REPUBLIC OF ALBANIA
COUNCIL OF MINISTERS

ECONOMIC REFORM PROGRAMME 2021-2023

31 January 2021

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LIST OF ABBREVIATIONS

AEO	Authorised Economic Operator
AKUM	National Agency for Water and Wastewater Infrastructure
ALL	Albanian Lek
AIDA	Albanian Investment Development Agency
AMTP	Land Ownership Act
ARTI	Agency for Research, Technology and Innovation
AShK	Albanian State Cadastre Agency
BoA	Bank of Albania
Bn	Billion
CEFTA	Central European Free Trade Agreement
CoM	Council of Ministers of the Republic of Albania
DCM	Decree of the Council of Ministers
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EE	Energy Efficiency
EEA	European Economic Area
EIB	European Investment Bank
ERP	Economic Reform Programme
EPP	Employment Promotion Program
ESA	European System of Accounts
ETF	European Training Foundation
EU	European Union
EUD	Delegation of the European Union
EUR	Euro
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoA	Government of Albania
Ha	Hectare
HPP	Hydro Power Plant
HSh	Albanian Railway
IMF	International Monetary Fund
INSTAT	Institute of Statistics of the Republic of Albania
IPA	Instrument for Pre-Accession Assistance
IT	Information Technology
KfW	Credit Institute for Reconstruction (Kreditanstalt für Wiederaufbau)
Km	Kilometre
Ktoe	Kilotonne of oil equivalent
LIS	Land Information System
LGA	Local Government Authority
MARD	Ministry of Agriculture and Rural Development
MEFA	Ministry for Europe and Foreign Affairs
MESY	Ministry of Education, Sport and Youth
MFE	Ministry of Finance and Economy

MHSP	Ministry of Health and Social Protection
MIE	Ministry of Infrastructure and Energy
Mn	million
MSME	Micro, Small and Medium-Sized Enterprises
MTE	Ministry of Tourism and Environment
MWh	Megawatt hours
NAIS	National Agency for Information Society
NASRI	National Agency for Scientific Research and Innovation
NCB	National Business Centre
NESA	National Employment Skills Agency
OECD	Organisation for Economic Cooperation and Development
OST	Transmission System Operator
OShEE	Power Distribution Operator
PFM	Public Finance Management
PISA	Program for International Student Assessment
PIU	Project Implementation Unit
PMO	Prime Minister's Office
QTTB	Centre for the Transfer of Agricultural Technology
RDI	Research, Development and Innovation, and Digital Economy
RNM	Republic of North Macedonia
SAA	Stabilisation and Association Agreement
SEE	Southeast Europe
SILC	Survey on Income and Living Conditions
SME	Small and Medium-sized Enterprises
TAIEX	Technical Assistance and Information Exchange Instrument
TPP	Thermo Power Plant
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organisation
VAT	Value Added Tax
VET	Vocational Education and Training
WB	World Bank Group
WBIF	Western Balkans Investment Framework
WHO	World Health Organisation
WTO	World Trade Organisation
WTTC	World Travel and Tourism and Council

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The Economic Reform Programme (ERP) 2021-2023 of Albania has been prepared through the inter-institutional collaboration between the Ministry of Finance and Economy and the different line ministries and the Bank of Albania, who have contributed with reform measures in accordance with the priorities of the government and national and regional strategies and documents. Order of the Prime Minister No. 107, 06.08.2019 "On the establishment of the inter-ministerial group and inter institutional technical secretariat for the coordination, preparation and drafting of the Economic Reform Programme of Albania", provides establishment of well-defined structures tasked with coordination, preparation, drafting, and monitoring of the Economic Reform Programme.

The Economic Reform Programme outlines the main macroeconomic and fiscal policies aiming to establish the clear balance between the internal strengths and external threats, with a view to enable sustainable growth, increased employment and reduced public debt. In addition, the ERP summaries the priority reforms measures of the Government of Albania for the short-term future for increasing domestic production, stimulating new investments and ensuring sustainable growth and increased competitiveness.

The ERP 2021-2023 presents the priority structural reforms that have been rolled over from the previous ERP, coupled with new additions included for this cycle. The overarching objective of this approach is to ensure a continuous representation of those reforms that are still being implemented, thus ensuring sustainability in the priority reform agenda.

In light of the major developments that our country went through, initially the November 2019 earthquake and the COVID-19 pandemic outbreak in March 2020, many aspects of the economy and social life in general were impacted greatly as a result. The government's interventions to mitigate and alleviate the effects of both these disasters were aimed at providing adequate response to the recovery efforts post-earthquake, as well as to minimize the effects of the pandemic to manageable levels.

Given the situation created by the COVID-19 pandemic since 9 March 2020, a number of escalating measures were taken. The dynamics of the laws and by-laws have been very fast-paced. Such measures have been initially of restrictive nature and later of alleviated nature, aiming to control the epidemic, reduce the number of people infected by COVID-19, and eventually monitor the situation. The dynamics of the undertaken laws and bylaws affected the activity of both central and local administration institutions, as well as many other independent institutions.

Both monetary and fiscal measures have been taken in order to give support to the Vulnerable and the Private Sector. With regard to Monetary Measures, on 25 March 2020, the Supervisory Council of the Bank of Albania decided to ease monetary policy to mitigate the impact of the COVID-19 pandemic by reducing interest rates: the policy rate was reduced from 1.0% to 0.5% and the overnight lending rate from 1.9% to 0.9%. The measures aimed at reducing the cost of new borrowing. In addition, the Bank of Albania in collaboration with commercial banks enabled borrowers to postpone their debt service payments for 6 months, by amending bank provisioning rules.

Regarding Fiscal Measures, two support packages have been adopted for individuals and businesses affected by the COVID-19 pandemic with a combined value of ALL 45 billion (2.8% of GDP). The packages are:

- Support package 1: (i) additional funding for the health sector in the amount of ALL 3.5 bn (ii) ALL 6.5 bn for the support of small businesses /self-employed that were forced to shut down activities (iii) ALL 2 bn reallocated toward humanitarian relief for the most vulnerable, (iv) ALL 11 bn sovereign guarantee fund for companies to access overdrafts.
- Support package 2: (i) ALL 7 bn fund to pay for a one-off-transfer to employees of small businesses affected (ii) a sovereign guarantee of ALL 15 bn to provide loans for all private companies that were tax-compliant and solvent before the pandemic. Profit tax: for all businesses with an annual turnover of ALL 0-14 million profit taxes have been eliminated for the fiscal year. Profit tax was postponed a) for the tourism and apparel & footwear sectors until January 1, 2021; and, b) all other sectors (with the exception of the banking,

pharmaceuticals, food retail and telecommunications) until October 1st, 2020.

Several measures have been implemented by government institutions with regard to COVID package.

Measure 1: Pursuant to DCM No. 254 dated 27.03.2020 "On determining the procedures, documentation and the amount of financial assistance for employees in business entities with annual income up to 14 million ALL, economic assistance and payment of income from unemployment during the period of natural disaster declared as a result of COVID 19", as amended, in total there are 69897 open cases in the system for which 63342 taxpayers have applied for a total of 125053 individuals benefiting from the 1st Financial Assistance Package. Out of 125053 individuals who applied, 65632 received financial assistance. These individuals are employed in total to 39020 taxpayers. For 59421 employees, the 1st aid package was rejected because of not meeting the conditions as set out in the approved DCM. Out of the total approvals, 65,574 individuals with total fund 5114070000 ALL (65565x26000 ALL x 3 instalments) proceeded for payment of instalments.

Measure 2: DCM Nr. 305, dated 16.4.2020, "On determining the procedures, documentation and the amount of financial assistance for current employees and employees dismissed as a result of COVID-19" aims to provide assistance in the form of direct grants employees of enterprises, to cope with the damage caused by the spread of COVID-19 virus and to maintain the continuity of economic activity during and after the spread of COVID-19, as well as individuals. In total there are 63394 open cases/issues in the system for which 46726 taxpayers have applied for a total of 210705 individuals benefiting from the 2nd Financial Assistance Package. As of 16.12.2020 out of 210705 individuals who have applied for the second economic assistance package, 173019 individuals have been approved for payment and 173019 have been sent for payment with a fund of 6920760000 ALL (173.019 individuals x 40000 ALL). These individuals are part of 43410 entities. The number of rejected cases is 10638 or 17% of the total number of open cases.

Measure 3: DCM No. 651, dated 13.08.2020 "On the determination of the procedures, the documentation and the measure of the benefit of the financial aid as a consequence of Covid-19 for the employees or former employees in the subjects of public transport of cities and intercity". As of 16.12.2020, there are 714 taxpayers and 4,553 employees benefiting from this assistance package.

Measure 4: Pursuant to DCM No. 856, dated 04.11.2020 "On financial assistance to some of the main categories of enterprises, which implement security protocols, in the framework of prevention and control of the Covid-19 pandemic", of Order No. 81, date 10.11.2020, "On the establishment of the working group that will follow the implementation of the rules and procedures of DCM no. 856, dated 04.11.2020 ", and Regulation no. 2, dated 10.11.2020 "On the approval of rules, documentation and procedures for financial assistance to categorized small and medium enterprises in the manufacturing sector, which implement safety protocols in the framework of pandemic prevention and control COVID - 19"*)*.

In addition, two sovereign guarantees have been approved and established by the government:

Sovereign Guarantee 1: A first guarantee scheme in the amount 11 billion lek was issued in order to support businesses, which were affected by the decisions of the CoM as a result of the pandemic, to pay the salaries of their employees. Under this guarantee scheme, the government pays (reimburses) the interest generated from the loans issued from commercial banks. As of end of October 2020 data, the amount of the loans approved under this guarantee scheme accounts to ALL 5.9 billion out of which ALL 5.3 billion are disbursed (48.5% of the total amount). From this supporting instrument have benefitted about 490 businesses through loans which are provided by 12 commercial banks with which the Ministry of Finance and Economy has concluded respective guarantee agreements. Loan application deadline under the first guarantee scheme ended on 20.06.2020.

Sovereign Guarantee 2: A second guarantee scheme in the amount 15 billion lek was issued to commercial banks in order to support businesses with funding of working capital and investment for all sectors of the economy. According to the data up to end October 2020, the amount of the loans approved under this guarantee scheme accounts to ALL 7.2 billion out of which ALL 6.4 billion have been disbursed (25.6% of the total amount). Under this scheme 244 businesses have benefitted loans, which are provided by 12 commercial banks.

Fiscal policy in the medium term 2021-2023 will be oriented towards fiscal consolidation, in line with the fiscal rules set out in the Organic Budget Law and the recommendations by the European Commission in the Joint conclusions of the economic and financial dialogue between EU and Western Balkans in May 2020.

In 2021, the overall fiscal deficit is targeted at 6.5% of GDP, decreasing as compared to the latest 2020 revised budget law of 8.4%, as well as compared to the expected 2020 outrun of about 6.7% of GDP. In 2022 the overall fiscal balance is targeted at 2.9% and in 2023 at 2.3%. Primary balance, although again projected on a primary deficit of -3.9% of GDP in 2021, is improving compared to 2020 expected level of -4.5%. In 2022 the primary balance is targeted almost at balance, at -0.1% of GDP, and in 2023 is targeted with a surplus of 0.6% of GDP. As a result, the level of public debt is projected to re-enter a downward trajectory starting from 2021 onwards. In 2021 the total public debt is projected at about 78.6% of GDP from about 79.9% expected in 2020. By the end of 2022 the public debt is projected to reduce at about 77.7% of GDP and at about 75.6% in 2023.

At the same time, it is intended and programmed to maintaining a level of public investment at annual average of about 4.8% of GDP over the period 2021-2023, essential to support economic growth in the medium and long term. Current fiscal balance (the difference between public investment and fiscal deficit) is already returning to positive levels as early as 2021, at the level of 0.7% of GDP from an expected negative level of -0.6% in 2020.

The ERP draft was shared for consultation with various stakeholders such as development and integration partners, business associations, NGOs, CSOs, universities, chambers of commerce, etc. from December 14 through the week of January 9 2021. In exceptional cases the deadline was extended for a few stakeholders to allow adequate time for the submission of their feedback. All the feedback, comments and suggestions received as part of the stakeholder consultation were disseminated to the LM and BoA for consideration and inclusion, under their discretion, in their revised contributions to the ERP. Annex II includes all of the feedback received during that time window listed by institution/agency.

The Economic Reform Programme 2021-2023 was submitted to the Council of Ministers in the second half of January and was adopted at the Meeting of the CoM held on 27 January.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

Policy Guidance 1

1.1 Keep the increase of fiscal deficit and public debt temporary while accommodating the fiscal costs of post-earthquake reconstruction and addressing the pandemic impact in a transparent and cost-effective manner.

In the onset of the pandemic, which hit the economy as it was emerging from the negative impact of the end-2019 earthquake, we embarked on an expansionary fiscal policy which allowed to accommodate for direct and targeted aid packages for those sectors of the economy most impacted from covid-19 (as specifically explained and documented above), as well as for absorption of sharp revenue shortfall due to the pandemic shock, and therefore for the stabilization up to some affordable extent (without jeopardizing the public finances sustainability) of the overall negative shock into the economy (i.e. mitigation of the recession in 2020 and avoiding large scale bankruptcies and other chain negative implications in the main macroeconomic fundamentals).

We revised 2020 budget several times during the year, quickly adapting to the highly uncertain situation as it unfolded, and lastly in July 2020 revision the deficit target was set to 8.4 percent of GDP, up from 2.2 percent initially. For the next year (2021) we are targeting a lower, however still large deficit of 6.4 percent of GDP, most importantly to accommodate for earthquake reconstruction spending and a substantial wage increase of about 40 percent for heath sector as well as a significant wage increase of about 15 percent for education sector. Maintaining this rather expansionary fiscal policy also for the next year, as embodied in the budget 2021 which among other elements includes certain tax policy measures mainly aiming to stimulate the small business and certain new public investment projects, shall be also crucial for the overall economic recovery.

For the medium-term future we remain fully committed to return to clear fiscal consolidation, once the effects of these shock will fade away. We expect to return to a positive primary balance, maybe since 2022, but most surely from 2023 and onwards. This target of a positive primary balance starting from 2023 onwards we have now stipulated also in our organic budget law, as e new fiscal rule, which was introduced in July this year.

Starting since next year the public debt as a ratio of GDP is expected to fall compared to the expected level of about 80% this year and we foresee that by 2025 the debt should fall at about 68.5 percent.

1.2 Set time-limits for tax-relief measures, while paying all VAT refunds in time.

The tax administration has significantly increased the amounts as well as improved the procedures and deadlines for VAT refunds. The stock of VAT refunds arrears at the end of 2018 was 16.8 billion ALL and at the end of 2019 it decreased to 11.2 billion ALL, by 34 percent. We expect at the end of 2020 the stock will decrease to about 8 billion ALL or about 30 percent compared to the end of 2019. Starting from December 2019, the Tax Administration refunds within the legal deadline every small and medium taxpayer, giving priority to exporting and investing companies. The remaining stock includes two or three large investors (i.e. only the TAP constitutes about 73 percent of total remaining VAT refunds arrears). Based on the approved legal changes, the VAT refund stock for these large investors is being paid in monthly instalments, based on the agreements reached with each of them. It is foreseen that this stock will become zero within the first 6 months of 2021, and afterwards there will be no entity that is not refunded within the legal deadlines.

1.3 Adopt the medium-term revenue strategy, with a particular focus on reviewing tax expenditures.

In order to address the issue of budget revenues and provide in the medium-term resources for financing budget expenditures, the Ministry of Finance and Economy initiated the drafting of a medium-term budget revenue strategy. To this end, the IMF Department of Fiscal Affairs was invited to provide qualified expertise in terms of reviewing tax policy and improvements in tax and customs administration. In July 2019, by Order of the Minister of Finance and Economy, a Steering Committee was established with representatives from the Ministry of Finance and Economy and the Tax and

Customs Administrations, in order to ensure cooperation with IMF experts and analyze the internal situation related to this strategy. In November 2019, the Ministry of Finance and Economy welcomed two missions of the Department of Fiscal Affairs at the IMF, which analyzed the situation and assisted local staff in developing capacity to draft this Strategy. IMF missions analyzed and processed the data extensively. The current fiscal policies were analyzed, the problems that appeared in the tax administration, on the basis of which recommendations were given for the necessary measures that should be taken according to the respective deadlines. IMF technical assistance reports and recommendations have served as the basis for drafting this Strategy. Through measures and changes in tax policies and their administration, the Medium-Term Revenue Strategy (MTRS) aims to increase budget revenues by about 2% - 3% of GDP over a five-year period.

Taking into account the effects and consequences caused to the economy and public finances by the earthquake of November 2019 as well as the global pandemic of Covid-19, the Ministry of Finance and Economy deems it necessary to postpone the implementation of Medium Term Revenue Strategy, especially parts of fiscal policies, including the revision of exemptions, preferential and low tariffs, in order to allow some time for the economy and operators to initially recover from the consequences of these two severe shocks. We have also consulted this postponement decision also with the IMF and we plan to restart its implementation in 2022.

Policy Guidance 2

2.1 Publish on a regular basis a breakdown of all arrears of public expenditure and prevent any increase of their stock above the level of end-2019.

The stock of accumulated arrears before 2014 was one of the most problematic issues of the overall budget system. The government immediately addressed the issue of repayment process, with the maximum commitment of both the Ministry of Finance and Economy and other budgetary institutions involved in this process. Within two years (2014-2015) we managed to repay all reported arrears, in the amount of ALL 67 billion. Based on DCM no. 50 dated 05.02.2014 "On the approval of the Strategy for the prevention and settlement of arrears and action plan" and the Public Financial Management Strategy 2014-2020, the Ministry of Finance and Economy has taken some concrete steps towards monitoring, reporting and preventing arrears.

The overall stock of arrears up to September 2020, generated from AGFIS system and GDT is about ALL 22.47 billion from which: ALL 4.84 billion arrears of central government institutions, ALL 6.3 billion arrears of local government and ALL 11.33 billion from VAT refund arrears. About 15.7 percent of this stock of arrears refers to arrears from court decisions.

It is worth noting that the monitoring of arrears is already a consolidated process, through intensive periodic monitoring of all outstanding liabilities of budgetary institutions. Starting from October 2020, this monitoring and reporting which was previously performed on a survey basis through written reporting of institutions, is automatically generated by the Government Financial Information System (SIFQ). This change is implemented in order to intensify the supervisory role of the Ministry of Finance and Economy to the monitoring process of the stock of arrears as well as for higher transparency abased on more reliable system generated information.

The schedule and modality of reporting and monitoring arrears is defined in the Instruction of the Minister of Finance and Economy No.37, date 06.10.2020.

Following the full implementation of the new financial information system of the Government AFMIS, compliance with the financial commitments of budget institutions will be guaranteed, through automated electronic monitoring and control in real time.

In addition, seen in a broader and more comprehensive aspect, the Ministry of Finance and Economy has requested to all internal audit units in the public sector that in the "Strategic and annual plan of audit activity for the years 2018 - 2020" should include audits to analyse and assess the arrears situation of all public entities. This, as long as arrears are defined as a high-risk area and should be treated with priority by the internal audit of public entities, to present the current situation and give the most valid recommendations for their repayment on defined timing.

One of the main problems related to arrears was that in the past MFE reported data discrepancies between figures submitted by line ministries to MFE (survey based) versus data in AGFIS. In regard of improving reliability and comprehensiveness of the data and consequentially the monitoring process, starting from Q3 2020 the quarterly arrears data will be systematically generated by the treasury system (AGFIS) and will be published quarterly in accordance with the official MFE instruction No. 37, date 6.10.2020.

These issues as well as the underlying causes for arrears creation are addressed through a working group in MFE.

MFE is periodically publishing the consolidated report on the stock of arrears (Central, Local and VAT refund) in the MOFE webpage in the following link. https://financa.gov.al/shlyerja-e-detyrimeve-te-prapambetura/

Related to arrears in the energy sector in Albania, following the reform on the energy sector supported by KFW, an action plan and related agreements have been developed to tackle the payment arrears in the sector. The plan entails a roadmap to reduce the arrears by a combination of factors, strengthened repayment obligations and preventing the accrual of additional arrears. Action plan entails an action list of additional steps to be taken in 2021 to strengthen the plan and ensure its implementation.

2.2 Assess and approve all investments, which involve public funds, through the same approval process, based on the same minimum quality and fiscal affordability criteria.

The Ministry of Finance and Economy has adopted the new Public Investment Management Procedures, by the Council of Minister Decision No. 185, dated 29 March 2018. Based on these procedures, the process of evaluating and prioritizing public investment projects will be improved, in accordance with the national strategy and government priorities, as well as the real financial possibilities available. An important feature of the Organic Budget Law (OBL) is the definition of the "investment project" stated in point 49 of Article 3 of the OBL, according to which: "investment project" is a series of works, activities or services that aim to meet an indivisible target of a specific economic or technical nature, with clearly identified goals.

The adopted procedures of public investment management also include monitoring of investment projects as an important part of the Investment Project Cycle, which is a preliminary tool, not only for project planning, but also for a more efficient management of investment expenditure. Monitoring is the process by which the budgetary institutions, responsible for implementing public investment projects, ensure that the financial implementation of the projects and the activities in this regard, are in line with the funds allocated at the project level. All public investment projects, with domestic and foreign funding are subject to the monitoring process.

In addition, in June 2019, the Ministry of Finance and Economy has conducted trainings for the new Informatics System of Financial Management of the Government (AFMIS) with the responsible staff of the LM/BI on PIM and BPPM module. This system will enable management of several key processes of public expenditure management cycle on an integrated platform such as:

- Medium-Term Budget Programming, which is entirely based on program and performance-based budgeting philosophy;
- Planning and Monitoring of Public Investment Projects;
- Monitoring and Reporting of the Budget according to key performance indicators which are programmed in advance

In the planning and monitoring process, the system is expected to have a considerable effect.

Regarding the PPPs, currently, within the investment ceilings, it is included only the annual fee, defined by the respective budgetary institutions responsible for a certain PPP project. In 2020, it was expected to start the regulatory changes for the PPPs inclusion in the investment projects. However, due to the natural shocks that Albania experienced in September and November 2019, and the COVID 19 pandemic in 2020, the MFE has postponed the process of merging of PIM and PPP/Concession Directorates. The completion of this process requires a well-studied scheme as it is not a mechanical merging of these directorates. It will require not only an increase in the number of the employees of

the new structure/entity (which is planned to be within the General Directorate of Budget), but also building capacities (with experience and knowledge) in the field of PPPs appraisal.
While the SPP projects are part of the responsibilities of the Prime Minister Office, which are assessed by the Strategic Planning Committee and harmonized with the MTBP process.

2.3 Increase the institutional capacities for monitoring and containing fiscal risks stemming from public-private partnerships, concessions and state-owned enterprises.

