobs here. Making this possible will require an inclusive and pragmatic approach that addresses: the concerns of former owners yet to receive restitution or compensation; the problems of illegal construction and occupation of land and property; and the need to establish clear legal title in those cases where this has still to occur.

Our aim over the NSDI II period will be to achieve this through the following Strategic Goals:

- Addressing inconsistencies and gaps in the legal framework for property rights to enable title registration, legalization, restitution and compensation to proceed quickly and efficiently.
- Completing an initial systematic national registration and establishing a consolidated electronic public registry of immovable properties.
- Completing the physical restitution of property (including transfer of state property to claimants) where this is feasible.
- Creating a compensation scheme that is considered fair and consensual by all parties, that is fiscally affordable, that delivers payments on a timely basis and for which beneficiaries of expropriation assume a fair share of the cost¹⁵.
- Resolving the status of informal properties that currently remain outside the legalization process.

The Government will seek to establish a public consultation with all stakeholders and political parties to build the broad social and political consensus that will be needed to achieve these aims.

Indicator : Property Right Index - 2nd highest in the rank among SEE countries

¹⁵ We will draw lessons from international practice in determining compensation for expropriated land, including those relating to valuation and ensuring fiscal affordability.

Addressing Corrupt Practice

Corrupt practice (real or perceived) within national institutions represents a serious impediment to competitiveness, growth and European Integration. A perception that corruption is a problem appears to be an issue among Albanians¹⁶, with 69% of citizens reporting corruption as ‘widespread’ in the public sector¹⁷ and 49% conceding that they had given a bribe or a gift ‘in order to solve a problem’. Strengthening our institutions to resist and combat corruption and building systems to minimise corrupt practice will be crucial in creating confidence among prospective investors and business owners.

Our aim over the NSDI II period will be to make our legislation, regulations and institutional arrangements for combating corruption effective, *and for these to be seen to be effective*, through the following Strategic Goals:

- Undertaking a fundamental review of the regulatory framework on conflicts of interest and asset declarations for those in public office.
- Consolidating public trust in the justice system by combating corruption whilst enhancing transparency, good governance and independence of the judiciary
- Enhancing transparency and good governance in the education system.
- Improve transparency and accountability in the health sector.
- Improve overall planning, administration and transparency in the management of public funds.

Indicator : Corruption Perception Index (CPI) - 2nd highest in the rank among SEE countries

3.2.2. Infrastructure for Growth

The Albanian Government regards infrastructure as the highest priority area. One of the preconditions for sustainable economic growth and enhanced competitiveness in regional and European markets is reliable national, regional and local physical infrastructure. Well-developed infrastructure reduces the impact of distance between regions, integrating the national market and connecting it at low cost to markets in Albania and to the countries of the region. This is perhaps best illustrated by the fact that Prishtina, virtually inaccessible by road just a few short years ago to all but the hardest travellers with the luxury of time, is now around three hours drive from Tirana thanks to investments in the road connecting Prishtina with the Adriatic Sea. This has already created a major market for tourist visits to Albania and will deliver increasing trade in physical goods.

A precondition for sustained and sure national development is a reliable energy supply for the national economy and for domestic consumption by Albanian citizens. Sound development of the Albanian economy will depend very much on continuing to deliver an electricity supply that is free from interruptions and fluctuations so that businesses can plan and work unimpeded and with confidence.

Furthermore, solid and extensive communications infrastructure is important for a rapid and free flow of information, which will increase overall economic efficiency. Widely-used information and communication technologies (ICT) in public administration, private businesses and among households will be significant in achieving economic growth and increasing competitiveness. Opportunities provided by ICT in Albania will be used efficiently and innovatively in the spheres of education, employment, health care, social security, culture and tourism in particular in order to simplify access to employment and education and to the services and information offered by both the public and private sectors.

Developed, Integrated and Accessible Transport Infrastructure

An efficient, flexible and safe transportation infrastructure is mandatory for economic growth because it facilitates productivity and ensures easy and reliable movement of people and goods. A modern transportation system is a prerequisite for creating a high quality business and living environment. Substantial improvements in our transportation facilities will be achieved through the following Strategic Goals:

¹⁶ Transparency International (TI) Corruptions Perception Index for 2012

¹⁷ Gallup survey reported in 2011 SIGMA report

- Modernization of major national motorways, railroad infrastructure, ports and airports to ensure compatibility and further integration with neighbouring countries and with the Pan-European transportation network.
- Improvement of the regional road network, giving priority to connections between national and regional development centres.
- Maintaining quality and improving sustainability of regional and local transportation infrastructure by allocating sufficient funding for maintenance of national and local roads.
- Enhancing and maintaining traffic safety in order to reduce the number of road casualties.

Indicator:

- National road density (km of road per 100 km² area) increased by 45% by 2020 (compared with 2012)
- Tonnage of freight transport increased by 25% in 2020 (compared to 2012).

An Energy Supply Which Facilitates Development.

Adequate supply of energy is required to ensure growth of the national economy, higher living standards and national security. Addressing our current and future energy requirements is among the most important concerns of the NSDI II. The vast majority of Albania's domestically-generated electricity is produced through hydropower plants. Even with such a rich endowment of hydro resources, Albania remains dependent on energy imports which have varied in recent years between approximately 30% and 60% of Total Primary Energy Sources (TPES). Further growth in energy demand and ongoing fiscal concerns will require decisive action.

A major goal for NSDI II is to secure Albania's energy supply into the long term through increased domestic generation of power and through improved integration with regional and European energy systems. We aim to combine efficient high-capacity energy generation with small-scale dispersed energy production supported by improved facilities for importing power and for exporting at times of excess generation capacity. Albania has a favourable environment for investment in hydro and green energy that will be reliable in the long term and is economically sound. Taking full advantage of this will require action on a number of fronts, including exploitation of the substantial opportunities of **hydro resources**. Some 330 concessions have already been granted for medium and small hydro power plants (HPPs), with 57 already feeding electricity into the national grid in mid-2013. A legal framework has also been created for the establishment of **wind and solar generation** of electricity by the private sector.

The most exciting prospect for achieving long-term energy security is the recently agreed Trans Adriatic Pipeline (TAP) which will transport **natural gas** from the Caspian basin to western European markets through northern Greece, Albania and southern Italy. This will provide our country with a secure supply of competitively-priced natural gas for our recently completed **thermal power** plant in Vlora. It will also provide opportunity for natural gas to be supplied directly to households for the first time as a source for central heating, air conditioning and cooking. Construction of the pipeline is expected to commence in 2015 and is forecast to be completed in 2018 and to become operational in 2019.

Energy efficiency will soon become an important challenge for the country's energy system. Improvements in energy efficiency will be of increasing importance for competitiveness in the business sector. Greater energy efficiency in operation of both public and residential buildings needs to be strongly encouraged. Energy efficiency of homes and public buildings will be systematically improved through incorporation of construction standards and efficiency requirements in local government energy plans.

Our aim over the NSDI II period will be to secure Albania's long term energy requirements, with our citizens accessing competitively-priced supplies of electricity and natural gas, obtained increasingly from renewable energy resources. This will be achieved through the following Strategic Goals:

- Facilitating transmission links between Albania, regional markets and European energy exchange systems.
- Developing incentives to increase investment in energy from renewable sources and increase national electricity generation capacity through an expansion in small and medium-sized hydro and wind-power

facilities (through activation of existing concessions and through allocation of new concessions where appropriate).

- Developing a favourable legislative and financing climate for creating a national gas distribution network.
- Improving the energy efficiency of public buildings (including schools and hospitals).
- Developing energy efficiency regulations for all new buildings.

Indicator:

- Energy intensity decreased by 45%.
- Primary energy consumption per capita increased by 25% (to 750 toe/capita).
- Share of renewable energy in gross final energy consumption (Increase to 38%)
- Energy efficiency improved at 9% until 2018, (against 3% in 2012)
- CO2 emissions to 6,478 kton (10 times less than the average of European countries) in 2020

Water Supply and Sewerage Services Accessible for All

Our infrastructure for water supply and wastewater canalisation and treatment has improved significantly over recent years, but still remains underdeveloped and is a high priority for improving living conditions among the population. Albania's water sector suffers a variety of problems including a high level of wastage, illegal connections, below-cost tariffs, inadequate revenue collection, and inadequate maintenance and investment in physical infrastructure. Wastewater collection services need substantial improvements, especially in rural areas. The main challenges in this sector include: improving water supply and sewerage infrastructure and services; increasing access across the population; improving effectiveness of utility services in urban and rural areas by strengthening cost recovery; defining and formalising the tariff structure and differentiation; and merging of water supply and sewerage (WSS) service utilities to form a regionalized service delivery system.

Our aim over the NSDI II period will be to **substantially improve access to high-quality and affordable water supply and sewerage services and wastewater treatment** based on financial efficiency whilst taking into account protection of the environment. This will be achieved through the following Strategic Goals:

- Extending coverage of water and sewerage services to all population and geographical areas.
- Strengthening the regulatory framework to minimize water losses in distribution and agricultural irrigation.
- Increased commercialization of water supply and wastewater utilities.
- Strengthening the legal framework for water and wastewater services to provide a sound legal basis for price setting and cost recovery.
- Expanding metering coverage to disincentivise unequal access and over-consumption.

Indicator:

- Water supply network coverage at 100% for urban areas and 95% for rural areas, by 2020
- Sewerage network coverage 89% in urban and 60% in rural areas by 2020
- Share of population connected to wastewater treatment service increased to 50% by 2020

Modernized ICT Infrastructure and Services for a “Digital Albania”

Over recent years Albania has successfully developed a strong and vibrant communications sector, with nation-wide broadband and mobile phone coverage supplied by a range of providers in an open and competitive market. A modern ICT infrastructure facilitates social and economic growth and competitiveness, as well as raising living standards among the population. Modernization of ICT in public institutions will be oriented towards further digitalization of e-services and improving services to citizens and businesses.

Our aim over the NSDI II period will be to improve further the broadband network and to increase accessibility, capacity and speed of the internet through the following Strategic Goals:

- Digitalisation and development of e-services at national and local government levels.

- Ensuring digitalisation of the education system and improving the curricula and proficiency of education in using the new ICT facilities.
- Opening up access across the whole of Albania's territory to the broadband network and ensuring full access of all to the Internet.

Indicator:

- ICT Development Index rank among 50 economies.
- ICT contribution in GDP to xx by 2020
- Percentage of the population that uses internet from 50 in 2011 to 100 in 2020;
- Public services offered in an interactive way for the public and the businesses from 30% in 2012 to 90% in 2020.

3.2.3. Increasing Competitiveness in Key Growth Sectors

This NSDI II document sets out our aims for increasing competitiveness and for ensuring that growth can and does take place across a range of sectors in the economy. This will be achieved by ensuring that Albania is an attractive location for both domestic and foreign investors, bringing innovation and employment along with them. The role of government will be largely as a facilitator, creating an environment which permits an innovative private sector to spot opportunities, move quickly and invest for growth and development. We recognize that it should not be the Government who picks the winners, which is why we have placed so much emphasis on enabling the private sector to pick out the great business ideas and opportunities that are as yet unidentified across a range of sectors in Albania. This does not mean to say that Government should play no role in 'nudging' development in key sectors where there are, as yet, substantial unexploited opportunities. There are two key sectors that offer substantially untapped growth opportunities that public policy can assist in unlocking the potential of: **tourism** and **agriculture**.

Enhanced Competitiveness Through Higher Productivity

Labour productivity increases, achieved with enhanced competitiveness of the Albanian economy, pose one of the overarching challenges to sustained growth in Albania. The structural reforms of the last decade associated with the opening of our economy to European and global markets created momentum for sustained future growth. Further restructuring of the economy, however, will provide limited potential for further growth as the shift from traditional, low labour cost activities in sectors such as agriculture, construction and textiles towards more skills-oriented and increased value added activities in sectors such as telecommunications, banking, insurance and tourism, has almost completed a full cycle. This important achievement, complemented by significant privatization, has upgraded Albania's economy, but it has also slowed down the potential for further diversification of the structure of the economy. Consequently, enhancing competitiveness through labour productivity improvements will be one of the main challenges for sustaining growth in the coming years.

Productivity of the national economy will be increased by: promoting enhanced technology utilization through specific mechanisms designed to improve productivity; funding mechanisms that facilitate businesses to upgrade their technologies; and upgrading labour skills of the workforce through various programmes aimed at strengthening links between job market needs and the education and training system. Priority will be given to promotion of investments in technology and processing of domestic raw materials as well as modernization, diversification and specialization of industrial products in open and more competitive markets.

National competitiveness will be enhanced further through continuous improvement in regulatory reform.

Further improvement of the national business environment will help in promoting new economic opportunities, new enterprises and jobs. There is a strong link between the impressive progress of Albania in improving its 'doing-business' regulations (including full e-procurement, establishment of the National Business Registration Centre and one-stop-shop service for business licensing, single ID business number, e-tax system, flat tax rate) and consistent positive economic growth experienced over recent years. Further reforms in the business environment will also contribute to the minimization of corruption in the public administration.

Indicators:

Growth of GDP per person employed, increased by 40-50 % by 2020.

Value added increased by an average of 10 % per year;

Productivity increased by 48% (an average of 5% per year)

Promoting FDI and Export Orientation

Foreign direct investment plays an important role in the Albanian economy. There has been a relatively high level of the FDI inflow into Albania over recent years (equivalent to 9% of GDP in 2010 and 7.7% in 2012), despite the recent disruption and uncertainty in the Euro zone. Our private sector development and regulatory framework reforms are expected to result in an increase in FDI as foreign investors become increasingly confident in the business environment over the NSDI II period and beyond, despite the unfavourable investment climate in global markets at the time of preparing NSDI II.

In order to move closer to the group of middle income economies, further growth will need to be export-driven to a large extent. Product diversification and orientation of the economy toward more value-added exports of goods and services will be required to minimize the risk of a growing trade balance. The development of Albania as a key trading partner with EU countries can be seen both as an opportunity for investment, through relocation of industries from these countries, and as a necessity to readjust production activities toward more sophisticated exports in other EU markets.

Indicators:

Share of export services and finished goods in the total exports of Albania, increased every year by 3.%

FDIs average increase of 6.3 annually, reaching 9 of GDP by 2020

Transition to An Innovative (knowledge-based) Development Model

Innovation will be a driving force for increasing competitiveness. Industrial parks will provide one of the preconditions for a transition from the present-day economic model characterized by use of a low or semi-skilled labour force and manufacture of products with low added value to a more innovation-driven and knowledge-based development model. To ensure a successful transition to innovative development, we will provide increasing support to Albanian enterprises that are seeking to modernize their technology by transferring and absorbing (in co-operation with academicians and researchers) innovations currently being applied in other countries or in other local enterprises. Innovation will become a key source of growth and value added, even in traditional, relatively low-technology sectors, such as agriculture, food processing, industry, transport, construction and light industries.

Indicator: Public investments in business oriented research and development expenditure, increased by 10% annually, amounting to 1% of GDP in 2020

Enhancing Competitiveness and Growth through High Quality and Sustainable Tourism

Whilst tourism has made an important contribution to our recent growth performance, the vast size of the *regional* tourism market indicates a largely unexploited potential. Unlocking this potential will provide a substantial stimulus to economic growth in Albania. The full potential of the sector over recent years has been constrained, however, by poor roads and public utilities as well as by unregulated waste disposal, illegal construction and insecure property rights.

In what has largely become a homogenized tourism world, Albania has a great deal to offer from magnificent World Heritage Sites to crystal clear Mediterranean waters, unspoilt mountain terrains and mountain lakes. Our traditional obligation to guests remains as strong as ever, which offers a unique flavour for many visitors. This is certainly true in the development of Albania's cuisine which can compete with the high end market of any European city and at a fraction of the cost.

In addition to the measures outlined elsewhere in this document¹⁸, our aim over the NSDI II period will be **to actively encourage development of middle to high-end sustainable tourism in Albania** through the following Strategic Goals:

- Establishing an international standard certification system.
- Incentivizing development of (high-end) non-traditional tourism (including in mountain areas), and expansion of our tourism services beyond the concentrated summer season.
- Focusing public infrastructure provision (especially with regard to managing wastewater and solid waste disposal) in areas of current and potentially high tourist demand.
- Creating a greater international awareness of the magnificence of Albania's natural environment, traditional heritage, culinary achievements and traditional hospitality.

Indicator: Increase direct contribution of tourism sector in GDP to 8 %.

Enhancing Competitiveness and Growth through Innovation in Agriculture

Agriculture has traditionally been the backbone of the Albanian economy, a sector of great importance providing both food and earned income for the majority of Albanians. As a result of increasing urbanisation over the last twenty-five years, the agriculture sector has declined in importance compared to other sectors and has facilitated overall growth in the economy by releasing labour to more productive sectors rather than through productivity increases in the sector itself.

Agriculture, however, remains the second largest sector in terms of national production (accounting for 21% of GDP in 2012) and still provides employment for the majority of Albanians (accounting for 54% of total employment in 2012).

Productivity and wages in agriculture have traditionally been low compared with other sectors. Agriculture in Albania remains largely traditional in its technological characteristics, with a very low concentration of farms operating commercially (agriculture accounts for just 1.8% of the total number of enterprises in Albania) and production techniques that for the most part remain to be fully modernised. Moreover, only 64% of agricultural land in Albania is currently utilised.

Although the agriculture sector has been in relative decline compared to other sectors over an extended period, this decline was reversed over the last 5 to 6 years. Cultivated agricultural land increased by 6% between 2007 and 2012, due in part to Government incentives for plantations of orchards, citrus, olives, nuts and vineyards. This is one of the reasons that average farm size increased from 1.14 ha per farm in 2007 to 1.26 ha per farm in 2011. Labour productivity in the agriculture sector also increased by 28% over the same period. The number of agricultural holdings (ESU)¹⁹ per farm in 2011 was 2.45 compared with 1.9 in 2007. Overall productivity in 2011 increased by 46% compared to 2007, while productivity in agro-processing increased by 7.5% over the same period. Irrigation and drainage infrastructure improved over most of this period, with the area under irrigation increasing by more than 9,000 ha between 2007 and 2012.

Whilst the long-term story of agriculture in Albania appears to be one of stagnation and decline, in reality the sector is a sleeping giant which has potential to spur on substantial increases in growth in Albania. There are two principle sources of potentially very strong growth in the sector: bringing agricultural land that is currently unused or under-utilised into production; and modernising and commercialising management and production techniques to raise productivity in the sector. Other key challenges in the sector include: enhancing competitiveness of agriculture and agro-processing; enhancement of farm size through land consolidation and land market development; improvements in technology and innovation transfer systems through extension services; improvement of supporting infrastructure to access markets (domestic and abroad); and diversification of activities that generate income in rural areas.

¹⁸ Relating to security of property rights, enhanced infrastructure and utilities, improvements in the business environment among others.

¹⁹ European size unit, abbreviated as ESU, is a standard gross margin of EUR 1 200 that is used to express the economic size of an agricultural holding or farm.

The Government will play an important facilitating role in the sector. Market access is perhaps the key incentive to serious investment in Albanian agriculture. Commercialisation will depend on Albanian produce being able to reach markets in a timely manner. Farms must have access to Albania's growing network of regional and trunk roads. Similarly, investment will be required in cold storage and commercial transport facilities. In addition to general improvements in the business environment, Government will need to provide *direct* support to strengthen phytosanitary facilities and quality assurance. Negotiating the eradication of tariff and non-tariff barriers to trade with and among near neighbours, including Kosovo, has the potential of doubling the market for Albanian produce almost overnight.

Our aim over the NSDI II period will be to substantially increase agricultural productivity through the following Strategic Goals:

- Bringing unused agriculture land into production
- Substantially increasing average farm sizes from 1.26 ha in 2011 to 2 ha in 2020
- Facilitating private sector investment in cold storage, transport and food chain facilities.
- Strengthening phytosanitary controls and quality assurance arrangements consistent with requirements of export markets.
- Facilitating commercial investment in Albanian agriculture, including from established international agriculture and agro-processing companies, potentially through joint-venture arrangements with emerging cooperative organisations.

Indicators:

- Increase Labour Productivity in the Agricultural/agro-processing sector, respectively by 10% and 8% annually, by 2020
- Increase Gross Value Added in agricultural / agro-processing sector (respectively to 363,300 and 75,000 Million ALL)
- Increase Utilized Agricultural Area, to 80% of total Agricultural land by 2020

3.2.4. Maintaining a Stable and Predictable Macroeconomic Environment

Albania has enjoyed a long period of macroeconomic stability, including through the post-2007 international economic and financial crisis when sound economic management and banking supervision enabled us to avoid both recession and banking crises. This does not mean that our country has been completely unaffected by the post-2007 world economic situation, having experienced a loss of some remittance revenues and a slow-down in our very long period of high economic growth rates.

It will be crucial for us to maintain this level of macroeconomic stability well into the future to give confidence to potential investors over the predictability of our economic environment. Our recent public investments in roads and other important aspects of public infrastructure (themselves foundations of our growth strategy) have raised our public debt stock close to 64% of GDP in 2013 and our fiscal deficit to around 3.5% of GDP. It will be important for the Government to continue playing a full and active role in delivering investment as both a facilitator as well as an investor in those key areas where the private sector fails to establish essential infrastructure – but to ensure that this role does not compromise our good record on macroeconomic management.

Our aim over the NSDI II period will be for macroeconomic stability to be maintained through the following Strategic Goals:

- Limiting our stock of debt to less than 60% of GDP by 2020.
- Reducing the fiscal deficit to less than 2% of GDP.
- Ensuring that any new borrowing is used for investment rather than consumption purposes.

3.2.5. Developing a Well-Educated and Healthy Labour Force

A healthy and well educated workforce is vital to Albania's competitiveness and productivity. Competitiveness and productivity does not come only through financial investment and technology adoption, but to a large degree depends on human capital - a well educated and healthy population. Ensuring a healthy population has always been a fundamental aim of the Government as this is central to the well-being of Albanians and to the cohesion of our society. Basic health among the population is also a straightforward economic issue – healthy workers are absent from work less due to illness and are more productive when in work. As with health, education is central to well-being of citizens and to cohesion in our society. Ensuring that Albanians are well-educated is a straightforward economic issue too – education increases the efficiency of individual workers and can be a constraint to productivity when education quality and/or access is low.

Further discussion of health is presented in Section 3.3.2.

3.2.6. From "Education for All" to "Quality of Education for All"

Albania has traditionally enjoyed a strong record in terms of school-age access to primary and secondary education²⁰. The 2012 Human Development Index (HDI) report rates Albania equal to the average level of Europe and Central Asia (ECA) countries (10.4 years) in terms of "average years of schooling"²¹ for the adult population, and above the High HDI²² countries average by 2.2 years. Albania rates unsatisfactory on expected years of schooling²³ (11.4 years), scoring lower than average level of ECA (13.7) and High HDI countries (13.9). The school drop-out rate had fallen by 0.37% in 2012 compared to its level in 2007. The percentage of pupils entering into secondary education has reached 92%. Our "Quality and Equality Education Programme"²⁴ has successfully attempted to introduce greater choice in the curriculum²⁵.

The key challenges in basic and secondary education remain teaching quality, access to education (in remote and mountain areas) and ensuring a more even distribution of education infrastructure across the regions and in both urban and rural areas.

Previous reforms have mainly *addressed the supply side*. Many young people entering the world of employment from our education system, however, have yet to develop the kind of skills required for a modern market economy. The vocational education system has been reorganised to adapt to the dynamics of market development and in full compliance with the European Qualifications Framework, but the quality of teaching and the volume of enrolment remain low. This issue is of particular concern for firms that require modern and adaptable skills and which are likely to be the main sources of future productivity growth and employment.

We aim to expand access and improve quality of education at all levels and to respond to the demand requirements and social dynamics of a rapidly changing Albanian economy. The aim will be to provide Albanians with high-quality basic and secondary education. Intensive improvements will be made also to vocational education which is critical for creating the professional skills required by a fast-moving and modern market.

Our aim over the NSDI II period will be to expand access and (especially) to enhance quality of education through the following Strategic Goals:

- Further strengthening of *education quality* to reach PISA standards and improving education *curricula at all levels* consistent with this.

²⁰ This section refers to pre-tertiary education. Tertiary education issues are addressed in Section 3.2.2.6.

²¹ Mean years of schooling for the adult population, is the average number of years of education received in a life-time by people aged 25 years and older.

²² Human Development Report presents Human Development Index (HDI) values ranking 187 countries and UN-recognized territories into three main groups, based on the level of indicators: Very High Human Development Indicators; High Human Development Indicators and Low Human Development Indicators. Albania is part of the second group

²³ Expected years of schooling for children of school-entrance age, is the total number of years of schooling a child of school-entrance age can expect to receive if prevailing patterns of age-specific enrolment rates stay the same throughout the child's life

²⁴ "Quality and Equality in Education", a 75 million USD project financed jointly by the Government of Albania, World Bank, European Investment Bank, the Council of Europe Investment Bank

²⁵ Of particular importance has been the introduction of an ICT curriculum in secondary schools, retraining of teachers consistent with the needs of this curriculum and provision of computing labs and internet access within schools.

- Reforming and improving the vocational education (VET) system to deliver skills that integrate with de facto labour market requirements and to expand the number of students following VET studies.
- Implementing the Albanian Qualification Framework (AQF) and lifelong learning in VET system.

Indicators:

- GDP share for basic and secondary education..xxx
- Drop out rate in basic education decreased at 0.19%
- Increase to 95% the share of pupils that complete the primary school and attend the secondary education
- Literacy level of young people (aged 15-16) according the OECD PISA standards (biggest progress as compared to SEE countries)
- Increase the ratio between new admissions in vocational education and general high schools to 33% and 67% in 2020

3.2.7. Driving Productivity through Quality in Higher Education

Ensuring the quality and integrity of tertiary education is crucial in persuading prospective investors that Albania is a strong location with a good stock of adaptable workers who are endowed with the advanced skills that modern business requires. It is not sufficient for the Albanian education system to produce students with good basic education. We will soon be competing in an open European market, and are already competing with economies in a world markets. Access has expanded substantially recently through growth in private universities and colleges. Ensuring that such growth occurs whilst maintaining and improving quality of the education that is delivered to this wider student body is fundamental.