During 2019, the Ministry of Finance and Economy made significant steps on improving the periodicity and modality in monitoring the main fiscal/budgetary risks. This process continued with the inclusion in Supplementary Instruction No.1, dated 17.01.2019 "On the implementation of the 2019 budget" and No. 2, dated 20.01.2020 "On the implementation of the 2020 Budget", the mandatory timetable of their reporting by each contracting authority and the respective standard formats, in order to deepen the analysis and increase transparency.
Fiscal Risk Unit is monitoring closely the concessions/PPP contracts with budget support and preparing monthly reports on budget payments and performance indicators for these contracts. An annual report on monitoring concession/PPP contract with and without budget support is produced by Concession Directory, within the Ministry of Finance and Economy, as an annex of the package of budget draft-law. This report was first published in the package of 2019 budget draft-law.
The table below shows the information regarding actual/planned payments for 2020 and estimated payments for 2021-2023, for concessions/PPP with budget support.

Concessions/PPP active with budget support.

in 000 ALL

Contracting Authority	No.	Contract of Concession / PPP	Starting year	Ending Year	Program	Type of expenditure	2020 Actual	2020 Planned	2021 Planned	2022 Planned	2023 Planned
Ministry of Infrastructure and Energy	1	Construction, operation and transfer of incinerator for urban waste processing of Elbasan Municipality	2015	2021	06220	Investment	582,720	586,770	49,124	0	0
	2	Construction, operation and transfer of incinerator for urban waste processing of Fier Municipality	2016	2023	06220	Investment	752,770	755,500	752,770	752,770	0
	3	Construction and Operation of the Arbër Road	2018	2030	04520	Investment	2,691,055	2,691,110	4,105,100	3,055,000	2,844,000
	4	Construction, Operation and Maintenance of Milot-Morinë Road	2017	2047	04520	Investment	811,734	813,259	800,259	762,643	740,259
	5	Construction and Operation Porti Jahteve Orikum - Dukat	2018	2030	04520	Investment	0	500	393,979	1,076,792	1,039,400
	6	Construction and Operation Milot - Balldren	2018	2032	04520	Investment	0	0	65,000	312,000	987,945
Ministry of Finance and Economy	1	Customs scan service	2013	2030	01150	Current	1,140,893	1,140,896	1,580,698	1,628,118	1,676,962
Ministry of Health and Social Protection	1	Concession / PPP Basic control of population (check up)	2015	2024	07220	Current	322,322	352,083	876,090	876,090	876,090
	2	Concession / PPP (Provision of personalized sets of surgical instruments, sterile single-use medical materials in surgical rooms, treatment of biological waste and disinfection of surgical rooms)	2015	2024	07330	Current	1,288,269	1,300,700	1,704,982	1,750,000	1,750,000
	3	Concession / PPP (Provision of dialysis service in 5 regional hospitals)	2016	2025	07330	Current	733,203	733,300	779,000	827,000	879,000
	4	Hospital Laboratory Services	2019	2028	07330	Current	30,670	80,000	1,280,444	1,290,241	1,300,136
Municipality of Tirana / Ministry of Education, Sports and Youth	1	Improving the educational infrastructure in Tirana Municipality	2017	2024	09120	Investment	0	0	685,325	1,515,507	1,457,308
Ministry of Infrastructure and Energy / Municipality of Tirana	1	Construction of landfill, incinerator and rehabilitation of existing landfill of Tirana and electricity generation	2017	2046	06220	Current	1,280,000	1,280,000	1,386,921	1,553,351	1,739,753
	13	**TOTAL**					**9,633,635**	**9,734,118**	**14,459,692**	**15,399,512**	**15,290,853**
Total Expected Tax Revenues for the period 2020-2023								410,045,000	442,152,809	480,722,186	519,018,422
Fiscal Rule (Payments should not exceed 5 percent of actual tax revenues of the previous budget year)							**2.3%**	**2.28%**	**3.5%**	**3.5%**	**3.2%**

SOE-s

FRU is regularly monitoring, on a quarterly basis, the financial performance of SOE-s, focusing on energy sector. Energy sector was highly impacted not only by fluctuations of the weather conditions but also by the COVID-19 pandemics that put the sector on difficult financial conditions.
FRU has been working with the TA of IMF and World Bank to improve the process and the quality of SOE monitoring reports. During May-June 2020, an internal monitoring memo on the financial performance of the Albanian's Water Utilities was prepared in collaboration with the SAFE PFM TA project of the World Bank. This TA was extended for the period from 7 October 2020 to 29 December 2020, to support FRU in collecting information relevant for updating the SOE monitoring report with 2019 and H1 2020 data and was finalized with an upgraded water sector SOE monitoring memo.
A summary of the main activities of the FRU in 2020:

- Intensive periodic monitoring (in quarterly basis) of the stock of arrears (Central, Local and VAT refund) and publishing the consolidated report in the MOFE webpage in the following link: https://financa.gov.al/shlyerja-e-detyrimeve-te-prapambetura/
- Intensive periodic monitoring of concessions/PPP contracts with budget support, in terms of actual/planned payments and performance indicators, in monthly basis.
- Periodic monitoring, on a quarterly basis of the financial performance of SOE-s, focusing on energy sector.
- Improving the process of SOE-s monitoring reports. Through TA of IMF and World Bank (May-June and October-December y.2020) FRU has been working on an internal monitoring memo of the financial performance of the Albanian's Water Utilities.
- Analysis of the main indicators of budget expenditures, in monthly basis.
- Regular monitoring and reporting on the obligations of: final court decisions, decisions of the European Court of Human Rights and International Arbitration awards.

Policy Guidance 3

3.1 Closely monitor financial stability challenges arising as a result of the coronavirus pandemic and take appropriate action if needed.

Measures undertaken by the BoA due to covid-19 outbreak were mainly regulatory intervention referring classification and provisioning as described below:

- The first intervention measure in March 2020 was intended for **banks and other credit financial institutions** to suspend the requirements for classification and provision of loans up to end of May 2020.
- The second intervention **for banks** took place at the end of May 2020. The regulatory measures were to suspend the requirements for classification and provision of loans until end of August 2020, but also to the relaxation of loan classification and provisioning for loans restructured between March 12th and December 2020.
- New stricter regulatory requirements for restructured loans classification and provisioning, anticipated to enter into force on January 2021 were postponed to enter into force on January 2022.

Despite the regulatory interventions, Bank of Albania designed the process through:
a) issuing a guidance;
b) establishing close communication and information-sharing with banks; and
c) enhanced reporting on loans and portfolios effected from the pandemic.
During the pandemic, banks have been contacted aiming to address issues that might arise during the implementation of mitigation measures that would require bank's prudence in approaching them:
a) Banks were required to build internal procedures, transparent and clearly transmitted ones to all structures and units included in the restructuring process.
b) Each single restructuring should be preceded by a written requirement so that the process can be fully documented and justified.
c) All restructurings need to be assessed prior to the approval, and the spectre of borrowers should be wide and include both businesses and individuals. The justification of the borrower for restructuring must be properly verified by banks.

d) Banks should be address proper prudence toward loans that were nonperforming prior to the restructuring.
e) Banks should calculate the regular interest and exclude the calculation of any penalty during the period.
f) Banks should perform any restructuring based on a written agreement so that legal and operational risks are avoided.
g) Banks should evidence the restructured loan for such purpose with a special code in the credit registry at Bank of Albania.

In addition to the above, banks' attention was specifically drawn to the fact that the measures were mostly aiming the performing borrowers rather the nonperforming ones which should be reasonably excluded from the mitigating measures. Furthermore, the assignee performing borrowers should periodically be assessed so that appropriate provisions be created at an early stage. In overall, adequate provisions should be created to provide for a good shield to the bank's capital.

In addition to portfolio prudential approach, banks were required to consider the following:
a) To limit and efficiently administer the administrative expenses;
b) To carefully and conservatively assess the annual bonuses for all managing positions;
c) To not distribute dividends until the end of 2020, as per decision of Bank of Albania Supervisory Council.

3.2 Resolve remaining legal impediments to NPL resolution in the realm of the government, especially the bailiff deadlock that lingers on collateral execution, also in order to mitigate a potential renewed build-up of NPLs as a consequence of the coronavirus pandemic.

Until the time of writing this document, there has been no reporting from Ministry of Justice on the progress achieved toward this sub policy guidance.

3.3 Develop the market for forex hedging instruments, taking into account international expert advice, in the context of strengthening the use of the national currency.

BoA is committed to support the market development for forex hedging instruments, aiming to increase the resilience of private sector agents towards unexpected exchange rate fluctuations and to strengthen the use of domestic currency. Following a formal request for technical assistance from the Bank of Albania, an IMF mission visited Albania in December 2019 to assess current situation and derivatives market potential for development. The mission has sent a preliminary list of recommendations and it has discussed them with the BoA. Following up on the IMF recommendations and BoA's staff views, an action has been drafted. The action plan includes a set of short to long run measures to be taken in order to develop hedging instruments in Albania.

The outbreak of the pandemic has delayed the implementation of the action plan. Nevertheless, a batch of recommendations have been already addressed in the new regulation on the procedures on Foreign Exchange Market Interventions, which was approved by the Supervisory Council of the Bank of Albania in December 2020. These measures include introducing forward instruments available for BoA's forex interventions in the local market as an alternative to spot instruments, determining minimum lots and their multiples to conduct interventions. The BoA will also modify calculating fixing exchange rate during the fixing period and its publications within the first quarter of 2021.

BoA intends to resume contacts with the banking industry and other financial entities to coordinate tasks and continue to implement the action plan.

Policy Guidance 4

4.1 With a view to mitigating the economic consequences of Covid-19 pandemic and stimulating economic recovery, establish an effective and transparent mechanism to support the businesses affected by the crisis, in particular small and medium-sized enterprises and self-employed.

The government adopted two support packages for people and businesses affected by the COVID-19 pandemic of a combined size of ALL 45 billion (2.8% of GDP).

Support package 1: (i) additional funding for the health sector in the amount of ALL 3.5 billion (ii) ALL 6.5 billion for the support of small businesses /self-employed that were forced to close activities (iii) ALL 2 billion reallocated toward humanitarian relief for the most vulnerable, (iv) ALL 11 billion (0.6% of GDP) sovereign guarantee fund for companies to access overdrafts.
Support package 2: (i) ALL 7 billion (0.4% of GDP) fund to pay for a one-off transfer to employees of small businesses affected (ii) a sovereign guarantee of ALL 15 billion (0.9% of GDP) to provide loans for all private companies that were tax-compliant and solvent before the pandemic.

COVID-19 has affected each sector of the Albanian economy, particularly Tourism. Covid-19 forced almost half of the Albanian economy to shut down, except Agriculture. Despite size or sector, most of companies expect more than 20 percent reduction in annual turnover. Regardless of the sector or size, businesses estimate that the impact of COVID-19 on the economy will last up to a year. Main challenges are unprepared for human resource management – layoffs, regular leave, work from home, importers are considering finding new sources for raw materials in the country, companies without risk and emergency management approved plans. COVID-19 made companies aware about the effectiveness of using online services, also changed investment plans towards new technologies, strengthening sales channels, risk management.

For the 2021 the state budget will approved a significant SME support funds equal to a 6 years taken together to be made available in the form of grants to businesses. The goal is to increase the range of support and the number of beneficiary businesses. The fund available for business support schemes is about 280 million ALL aiming to support more than 300 businesses based on their business plans. Funds for the program "Economic Development" for 2021 are projected 58% higher than 2018, a year in which we had neither the effects of the earthquake and the effects of the pandemic

Since June 2020, The Ministry of Finance and Economy (MFE) has requested the support of EBRD, with technical assistance in implementing in particular 2 of these recommendations, both aiming digitalisation of SMEs as a response to the pandemic crisis:

(i) a deep analysis of the current situation and recommendations for the Government in setting up policies for the digitalization of SMEs and improving their access to ICT;

Within March 2020, it is expected an assessment on the digitalisation of SMEs in Albania and recommendations for improvements.

(ii) Digitalization and centralization of the information on existing and forthcoming financing schemes and resources, as an important online tool for SME's access to finance.

Within March 2020, it is expected to establish a unified SMEs financing information platform developed and tested; with information and other functionalities added both in Albanian and English.With the support of World Bank, a study for potential implementation of credit guarantee schemes, based on international best practices to facilitate lending to MSMEs was completed. The study provides recommendations on options of the housing the public credit guarantee scheme, associated with a comparative assessment.

4.2 Extend social protection coverage and provide incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy.

To support the labour market reintegration of those laid off as a result of COVID-19, the Council of Ministers, through DCM no. 608 dated 29.7.2020 approved new EPPs targeting this category of unemployed jobseekers. The program subsidizes wages and compulsory insurance to varying degrees depending on the duration of employment and the group of jobseekers. More specifically, the program supports unemployed jobseekers who were employed either formally or informally, and subsequently became unemployed due to the pandemic. The program was launched in September 2020 and by the end of the year some 1651 unemployed jobseekers were employed through this programme, 560 of which were informal workers.

Another protection measure undertaken related to the doubling of unemployment benefits. Pursuant to the Decision of the Council of Ministers No. 161, dated 21.03.2018 "On the payment of unemployment benefit, and DCM 254, dated 27.03.2020, unemployment payment for registered unemployed jobseekers who were beneficiaries of unemployment benefits, registered or applying before March 10, 2020, benefited double amount of the regular unemployment benefit. During the period March-May 2020, 2823 unemployed jobseekers have benefited from this measure.

4.3 Ensure transparency and predictability of measures, by consulting new legislation with businesses and social partners.

The consultation of the new legislation with businesses and social partners is part of the approval procedures for the draft legal acts proposed by the Albanian institutions, in the webpage: www.konsultimipublik.gov.al/

Regarding the business promotion area all the draft legal acts proposed by the Department of Economic Development Policies are already published: eg the draft on Unified Investment law, draft law "For the register of beneficial owners", soon it will be published the innovative Start –up law.

Policy Guidance 5

5.1 Considering the big investments to be made for the post-earthquake reconstruction, speed up the adoption the secondary legislation for the laws on energy efficiency and energy performance of buildings and provide incentives for energy efficiency measures in the private sector and households.

MIE with the assistance of the European Bank for Reconstruction and Development (EBRD) has reviewed the existing Law "On Energy Efficiency", aiming its full approximation with the provisions of the Directive 2012/27/EU. The draft of the amended Law on Energy Efficiency is adopted by the Decision of the Council of Ministers no.988, dated 09.12.2020 for review and approval by the Parliament.

The amendments will include the inclusion of elements currently absent from the Law No 124/2015 of 12.11.2015, including:

- Article 4 "Building renovation",
- Article 7 "Energy efficiency obligation schemes", consisting of a firm obligation to reduce final energy consumption through policy measures (possibly including an Energy Efficiency Obligation scheme) that instigate energy savings among end-users.

  This is a regulatory mechanism that sets quantitative targets for utility companies (usually either retailers or distribution network entities) as "Obliged Parties". In order to achieve these objectives, the "Obliged Parties" offer approved energy efficiency measures to the end user (household or enterprise) by obtaining energy credits based on the amounts of energy saved. Energy companies support end customers for approved projects, to overcome the difficulties in their investments to improve energy efficiency, by providing financial support such as: direct financing, assistance in obtaining a loan, reduction in energy prices, etc., such as also technical support such as: audits, identification of energy saving opportunities, advice, etc.).
- The adoption of EEO Schemes is considered as a manner to achieve the objective by preparing the environment for implementation after 2020, based on relatively cost effective and alternative approaches.
- Article 14 "Promotion of efficiency in heating and cooling",
- Article 15 "Energy transformation, transmission and distribution" and
- Article 24 "Review and monitoring of implementation".

The second and third NEEAP of Albania envisaged a plan for the development and implementation of energy efficiency policy measures across the generation, transmission, distribution, and consumption of energy in all sectors of the economy. It was formally adopted by the Council of Ministers in December 2017 [DCM No. 709, date 1.12.2017]. Development of the 2nd and 3rd NEEAP was an obligation of the Ministry responsible for energy under Law No. 124/2015 on Energy Efficiency, adopted in November 2015, which itself transposed many of the requirements of Directive

2012/27/EU. The 2nd and 3rd NEEAP also includes a description of measures that derive from Directive 2010/31/EU (the "Energy Performance of Buildings Directive") which was transposed for Albania by Law No. 116/2016 "On energy performance in buildings".

In accordance with Law No. 124/2015 "On Energy Efficiency" and Law No. 116/2016 on "Energy performance of Buildings", there are in place regulations that defines the procedure, categories, conditions and requirements of the qualification and professional experience of the energy audits and energy managers, in order to create favourable conditions (economic, technical and legal) for the implementation of processes that will contribute in the decrease of energy consumption in the country.

With the entry into force of the new legislative framework regarding auditors and energy managers, the Energy Efficiency Agency has conducted the first tests for their certification. Their presence in the market will activate the legal obligations on the energy performance of buildings and private consumers and will obviously contribute in reducing consumption of Energy in the country.

Actually, MIE is working secondary legislation necessary for the implementation of the Energy Efficiency Law and the Energy Performance in Buildings Law. During 2020 were adopted the DCMs as follows:

- DCM No. 537, date 08.07.2020 "On the minimum criteria of energy performance in buildings"
- DCM No. 256, date 27.03.2020 "On the methodology for calculating the optimal cost levels for the minimum energy performance requirements of buildings".DCM No.958, dated 02.12.2020 "On the procedures and conditions of energy performance certification of buildings and the model, content, conditions of registration of "Certificate of energy performance" of the respective buildings".
- DCM No.934, dated 25.11.2020 "On the Criteria and procedures of selection and the amount of certificates to be verified, as well as the process of supervising the energy performance certificates" of buildings "
- DCM "On the National Methodology of calculating energy performance in buildings adopted by 24th December 2020.

Amendments to the Law on Efficiency will not align with the requirement for an Efficiency Fund. The draft of establishing the fund was prepared with the support of UNDP but was not agreed by the MFE. The possibility of financing through other financial instruments will be considered. Articles 19 to 25 related to the Efficiency Fund will not be part of the amended law "On Energy Efficiency"

As above mentioned, the amended Law in Energy efficiency will contribute in achievements on energy savings target, furthermore considering the big investments to be made for the post-earthquake reconstruction process, through added mechanisms, including an Energy Efficiency Obligation scheme foreseen. The adoption the secondary legislation that derive by the Law No. 116/2016 on "Energy performance of Buildings" will improve the energy efficiency and increase savings in the new buildings that will be reconstructed post-earthquake.

5.2 Increase access to healthcare and public health insurance coverage while reducing the share of out-of-pocket payments on total health expenditure.

The policies undertaken from 2013 have targeted vulnerable and uninsured groups by providing free health services in primary health care and at a minimal rate for specialized services for those who underpass the referral system from the general practitioner. 600 thousand uninsured benefit from the scheme of Reimbursed Medicines and free services at the family doctor.

The recent legislative amendments have made possible that anyone who needs health care, regardless of the contributive status to health insurance scheme or not, benefits free health care service from the general practitioner and specialised health care services through the referral system. Moreover the chronically ill benefit free medical treatment from the Reimbursement Drug List (RDL). Recent revisions of Reimbursement Drug List and the Management Entry Agreement that is a new contracting mechanism in place since 2018 has facilitated patients with tumours to benefit expensive therapies such as Herceptin, MabThera and other chemotherapy and immunotherapy treatments, free of charge directly from the RDL.

Moreover, the budgetary program for the Reconstruction of 300 Primary Health Care Centres that started in 2018 has improved service provision in urban and rural areas. Preventive and screening programs has also been in the focus especially targeting women and citizens 35 – 70 years old. The check – up medical program that started in 2015 was mainly designed as a screening program for the detection of non – communicable disease at an early stage. Progress has been made from year to year and 40% of the targeted age group has benefited from the program. It is a strategic priority of the government that on yearly basis there would be an increase of the targeted population to undertake the list of analyses under the preventive program once a year. From 2018 the government of Albania has approved two National Screening Programs the Breast Cancer Screening Program targeting women +50 years old and the Cervical Cancer Screening Program targeting women 40 – 49 years of age.

The 12 health care packages (invasive heart surgery, hemodialyzers, radiotherapy treatment, kidney transplant, cataract treatments, etc.) that are financed 100% by the state budget as well as capital investments in health care infrastructure and medical equipment's have improved accessibility and reduced out of pockets by not only improving health care services but also increasing the number of health care services provided by public hospitals.

Management of COVID – 19 pandemic

For the management of the COVID – 19 pandemic with the support of WHO Office in Tirana the Ministry of Health and Social Protection prepared the following strategic documents:

1. COVID – 19 Action Plan of Albania – Prevention, Preparedness and Response Against COVID – 19
2. COVID – 19 Reopening Strategy
3. COVID – 19 Response Strategy Autumn – Winter 2020 - 2021

All three documents are orienting guidelines for the preparation of our country with regard to coping with and managing COVID – 19 pandemic. Prior to the emergence of the first positive case in the country, the Committee of Experts and the Ministry of Health and Social Protection (MoHSP) drafted an Action Plan for the prevention, preparation and response against COVID – 19, where the decisions and actions taken to manage the situation were based on. In preparation for easing the austerity measures the Committee of Experts and MoHSP also drafted the Reopening Strategy, which set out in detail all phases as well as the situation control mechanisms for each stage. Given the spread of COVID – 19 internationally, preparing for the management of the ongoing situation becomes essential. In this regard was prepared the third document based on the best practices and recommendations of WHO and ECDC.

30 million Euro allocated by the government to manage the pandemic of COVID – 19 (25 million from budgetary funds and 5 million Euros as grants from our partners).

Financial incentive for medical personnel and securing personal protective equipment's:

- 1,000 Euro and 500 Euro as financial incentive plus the wage for all medical personnel in the first line of handling COVID – 19 patients. 550 doctors, 1,130 nurses, 134 epidemiologist and 745 support staff have benefited the financial incentive from march of this year
- PPE were secured for all medical personnel handling COVID – 19 patients. Moreover less sophisticated protective equipment's such as masks were provided to all medical personnel serving in our public health sector.

Increasing health system capacities

- 36 new ambulances to be added within December to the National Emergency Coordination Center fully equipped. The fleet of 36 ambulances will be dedicated to offer health care to COVID – 19 patients at home.
- During this time we have increased and strengthened hospital capacities. We have 550 beds in our 4 COVID dedicated structures. According to our Autumn – Winter Strategy we have prepared our regional hospitals that will be open dedicated wards according to a detailed working plan to

treat COVID patients. 1,600 beds are available to treat COVID – 19 patients in our public hospital structures. We have doubled the number of respirators in our public structures and we have also invested in other medical equipment's such as monitors, x – rays, CT – SCANS. Etc. The main focus has been to strengthen hospital capacities in intensive and sub intensive units.

- We have been able to secure all the medical treatment for COVID – 19 patients according to the international medical protocols.
- We have increased lab testing capacities. Apart from the reference laboratory at the Public Health Institute we have opened the microbiology lab at Mother Theresa Hospital. Compared to the first trimester of the epidemic in Albania we have increased by four times our testing capacities. And from December we have also included the Antigen Rapid Test.
- This year we have procures 368 thousand doses of flu vaccine or four times more than the doses that we procured in 2019. We have expanded the risk group categories and vaccination has started from October.
- The Albanian government is part of COVAX Alliance. We have been able to secure the vaccine for 20% of the population. Moreover we are in the process of preparing the National Deployment and Vaccination Plan for COVID – 19 in Albania, which is a roadmap for the sustainable and safe vaccination of the targeted population (priority groups according the recommendations of the National Immunization Technical Advisory Group and Strategic Advisory Group of Experts on Immunization).

Reimbursement of treatment for ambulatory patients infected with SARS – COV – 2.

The reimbursement package for the ambulatory treatment of patients with SARS – COV – 2 foresees two schemes of treatment according to severity of the symptoms.

Around 200 thousand citizens will benefit full reimbursement of treatment by the state. The annual calculated cost is around 10 million Euros.

Strategic priorities address the health service needs of all communities and population categories. Better access of vulnerable communities to health care services will be achieved through a better horizontal integration of different specialized professionals, working at community level, as well as vertical integration (continuity of care between Primary Health Care and Hospital / other specialties of the field).

Policy Guidance 6

6.1 Take short-term measures to preserve employment including through short-time work schemes, and once the Covid-19 pandemic subsides, ensure an increased provision of active labour market policies, especially training, upskilling and reskilling.

A new package of employment promotion programs (based in the law 15/2019), were introduced during 2020. In these programs during 2020, 580 entities and 2,822 unemployed jobseekers participated on the new EPPs. About 58% of entities participated on DCM 17/2020 (subsidized Employment, On-the-Job Training, Internships), while 61% of the unemployed jobseekers participated on DCM 608 4 which supports labour market reintegration of recently laid-off workers for 4 months/8 months and formalization measure for informal workers (12 months). About 68% of participants are in the region of Tirana, Shkodra, Durrës, Fieri and Gjirokastër.

The highest number of participants employed through DCM 608/2020 is presented in Manufacturing industry, Accommodation and food service, Construction and Trade. About 61% of unemployed jobseekers participated on DCM 608 and 39% on DCM 17. Categories such as women, heads, unemployment benefits, and Roma/ Egyptians have benefited most from DCM 608. Unemployed jobseekers in economic aid, long- term and disability benefited mostly from DCM 17. The program was launched in September 2020 and 1651 unemployed jobseekers are employed through this program.

To support the labour market reintegration of those laid off as a result of COVID-19, the Council of Ministers, through DCM no. 608 dated 29.7.2020 approved new EPPs targeting this category of unemployed jobseekers. The program subsidizes wages and compulsory insurance to varying degrees depending on the time of employment and the group of jobseekers. The program supports the unemployed jobseekers who have been employed insured and uninsured and became unemployed due to the pandemic situation

The government of Albania adopted two support packages for people and businesses affected by the COVID-19 pandemic of a combined size of ALL 45 billion (2.8% of GDP).

- Support package 1: (i) additional funding for the health sector in the amount of ALL 3.5 billion (ii) ALL 6.5 billion for the support of small businesses /self-employed that were forced to close activities (iii) ALL 2 billion reallocated toward humanitarian relief for the most vulnerable, (iv) ALL 11 billion (0.6% of GDP) sovereign guarantee fund for companies to access overdrafts.
- Support package 2: (i) ALL 7 billion (0.4% of GDP) fund to pay for a one-off transfer to employees of small businesses affected (ii) a sovereign guarantee of ALL 15 billion (0.9% of GDP) to provide loans for all private companies that were tax-compliant and solvent before the pandemic.
- PACKAGE 3 (1x 26.000 ALL) financial aid as a consequence of Covid-19 for the employees or former employees in the subjects of public transport of cities and intercity. As of 16.12.2020, there are 714 taxpayers and 4,553 employees benefiting from this assistance package.
- PACKAGE 4 (2 x 2 000 ALL) support for enterprises, which implement security protocols, in the framework of prevention and control of the Covid-19 pandemic", of Order No. 81, date 10.11.2020, "On the establishment of the working group that will follow the implementation of the rules and procedures of DCM no. 856, dated 04.11.2020 ", and Regulation no. 2, dated 10.11.2020 "On the approval of rules, documentation and procedures for financial assistance to categorized small and medium enterprises in the manufacturing sector, which implement safety protocols in the framework of pandemic prevention and control COVID - 19 ", The total turn out is as follows: A total of 457 taxpayers have applied for Package IV, representing 23,320 employees. The financial effects, deriving from the implementation of this decision, are up to the amount of 187,092,000 ALL. In total, until 11.12.2020, the fund used is 93,280,000 ALL.

6.2 Improve the adequacy of social assistance benefits and set up an objective mechanism for their regular update, taking into account the data from the Survey of Income and Living Conditions. Take more effective steps to increase availability of social care services through enhancing ability of municipalities to identify needs for social services and to prepare social care plans.

In response to the crisis, the government doubled the amount of the cash assistance per recipient and expanded the pool of the eligible persons. Cash transfers continue to constitute about 95% of the social protection sector's overall budget, which is 9.4% of its GDP.

It is estimated in the budget law for the year 2021 the increase of the fund for the budget program "Social Protection and Inclusion" of MoHSP for the revision of the cash assistance allowance.

To date, more than 3/4 of the municipalities have an costed and approved social care plan, supported by UNICEF, UNDP and World Vision and monitoring by State Social Service, in line with social care services legislation framework (50 municipalities have already approved SP). The State Social Services will continue, for 2021 supporting 5 municipalities which have not yet initiated the process of needs assessment analyse and producing local social plans

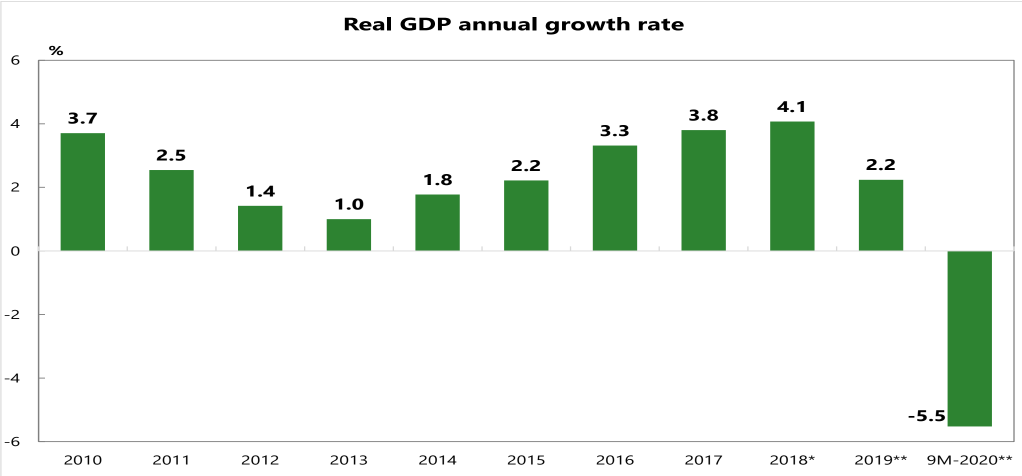
The MoHSP has started to operationalise the social fund launching the first call for proposals Mars 2019. The disbursement of funds was executed in March 2020, from which has benefited 14 municipalities and 12 specialized services in 6 regions with a total fund amounting to 150 million ALL. The second call for proposal was launched on 20 October 2020 and published on the official website of the ministry. http://shendetesia.gov.al/njoftime-2/, where to date 40 municipalities have applied.

3. MACROECONOMIC FRAMEWORK

3.1. Recent economic developments

After the earthquake that hit the country during the last quarter of 2019, the Albanian economy continued contracting in the first 9 months of 2020, due to the spread of the pandemic in March. The Covid-19 shock had a larger negative impact in Q2. GDP contraction was broadly based among sectors and among aggregate demand components. However, the contraction was more pronounced for the services sector and private consumption, despite the measures taken by the authorities. The labour market indicators also showed a deterioration in the first 9M of 2020, even though the reaction was somewhat slower compared to the other economic indicators. The decrease in the capacity utilization rate and the higher unemployment point to an increase in spare capacities.

Chart 3.1.1: Real GDP annual growth during 2010 – 9M-2020

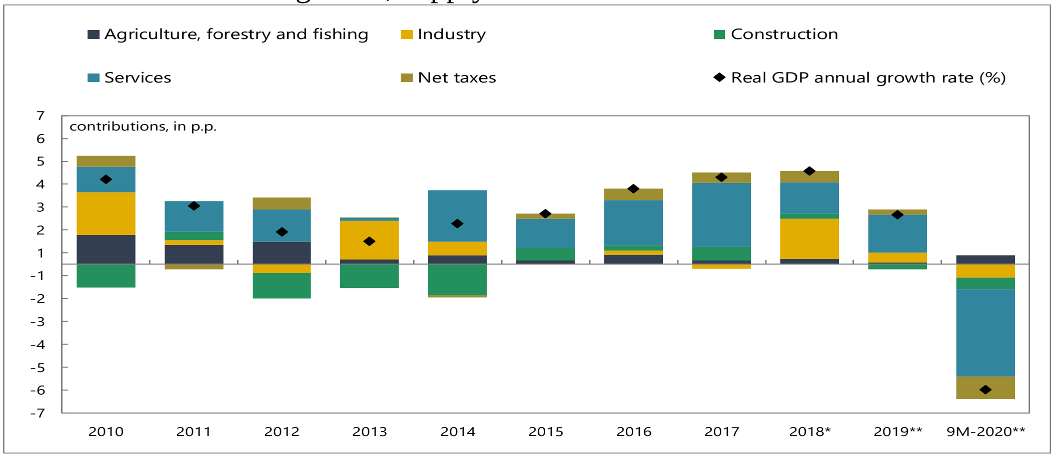


Source: INSTAT. *semi – final data. **preliminary data.

The services sector accounts for the largest negative contribution, by around -3.8 p.p., to the annual decline by 5.5% of GDP in the first 9M-2020. The negative shock triggered in the economy by the coronavirus pandemic largely impacted on the downside services related to "*trade, transport, hotels and restaurants*", as well as "*professional and administrative services*", with respective contributions of around -2.5 and -1.0 p.p. to the annual GDP rate. Construction[1], manufacturing, mining and quarrying had also an effect on the downside for GDP growth, even though at a relatively lower magnitude. On the contrary, the increase in value added from agriculture and energy was translated in a positive impact on GDP, but still without being able to compensate for the drop in the activity of other sectors. Net taxes also reflected the shrinkage in economic activity in the first 9M-2020, contributing by -1.0 p.p. to GDP.

[1] Reflecting the gradual completion of the TAP project, the shrinkage of imports for construction materials and metals, the lower level of issued building permits, the deterioration of construction confidence, as well as effects from the lockdown measures.

Chart 3.1.2: Real GDP growth, supply side



Source: INSTAT and Bank of Albania. *semi – final data. **preliminary data.

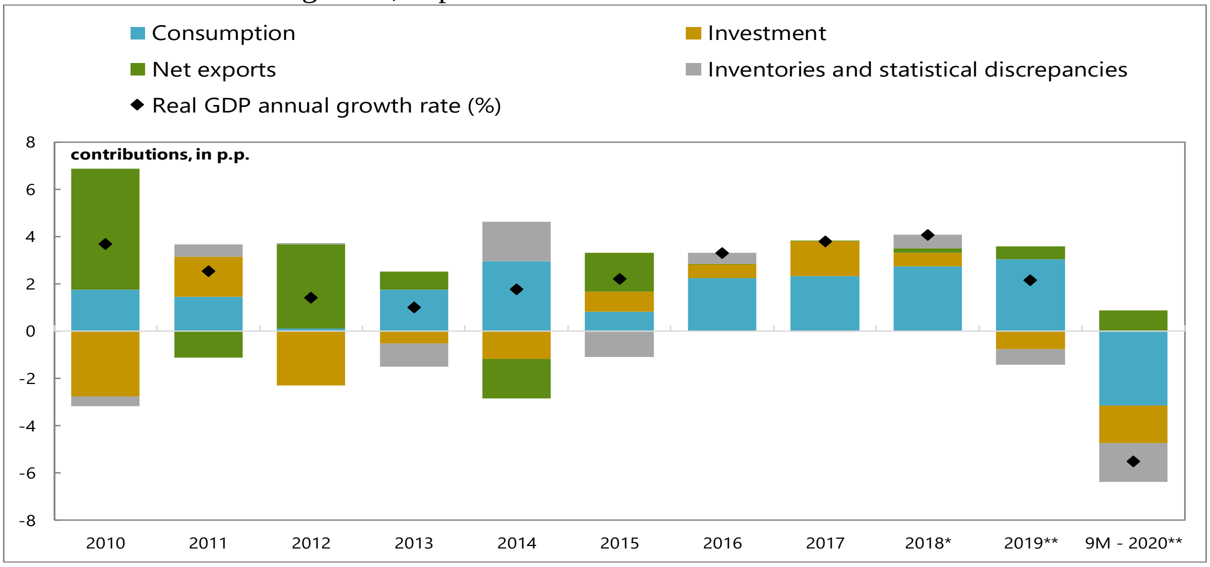
Table 3.1.1: GDP contributions from the production and demand side, quarterly frequency

Contributions to GDP growth (in pp)	2019**				2020**		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
by sectors:							
Agriculture, forestry and fishing	0.3	0.4	0.1	-0.4	0.6	0.6	0.0
Industry, energy and water	-0.6	-0.1	1.2	1.2	-0.3	-1.5	0.1
Construction	0.6	0.0	0.1	-1.5	-1.3	-1.0	0.7
Services	2.0	1.7	2.4	0.7	-1.1	-6.8	-3.2
Taxes minus subsidies on products	0.1	0.3	0.5	0.0	-0.1	-1.6	-1.1
Real GDP growth (yoy, in %)	2.3	2.2	4.2	0.0	-2.3	-10.2	-3.5
by expenditures:							
Private consumption	2.5	3.0	3.5	1.1	1.0	-6.6	-3.1
Public consumption	0.4	0.6	0.3	0.4	0.1	0.0	-0.2
Investment	0.6	0.0	-0.3	-3.2	-3.4	-2.4	0.9
Net exports	-1.2	-1.8	2.0	3.1	2.1	1.4	-0.7
Inventories and statistical discrepancies	0.0	0.4	-1.4	-1.5	-2.3	-2.5	-0.4
Real GDP growth (yoy in %)	2.3	2.2	4.2	0.0	-2.3	-10.2	-3.5

Source. INSTAT. *semi-final data. **preliminary data.

Domestic demand contracted by 4.2% in annual terms in the first 9M of 2020, mirroring the impact of Covid-19 pandemic. The drop in domestic demand was the result of the contraction of both private consumption and investments, which contributed by respectively -3.1 and -1.6 p.p. to the GDP decline. The measures taken to prevent the spread of Covid-19 did hit largely the consumption categories related to major purchases and services. As regards the shrinkage in investments, according to our assessments, the path reflected mainly the fall in private investments. Private investments are estimated to have been on the downside, mainly due to the decline in components related to construction, machinery and equipment. Public investments are also estimated to have been on the downside, even though at a lower extent. The situation created by the pandemic, the forced closure of certain economic activities, the lower confidence and higher uncertainty in the economy have been among the factors with a negative impact on investments developments. Over the first nine months of 2020, government consumption had an almost zero contribution to aggregate demand, whilst net exports impact resulted positive, around 0.9 p.p., as the contribution from the fall in imports outpaced the negative impact from the decrease of exports.

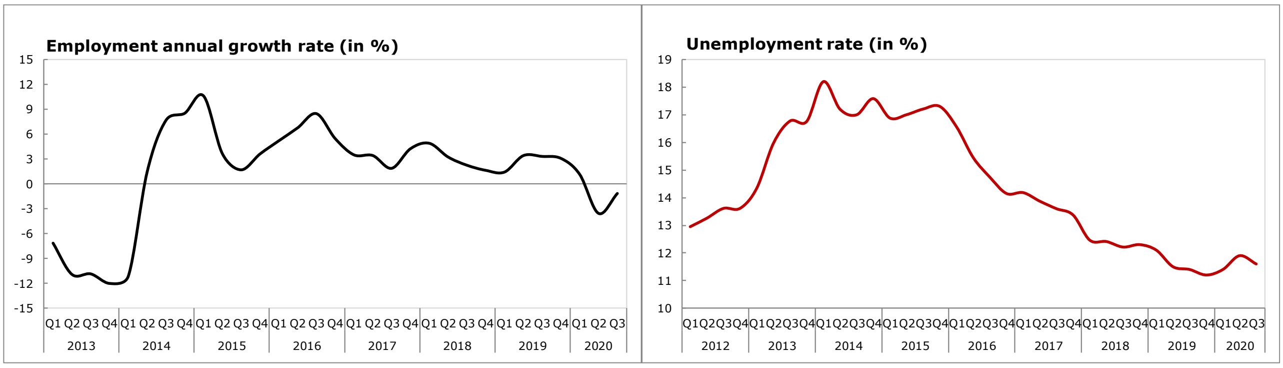
Chart 3.1.3: Real GDP growth, expenditure side



Source: INSTAT and Bank of Albania. *semi – final data; **preliminary data.

The impact of Covid-19 pandemic on the Albanian labour market was more pronounced during Q2, as reflected by the standard indicators from the labour force survey. Employment fell in H1-2020, by -1.3% and -2.6% respectively in Q1 and Q2. In Q3, employment grew by 2.8% qoq, driven mainly by employment in the services sector. However, employment remains below the levels recorded a year before. The fall in employment was accompanied by a further increase in unemployment for the first 9M of 2020. Still, the rise in unemployment has been limited by higher inactivity, influenced by the measures to prevent the spread of Covid-19, as well as by the government support schemes. As a result, the unemployment rate increased in H1-2020 by 0.7 p.p. compared to the end of 2019, and slightly fell to 11.6% in Q3 from 11.9% in Q2. The decline in employment has been channelled to a lesser extent in higher unemployment, and mostly to an increase in the number of persons out the labour market. Due to these developments, the labour force participation rate declined, resulting on average 69.2% for the first 9 months of 2020 from 69.7% in Q4-2019.

Chart 3.1.4: Labour market indicators



Source: INSTAT

The average monthly wage in the first 9M of 2020 continued to remain at higher levels compared to 2019, but did show a slowdown of its growth rates. The indicator increased on average by 2.7% in the first 9M of 2020, from 4.3% growth rate the same period a year before. Deflated by annual inflation, the average wage increase in the economy was about 1.0% in 9M-2020, from 2.9% in the same period in 2019.

The upward trend of unit labour costs[2] continued in Q3-2020 when the indicator grew by 1.1%, a slightly slower rate compared to 1.5% during the same period a year before. In particular in H1-2020, the indicator grew at a higher pace, by 2.4%, reflecting mainly the reduction in labour productivity, at a time when real wages showed a slowdown. The faster decline in labour productivity during the first half of 2020 is attributed to the closure of activities to prevent the spread of Covid-19 and the decline in demand in certain sectors of the economy. Whereas in Q3, the unit labour costs slowed down the growth rates mainly due to the fact that labour productivity has been falling at a slower pace.

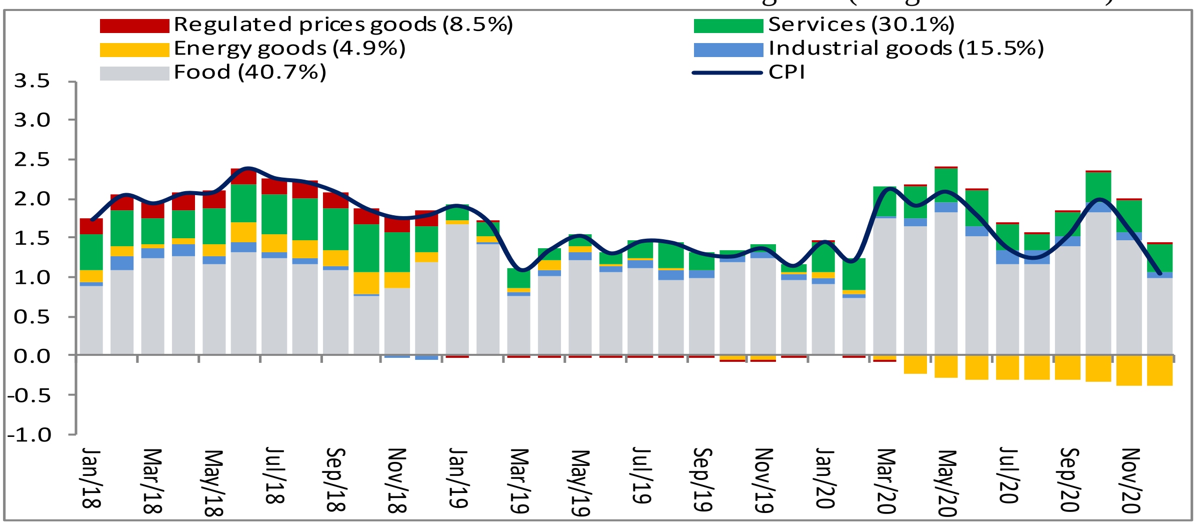
The average inflation rate was 1.6% during 2020, about 0.2 p.p. higher than the same period in the previous year. The increase reflects higher inflation for unprocessed food and services, which more than compensated for the decrease of the oil prices. Contributions from other categories remained unchanged from the previous year. In terms of the more stable components of inflation, core inflation increased to 1.4% in average during 2020 compared with 0.7% in 2019. Higher contributions from prices of some items in categories of processed food and services, have temporarily raised core inflation, mostly reflecting the additional costs caused from the country's lockdown. Since June 2020, in line with our short-term forecasts, core inflation has been gradually reduced.

The increase in un-processed food prices accounted for about 57% of headline inflation in average terms during 2020. The strong fluctuations of food prices affected also inflation volatility during this year. During the first half of the year, the pandemic and the measures that were taken to prevent it caused imbalances between supply and demand of un-processed food products and also increased the difficulty of trading them.

Inflation is expected to stay close to the current rates in the short-term. The strong contraction of aggregate demand and falling commodity prices in international markets are expected to put downward pressures on inflation. We expect headline inflation to be broadly stable during 2021.

Measures of inflation expectations have increased somewhat during 2020. There has been a pick-up of short-term inflation expectations of consumers and businesses. There has been little increase in medium-term inflation expectations from the financial agents.

Chart 3.1.5: CPI inflation and contributions from main categories (weights in brackets) *



Source: INSTAT and BoA's calculations.

[2] The proxy indicators for labour productivity, labour costs per unit of output and average wage from short – term statistics are calculated by the Bank of Albania using the total series from "Short – Term Statistics" (INSTAT, latest publication 2020 Q3).

The current account deficit expanded 8.4% annually in the nine months of 2020 with negative consequences associated primarily with the second quarter. The rapid fall in service exports was the main cause for the deficit expansion.