Albania has responded well to this challenge over recent years. Improving access to tertiary education and implementation of structural reform through the introduction of three-cycle studies, in compliance with the Bologna process, has been important. The number of students enrolled in academic year 2011-2012 in both the public and private education system was double the figure for the 2007-2008 academic years as result of a sharp increase in the number of private universities. This rapid growth in tertiary access represents an important milestone in preparing for the demands of the modern market that Albania will be competing in over the NSDI II period and beyond.

The higher education system will be transformed into an important driver of innovative growth, through: significant private sector participation; improvements in quality consistent with European standards; greater direct contributions to innovation and research; and strengthening links between national research bodies and the planning and research departments of private businesses. Particular attention will be paid to: increasing significantly the proportion of students studying natural sciences and engineering; stimulating greater interest in post-graduate education through greater state support for masters and doctoral studies, particularly those in engineering and the natural sciences; integrating into the unified European (global) space for higher education; improving and extend the use of e-resources; and improving information technology skills at all levels.

Improved higher education through quality assurance and accreditation

Rapid expansion of tertiary education, however, requires vision and planning combined with well-designed regulation to ensure that expansion does not come at the cost of falling standards and suspicion of the value of degrees and diplomas from Albanian bodies. Infrastructure for this has already been established through the Public Accreditation Agency for Higher Education (PAAHE) and the Accreditation Council, both of which work towards increasing quality in higher education through quality assurance and accreditation.

Our aim over the NSDI II period will be to secure the standards of our new universities and establish a reputation for excellence in higher education across all our tertiary education institutions through the following Strategic Goals:

- Improving *quality assurance* and *accreditation* arrangements for tertiary education.

- Continuing with the reform of the higher education curriculum and restructuring consistent with our obligations under the Bologna process²⁶.
- Expanding enrolment in areas of skills shortage (particularly for programmes in engineering and the natural sciences), including through incentive schemes where appropriate.
- Improving cost-sharing and ensuring improvements in access to for low-income students.

Indicators:

- Gross enrollment ratio in tertiary education in % (expressed as a percentage of the official school-age population for the same level of education) xxx.
- Rate of employment of students finishing tertiary education. xxx

3.2.8. Ensuring Well-Functioning Labour Markets

Increased employment opportunities and establishment of a consolidated, safe, flexible and inclusive labour market is one of the most important elements of the NSDI. In practice, Albania's labour markets are reasonably efficient²⁷, with relatively sound and flexible labour relations between worker representatives and employers, and competitive pay in relation to productivity. Recent increases in productivity have been realized, in part, through a marked shift of workers from agriculture to the services and manufacturing sectors. As a result of this, employment in the higher productivity sectors rose by over 20% in 2012 compared to 2007. The overall employment rate of the active labour force in Albania is around 87%. Albania performs well compared to other countries of the region in terms of overall gender employment rates²⁸, while our youth unemployment ratio is the lowest in the region²⁹. Despite this, employment rates among young people exiting tertiary education remain low. Another issue of concern is the high rate of informal employment, which undermines competitiveness, weakens labour standards and often fails to provide circumstances for a decent and safe work environment. Informal employment remains a prevalent feature especially amongst female workers. In general, females continue to have lower wages in the labour market. According to the latest LSMS³⁰ the gender wage gap is approximately 18%.

Future challenges include: addressing informality in employment; and strengthening labour inspection mechanisms; a need to increase the general qualifications of the labour force and its orientation towards labour market demands for employment; introducing the concept and practice of life-long learning.

Our aim over the NSDI II period will be to consolidate and further improve our labour markets with the aim of increasing employment rates and improving safety and productivity of the labour force through the following Strategic Goals:

- Increasing efforts to formalise employment and minimise unfair employment practice.
- Producing school graduates with increasingly relevant and marketable skills oriented to the needs of Albanian employers and potential investors.
- Promoting joint efforts among educational institutions and business community representatives to improve the quality of education (in particular vocational training) to better fit to the required skills of the labour market.
- Promoting merit based employment practices in the public sector.
- Improving the business environment through policies for reducing employment imbalances between rural and urban areas.

²⁶ The Bologna Process aims to create a European Higher Education Area (EHEA) based on international cooperation and academic exchange. In particular, it aims to: establish a three-cycle structure of comparable degrees (e.g. bachelor-master-doctorate); establish common quality assurance standards; and ensure mutual recognition of degrees across countries.

²⁷ The Global Competitiveness Index 2012 – 2013 ranks Albania²⁷ on 68th place out of 144 countries as regards labour market regulation with its labour efficiency index. Albania's Labour efficiency index at 4.4 out of a maximum 7, is better than other comparator regional countries.

²⁸ 2013 Human Development Report indicators. Female participation ratio in the labour market: Albania:49.6%, FYROM: 42.9%, BiH:35.2%, Turkey: 28.1%.

²⁹ Youth unemployment ratio Albania:28.3%, FYROM: 55.7%, BiH:60%, Serbia: 46.1%; Montenegro:40%.

³⁰ Living Standards Measurement Survey

- Increasing financial support schemes for creative businesses and SMEs that generate further employment.
- Ensuring safe working conditions through strengthening of the labour inspection system;

Indicators:

- Decrease unemployment rate to 9.8% (age group 15-64)
- Decrease youth unemployment rate to 20.5% (age group 15-29)

3.2.9. Harnessing the Potential of Financial Markets

Businesses need access to capital to support medium and long-term investment and must look beyond the banking sector per se for this. The non-bank financial sector, however, is an area where Albania is relatively weak, with little or no financing provided through the local equity market, weak access to domestic loan facilities, limited access to venture capital and weak regulation of the securities market.

Our aim over the NSDI II period will be to improve private sector access to domestic credit facilities through the following Strategic Goals:

- Creating an enabling environment for private banks to expand credit to the private sector and to substantially reduce (private sector) non-performing loans.
- Enhancing the supervisory capacity of the Financial Supervisory Authority (FSA).
- Further developing the non-bank financial sector

Indicator: - xxxx

3.2.10. Expanding Market Access to Albanian Goods

Access to growing markets will be vital to convert competitiveness improvements into growth. The Albanian market alone, with a total population of less than three million people, will provide only limited opportunities for growth. The EU market will be fully open to Albanian goods and services in time. In the meantime, Albania must expand market access elsewhere. In addition to ongoing efforts to broaden market access in the Western Balkans and elsewhere, an important and relatively untapped opportunity lies on Albania's doorstep with Kosovo. Creating a free trading zone would double the size of Albania's immediate market overnight.

Our aim over the NSDI II period will be to expand market access of Albanian goods through the following Strategic Objectives:

- Continuing efforts to increase access of Albanian goods to European markets.
- Negotiating improved trade agreements with selected trading partners.
- Opening up discussions with our neighbouring countries, Kosovo in particular, to substantially lower tariff and non-tariff barriers to trade.

Indicator: Trade Freedom Index / sub indicator of the Economic Freedom Index - 2nd highest in the rank among SEE countries

3.2.11. Minimizing Environmental Degradation and Preserving Our Renewable Resources

Care for the environment should not represent a burden to economic development but open up alternative environmentally-friendly business opportunities. Our vision for sustainable development is based on balancing our economic, social and environmental requirements in order to ensure that the needs of the current generation

are met without compromising the ability of future generations to meet their own needs as a result of a degraded environment and depleted natural resources.

Key environmental challenges in Albania include: contamination of water resources and marine waters due to insufficient wastewater collection and treatment, leaking sewers and waste dumps; soil erosion as a result of unsustainable forestry, agricultural and pastoral practices; land contamination from abandoned industrial installations, mining enterprises and waste dumps; and waste management which constitutes a major source of pollution. Furthermore, sizable investments are needed in the water, wastewater and solid waste areas, where a substantial portion of the population still has a limited access and where environmental standards for wastewater treatment and solid waste management are barely met.

Albania's long term growth will also rely on renewable resources continuing to be available well into the future. A diverse and high quality natural environment is important to Albania and it must be respected and integrated in the development of the country as a whole. Preservation of diversity is needed in order to ensure a healthy living space and sustainable development as well as to fulfil international environmental obligations. In our vision, it will be especially important to maintain a balance between potential economic activity and careful management and preservation (to the greatest possible extent) of non-renewable resources.

The strategy for adopting EU standards on the environment is more complex and resource intensive than in other sectors. Whilst our national environmental priorities overall are consistent with EU requirements, the benefit to cost ratio of the investments involved may not always be satisfactory over the short term (and sometimes even over the medium term). To address this, our environmental reform agenda will be driven by efficiency considerations aimed largely at the introduction of market mechanisms for pollution mitigation and inducing greater private sector participation to alleviate the fiscal cost associated with environmental protection.

The aim over the NSDI II period will be to ensure that the policy framework for environmental protection is effective through the following Strategic Goals:

- Integration of environmental concerns into all Albanian development policies and actions.
- Effective enforcement of legislation to protect forest, land and water resources.
- Improving air quality and reducing air pollution and noise in the main urban areas to conform to EU standards.
- Establishing sewerage and waste water treatment infrastructure for the entire coastal and lake areas and establishing a comprehensive multiple-use system for effective coastal management.
- Ensuring sustainable biodiversity protection and management and increasing areas designated as 'protected'.
- Encouraging public participation in environmental protection and preservation through environmental education and raising of environmental awareness among the population.
- Supporting sustainable development of the natural environment for both recreation purposes and to promote ecotourism.
- Stimulating development of innovative businesses with substantially less reliance on intensive use of natural resources.

Indicators:

- Reduce the national level of main air pollutants (NOx; PM10; PM2,5; SO2) by 15-25 %
- Recycle 55% of waste and ensure that the remaining 45% are disposed in sanitary landfills
- Increase protected areas to 17% of the entire territory
- Reduce by 16% GHG emissions compared to baseline year (1990)

3.3. Moving From Greater Wealth to Enhanced Well-Being

3.3.1. A Cohesive and Balanced Development

Well-being and equality of opportunity in Albania requires economic and social development that are cohesive, inclusive and balanced. This will be a central aim of our development policies. This means that economic opportunities should not be limited to our major urban centres, specific areas or social groups. The improvements in services and infrastructure that we envisage in this NSDI II document, including in energy, infrastructure, water, waste management, health, education and social services must be established throughout the country and must benefit all of our communities. Nevertheless, specific areas and communities will always face challenges by virtue of their location in mountainous, remote or border areas. It is our policy that these areas will not be left behind as the wave of development and modernization washes over the rest of the country.

The regions of Albania still shelter considerable potential for economic growth that is not being fully utilized. There is inequality between some areas in terms of income and economic activity as well as access to services. This is associated with disparities in the quality of life of people living in different regions. This situation can encourage an outflow of economically active people from less to more developed areas which, together with a relatively low level of productivity in rural areas, can further reduce the prospects for growth and well-being in the less developed parts of our country.

We will aim to ensure that national economic progress is based on development initiatives that deliver benefits to all regions of the country by taking into consideration the characteristics and potential of the country as a whole and within each of its constituent parts and by minimizing disparities between regions and within each region. At the same time we will strive to ensure that distinctive features, comparative advantages and potential within each region and area are preserved.

Over the NSDI II period we will aim to enhance national well-being and contribute to sustainable growth by strengthening the capacity of regions and using their advantages and resources as effectively as possible. By reinforcing rural–urban partnerships it will become possible to provide people with greater equality in living and working conditions, accessibility to services and mobility to take advantage of economic opportunity.

Particular attention will be given to Albania’s border areas. Whereas most communities in non-border areas are unrestrained in their options and opportunities for internal trade, the ‘artificial’ barrier that national borders represent effectively closes down many of the opportunities for trade and commerce that would otherwise naturally exist in the absence of a border. The aim will be to minimize this debilitating influence of borders on economic opportunities and explore the potential for joint development initiatives on the both sides of the borders. In addition to domestic initiatives, particular importance will be given to implementation of EU-funded cross border and territorial cooperation initiatives with neighbouring countries.

Our aim for a cohesive and balanced development will be achieved through the following Strategic Goals:

- Ensuring the development and implementation of a common national planning system that ensures the harmonization of regional and sectoral development initiatives.
- Ensuring that support to economic growth, job creation and vocational education responds to the differing needs of regional labour markets.
- Reducing differentials in regional standards of public infrastructure and service networks and encouraging links between regions for balanced development.
- Facilitating the common development of all regions – by further stimulating cooperation and exchanges between the urban and rural territories;
- Ensure that our regional policies take full advantage of EU funding opportunities to deliver infrastructure for balanced and cohesive development.
- Ensuring regional integration of environmental protection initiatives.
- Diversifying and strengthening our cultural heritage with the aim of increasing tourism potential, especially for mountain areas.

- Encouraging the use of public and private partnerships in delivering regional investment, especially in less developed areas.

Indicator: Narrowing of regional disparities from national average in GDP per capita.

3.3.2. Enhanced Well-Being with a Healthier Population

Our Policies in the health sector seek to ensure equitable access to health services, better service delivery quality and improved financial efficiency of the health system. Albania has made strong efforts to address major health sector challenges over recent years resulting from: demographic and epidemiological changes; socioeconomic disparities; limited resources; and technological developments. This has included coordinating policies (and associated reforms) in the health sector with those of other relevant sectors in order to address the social, environmental and economic determinants of health issues in Albania. Improvements in health are linked, for example, to expanding access to safe water and sanitation and improvements in the sanitary disposal of solid waste. Likewise, government reforms in education, empowerment of women and social protection facilitate improvements in health by addressing some of the social determinants of ill-health. As a result, infant mortality has declined from 11.9 deaths per 1,000 live births in 2007 to 8.7 in 2011. The mandatory vaccination scheme against major childhood diseases now covers 97% of children, which is higher than the rate for other countries at similar income levels. The introduction of financial autonomy in family health service delivery has also had a positive impact in increasing average daily visits per family physician to 9.3 in 2011 compared to 5.7 before this autonomy was granted in 2007.

Liberalization of health services and private participation in the health sector has improved quality in health service delivery. In spite of these achievements, the health sector continues to face major challenges from: poor quality of services; poor infrastructure of health institutions; an inefficient health insurance system; limited accessibility for the population in remote or poor areas; and high levels of corruption (as perceived by the population) which disproportionally affect the poor and vulnerable.

Our aim for improving the health sector over the NSDI II period will be to improve access for all our citizens to a well-defined package of primary and secondary health care services and to ensure that Albanians are able to access tertiary care when required. This will be achieved through the following Strategic Goals:

- Reforming the health insurance system and expanding the *effective base* for health contributions.
- Ensuring equal access to effective health services for all through improving health infrastructure and distribution mapping.
- Increasing the quality of health care and specialized services through enhancing public-private partnerships and establishing innovative health schemes.
- Improving public perception of the public health service through increased quality, enhanced transparency and strengthened accountability.

Indicators:

- Human Development Index (2nd highest in the rank among SEE countries)
- Life expectancy at birth (highest level as compared to SEE countries)
- Mortality rate, infant & maternal respectively 5.5/1000 and 5/100,000 live births

3.3.3. Caring for All Members of the Community

Ensuring that all members of the community, including the poor and most vulnerable, are properly catered for in an increasingly cohesive society is one of the major aims of the NSDI II. Among other things, this requires that social safety nets and social services are provided for the poorest and most vulnerable members of society to carry them safely through temporary difficulties and to provide the platform and support through which participation in the economic and social life of the nation does not pass them by.

Reforming and improving the social insurance system remain high priorities. Reforms to date have been aimed at: increasing equity among those benefiting from the system; reducing the differences between pension levels in urban and rural areas; and increasing the number of contributors. As result of incentives introduced recently the overall number of contributors has increased³¹, although the agriculture sector, which has the largest number of employees in the economy, still has low contribution levels compared with other sectors. Looking forward, key challenges include: increasing low benefit levels; expanding coverage; widening participation to incorporate the whole population; addressing the current deficit of the scheme; and reduce current levels of evasion.

The government is committed to increasing equity and efficiency of the social assistance scheme. Social assistance is largely accounted for by two main schemes: the economic aid scheme (otherwise known as “Ndhima Ekonomike”³² (NE), which is the main poverty-targeted benefit programme; and disability assistance benefits. NE provides income support to the poorest households. Recent efforts to improve the accuracy of NE targeting (through improving controls over cash payments) resulted in a 17.5% reduction in the number of non-poor families benefiting from scheme in 2012 (compared to 2007). The NE scheme, however, still suffers from low efficiency and low levels of cash benefit (compared to need) with limited impact on household consumption and poverty levels³³. More attention in the area of social assistance will be paid in the future to people with disabilities, especially with regard to non-cash forms of assistance, including psychological counselling and emergency care and protection, which are vital not only for people with disabilities but also for family members caring for disabled people.

With the decentralisation process completed, **social protection and social assistance services are being increasingly provided by local government units, with a considerable component of the service being delivered in partnership with NGOs and private operators.** Increasing effectiveness and quality of social assistance will require stronger financial and strategic planning at local level and improved data on eligibility of beneficiaries, supported by stronger enforcement of common standards and quality of service through national inspection bodies. Increased local government contributions for community-based social services will be important to increase funding and will strengthen further the role of local government units and sustainability in the provision of social services.

Our aim over the NSDI II period will be to ensure that the most poor and vulnerable are catered for and provided opportunity to lift themselves fully into social and economic life as all other citizens.

We intend to achieve this through the following Strategic Goals:

- Creating incentives to substantially expand the number of Albanians that contribute and are covered by social insurance, particularly in rural area.
- Ensuring financial sustainability of the social insurance scheme and improving its management through overall modernisation of the system

³¹ In 2012, 27,000 new contributors have entered into the scheme.

³² Ndhima Ekonomike program, which is poverty targeted social assistance benefit, and disability assistance program which is a categorical benefit provided to people with disabilities (irrespective of economic status or severity of disability).

³³ NE benefits account for a relatively small proportion of needs among the poorest beneficiaries and brings only around 0.4% of poor households out of poverty.

- Improving equity and increasing efficiency of financial support.
- Improving efficiency of the pension scheme.

Indicator:

- Share of people at risk of poverty/ social exclusion - lowest level as compared to SEE countries

3.3.4. Greater Inclusion through Economic and Social Opportunities

An inclusive society opens up economic and social opportunities to all of its members, irrespective of their gender, social or ethnic background or sexual orientation. Aside from the importance of openness for cohesion in society, it is also unambiguously good for the economy. Albania needs to get the best leadership, managerial and technical skills from all segments of the population, whether in business, governance or politics. Artificial barriers and constraints that exclude segments of our population from leadership and from key areas of the economy condemn Albania to productivity levels and wealth that are below our potential. It is a fundamental aim of our NSDI II that opportunities in Albania are open equally to every group and every individual in our population. This will serve us well in both our social development and our economic development.

An area of challenge in achieving this aim is that of gender equality. Albania has made great strides in addressing issues of gender disparity over the last twenty years. The overall status of women in our society has greatly improved, with much greater independence of women in the home and in the work place. Women, on the whole, are better educated than their male counterparts and there have been important improvements in maternal and reproductive health.

Despite this progress, **there remains much to be done to properly address gender disparities.** Of particular concern is a continued high prevalence of domestic violence against women. Women also remain significantly underrepresented in public and political life and in managerial and senior levels in the labour force. Despite having more education on the whole than their male counterparts, wages for female workers are something in the region of 18% lower than those for men, with this gap being twice as large in rural areas.

Successive Albanian Governments have developed legislation and institutional arrangements to address many of these issues through the promotion of gender equality and the protection of women's rights. Despite this, further progress is still required in legislation associated with: the electoral system; labour markets; the penal code; discrimination; property rights; and entrepreneurship. Further progress towards gender equality will rely partly on stronger legislation. But, more importantly, real progress will occur when legislation is made effective and, in particular, through an evolution in attitudes towards the place of women in our society.

Other areas of challenge include ensuring that marginalised (including those with disabilities) and minority groups play a full and active part in the economic and social life of Albania. Whilst 6.2% of all ethnic Albanian households receive benefits under NE, the corresponding figure for the Roma community is around 21.5%, which demonstrates the disparity in the economic circumstances of this group. Members of Albania's marginalised groups find it difficult to secure formal employment. Access to education is not yet fully ensured for minority groups. Evidence suggests that the drop-out rate of children with disabilities is approximately ten times higher than the general drop-out rate. The school participation rate among the Roma community is relatively low, with the rate for Roma girls being significantly below that for Roma boys.

The aim over the NSDI II period will be to ensure equal access to social and economic opportunities for all groups and individuals in our society, with particular focus on gender equality across the population in general and among some of our more vulnerable and minority groups in particular. This will be achieved through the following Strategic Goals:

- Adoption of policies and associated legislation that establishes the principle of equal pay for equal work.
- Promoting affirmative action in the public sector with regard to the hiring of women and members of minority communities in those areas where they are traditionally under-represented and through the promotion of an increasing proportion of women to positions of leadership.

- Improving access of women and members of minority communities to credit facilities to support the establishment and growth of businesses.

Indicators:

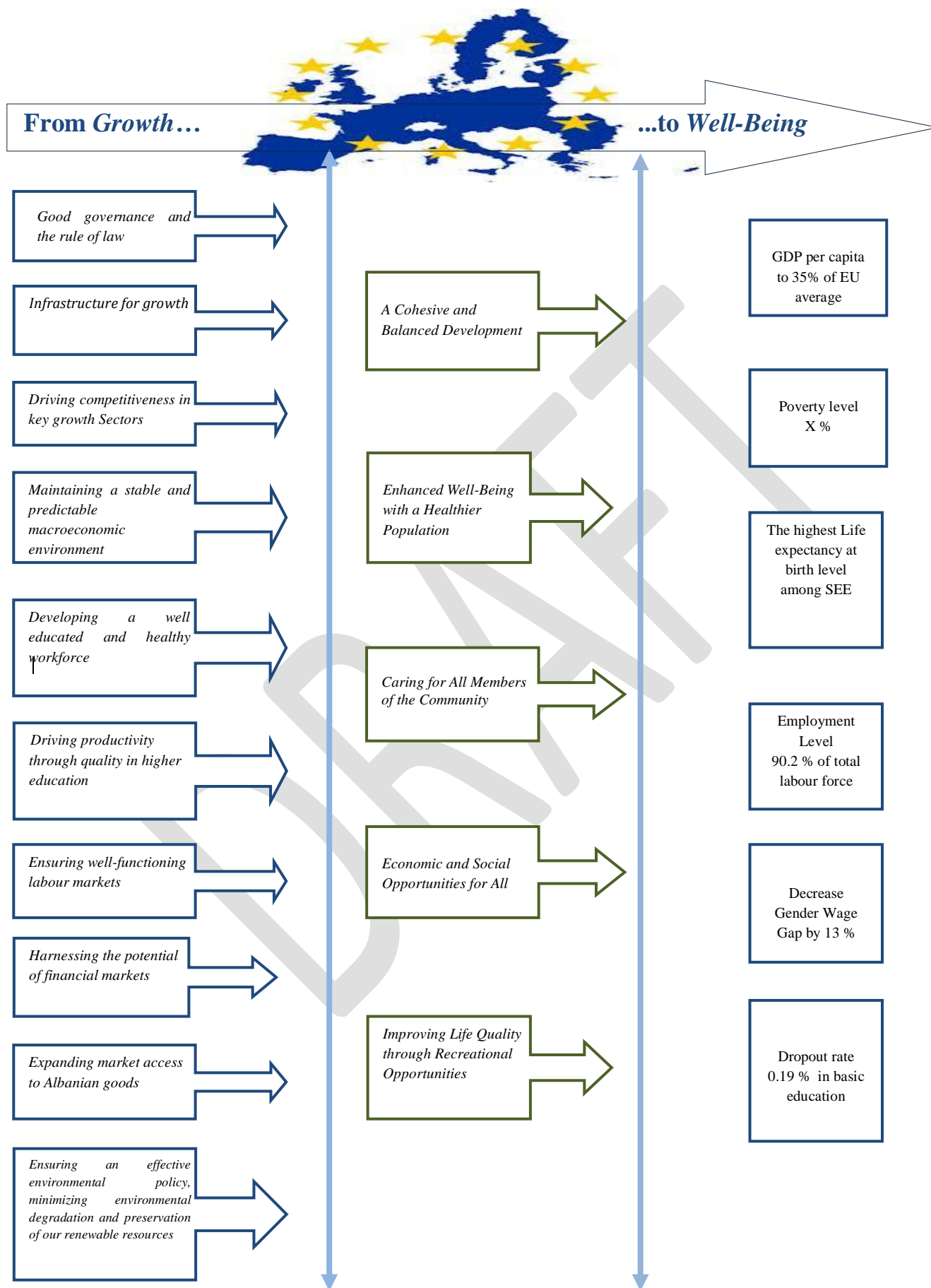
- Increase female participation in labour force to 58.7%;
- Decrease gender wage gap to 13 %

3.3.5. Improving Life Quality through Recreational Opportunities

Balancing of work with leisure activities is essential for a healthy and happy population. Higher life quality not only means higher incomes for individuals and for the country, it also means increasing opportunities for recreation. As our economy grows and as this gets translated into more and bigger living and working premises, it is vital that this is not at the expense of green and open spaces in our cities, towns and villages that enable people to enjoy recreation and improve life quality. It is vital also for space to be preserved and facilities developed for Albanian children to play and for all who wish to have access to and participate in a range of sporting activities.

Our aim over the NSDI II period will be to safeguard and improve our common open spaces and to improve the accessibility and affordability of our sport and leisure facilities through the following Strategic Goals:

- Ensure that planning arrangements respect common open spaces for recreation activities.
- Develop and improve facilities for children's play in our common open spaces and parks.
- Provide incentives for the development of accessible sporting facilities that enable those that wish to participate develop excellence in sport.



PART 2

4. Macro-economic and fiscal perspectives for NSDI 2020

NSDI II sets out our vision for greater national wealth and for transforming increases in wealth into greater well being for all of our citizens. This is underpinned by Strategic Goals and Government actions that are designed to allow the private sector to deliver strong and sustained growth over the NSDI II period and beyond, consistent with this vision.

Government actions to create a conducive environment within which the private sector can flourish and to enable Albanian citizens to enjoy a safe, inclusive and cohesive society, as outlined in this document, are not costless. Even modifying or removing a redundant law requires some form of funding to cater for consultation, drafting and tabling of the legislation at the Assembly. Building essential infrastructure (when the private sector is unable or willing to do this appropriately), improving the quality of education, providing up-to-date extension services for farmers, marketing Albania as a tourist destination and activities in a range of other areas all require some form of public financing so that they can be delivered as required.

Public funds that are used for this purpose come from a variety of sources, including tax revenues, borrowing from lenders in Albania and abroad and grants from our international partners, particularly the European Union. The most important source of Government revenue, however, is the Albanian tax-payer without whom achievement of our vision for Albania over the NSDI II period and beyond would not be possible. This means that an understanding of the amount of tax revenues the Government is likely to receive (along with plans for borrowing and servicing of existing debt, and the grants likely to be made available from our international partners) over the NSDI II period will be essential to ensure that our plans for spending to deliver growth and enhanced well being are realistic. The amount in tax that is paid to our Government depends on a variety of factors, the most important of which is the overall performance of the economy. When the economy is strong businesses make larger profits, more people are in employment and a greater number of those employed receive higher wages. Greater incomes for companies and individuals deliver a larger volume of tax revenue to the Government for spending on public services for Albanians and for enhancing the overall environment for growth.

This means that the NSDI II vision for strong and sustained growth, if successful, will deliver a greater volume of tax revenues over the NSDI II period and beyond than would be the case in the absence of such growth. The planning outlined in this NSDI II document assumes that key aspects of our growth vision will be achieved. It also assumes that this boost to growth, feeding in from approximately 2016 onwards, will provide additional tax revenues that will be used to fund delivery of the Strategic Goals envisaged in this document.

This section explains the thinking and the assumptions used to calculate our estimates for overall government revenues, including tax receipts, over the NSDI II period. To show the expected impact of NSDI II on growth over this period, two scenarios are presented. The first scenario assumes that current policies and plans remain unchanged over the period to 2020. In other words, the first scenario acts as if NSDI II does not exist. The second scenario describes how government revenues should change over the NSDI II period under the assumption that Government actions described in the document of the strategy stimulate the strong and sustained growth envisaged in the document.

Data for each scenario take into account the impact of the recently awarded Trans Adriatic Pipeline (TAP) project on GDP and jobs. The construction period of the TAP project, which is expected to take place between 2015 and 2018, will result in a temporary boost to both GDP and employment through ‘direct’ (construction), ‘indirect’ (outsourcing work to local companies) and ‘induced’ (additional spending of employees) effects. A recent study by Oxford Economics estimates that this will result in an additional average annual contribution to GDP over the period 2015 to 2018 worth around Euro 93.5 million, with an average annual boost to employment over the period equal to around 9,850 extra jobs. (The impact of the operational phase is expected to be more modest, equivalent to around Euro 10.1 additional GDP per year and an additional 450 jobs per year over a 50 year period from 2019.)

Five important assumptions underlie both scenarios:

- The population grows marginally from a current estimate of 2.83 million to 2.89 million in 2020.
- Monetary policy successfully targets an inflation rate of 3 per cent over the entire period³⁴.
- The Lek remains stable against the Euro and US Dollar.
- The budget deficit declines from 3.5³⁵ per cent of GDP in 2013 to 2.4 per cent in 2014 and continues to decline by 0.2 percentage points in each subsequent year to reach a value of 1.2% of GDP by 2020.
- The stock of debt as a proportion of GDP declines from approximately 64% in 2013 to approximately 57% by 2020.

Further detail on these assumptions is presented in Table #.

Table #³⁶ - Key Assumptions Underlying NSDI II Revenue Projections

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Population Million	2.88	2.86	2.83	2.83	2.83	2.83	2.83	2.84	2.85	2.87	2.88	2.89
Inflation	2.3	3.6	3.5	2.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Lek / USD	95.0	103.9	100.9	108.3	109.5	109.7	109.0	108.0	108.0	108.0	107.5	107.5
Lek / Euro	131.6	137.7	140.5	139.0	139.9	139.5	140.0	140.4	141.0	140.0	141.0	140.0
Deficit (of GDP)	-7.0	-3.1	-3.5	-3.7	-3.5	-2.4	-2.2	-2.0	-1.8	-1.6	-1.4	-1.2
Debt Stock (of GDP)	59.4	58.5	59.5	61.9	63.8	63.8	63.4	62.3	61.5	60.2	58.8	57.2

Scenario I (no impact from NSDI II)

Scenario I assumes that there is no impact on underlying growth from NSDI II. To estimate Government revenue over the period 2014 to 2020 (in the absence of any impact from NSDI II on underlying growth) an assumption for annual growth is required, as follows:

- Real GDP grows at a rate of 2 % per annum.
- Nominal GDP grows at a rate of 5 % per annum.

As demonstrated in Table #, under assumptions for Scenario I the tax revenue to GDP ratio remains close to its current level of 24.8 per cent over the entire period to 2020, with the relative contribution from each individual tax and from non-tax revenue also remaining relatively stable over the same period.

³⁴ This analysis which looks at the impact of NSDI II on economic growth and its feedback to government revenue is based on assumed estimates for 'real GDP' and for 'nominal GDP'. Nominal GDP is the monetary value of all goods and services produced in a country in a given year before taking into account whether price changes mean that this monetary value overstates or (less likely) understates growth in GDP. Real GDP is the value of all goods and services produced in a country in a given year after taking into account the impact of price changes. A concept known as the 'GDP deflator' is normally applied to 'nominal GDP' to remove the impact of price changes and thereby to determine *real* changes in GDP. A large increase in nominal GDP is possible, for example, due entirely to increasing prices without any real change in the amount of goods and services produced. Removing the impact of price changes tells us whether there have been any real changes in goods and services produced. Whilst there will not necessarily be a one-to-one relationship between the inflation rate and the GDP deflator, the relationship should be close. To estimate the potential impact of NSDI II on real changes in GDP (real growth), this section assumes that the GDP deflator and the inflation rate are equal over the NSDI II period.

³⁵ This value for the deficit at end 2013 was estimated at the mid-point of 2013.

³⁶ The data in Table #, as prepared in mid-2013, incorporate 'actuals', provisional estimates and forecasts. Data for 2009 to 2011 are 'actual'. 2012 data are provisional estimates in lieu of final information on these. 2013-15 data represent the forecasts used for MTBP preparation. Forecast data for 2016-2020 comprise assumed values.

Table #³⁷ - Revenue as a % of GDP (Scenario I)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Tax Revenue (GDP)	23.6	23.6	23.4	22.8	23.3	23.1	23	23.2	23.1	23.2	23.1	23.2
VAT	9.6	9.3	9.2	8.8	9.1	9.0	9.0	9.0	9.1	9.1	9.1	9.2
Profit Tax	1.5	1.4	1.5	1.2	1.3	1.2	1.2	1.3	1.2	1.2	1.2	1.2
Excise Tax	2.9	3.2	3.1	2.7	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Personal Income Tax	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
National Taxes and Others	1.2	1.5	1.6	2.2	2.2	2.3	2.4	2.4	2.5	2.5	2.6	2.6
Customs Duties	0.7	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Small Business Tax	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Local Taxes	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.5
Social Fund Contributions	4.3	4.4	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.2	4.2	4.2
Non tax Revenue (GDP)	2.1	2.6	1.8	1.7	1.5	1.6	1.5	1.6	1.5	1.4	1.4	1.4
Total revenue (GDP)	25.7	26.2	25.2	24.5	24.8	24.7	24.5	24.8	24.6	24.6	24.5	24.6
Total revenue (Lek Mn)	294,551	320,116	326,658	329,456	348,454	363,316	377,310	398,640	416,030	436,626	458,696	484,460
GDP(Lek Mn)	1,148,082	1,222,462	1,297,710	1,346,169	1,407,016	1,469,199	1,537,084	1,609,649	1,688,995	1,777,418	1,872,261	1,972,164
Real GDP Growth					1	2\$	2	2	2	2	2	2
Nominal GDP Growth	5	6	6	4	4	5\$	5	5	5	5	5	5

³⁷ Data in this table comprise 'actuals', provisional estimates and forecasts as at mid-2013. Data for 2009 to 2011 are 'actual'. 2012 data are provisional estimates in lieu of final information on these. 2013-15 data represent the forecasts used for MTBP preparation. Forecast data for 2016-2020 comprise assumed values.

Scenario II - incorporating impact from NSDI II

Scenario II assumes that Government actions aimed at driving private sector growth are successful and lead directly to a stronger growth performance overall due to improved growth in key sectors. Scenario II assumes that the impact of NSDI II actions do not take effect until 2017 onwards. For the period 2014 to 2016, the assumption for underlying growth is the same as that for Scenario I (2 % real growth and 5 % nominal growth per annum)³⁸. For the period 2017 to 2020, Scenario II assumes faster growth compared to Scenario I in agriculture and tourism in particular, resulting from the impact of NSDI II policies. Nominal agriculture growth is assumed to increase from 4 % per annum in 2016 to 13 per cent per annum in 2020 as a result of NSDI II policies³⁹. Anticipated growth in the tourism sector is expected to be reflected in higher growth in the ‘*construction*’, ‘*trade, hotels, restaurants*’ and ‘*transport*’ sectors. Nominal *construction* growth is projected to increase from 3 % in 2016 to 10 % in 2020, whilst nominal growth in *trade, hotels and restaurants* is projected to increase from 5 % to 13 % over the same period and nominal *transport* growth is projected to increase from 8 % to 13 % over the same period. Projected changes in GDP growth over the NSDI II period under Scenario II assumptions are presented in detail in Table #.

Table # - Nominal GDP growth rates by sector to 2020 ()

	Period Prior to NSDI Policy Impact									NSDI Policy Impact			
Sector (nominal growth)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Agriculture etc.	10	6	10	7	8	6	4	4	4	10	10	13	13
Extractive Industry	40	-10	48	22	29	8	8	9	10	10	10	10	10
Manuf. Industry	14	12	21	4	-5	4	4	4	4	7	7	7	7
Construction	12	0	-18	0	-13	2	3	3	3	7	7	10	10
Trade Hotels Restaurants	11	4	7	8	7	6	5	5	5	10	10	13	13
Transport	12	6	20	22	-3	3	7	8	8	10	10	13	13
Post and Telecom	9	-3	-8	-2	9	3	2	3	3	3	3	3	3
Public Admin etc	15	13	12	4	9	4	4	4	5	5	5	5	5
Other services	9	8	6	4	9	4	4	4	5	6	6	6	6
Overall GDP growth (nominal)	12	6	6	6	4	4	5	5	5	8	8	10	10
Overall GDP growth (real)						1	2	2	2	5	5	7	7

The faster growth in key sectors is expected to result in overall real growth increasing from 2 % in 2016 to 7 % in 2020 (implying nominal growth increasing from approximately 5 per cent to approximately 10 per cent over the same period). The faster growth rates assumed under Scenario II would be expected to result in higher company profits, greater employment and higher wages, which in turn would be expected to result in higher tax revenues. These effects have been built into the revenue projections for Scenario II that are presented in Table #.

Before the full story can be completed on projected changes in tax revenue receipts under Scenario II, one further factor must be taken into account. This relates to projected changes in two aspects of the economy over the NSDI II period:

- The size of the non-monetised component of the economy compared to the monetised component. (The non-monetised economy incorporates the production of goods and services that are not exchanged for money. This would include, for example, agricultural production that is used by farmers to feed their own families.)

³⁸ To avoid confusion, it is important to note that overall growth is derived from the combined effect of growth in a range of sectors. Growth rates in some (or all) of those sectors are likely to diverge from the combined growth rate of 5 percent. This explains why growth rates for individual sectors over the period 2014 to 2016, as presented in Table #, are different to the assumed composite growth rate of 5%.

³⁹ If the GDP deflator for the agriculture sector were to equal the combined GDP deflator for all sectors (assumed at 3 percent over the NSDI II period), then real growth in the agriculture sector over the period 2016 to 2020 would rise from 1 percent to 10 percent per annum under the assumptions for nominal growth. In practice, price changes are likely to affect each sector differently, implying different GDP deflators for each sector (which are assumed to result in a combined GDP deflator of 3 percent).

- The size of the monetised economy that is registered for and pays direct tax (the ‘formal economy’) and that contributes to indirect tax revenues through spending cash income on goods and services that subject to tax, compared to the size of the monetised economy that evades its direct tax obligations (the ‘informal economy’).

This is explained in more detail below.

Projected Changes in the Non-Monetised and Informal Components of the Economy

Countries with (what appear to be) similar economic structures and similar tax structures can sometimes have unexpectedly different tax-to-GDP ratios. One reason is that some countries with *relatively high* tax-to-GDP-ratios have economies where the ‘monetised’ component is relatively large, with most activity in industry, agriculture and tourism leading to the production of goods and services that are traded for money. Earning money leads to payment of direct taxes. Spending money leads to the purchase of goods and services that are subject to indirect taxes such as VAT and excise. In countries where the non-monetised component of the economy remains significant in some way, the tax to GDP ratio would normally be lower than countries with a similar economic structure (and tax structure) where there is relatively little non-monetised economic activity. Similarly, in an economy where there is a relatively large incidence of tax avoidance (i.e. where the ‘informal economy’ is relatively large), the tax-to-GDP ratio would normally be lower than in other countries (all other things being equal).

As with other economies, the structure of Albania’s GDP is made up of two main elements: the *observed* value added (i.e. ‘formal’ economic activities) and the *non-observed* value added (i.e. ‘informal economic activities’ plus ‘non-monetised own consumption’). Part of Albania’s *non-observed* value added is accounted for by ‘*own-consumption*’ of agriculture (i.e. some Albanian farmers do not trade their production but consume it instead). This aspect of ‘value-added’ is part of the *non monetised sector* in Albania. The relative size of the non-monetised, informal and formal components of the economy respectively influence the size of Albania’s effective tax base relative to GDP.

We have estimated the non monetised, formal and informal shares in GDP by looking at the way GDP is estimated in Albania. The calculation of GDP using value added by sector shows in 2010 that 39% of agriculture value added was not sold (i.e. it was not monetised) and 17.5% of value added in all sectors minus public administration is generated using the non observed technique⁴⁰ which is a proxy for the informal sector. In 2004, comparable figures were 44 and 29 per cent. This would suggest that in 2010, 7.9 per cent of overall GDP was non monetised, 13.7 per cent was informal, 64.5 per cent of GDP was formal with a further 14 per cent of GDP in public administration. In 2004 the comparable figures were: 11% of GDP was non monetised, 23% of GDP was informal, 58% was formal and 9% was in public administration. This indicates that Albania’s tax base has expanded but that it has room to grow further.

Understanding the structure of the economy in this way is important for both explaining and forecasting revenue, as the contribution of the formal sector to tax revenues will be higher than that of the informal sector. Similarly, the contribution of the informal sector to tax revenues will be higher than that of the non-monetised sector, because some of the revenues earned by individuals and business in the informal sector will be spent on goods and services that are produced by the formal sector (and subject to indirect taxes as a result). Businesses in the informal sector are unlikely to be registered for VAT and their value added will not be taxed, though any inputs purchased from the formal sector will be subject to tax. The surplus of the informal sector will be taxed through presumptive taxes if the tax authorities have been able to register the entities, whereas formal sector companies will be taxed on their profits. Formal sector companies’ employees will be subject to PAYE, while informal entities will not. The non-monetised element of GDP will be outside the tax base completely.

Changes in the relative size of the formal, informal and non-monetised components of the economy, therefore, are likely to result in changes in tax revenues, without any corresponding changes in tax policy or tax administration. (In practice, improvements in tax policy and administration are likely influence the relative sizes of these three components of the economy through greater incentives for compliance.)

⁴⁰ One of the methods for calculating GDP when direct (observed) data is not available.

Since 2007 Albania has embarked on tax policy and tax administration reform that has improved the incentive structure for compliance and has undoubtedly resulted in some improvement in the underlying tax to GDP ratio. The fact that tax-to-GDP ratios have remained relatively constant over a period when nominal tax rates have decreased for many taxes suggests improved tax administration and a greater share of monetised and formal activities in GDP have compensated to a large extent for the potential impact of lower tax rates. Significant future improvements in Albania's tax to GDP ratio, however, will only be properly realised when the monetised and formal components of the economy account for a significantly higher share of GDP than is presently the case.

To account for the potential impact of changes in relative size of the formal, informal and non-monetised components of the economy, the following additional assumptions underlie the revenue projections calculated for Scenario II:

- Further development of the economy under NSDI II results in a graduated movement of economic activity from the non-monetised sector to the informal sector and from the informal sector to the formal sector.
- Continued strengthening of tax administration contributes to greater tax compliance (and, therefore, to relative growth of the 'formal' sector) through improvements in tax registers, tax education and audit.
- From 2014 to 2016, there is a 5 % annual movement of economic activities across sectors each year - from non-monetised to informal and from informal to formal.
- From 2017 onwards (as a result of NSDI II policy impacts) this movement in economic activities across sectors accelerates to 25% per annum (non-monetised to informal) and 20% (informal to formal) respectively.

Scenario II Growth and Revenue Projections

Under the above assumptions for Scenario II, the following projections for GDP and tax revenue growth have been estimated over the NSDI II period:

- Real GDP is projected to grow at
 - 2% per annum up to 2016
 - 5% in 2017 and 2018
 - 6% in 2019 and 2020.
- This implies nominal GDP growth of
 - 5% per annum up to 2016
 - 8% in 2017 and 2018
 - 9% in 2019 and 2020.
- The revenue to GDP ratio increases to 26.6 per cent in 2020 (from a provisional estimate of 24.8 in 2013) reflecting higher growth in key sectors resulting from NSDI II policies and reflecting also the projected movement of economic activities from the non-monetised to the informal sector and from the informal sector to the formal sector.

Table x Revenue as a % of GDP Dynamic Scenario

	Period Prior to NSDI Policy Impact								NSDI Policy Impact			
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Type of Tax (GDP)												
VAT	9.6	9.3	9.2	8.8	9.1	9.3	9.4	9.4	9.5	9.6	9.6	9.6
Profit Tax	1.5	1.4	1.5	1.2	1.3	1.5	1.5	1.5	1.5	1.6	1.6	1.6
Excise Tax	2.9	3.2	3.1	2.7	3.0	3.1	3.1	3.1	3.1	3.2	3.1	3.1
Personal Income Tax	2.3	2.2	2.2	2.1	2.1	2.2	2.3	2.3	2.3	2.4	2.4	2.3
National Taxes and Others	1.2	1.5	1.6	2.2	2.2	2.3	2.3	2.3	2.4	2.4	2.4	2.4
Customs Duties	0.7	0.6	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Small Business Tax	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other Local Taxes	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Social Fund Contributions	4.3	4.4	4.4	4.3	4.3	4.4	4.4	4.4	4.5	4.6	4.6	4.6
Non-tax Revenue (GDP)	2.1	2.6	1.8	1.7	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Total revenue (GDP)	25.7	26.2	25.2	24.4	24.8	25.8	25.9	25.9	26.4	26.7	26.6	26.6
Total revenue (Lek Mn)	294,551	320,116	326,658	328,738	348,666	378,540	398,018	416,662	456,375	497,843	541,503	591,574
GDP (Lek Mn)	1,148,082	1,222,462	1,297,710	1,346,169	1,407,016	1,469,199	1,537,084	1,609,649	1,731,362	1,862,960	2,035,737	2,226,935
GDP growth Reak ()					2	2	2	2	5	5	6	6
GDP growth Nominal ()	5	6	6	4	5	5	5	5	8	8	9	9

Comparison of Scenarios

Table # demonstrates the potential impact of higher growth on tax revenues under scenarios I and II respectively along with the potential impact that increasing formalisation of the economy has on revenue yield.

Table # - Comparison of Projections for Tax Yield Under Scenarios I and II Respectively

	Pre NSDI II Impact			NSDI II Policy Impact			
	2014	2015	2016	2017	2018	2019	2020
Scenario I							
Total revenue (GDP)	24.7	24.5	24.8	24.6	24.6	24.5	24.6
Total revenue (Lek M)	363,316	377,310	398,640	416,030	436,626	458,696	484,460
GDP (nominal, Lek Mn)	1,469,199	1,537,084	1,609,649	1,688,995	1,777,418	1,872,261	1,972,164
GDP growth (%)	5	5	5	5	5	5	5
Scenario II							
Total revenue (GDP)	25.8	25.9	25.9	26.4	26.7	26.6	26.6
Total revenue (Lek M)	378,540	398,018	416,662	456,375	497,843	541,503	591,574
GDP (nominal, Lek Mn)	1,469,199	1,537,084	1,609,649	1,731,362	1,862,960	2,035,737	2,226,935
GDP growth (%)	5	5	5	8	8	9	9
Additional Revenue from Scenario II (Lek Mn)	15,224	20,708	18,022	40,345	61,217	82,807	107,114

This table demonstrates the potential impact of NSDI II policies for growth and assumptions for changes to the structure of the economy on overall tax revenues. The assumptions under Scenario II imply an overall tax revenue of 591,574 million Lek in 2020 compared to the figure of 484,460 million Lek under Scenario I. The additional resources that this will release in comparison with Scenario I have been taken into account in the indicative allocation of government resources across sectors for the NSDI II period.

PART 3 – NSDI Pillars

5. Good Governance, Democracy and Rule of Law

5.1. Strengthening of democracy and rule of law

The progress made by Albania in establishing democracy and strengthening the rule of law requires further steps to consolidate democracy and strengthen the rule of law. Some key national policy challenges in the future are: increase public trust in state institutions; a more effective judicial system; protect the rights of citizens and business; increase public safety and prepare the administration to cope with the future challenges. Institutional reforms aimed at consolidating the democratic system and observance of human rights and fundamental freedoms in compliance with the European standards will deepen further.

Functioning of parliament improved further in terms of electoral reform, adoption of key laws and better parliamentary proceedings. As regards the electoral reform, there has been constructive cooperation between the two major political forces leading to some very good legislative changes in line with OSCE / ODIHR recommendations. Progress has been made in parliamentary procedures - as a key priority under the Opinion - with the adoption of a many laws by consensus: the amended Electoral Code on 19 July 2012; laws requiring a qualified majority of 3/5 votes; appointment of the Ombudsman, as well as the appointment of judges to the High Court as one of the key points of the Opinion.

5.1.1. Justice and home affairs

5.1.1.1. Justice

Albania made real progress in consolidating the independence of the judiciary, as a crucial precondition to the functioning of the rule of law. Improvements in the justice system include the clarification and revision of functions within the judiciary and the Ministry of Justice, based on the 'check and balance' principle, as well as a well-defined status for the judicial administration. Digital reform and infrastructure investments in the judiciary enhanced transparency and public access to courts, and improved the administration of justice. The status of judges became firmer with the improved promotion and professional evaluation rules. Treatment of detainees improved significantly with penitentiary infrastructure investments and application of alternative sentences. The private bailiff service significantly improved the performance and enforcement of executive acts. There was progress in the revision of the legal and institutional framework on free professions, such as lawyers, notaries and mediators. Particularly, the *one stop shop* notary reform that led to the digitalised notary activity in the districts of Tirana and Durrësi. Special importance has been paid to timely enforcement of ECtHR judgements.

Current achievements in the field of justice, particularly in terms of strengthening the independence of the judiciary, constitute the basis to addressing the future challenges such as: Consolidate judicial independence and public trust in the judiciary; Further improve the performance of the private and public bailiff services; Further improve detention, pre-trial detention and alternative sentences in order to guarantee fundamental human rights.

Strategic priorities and objectives:

1. **Consolidate the judicial system** by improving the justice system in the structural, functional, and financial aspects, including:

- Ensure effective functioning of judicial bodies and of the National Judicial Conference;

- Strengthen the role of the High Council of Justice to improve justice performance;
 - Ensure structural build-up of the High Court,
 - Improve the management capacity of the justice system, including independent judicial budget allocation.
2. **Consolidate the effectiveness of the judiciary** to ensure compliance with the Constitution, international law and national legislation, through these measures:
- Ensure smooth operation of the Administrative Courts
 - Increase the efficiency of courts, reducing judges caseload by 30%;
 - Improve the effectiveness of court proceedings by 5% per year; improve performance of judges and prosecutors and guide court practices towards the best European practices for providing quality services to citizens
 - Develop online inspections, conduct 50-70 inspections per year, as well as thematic and full inspections in the first-instance courts and courts of appeal;
 - Improve functioning of the system by infrastructure investments in courts and prosecutors' offices⁴¹, and investments in information systems development;
 - Strengthen inter-institutional cooperation based on the principle of separation of powers, through implementation of cooperation agreements between institutions, and joint training;
 - Foster regional and international judicial cooperation through new cooperation agreements.
3. **Consolidate public trust in the justice system** through the fight against corruption and enhanced transparency and good governance. Specifically, the main objectives include:
- Improve the status of judges and prosecutors in terms of appointment, professional evaluation and gender equality;
 - Ensure clear powers between the Ministry of Justice and HCJ inspectorates;
 - Strengthen the role and independence of prosecutors in the investigation process;
 - Increase public access to legal norms; it is estimated that by 2020, there will be published 215 official gazettes, 23 titles, codes, and legislation summaries.
4. **Strengthen the execution rate of court decisions to levels comparable to those of the EU countries, by improving the performance of both the public and private Bailiff Services.**
- Increase the enforcement rate of court decisions by 10% per year, reaching about 17,150 executive titles executed by 2020;
 - Improve the bailiff service quality by fostering staff professionalism and strengthening control over and inspection of each bailiff office.
5. **Guarantee fundamental personal rights and transform criminal punishment into a re-education chance through further improvement of detention and pre-detention systems.** This objective includes the following sub-objectives and concrete measures:
- Totally eliminate overpopulation in penitentiary institutions by 2020;
 - Improve social policy to ensure humane treatment of detainees and prisoners by: (i) extending the 9-year education over the entire penitentiary system; (ii) employing 15 more medical psychiatrists until 2020; (iii) increasing detainees' involvement in activities that support their re-integration after release; (iv) providing up to 3.5 hours of counselling per month;
 - Further upgrade penitentiary infrastructure and security elements in line with international standards and conventions; install camera systems in all penitentiary institutions;
 - Establish an electronic prisoners database through a filing software and online connection of local prisons and detention centres with the central institution;

⁴¹ Priority is given to the construction of the Palace of Justice in Tirana, construction of district courts and prosecutors' offices in Elbasani, Shkodra, Fieri and Berati.

- Improve the performance of the Probation Service through a complete re-organisation of local offices, creation of a computerized database and upgraded infrastructure in local offices. As a result, this will lead to reduced case load at 40 offenders per one probation specialist by 2020, and reduced recidivism to 1% within the probation period;
- Increase rehabilitation effectiveness for offenders under alternative punishment.