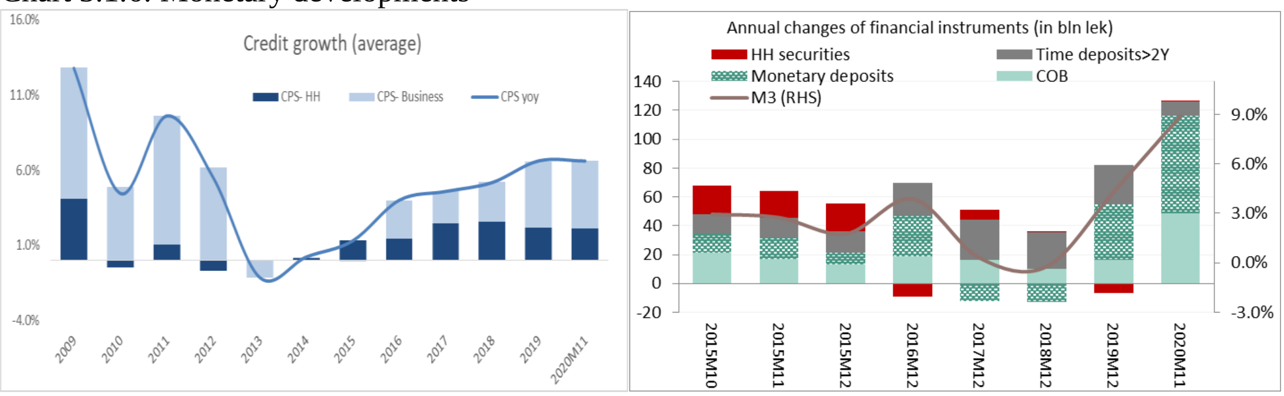
The stock of the gross external debt of Albania surged to 68.5% on nominal GDP in the third quarter. The Eurobond issuance was the factor behind the rapid expansion of external debt in 2020Q2 reversing a falling trend in the stock that had persisted throughout 2019.

The exchange rate has been relatively stable after a short-lived uncertainty shock in the end of March following the outburst of Covid-19 in the country. Market conditions (volatility, spreads) converged to normal within April and eur/lek has been fluctuating around 124.0 lek/euro since May. Lower foreign inflows, especially those related to tourism, have stipulated a slight depreciation of lek against euro compared to one year ago (1.3% on average for April – December). Effective exchange rate continues to be on appreciating territory (2.3% yoy this year), reflecting by large the strong appreciation against Turkish lira (19.4% yoy).

Credit to the private sector has shown stable growth rate average at 6.6% up to November, supported by relief measures taken from central bank and fiscal authorities. Credit moratorium of 6 months period applied to Covid-19 impacted costumers - helped in lower credit repayment and supported its growth. Meanwhile state credit guarantee scheme provided to business have supported the lek credit acceleration growth and the credit to business, which represent the main contributors to the private sector credit growth. Credit in lek is the main contributor of the credit expansion, showing an average annual growth of 10.5% in 2020, or 1.7 pp higher than 2019 average growth. The pickup of lek credit is closely related to business credit expansion supported by lower interest rate and state credit guarantee scheme. At the end of November, credit in lek represents 50.4% of credit portfolio - overcoming the share of FC credit for the first time historically. NPL ratio has remained close to end of 2019 ratio of 8.2% - reflecting the underlying health of the banking system and Bank of Albania's measures to facilitate the credit restructuring for those businesses impacted by Covid-19.

Deposits in the banking system have paced up their annual growth at an average of 6.7% through November. Deposit growth has been mainly sustained by the growth in lek deposits. Higher money creation in lek reflects the higher disbursements of credit in lek supported by the government and central bank support packages targeting the minimization of the effects of the global pandemics in the economy. Household deposits remain the main contributor to the growth of total deposits. In the current environment of historic low interest rates, developments on the liabilities side continue to reflect the shift to the liquid component. Demand deposits at the end of November comprise around 50.7% of the total stock of deposits. Deposits on the other tail of the maturity distribution –deposits with maturities over two years – have been growing at a slower pace. Their share to the stock of total deposits has remained unchanged compared to the end of previous year, at 13.4%.

Chart 3.1.6: Monetary developments



Source: Bank of Albania

Financial market showed good resilience against the unprecedented shock from the pandemic and supported the economy. The set of monetary, supervisory, and macroprudential measures undertaken by Bank of Albania (rate cut to 0.50%, full allotment liquidity auctions, credit payment moratorium; credit restructuring facilitation, etc.), as well as continuous communication with economic agents, have helped contain risk premia amid appropriate liquidity. Lending interest rates have been falling further, more so for businesses, reflecting the policy rate cut and aided by the loan guarantee scheme provided by the government. Government yields have fluctuated around levels similar to the ones observed in 2019H2. The issue of Eurobond in the international market has helped to calm down some pressures on yield/ government financing in the domestic market- leaving more room for the pickup of private credit financing in domestic currency.

3.2. Medium-term macroeconomic scenario

Real sector

The pace of economic growth in recent years has shown a positive development trend that is reflected in a number of macroeconomic parameters in the country. However, the Albanian economy experienced two strong shocks within a short period of time that includes the fourth quarter of 2019 and the entire year 2020. In November 2019, the country was hit by a very strong earthquake that caused damage to people and the economy, while in March 2020 the COVID-19 pandemic spread to Albania by significantly impacting the economic activity in the country due to the restrictive measures taken to contain the further spread of the virus.

The year 2019 marked an economic growth of 2.2 percent, compared to the growth of 4.1 percent of the previous year, due to unstable or temporary factors throughout the year, but also as a result of the earthquake, where real GDP shrank by 0.2 percent in annual terms in the fourth quarter, after an increase of 4.2 percent in the third quarter.

During the year 2020, the global economy faced the spread of the Covid-19 pandemic and the restrictive measures taken by public authorities to curb the spread. In Albania, the government imposed restrictions on free movement since March to prevent further spread of the pandemic in the country. Albania is particularly exposed to the economic contraction due to the pandemic because it is strongly supported by the tourism sector and due to its intensive relations with some of the EU economies severely affected by the pandemic. According to the latest estimate by INSTAT for the third quarter of 2020, the economy has shrunk by -3.47, which is however a relative improvement as compared to the second quarter with a record contraction of -10.20%, Whereas, the cumulative contraction for the first nine months of 2020 was -5.52% compared to the respective period of the previous year.

In terms of economic growth, the economic activity and negative implications on budget parameters, definitely this year has been the most difficult year in decades. However, in terms of the stability of the main economic fundamentals, including the external, financial sector, labour market and public finances stability, it seems that at least thus far, there are no signs of any major implications and impediments for the medium and long-term outlook. This especially and in relative terms to what was initially expected to happen.

Growth for 2020 is expected to be around -4.4%, which marks a sharp contraction (recession) compared to the continuous and considerable since 2014, reaching the peak of 4.1% in 2018. Over the next three years 2021-2023, economic growth is projected at an annual average of 4.9%. More specifically, the medium-term economic growth of Albania is forecasted at 5.5% in 2021, 4.8% in 2022 and 4.5% in 2022.

In the medium term, growth is expected to be generated mainly by domestic demand, both consumption and investment. Meanwhile, net foreign demand (export - import) is expected to have an almost neutral effect, marginally positive. Private consumption is expected to be driven by the improvement of consumer confidence as well as improvements in the labour market. Consumer loans are expected to be fuelled by both the improvement of individual financial conditions and the expected easing of lending standards from the banking system in the medium term ahead, after overcoming the negative effect of the pandemic.

Whereas the growth of investments is expected to reflect already more intensive use of existing production capacities, as well as the acceleration of economic activity over the forecast period, and overall improvement of investors perception on macroeconomic stability of the country over the medium and long term. At the same time, the continuation of the improvement of financial conditions and easing of lending standards is expected to be an important incentive factor for private investments in the medium term.

More specifically, final consumption for the medium term (2021-2023) is projected to grow in real terms by around 3.0% in average per year, contributing by an average of 2.6 pp. per year to overall growth. While investments are projected to grow in real terms at an average of 7.5% per year, with an average contribution to GDP growth of 1.7 pp. per year.

Net external demand is expected to have almost a neutral effect in the medium term, just marginally on the positive. Exports of goods, which usually have had a good performance over the last two decades, are expected to have a quick recovery from the shock in 2020 and continue having a positive trend, assuming there will be no other significant negative shocks (such as the one in 2020) over this time horizon. Exports of services, particularly services on tourism, are also expected to continue the positive trend recorded in the past and will be the main factor in offsetting the negative contribution coming from the increase in imports.

Exports of goods and services for the period 2021-2023 are projected to grow in real terms by an average of 12.7% per year, with an average positive contribution of 3.3 pp. per year to GDP growth. While imports of goods and services for this medium-term period are projected to expand by 6.8%, with a negative average contribution to total growth by about -2.7 pp. per year. Consequently, the net foreign demand is expected to have a slightly positive contribution to overall growth by an average of 0.6 pp. per year.

Chart 3.2.1: Real growth (in %)

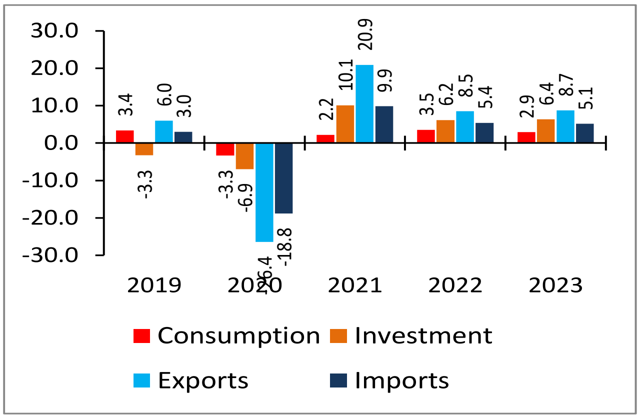
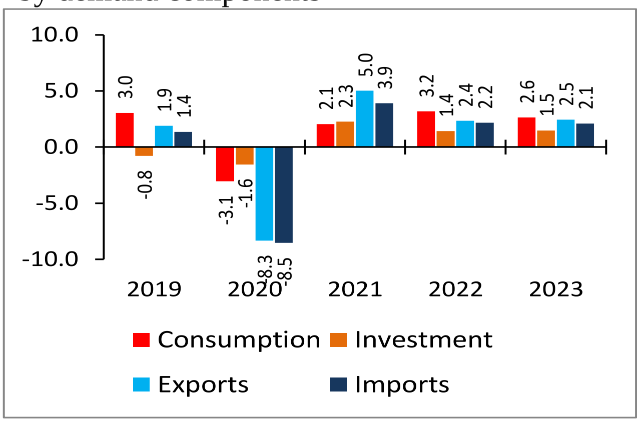


Chart 3.2.2: Contribution to growth (in p.p.) by demand components



Source: INSTAT, Ministry of Finance and Economy

Table 3.2.1: Real growth (left, in %) and contribution to growth (right, in p.p.) by demand components:

	Real Growth (%)							Contribution to Growth (in p.p)						
	2017	2018	2019	2020 *Fore.*	2021 *Fore.*	2022 *Fore.*	2023 *Fore.*	2017	2018	2019	2020 *Fore.*	2021 *Fore.*	2022 *Fore.*	2023 *Fore.*
Final Consumption	**2.5**	**3.0**	**3.4**	**-3.3**	**2.2**	**3.5**	**2.9**	**2.3**	**2.7**	**3.0**	**-3.1**	**2.1**	**3.2**	**2.6**
Final Consumption of the Households	2.6	3.2	3.3	-4.7	2.1	4.1	3.0	2.1	2.5	2.5	-3.7	1.6	3.1	2.3
Final Consumption of General Government	3.2	0.7	3.8	6.2	3.0	0.3	2.8	0.4	0.1	0.4	0.7	0.4	0.0	0.3
Individual consumption	1.9	-0.8	3.7	9.1	2.4	0.2	2.9	0.1	0.0	0.2	0.5	0.1	0.0	0.2
Colective consumption	4.3	2.0	3.8	3.9	3.5	0.4	2.7	0.3	0.1	0.2	0.2	0.2	0.0	0.2
Consumption of NPISHs	-14.2	20.3	7.9	-3.0	2.0	2.0	2.0	-0.1	0.1	0.1	0.0	0.0	0.0	0.0
Gross Fixed Capital Formation	**6.0**	**2.4**	**-3.3**	**-6.9**	**10.1**	**6.2**	**6.4**	**1.5**	**0.6**	**-0.8**	**-1.6**	**2.3**	**1.4**	**1.5**
Public	11.0	9.2	0.2	6.7	21.3	-17.4	5.3	0.6	0.5	0.0	0.4	1.3	-1.3	0.3
of wich Central Government:	5.4	14.6	-4.4	9.7	23.6	-20.9	5.5	0.2	0.6	-0.2	0.4	1.2	-1.3	0.3
Private	4.7	0.4	-4.4	-11.4	5.7	16.8	6.7	0.9	0.1	-0.8	-1.9	0.9	2.7	1.2
Domestic Absorption	**3.3**	**2.9**	**2.0**	**-4.0**	**3.7**	**4.1**	**3.6**	**3.8**	**3.3**	**2.3**	**-4.6**	**4.3**	**4.6**	**4.1**
Net export^	**0.0**	**-1.2**	**-4.0**	**-1.6**	**-7.3**	**-1.3**	**-2.8**	**0.0**	**0.2**	**0.5**	**0.2**	**1.1**	**0.2**	**0.3**
Exports of goods and services (f.o.b)	13.2	4.1	6.0	-26.4	20.9	8.5	8.7	3.8	1.3	1.9	-8.3	5.0	2.4	2.5
Exports of goods	6.8	14.2	-8.3	-12.4	17.8	13.3	9.1	0.5	1.0	-0.6	-0.8	1.1	0.9	0.6
Exports of services	15.1	1.3	10.6	-30.1	21.9	7.0	8.6	3.4	0.3	2.5	-7.5	4.0	1.5	1.8
Imports of goods and services (f.o.b)	8.4	2.4	3.0	-18.8	9.9	5.4	5.1	3.8	1.1	1.4	-8.5	3.9	2.2	2.1
Imports of goods	8.2	1.8	1.7	-14.9	8.8	4.2	4.1	2.5	0.6	0.5	-4.4	2.4	1.2	1.1
Imports of services	8.7	3.5	5.6	-26.3	12.2	7.9	7.2	1.3	0.5	0.9	-4.1	1.5	1.0	1.0
Change in inventories	**-42.9**	**-52.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.4**	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Statistical discrepancy	**-59.4**	**-74.9**	**103.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.4**	**0.8**	**-0.6**	**0.0**	**0.0**	**0.0**	**0.0**
GROSS DOMESTIC PRODUCT	**3.8**	**4.1**	**2.2**	**-4.4**	**5.5**	**4.8**	**4.5**	**3.8**	**4.1**	**2.2**	**-4.4**	**5.5**	**4.8**	**4.5**

Source: INSTAT, Ministry of Finance and Economy

After a high fiscal stimulus, necessary and at the same time inevitable during 2020 in order to soften the negative shocks (earthquake and especially pandemic), fiscal policy for the medium term 2021-2023 will be re-oriented again towards fiscal consolidation, while ensuring an optimal level of investment of over 4.5 percent of GDP per year. Fiscal consolidation and reduction of public debt is essential for reducing macroeconomic risks, which hinder economic growth and cause macroeconomic instability.

The government targeted fiscal consolidation will therefore constrain the overall public sector demand. As such, it is not expected to be a growth driver over the medium-term. However, fiscal consolidation will reduce the risk premium in the medium term and increase the scope for stimulating the private sector. At the same time, the composition of planed budgetary policies is growth supportive and therefore the tightening effects of fiscal consolidation are expected to be offset. More particularly, the fiscal consolidation in terms of public debt and fiscal deficit will continue to be accompanied by a healthy composition between current and capital spending (public investment). Capital expenditures projected over the medium run 2021-2023 continue to be above 4.5% of GDP, which is on average about 1.7 percentage points of GDP per year more than the annual targeted budget deficit. Thus, the current fiscal balance will continue to remain clearly positive, also in full compliance with the specific fiscal rule ("golden rule") stipulated in the Organic Budget Law.

From the optics of aggregate supply, it is expected that all main sectors are going to perform broadly in line with their average historical growth rates, as 2020 shocks fade away. Specifically, agriculture is expected to grow in real terms by 2.5% in average per year over 2021-2023, with an average contribution of 0.5 pp. per year; industry[3] by an annual average of 5.8%, contributing in average by 0.7 pp. per year; construction by 4.4% with an annual average contribution of 0.4 pp.; and services

[3] Industry: include both mining and manufacturing industry

by an average 5.8% per year with the highest contribution in growth also due to their larger share with an average of 2.8 pp. per year.

Chart 3.2.3: Real growth (in %)

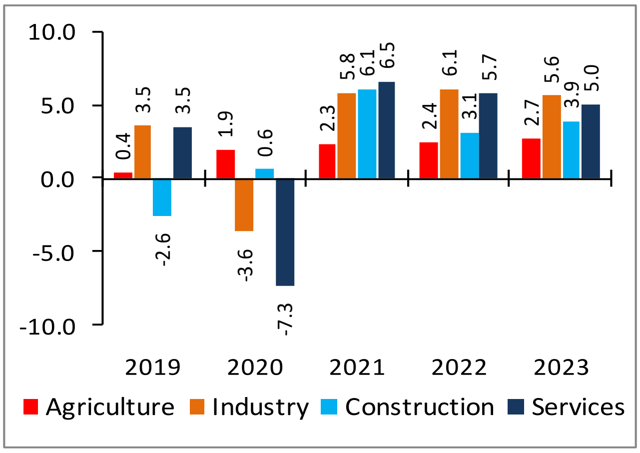
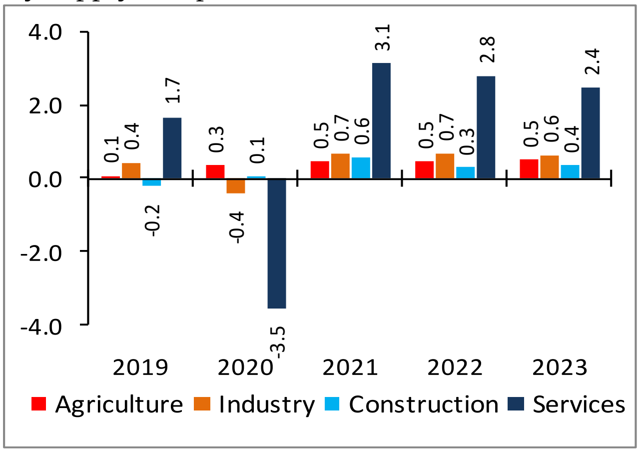


Chart 3.2.4: Contribution to growth (in p.p.) by supply components



Source: INSTAT, Ministry of Finance and Economy

Table 3.2.2: Real growth (left, in %) and contribution to growth (right, in p.p.) by supply components

	Real Growth (%)							Contribution to Growth (in p.p)						
	2017	2018	2019	2020 Fore.	2021 Fore.	2022 Fore.	2023 Fore.	2017	2018	2019	2020 Fore.	2021 Fore.	2022 Fore.	2023 Fore.
Agriculture, forestry and fishing	0.8	1.2	0.4	1.9	2.3	2.4	2.7	0.2	0.2	0.1	0.3	0.5	0.5	0.5
Mining and quarrying industry	4.5	7.6	27.9	-14.2	7.9	7.5	6.9	0.1	0.2	0.7	-0.4	0.2	0.2	0.2
Manufacturing industry	12.4	6.3	5.1	-5.9	6.7	6.2	5.8	0.7	0.4	0.3	-0.4	0.4	0.4	0.4
Electricity, gas, steam and air conditioning supply	-32.6	57.6	-23.3	19.1	2.0	5.1	4.3	-1.1	1.1	-0.6	0.3	0.0	0.1	0.1
Water supply; sewerage, waste management and remediation activities	13.8	12.1	5.5	5.1	3.3	3.5	3.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Construction	6.6	2.5	-2.6	0.6	6.1	3.1	3.9	0.6	0.2	-0.2	0.1	0.6	0.3	0.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	2.0	3.0	3.3	-9.8	8.2	7.1	5.3	0.2	0.3	0.4	-1.1	0.9	0.8	0.6
Transportation and storage	5.0	2.6	2.7	-21.3	12.1	9.3	5.9	0.2	0.1	0.1	-0.7	0.3	0.3	0.2
Accommodation and food service activities	14.5	14.2	7.5	-24.5	19.3	16.3	9.8	0.3	0.3	0.2	-0.6	0.4	0.4	0.2
Information and communication	4.3	-4.5	1.9	-5.5	3.1	2.9	3.5	0.1	-0.1	0.1	-0.2	0.1	0.1	0.1
Financial and insurance activities	11.1	2.9	11.1	-7.0	9.1	4.4	5.3	0.3	0.1	0.3	-0.2	0.2	0.1	0.1
Real estate activities	1.5	-0.1	6.0	6.0	2.2	3.2	3.4	0.1	0.0	0.3	0.3	0.1	0.2	0.2
Professional, scientific and technical activities	14.7	11.9	5.7	-15.1	7.6	5.2	4.7	0.4	0.4	0.2	-0.5	0.2	0.2	0.1
Administrative and support service activities	9.1	2.0	5.3	-13.5	8.4	4.5	5.2	0.3	0.1	0.2	-0.5	0.3	0.1	0.2
Public administration and defence; compulsory social security	7.8	0.1	3.7	-1.7	3.3	4.5	4.4	0.3	0.0	0.2	-0.1	0.2	0.2	0.2
Education	8.2	0.1	4.0	-1.3	4.8	4.7	4.6	0.3	0.0	0.2	-0.1	0.2	0.2	0.2
Human health and social work activities	8.4	6.0	4.1	6.1	4.1	4.8	5.1	0.2	0.2	0.1	0.2	0.1	0.2	0.2
Arts, entertainment and recreation	-1.6	-0.6	-42.5	-9.8	11.1	5.2	4.9	0.0	0.0	-0.4	-0.1	0.1	0.0	0.0
Other service activities	7.2	8.6	2.7	-10.2	4.2	5.3	5.1	0.1	0.1	0.0	-0.2	0.1	0.1	0.1
GVA at basic prices	**3.8**	**4.1**	**2.2**	**-4.1**	**5.4**	**4.8**	**4.5**	**3.4**	**3.6**	**1.9**	**-3.5**	**4.8**	**4.2**	**3.9**
Net taxes on products	3.6	3.8	1.8	-6.7	5.5	4.8	4.5	0.4	0.5	0.2	-0.9	0.7	0.6	0.5
GDP at market prices	**3.8**	**4.1**	**2.2**	**-4.4**	**5.5**	**4.8**	**4.5**	**3.8**	**4.1**	**2.2**	**-4.4**	**5.5**	**4.8**	**4.5**

Source: INSTAT, Ministry of Finance and Economy

The sharp contraction of economic activity has been to some considerable extent reflected in the labour market. Unemployment peaked at 12.5% in the second quarter of 2020, up from 11.6% in the end of 2019, and slightly reduced again at 12.1% in the third quarter, while employment has contracted by about 3% compared to end-2019. However, thus far it seems a temporary deterioration on this market and seemingly without any structural long-term consequence.

In line with the medium-term growth projections, employment is expected to grow by an average of 1.4% per year over the period 2021-2023. Higher labour force participation rate is expected to be the main driver of labour supply growth. Whereas the growth of labour demand is expected to reflect more or less the same structure as the aggregate supply of economic activity. Therefore, services are expected to contribute more in the labour demand increase then the rest of economic supply sectors.

Despite the expected expansion of employment over the medium term, again, overall labour productivity is expected to have a slight improvement over this period. Unemployment is expected to continue a gradual reduction reaching at 9.4% in 2023.

Chart 3.2.5: Employment (y-o-y growth in %)

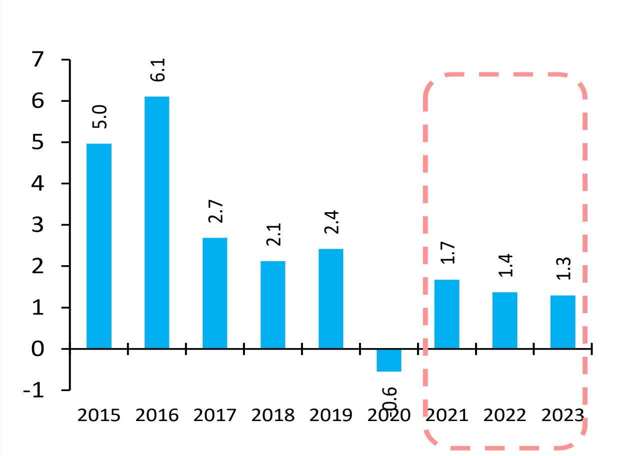
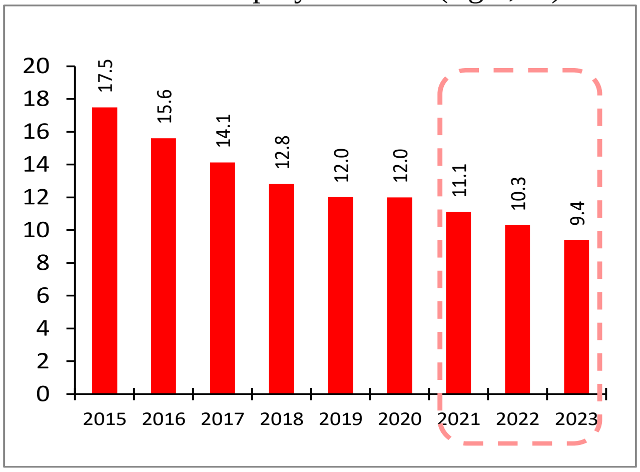


Chart 3.2.6: Unemployment rate (right, %)



Source: INSTAT, Ministry of Finance and Economy

Monetary and exchange rate policy and inflation

The monetary policy framework has not changed. The main objective of the Bank of Albania is price stability, mandated by law. In order to achieve this objective, the bank adopts an inflation-targeting regime, with a point target of 3.0% annual CPI inflation in the medium term. The monetary policy is implemented through open market operations, in the form of weekly repo and reverse repo operation. The Bank of Albania commits to a free-floating exchange rate regime, where supply and demand movements in the exchange markets determine the value of the domestic currency against other currencies. The Bank reserves the right to intervene in order to maintain adequate foreign reserves, via auctions, which are held according to a publicly announced schedule.

The current environment, with two recent shocks to the economy, namely the earthquake of November 2019 and the Covid-19 pandemics have demanded a further monetary stimulus, in order to facilitate lending and mitigate volatility in the domestic financial market. The Bank of Albania has ramped up its monetary stimulus to the financial market, by taking several measures. The policy rate was reduced by 50 bases points to 0.50%, its historical minimum, and unlimited liquidity was offered to the banking system since March. The forward guidance by the bank suggests that the monetary stimulus will continue in the short and medium term. This added monetary stimulus, together with the forward guidance, have managed to soothe concerns in the financial markets and reduce agents' uncertainties about the future. Unsurprisingly, the economy shrank for three quarters in a row. The poor economic performance was broad based, with all sectors of the economy affected by the pandemics and the containment measures. The inflation rate continued to remain below the bank's target of 3%. Bank of Albania projections suggest that the economy will shrink in the current year, and will start recovering in 2021, driven by the expansionary fiscal policy and the improvement of the foreign economic environment. As the economy grows and starts to move towards its potential, domestic inflationary pressures will start to increase, and the inflation rate will gradually converge towards the bank's objective, hitting it in 2022.

The balance of risks remains skewed on the downside. The main risks are related to foreign factors, such as the spread of covid-19, and the extension of lockdowns, which would extend the recession in the economic partners and hamper growth in Albania, as well as the development of the government's reconstruction program, which should provide a domestic demand boost in the short term.

The current policy mix comprises a high monetary and fiscal stimulus, which were dictated by the double shock faced by the local economy. Their repercussions in the economic activity, have been countered by a cocktail of monetary, fiscal and macroprudential measures, which aimed at stimulating consumption and investment and at safeguarding the country's financial stability. The current mix is appropriate and necessary to face the present problems, and to guarantee economic recovery and its return to a sustainable growth path.

External sector and its medium-term sustainability

- *Balance of Payment and merchandise trade developments*

The COVID-19 emergency generated serious consequences for the external sector of the Albanian economy. The current account deficit expanded (8.4% annually) in the first nine months of 2020with negative developments observed primarily during the second quarter. The rapid fall in service exports (37.7% annually) was the main cause for the deficit expansion. The major drop in tourism receipts (-55.3% annually), largely a result of border closure, reversed a positive trend that had been going to several years. At the same time, primary and secondary income were adversely affected generating additional strain on the deficit. The fall was particularly significant in inbound remittances, which decreased 9.6% annually in the first nine months of 2020. Finally, falling international demand in the main partners coupled with disruption in international trade linkage, negatively impacted the exports of goods which dropped 17.4% compared with the first nine months of 2019. The decrease was broad-based both in terms of categories and partners. Negative developments in domestic demand coupled with border closure produced a major drop in imports (both goods and services) in particular during 2020-Q2. Due to the strong import impact, the trade deficit only slightly increased in 2020. It was developments in income sub-accounts which ultimately tipped the balance towards current deficit worsening.

The real appreciation of lek has been increasing in the second half of 2020, averaging 3.3%, after fluctuating around low levels since mid-2019. REER has followed a similar path to that of the nominal exchange rate, as the (weighted) inflation differential against our main trading partners has been relatively small. Most of the effective appreciation comes from the strengthening of lek against Turkish lira (27% yoy in 2020-H2 vs 11% in 2020-H1), while the exchange rate against other currencies has been relatively stable.

The pandemic disrupted the commodity export structure of Albania. The shares of main strategic partners e.g. Italy, Kosovo and Spain decreased substantially. The shares of other countries (Germany and Turkey) increased not because exports to these destinations increased, but because of the fall in the other main partners. However, as exports recouped in the second half of 2020, the shares of the main partners were restored, although not completely to pre-pandemic levels.

Chart 3.2.7: Trade openness, exports, imports and Net FDI as percentage to GDP

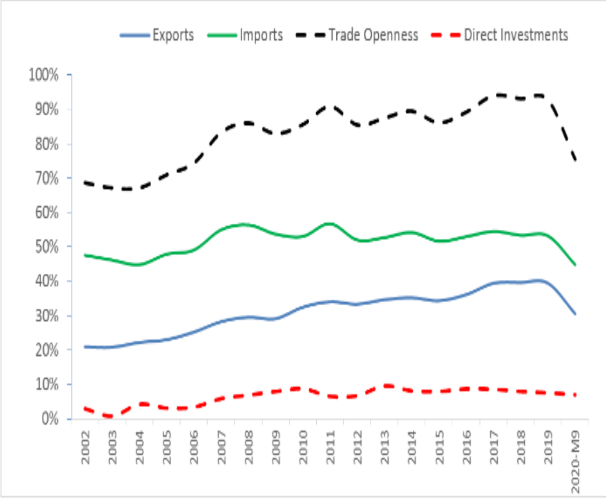
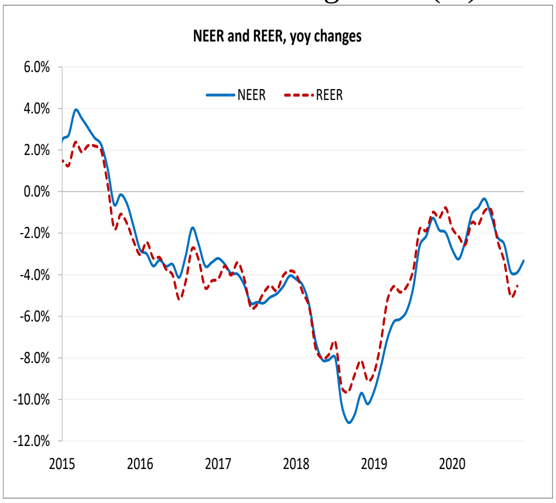


Chart 3.2.8: Annual changes of nominal and real effective exchange rates (%)



Source: Bank of Albania, INSTAT

According to the Constant Market Share (CMS)[4] decomposition of Albanian exports, increased world exports has been the leading contributor to export growth towards the EU-15 area in 2019 followed by increased competitiveness (residual component). A minor positive contribution has been associated with commodity composition. On the other hand, negative contributions are associated with market distribution. In the case of trade with CEFTA countries, market distribution was the main driver behind export growth with world exports in pursuit.

Table 3.2.3: Decomposition of Albanian Exports using the CMS methodology (EUR million)

	2019	
	EU-15	CEFTA
World Export Growth	37.1	8.7
Commodity composition	4.6	-11.8
Market Distribution	-16.0	22.7
Competitiveness	28.3	-0.2
Total	54.0	19.5

Source: Bank of Albania, INSTAT, UN Comtrade

The service surplus was gravely impacted by the pandemic. Border closure highly disrupted tourism exports which decreased by nearly 55.3% annually in the first nine months of 2020 and 87.6% in 2020Q2. Negative contributions emerged also from other sub-categories including "Physical inputs" and "other services". Service imports were also negatively impacted. In similar fashion to exports, tourism imports dropped significantly as border closure prevented Albanians from traveling abroad. The scale of the impact is evident when ratios to GDP are computed. The service surplus to GDP ratio sunk to 8.0% for the first nine months of 2020, down from 9.3% in 2019. The difference in 2020-Q2 is even more staggering with the ratio conceding nearly 2.7 percentage points compared to 2019-Q2.

The primary income deficit expanded annually by nearly EUR 16.9 million in the first nine months of 2020. Falling of "employee compensation" inbound income associated with seasonal employment abroad were the main cause and the first to react. Again, border closure as a result of the pandemic, prohibited Albanian seasonal employees from travelling and working (mainly towards Greece and Italy) adversely affecting this source of income. On the other hand, outbound primary income

[4] See http://go.worldbank.org/KQCHUD4JN0 for a discussion on CMS.

(consisting main of FDI profit repatriation) started decreasing in the third quarter of 2020. That is probably associated with the fact FDI companies were still repatriating profits generated in the pre-pandemic periods. Some lag effect was expected for this category.

The secondary income surplus decreased annually by 1.1% with a more pronounced effect in 2020-Q2 (-19.1% annually). Inbound remittances decreased by 9.6% and 34.8% in the first nine months of 2020 and 2020-Q2 respectively. Adverse economic consequences in major Albanian remittances sources (Italy and Greece) were the clear factor behind falling inflows. However, remittances have grown annually in 2020-Q3 signalling that emigrant probably remitted more in order to provide more relief for their families.

Current account developments are expected to moderate in the f final quarter of 2020 and beyond as the economic situation improves. That was already visible in the case of commodity trade with both exports and imports rebounding in 2020Q3, as well as remittances. The recoup is less clear in the case of services and tourist arrival (although higher compared with 2020-Q2) were still much lower compared with 2019-Q3. However, there is still much uncertainty surrounding future expectations. The introduction of fresh restriction amid increasing infection rates coupled with persisting barriers to international passenger movements anticipate negative consequences for the external sector. Should the circumstances persist through 2021, hopes for a quick recovery would definitely fade away.

Net foreign direct investments have decreased by 16.0% on annual aggregate terms in the first nine months of 2020. FDI-s were already strained by the near completion of the major projects in the energy sector. The pandemic added further burdens with inflows in other important sectors e.g. “Mining” and “Real Estate” negatively contributing to the dynamics. The road ahead looks much bumpy. First, the termination of major projects will deprive a major component of inflow in the future. Secondly, should the pandemic impact persist, the inflows of certain sectors, which are closely associated with economic activity (e.g. mining), might suffer as well.

Portfolio investment had to fill the financing gap caused amidst expanding current account deficit and falling FDI-s. The Eurobond issuance in 2020Q2 significantly boosted portfolio liabilities. These developments have caused changes in the financing structure of the current account deficit. Although non-debt financing retains the bulk, the share of debt-creating flows has expanded.

- *External Debt developments*

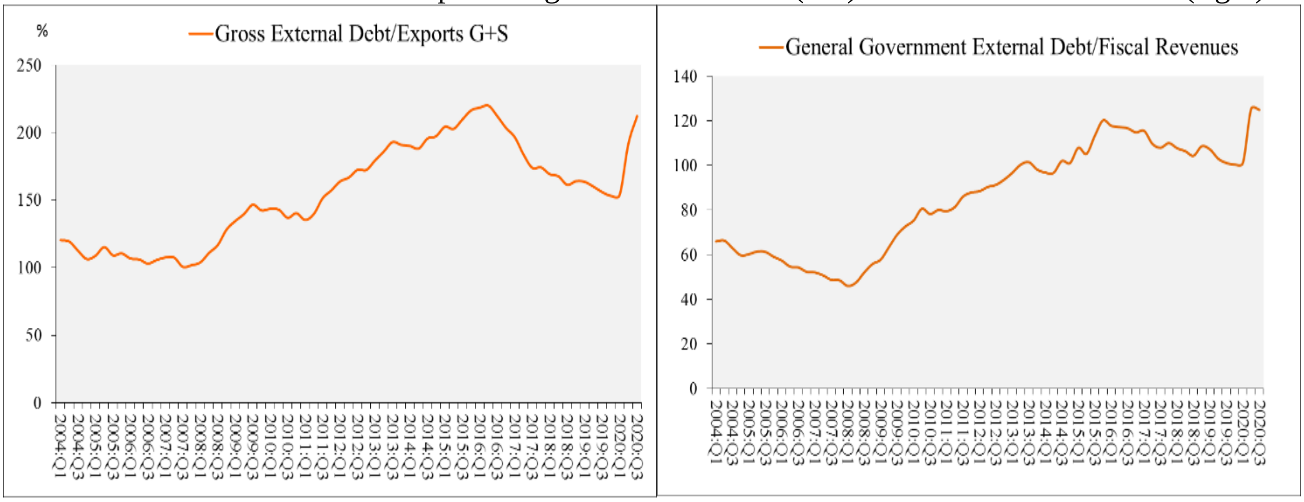
The stock of the gross external debt of Albania reached EUR 8,829 million in the third quarter of 2020 surging to 68.5% on nominal GDP (it stood at 60.2% in the end of 2020Q1). The Eurobond issuance was the factor behind the rapid expansion of external debt in 2020Q2 reversing a falling trend in the stock that had persisted throughout 2019. Stock increment did not impact the external debt maturity structure. Long-term debt constitutes 94.0%[5] of total gross debt composed primarily of long-term loans to the general government and other sectors. Short-term debt stands at 6.0% of total debt consisting mainly on deposit-taking corporations “currency and deposits” and “trade credits”.

The external debt surge coupled with falling inflows for exports and fiscal income has caused a mild and temporary deterioration in the long-term repayment capacity indicators, again reversing positive trends that had persisted for several years. The ratio of gross external debt over exports of goods and services jumped to 212.2% in 2020-Q3, up from 153.7% in 2020-Q1. Additionally, the ratio of external debt stock over fiscal revenues rose to 251.1% in 2020Q3 as compared to 220.2% in 2020-

[5] In the last publication of External Debt Statistics which covers 2020Q3, data for “Currency and deposits” belonging to Deposit-taking corporations was altered. The item was shifted from short-term debt to long-term debt. This changes translates into different ratios related to GDP and international reserves.

Q1. The ratio of the general government's debt stock over fiscal revenue increased to 124.9% in 2020-Q3, up from 101.1% in 2020-Q1. Liquidity adequacy indicators also demonstrated for increased pressure. The ratio of exports of goods and services to short-term debt plunged to 772.5[6]% in 2020-Q3, down from 992.7% in 2020-Q1. The short-term external debt stock over nominal GDP ratio stood at 4.2% at the end of 2020-Q3, slightly higher compared with 2020-Q1 (3.9%).

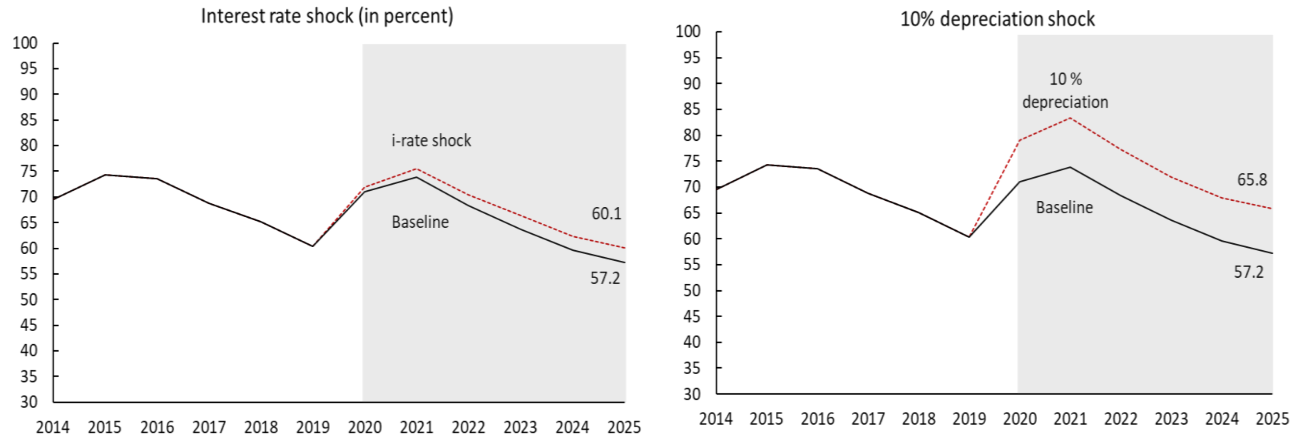
Chart 3.2.9: External debt over exports of goods and services (left) and over fiscal revenues (right)



Source: Bank of Albania

In our baseline scenario for 2020, we expect the gross external debt to GDP to jump up sharply to about 71% of GDP. The latter is a result of increased public sector external borrowing to finance the stimulus introduced to mitigate the economic fallout from the Covid-19 pandemic. Additionally, this projection is surrounded by a range of upward risks, several of which we include in our external debt sensitivity analysis. Here, we simulate an interest rate and an exchange rate shocks. In the first scenario, the average interest rate paid on the external debt increases permanently by two standard deviations whereas in the second scenario the domestic currency is shocked by a one-off depreciation of 10%. The deterioration of the external debt position compared to the baseline projection is stronger under the depreciation scenario.

Chart 3.2.10: Gross External Debt to GDP at baseline and under risk scenarios: Nominal interest rate shock (left) and real depreciation shock (right)



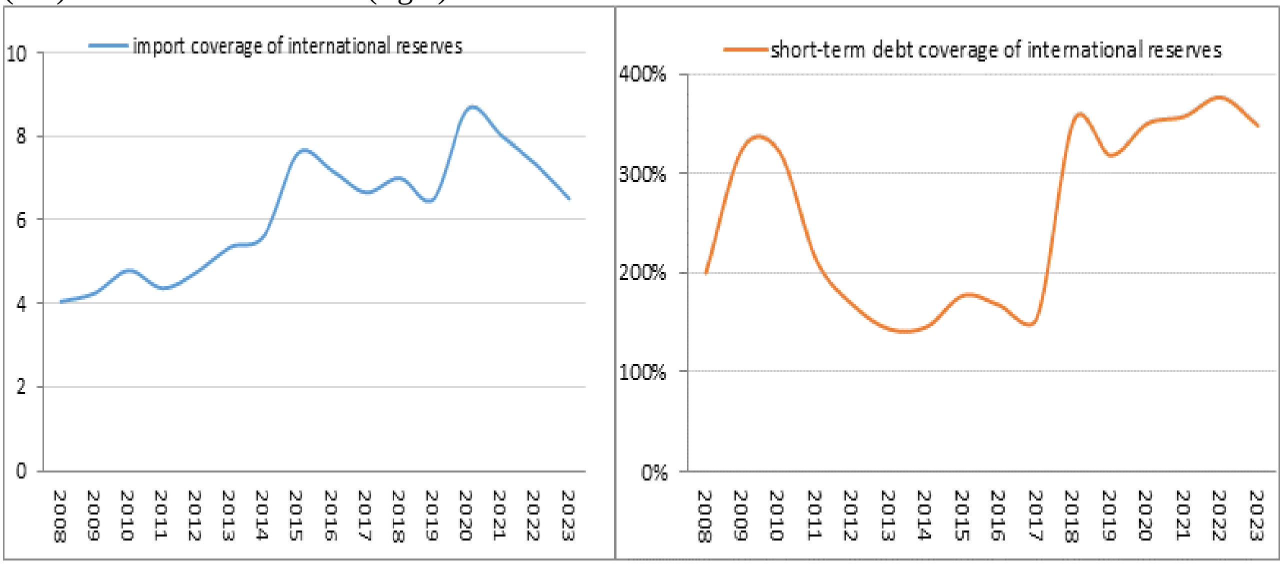
Source: Bank of Albania

- *Reserve stock developments*

[6] Revised ratios due to changes in External Debt maturity structure as a result of data revisions.

There are two adequacy criteria determining the minimum stock of International Reserves held by Bank of Albania: coverage of 4 months of imports of goods and services and 100% of the external short-term debt. As of end December 2020, the stock of the gross international reserves of Bank of Albania stands at 3,945 million euros, estimated to be around 30.6% of GDP. On average throughout 2020, the foreign reserves are estimated to cover around 8 months of imports of goods and services and around 380%[7] of the external short-term debt. Both these criteria are expected to remain well above their adequacy levels of 4 months of imports of goods and services and 100% coverage of the external short-term debt in the medium run.

Chart 3.2.11: Projection of international reserves relative to imports of goods and services in months (left) and to short-term debt (right).