6. **Expand public access to justice institutions** through an active approach of both citizens and legal professionals to the legislation through these measures:

- Creation of solid registration systems for registering and tracking cases related to organized crime, by improving the electronic property administration databases and justice files (Prosecutor's Office, Courts, Bailiff, Penitentiary System, etc). Integration of various systems to enable a track record for all the e-Justice systems.
- Transform the State Commission for Legal Aid (SCLA) into a specialised and efficient body for legal aid delivery, through expansion of SCLA activity by opening 7 new offices, and increasing the number of employees.
- Enhancing the performance of the **State Advocacy** by: Increasing the level of legal counselling and consultancy services, and representation and professional defence of the State in court cases; strengthening the professional capacities of the State Advocates through training and scientific and legal publications for the SA library; digitalization of the SA Archive (Central Office).
- Improvement of public relations and awareness-campaigns for the stakeholders that contribute to the justice system and free professions.

Further development and integration of information management systems for the justice sector through: Digitalisation of the Registry of Notary Public; Electronic monitoring of criminal offenders; Development of Case Management for the Probation Service and the Prosecutor's Office; Development of the Registry of Free Professions under the Ministry of Justice; Digitalization of the entire Judicial Archive; Interplay of electronic systems of all levels of judicial bodies and their interaction with the electronic systems of the justice operators.

5.1.2. Integrated border management

Achieving high standards for border control and surveillance in line with the Schengen Code requirements, harmonization of legislation with EU standards, the strengthening of regional and cross-border cooperation, as well as upgrading of infrastructure at border crossing points (BCPs) were among the major prerequisites that enabled the visa-free travel regime in the EU in 2010. Modernization of border control and surveillance equipment through operationalisation of TIMS integrated information system resulted in improved crime detection rate to 97.1% (870 cases) in 2011, as well as reduced processing time for passengers and vehicles at all BCPs. Significant improvements in coastline and border security management has led to the detection of 2.7 times more cross-border crimes in 2011 compared to 2007.

Sector policies will focus on accomplishing further challenges related to: improving the Border Security System; consolidation of achievements in Integrated Border Management to guarantee open and secure borders; further enhancement of institutional and infrastructural capacities of border management agencies; strengthening of cross-agency cooperation both at the national and international level, as well as completion of the regulatory and legal framework.

Strategic priorities and objectives:

1. **Strengthen measures in the fight against transborder crime and illegal trafficking** through these measures:
 - Increase the detection rate of illegal trafficking by 1.4 % until 2020 compared to 2011 through implementation of INTERPOL and TIMS systems;
 - Increase the detention rate and eliminate illegal trade in narcotics by 1.5 % in 2020 compared to 2011;
 - Increase the professionalism and technical capacity to detect and combat the use of forged documents for border crossing. The detection rate of such criminal offences is intended to be increased by 100% in 2020;
 - Strengthen risk analysis and intelligence at the Inter-Institutional Operational Maritime Centre (IOMC), improving the IOMC operation procedures, and connecting it to the **MEMEX** system.(lista e shkurttimeve)
2. **Strengthen risk assessment capacity of the Border & Migration Police** through these measures:
 - Improve risk assessment and intelligence collection, as well as planning of Operational Mobile Teams both at the regional and local level;
 - Install “SMARDEC” surveillance camera system in the crossing points that are most likely to be illegally crossed.
3. **Improve border control and surveillance standards** through the application of best practices for integrated border management. Fully achieve standards of the Schengen Code in all BCPs by 2020.
4. **Prevent and reduce illegal migration** through these measures:
 - Strengthen cooperation with the neighbouring countries in preventing and fighting illegal migration in the framework of existing bilateral agreements, Police Cooperation Convention for South East Europe and regional initiatives;
 - Boost the role of joint patrolling, regular meetings of border police managers of all levels in the fight against illegal migration;
 - Monitor migration flows through migration data management in line with *EUROSTAT* standards, and publication of annual national Migration Profiles, and risk assessment based on such data in compliance with FRONTEX standards;
 - Strengthen the threat assessment capacity of the Border & Migration Police.
5. **Complete the harmonization of the legal framework with the Schengen standards** by 2018 for the 4 pillars of integrated border management: (i) cooperation within the service, (ii) cross-agency cooperation, i.e. Border and Migration Police, Customs Service, Phytosanitary and Veterinary Service, (iii) international cooperation, (iv) and compensation measures.
6. **Improve the institutional and infrastructural capacities, including IT development**, through these measures:
 - Further improve communication and information sharing through information systems, TIMS improvement in all border police services and provision of modern and surveillance equipment for marine and air transport, and border in general;
 - Construct new BCPs and reconstruct existing BCPs responding to the needs of the country;
 - Develop border police professional capacities through special and joint training with the neighbouring countries covering 60% of the police force;
 - Adopt the new Customs Code in compliance with the EU Customs Code. Facilitate trade and movement of citizens, guaranteeing effective and efficient border control. Further digitalise customs procedures;

- Facilitate the exchange of information among border agencies. Upgrade the infrastructure and provide contemporary inspection tools for veterinary, phytosanitary and food inspections;
- Comply the Anti-Epidemic Sanitary Service with the EU standards, especially the Anti-Epidemic Phytosanitary Service, in order to ensure the practical application of the Compensation Measures. Create of a National Coordination Centre for the Integrated Border Management. Establishment of an inter-agency mechanism for controlling containers in ports.

5.1.3. Organised crime, terrorism and trafficking

In the fight against organized crime, trafficking and terrorism, Albania has managed to significantly reduce drugs production and trafficking and human trafficking. The number of successful operations against illicit trade increased by 62.6 % in 2011 compared with 2007. Detection rate for illicit trade increased from 96.7% in 2007 to 99% in 2011. Speedboats moratorium was a powerful legal instrument which completed the 5-year repression against illegal migration and managed to fully eliminate illegal migration to Italy by sea. Percentage of economic and financial crimes detected has reached 97.20% in 2011. Offences per 100,000 inhabitants in 2011 decreased by 26% compared with 2007. In addition, Albania, in relation to other countries in the region, remains a country with a small number of murders per 100,000 inhabitants, at 2.91 murders in 2011 against 3.25 in 2007.

Main policies in NSDI II will address the challenges related to: (i) improving results in the fight against production and trafficking of drugs, organized crime, terrorist acts, money laundering, economic and financial crime and corruption; (ii) increasing the effectiveness of the National Referral Mechanism in order to protect, assist and support trafficking victims.

Strategic priorities and objectives:

- 1. Reduce drugs demand and amount of strong drugs transited through Albania,** through these measures:
 - Minimize access to drugs for illegal use by intensive strike-out of individuals, groups and gangs involved in cultivation, production, sale, distribution and national and international trafficking of drugs;
 - Reduce by 8.7% the number of cultivated and eliminated narcotic plants by 2020 compared with 2012;
 - Keep drugs seized from the neighbouring countries or transited through Albania at moderate levels.
- 2. Reduce illegal trafficking and particularly trafficking in human beings from/ through our country.** This includes:
 - Increase crime detection rate for illegal trafficking to the level of 98.8% by 2020;
 - Ensure that trafficking in human beings is reduced to 3.4 of the total trafficking crimes by 2020;
 - Increase the number of joint international operations by 10% until 2020 compared with 2012;
 - Increase the number of operations using special investigation techniques by 7% until 2020 compared with 2012;
 - Strengthen professional capacity through joint training and exercises with the regional countries in the framework of the Police Cooperation Convention for Southeast Europe and SELEC;
 - Improve the legislation regarding the fight against trafficking in human beings, and implement standardised mechanisms and procedures for identifying, referring, and protecting potential victims of trafficking, taking a special approach to children.

3. **Improve indicators in the fight against economic and financial crime, money laundering, corruption and crime proceeds:**
 - Maintain a level of 98.7% crime detection rate;
 - Increase the number of investigations into criminal assets by 15% in 2020 compared with 2012;
 - Increase the number of police operations using special investigation techniques by 5% each year;
 - Increase the number of proactive investigation cases of corruption by 5% each year;
 - Increase the number of criminal proceedings for “Laundering of crime proceeds” by 10% each year;
 - Approximate the national legislation with the respective recommendations of FATF⁴², European Union, Council of Europe, etc.
4. **Develop a contemporary investigative service** through these measures:
 - Build investigation capacity towards intelligence-based investigation (MEMEX);
 - Improve tools and modern technology, through TIMS completion, development of the Risk Management Information System (RMIS) and communication network for the State Police. Increase the processing capacity by 4%;
 - Ensure capacity building of Scientific Police through the introduction of new technologies that will enable the increase by 8% of the number of forensic examinations in the process of detecting and identifying crime scene evidence until 2020.
5. **Strengthen international and regional cooperation** through these measures:
 - Intensify cooperation with countries in the region to increase the number of joint operations aimed at reducing smuggling in arms and explosives in our country;
 - Consolidate and develop jurisdictional relations with foreign authorities to improve and facilitate international judicial cooperation procedures;
 - Investigate and prevent smuggling and theft of motor vehicles, through cooperation with all law enforcement agencies;
 - Prevent theft and smuggling in works of art and culture, and unauthorized archaeological digging.
6. **Prevent terrorism** through these measures:
 - Establish an efficient risk assessment system and institutional building of structures involved in anti-terrorism;
 - Draft an organic law in line with the European standards for the fight against terrorism by 2015;
 - Establish a secure communication network until 2015 for the exchange of information between the agencies engaged in the fight against terrorism.

5.1.4. Public order

Strengthening of public order has come as a result of efficient operation of mechanisms and strengthened State Police professional capacity. Systematic reduction of **antisocial behaviour and street crime** in Albania is reflected in the reduced number of criminal offences ⁴³ per 100,000 inhabitants by 26% in 2011 against 2007. Road safety improved marking a reduced fatality rate of accidents to 4.48 deaths per 100,000 inhabitants in 2011 against. In 2011 it was applied for the first time a recruitment campaign for women and girls, as a result of which women accounted for 50% of the total number of recruits and trainees in the police force in 2012.

⁴² Financial Action Task Force

⁴³ Except for road traffick violations.

Further challenges in this sector include: advance reforms for a comprehensive approach incorporating modern standards of community policing and strengthen the police-community partnership; professional management of criminal situations and prevention of domestic violence; improve road safety parameters, particularly reduce fatal accidents.

Strategic priorities and objectives:

1. Reduce antisocial behaviour and street crime.

- Reduce street crime by 16.9% per 100,000 inhabitants by 2020;
- Improve detection rate for street crime by 5% in 2020;
- Develop and implement the electronic "police case management" system until 2015.⁴⁴
- Increase the number of immediate protective measures⁴⁵ for violated women and girls, in order to increase the level of safety for victims of domestic violence.

2. Improve the quality of service delivery and public confidence:

- Train 100% of the public-order police officers in 2013, in exercising the functions of a police agent and judicial police officer;
- Reduce police response time to community calls by 5% in 2020;
- Reduce public complaints about police officers by 4% per 100,000 inhabitants by 2020;
- Increase the number of public calls by 57% by 2020;
- Implement the "ADAM" system for data of escorted, arrested and detained persons within 2013.

3. Improve road safety in line with the EU Vision Zero through the following measures:

- Reduce speed-related fatal accidents to 12.4% of the total number of road accidents by 2020, from 24.6% in 2012;
- Reduction of the number of drivers fined for use of alcohol from 1.42 in 2012 to 1.26 in 2020.

4. Increase management standards for human resources, training, police assets, logistic services and budget monitoring system.

- Implement the mandatory in-service training and re-certification for all staff each year;
- Increase the recruitment of women and girls in the 4 highest police ranks by 15% in 2020, through equal opportunities in recruitment, training and career promotion;
- Certify personnel in specialized and advanced training focusing particularly on joint training with other law enforcement agencies in the fight against organized crime and illegal trafficking. Staff training within one year (certification & re-certification) will reach 78% in 2020, from 67% in 2013;
- Improve logistics infrastructure through increased investment, good management of support services, improvement of information technology tools and communication networks.

5.1.5. Human Rights

There were many achievements in the field of Human Rights, particularly with the improved legal framework for rights and freedoms of citizens and with the ratification of a number of international treaties⁴⁶.

⁴⁴ Pilot project in the Tirana Regional Directorate by 2013.

⁴⁵ According to State Police data, Police has taken 2,091 measures in 2010 including information/counselling of victims, protection orders/immediate protection orders, and referral of cases to the Prosecutor's Office..

⁴⁶ Universal Declaration of Human Rights; International Covenant on Civil and Political Rights; Protocol to the International Covenant on Civil and Political Rights which aims to abolish the death penalty; International Covenant on Economic, Social and Cultural Rights; International Convention on the Elimination of All Forms of Racial Discrimination; Convention on the Elimination of All Forms of Discrimination against Women; Convention against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment;

Penitentiary security has improved considering the reduced number of incidents or attempted suicide; education is provided to juveniles deprived of their liberty who have not completed compulsory education; specific sections provide better treatment of disabled persons, who are ill or suffer from social problems. The Office of the Commissioner for Protection against Discrimination established in 2010 contributed to enhanced public awareness on the various forms of discrimination.

The State Agency for the Protection of Children's Rights, supported by MLSAEO, undertook a series of initiatives pursuant to the law on Protection of Children's Rights at national and local level.

The next challenges are: ensure conditions for efficient enforcement of ECtHR judgements; take measures to ensure humane treatment of detainees and observance of their rights; advance the protection of children, disabled persons and minorities, and strengthen the capacity of the Ombudsman and the Commissioner for the Protection against Discrimination (CPD).

The strategic objectives guaranteeing the fundamental human rights are multi-dimensional and address the following aspects:

1) Civil rights:

- Minimise cases of maltreatment and use of violence in penitentiary institutions, through systematic monitoring and specific administrative and judicial procedures to prevent this phenomenon;
- Establish and consolidate a special medical institution for treatment of prisoners with mental illnesses; also increase specialised care and treatment for this category of patients;
- Improve the infrastructure of penitentiary institutions providing adequate maintenance budget;
- Raise awareness about the law and improve access to services of the State Committee for Legal Aid.

2) Social rights:

- Strengthen the coordination between central and local government structures in relation to care for children without parents, children victims of violence, and strengthen residential care institutions;
- Constantly complete and update on obtaining special status for different disability groups;
- Reduce discrimination against LGBT Community^[1] through the identification and removal of barriers to access to social and health services.

3) Minority rights:

Adopt and implement a comprehensive legislation for minorities; adopt the European Charter for Regional or Minority Languages, and complete public education in minority languages for all minority groups.

5.1.6. Media

The long-term objective of the priority policies in the field of media seek to enhance the editorial independence and develop the sector using the digital technology. These will be achieved through several intermediate steps, such as:

- Adopt and effectively implement the law "On audiovisual media in the Republic of Albania";
- Consolidate the public broadcaster's editorial independence and strengthen its financial capacity by improving the fee collection system;

Optional Protocol to the Convention on the Rights of the Child on the Sale of Children, Child Prostitution and Child Pornography; International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families. The Republic of Albania has signed a significant number of conventions of the International Labour Organisation, UNESCO, the Convention for the Protection of Human Rights and Fundamental Freedoms.

[1] Lesbian, gay, bisexual and transgender.

- Reduce economic pressure on the media market, improve working conditions of journalists struggling with informality, promote the creation of a self-regulatory body, and capacity building of trade unions of journalists;
- Full switchover from analogue to digital broadcasting by 2015, and reduce illegal use of frequencies, by improving the legal framework in the field of audiovisual broadcasting;
- Ensure administrative and technical capacity building of the Regulatory Authority - National Council of Radio and Television (NCRT);

5.2. Effective governance

Effective governance is at the heart of any success in the public sector. Achieving standards regarding the professionalism of the administration, ensuring transparency in the public sector and expansion of decentralization and local democracy will always remain top priorities of good governance and ensuring effective governance.

5.2.1. Public administration

The Public Administration Reform generated progress as it consolidated functioning of an efficient institutional network and a stable and professional administration. In this context, some legislation was adopted laying down standards for the establishment, functioning and types of executive bodies⁴⁷, standards for institutional and organisational set-up, and standards governing the process of staff restructuring and resettlement⁴⁸. Functional and structural revision was carried out for all line ministries. **Job descriptions and performance management system improved** through standardized rules and procedures and legal framework, and the relevant manuals. Temporary employment contracts in civil service were kept at a controlled level, by disciplining the temporary employment and introducing conditions such as preliminary approvals. The draft Policy Paper and new civil service law mark an important step in improving the functioning of the civil service and human resource management in particular.

The **Human Resources Management Information System (HRMIS)** is being tested in 5 institutions and it will be extended to all line ministries within 2013

Recruitment of civil servants improved by attracting capable candidates graduated from the best universities abroad.

Human capacity building continues through training by TIPA (Training Institute of Public Administration), as well as through the established Fiscal Training Centre and Local Government Training Centre.

Salaries reform created a **unique system of salaries and bonuses** in all public administration institutions, higher salaries and bridged gap between higher and lower positions. In 2007 - 2012, salaries for all state employees increased averagely by 37.2%, while this increase for pre-university education is at 46.9%, with 51% in the health system, and 29.3% in the State Police.

Main policies of the Public Administration Reform aim to address challenges related to: (i) strengthen public institutions; (ii) increase the accountability and sustainability of administrative staff; (iii) build management capacities, and (iv) establish and consolidate the School of Public Administration; (v) expand the scope of the Civil Servant Law⁴⁹ (vi) establish the administrative systems that guarantee the

⁴⁷ Adoption of Law 90/2012 "On the organisation and functioning of the state administration"

⁴⁸ DCM No 474, dated 16.06.2011 "On the standards and procedures to be followed during development and approval of organisational set-ups of public administration institutions".

⁴⁹ Inclusion of subordinate bodies actually outside the scope of the present law.

implementation of the national framework aligned to the European legal framework (*acquis communautaire*).

Strategic priorities and objectives:

- 1. Implement and monitor an efficient and effective human resources management system for public administration:**
 - Implement appropriate changes in legislation on civil service, to enable the reduction of subjectivism in the process of competition and selection of professionally skilled candidates during recruitment;
 - Set the same standards for civil servants and other employees of the executive system in regulating their work relations, admission to public administration, career development, and professional training;
 - Further improve the salary and remuneration schemes for all employees of the public administration;
 - Continuous monitoring of the implementation of public administration reform and publication of data issued in order to increase accountability in its implementation at all levels of decision-making.
- 2. Improve the performance and capacity of public administration, including the promotion of continuous learning and short-term and long-term training**
 - Develop short and long-term training at the School of Public Administration and other training providers as a strategic tool for capacity development of public administration employees;
 - Consolidate the performance evaluation and create a stronger link with the individual performance evaluation.
- 3. Improve public services delivery by empowering the existing structures and setting up new ones**
 - Establish new structures in line with future economic and institutional policies and reforms, as well as eliminate functional overlapping between existing structures;
 - Review and transfer of functions that are no longer subject to the work of public administration through privatization, subcontracting, etc.
- 4. Consolidate and expand the Human Resources Management Information System (HRMIS)**
 - Establish the database for all public servants, as an important tool for developing public administration policies;
 - Link HRMIS with the Government Financial Information System in the framework of the interaction of government databases, providing a more effective management of public finance system in the area of salaries.

5.2.2. Statistics

2011 Population and Housing Census is the key achievement in this field bringing population statistics closer to reality. The Living Standards Measurement Survey was conducted successfully in 2008. It ensured continuity of all social indicators and monitoring of the standard of living and poverty in the country. During 2007-2011, a set of *statistical labour market indicators* were developed in line with Eurostat international standards; and a *quantitative and dynamic assessment of labour market developments* were conducted based on integrated data from administrative and statistical sources. New macroeconomic indicators⁵⁰ were assessed and a series of existing indicators⁵¹ were updated and

⁵⁰ Measure quarterly GDP using the production approach for the main economic sectors; Regional GDP at NUTSD level 2; Gross National Income.

⁵¹ Product share and the basket of consumer goods; Construction cost index for dwellings; Producer price index for export goods;

improved. With the publication of short-term macroeconomic accounts, Albania met another key requirement of special Data Distribution Standards (SDDS). The statistical register of local units in line with EU requirements was the most important output of the Census of Non-Agriculture Economic Enterprises. Revised NACE Rev.2 was implemented in the register of economic units, as a basis for all statistical activities within INSTAT, but also for other Institutions at national level.

Being that EU integration represents Albania's key challenge, the National Statistics System will play an important role in providing official statistics to public institutions and beyond. Public reforms will require new statistics and new statistical sources. This calls for the engagement of resources and improved inter-institutional contacts and professional capacity, in order to keep up with this challenge and ensure balanced development.

Strategic priorities and objectives:

1. Improve production and distribution of statistical data:

- Ensure cooperation across statistical agencies to improve statistical performance.
- Enhance and improve the sources of primary data and establish an integrated information system that will help statistical agencies to accelerate information processing and use statistical sources better and more intensively;
- Foster access to statistical information by improving the calendar of publications and increasing electronic data volumes;

2. Improve demographic and social statistics:

- Digitise vital statistics (births, deaths, marriages);
- Use the new ICD-10 classification for causes of mortality and morbidity;
- Conduct the Household Budget Survey on a quarterly basis (rather than annual basis) starting from 2013;
- Measure poverty line in Albania not only at NUTS 1 level, but also at NUTS 3 level;
- Conduct a labour cost survey in 2013.

3. Improve macroeconomic statistics:

- Expand macroeconomic analysis by representing national annual accounts by institutional sector;
- Make independent annual estimates of the GDP components using the expenditure approach, focusing particularly on the personal consumption index of the population (current and constant prices);
- Develop an integrated statistical system to construct Supply-Use and Input-Output tables.

4. Improve business statistics:

- Improve the quality of analysis of consumption price index in time series, using the new SQL application system. Update the products share and the basket of consumer goods reflecting the results of the last household budget survey;
- Enhance comparability of national statistics to European statistics using the new classifications NACE Rev.2 and CPA 2008 for economic activities and their outputs;
- Conduct a quarterly survey on Albanian products and services, in order to generate statistics on the quantity and value of Albanian products and services;
- Use Eurotrace programme in external trade statistics in order to improve data quality;
- Use contemporary information collection techniques for information obtained from statistical units, thus improving the quality and reducing costs and data transfer time.

5. Improve agriculture, forests and fisheries statistics:

- Establish an agricultural statistics body at INSTAT and make it the sole body responsible for the generation of agricultural statistics;
- Establish the agricultural holdings register from the Agriculture Census;
- Estimate agricultural product price index through surveys;
- Conduct surveys on livestock, milk and dairy products using contemporary technology.

6. Improve multi-domain statistics (environment, science and technology, information):

- Conduct an urban waste survey at district level;
- Conduct a survey on ICT in enterprises;
- Conduct a survey on science and techniques, innovation and technology.

7. Support statistical production (Statistical registries and Classifications):

- Create GIS-based statistical registries for economic units, Enterprises and Local Units, ensuring quality and updated information;
- Use NACE Rev.2 revised classification in all statistical activities within INSTAT and at national level;
- Use CPA 2008 product classification in all statistical activities.

8. Improve the Information Technology

- Use new technologies for data capture and processing and share information online with statistical agencies;
- Create a data warehouse to integrate INSTAT's databases, including metadata;
- Create a new dynamic website for users to obtain information on time and in various electronic formats.

5.2.3. Transparency and fight against corruption

The anti-corruption reform generated key results in 3 main areas: 1) prevention, transparency, all-inclusiveness and public education; 2) investigation and prosecution of corruption offences and, 3) the consolidation of domestic and international cooperation and coordination. One of the most important achievements is the implementation of 100% electronic procurement system for which, in June 2010, Albania received the UN prize category of "Improving transparency, accountability and responsiveness in the public service." Creation of the National Registration Centre, National Licensing Centre, as well as the establishment of E-Systems and E-customs taxes has significantly reduced opportunities for corruption and tax evasion by reducing direct contact between individuals / businesses and public officials. Legislative changes to limit the immunity of deputies and judges mark a further step in increasing transparency and fighting corruption.

Further challenges in this sector relate to: i) stable and solid reduction of corruption by enhancing the institutional integrity, good governance and transparency; (ii) consolidation of the judiciary by strengthening the investigation capacity and the punishment rate.

Strategic priorities and objectives:

As regards improvement of transparency:

- **Enhance transparency and good governance in the education system** through: development of audit techniques and strengthening inspection in public and private higher education institutions through electronic methods; ensure transparency in the allocation of public funds at all levels of the education sector;
- **Improve transparency and accountability in the health sector** through: system performance monitoring; establish the structures and mechanisms for complaint processing and strictly implement a transparency salary scheme and service packages fees;

- **Transparent implementation and stronger controls to identify and prevent corruptive acts in the Armed Forces** through publication of recruitment procedures and policies, as well as education and promotion by rank and career of the military and civil personnel;

As regards enhancement of institutional integrity and accountability:

- **Consolidate public confidence in the justice system and increase the independence of the judiciary through:** policy and financial support for the improvement of infrastructure, strengthening of judicial administration, increasing the level of investigation and punishment and increasing public access to justice.
- **Consolidate property rights through increased institutional effectiveness,** registration and administration of immovable properties (IPRO and PRCA), offering online services and transforming the notary activity into a one stop shop service.
- **Deepen the public administration reform** as a contributor to the fight against corruption through: implementation of transparent appointment and promotion procedures in public administration; publication of periodic reports on the performance of public institutions regarding the operations and activities; and consolidation of the salary policy.
- Adapt the Code of Police Ethics to the European Code of Police Ethics as one of the main anti-corruption measures for the **State Police**.

As regards effective management of public funds:

- **Improve planning and good administration of public financial resources** through: consolidation of regulatory, procedural and financial control system according to international standards; realistic planning and budgeting, and efficient execution; improving performance and increasing the efficiency of internal control.
- **Improve the management of the economic aid programme aimed at reducing** corruption acts through: the establishment of a national electronic registry for applicants and recipients of economic aid and review criteria and documentation;
- **Good management of funds for Agriculture and Rural Development Programme** by: drafting of laws and regulations relating to the management of support funds; periodic monitoring and publication of reports on the use of funds and the list of beneficiaries;
- **Good management of the economic aid provided to people with disabilities** by reviewing the disability evaluation system based on a socially functional medical evaluation, including pre-testing.

5.2.4. Decentralisation

The decentralisation reform marked progress in terms of gradual completion of the legal framework, increasing financial autonomy of local government and strengthening the first level of government. Establishment and operation of one-stop-shop offices in major cities and some communes improved service efficiency: (i) reducing 10-fold the time needed for service delivery, (ii) time needed for business registration and licensing for services was reduced from 30 to 3 days; (iii) time to obtain a certificate from civil registry offices was reduced from 30 to 3 minutes. *Fiscal autonomy* of the local government strengthened with a revenue structure at 50/50 from 30/70 in favour of State budget funding⁵². Formula for unconditional grants became more transparent and more predictable, based on the principles of proportionality, fairness and equality. Number of businesses increased and their activity expanded, following the reduction of small-business tax and tax burden to +10/-30%.

Challenges in this sector include: further consolidation of local autonomy through further professional and administrative capacity building of local government, and consolidation of local revenue; increased transparency in decision-making and local governance; better orientation of budget policies to regional development priorities, and introduction of modern mechanisms for integrated management of services at

⁵² 50/50 in 2007.

local and regional level; advancing the administrative and territorial reform with the aim of increasing and strengthening local governments units while providing resource optimization and converting them into units with considerable investing power.

Strategic priorities and objectives:

- 1. Consolidate local finance and budgeting by fostering the increase of own revenue in order to bring the ratio between generated income and State grant transfer to 70/30 by 2020.**
 - Review the legal framework for Local Government Finance which sets long-term requirements, responsibilities, and transfers from central to local government.
- 2. Complete the transfer of property to local government until 2015 and their registration in the IPRO until 2017.**
- 3. Define clear functions of the local government in the field of pre-university education, medical services, social care and environmental protection.**
 - Establish clear procedures for delegation of powers based on prior understanding and legislation.
- 4. Strengthen the second tier of local government (region) through these measures:**
 - Strengthen regions' financial autonomy through revision of the existing legal framework and introduction of mechanisms that ensure independent financial resources;
 - Build administrative capacity for territorial management and local revenue collection.
- 5. Strengthen the Prefect's role and activity in monitoring and coordinating the activity of the central institutions at the local level.**
 - Adopt amendments to the law on prefects.
 - Increase the level of control and auditing of the compliance of decisions and legislative acts of local government and property titles.

5.2.5. Foreign policy

Foreign policy is already confirmed as a valuable tool in the presentation of Albania abroad and an added value to peace and stability in our region and beyond. Albania has made significant contributions in other areas, such as chairing the Committee of Ministers of the Council of Europe (May-November 2012), the Convention against Anti-personnel Land mines (December 2010-December 2011), and recently the re-election as member of ECOSOC (November 2012). Also, cooperation with our key partners in Europe and beyond strengthened considerable in all fields, and the presence of our diplomatic activity expanded in some regions of the world such as in the Persian Gulf and Latin America. There was also reinforced diplomatic presence in the Balkans, where the settlement of the Kosovo issue has been the main factor for the stability in the region.

Future challenges include:

- Intensify political dialogue with EU structures and institutions and EU member countries to meet the goal of EU membership;
- Further develop cooperation with strategic partners, friendly countries and those of mutual interest;
- Strengthen cooperation under regional initiatives where integration of the Republic of Kosovo into these structures will represent one of the main mid-term objectives;
- Ensure active participation in international organisations and multilateral forums (UN, OSCE, CoE, etc.);
- Meet our obligations as a NATO member and strengthen Albania's role as a contributor to peace and stability in the region and beyond.

Strategic priorities and objectives:

1. Further develop bilateral relations with all countries, particularly with strategic partners, including the United States, EU member countries and neighbouring countries

- Give the political contribution under NATO, as a fully-fledged member;
- Further expand international recognitions of the state of Kosovo and promote its membership/participation in regional and international organizations and beyond;
- Promote and support Albanian candidates for the chairmanship of regional organizations and initiatives, and of Albanian contributions in their midst;
- Take the chairmanship of several international organizations and initiatives over 2013-2020, including the rotating chairmanship of the OSCE, membership in the UN Human Rights Council, as well as lobbying for Albania's membership in the UN Security Council;
- Accomplish obligations stemming from membership in international organizations and multilateral forums;
- Complete the legal basis on bilateral cooperation and relations with international organizations, on the basis of annual plans approved by the Council of Ministers'
- Strengthen and promote economic and trade cooperation with our international partners at bilateral and multilateral level, aiming at measurable results in increasing the volume of trade and foreign investment in the country.
- Improve professionalism, quality and agility of consular services delivered to Albanian citizens and foreigners.

2. In the context of European integration, the objectives are more specific and laid down according to a schedule determined in accordance with government objectives

- Within 2013: Obtain candidate status and launch of accession negotiations
- Within 2018: complete negotiations for all chapters
- Within 2019: complete accession negotiations
- In 2020: Get invitation to join the EU

5.2.6. Defence

NATO membership on 4 April 2009 in the Strasbourg Summit was the accomplishment of a national aspiration and one of the priorities under NSDI 2007-2013 in the defence sector.

Based on the strategic priorities and policies for the defence sector designed in NSDI document 2007-2013, FA achievements are focused on creating a 100% Professional Force; accept and develop the Force Objectives; launch the preparation of the Strategic Defence Review; establish a functional system of standardization in support of NATO policy; plan and organise NATO integration conferences; Naval Space Surveillance system is in place; completion and submission to NATO Command in Brussels of the Defense Planning Capability Survey - DPCS); allocate 2% of GDP in the budget for the Ministry of Defense; destroy all chemical agents/substances; develop detailed action plans for the destruction of surplus ammunition; active participation in operations led by NATO, the EU, and the UN.

As a NATO member, challenges ahead for Albania include:

- Accomplish the requirements of Capacity Targets;

- Implement the "Comprehensive Approach" which means close cooperation among as many as possible security institutions, in a context where military measures are no longer considered as the main (at least not the only);
- Develop and re-dimension the Defence Diplomacy and international military cooperation to create an environment of peace and stability in the region and the world;
- Conduct bilateral and regional cooperation based on the principle of "cost sharing", which is complementary also to growth and consolidation of the Armed Forces for their participation in operations led by NATO, EU or UN , and for civil emergency response;
- Build the operational capacity required for current and future missions at home and abroad. Given the difficult global economic situation, this requires a better approach oriented towards the so-called "smart defense" and "pooling and sharing" (EU).

Strategic priorities and objectives:

1. **Transform the military education system to develop comprehensive programmes in line with NATO standards that prepares military and civilian personnel who will serve in the Armed Forces, through these measures:**
 - 100% of officers to be proficient in English within 2020;
 - Implement military leadership studies with the aim of improving the practical management methods, according to the education policy;
 - Improve the quality of education and training, through and improved testing and evaluation system, including general, vocational, physical and psychological education, and opening of new courses for the specialties required in FA;
 - Set and adjust the shooting ranges training system on the field, as well as start training staff from the Constructive Simulation Center through the JCATS programme⁵³;
 - Establish the Defence and Security Strategic Studies Institute;
 - Implement 2nd and 3rd cycle educational qualification.
2. **Cope with civil emergencies, conduct humanitarian operations to assist the population and civil-military cooperation to reach over 80% in 2020 from 75% covered in 2012, achieve and maintain operational capacity required and fulfil constitutional obligations, through these measures:**
 - Achieve operational/professional capacity at over 80% of the structure of the Regional Support Brigade by strengthening FA capability for immediate response to natural and human disasters;
 - Enhance national efforts to protect the population and national infrastructure of particular importance when the critical needs of the country exceed the response capabilities of the authorities and civil organizations;
 - Establish refugee camps in case of armed conflict expansion and disasters;
 - Cooperate and support central and local authorities by logistics and capacities in case of humanitarian crises.
3. **Implement all programmes and plans related to efficiency and excellence in Human Resource Management cycle in AF, gender equality and equal opportunities, integrated and interoperable with NATO:**
 - Maintain the current quota of female participation in the FA of 13%; implement programmes and plans to increase this quota to 15% in 2015 and 18% in 2020, in the context of gender equality and equal opportunities for implementation of UN Resolution 1325;
 - Re-integrate military officers by 30% until 2015 and 50% until 2020 in the civil life after they leave active service;
 - Ensure Social Support to active, in reserve, retired and old age pension military officers and their families, and civilian personnel serving in the AF structures.

⁵³ Joint Tactical and Conflict Simulation

4. **Provide support to combat troops and combat support troops with tools and safety equipment, transport, supply, maintenance and infrastructure, including command and control equipment, conditions for living, working and exercising:**
 - Implement the project concerning dismantling and disposal of excess ammunition or the excess 26000 tons;
 - Complete the institutional obligations in the process of privatization of property not included in the expansion plan of the Armed Forces, within 2014;
 - Make logistics automation system operational within 2019;
 - Ensure logistic support to priority units and subunits priority stated in the "NATO Pool of Forces";
 - Provide FA structures with supplies and apply the supply and reserve notion in line with NATO standards;
 - Construct 3 (three) big depots in Pezë-Helmes garnison.
5. **Achieve operational capacity necessary to operate in the actual and future operational environment, upgrade the capacity and capability of the Armed Forces to participate in international operations (led by NATO, EU, UN) and to conduct military operations in the country:**
 - Ensure implementation of NATO target that 10% of Land Forces (LF) must be deployable, while 50% of the LF to be ready for deployment;
 - Increase high standards for an effective, professional deployable force, able to operate with NATO troops in operations abroad;
 - Transform AF into a professional, trained and well-equipped force that is interoperable with NATO.
6. **Modernize AF infrastructure and equipment through new investments led by life-cycle management and analysis and that are in synergy with NATO development plans:**
 - Support the project on construction of patrol ships in the Marine Forces.
 - Ensure maintenance of the existing fleet.
 - Ensure professional skills improvement for pilots.
 - Upgrade Air Force capacity by purchasing new helicopters and maintaining existing ones.
 - Continue to support Ground Forces with tactical systems, equipment and weapons, aiming at enhancing the operability of troops in missions.
 - Implement Air Observation and Earth-Air-Land Communication.
 - Provide AF with new uniforms.
7. **Unify medical procedures to NATO military standards until 2020. Prevent epidemics among military officers through periodic check-up and vaccination of 100% of AF staff. 100% coverage with health services in 2020 compared to the actual 70%:**
 - Provide the National Center for Trauma with new medical equipment and increase the number of medical personnel to the ratio 1-doctor-2-nurses-3-patients until 2015.
 - Align 80% of medical protocols with health practices of university hospital centers in the country and according to NATO standards (STANAGs).
 - Improve medical treatment providing supply and maintenance of medical equipment, medication needs, material and logistical support base.
 - Build the Rehabilitation Center for disabled patients until 2020.
 - Provide medical treatment to officers disabled in operations at home and abroad.
 - Ensure full computerization of the Central Military Hospital University.
8. **Align positions with NATO in operational, material and administrative areas, and maintain and keep AF interaction with NATO at appropriate levels, and between AF structures as well**
 - Fully harmonise the standardization process with FA defense planning process, particularly with the Force planning to achieve Capacity Targets;

- Implement short, medium and long-term plans for STANAG/APs ratification by AF and declare them to NATO Agency for Standardisation (NSA); Ensure practical implementation of STANAG/APs requirements ratified by the Armed Forces in the aspects of doctrine, organization, training and education, equipment and systems, as well as secure financial support for their implementation.

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5.3. GROWTH THROUGH FISCAL STABILITY AND INCREASED COMPETITIVENESS

Support policies for the development of a favourable business climate, sustainability in the private sector development, promotion of domestic and foreign investment, application of new technologies and further specialization of the labour force¹³⁷ in the country will be developed simultaneously while keeping the focus on protection of customer interests and fair market competition.

5.3.1. Ensuring macroeconomic stability

Albanian economy recorded a sustained progress with economic growth and macroeconomic stability. Economic transformation and restructuring processes and economic policies pursued created appropriate conditions for the economy to perform at a satisfactory growth pace. Average annual real growth during 2008-2011 was 5.4%, while overall economic welfare during this period - measured against GDP per capita⁵⁴, – maintained a significant growth.

Macroeconomic stability felt the negative pressures of the global economic crisis (2009-2011) considerably, but it maintained a relatively more positive position than the regional countries, avoiding economic recession. Albania's average economic growth was kept over the 0.1% average of Central and Eastern Europe (CEE) countries and over the 0.8% average of Western Balkan countries. Even more significant is the increased GDP per capita – PPP by 13.4% in 2011 compared to 2008 (the year before the impact of the global crisis), against 3.8% in CEE countries and 3.4% in the Western Balkans, according to IMF.

The strong fiscal stimulus injected to the economy since 2008 through a fiscal expansion policy was crucial to avoiding recession during the global crisis, making up for the shrinking external demand and the slowed-down domestic demand. This policy buffered the first shocks of the global crisis and minimised the chain negative effects in the real economy.

In 2010 and 2011, fiscal policy aimed at ensuring sustainability of public finance. Government deficit was reduced significantly from 7% of GDP in 2009 to 3.1% and 3.5% in 2010 and 2011 respectively. Public debt was stabilised at the targeted level of 60% of GDP. 2011 public debt expanded by 3.9% against GDP compared to 2008, against 11.3% on average in CEE countries and Western Balkans.

5.3.1.1. Financial system and monetary policy

Sound monetary policy played an important share in alleviating the impact of the global financial crisis. The reform focused on alignment of monetary policy instruments to ECB (European Central Bank) standards, introduction of new elements aimed at deepening the money market, better flexibility in liquidity management, reinforced trust in the banking system in implementing the monetary policy, and development of the inter-bank market. Transactions in interbank market doubled in the first half of 2012 compared to 2008-2011. Primary market showed tangible improvements in terms of more investment opportunities, more participants and clearer investment strategies, ensuring a better reconciliation between demand and supply and competitive interests. Participation in primary market auctions diversified significantly, through the participation of individuals in the purchase of bonds. Recently established intermediary non-banking institutions are channelling individual savings into security investments, thus making the market more competitive.

⁵⁴ GDP per capita indexed to the Purchasing Power Parity (PPP) shows the equivalent value of goods and services that can be purchased in Albania by spending a revenue amount in lek equal to GDP per capita, if these goods and services were to be purchased in the US. This indicator is estimated for all countries and thus allows a comparison of the overall economic welfare among all countries, at a moment/period of time. So, 1 USD revenue indexed to PPP may buy the same amount of goods and services in all countries.

A key achievement in the non-banking financial sector is the progressive liberalization and restructuring of the insurance market, by improving the legal framework that lays down a guarantee fund for insurance companies and expands the range of compulsory insurance products in accordance with EU Directives. Initiatives undertaken under this principle improved the legal basis for the third pillar of defined contribution pension plans, creating a suitable environment and regulated environment to promote the development of capital markets, as well as to create proper space for the growth and development of the securities market.

During 2007-2013, the Financial Supervision Authority licensed new companies and individuals operating in the insurance, securities and voluntary pensions markets by expanding them and giving to the sector. 2012 marked the beginning of the investment funds market.

These achievements are also a result of the construction of concrete programmes that ensure an updated reporting platform and supervision over the insurance and private pensions markets, such as the reinforced insurance market supervision methodology through risk management, as well as the establishment of the "AMF In-Reg" electronic reporting system and the National Centre for Compulsory Motor Insurance.

Strategic objectives and objectives in the banking sector:

1. **Ensure a sound financial and banking activity** that guarantees safety of Albanian citizens' savings, supports financial stability and contributes to the positive performance of the economy as a whole. In this context, further broadening and deepening of financial intermediation will be particularly important.
2. **Provide credit to the private sector** from the banking sector, non-banking financial institutions, such as microfinance and lending organisations, in order to enable adequate access to credit to meet the needs of all private sector segments.
3. **Improve loan portfolio quality** in the banking system and further strengthen risk management.
4. **Align the supervisory authority and fiscal policy** in order to create the right incentives for addressing non-performing loans and facilitate the lending process in the country.
5. Develop the regulatory framework to align it with Basel II and EU Directives through: adoption of new regulations on capital adequacy, and adoption of international financial reporting standards (IFRS).
6. **Improve systemic risk assessment instruments** and establish a **supervisory framework**: Improve analytical methods for evaluating the sustainability and expectations of systemically important financial institutions; Develop methodologies for continuous identification and monitoring of these institutions.
7. **Improve** the database and analytical framework used to identify risks and draw up a specific methodology for assessing and monitoring the performance of real estate prices.
8. **Strengthen the dialogue with the banking industry** to enhance accountability and sound banking management, to the benefit of the public and the banking industry itself.

Strategic priorities and objectives of the non-banking system:

1. Approximate the national legislative framework to the EU *acquis* and international standards for supervision over the insurance, securities and pensions markets.
2. Align supervisory practice and the functioning of the insurance market with IAIS principles through: an effective and risk-based tariff system for compulsory motor insurance products; and building an early warning system.
3. Strengthen supervision over voluntary private pensions market by developing risk-based methodologies.
4. Institutional capacity building for the Financial Supervision Authority through: development of the strategy for crises management; strategy for securities market development; and increased supervisory capacities in the fight against money laundering and terrorism financing.

5.3.1.2. Public finance

Key achievements in public finance include: institutionalisation of MTBP as a tool for reconciling the budget with overall priorities and sector policies; good management of public spending and monetary tools through the established Automatic Treasury System; strengthened Public Internal Financial Control (PIFC) in line with EU standards; radical improvement of the public procurement system, ranking Albania among the countries with 100% electronic procurement⁵⁵. Important online services were developed, such as e-tax and e-customs. Progress has been recorded in expanding the tax base and reducing informal economy through: introduction of the flat tax, reduction by 50% of direct taxation and reduction of the number of national taxes. Modernization of the Customs system in line with the EU and WTO standards has improved revenue and reduced tax evasion.

The public finance system faces the following challenges: (i) Improve macro-economic and fiscal forecasts; (ii) Improve the public expenditure management system; (iii) Connect human resource management system and the treasury system; (iv) Ensure full integration of the tax system into the treasury system; (v) strengthen account-keeping system and internal control system in all public institutions; (vi) further strengthen customs and tax agencies;

Strategic priorities and objectives:

1. Ensure prudent and sustainable fiscal framework:

- Implement a fiscal order;
- Improve predictability of macroeconomic and fiscal indicators through: creation of an independent council for macroeconomic forecasts and fiscal policy; and institutional and professional capacity building of the Ministry of Finance;
- Develop cost-benefit assessment in the context of evaluating policy and legislation impact;
- Improve fiscal management aiming at reducing informality through simplification and computerization of procedures.
- Modernization of public debt management through: introduction of a suitable structure between internal and external debt, which corresponds to the cost and risk analysis; risk refinancing management in domestic borrowing⁵⁶; and expand issuance of long-term debt instruments.

2. Ensure realistic, well-integrated and efficient planning and budgeting

- Improve and strengthen the link between budget programming and the goals and objectives expressed in national strategic framework.
- Gradual transition to performance-based budgeting and management, based on monitoring and evaluations of the efficiency and effectiveness of expenditure programmes, implementing Financial Management Information System modules (AFMIS).

3. Ensure efficient budget execution

- Develop short-term financial instruments market as well as integrate cash and debt management;
- Extend *AMOFTS*⁵⁷ to all main public institutions, in addition to support through the Treasury Branches. Full integration of the tax system in the Treasury system in order to improve the revenue collection data.
- Create a link between the *HRMIS*⁵⁸, the salary system and the Treasury system.
- Fully integrate planning, budgeting, accounting and auditing of foreign grants and loans within the revenue management system and the Government's public spending.

4. Ensure effective oversight of public finance

⁵⁵ Strengthening Country Procurement Systems: Results and Opportunities - Report of the 4th High Level Forum on Aid Effectiveness, pg 82

⁵⁶ By improving its maturity profile, indicators of sensitivity to interest rates and debt maturity extension, diversification of instruments and foreign and domestic private investors in the segment of individuals or financial institutions;

⁵⁷ Ministry of Finance Treasury System

⁵⁸ Human Resource Management System

- Gradually implement *IPSAS*⁵⁹ reporting standards based on a transition from cash-based reporting to accrual-based financial reporting.
- Improve the content of and access to fiscal information.
- Improve the skills of auditors, in order to conduct audits in accordance with international standards.
- Introduce the managerial accountability concept in government in some pilot institutions (central and local).

5.3.2. Competitive market economy

5.3.2.1. Property rights

The property rights reform aimed at safeguarding secure property rights and elimination of legal uncertainty, as essential prerequisites to development, attracting foreign investment and EU integration. Provision of online services under the *one stop shop* principle significantly improved customer services, reduced the registration time and improved transparency. Initial registration in about 84% of all cadastral zones and for 73% of all real-estate ownership titles are complete; digitalisation of the system is expected to further improve service delivery and transparency.

Sector policies during 2013-2020 will address these challenges: (a) ensure a safe, effective and contemporary system of initial registration of immovable property; (b) modernise and digitalise the immovable property registration system; (c) facilitate civil circulation of ownership titles; (d) guarantee a fair administrative process in completing the property recognition, restitution and compensation process within the set deadlines; and (e) enforce the decisions of the European Court for Human Rights.

Strategic priorities and objectives:

1. **Complete initial systematic national registration within 2013**, and establish a consolidated electronic public registry of immovable properties.
2. **Increase institutional effectiveness through institutional capacity building** in the field of immovable property registration and administration by IPRO and PRCA. **This includes:**
 - Complete the legal framework in line with the EU standards concerning property rights;
 - Reform IPRO and strengthen inter-institutional cooperation;
 - Improve and monitor service delivery;
 - Digitalise the registration and archive system and improve the mapping database and information;
 - Update PRCA information reflecting all administrative and judicial acts.
3. **Modernise and improve information** through full digitalization and interoperation of the immovable property information systems (including digital maps), according to the standards of the *INSPIRE* Directive, and provide online services to clients by 2020. Specifically, the following measures will be implemented:
 - Install a computerized immovable property system in all local IPROs⁶⁰;
 - Provide online information and services for public institutions;
 - Interconnect IPRO digital system with other state electronic databases;
 - Complete the digitalization of the notary activity, turning it into a one-stop-shop service.
4. **Complete the temporary processes at national level**, through these measures:
 - Finalize property recognition for expropriated entities through administrative review of about 7000 remaining files until 2014;

⁵⁹ International Public Sector Accounting Standards

⁶⁰ Local Immoveable Property Registration Offices.

- Establish a unique compensation scheme using a new immovable property evaluation method based on the market value, as well as establish a digital system for the preparation of property mapping using the new values;
- Complete IPRO regulatory and procedural framework aimed at improving the digital database and reducing the number of transactions from 6 to 4;
- Complete the legal validation of ownership titles over agricultural land within 2013 and effective approval and rollout of agricultural land consolidation policies;
- Complete the inventory of state immovable properties, identifying properties of public interest that should remain state property, properties for environmental protection, properties that could be used for generating income, properties to be transferred to the physical fund for expropriated owners, properties to be privatised, and properties for constructions for tourism promotion;
- Improve and update forests and pastures fund data in line with the national immovable property registration system and complete the property transfer to the local government units. **Eliminate existing informal areas and integrate illegal constructions into urban development plans, through:** completion of the administrative process of legislation within the year; registration of legalised properties in IPRO and supervision of enforcement of final court judgements; urban development of areas with legalised constructions and stop informal constructions.

5. **Strengthen and protect the system of property rights** until the execution phase according to the European Court for Human Rights standards, specifically:

- Improve the quality of bailiff service, consolidate the *ALBIS* system and extend it over the entire bailiff service;
- Reduce the number of appeals to ECtHR concerning property rights, and ensure respect for gender equality in delivering court decisions;
- Increase of women's land ownership by registering land titles under the name of both spouses. The number of such joint ownership titles is intended to increase by 25% by 2020;
- Priority execution of final ECtHR decisions on property restitution or compensation.

5.3.3. Promotion of business and Foreign Direct Investments

Business climate improved significantly due to deep reforms implemented during 2007-2011. Reduction of administrative barriers⁶¹ was recognised by the World Bank report 'Doing Business' 2012, which ranks Albania in 82nd place from 135th in 2008 (among 183 countries), and 24th for the ease of doing business. According to the Bank of Albania, the domestic credit to private sector as percentage of GDP reached 40.7% in the first half of 2012. **Tax reform** - as an essential part of the fiscal policy to facilitate doing business⁶² in Albania - developed in parallel to **e-government** and further facilitated the services to businesses, both in the regulatory aspect and the introduction of online services. Creative economy, with 56% of the employed being women, is seen as a promising economic sector with the potential to contribute to the local, regional and national economy

Main challenges to improve the business climate include: enhance competitiveness of the economy as a whole; innovation and technology development for SMEs to ensure a rapid growth of this sector; expand

⁶¹ Reforms to reduce administrative barriers include: establishment of the National Registration Centre in September 2007 as a one stop shop operating in Tirana and in 32 offices across the country, in order to radically simplify the business registration procedure from 36 days in early 2007, in just 1 day; establishment of the National Licensing Centre in June 2009 as a one stop shop in order to reduce administrative barriers to business licensing, according to the principle of silent approval. Group I and II licenses are now issued by NLC in only 2-4 days. For other licenses issued by line ministries, the deadline has been reduced to a maximum of 30 days.

Since 2008, corporate tax was reduced to 10% for all categories of income. In 2009, the right of compensation for subsequent tax obligations was ratified, as well as for social and health insurance contributions on the value of VAT refund. VAT credit system for machinery, equipment and raw material has improved. Social insurance contribution was reduced to 15% since 2009, thus reducing the tax burden for business.

⁶² Since 2008, corporate tax was reduced to 10% for all categories of income. In 2009, the right of compensation for subsequent tax obligations was ratified, as well as for social and health insurance contributions on the value of VAT refund. VAT credit system for machinery, equipment and raw material has improved. Social insurance contribution was reduced to 15% since 2009, thus reducing the tax burden for business.

public - private partnerships and the attraction of foreign investments to productive sectors; improve trade balanced through increased exports.

Strategic priorities and policy objectives:

- 1. Improve the business climate for companies and SMEs by further reduction of administrative barriers:**
 - Reduce procedures to start a business from 5 to 2, reducing also the number of days needed to complete procedures;
 - Promote a culture of entrepreneurship through qualification and training for 2,000 young potential entrepreneurs;
 - Establish a Grant Fund to support 230 creative businesses, mainly in the field of handicrafts.
 - Increase the level of lending and strengthen the Albanian Loan Guarantee Fund and create schemes to support 100 women-led businesses and 1,000 new businesses (start ups).
 - Increase SME competitiveness and innovation through support to about 500 businesses to develop, use, adapt and market technology through the Innovation Fund.
 - Upgrade infrastructure for setting up 1 technology business incubators and 6 new industrial clusters 6.
- 2. Promote investment in technology, processing of domestic raw material, for modernization, diversification and specialization of industrial products in open markets with the aim to increase:**
 - turnover of industry sectors on average by 7.3% per year;
 - value added on average by 10% per year;
 - annual productivity by 5%.
- 3. Develop exports through integration into regional and European markets, aiming at:**
 - annual progressive increase of exports volume by around 9%;
 - increasing exports share to GDP to about 20% in 2020;
 - achievement of 60/40 ratio between exports generated by domestic production and apparel industry by 2020.
- 4. Develop foreign direct investment to ensure:**
 - FDI average increase of 6.3% annually;
 - FDI against to GDP to about 9% in 2020.