Financial sector

- *Financial Sector Developments*

The latest financial data (end September/November 2020) indicate that the current situation of the financial system in Albania is stable and financial institutions are liquid, profitable and well-capitalized. As for November 2020 domestic financial institutions have continued to provide their intermediary services between investors and savers, while recording a positive growth in terms of total assets, despite a marked contraction in demand for new loans, a low interest rate environment and the potential adverse impact of the mitigating policy measures on banks' balance sheets and asset quality. In the context of the COVID-19 pandemic, over the period mid-March – mid April, BoA issued a decision that provided temporary relief from some provisioning requirements applied on banks and non-bank financial institutions as part of the credit risk management framework. At the same time BoA decided to suspend profit distribution of banks up until the end of June 2020. Domestic banks and the general public were instructed on how to manage the rescheduling of loan instalments over the three-month horizon ending in May 2020. This initial 3-month relief was extended by another 3-month period starting on June 1st and ending on August 31st 2020.

Financial data and survey data collected during the first half of 2020 indicate that the traditional position of the business sector as a net borrower and that of the household sector as a net creditor, have recorded significant expansion over the period. Both sectors have increased their deposits and stock of loans but the increase in deposits was more pronounced in the households' sector and the increase in credit was stronger in the business sector. The level of households' indebtedness remains limited, but households with debt, have reported a decline in their debt service capacities. For the

[7] Ratio shifted upward due to the revision in external debt statistics explained in the previous footnote.

near future, respondents expect an increase in demand for debt by first time borrowers within the households' sector. Although the majority of businesses have been able to generate profit during the first half of the year, this sector has reported a significant contraction in the volume of sales and profits with the small and medium enterprises being most adversely affected. The drop-in sales were followed by increased reliance on external sources of financing (loans), which have been used to cover current expenses and, to a lesser degree, for investment purposes. Businesses report a higher preference for borrowing in domestic currency and this preference is more pronounced in the SMEs segment. For about 80% of the companies the debt level amounts to ca. 50% of their capital. Businesses expect an improvement in the financing conditions, rate of investment and their financial performance over the second half of 2020.

The financial sector and its intermediary role, as measured by the size of its assets, has continued to expand during the third quarter of 2020. Total assets of the financial sector, and especially banking sector assets, have increased both in nominal and in relative-to-GDP terms. The share of financial system assets to GDP grew by 9.3 percentage points to 117.4% from end-December 2019 to end-September 2020. This growth was dominated by the expansion in the balance sheet of the banking sector, which was driven by growth in lending and in banks' investments in government securities. The activity of pension funds has continued to grow, but its share to GDP has remained unchanged from the levels of the end of 2019. The segments of SLAs, insurance companies, investment funds and non-bank financial institutions have increased both in nominal and in relative terms.

Table 3.2.4: Assets of the financial system

Supervising Authority	Assets/GDP (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020*
Bank of Albania	Banks	88.1	92.1	94.8	97.6	97.3	100.5	99.4	96.0	95.5	104.8
	NBFIs	2.7	2.7	2.7	3.0	2.9	3.0	3.1	3.5	4.2	4.4
	SLAs and Union	0.8	0.8	0.7	0.8	0.8	0.6	0.6	0.6	0.7	0.8
Albanian Financial Supervisory Authority	Insurance Companies	1.5	1.6	1.7	1.9	2.1	2.1	2.1	2.1	2.2	2.6
	Pension Funds	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2
	Investment Funds		1.2	3.9	4.8	5.0	4.7	5.0	4.5	4.3	4.6
	Financial intermediation	93.1	98.6	103.8	108.2	108.0	111.0	110.3	106.9	107.2	117.4

Source: Bank of Albania, INSTAT, Financial Supervisory Authority
*September 2020

From January to November 2020, the balance sheet of the banking system expanded by 5.2% or 77 bn leks and by the end of November it stood at ca.1,563 bn leks. This growth was supported by a 16% expansion in the stock of banks' securities holdings and a 3.5% growth in the credit of the banking sector. On the liabilities side, the increase was driven by a 53 bn lek increase in the stock of deposits and a 12 bn lek increase in the stock of treasury and interbank transactions. Total deposits held in domestic banks amounted to 1,255 bn lek at the end of November 2020 and represent about 80% of total liabilities of the banking sector. The degree of financial intermediation by banks has shown a slight decline over the period 2014-2020 with the Loan to Deposit ratio dropping to 47%

from 56%, due to the sluggish credit growth vis-a-vis a moderately fast growth in deposits, especially in 2014-2016.

Table 3.2.5: Growth in the stock of credit and deposits

	2014	2015	2016	2017	2018	2019	Jan-Nov'2020
Loans (yoy, %)	5	-2	2	0	-3	-1	4
Deposits (yoy, %)	5	3	5	1	1	1	4
Loans/Deposits (%)	56	54	52	52	49	48	47

Source: Bank of Albania

The amount of total outstanding bank loans has recorded some fluctuations during 2020. The contraction observed in April and May was mostly due to the drop-in demand for new loans during the lockdown period. At the end of November 2020, the loan portfolio of the banking sector reached ALL 596 bn from ALL 576 bn at the end of 2019. The only loan categories that recorded slightly lower values of the total stock compared to the end of 2019 were short term loans and loans to the public sector. The categories with the strongest growth were long term loans, loans to households and loans in domestic currency. The stock of standard loans grew by more than the stock of other loan classes as a result of newly granted loans and the accumulation of unpaid obligations resulting from the moratorium. A significant relative increase, by more than 50%, was also observed in the stock of loans classified as "lost" as a result of new inflows of loans previously classified as substandard or doubtful. New loans granted during November were about ALL 16.5 billion, or 20% less than the level reported in October and at the same time lower than the monthly average value of the last 12 months. More than 60% of the amount of new loans extended by banks in November 2020 were received by non-financial companies in the form of overdraft or in order to acquire working capital.

According to bank lending survey data, demand from households and for loans for investment purposes from large enterprises was particularly weak during the third quarter of 2020. Overall demand from small and medium enterprises and the interest of big companies to borrow in order to finance their liquidity needs were stronger compared to the second quarter. For the last quarter of the year, banks expect an improvement in demand for credit for all types of loans and categories of borrowers. Since the beginning of the second quarter of 2020 banks started to tighten credit standards for businesses in the context of high uncertainty and financial difficulties brought on by the Covid-19 pandemic, the lockdown and the slowdown in economic activity. Over the last quarter of the year banks expect to continue to ease credit standards for households but to slightly tighten further credit standards for the business sector. Conditional upon a scenario that does not include a second lockdown, and based on the data observed up until the end of September-October 2020, for 2021 we expect an average annual growth rate in credit at least equal to the average rate of 2020 (3-4%). Growth in the stock of total credit is likely to be driven by growth in lending in domestic currency and to reflect both newly granted loans, as well as the accumulation of new non-performing loans.

The capitalization level of the banking sector at the end of September was equal to 18.6% and has been on an increasing path over the last few years, owing to a faster increase in the regulatory capital compared to the increase in the stock of risk-weighted assets of the banking sector. Banks remained profitable through 2020 but overall profit and profitability ratios are significantly lower compared to the values of 2018 and 2019. More than half of the banks including the majority of systemically important banks have recorded lower profits throughout 2020. Return on Equity and Return on Assets were equal to 9.9% and 1% in November 2020, down from 13.5% and 1.4% the year before, whereas the net result of the banking sector shrunk by 21%, dropping to ALL 14 bn from ALL 18 bn in

November 2019. More than 75% of the net profit of the banking sector is generated by activities in foreign currency, but the contraction in foreign currency profits has been similar to that recorded in Lek profits. The latest data point to a slight increase in net interest income but the overall result has been negatively impacted by an increase in loan loss provision expenses. The liquidity position of the banking system is strong and liquidity indicators have remained well above the regulatory limits. According to the results of the Solvency Stress Test, under the baseline scenario, all banks remain solvent and capable of carrying out their normal operations without resorting to capital injections over the medium-term horizon (2020 – 2021).

The quality of bank credit has continued to improve during 2020 and the ratio of non-performing loans to total loans (NPL) in June 2020, at 8.1%, marked the lowest level recorded over the last decade. In November 2020 the NPL ratio fell slightly to 8.2% owing to a higher increase in the total stock of loans compared to the decreased level of non-performing loans stock. The stock of non-performing loans decreased slightly during the month (-0.5%), mainly due to the repayment of arrears in the first two classes of non-performing loans. The categories of non-performing loans that recorded a slight decline in stock during November were short-term and long-term loans, household loans and foreign currency loans. The decline in the stock of non-performing loans for the above categories was accompanied by a decline in the NPL for each of them.

Compared to a year ago, the outstanding of non-performing loans shrank by 11% or ALL 6 billion, while the NPL ratio decreased by about 1.3 p.p. The strongest decline was recorded in non-performing loans in foreign currency (-15%), business loans (-14%) and short-term loans (-22%). Over the last 12 months, the performance of non-performing loans has been determined by the repayment of overdue loans and the restructuring between classes and, to a lesser extent, by the write-off of some of the bad loans. The balances of doubtful and substandard loans decreased by 43% and 14%, respectively. The stock of bad loans has expanded by 17% in the span of one year. The structure of non-performing loans is dominated by bad loans (50%), while doubtful and substandard loans account for 20% and 30% of the total, respectively.

The set of composite indicators used to assess systemic risks point to increased levels of risk during and following the first half of 2020. The risks facing banks and the financial system in general reflect and are intertwined with structural factors such as the high euroization level or the low interest rate environment. The prolonged low interest rate environment exerts pressure on the net result of the banks, leads banks to seek short term sources of finance and increases the need for higher levels of liquid assets. High euroization levels may result in more challenging liquidity risk management for the activity in foreign currency. The financial system and the banking sector remain particularly vulnerable to the market risks and, to a lesser extent to the profitability risk. Developments in the net open foreign currency position and in the portfolio of unhedged foreign currency loans show that the exposure of the banking sector to the direct and indirect foreign exchange risk has declined over the course of 2020. However, the share of unhedged foreign currency loans to total loans (21%) remains high and requires careful and continuous monitoring by the industry and the supervisory authority. The gap between interest-rate sensitive assets and liabilities as a share of regulatory capital of the banking sector is small (close to 5%), but the predominance of variable-rate loans in the overall loan portfolio and the historically low interest rate spreads, suggest a heightened vulnerability of present and future borrowers in the event of an interest rate correction over the medium term horizon.

- *Macroprudential supervision*
  - *Macroprudential Policy*

In the context of strengthening the resistance of the banking sector to cyclical and structural risks, and their reduction, the Bank of Albania has approved the Regulation "On Macro-prudential Capital Buffers", as well as the package of measures to increase the use of local currency in banking activity.

The Regulation provides a framework for the implementation of (a) the capital conservation buffer; (b) the countercyclical capital buffer; (c) the capital buffer for systemic banks and (d) the systemic risk buffer. All macroprudential capital buffers must be met with Tier 1 capital instruments and expressed as a percentage of the bank's risk-weighted exposures. The aggregated value of the buffers amounts to the combined buffer requirement (CBR). The capital requirement for conservation buffer applies to all banks and entered into force with the approval of the aforementioned regulation.

The maximum value of this buffer is 2.5%, and the regulation stipulates that the buffer should be completed in steps of 0.5 percentage points per year starting from March 2020. The countercyclical capital buffer for Albania is currently equal to 0% and is announced in the end of each quarter through a decision of the Governor. The decision on the determination of systemic banks and capital buffer for systemic importance is announced once a year, at the end of the first quarter. All the decisions of the Governor, starting from June 2019, are published in the Bank of Albania website.

Banks started to report the fulfilment of macro prudential capital buffers for the reporting period March 2020. From the reports it was concluded that all banks fully meet the phased-in combined capital buffers – CBR.

In the framework of the de-euroization strategy and for assessing the impact of the respective measures that were taken, the Bank of Albania has published a semi-annual report which monitors the performance of some financial indicators reflecting the level of euroization. So far, 6 reports *have been published. Depending on the performance of the indicators, the above measures may be* supplemented by other measures in the future.

In order to provide for a systematic view on the systemic risk development, risk BoA designed the Macroprudential Heatmap which contains a list of selected indicators along with respective warning thresholds. Indicators are structured and grouped according to the 4 intermediate objectives of the Macroprudential policy, as linked with specific risks, and their trends will inform internal discussions and macroprudential decision making.

Moreover, developments in the real estate market and the financial situation of households and businesses are critical for financial stability. In order to improve quality and expand information on these developments collected by banks, Bank of Albania has performed, from a number of years now, specific surveys which it performed with the cooperation of Albanian Institute of Statistics (INSTAT). These include the survey “On real estate market developments” as well as the surveys “On financial situation of households” and “On financial situation of Businesses”. Last year, Bank of Albania took the decision to fully publish the data and the analysis of these surveys in its website.

Currently, Bank of Albania is working on collecting the data and designing the process for drafting, in the medium-term, the framework for the implementation/operationalization of:
- borrower-based macro prudential instruments (LTV/DTI);
- the Systemic Risk Buffer.

- *Microprudential supervision*
  - *Bank of Albania response to COVID-19*

In response to the situation created in the country due to COVID -19 pandemic, Bank of Albania undertook immediate measures aiming to mitigate the negative impacts in Albanian economy as a whole, as well as to households, businesses and financial institutions that are licensed and supervised from Bank of Albania.

In March 2020, pursuant to the Order of the Governor and Prime Minister all the banks and non-banks financial institutions, including savings and loans associations, offered payment holidays to all the clients economically and financially affected by Covid-19, that applied to benefit from the facility provided to postpone with three months the payment of instalments. At the end of May 2020, for all the banks the effect of the order was extended for three more months, up to the end of August 2020,

Beside from the above, up to the end of the year, Bank of Albania has adopted some regulatory amendments, mainly related with loan classification and restructuring, that would provide to banks a necessary but limited time to manage the pandemic effect at their loan portfolio and assess their asset quality.

For the period March – December 2020, Bank of Albania has suspended dividend distribution from banks and has required from them (i) to limit and efficiently administer the administrative expenses and (ii) to carefully and conservatively assess the annual bonuses for all managing positions. Such measures aim at providing support to banks, mainly through strengthening their capacity to absorb the possible losses and to support lending to households and enterprises during this period.

Despite the regulatory interventions, Bank of Albania has been monitoring and controlling the situation by issuing guidance, and establishing, in the same time, close communication and information-sharing with banks through enhanced reporting requirements[8].

During the pandemic, banks have been warned from supervision department through supervisory letters (May and July) which aimed at addressing issues that might arise during the implementation of mitigation measures that would require bank's prudence in approaching them:

- banks were required to build internal procedures, transparent and clearly transmitted ones to all structures and units included in the restructuring process;
- each single restructuring should be preceded by a written request from the client and banks' analysis so that the process can be fully documented and justified.
- all restructurings need to be assessed prior to the approval, and the spectre of borrowers should be wide and include both businesses and individuals. The justification of the borrower for restructuring should be properly verified by banks.
- banks should address proper prudence toward loans that were nonperforming prior to the restructuring;
- banks should calculate the regular interest and exclude the calculation of any penalty during the period of moratorium;
- banks should perform any restructuring based on a written agreement so that legal and operational risks are avoided;
- banks were required to report loan under moratoriums and loans given under government guaranties with a special code in the credit registry at Bank of Albania.

In addition to the above, banks' attention was specifically drawn to the fact that the measures were mostly aiming the performing borrowers rather the nonperforming ones which should be reasonably excluded from the mitigating measures. Furthermore, the assignee performing borrowers should periodically be assessed so that appropriate provisions be created at an early stage. In overall, adequate provisions should be created to provide for a good shield to the bank's capital.

To facilitate customer complains during the lockdown a general address of the Bank of Albania (public@bankofalbania.org), was made available to all citizens and enterprises. Through this communication channel, Bank of Albania has responded to more than 350 e-mails of citizens related to their concerns for the rescheduling of the loan payments with financial institution.

During the first term of the relief measures (March – May), banks have mostly implemented the moratorium alias the restructuring terms. As of April 2020, the portfolio under moratorium count to

[8] Beside the surveys conducted, Credit Registry reporting fields were reviewed by including information on loans under moratorium and loans guaranteed from the government. Other reporting formats were prepared from BoA that allow to capture the performance of the portfolio affected by the repayment inability due to situation. Such information is reported on monthly basis and is regularly monitored by BoA.

36,4% of total loan portfolio and by end of July its portion reached to 38,5%. In the second relief term (June – August) the banks mostly managed the existing moratorium exposures and/or remaining requests and such relief did also provide some liquidity to the market. As we are closely monitoring the data outputs, the figures on NPL from March to August have shown very mild fluctuations. However, the Covid-19 effects still remain to be seen due to wide economic effects it is expected to have and due to the relief supervisory measures that are still in force.
The deterioration of the economic situation and the uncertainty created by Covid-19 was not reflected in material withdrawals of customer deposits and banks liquidity indicators. The Supervision Department has received information and monitored on a daily basis the performance of deposits for each bank and for the system as a whole. During this year banks were characterized by stable customer deposits and liquidity indicators.

- *Expected developments of NPLs*

Due to Cov-19 pandemic and the difficulties the economy has been facing, an increase of NPLs is expected in the near term. As the moratorium period might not provide the real effects of the pandemic of banks' financials, it has created some opportunities for borrowers to obtain certain liquidity and time for potential recovery. Additionally, the government-backed loans might have created some additional financial support for borrowers to overcome the situation.

Having in consideration these negative and positive effects, it is not yet clear a quantitative estimate on the outcome on the NPL values. Under such new conditions created, this remains one of the big challenges even globally wise and in the same time difficult to be predicted or modelled through the historical data. Meanwhile, targeted and horizontal on-site inspections are being conducted to assess the effects of pandemic on banks' loan portfolio, earning and capital by assessing on-site banks' potential losses as accurately as possible.

During 2020, the quality of loan portfolio measured by the indicator "Non-performing loans/Total loans", has been stable. Referring to the data for end of November 2020 the NPL ratio was at 8.2% from 8.37% figure at end of 2020. During the recent year there has been a mild fluctuation of the ratio, but never exceeding the December 2020 figure. We expect a clearer picture of figures in the financial system asset quality by the beginning of next year depending also on the pandemic extension and intensity. Considering the current situation, BoA has taken all the necessary measures and remains fully committed to carefully monitor the consequences of the pandemic, regarding the capital levels and profitability of the banks, with a special focus on the loan portfolio. In addition, BoA through the communication with the banking industry has sent all the guidance related to the monitoring of credit risk, subject to potential restructuring due to pandemic.

- *Supervisory regulatory changes*

During 2020, the Bank of Albania continued its work on drafting new bylaws and revising the supervisory regulatory framework in force, aiming at further alignment with the EU acquis and Basel Committee standards and best practices in the field of banking regulation and supervision, in fulfilling the obligations of the Bank of Albania deriving from strategic European integration documents such as the Stabilization and Association Agreement, European Commission Progress Reports and joint EU-Albania subcommittees.

In 2020, with regard to the approximation with Basel III requirements, Bank of Albania approved:

- by the Decision no. 7, dated 5.2.2020, some amendments to the regulation "On capital adequacy ratio", aiming the further alignment with the EU regulation 575/2013/EU (CRR);
- by the Decision no. 53, dated 2.9.2020, amendments to the regulation "On the risk management from large exposures of banks", aiming further alignment with the EU regulation 575/2013/EU and its latest changes (CRR 2);

- by the Decision no. 54, dated 2.9.2020 amendments to the regulation "On consolidated supervision", in compliance with the latest amendments to the regulation "On the risk management from large exposures of banks" and to the regulation "On banks' regulatory capital";
- by the Decision no. 63, dated 4.11.2020 the regulation "On banks' leverage ratio", which was drafted in accordance with provisions of the EU regulation 2019/876/EU (CRR2) and Basel Committee's document "Leverage ratio- LEV 30 Exposure measurement, December 2019";
- by the Decision no. 70, dated 2.12.2020, the regulation "On banks' net stable funding ratio", which was drafted in accordance with EU regulation 2019/876/EU (CRR2) requirements.
- by the Decision no. 72, dated 2.12.2020, the regulation "On the functioning of Bank of Albania Credit Registry, as well as the conditions and procedures for recognition, use and review of the data administrated in it". This regulation came in line with the implementation of a New Credit Registry system which offers a developed technological infrastructure. The new system offers the possibility of automatic data exchange, enabling automatic processes, reduction of operational risk, and faster response to requests. The data that will populate the database of the New Credit Registry System, has been expanded and harmonized to support some central functions of the Bank of Albania, such as: monetary policy decision-making, supervision, micro and macro prudential. Also, in line with the initiatives undertaken by the Government to increase and promote electronic services, the new system offers for the citizens the possibility to have direct access on their data. With the Online service, they can access their Credit report, as well as claim data inaccuracy.

Considering the requests received from Savings and Loans Associations (SLAs) for some regulatory amendments**,** the Supervisory Council, by the circulating Decision no. 20, dated 26.3.2020, approved some amendments to regulation no. 105, dated 5.10.2016 "On risk management in the activity of savings and loan associations and their Unions". Based on the amendments of regulation no.105, were drafted also amendments to the Unified Reporting System of savings and loan associations and their Unions, which were approved by Decision no.71, dated 2.12.2020 by the Supervisory Council.

In the framework of drafting regulatory requirements regarding the early intervention in banks, enforcing the provisions of the law 133/2016 "On recovery and resolution of banks in the Republic of Albania", during 2020 Bank of Albania approved:
- by the Decision no. 6, dated 5.2.2020, the regulation "On determining the conditions for granting the prior approval to the intra-banking group financial support agreement";
- by the Decision no. 61, dated 4.11.2020, the regulation "On defining the conditions of implementing early intervention measures and on the conditions and methodology of applying temporary administration";
- by the Decision no. 62, dated 4.11.2020, the regulation "On the establishment, licensing, supervision, functioning and termination of the bridge bank", which is a fully revision of the regulation in force "On the establishment, licensing and functioning of the bridge bank".

- *The banking sector resolution framework as part of the financial sector reforms*

During 2020, Bank of Albania in the capacity of the Resolution Authority has enhanced the regulatory framework in alignment with the European developments in banks' resolution framework and the new banking package requirements, has finalized the second cycle of resolution planning and has followed the necessary measures to build-up the Resolution Fund.