5.3.4. Research and Innovation

Policies undertaken in the field of research have enabled the reformation of this important sector for the economy and development of the country. Improvements have been achieved in the legal and institutional framework with the adoption of the Law on Higher Education and the revision of the Law on the Academy of Sciences. Reforming the Academy of Sciences enabled the integration of research institutes of the Academy of Sciences and of line ministries into public universities. Higher education system was integrated with the research system by creating a modern institutional framework for rapid development of research and technology and knowledge transfer.

Progress has been made in strategic and operational management of research and technological development (RTD) programmes through the establishment of the National Agency for Research, Technology and Innovation (ARTI);

There is a growing number of project-proposals submitted by Albanian research institutions to Community and international programmes⁶³, and larger public support (Research Infrastructure Fund) for infrastructure investment and new specializations. The Albanian government mobilised state funds to open 550 new jobs and support best PhD candidates through the Brain Gain programme and Excellence Fund.

Data on Research and Innovation could not be collected according to international standards (OECD, Eurostat or UNESCO).

Challenges ahead include: (i) increasing and widening the quality of research in Albania based on OECD indicators; (ii) integration of the Albanian scientific research in the European Research Area (ERA), through active participation in all European programs of Research and Development and (iii) improving the quality of the research and steering scientific research to match market needs by strengthening the relations of National and International Programmes with the private business.

Strategic priorities and objectives:

Improve the quality of research in the public sector

- Provide support through promotion programmes such as the **Excellence Fund** and **Brain Gain** for periodic and short-term secondment of Albanian lecturers and scientist engaged in international universities; Training of young researchers in three new postgraduate studies and training of 500 PhD candidates;
- Improve access of researchers in EU research programmes (FP7, COST, EUREKA, JRC) creating 4-5 Excellency centres during 2016-2020, with a regional standing. Increase of the number of applications in the European Research Area programmes (FP7, Marie Curie, Erasmus for All) with 15 % in 2020 compared to 2012;
- Strengthen the autonomy and accountability of research institutions, in order to improve working conditions for researchers and the competitiveness of Albanian researchers, through modification of the legislative framework on science;
- Improve the research evaluation in private and public HEIs, by using an external evaluation system in line with the **Research Evaluation Platform in Albania** and by accrediting the research institutions, programmes and projects. Increase by 40% of the number of accredited programmes in 2020 compared to 2012.

Provide systematic support to innovation and technology transfer in the manufacturing sector

- Foster cooperation between enterprises with technological capacity and HEIs in shaping the curricula and engage in postgraduate industrial research. Increase the number of joint projects between public HEIs and the private sector by 25% in 2020;
- Improve innovation and technology transfer volume through the **National Programme for Technology and Innovation**, in order to attract investments through consortia with the academic research institutes of 100 companies until 2020; Modernize the business sector by stimulating companies involved in innovation and technology transfer through a special fund set up by the government, IPA programme and funds in the framework of Albania's participation in the Competition and Innovation Programme (CIP) and the Enterprise Europe Network;
- Improve the legislative framework on intellectual property rights to encourage transfer of know-how and technology by creating facilitations to the purchase of patents and use of new technologies. The number of patents and technologies transferred to Albanian enterprises is expected to be 25% higher in 2020 than in 2012.

Improve the institutional capacity of the research and innovation system

⁶³ FP7, FP7/Marie Curie, COST, EUREKA

- Strengthen current structures and enhance cooperation among advisory, policy-making and executive or coordinating institutions. Establish the National Council for Science and Innovation as an advisory body to the government and the parliament;
- Increase funds for research through National Programmes and International Programmes for Research and Development, (bilateral and multilateral), so that funding for this sector accounts for 1% of GDP in 2020. Employ OECD standard indicators for research evaluation.

5.3.5. Information technology and communication

Market liberalization of electronic communications, the expansion of Internet use across the country and the expansion of e-government services are the most important achievements in the framework of the Information Society. A number of laws have been designed in accordance with European Union standards⁶⁴. E-government services are at the first levels of sophistication, while e-business has seen a notable progress, such as the establishment of National Licensing Center, the National Registration Center, expansion of GovNET, e-tax services, e-procurement, e-customs, and e-patents. These achievements have helped to improve the e-government readiness index, which in 2012⁶⁵ was 0.5161 (Albania ranked 86th out of 190 countries), compared to 0.467 in 2008 (85th out of 182 countries). Meanwhile, the index for the provision of online services improved from 0.3913 in 2008 to 0.4248 in 2012⁶⁶.

Information technology and communication is characterised by high dynamism and innovation. The challenges for this sector include:

- digital convergence of telecommunications and audiovisual broadcasting;
- constant improvement of online services and sophistication of services delivered to citizens;
- strengthening the institutional capacity for coordinated development of e-government initiatives and information society, implementation of the interoperability scheme and service delivery through the government portal. Increase participation in governance, increase the use of services, and the implementation of international standards for e-accessing.

Strategic priorities and objectives:

1. Improve national ICT infrastructure as the main pillar for rapid development of Information Society and increasing e-readiness through:

- Improve fixed telephony penetration from 10.2% in 2011 to 20% by the end of 2020;
- Increase of percentage of the population that uses internet from 50% in 2011 to 100% by the end of 2020;
- Increase broadband penetration from 6.5% (per 100 inhabitants) in 2011 to 100% by the end of 2020;

2. Develop e-governance and offer interactive public services via internet for the citizens and the businesses:

- Offer public services in an interactive way for the public and the businesses from 30% in 2012 to 90% by the end of 2020;
- Increase e-readiness index for e-governance, in line with UNPAN⁶⁷, from 0.5161 in 2011 to 0.9 by the end of 2020.

3. Complete switchover from analogue to digital broadcasting within 17 July 2015:

⁶⁴ Laws: "On e-communications", "On e-signature", "On e-document", "On e-commerce", "On protection of personal data", Legislation on cyber crime, "On state information".

⁶⁵ According to UNPAN reports

⁶⁷ United Nations Public Administration Network

- Implement the strategy on switchover from analogue to digital broadcasting;
 - Improve the legal and regulatory framework governing audiovisual broadcasting.
- 4. Implement the national policy on the establishment of the National Spatial Data Infrastructure (NSDI) in accordance with European Union⁶⁸ requirements to provide solutions to the problems inherent in the field of geospatial information:**
- Build the geoportal and the gravimetric network
 - Put in place and certify the active ALBPOS network and build the passive ALBPOS network;
 - Install I and II class network and obtain European certification;
 - Ensure network maintenance and updating in line with EU standards.

5.3.6. Consumer protection and market surveillance

Albania has undertaken a series of horizontal and sector initiatives in the area of consumer protection, in order to provide safer products and increase the transparency of business practices. Aiming at the operation of a safe and competitive market, over 90% of European standards (EN) have been adopted as Albanian standards and a reliable and quality accreditation system⁶⁹ has been established. Measuring capacity was upgraded and the Quality Management System has been implemented, based on international/European classifications (BIPM/EURAMET)⁷⁰. The Consumer Protection Committee was established in 2009 and online registration of customer complaints is in place since 2011.

Further challenges in this sector include: establish and ensure effective functioning of the Market Surveillance Inspectorate; membership of the General Directorate of Standards to CEN and CENELEC⁷¹ and adoption of standards published by the European Telecommunications Standards Institute (ETSI); increase the number of standards adopted, membership of General Directorate of Metrology in European and international organizations.

Strategic priorities and objectives:

- 1. In the field of food safety:**
 - Conduct entirely risk-based controls until 2020 by increasing the number of inspected food business operators by 35% in 2020;
 - Reduce zoonotic diseases by increasing the number of controlled animals (tracked, vaccinated, infected, eliminated) to 35% by 2020;
 - Establish a clean area until 2020 from quarantine pests for early potato and bacterial fire;
 - Increase inspections by 10% each year over consumer products placed on the market, based on risk analysis.
- 2. In the field of non-food products:**
 - Annual increase by 10% of the level of safety of pressure equipment that exist in our country.
 - Annual increase by 10% of the level of quality control in entities that conduct retail and wholesale trade in oil, gas and their by-products.

⁶⁸ EU Directive 2007/2/EC INSPIRE

⁶⁹ Conformity assessment bodies (CAB) to be accredited are 21: 13 testing labs, 1 calibration lab, 4 inspection bodies and 3 certification bodies.

⁷⁰ BIPM International bureau of weight and measures/EURAMET European association of national metrology institute.

- Increased monitoring of control systems for pre-packaged products at the manufacturer / packager and at the market, in order to reduce non-conforming products by averagely 2% each year.
- 3. In the field of **accreditation**:
 - Accreditation of testing reports of Albanian testing laboratories, certification and inspection bodies.
 - Increase the level of protection of consumers from inaccurate measurements through 2% more checks and inspections of measuring instruments in the market and in use, each year.
- 4. **Institutional capacity building**:
 - Strengthen the effectiveness of the Consumer Protection Commission (CPC), through processing and examination of 100% of complaints and review, on its own initiative, of 10 standard contracts with impact on the collective interests of consumers.
 - Reduce at least by 10% of non-compliance practices in 4 areas where services are provided to customers, with the aim of assessing the commercial practices at the prior and after the CPC measures.
 - Increase by 20% each year of extra-judicial dispute resolution of customer claims, starting in 2016;
 - Full membership of GDS in CEN/CENELEC and ETSI, and keep up with the pace of adoption of standards published by these organizations;
 - Increase awareness of consumers and operators about the new regulatory framework in the field of cosmetic products.

5.4. SUSTAINED GROWTH THROUGH EFFICIENT USE OF RESOURCES

Strategic goals of the National Strategy for Development and Integration in terms of economic development, take into consideration the vision of the European Union to ensure the development of a competitive European economy based on a balanced and sustainable use of resources.

Priority will be to further develop the country's infrastructure to provide greater access to the population, in parallel with its further integration into European systems. Particular attention will be paid to the protection of nature, national resources and balanced and sustainable use of the environment.

It is also essential that the benefits of economic growth are spread across the country, including underdeveloped regions, aiming at balanced development and strengthened territorial cohesion.

5.4.1. Efficient use of resources

5.4.1.1. Energy

Energy market liberalization, coupled with significant investments for the development of energy transmission infrastructure and privatization of the electricity distribution sector have resulted in an uninterrupted supply of electricity for consumers. Energy consumption per capita has increased by 14% in 2011. Effective use of energy measures with the Energy Intensity index⁷², has been improving considerably. In 2011, it was reduced by 15% compared to 2007, while generating capacity increased by 150 MW in 2011 compared to 2007.

Challenges in this sector include: provide safe energy sources at minimum costs by encouraging diversification and integration into regional and European energy networks; achieve goals in the framework of 20/20/20 initiative to increase the use of renewable resources; improve energy efficiency and reduce CO2 emissions.

Strategic priorities and objectives:

1. Increase the use of Renewable Energy by 38% in 2020 against the final energy consumption, compared to 29.74% in 2009:

- Implement the National Renewable Energy Action Plan. Promote generation capacity through: construction of large, medium and small HPPs, and development of other renewable sources such as: construction of hydropower plants over Devoll River with installed power of about 280 MW; over Osum River with installed power of about 152 MW; over Vjosa River with installed power of about 350 MW; over Black Drin River (Skavica) with installed power of about 200 MW.
- Adopt the Renewable Resources law and implementing legislation. Market stimulation and incentives for the promotion of electricity generation from renewable sources (solar panels, wind plants, etc.)
- Stimulate the feed-in tariff system to promote energy generated from renewable sources. Stimulate connections to the transmission network of operators generating electricity from renewable sources.

2. Improve energy efficiency in all economic sectors at 9% until 2018, compared to the total final energy consumption, against 3% in 2012:

- Implement the National Action Plan on Energy Efficiency Growth; Adopt the legal framework on energy efficiency and adopt the Building Energy Code;

⁷² Energy Intensity Reduction relates to efficient energy use.

- Establish a fund for energy efficiency and renewable sources.
- 3. **Increase natural gas consumption as percentage of total energy consumption by 15% until 2020, through connection to the regional natural gas network:**
- Follow legal and administrative practices for interconnection lines with regional pipeline network (Trans Adriatic Pipeline Project-TAP and Ionian Adriatic Pipeline - IAP).
- 4. **Environmental protection to reduce CO2 emissions to 6,478 kton (10 times less than the average of European countries) in 2020:**
- Reduce the use of firewood and encourage use of alternative energy sources;
- Stimulate the use of energy-efficient equipment and materials.
- 5. **Reduce losses in the electricity distribution sector to 15% in 2020:**
- Optimise the Supply system and increase security of supply
- Improve management and control for electricity distribution according to tariff customers.

5.4.1.2. Transport infrastructure

Building a modern infrastructure in line with international standards to promote the development of all other economic sectors has been the major goal during 2007-2012. Public investments were made in the main road corridors, particularly North-South Corridor, Durës-Kukës-Morinë highway and segments of Corridor VII. These investments constitute a significant contribution to the development of Balkans infrastructure networks and integration in the pan-European Transport networks. Besides infrastructure upgrading, policies conducive to business activity⁷³ led to an annual average increase of **traffic** in the **main national network** 6.6%⁷⁴. **International rail freight transport** increased by 35% versus 2007, providing about 78% of the overall volume of transport, mostly with Montenegro. In **maritime transport**, increased accommodating and processing capacity and port efficiency has led to increased maritime transport volume of processed goods to about 25% more in 2011 compared to 2007⁷⁵. In addition to existing ports, two private ports for fuel and gas - Petrolifera port of Vlora and Durres Porto Romano – are operational since 2009. **Air transport** - mainly **civil aviation** - is characterized by fast and dynamic development. As a result of the Common Aviation Area Agreement, the number of passengers at "Mother Teresa" airport increased by 65% in 2011 versus 2007.

Challenges in this sector include: integrate the various transport modes (road, rail, maritime and air) to enhance system efficiency and the quality of services delivered to citizens and businesses; improve, expand and maintain road transport infrastructure in line with EU standards ensuring environmental protection; advance the restructuring of the Albanian Railways to improve management and financial performance and reduce subsidies; implement appropriate policies which bring PPP type concession options oriented towards maintenance and efficient operation of the railway system; further modernization of port infrastructure through investments, privatization of port business services, construction and use of specialized ports, as well as strengthening the Maritime Administration in line with European standards; implement conventions concerning Safety of life at sea and protection of the marine environment; establish a competitive market with liberalized air services, implement international standards on aviation safety and improve civil aviation services.

Strategies priorities and objectives:

Road transport

1. **Increase national road density⁷⁶ by 45% and reduce average travel time between major cities to 20% in 2020:**

⁷³ Liberalization of international transport of passengers by buss, improving and facilitating border crossing, etc.

⁷⁴ Referring to PKT2

⁷⁵ 5,429 thousand tons of goods in 2011, versus 4,332 thousand tons in 2007.

⁷⁶ km roads / km² area

- Construct and rehabilitate according to the standards of the national road network by 29% more than in 2012 (3,656 km) through completion of: Corridor 8 that includes the Southeast international axis; Arber Road as a branch of Corridor 8; Southern Central Axis; and connection of Durres-Morine corridor to Corridor 10;
- Construct and rehabilitate other national roads, roads leading to cultural and tourist centres and border crossing points;
- Prevent illegal constructions along new roads, particularly dangerous secondary roads built by private entities;
- Ensure high-quality maintenance of the current national road network, as well as extend this service to over 1,700 km of rural roads;
- Ensure maintenance through concession contracts for 530 km or 10% of the national road network;
- Improving road safety to reduce fatal accidents from 7.84 in 2011 to 4.2 per 10,000 road vehicles.

2. Boost annual average volume of passenger and goods transport by 6.6% and 7.2% respectively:

- Build national and international bus line terminals in major cities to enhance the quality of service;
- Harmonise national legislation with EU *acquis* and standards on road transport of goods and passengers;
- Improve the regulatory system in accordance with the requirements and standards to ensure market competitiveness of carriers.

The above objectives and measures will contribute to the integration of the national network to the pan-European network and to the creating of a regional economic area.

Rail transport

1. Increase the volume of rail transport of passengers and goods 2% and 4% respectively:

- Reconstruct the railway line Tirana – Durres;
- Separate infrastructure management system from transport activity, as well as ensure market liberalization;
- Increase safety level through increasing the number of inspections of the lines and railway vehicles.

2. Further integrate the Albanian railway network in the regional rail networks aiming to increase the amount of goods by 4% each year:

- Infrastructure upgrading of railway lines with Montenegro and Macedonia;
- Infrastructure upgrading of North-South and Corridor VIII railways.

Maritime transport

1. Develop maritime transport to achieve European standards:

- Increase the number and tonnage of the Albanian fleet certified under the international standards, from 18 vessels with a total carrying capacity of about 28,900 tons to 20 vessels with a tonnage increase of about 25% in 2020);
- Increase the number of seafarers' certificates issued in accordance with the standards of the International Maritime Organization (IMO), from 340 in 2012 to 600 in 2020;

- Complete national legislation in the field of Maritime Transport drafting of appropriate regulations to implement the requirements of the conventions, directives and resolutions⁷⁷.
 - Conduct systematic controls to ensure technical standards and safety of Albanian ships, in accordance with international conventions;
 - Establish VTMS marine traffic monitoring system and monitoring system integration, reporting Adriatic traffic (ADRIREP);
 - Renew the maritime fleet with passenger ferry boats and trucks, containers, palletized goods, fuel, etc. in accordance with the technical standards and conventions;
 - Training of crews in accordance with the STCW Convention standards 78/95.
- 2. Develop ports through investments on the basis of master plans; commercialise and orient ports towards market economy:**
- Increase the volume of processed goods in Albanian ports by about 24% in 2020, versus 5 429 thousand tons processed in 2011;
 - Increase the number of passengers transported by ferry boat by 12% in 2020, from 1 165 thousand passengers in 2011;
 - Rehabilitate the infrastructure and superstructure of the maritime ports of Durrës, Vlora, Shengjin, Saranda and Water Transport Koman;
 - Concession-based construction of specialised terminals to increase port accommodation and processing capacity;
 - Cooperate with business operators on the basis of PPPs to modernise maritime ports; establish sea lines to increase the traffic of export/import goods and transit goods;
 - Increase cooperation and integration in the regional port systems of the Adriatic and Europe.

Air transport

- 1. Enhance the efficiency of air transport and establish a competitive market with liberalised services fully in line with international standards on security aiming at:** increasing passenger flow by averagely 8% per year and goods flow by 6%. The measures to achieve this objective include:
- Harmonise the legislative system and regulatory acts in the field of air transport with the European standards and the relevant acquis;
 - Implement unified security and airworthiness standards through implementation of international documentation of Civil Aviation Safety;
 - Strengthen the role of the Civil Aviation Agency as the National Supervisory Authority in aviation;
 - Complete the obligations of Phase I, the Transitional Multilateral Agreement for the creation of the European Common Aviation Area;
 - Full-rights inclusion of air transport in the European Common Aviation Area (ECAA) and the initiative of the "Single European Sky" initiative;
 - Identify legislative and fiscal measures to increase the number of airlines operating in the market and increase flight destinations.

⁷⁷ Implementation of the requirements of MARPOL Convention 73/78, Barcelona Convention, the National Contingency Plan and other legal acts on ships, ports and Albanian marine environment, taking into account environmental safety as part of national security; Pursuant to the 1974 SOLAS Convention, MLC 2006, etc., provide a satisfactory level of sailing conditions, marine life, especially for sailors, fishermen, tourists and travelers on the cruise.

5.4.2. Regional Development

Preparations for EU funding in regional development programmes and establishment in 2009 of the **Regional Development Fund** have played a crucial role in promoting a balanced and sustainable development of the regions. In view of integrated and sustainable development of the regions and the adoption of European standards, legislation was adopted governing regional division based on **European NUTS classification**,⁷⁸ by defining three NUTS II statistical regions: (1) Durrës and Northern areas (2) Tirana and Elbasan and, (3) Southern areas.

The main challenge is to ensure a balanced development between regions of the country, and to increase the cohesion of the country's development in relation to other EU countries, through the consolidation of an effective system of regional planning and development. Specifically:

- **Uneven development between regions of the country and in the international context.** Development between regions of the country, between the municipalities and communes, but also between rural and urban areas, as well as between peripheral coastal and mountainous areas of the country remain uneven. Migration both within and outside the country is still a critical issue. There is an overpopulation in developed areas and depopulation of some areas, leading to inefficient use of infrastructure and services (schools, health centers, roads, water supply, etc.).
- **Incomplete policy framework and capacity constraints.** The policy framework should be consolidated, and the capacities for regional development management should be further developed. Powers of the regions regarding regional development management remain limited. The relationship between different levels of strategic planning and implementation at national, regional and local level remains weak. Project management capabilities in regional administrations remain limited.

Strategic priorities and objectives:

1. Increased competition between regions, ensuring that the regions have a sustainable socio-economic development of communities, by using their own unique resources, in order for the country to become more competitive in the global level:

- Support to ensure economic growth, job creation and vocational education responding to the needs of the labor market;
- Improvement of infrastructure linking the regions;
- Extension of functions areas and diversification of economy in rural areas

2. Increasing regional cohesion, by reducing high disparities in resource utilization, productivity and social and environmental standards:

- Improving standards of public infrastructure and services networks;
- Ensuring regional integrated environmental protection;
- Greater public investment in less developed regions

3. Effective management of regional development, through a pragmatic approach to regional development by efficiently managing limited resources:

- Capacity building for regional development at all levels of government;
- Establish effective and efficient mechanisms for managing regional development;
- Strengthen the capacity of DSDC as the main institution for the management of the Regional Development Fund;
- Improvement of inter-ministerial co-operation;
- Improved coordination in the process of drafting strategies by including regional stakeholders, to ensure that: sectorial strategies (vertical coordination) take into consideration regional specifics and in the same way regional strategies and programs integrate sectorial objectives;

⁷⁸ Territorial Planning Law 10119/2009 and DCM No 1037/2010.

- Establishment of the system of monitoring the implementation of regional strategies at regional level under the same standards set by central government;

5.4.3. Agriculture and rural development

Agriculture and rural development policy has contributed significantly to the economic and social development of rural communities.

Agricultural land used increased by 24 000 ha (6%) between 2007 and 2011, partially due to support provided for 15,000 ha plantations with orchards, citrus, olives, nuts and vineyards. Actually, 64% of the total agricultural land is used. Average farm size grew from 1,14 ha per farm in 2007 to 1,26 ha per farm in 2011. Output value increased from 140,000 million lek in 2007 to 180,000 million lek in 2011. Labour productivity in the agriculture sector increased by 28%, from 320,000 lek to 412,000 lek for annual work unit. The number of agricultural holdings (ESU) per farm in 2011 was at 2,45 against 1,9 in 2007.

Productivity of the agro-processing sector increased by 7,5% between 2007 and 2011, from 4,7 million lek output value per worker in 2007 to 5 million lek per worker in 2011. Employment increased from 10,300 to 11,300 jobs. Irrigation and drainage infrastructure improve further with over 9,000 ha more irrigated area in 2011 than in 2007. Investments in rural development target production diversification. In this context, the number of farmers generating income from non-agriculture sources grew by 19% in 2011 compared to 2007.

Challenges in this sector include: enhance competitiveness of agriculture and agro-processing in national, regional and global markets; enhance farm size through land consolidation and land market development; improve the technology and innovation transfer system through extension services; further improve infrastructure in agriculture towards sustainable use and management of natural resources and mitigation of climate change; improve basic and recreational services, and diversify the activities that generate income in rural areas.

Strategic priorities and objectives:

4) **Foster a viable, high quality food production by developing a competitive and innovative agro-food sector, able to sustain the competitive pressure in the domestic and EU markets and meeting EU standards and market requirements:**

- Increase agriculture land used from 445,210 ha in 2011 to 500,000 ha in 2020;
- Expand average farm size from 1.26 ha in 2011 to 2 ha in 2020;
- Promote food chain organisation and risk-management in agriculture;
- Promote new technologies in the agro-food chain to support the deployment of EU market requirements and standards;
- Increase labour productivity in agriculture (GVA ALL/AWU) from 411,228 in 2011 to 615,000 in 2020;
- Increase labour productivity in agro-processing (GVA ALL/AWU) from 5,010,105 in 2011 to 5,800,000 in 2020;
- Increase trade balance from 1/7 in the year 2011 to 1/5 in 2020.

1. **Sustainable management of natural resources and climate adaptation actions through smooth management of forests and water and application of environmental-friendly agricultural production methods:**

- Recover, conserve and enhance ecosystems that depend on agriculture and forestry;
- Recover and conserve biodiversity to meet the requirements of the "Natura 2000", and improving water and land management;
- Increase the number of certified organic farms from 123 in 2011 to 300 in 2020;

- Increase irrigated agricultural area from 204,396 ha in 2011 to 225,000 ha in 2020;
 - Promote resource efficiency and the shift towards a low carbon economy and climate sensitive sectors of agriculture, food and forestry.
2. **Balanced territorial development of rural areas, promoting diversified economic activity, creation of jobs, social inclusion, and improved living conditions:**
- Increase the number of farmers generating out-of-farm income from 148,111 in 2011 to 200,000 in 2020;
 - Improve local services, village renewal and rural infrastructure;
 - Increase access to modern information and communication systems;
 - Promote local development in rural areas through promotion and capacity building for the development of the "LEADER" approach.

5.4.4. Tourism development

As a result of infrastructure investment and improved service quality, the **tourism sector** share in the economy has grown considerably in recent years. Direct contribution of the tourism sector in GDP in 2011 stood at 6.1%⁷⁹, while total contribution to GDP in economy was at 21.7%. Tourism in 2011 generated directly 51,100 jobs or 5.5%⁸⁰ and indirectly 183,300 jobs or 19.7%⁸¹. Number of visitors with foreign citizenship increased 2,5 times compared to 2007⁸².

Challenges in this sector include: improve the image of tourism through enhanced promotion and marketing; perfect the certification system and standards in order to increase the quality, as well as human capacity building to improve tourism services; improve the climate business and encourage private investment; organise data collection and analysis at local, regional and national level according to international standards.

Strategic priorities and objectives:

1. **Develop the tourism sector by increasing:** direct contribution to GDP by 0.2% annually; contribution to total employment from 19.7% in 2011 to 20.3% in 2020; and the number of non-resident foreign nationals by 50% compared to 2011.
 - Promotion and marketing to improve Albania's tourism image as a tourist destination of special interest, through: participation in international fairs, distribution of promotional materials, online promotion, development and transmission of TV spots;
 - Establishment of tourism promotion offices that promote tourist values and resources in the international markets targeted for attracting foreign tourists.
2. **Diversify tourism products extended in the whole territory to ensure integrated tourism development:**
 - Expand the season beyond the actual 3-month period;
 - Upgrade infrastructure and access to objects classified as cultural monuments in order to double the number of visitors;
 - Establish a National Register of tourist resources and create new tourist routes in rural areas rich in natural and cultural resources;

⁷⁹ Direct contribution consists of the total expenditure within a given country for Travel & Tourism purposes by residents and non-residents, for business and free time) and "individual" costs of the government for cultural services (museums, archaeological sites, etc.) or recreational services(e.g. national parks, etc.).

⁸⁰ It includes employment by hotels, travel agencies, airlines and other passenger transport services (excluding buss services), and restaurant and leisure activities directly supported by tourists.

⁸¹ Total contribution to employment is the number of jobs directly generated by travel and tourism industry, plus indirect contribution and compulsory contributions, which consist of: capital investment from all sectors involved in the tourist industry;

⁸² Referring to the World Travel and Tourism Council.

- Support the creation of tourist destination management organizations with the involvement of public stakeholders, business and tourism community.
- 3. **Perfect the system of certification and standards in tourism in order to increase the quality and strengthen data collection and processing capacity:**
 - Strengthen human capacity in the tourism sector through: promotion and certification of professional training courses in colleges and universities, award of national prizes or success / excellence awards in tourism services; Train employees in tourist service offices in 9 regions and sea entry points on the tourist data processing standards of the World Tourism Organisation;
 - Train tourist operators in at least 4 regions regarding the collection, processing and entry of tourism data, in collaboration with the Tourist Service office.

5.4.5. Environment

Environmental protection is an overarching and complex area which gets special attention both in terms of regulatory measures and infrastructure investments. *Air Quality*⁸³ in main urban areas improved by 67% compared to 2007. Protected areas account for 15.15 of the total territory in 2011, compared to 10.4% in 2007, contributing to the preservation of biodiversity. Forests and pastures areas with rehabilitation plans increased by 48% in 2012 compared to 2007; erosion was reduced by 200,000 tons of sediments. Forest Police measures to crack down on illegal activities resulted in the reduction of logging to 55% compared to 2007. In 2012, the catchment basins area is 17% larger than in 2007, in line with their management plans. The water quality indicators⁸⁴ aligned to European standards improved by 8% against 2007.

Challenges in this sector include: Adopt and implement EU standards for urban air quality and air emissions; Reduce substances with impact on climate change and build up public awareness; prevent industrial pollution and risk and ensure effective management of chemicals in line with EU regulations; Expand protected areas and ensure development through effective implementation of management plans; Ensure efficient management of the forests and pastures fund in order to expand their area and productivity; Ensure integrated management of water resources through the adoption of a monitoring and control framework to reduce pollution of ground and underground waters; Further develop the fisheries sector.

- In the area of **air quality**: (i) fully adopt European standards for urban air quality and air emissions, (ii) consolidate the National Monitoring System according to European standards (iii) adopt and implement action plans for air quality at the local level.
- In the area of **climate change**: (i) reduce the amount of HCFCs from 120 tons to 108 tons in 2015, reducing this amount by 10% in 2013 and aiming to achieve the long-term objective, i.e. reduce HCFCs to 29 tons by 2040; (ii) Raise awareness and capacity building on climate change at the national and local level.
- In the area of **chemicals**, challenges are related to the establishment of national chemicals management system in accordance with EU regulations, the Rotterdam Convention and the Global Harmonized System (GHS).
- In the area of **industrial pollution and risk**, challenges include: (1) strengthen the institutional capacities of the AEF⁸⁵ and Environmental Inspectorate for the enforcement of relevant legislation; (2) adopt implementing legislation; (3) monitor industrial companies to comply with the conditions specified in the integrated environmental permits and safety management plans.

⁸³ PM2,5 and PM10, SO2, NO2, CO, Pb, O3, and benzene.

⁸⁴ NBO5, NH4, O2 dissolved, NO3, P-total

- In the area of **nature protection**: (i) establish the Natura 2000 network of protected areas in Albania and the European Community; (ii) ensure effective implementation of management plans in protected areas and action plans for species and habitats.
- In the area of **forest protection**: (i) approximate EU legislation in the field of forests and pastures; (ii) build local forest management capacity; (iii) improve forest information system and databases; (iv) strengthen research, technological development and innovation for forests; and (vi) improve regional relations and unification of technologies and methodologies.
- In the area of **water resources management**: (i) integrate management of river basins and create an electronic water cadastre; (ii) integrated management of transboundary waters with the Republic of Kosovo and Macedonia.

Strategic priorities and objectives:

1. Improve air quality and reduce air pollution and noise in main urban areas:

- Increase the number of urban air monitoring stations by 43% in 2020 compared to 28% of total number of monitoring stations in 2011, according to EU standards;
- Reduce the national level of air pollutants (NO_x; PM₁₀; PM_{2,5}; SO₂) by 15-25% according to each pollutant⁸⁶.
- Increase the number of noise monitoring stations from 45 in 2012 to 60 stations by 2020 and reduce noise pollution by 20% in major urban areas, compared with 2012⁸⁷;
- Ensure full compliance of operators of large industrial emission rates in the air (PM₁₀, SO₂, NO_x) and water in accordance with the requirements of the law "On environmental permits" and set standards in IPPC and LCP Directives⁸⁸.

2. Adapt to climate change and reduce GHG:

- Reduce by 16% GHG emissions by 2020 compared to baseline year (1990)⁸⁹;
- Reduce hydrocarbon (HCFC) consumption by 35% in 2020 compared to 2011.

3. Ensure sustainable biodiversity protection and management, and increase the Protected Areas:

- Establish NATURA 2000 ecological network;
- Increase protected areas to 17% of the entire territory;
- Improve conservation status for 5% of endangered species and habitats.

4. Ensure sustainable and functional development of forest and pasture resources:

- Strengthen the institutional and legal framework for sustainable management of forest and pasture resources, and establish a payment schemes for the ecosystem;
- Implement breeding plans for 10 production units across all the forest and pasture fund of 1,700,000 ha, update the National Cadastre of Forests and Pastures, prepare GIS thematic maps, and register 100% of forests and pastures in IPRO;
- Rehabilitate through forestation and reforestation of burned areas and rehabilitation of pastures by forage and tree planting at 15% of the forest and pasture area. Prevent further erosion of forest and pasture land in 25% of the total area;

⁸⁶ NO_x 15%, PM₁₀ by 25%, PM_{2,5} by 25% and maintain SO₂ level within 2020 at the 2011 levels, i.e.: NO_x - 40 µg/m³, PM₁₀ - 83 µg/m³, PM_{2,5} - 33 µg/m³ and SO₂ - 8 µg/m³.

⁸⁷ Average noise values during the day to be reduced from 70 dB (A) to 56 dB (A) and average noise values during the night to be reduced from 55 dB (A) to 45 dB(A).

⁸⁸ IPPC (International Plant Protection Convention) ; LCP (Large Combustion Plants).

⁸⁹ 1990 is the baseline year, with GHG emissions at 18000 Gg CO₂ eqv

- Complete transfer of management over forests and pastures to local government units. Provide technical and legal support to 250 communes to set up their forests and pastures management bodies. Complete the registration process of communal forests in the PRCA.

5. Ensure good management of catchment basins and integrated management of transboundary waters:

- Fully transpose EU *acquis* into the national legislation in the area of water resource management;
- Adopt joint agreements with the Republic of Kosovo, Montenegro, Macedonia and Greece on improving management for transboundary waters;
- Rehabilitate river beds by 25% until 2020 compared to 2011, and reduce permits for river exploitation.

6. Develop the sector and sustainable management of living resources in maritime and inland waters:

- Establish an effective data collection system on: fishing fleet, fish catch and landings, and biological conditions of populations in Albanian waters;
- Build Durres Fishing Port and fish wholesale markets.

5.4.6. Water supply and sewerage

Infrastructure for water supply and wastewater collection and treatment, and integrated waste management has improved significantly. Infrastructure investment grew by nearly 64% in 2011 compared to 2007⁹⁰. Average water supply increased from 9.7 hours in 2007 to 10.8 hours in 2011. Urban sewerage coverage increased to 85.4% in 2011 from 66.3% in 2007; and to 3.8% in 2011 from 3% in 2007 in rural areas⁹¹. Coverage with wastewater treatment plants increased from 0.25% in 2007 to 7% in 2011⁹², contributing to the improvement of sewerage system and environmental protection.

Capital investment plan for the water supply and sewerage sector was developed to ensure good orientation and efficiency of investments over a 25-30 year period. It is based on the EU directives.

National standards of design, operation and maintenance were revised⁹³ in order to ensure effective implementation of investments and full compliance with the EU standards.

Main challenges in this sector include: improve water supply and sewerage services and increase access for the population; improve effectiveness of utility services in urban and rural areas pursuing the cost recovery principle; define and formalise the tariff structure and differentiation; foster merging of WSS utilities towards regionalisation.

Strategic priorities and objectives:

1. Expand and improve the quality of water and sewerage services sector in order to ensure:

- urban water supply network coverage to 100%, and in rural areas 95%;
- sewerage network coverage in urban areas at 89% and 60% rural areas;
- increased percentage of population connected to wastewater treatment service to 50%.
- continuity of water supply service to 22 hours / day in all the country.

⁹⁰ Water supply coverage for urban areas increased from 87% in 2007 to 90.66% in 2011, whereas in rural areas from 55.4% in 2007 to 57.41% in 2011.

⁹¹ Out of 58 utilities, only 30 utilities offer both water supply and sewerage services, while 28 utilities offer only water supply service

⁹² In addition to treatment plants already operational in Kavaja and Pogradec, such plants were built also in Durrësi, Saranda, Vlora, Lezha and Korça and will become operational once the connection networks are in place.

⁹³ 62 standards of the European Union were incorporated into 8 national standards books.

2. **Orientate utilities towards full cost recovery and control through: full recovery of maintenance and operation costs with revenue from 100% utilities. Reduce non-revenue water to 30% until 2020.**
3. **Include utilities in the process of regionalization, through reducing their total number to 26 utilities.**
4. **Enhance the institutional capacity of the sector and align fully the national legislation to the EU directives.**

5.4.7. Integrated waste management

Integrated Waste Management has been identified as one of the priority areas of the regulatory reform and strategic and budget planning for the period 2007 - 2011. Under this reform, integrated waste management during this period is focused on urban areas, where solid waste continued to be largely deposited in landfills. Political decision-making has identified landfills as the most appropriate mid-term solution to waste collection and treatment.

Two large landfills were built since 2008: Sharra landfill for the city of Tirana and Bushati landfill for Shkodra and Lezha regions, as well as two small landfills in Rrëshen and Bajram Curri. Besides, two large landfills in Korça/Maliq and Saranda/Bajkaj are close to completion. The legislative and regulatory framework ^[1] was completed to reflect international obligations under the Stabilisation and Association Agreement and the Basel Convention. In this view, the most important piece of legislation adopted is the Integrated Waste Management Law (2011) which lays down the legal basis for full transposition of EU waste directives, decisions and regulations, and aims to ensure integrated waste management: provides for a whole waste infrastructure to be established under this law; defines clear functions between the central and local government and ensures their coordinated functioning; assigns duties to the private sector concerning waste management; its scope includes the treatment of hazardous waste.

Challenges in the area of Integrated Waste Management include: (i) establish and operate an integrated waste management system; (ii) raise community awareness on waste treatment; and (iii) ensure administrative coordination between central and local bodies for integrated waste management.

Strategic priorities and objectives:

1. Dispose 45% of landfill waste and recycle 55% of urban waste:

- Develop regional waste management plans;
- Develop and operate regional landfills according to EU standards.
- Close down illegal landfills or those in urban areas failing to comply with EU standards, and rehabilitate existing landfills;
- Plan and establish hazardous waste treatment plants and rehabilitate hot spots/polluted areas;
- Fully transpose EU *acquis* on waste management into the national legislation.

5.4.8. Spatial planning

Territorial development in Albania was significantly influenced by socio-economic transformations of the Albanian society. Adoption of a new Territorial Planning Law in 2009 and the establishment of appropriate instruments for its implementation aimed at addressing the dynamic processes towards a territorial development in coherence with the economic needs.

Relying on sector issues identified during the implementation of the 2007-2013 National Strategy for Development and Integration, which aims to address the main challenges and solve problems in this sector

^[1] Law No 10463, dated 22.9.2011 "On integrated waste management"; Law No 10431, dated 9.06.2011 "On environmental protection"; DCM No 798, dated 22.9.2010 "On hospital waste management"; DCM No 175, dated 19.01.2011 "On the approval of the Waste Management Strategy and National Action Plan"; DCM No 177, dated 6.03.2012 "On packaging and packaging waste"; and DCM No 178, dated 6.03.2012 "On waste incineration".

during the period 2013-2020 relate to: - the lack of local planning instruments according to the type and level of classification; - lack of green and open territories, and social facilities; - lack of human and financial resources necessary for the realization of social housing for vulnerable communities; lack of maintenance of buildings and shared areas in residential buildings; - and social awareness in general about public property.

Strategic priorities and objectives:

1. Design, support the implementation of, and monitor national policies: housing, maintenance and upgrading of shared areas in residential buildings; social housing; open territories and social structural units of the city:

- adoption of the "National Territory Plan "(NTP);
- approval of the planning instrument, "National Policy for Urban Planning and Housing ";
- adoption of national sectorial instrument of territorial planning, "National Regulation of Urban Planning and Housing Sector";

2. Support of Local Government Units in the design and implementation of inter-local and local policies for housing, shared surfaces in residential buildings, social housing, maintenance and modernization of housing stock and open and social territories:

- preparation of 7 territorial planning instruments, "Integrated Territorial Plans" for 7 regions or 55% of the total, completing thus the process of drafting "Integrated Territorial Plans" for all local government units (regions);
- Preparing the 17 instruments of territorial planning, "Local General Plans" for 17 municipalities or 25% of the total, reaching 37% of the process of drafting the "General Local Plans" for LGUs (municipalities);

3. Actions to implement effectively and efficiently legalization, urbanization and integration of informal settlements, through the completion of the process of legalization of informal settlements and starting the process of urbanization and integration of informal settlements with other residential areas in cities.

4. Undertaking programs and projects at the national level to increase the accessibility and affordability of households in need of housing, maintenance and modernization of housing stock, shared surfaces in residential buildings and the improvement of structural units of housing in human settlements:

- financing affordable housing for about 9,000 families, or about 67% of registered households by 2010 as homeless in LGUs;
- improving housing conditions for about 700 families by addressing:
 - 30% of Roma and Egyptian communities;
 - Improvement of privatized housing in order to save energy for about 2.5% of the total stock and remove barriers for persons with disabilities in about 0.6% of the total housing stock.

5.5. INVESTING IN PEOPLE AND SOCIAL COHESION

5.5.1. Social insurance system

Reforms in the field of social insurance were implemented in line with the economic development and aimed to establish a strategic social protection framework, align social protection with the EU *acquis* and ILO requirements, and ensure sustainability of the financial scheme. This scheme is focused on pension policies that seek to maintain benefits at acceptable levels, avoid the effects of inflation, ensure a minimum living standard, increase low pensions, ensure gradual reconciliation of minimum rural and urban pensions and focus on transfers as an important element of poverty reduction. Smooth implementation of this scheme increased the number of beneficiaries by 5%⁹⁴ and the total spending for old-age pensions and disability by 50% and 96%, as well as reduced the contribution rate at 36% of the salary. Also, reforms aimed at reducing evasion and stimulating the labour market⁹⁵ led to 27% more people paying contributions.

Challenges in this sector include: increase benefits and population coverage; foster participation in the social insurance system; reduce the deficit of the pension scheme; reduce evasion, mainly by the small enterprises; reduce the ratio between spending and collected contributions; increase the active labour forces paying contributions; increase the dependency coefficient⁹⁶; improve transparency for transfers from state budget to the Social Insurance Institute in terms of services not based on the contribution principle.

Strategies priorities and objectives:

1. Enhance the financial sustainability of the social insurance scheme:

- Increase the number of contributors from the private sector and the self-employed in agriculture, as well as mandatory and voluntary contributions;
- Reconcile the rural and urban pension schemes;
- Introduce elements that foster participation and declaration;
- Introduce efficient methods in contribution collection and debt monitoring.

2. Modernise the overall Social Insurance system:

- Keep pension replacement rate at acceptable levels and observe indexing rules;
- Encourage and develop the second pillar of the social insurance system;
- Improve the pension formula, particularly for those who have a contribution history with the former Agricultural Cooperatives;
- Use efficient methods to identify active population and economic relations between employers and employees;
- Establish an automatic information system for social insurance, providing for the history of contributors and the archive with obtained and recognised rights.

3. Increase social insurance benefits:

⁹⁴ 27,000 persons more in 2012 against 2007.

⁹⁵ 5% from 2009, reaching 24.5 % or a reduction by 36% from the previous pressure;

⁹⁶ Ratio between beneficiaries against contributors in the social insurance scheme.

- Increase the level of pension benefits and reduce requests for early pension;
- Increase rural and urban pensions and until complete reconciliation.

5.6. Employment policy and social inclusion

5.6.1.1. Employment

Reforms in the framework of employment promotion programmes **reduced unemployment** to 13.3% in 2011. The **labour market** is dominated by the private agricultural sector which accounts for the bulk of employment, with around 55%. During 2007–2011, 9,042 unemployed jobseekers were employed and 9,529 of these found jobs through employment promotion programmes. The network of public vocational training centres was expanded, training capacity was strengthened, and curricula and infrastructure were upgraded. Public vocational centres certified 38,233 people during 2007-2011.

Challenges in this sector include: increase employment rate; reduce gender gap in employment and vocational training; reduce the number of long-term unemployed job-seekers; tailor employment programmes to the needs of the unemployed and the market; improve curricula in order to expand qualifications; and reduce informality in the labour market.

Strategic priorities and objectives:

- 1. Increase employment rate and develop a safe, flexible and inclusive labour market, focusing on improving the business environment and implementing rural development policies, cultural and seasonal tourism policies and other fiscal and social policies:**
 - Promote entrepreneurship culture by enhancing management capacity and labour force skills;
 - Strengthen business productivity, competition and innovation;
 - Improve SME financing by increasing microcredit funds and capacity building of Microcredit Institutions;
 - Reduce taxes for small enterprises and emigrants; Strengthen the mediation role of the national employment services, improve planning and management, upgrade infrastructure and capacity, and develop extension skills in line with EU practices;
 - Develop cooperation with private employment agencies and other social partners; Open new jobs through support to agricultural start-ups;
 - Increase the share of tourism in total employment from 19.7% in 2011 to 20.3% in 2020.
- 2. Develop Vocational Training to better incorporate market needs into the lifelong learning perspective:**
 - Strengthen relations between vocational training centres and other VET actors and business community;
 - Improve the diversity and quality of training programmes;
 - Improve performance-based monitoring tools
- 3. Foster effectiveness of employment promotion programmes.** Improve programming, management, monitoring and evaluation of programmes:
 - Introduce new employment promotion programmes based on feasibility studies;
 - Mainstream the needs of disadvantaged groups such as women, youth and long-term unemployed in the employment promotion programmes.
- 4. Reduce informality:**
 - Promote formalisation of jobs through incentives and more flexible contracts;
 - Improve cooperation between inspection bodies and employment services with police and tax structures.

5. Ensure occupational health and safety:

- Improve and align national legislation with the EU *acquis* in the field of occupational health and safety;
- Create a modern and unified inspection service and improve inspection performance.

5.6.1.2. Gender equality

Considering women's rights as an integral part of human rights, the Albanian government adopted important laws and established new structures for gender equality and domestic violence aimed at eliminating gender discrimination. The Law "On gender equality in society" (adopted in 2008) introduced a 30% representation quota for women in candidate lists for election, reflected also in the Electoral Code. As a result, this quota was observed during the 2009 parliamentary elections. Actually, there are 23 women MPs (16.4% of the seats), nearly twice the number of seats from the previous parliamentary elections. In 2011, women and girls occupied 64.9% of specialist-level positions, and 39.2% of middle management positions. A series of awareness campaigns on gender equality and the fight against domestic violence were organised during 2007-2012. A National Shelter for victims of domestic violence is in place. Also, a coordination mechanism for the referral of cases domestic violence is fully operational.

Challenges in this sector include: gender mainstreaming in all social and economic policies; improve access to credit; reduce unemployment and improve participation of women in the labour market; increase women's participation in managerial positions in public administration and in political bodies; prevent and reduce violence against women and domestic violence; eliminate gender discrimination in education, health and media.

Strategic priorities and objectives:

1. Strengthen the legal and institutional mechanisms to promote gender equality and ensure human rights of all Albanian citizens regardless of their gender

- Strengthen capacity, appointment and sustainability of structures of gender equality officers (GEO) at central and local level, as well as the institutionalisation of GEO network;
- Review the national legislation to incorporate gender quality in line with the national and international documents; align it to the EU *acquis*; ensure gender mainstreaming in strategies and budgeting, and raise public awareness –particularly for women and girls - on their legal rights;
- Strengthen central and local authorities' monitoring capacity to ensure implementation of legislation and of the strategy on gender equality, on the basis of revised statistical instruments and monitoring packages;

2. Ensure women's empowerment and boost their representation and participation in political and public decision-making

- Amend the Electoral Code and the Law "On Political Parties" to ensure the 30% representation quota; develop mechanisms that encourage women's participation in the electoral process, political activities and develop capacity building programs for women candidates in local and general elections;
- Design and implement transparent criteria for nomination, appointment or election in decision-making positions in the public administration or in the diplomatic sector, and monitor the application of the 30% representation quota for women in the higher levels of decision-making in politics and administration, in the education system, in the justice system, and at all levels of the economy, including the private sector and the civil society;
- Implement programmes and plans to increase women's participation quota in the Armed Forces to 15% in 2015 and 18% in 2020, in the context of gender equality and equal opportunities for implementation, under the UN Resolution 1325;

- Increase the recruitment of women and girls in the 4 highest police structures from 2.8% in 2012 to 15% in 2020, through equal opportunities in recruitment, training and career promotion;
 - Establish a special fund for the development of Women's Movement and develop gender equality at the central level; strengthen the capacity of women and girls - particularly those with disabilities - to enable their involvement in civic activity; increase funding for projects focusing on gender equality and gender-based violence.
- 3. Ensure economic empowerment of women by addressing gender disparities that lead to poverty and by promoting their social inclusion and economic independence**
- Improve women's access to credit by improving the legal framework designed to provide soft loans, and revise social insurance legislation to include post-natal paternity leave; organize awareness-raising campaigns about these new legal opportunities;
 - Establish a special fund to promote entrepreneurship for women, programmes and support bodies for social care and protection;
 - Increase the number of SMEs run by women from 26% in 2011 to 40% in 2020;
 - Increase the number of women benefiting from agricultural support schemes to 30%;
 - Increase women's land ownership by increasing the number of ownership titles issued under the name of both spouses by 25%;
 - Increase training programmes to match market needs, particularly in vocational training and employment of women and girls in rural areas;
 - Develop part-time employment policies for women in need; design new programmes such as wage-subsidy programmes for specific categories of women and girls; ensure public information of women and girls on their right to employment and access to the labour market, as well as enhance their access to vocational training and education.
- 4. Raise awareness on gender-based violence, legal and administrative protection and support services for victims and perpetrators**
- Amend the Criminal Code to introduce heavier penalties for domestic violence and improve the legislation to expand the scope of subjects protected from domestic violence, as well as review the labour legislation, particularly concerning sexual harassment;
 - Raise public awareness through media, public education programmes and publishing awareness materials to make violence socially unacceptable, also engaging men to prevent and address gender-based violence (GBV);
 - Provide financial support through grants at central and local level for the cases of gender-based violence; establish and support the national coordination mechanism against violence in the local government units and social centres providing rehabilitation to victims and perpetrators; establish free national line and regional lines for violated/abused women and girls as well as establish shelters for victims of domestic violence.

5.6.1.3. Social inclusion and Social protection

Poverty alleviation and protection of vulnerable groups has been at the centre of national development policies. Poverty - as a direct result of exclusion - shrank from 12.4% in 2008 (LSMS) to XX% in 2012, associated with abridged differences among regions and a rapid fall of rural poverty by roughly 47% in 2008 compared to 2005. The extremely poor population decreased to 1.2% in 2008 and further to XX% in 2012. Improved active employment policies focusing on the women, the youth, the long-term unemployed, the disabled and the Roma people generated positive results. Introduction of employment promotion programmes ensured jobs to around 8,000 unemployed jobseekers; 2,000 of which were from vulnerable categories. Furthermore, there is an increased number of women in the employment structure, i.e. from 41% in 2007 to 48.3% in 2011.

Around 23% of the students in the pre-university education get free textbooks. In view of creating child-friendly schools, a programme provides meals to attract children from poor families and at risk of exclusion.

Since 2009, over 2,000 families are supported through soft credit in the framework of social housing programmes. Also, the State Commission for Legal Aid established in 2010 provides free legal aid to vulnerable groups. In November 2012, the Parliament ratified the UN Convention on the rights of persons with disabilities, signed in 2009.

Following Albania's membership in the Decade of Roma Inclusion in 2009, the government adopted the National Action Plan for the Decade of Roma Inclusion 2010-2015. Measures implemented under this plan ensured the inclusion of Roma community in the employment and vocational training programmes. This has increased their employment rate from 0.5% in 2007 to 1.1% in 2011. During 2011, the employment and vocational training centres provided services to 217 Roma persons compared to 73 Roma in 2007.