  - *Development in the banking sector resolution framework in 2020*

Regulatory framework:

With regard to the development of the regulatory framework in bank resolution area, following the provisions of Law No. 133/2016 "On the recovery and resolution of banks in the Republic of Albania", the Supervisory Council of the Bank of Albania has approved:

- Some changes in the regulation "On the resolution fund and procedures for its administration " by decision no.2, dated 17.1.2020, which aim to improve the regulatory framework for the administration of the Resolution Fund;
- The regulation "On the organization and functioning of the Committee for the Resolution Fund", by decision no. 56, dated 7.10.2020 that strengthens the monitoring on framework on resolution financing at Bank of Albania.
- The regulation "On the operationalization of bail – in instrument and the exceptional cases" by decision no. 57, dated 07.10.2020, transposing the Commission Delegated Regulation (E) 2016/860 of 4 February 2016 specifying further the circumstances where exclusion from the application of write-down or conversion powers is necessary under Article 44(3) of Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms;
- Some changes in the existing regulation "On resolution plans", by decision no. 68 dated 25.11.2020, to further align its framework with the European standards. The revised regulation transposes the Single Resolution Board document "Expectations for banks" issued in March 2020 and EBA final regulatory technical standards "On the content of the resolution plans and the assessment of resolvability", EBA/RTS/2014/15.
- The regulation "On minimum requirements of regulatory capital instruments and eligible liabilities – MREL", by decision no.78, dated 16.12.2020, which was drafted in accordance with the Directive 2019/879 (BRRD II) amending Directive 2014/59/EU and Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019.

Resolution planning:
The Bank of Albania, after the first cycle of drafting the resolution plans for systemic banks, identifying the preferred resolution strategy and potential impediments to its effective implementation, has realized the second cycle, including the identification of critical functions for each bank, based on the information submitted by them through recovery plans, as well as internal assessments. Critical functions assessment is performed periodically, for each year, in the individual resolution plans. The Bank of Albania has started the work for the third cycle of resolution plans, which, in addition to updating the elements prepared in the first two cycles, also contains the identification of critical internal and external interdependencies, infrastructure and critical systems, as well as the communication strategy.
In this context, Bank of Albania, has developed and supplemented its set of reporting templates for resolution planning and introduced two new forms for the same purpose, based on the Single Resolution Board requirements for resolution planning, as of 2020 planning cycle. It also prepared the respective guidelines.

Resolution fund:
In the framework of monitoring the resolution fund, during 2020, Bank of Albania has calculated the target level of the fund and the annual contribution for each bank and also approved the "Investment Policy for the financial assets of the Resolution Fund" drafted by the Albanian Deposit Insurance Agency (ADIA). Based on the periodic reporting from the ADIA, as the resolution fund administrator, Bank of Albania monitors on quarterly basis, the investment and performance of financial assets of Resolution Fund.

- *Main focus on 2021-2023*

Over the medium term 2021-2023, the Resolution Function at Bank of Albania shall address the following issues:
- Strengthening the resolvability of banks through drafting and updating resolution plans for all individual banks operating in Albania, identifying potential impediments to resolvability and taking all measures to remove the impediments. Resolution plans aims to facilitate the effective use of resolution tools by Bank of Albania, support the maintenance of critical functions and make

bank's resolution feasible. In this regard, the Bank of Albania will provide banks with the target level for MREL, to be reached within the transitional period, as defined in the relevant regulatory framework.

- Completing the regulatory framework in line with the EU framework:
  For the next two years Bank of Albania will supplement its regulatory framework with some new sub-legal acts, such as:
  - Contractual recognition of bail-in;
  - Establishing the conditions for determining the debt conversion rates in the capital;
  - Safeguard for counterparties in partial transfers.
- Achieving the target level of the "Resolution Fund" through the payment of banks' annual contributions and monitoring the investment policy of the financial assets of the fund, in accordance with the provisions of the law and the regulatory acts designed for this purpose.
- Enhancing the co-ordination and co-operation with other organizational units within the Bank of Albania, other national institutions and agencies as well as counterpart institutions and international organizations pursuant to the provisions of the Law "On Recovery and Resolution of Banks in the Republic of Albania".
- Strengthening the technical capabilities of the banks' resolution personnel through training and collaboration with similar institutions in this field.

3.3. Alternative scenarios and risks

The baseline scenario is estimated to have a relatively high chance to materialize in overall. However, the forecasting of alternative scenarios - assuming that a reasonable part of various risks surrounding the baseline scenario might materialize – is an important component of public finance planning. In order to increase the quality of planning, to have a more efficient management of public funds in any situation that has a certain probability to occur, below are briefly presented two alternative scenarios, specifically a "pessimistic" and an "optimistic" one. Each of the alternative scenarios assumes that a set of negative (in case of a "pessimistic" scenario) or positive risks (in case of an "optimistic" scenario) will materialize. This set of risks assumes deviation from the respective forecasts of baseline scenario for some key macroeconomic indicators, including lending to the economy, the performance of the Eurozone economy with the consecutive effects on the exports of goods and services, on remittances, on various foreign capitals flows as well as exchange rate, interest rate, the pace and the impact of structural policy reforms planned for the medium term period ahead, etc.

For the simplicity of the analysis (modelling), the overall net effect of all the assumed, negative or positive risks is imposed as an initial shock in terms of one single variable, "real economic growth". Therefore, the alternative scenarios are based on different economic growth assumptions from the baseline for each year 2021 – 2023(25). In this section as well as the other related section 4.7 (Sensitivity analysis), in order to have a more comprehensive and useful picture and coping approach under each alternative scenario, we extend the simulation time horizon up to 2025. The following table presents the "real growth" assumptions in the alternative scenarios, the derived nominal growth and nominal GDP level as well as some other assumptions (assumed implications) on certain key fiscal variables which are explained in section 4.7.

We give considerably more importance to the "pessimistic" scenario and possible coping under its implications. We asymmetrically introduce a greater negative shock in this scenario as compared the opposite positive shock magnitude we introduce in the "optimistic" one. We assume that in the "pessimistic" scenario the real GDP growth will be 1.5 p.p. lower in each year (2021-2025) than the respective growth projections of the "baseline". Whereas in the "optimistic" scenario we assume the real growth will be 0.5 p.p. higher in each year than what we respectively forecast in the "baseline" scenario.

Table 3.3.1: Alternative assumptions in each scenario

	2015	2016	2017	2018	2019	2020 Est.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Real GDP growth (%)											
Baseline	2.2	3.3	3.8	4.1	2.2	-4.4	5.5	4.8	4.5	3.9	4.0
Pesimistic							4.0	3.3	3.0	2.4	2.5
Optimistic							6.0	5.3	5.0	4.4	4.5
Nominal GDP growth (%)											
Baseline	2.8	2.7	5.3	5.5	2.7	-6.4	7.0	7.2	7.0	6.3	6.5
Pesimistic							5.5	5.6	5.4	4.8	5.0
Optimistic							7.5	7.7	7.5	6.8	7.1
Nominal GDP (billion Lek)											
Baseline	1,434.3	1,472.5	1,550.6	1,635.7	1,679.3	1,572.3	1,682.6	1,803.0	1,928.8	2,050.8	2,185.0
Pesimistic							1,658.7	1,751.9	1,847.3	1,935.7	2,032.7
Optimistic							1,690.6	1,820.2	1,956.6	2,090.2	2,237.8
Total revenue (% of GDP)											
Baseline	26.4	27.6	27.8	27.5	27.4	27.0	28.8	28.7	28.9	29.0	29.1
Pesimistic							28.3	28.2	28.4	28.5	28.6
Optimistic							28.8	28.7	28.9	29.1	29.2
Total revenue y-o-y growth (%)											
Baseline	3.4	7.3	5.7	4.5	2.3	-7.9	14.1	6.9	7.6	6.9	6.9
Pesimistic							10.6	5.3	6.1	5.4	5.4
Optimistic							14.9	7.4	8.2	7.4	7.4
Total revenue (billion Lek)											
Baseline	379.2	407.0	430.4	449.9	460.3	424.1	484.1	517.4	556.9	595.4	636.5
Pesimistic							468.9	493.9	524.1	552.3	581.9
Optimistic							487.2	523.2	565.9	607.9	652.9
Effective interest rate of public debt (%)											
Baseline	4.2	3.7	3.2	3.5	3.3	3.3	3.4	3.5	3.7	4.1	4.3
Pesimistic							3.4	3.5	3.7	4.1	4.3
Optimistic							3.4	3.5	3.7	4.1	4.3
Nominal exchange rate, end-year (Lek/Euro)											
Baseline	137.7	135.3	133.2	123.5	122.2	123.8	123.8	123.8	123.8	123.8	123.8
Pesimistic							123.8	123.8	123.8	123.8	123.8
Optimistic							123.8	123.8	123.8	123.8	123.8

Source: Ministry of Finance and Economy

4. FISCAL FRAMEWORK

4.1. Policy strategy and medium-term objectives

After a high stimulus, necessary and at the same time inevitable during 2020 in order to amortize the negative shocks (earthquake and especially the pandemic), fiscal policy in the medium term will be oriented towards fiscal consolidation, in line with the fiscal rules set out in the Organic Budget Law (see box below on fiscal principles and rules). The fiscal consolidation and reduction of public debt are essential to lower debt-related vulnerabilities that hamper growth and cause macroeconomic instability.

To reduce public debt-related vulnerabilities, we have undertaken considerable fiscal adjustment over the past few years. The overall fiscal balance has improved by about 3.5 p.p. of GDP from 2014 to 2019, supported by revenue mobilization, expenditure restraint, and the implementation of several administrative reforms. Since 2016, a positive primary balance (primary surplus) has been recorded, compared to a primary deficit of 2.3% in 2014. Tax revenues have increased considerably in recent years from 22.2% of GDP in 2013 to about 26% of GDP in 2019, driven by tax policy measures and improved tax administration. The reform against informality also helped to increase revenue collection. On the expenditure side, substantial savings have been realized from reforms in the pension and energy sector, as well as from efficiency gains in public administration. Also, as regard debt management during these years the risks of changing terms have been reduced by diversifying and extending significantly the maturity of public debt.

The fiscal policy stance embodied in next year budget remains still rather stimulating in order to both stabilize or help the economy to regain momentum faster and to accommodate the needs for earthquake re-construction as well as higher spending in two priority sectors, that of health and education. However, the main fiscal parameters are targeted with a relative improvement as compared to this year, as well as in compliance with all fiscal rules in the OBL. For the medium and long term ahead, once the effects of these shocks will fade away, the main objective of fiscal policy will be fiscal consolidation and clear return to downward trajectory of public debt. The main operational anchor of fiscal policy will be the primary balance, which we target to return to surplus from 2023 onwards.

Regarding the primary balance, which is a crucial parameter of the long-term sustainability of public finances, a new fiscal rule was introduced recently (July 2020) in the set of existing fiscal rules in OBL, which is also in line with the EC recommendations and the main principles of the *acquis* of the EU. The fiscal rule makes it legally binding that starting from the budgetary year 2023 onwards the actual primary balance cannot be negative (i.e. it must at least be balanced, or positive primary surplus). Hence, the target of the budget primary balance will become the main operational objective of fiscal policy to materialize the fiscal consolidation and more specifically to achieving the goal of a continuously declining public debt trajectory in order to ensure the sustainability of public finances as a key fundamental of macroeconomic stability and the well-functioning of the country's market economy. Taking into account the assumptions and other projections of the baseline scenario of the macro-fiscal framework, the annual compliance of this objective (fiscal rule) of the primary balance parameter is expected to lead to a reduction in the level of net public debt around the level of about 68 percent of GDP by 2025, from about 80 percent expected to result in 2020.

In 2021, the overall fiscal deficit is targeted at 6.5% of GDP, decreasing as compared to the latest 2020 revised budget law of 8.4%, as well as compared the expected 2020 outrun of about 6.7% of GDP. In 2022 the overall fiscal balance is targeted at 2.9% and in 2023 at 2.3%. Primary balance, although again projected on a primary deficit of -3.9% of GDP in 2021, is improving compared to 2020 expected level of -4.5%. In 2022 the primary balance is targeted at -0.1% of GDP and in 2023 is targeted with a surplus of 0.6% of GDP. As a result, the level of public debt is projected to re-enter a downward trajectory from 2021 onwards. In 2021 the total public debt is projected at about 78.6% of GDP from about 79.9% expected in 2020. By the end of 2022 the public debt is projected to reduce at about 77.7% of GDP and reduce at about 75.6% in 2023

At the same time, it is intended and programmed to maintaining a level of public investment at annual average of about 4.8% of GDP over the period 2021-2023, essential to support economic growth in the medium and long term. Current fiscal balance (the difference between public investment and fiscal deficit) is already returning to positive levels as early as 2021, at the level of 0.7% of GDP from an expected negative level of -0.6% in 2020.

FISCAL PRINCIPLES AND RULES

In full compliance with the obligations deriving from the Organic Budget Law (OBL) No. 9936/2008, amended, the fiscal framework for the period 2021-2023 materializes the following fiscal principles and rules:

1. *In each annual budget law, original or revised, and in the medium-term budget planning, the ratio of public debt to GDP shall be planned lower than the estimated level of the previous year, until the debt level reaches and stays under the threshold of 45% of GDP.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2021-2023 *targets an annual a level of total public debt in percentage of GDP lower than the level of the previous year*.

2. *Nominal value of GDP in ALL which is used to calculate the ratio of public debt to GDP for projected years and for previous year, cannot be higher than the one forecasted or estimated in the IMF's World Economic Outlook report, the latest published in the time when annual budget proposal is submitted for approval to the Assembly. This fact is clearly documented in the explanatory note of the annual budget proposal.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2021-2023 is based on the following nominal GDP projections, which are presented comparatively against the latest IMF projections. In this case, according to the most recent WEO note published in October 2020, which states that "For *Albania*, projections were prepared prior to the first Post-Program Monitoring mission that ended on September 28 and therefore do not reflect updates made during the mission", the nominal GDP of the latest IMF mission (Post-Program Monitoring mission, conducted in September 2020) are taken in consideration, as following in the below table.

Forecasted nominal GDP of the MFE and IMF **(in billion ALL)**

	2018	2019	2020 *Fore.*	2021 *Fore.*	2022 *Fore.*	2023 *Fore.*
MFE	1 635,7	1 679,3	1 572,3	1 682,6	1 803,0	1 928,8
IMF - World Economic Outlook	1 635,7	1 678,4	1 572,5	1 682,8	1 803,8	1 929,9
Difference MFE - IMF (The difference of the forecasted values should not be higher than zero)	0,0	0,9	-0,2	-0,2	-0,8	-1,1

3. *The budget for each year includes a specific contingency of no less than 0.7% of total budget expenditure, to compensate potential risks from fluctuation of exchange rates or interest rates, affecting the debt level.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2021-2023 includes for each year, in a separate item labelled "Contingency on interest rate fluctuations, etc.", *a contingency of at least 0.7 percent of total expenditures.*

4. *Revenues from privatization are not part of the budget planning. In case of their collection, they are used not less than 50% for the public debt reduction, and the remaining part for investments*.

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2021-2023 *does not include revenues from potential privatizations.*

5. *The annual amount of the budget deficit cannot exceed the annual amount of capital expenditure, approved each year in the budget law.*

In accordance with this provision - "golden rule" - the OBL, the annual deficit targets in the fiscal framework for the period 2021-2023, *are lower than the planned capital expenditure.* Consequently, the targeted current balance is positive at an average of 3 percent of GDP in each programmed year.

6. *In each annual budget law starting from the year 2023 and onwards, the actual primary balance cannot be negative, it must be at least balanced or positive (primary surplus).*

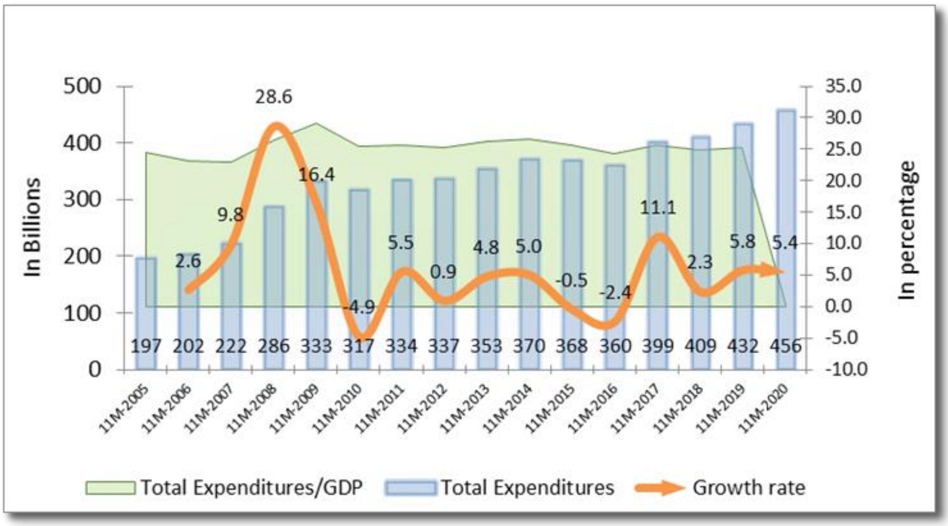
In accordance with this provision, the fiscal framework targets a positive primary balance of 0.6 percent in 2023 and 1.1 percent in 2024.

1. Link to access the WEO report - https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020

4.2. Budget implementation in 2020

General Public Expenditures, during the eleven-month period of 2020, reached the level of about ALL 455.69 billion, with a realization of 87.6 percent of the period's plan. Compared to the same period of 2019, this item resulted 5.4 percent higher or about ALL 23.4 billion more. In annual terms, total expenditures for the eleven-month period of 2020, were realized at 82.9 percent of the annual plan according to the Initial Budget and 78.6 percent according to Normative Act no.28, date 2.07.2020 (NA no. 28).

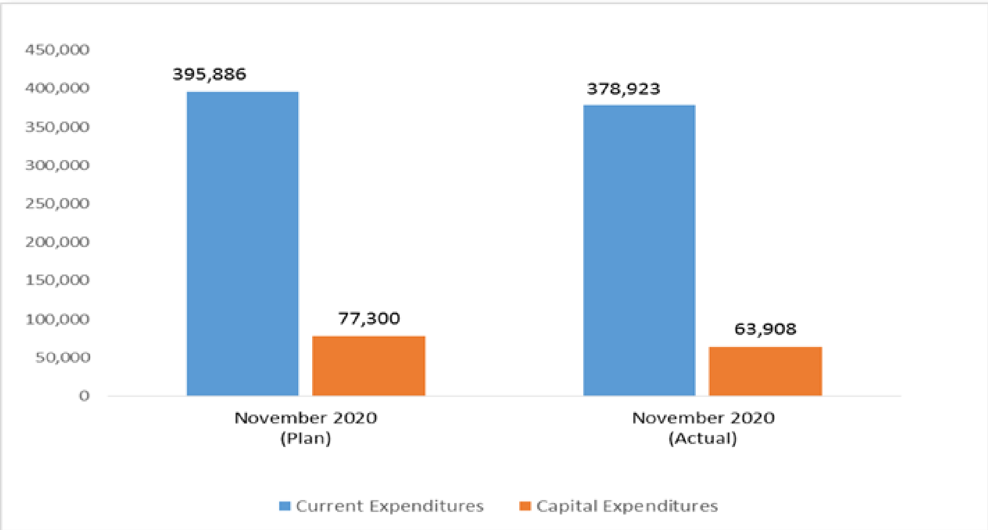
Chart 4.2.1: Total Expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy (2020)

Current and capital expenditures have marked a realization respectively at 95.7 percent and 82.7 percent of the period's plan. Meanwhile, *in annual terms* they were realized respectively: 85 percent and 78.3 percent of the Initial Budget, 85.8 percent and 72.8 percent of annual plan according to NA no. 28.

Chart 4.2.2: Current and Capital Expenditures Planned vs Actual 11M (in billion ALL)



Source: Ministry of Finance and Economy (2020)

Table 4.2.1: Consolidated fiscal indicators during the 11-month of 2020 (in million ALL)

Items	Nov-20		Difference		Year 2020			
	Plan	Actual	Actual-Plan	in % over Plan	Annual Plan Initial Budget	Annual Plan Normative Act no.28	% of annual realization Initial Budget	% of annual realization NA no.28
Total Revenues	399,450	382,842	-16,608	95.8%	509,675	446,570	75.1%	85.7%
Total Expenditures	520,178	455,688	-64,490	87.6%	549,374	579,535	82.9%	78.6%
Current Expenditures	*395,886*	*378,923*	*-16,963*	*95.7%*	*446,035*	*441,498*	*85.0%*	*85.8%*
Capital Expenditures	*77,300*	*63,908*	*-13,392*	*82.7%*	*81,639*	*87,837*	*78.3%*	*72.8%*
Deficit/Surplus	-120,728	-72,846	47,882	60.3%	-39,699	-132,965	183.5%	54.8%

Source: Ministry of Finance and Economy (2020)

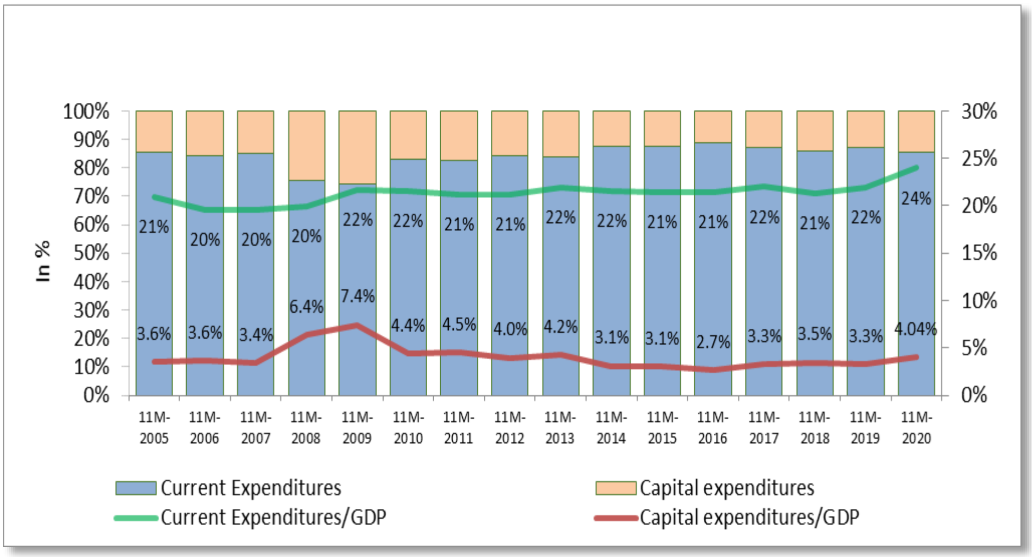
Table 4.2.2: Consolidated fiscal indicators during the 11-month of 2019 and 2020 (in million ALL)

Items	Actual November 2019	November 2020		Difference Actual Plan 2020	in % over Plan 2020	Difference Actual 2020 Actual 2019	in % over Actual 2019
		Plan	Actual				
Total Revenues	421,129	399,450	382,842	-16,608	95.8%	-38,287	90.9%
Total Expenditures	432,252	520,178	455,688	-64,490	87.6%	23,436	105.4%
Current Expenditures	*376,214*	*395,886*	*378,923*	*-16,963*	*95.7%*	*2,708*	*100.7%*
Capital Expenditures	*55,984*	*77,300*	*63,908*	*-13,392*	*82.7%*	*7,924*	*114.2%*
Deficit/Surplus	-11,123	-120,728	-72,846	47,882	60.2%	61,724	654.9%

Source: Ministry of Finance and Economy (2020)

For the eleven-month period of 2020:
- *Current expenditures* reached the level of about ALL 378.9 billion. Compared to the same period of the previous year, this item resulted 0.7 percent higher or about ALL 2.7 billion more.
- *Capital expenditures* represented a realization of about ALL 63.9 billion. Compared to the same period of 2019, this item results 14.2 percent higher or about ALL 7.92 billion more.
- *The deficit level resulted* to about ALL 72.8 billion from about ALL 120.7 billion planned. Compared to the same period of 2019 where the level of deficit amounted about ALL 11.1 billion, for the eleven-month period of 2020 the level of deficit results about ALL 61.7 billion more.