The disability payment to the vulnerable categories increased in 2012 compared to 2007: by averagely 35% for the people deprived of sight and their caretakers; and by around 18% for paraplegics and tetraplegics and by 25% for their caretakers. State budget funds allocated to disabled persons increased by 50% compared to 2007.

Measures implemented to improve control over payments in cash resulted in about 17,5% less families in the economic aid scheme compared to 2007. Besides, economic aid per household increased by 20%, from 6,500 lek in 2007 to 8,000 lek in 2012. The number of public and non-public social care providers increased from 120 in 2007 to 187 in 2012, due to the facilitation of the licensing procedures.

Future challenges in this sector include: increase participation of vulnerable groups in the labour market; reduce disparities in access to basic services between city centres and suburbs, between rural and urban areas, and between mountainous and flat areas; increase the efficiency of the economic aid scheme, switching from a passive to an active scheme; establish a fully operational and effective social care system based on the principle of decentralisation and de-institutionalisation, for the inclusion of vulnerable groups into social protection programmes.

Strategic priorities and objectives:

1. Improve social inclusion, access to basic services and opportunities for marginalised individuals and groups and persons with disabilities to generate income:

- Introduce specialized programmes that facilitate access to the labour market and increase job opportunities;
- Implement Social Business projects, especially in the poorest and disadvantaged areas;
- Provide specialized education and training programmes;
- Provide opportunities for the pursuit of compulsory and secondary education (general and vocational), for those who have passed the age of compulsory education without completing it. Extend psychological services particularly to schools with Roma and Egyptian children and pupils at risk of dropout;
- Facilitate access to health services for vulnerable groups through ensured public health services; provide specific health care and information packages, and specific programmes on access to the health system; provide support from social workers and adequate health services.

2. Increase the efficiency of economic aid programmes:

- Increase the number of households that leave the economic aid programme, as well as the average aid per household; Review parameters of economic aid programmes;
- Develop the Management Information System for social protection schemes through the establishment and management of a national electronic registry;
- Strengthen the capacity of local and regional bodies in areas including management, monitoring and evaluation of the economic aid system.

3. Establish integrated service systems at regional/local level according to the standards of care for all vulnerable groups:

- Improve national and local mechanisms to identify and assess the need for social care services according to standard operating procedures and align the Albanian legislation to the international and national documents;
- Establishing Integrated Information System at central and regional level, to identify, refer and address the problems and needs of social care services;
- Strengthen the capacity of local and regional bodies in areas that include the identification, management, monitoring and evaluation of the system of social services providers. The number of inspections carried out annually by the Labour Inspectorate and social services in 2020 is projected to increase by X% compared to 2012.

4. Reform the disability evaluation system:

- Align the legislation to international standards;
- Establish and strengthen the multi-disciplinary disability assessment commissions at regional / central as well as appeals bodies.

5.6.2. Social policy

5.6.2.1. Education

Deep reforms in the Education System improved teaching and learning conditions with the view of enhancing the quantitative and qualitative indicators of education towards the EU average. Actually, over 85% of first grade pupils come straight from kindergartens and preparatory classes; dropout in basic education has been reduced to 0.37% and the percentage of students completing primary education and continuing to upper secondary education has reached 92%. New admissions in class X of vocational education in the year 2011 increased by 23% compared to 2010. Investments in physical infrastructure and teaching labs have helped improve the quality. Internet has been installed in all schools by expanding significantly the possibilities for new methods of teaching and learning. Vocational schools were reorganised to three levels of certification 2 +1 +1; 2 +2; 4 years, as a flexible structure adapted to the dynamics of market development and in full compliance with the European Qualifications Framework.

Future challenges in this sector include: reduce schools dropout by Roma and Egyptian children; integrate ICT in teaching and learning; strengthen the link between education and labour market.

Strategic priorities and objectives:

Pre-university education

1. Increase access to education services at all levels:

- Increased enrolment in pre-school up to 80% in 2020;
- Increase the number of 5-year-olds who attend preparatory classes to 97% in 2020
- Reduce dropout in primary education to 0.19% in 2020;
- Increase the number of students who finish basic education and upper secondary education continue to 95% in 2020;
- Increase by 4% the number of enrolment for Roma and Egyptian children and by 2% for children with disabilities and from families with income below the poverty level;
- Improve the ratio between new admissions in vocational education and general high schools to 33% and 67% in 2020.

2. **Improve the quality of education service "Quality Education for All" which includes the following directions:**
 - **Reform of pre-university education curricula:** a) unify education standards; b) increase the comprehensive character of curricula; c) improve the structure and organization of the curricula and instructional programmes according to European standards and trends; d) improve the quality of applied curricula by improving auxiliary materials for the implementation of the curricula, and improving information systems and information sources.
 - **Reform of the professional development of teachers and managers** through increased involvement in the teaching profession of teachers who pass the state exam; promoting diverse forms of professional development, intensive training of teachers and training of all managers by 2020 based on the "supply & demand" system to cope with contemporary reforms.
 - **Regionalize schools in line with the School Map and the infrastructure conditions in rural areas and trends of demographic developments:** Build and renovate public schools and kindergartens according to EU standards. Equip all kindergartens and public schools with computers, projectors and internet connection by 2020.
3. **Ensure proper decision-making at central (MES) and local (municipalities / communes) levels and education institutions (kindergartens and schools):**
 - At central level: MES focused on the development of standards and quality control of the educational service;
 - At the local level: implementation of modern principles of decentralization.
 - At the education institutions: Implementation of wide autonomy in the field of human resources (appointments, removals) and financial affairs.
4. **Increase effectiveness and efficiency of financial resources:**
 - Improve the financing scheme based on the number of students according to the principle "money follows the student" principle in all decision-making levels by 2013;
 - Increase financial support for education from the central and local government, aiming to reach 4.5% of GDP by 2020 for public education.

Vocational education

1. **Reform the vocational education (VE) system to improve efficiency:**
 - Improve VE governance and lifelong learning through the creation and strengthening of the VE National Council and specialized management groups for the VE system;
 - Rationalise the VE providers network drawing up a development plan for VE providers, creating a national network of 8 multi-function centres, and accrediting VE providers to cover specific areas of training;
 - Develop an appropriate VE funding model by establishing financing mechanisms for VE providers, as well as establishing a VE National Fund with the participation of the private sector.
2. **Improve the image of and opportunities to enter the vocational education and lifelong learning by making the system more attractive to all stakeholders:**
 - Diversify VE offers to different target groups by adopting existing offers, creating new and diversified VE directions, as well as through 'on-site' training on entrepreneurship skills;
 - Improve communication and information about VE through public dissemination of information via IT and national public campaigns;
 - Improve the quality of the VE system through the development of VE competency-based programmes, further qualification of teachers, decentralization aiming more autonomy and clear

responsibilities for VE providers, implementation of the guidance services in all VE schools, as well as improving the evaluation, accreditation and certification tools in the VE system.

3. Adjust VE offers to the labour-market needs and demands:

- Include the Albanian Qualification Framework AP systems and lifelong learning through the creation of national authority, the Council of the Albanian Qualification Framework and its integration in the management system;
- Improve relations between VE public institutions, VE private providers and business through the implementation of the VE Agreement in Albania between social partners and the government, as well as improve legislation on inclusion of partners into the VE system and lifelong learning.

4. Develop and strengthen monitoring and evaluation capacity for VE and lifelong learning

- Establish an integrated information and management system for VE schools, VE centres, Multifunctional Centres and VE private providers;
- Strengthen monitoring and evaluation capacity through the development of monitoring tools and build the capacity needed to implement monitoring.

Higher education

Developments in this sector enabled increased access and participation of young people in higher education, and the introduction of the reformed 3-cycle degree system, in accordance with the Bologna process. The number of students in 2011 increased by 49% compared with 2007. Qualitative development of private higher education has played a positive role in increasing the participation and mobilization of national financial and human resources. Higher education funding formula, implemented in 2009 encouraged the autonomy of public universities in decision-making. Through an intensive process, the Accreditation Agency accredited 24 private higher education institutions (HEIs), a public institution, as well as over 150 study programmes. This process has a significant bearing on the quality of higher education institutions.

Challenges ahead in this sector include: Ensure institutional, teaching and research quality; diversifying the curricula in line with Bologna standards and improve national and international mobility scheme for students; Strengthen the connection between education and the labor market; Diversify funding tools for higher education.

Strategic priorities and objectives:

1. Ensure a quality higher education with basic theoretical and practical training, in teaching and research, in line with international standards of the European Higher Education Area

- Improve the quality of higher education institutions through accreditation of public universities and private HEIs until 2020;
- Increase the inspection frequency of HEIs by 50% until 2020 through upgraded technical and infrastructure capacity of the monitoring bodies (MES and PAAHE). Improve the legal framework governing external quality assurance;
- Enhance public transparency through publication of an annual activity report and an annual financial report by all public and non-public HEIs;
- Support to quality improvement by providing financial support until 2020 to averagely 2 projects from each public HEI with direct beneficiaries being 20% of the students of these projects; and train all full-time academic staff in public universities with new teaching methods.
- Strengthen international cooperation of HEIs by increasing: the Excellence Fund by 5% year-on-year as well as the number of students supported by this fund; the number of applications to the FP7 research programmes by 25%; the number of Diaspora researchers scientists benefiting from mobility and brain gain programmes by 30%.

2. Profile and differentiate HEIs to better respond to the labour market needs, to the national and regional development needs as well as to the integration process

- Support public universities through the Strategic Development Fund to offer vocational study programmes, specifically: open each year two 2-year vocational programmes in public HEIs and raise admission quotas to these programmes by 5% each year;
- A 1% per year growth in the employment of new graduates, and annual publication by each HEI (as from 2013) of the employment rate of their students;
- Encourage and support HEIs cooperation with the manufacturing and services sectors in order to ensure: 1% more revenue per year from these activities; 10% of the academic staff involved in cooperation projects with the businesses;
- Find legal tools and promotion policies that increase the on-going education programmes by 20% per year and the number of students enrolled in these programmes by 50% per year, as well as an increase of 5% each year of the mobility of students completing these vocational programmes;
- Consolidate the financial autonomy of universities on the basis of their performance and number of students; Implement a new financing formula and increase public funding of higher education to 6.8% of GDP by 2020. Creating a Strategic Development Fund (Competitive Grants), an instrument that supports policymaking, infrastructure upgrading and research quality in HEIs.

3. Increase student's share in study cost coverage, through a reassessment of the relationship between cost per student and tuition fee; Operationalise student loan system, a financial tool that supports the principle of free higher education studies during schooling;

4. Consolidate HEIs management by combining autonomy, accountability and good governance, in order to increase HEIs accountability towards public needs;

- HEIs institutional capacity building to ensure good management and good governance; improve legislation aimed at broader autonomy for HEIs.
- Create and implement public transparency and accountability tools through publication of an annual financial report by each public HEI.

5.6.2.2. Health

The multidisciplinary health reform focuses on improving governance and capacity building to ensure effective management of health services and institutions, health system financing, public access to quality health service and expansion of public protection services. An achievement to be noted is the placement of the family physician at the centre of the system and its functioning at three levels: primary, secondary and tertiary system. Other key developments are the continuous strengthening of the financial and managerial autonomy of Primary Health Care Centres, the clear definition of the service package and treatment protocols, and increased infrastructure investment. Consequently, the average daily visits per family physician increased to 9.3 in 2011 compared to 5.7 before the autonomy was granted. The Health Insurance Institute has strengthened its role as the sole purchaser of health services through inclusion of the public hospital service in the health insurance scheme (January 2009) and increasing the number of reimbursable medicaments and contribution payers by strengthening the referral system and public information. Special importance has been paid to the continuous education of health professionals with the establishment of the national centre for continuous education, accreditation of the programmes and re-certification of health employees. The regulatory framework for the mandatory accreditation of all Albanian or foreign public and private health institutions operating in Albania is now in place and operates in line with the adopted standards for health services accreditation.

Infant mortality declined from 11.9 deaths per 1,000 live births in 2007 to 8.7 deaths per 1,000 live births in 2011. The mandatory vaccination scheme against major childhood diseases⁹⁷ now covers 97% of

⁹⁷ Difteri, Tetanoz, Pertus, TBC, Poliomieliit, Fruth, Rubeole, Parotit, Hepatit B, Hib, Pneumokok.

children. Considerable investments were made to reconfigure and rationalise hospital services, seeking to strengthen and modernise regional hospitals and transform municipal hospitals into daily hospital or health centres that offer integrated emergency and outpatient services. 14 emergency units were provided modern equipment. A new hospital was built in Kavaja, as well as hospital complexes in Tirana, Shkodra and Elbasan. Particular importance was paid to the fight against corruptive acts in the health care system, strengthening monitoring and evaluation, formal adoption and advocacy of the Charter of Patients' Rights, and bringing corruption perpetrators before the justice.

Challenges in this sector include: protect and improve public health through reachable and equal services for all; establish a qualitatively new health service; provide services with standards comparable to the EU countries, for all Albanian citizens; reform financial mechanisms and tools which ensure efficient financial coverage of the rising costs in the health system.

Strategic priorities and objectives:

I) Increase access to effective health services:

1. Improve the health services infrastructure and distribution mapping:

- Review territorial distribution of public health centres, including specialized outpatient health care centres; Review the map of hospitals in order to deliver a necessary number of standardised services in terms of infrastructure and health technology; Define the service packages offered at hospital level so that future investments are channelled in hospital infrastructure;
- Establish and operate an emergency system through a unified emergency system and standardised emergency units in hospitals;
- Centralise blood processing and quality control in 3 centres having modern equipment used to check for infective agents according to the latest transfusion practices.

2. Maintain and develop health programmes to ensure public access to basic services, with essential services offered free of charge:

- Review service standards for prenatal and postnatal care; rationalise obstetrics & gynaecology services; promote family planning, particularly for vulnerable groups; improve abortion surveillance; upgrade public health labs to improve etiologic surveillance over sexually transmitted diseases.
- Ensure sustained vaccine coverage at 95% for scheduled vaccines as well as qualitative and quantitative improvement of the schedule through two extra formulations and two new antigens; Gradually establish a national vaccination programme against HPV;
- Improve chronic disease prevention and control programmes through mechanisms that identify and address risk factors such as smoking, alcohol abuse, drug abuse, unhealthy nutrition, physical inactivity, unhealthy living style;
- Develop cancer control programmes through: awareness-raising campaigns on risk factors; gradually establish an early identification system for breast cancer and cervical cancer; establish 2 new regional cancer treatment centres; extend palliative care nationwide and improve access to anti-pain treatment;
- Establish community-oriented and regional integrated mental health services for treatment, rehabilitation and social reintegration;
- Improve infectious disease surveillance and response programmes through labs upgrading; establish a monitoring and control system for antibiotics resistance; adapt the health system to epidemiological changes of infectious diseases as a result of climate change; foster cross-sector cooperation in line with the obligations of the International Health Regulations;
- Strengthen confidential voluntary testing and advisory services; strengthen follow-up of HIV infected persons through proper specific treatment schemes and access to necessary diagnostics and therapy; Improve social support for children affected by HIV/AIDS.

3. Expand the reimbursable medicaments scheme:

- Increase funding through the expansion of insurers offering clear service packages rigorously implementing the referral system;

- Define service packages at all levels and their costing based on evidence-based protocols;
- Determine the burden of specific diseases, as well as adopt the international classification of diseases (ICD-10).

4. Offer sustained pharmaceutical coverage:

- Further consolidate reforms in the pharmaceuticals sector and determine an essential – and effective and qualitative – list of medicaments procured in hospitals and those reimbursed;
- Ensure transparency and participation of stakeholders, including organisations advocating patients, in the determination of reimbursable medicaments;
- Consolidate the pharmacovigilance system;
- System informatisation and complete public transparency.

II: Improve the quality of services through improved clinical and institutional management:

1. Establish innovative organizational schemes and a new public-private partnership:

- Reorganise the management and financing of public hospital and outpatient centres aiming to increase their autonomy;
- Determine the referral criteria between primary health care and specialised care in public and private health institutions, based on the service quality and the patient's right to choose the doctor.

2. Improve clinical and administrative management of health institutions at all levels through:

- Standardise norms and procedures for the management of institutions;
- Basic and continuous education and of health services managers;
- Promotion of guides and clinical management protocols, along with financial incentives;
- Structuring the institutional and national information systems in order to improve monitoring and management of institutions;
- Creation of spaces required for the efficient use of income.

3. Continuously improve the quality and safety of the health system:

- Establish appropriate mechanisms to promote, measure and foster the qualitatively better practices in the health services;
- Strengthen the continuous professional development system;
- Stimulate sharing of experience with foreign institutions/hospitals;
- Accredite health institutions based on approved standards of primary care institutions, hospital care, laboratory, stomatology and pharmacy services.

III. Improve health system governance

1. Improve transparency and accountability:

- Reorganise the health information system and strengthen the Health Information Processing Centre.
- Put the indicators generated by the health information system at the centre of the financing schemes of health institutions;
- Strengthen monitoring of performance indicators by thematic area and health institution;
- Create structures and mechanisms to receive, review and address patient complaints.

2. Reduce non-official money flow in the system:

- Establish and respect a transparent payment system;
- Make costing of service packages;
- Promote the Charter of Patients' Rights.

3. Improve allocation of financial resources:

- Ensure the role of the Health Insurance Fund as a strategic buyer of health services provided in the public and private sector;
- Reduce citizens' direct payments to obtain necessary health services;
- Re-orient investment in infrastructure, technology and human resources following the scheme of rationalization of health care services, both at outpatient and hospital level.

4. Reduce inequalities in the health sector:

- Address unequal distribution of resources;
- Conceive the health care as a service provided to individuals along their life span and strengthen the role of the family physician;
- Improve communication between communities and urban centres closely associated with road infrastructure and technology (TV, internet, etc.);
- Identify and address socio-economic factors that condition gender differences in health status and access to health services;
- Identify and address socio-economic factors and those related to the organization of the health system to improve specific care to the elderly, to prevent and manage chronic morbidity and improve survival across the social gradient;
- Develop specific information programmes on access to the health system; support social workers and offer adequate health services for marginalized social groups such as the Roma communities, migrants, victims of domestic violence, victims of trafficking, returned emigrants, people with disabilities, and people in the penitentiary institutions;
- Support and enable participation of organisations advocating patients' rights in cross-sector coordination mechanisms, in boards of health institutions, in forums that discuss on health policies, and in policy formulation, implementation and monitoring.

5. Mainstream public health in all policies:

- Assess and prioritise the health impact of policies on social protection, safety at work, environment, territorial planning and regulation, including transport and communications, and fiscal policies to raise the tax burden on tobacco, alcoholic drinks, high-polluting fuels, gambling and facilitating fiscal policies for products of special interest to public health.
- Create/consolidate cross-sector coordination mechanism for major problems of public health such as drugs and alcohol abuse, smoking, road safety, food safety and nutrition, new infective diseases and neglected diseases, strategic management of chemicals, environmental factors, climate change, social inclusion, etc.

5.6.2.3. Youth

Youth policy during 2007-2012 improved youth participation in decision-making, public life and community from 10% in 2007 to 25% in 2012. It also strengthened sustainable youth networks in the districts of Albania. As regards youth economic empowerment, employment promotion policy was implemented: there were 163 young trainees in 2007 compared to 2,568 in 2012. The number of young people who studied abroad and completed their internship in public administration and private businesses increased from 360 in 2007 to 3,131 in 2012. There has been progress in raising awareness among young people on reproductive health and drug abuse. 12 awareness-raising campaigns were conducted in 2012 against only 2 in 2007. Active support was provided to Albanian youngsters and youth NGOs to participate in regional and international activities. This led to 36 Albanian organisations obtaining grants from the Youth in Action programme during 2008-2012.

Challenges in this sector include: youth economic empowerment through employment, education, health and social protection promotion programmes; improve the legal framework to foster youth involvement in social life and decision-making; establish a National Youth Agency and Regional Info Offices; strengthen youth networks; establish national advisory councils and committees on youth issues; improve regional and international cooperation to enable partnerships among youth organisations and active participation in Community and intra-regional programmes.

Strategic priorities and objectives:

1. Ensure youth economic empowerment and employment promotion:

- Increase to 20% the share of young people who perform professional practices in the public and private sector versus 2011;
- Conduct training programmes "to guide young people towards labour market demands and develop their skills";
- Encourage initiatives and partnerships between public and private institutions in order to involve the private sector in the development of active employment programmes, and organise Job Fairs.

2. Raise youth awareness on reproductive health, drug and alcohol abuse, etc., so that participation of young people in awareness campaigns increases by 20% compared to 2011:

- Organise awareness and educational campaigns on a healthy life.

3. Establish and strengthen peer educator groups and youth organisations that offer health and family planning services. Create recreational opportunities for youth by supporting 40% of youth artistic and cultural projects:

- Support artistic, cultural and sports projects to promote a sustainable environment for youth NGOs, focusing on: Participation or involvement of young people in public life; Employment (recreation and career development); Health; Voluntarism and youth work; Social Inclusion; and Youth recreation.

5.6.3. Arts and Culture

Progress made during 2007-2011 focused on alignment of the legal framework with the EU *acquis*. Two new public art institutions were established: the National Theatre of Comedy and the National Centre for Arts and Culture, while management of the National Circus was transferred to MTCYS.

There was a 10% increase of promotion activities on cultural diversity, intercultural communication and coexistence. 20 bilateral cultural cooperation programmes were signed with other countries. Support for festivals in theatre, music, poetry and visual arts accounted for 30% of the total budget for arts and culture; annual national and international exhibitions account for 10%; competitions on figurative art, music, ballet, literature, bibliophilic competitions and cultural journalism account for 40%. Financial support to publications on literary, science and Albanology is increased by 20% during this period. Digitalisation of rare works and collections available at the National Library has advanced.

Challenges in this sector include: boost the role of culture in social life; raise artistic quality to contemporary levels; confront Albanian culture to European and world culture; grow artistic and cultural productivity and ensure enforcement of intellectual property rights in Albania.

Strategic priorities and objectives to achieve this vision:

1. Support creativity and involvement of Albanian artists with 20% growth of cultural activities:

- Support to creative potential, especially to young artists through "fund for young artists" growing by 20% annually;
- Increase public funding to the National Centre of Arts and Culture by 20% per year, for organisations operating in the field of arts and culture;
- Digitalise and develop 15% more catalogues and publications in order to maintain them in the cultural heritage archive.

2. Ensure broader public access to absorb cultural values through 10% annual increase of artistic & cultural products until 2020:

- Upgrade infrastructure in arts institutions through increased investments by 10% until 2020;

- Establish new institutions for the development of contemporary and alternative art forms, accessible to all citizens;
 - Draft and adopt the Law "On the Status of the Artist" by reference to European legislation.
- 3. Promote Albanian cultural values in major international events, and integrate best practices in Albanian artistic and cultural activities, with an increase of activities by 30% until 2020:**
- Organise spiritual/cultural days (film week, concerts, exhibitions, joint activities, etc.), with the aim of promoting the respective cultures between countries in the region and beyond, through growth to 8% of activities each year;
 - Increase support artists and cultural institutions in organisation and representation at international events by 40% until 2020;
 - Increase Albania's adherence to Community programmes through signed agreements.
- 4. Ensure institutional and public awareness-raising on observance of intellectual property rights through the reduction by 10% of the cases of abuse, compared to 2% in 2011:**
- Complete the legal framework for the implementation of the Law on copyright and other related rights;
 - Conduct extensive awareness campaigns in all districts;
 - Deliver training to different categories of creators and performers, authors and performers, and different categories of intellectual product users.

5.6.4. Sports

Sports performance and mass participation in sports improved significantly, through the creation of many federations such as: Automobile, Sports, Sailing, Rafting, Motorcycling, Fencing, Aeronautics, and through the organization of major international activities. Support to quality athletes was increased ten-fold for their preparation and high scores in international sports events. As a result of this support, Albanian athletes obtained 31 medals in international competitions⁹⁸ and Albania hosted many important (European and world) international activities such as: the European Weightlifting Championship, the World Wrestling Championship, the World Hiking Championship, Athletics, and the U17 and U19 European Championship (qualifying matches).

Institutional framework improved and revitalised massive sports in pre-university and university education⁹⁹. Also, "Sports for All" Federation responsible for managing the sports activities was established in line with international conventions, European and world experience and the European Charter on Sport for All. Completion of the legal framework enabled adherence to EPAS international structures of the Council of Europe. Also WADA's Regulation was adopted. Creation of the Sports University in Tirana and alignment of its curricula to the Bologna Charter resulted in an increased number of students from 400 to 1,100.

Challenges in this sector include: enhance coordination over the sports institutional system and improve it at local and national level, in line with international standards; increase inclusiveness in sports; upgrade sports infrastructure and strengthen financial autonomy of sports organisations.

Strategic priorities and objectives:

1. Enhance coordination and improve the institutional system:

- Reform the National Sports Council and its Committees; establish inter-institutional Commissions consisting of representatives from state and non-state sports bodies, and local and central government, in order to consolidate and unify sports policies;

⁹⁸ Weightlifting, wrestling, judo and shooting.

⁹⁹ Day of Swimming Marathon and Beach Games, People's Marathon for the Beautification of Mother Theresa; Special Olympic Games; Bicycle Day; Sports Manifestation of School Youth on the occasion of the Sports Week, etc.

- Reorganise sports outside the school curriculum through the establishment of the "School and University Sports Federation" as a coordinating institution.
 - Reform the Sports Services Agency into a National Centre for the Preparation and Services of National and Olympic Teams; reform and institutionalise qualification of trainers, sports managers, sports doctors, experts and methodists.
2. **Improve sports quality through improved international sports results and increased number of athletes in the Olympic Games:**
- Support quality athletes;
 - Ensure qualification of trainers and sports specialists;
 - Enhance anti-doping control.
3. **Improve sports infrastructure in line with international standards, with the motto "Any free premise to become sports ground":**
- Increase indoor sports facilities from 0.16 m² per capita to 2.7 m² in 2020;
 - Establish 5 training centres in Shkodra, Korça, Vlorë, Durrës and Elbasan;
 - Establish the National Centre for the Preparation and Services of National and Olympic Teams at the Olympic Sports Club "Dinamo", as well as the University Sports Centre at the Sports Club "Student";
 - Reconstruct existing sports facilities and construct new ones.
4. **Increase financial autonomy of national sports organizations and stimulate business involvement in sports:**
- Improve legislation on sponsorship and facilitating business access to invest in sports;
 - Improve the law on "games of chance and casinos" to increase the contribution of sports lotteries in the National Sports Development Fund.

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