Chart 4.2.3: General Expenditure Structure and GDP ratio, for the 11-month period

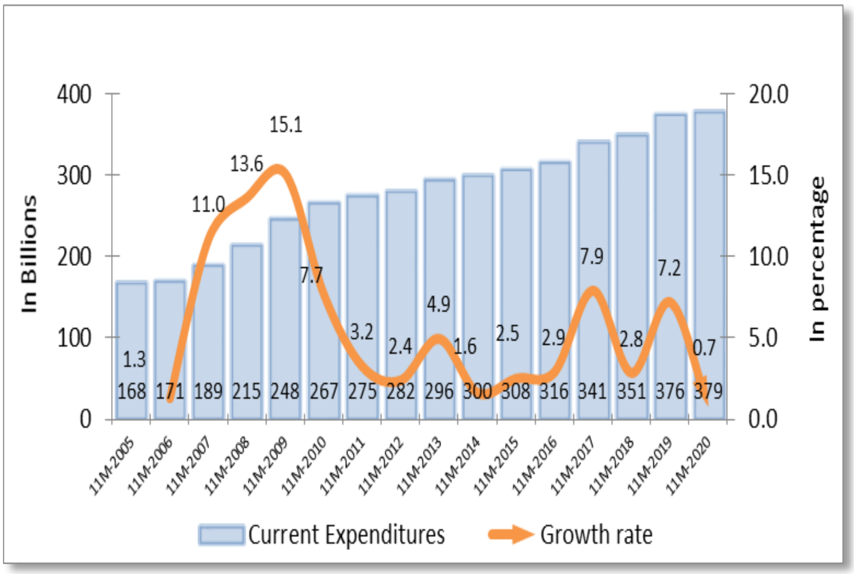


Source: Ministry of Finance and Economy (2020)

Current expenditures, in relation to the eleven-month plan of this year, represented a realization of 95.7 percent, resulting in about ALL 378.9 billion. The main items affecting their level of implementation to the eleven-month period plan, were respectively:

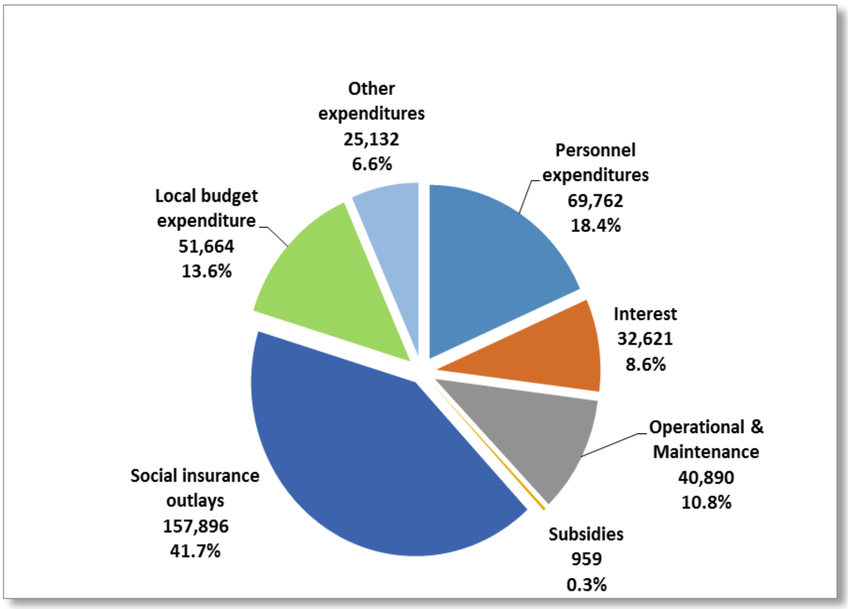
- Local Government expenditures: 107.6 percent of the period's plan, 89.8 percent of the Initial Annual Budget and 96.6 percent of the Annual Plan according to NA no. 28.
- Other social expenditures: 107.3 percent of the period's plan, 102.2 percent of the Initial Annual Budget and 101.3 percent of the Annual Plan according to NA no. 28.
- Interest expenditures: 96.4 percent of the period's plan, 79.7 percent of the Initial Annual Budget and 80.9 percent of the Annual Plan according to NA no. 28.

Chart 4.2.4: Current expenditures and growth rate (in billion ALL)



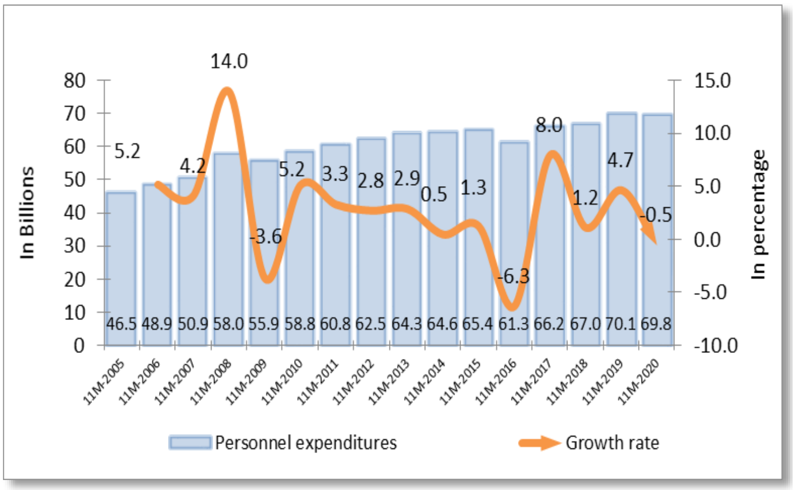
Source: Ministry of Finance and Economy (2020)

Chart 4.2.5: Current Expenditures Structure



Source: Ministry of Finance and Economy (2020)

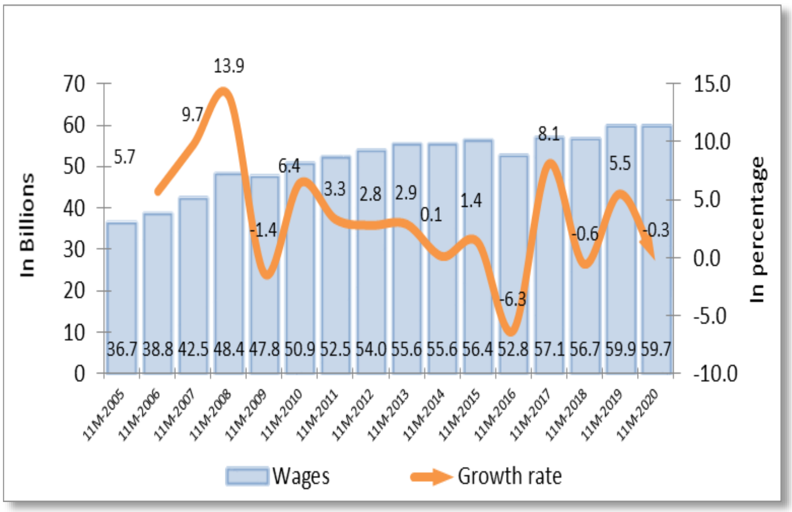
Chart 4.2.6: Personnel Expenditures and growth rate (in bn ALL)



Source: Ministry of Finance and Economy (2020)

__Personnel expenditures__, during the eleven-month period of 2020, represented 18.4 percent of the total current expenditures. Their actual level of about ALL 69.8 billion, realizes the forecasted level for this item in the eleven-month period, at 93 percent. Compared to the same period of 2019, this item results 0.5 percent lower or ALL 365 million less.

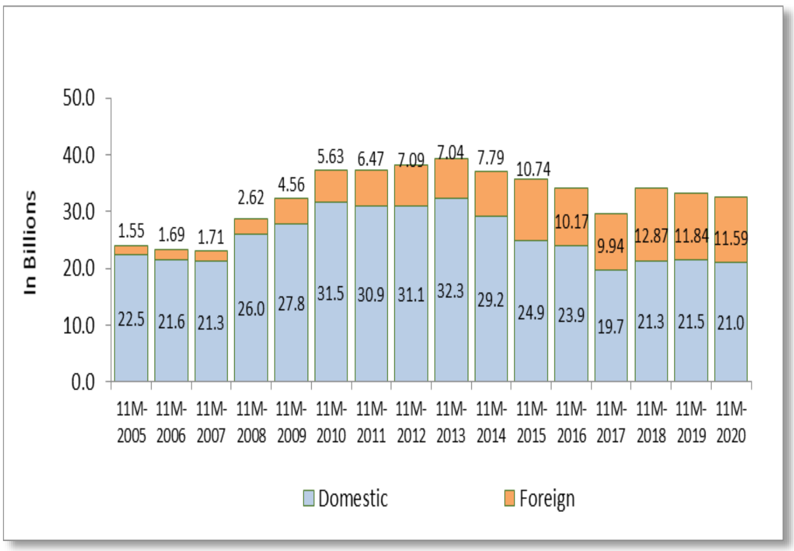
Chart 4.2.7: Wage expenditures and growth rate (in bn ALL)



Source: Ministry of Finance and Economy (2020)

__Wages expenditures__ at the end of November 2020, were realized at about ALL 59.7 billion, being 0.3 percent lower than the same period in 2019, or ALL 161 million less. Expenditures for social security resulted at 0.6 percent lower than the previous year or ALL 61 million less. The actual realization of these items together is 93 percent compared to the period's plan or 83.8 percent of the annual plan according to the Initial Budget and 85.2 percent according to NA no. 28.

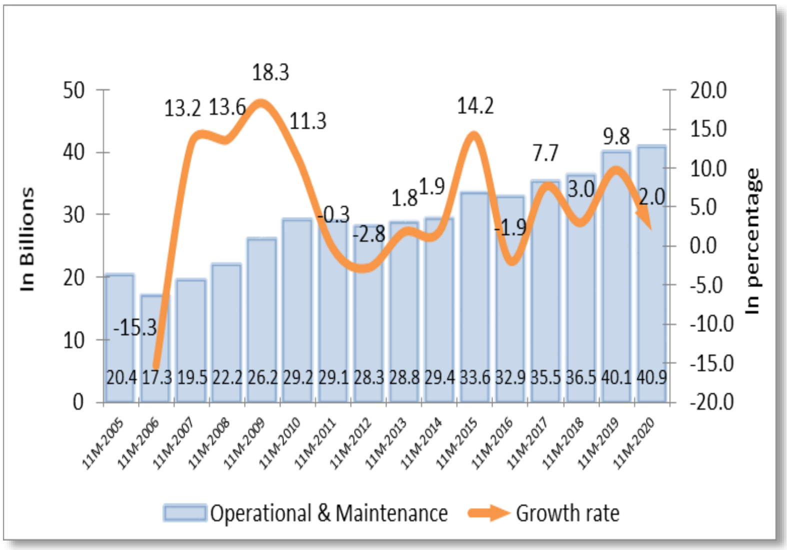
Chart 4.2.8: Interest Expenditures (in billion ALL)



__Interest expenditures__, during the eleven-month period of 2020 represented 8.6 percent of current expenditures. Their actual level of about ALL 32.6 billion, resulted at 96.4 percent of the period's plan. Compared to the annual plan, interest expenditures were realized at 79.7 percent of the annual plan according to the Initial Budget and 80.9 percent according to NA no. 28. Meanwhile, compared to the same period of 2019, this item resulted 2 percent lower, or ALL 673 million less.

Source: Ministry of Finance and Economy (2020)

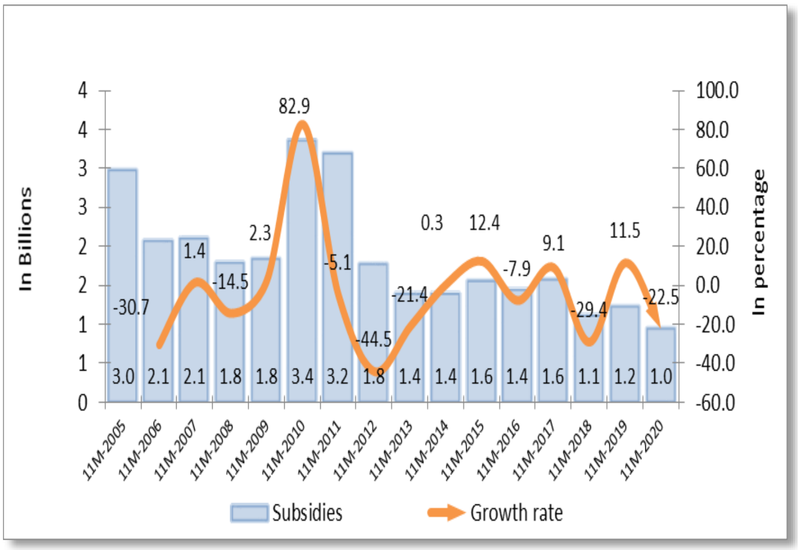
Chart 4.2.9: Operational and Maintenance expenditures and growth rate (in billion ALL)



__Operational and Maintenance expenditures__, for the eleven-month period of 2020, registered an actual level of ALL 40.89 billion, or 91.4 percent of the period's plan. In annual terms, operational and maintenance expenditures were realized at 82 percent of the annual plan according to the Initial Budget and 80 percent according to NA no. 28. Compared to the same period of 2019, this item resulted 2 percent higher, or ALL 788 million more.

Source: Ministry of Finance and Economy (2020)

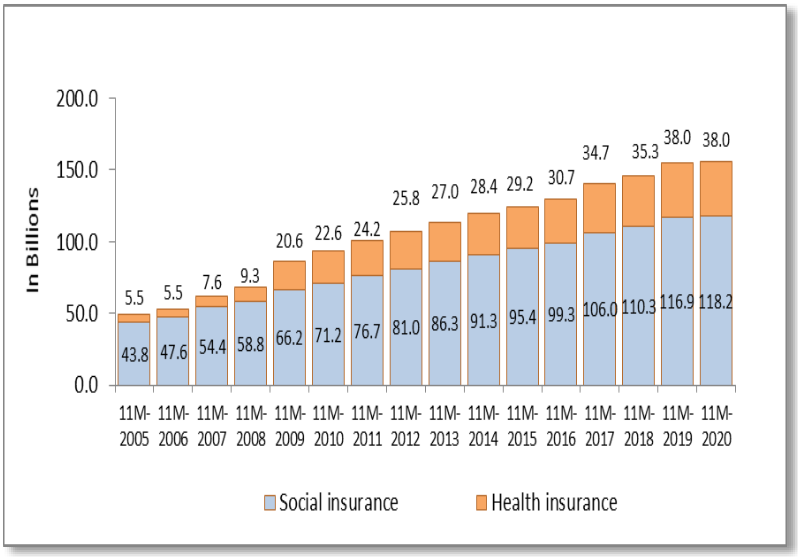
Chart 4.2.10: Subsidies Expenditures and growth rate (in billion ALL)



__Subsidies Expenditures__, for the eleven-month period of 2020, amounted at ALL 959 million, with a realization of 73.6 percent of the period's plan or ALL 345 million less in nominal terms. In relation to the annual plan, this item is realized 74.4 percent of the annual plan according to the Initial Budget and 62.3 percent according to NA no. 28, while for the same period of 2019 this item results 22.5 percent lower or ALL 278 million less.

Source: Ministry of Finance and Economy (2020)

Chart 4.2.11: Social and Health insurance expenditures (in billion ALL)

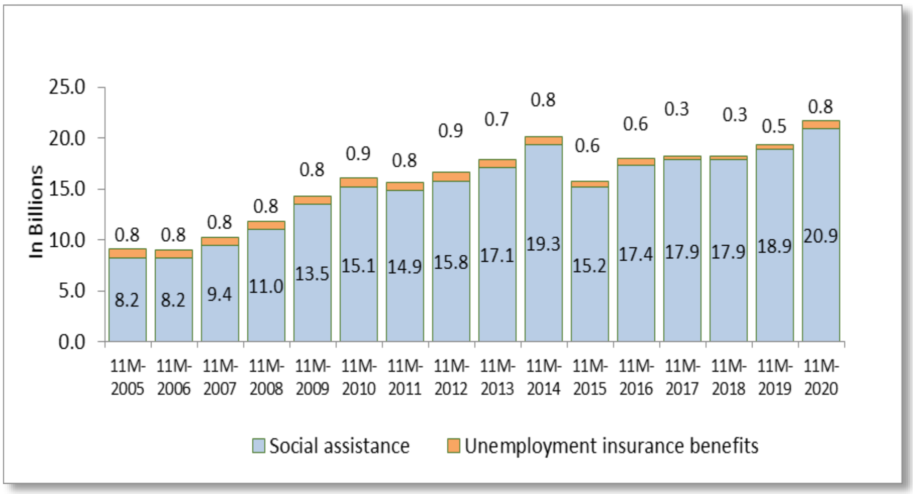


Expenditures for Special Funds for the eleven-month period of 2020 resulted ALL 157.9 billion, with a realization of 93.1 percent of the period's plan. Respectively:
- *Social insurance expenditures about ALL 118.24 billion,*
- *Health insurance expenditures about ALL 37.95 billion and*
- *Expenditures for owners' compensation at about ALL 1.7 billion.*

Source: Ministry of Finance and Economy (2020)

Compared to the same period of 2019, social insurance expenditures resulted ALL 1.3 billion more, health insurance expenditures ALL 78 million less and expenditures for owner's compensation at ALL 410 million less.

Chart 4.2.12: Social assistance and Unemployment expenditures (in billion ALL)



Source: Ministry of Finance and Economy (2020)

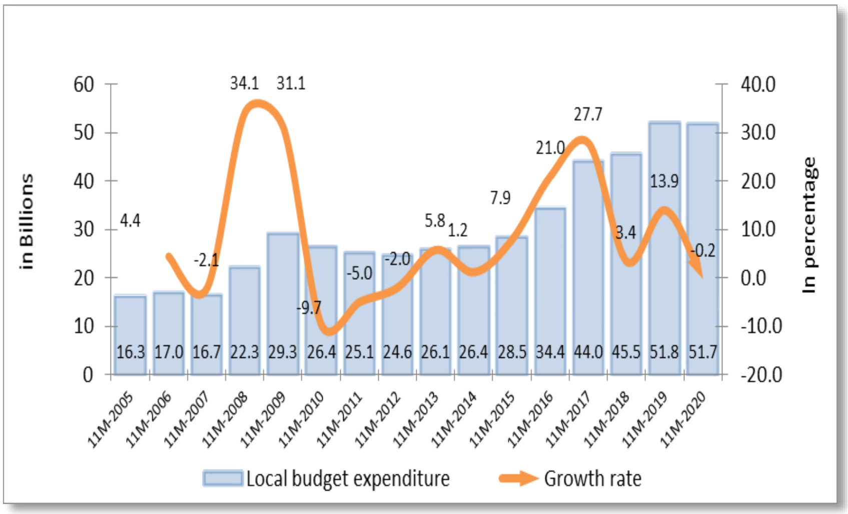
Unemployment Expenditures for the 11-month period of 2020 registered an actual level of ALL 803 million. Compared to the same period of 2019, expenditures for this item resulted in an increase of 73 percent or ALL 339 million more in nominal terms.

Expenditures for Social Assistance and Disability Payment (PAK) for the eleven-month period of 2020 were realized at ALL 20.87 billion, resulting 105.3 percent of the period's plan or about ALL 1.06 billion more. In relation to the annual plan they are realized at 99.4 percent of the annual plan according to the Initial Budget and NA no. 28. Compared to the same period of 2019, expenditures for this item resulted in an increase of 10.6 percent or about ALL 2 billion more, in nominal terms.

Expenditures for compensation for ex-political prisoners for the eleven-month period of 2020 were realized at ALL 938 million, resulting 103.7 percent of the period's plan or 93.8 percent of the annual plan according to the Initial Budget and NA no. 28. Compared to the same period of 2019, expenditures for this item resulted in an decrease of 18.7 percent or ALL 216 million less in nominal terms.

Expenditures for the birth bonus for the eleven-month period of 2020 were realized at ALL 2.52 billion, resulting 129.2 percent of the period's plan or 126 percent of the annual plan according to the Initial Budget and NA no. 28. Compared to the same period of 2019, expenditures for this item resulted ALL 397 million more in nominal terms.

Chart 4.2.13: Local Government expenditures and growth rate (in billion ALL)



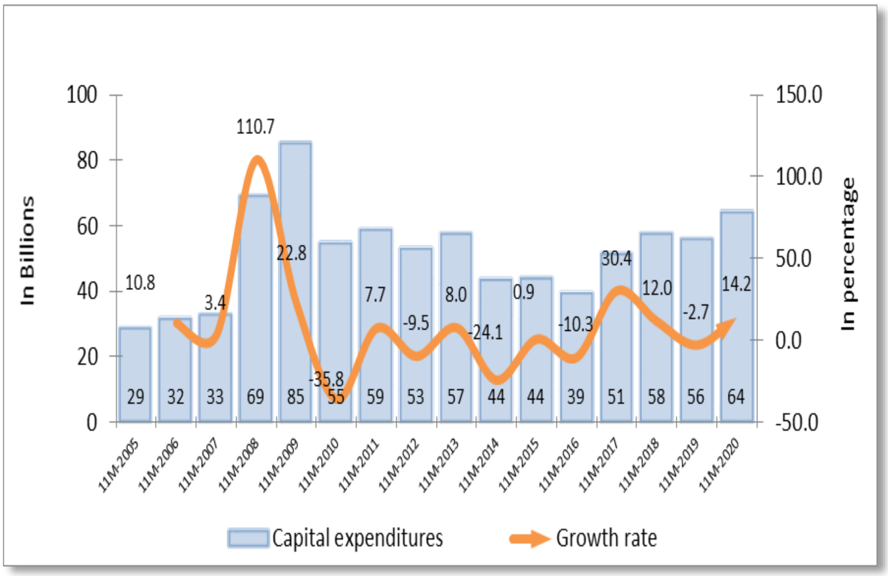
Expenditures for Local Government, for the 11-month period of 2020 reached the level of about ALL 54.66 billion. These expenditures constituted 13.6 percent of current expenditures. Against the same period of 2019, this level resulted 0.2 percent lower or about ALL 126 million less.

Source: Ministry of Finance and Economy (2020)

Capital expenditures, for the eleven-month period of 2020, were realized at about ALL 63.9 billion or 82.7 percent in relation to the funds planned for this period. Respectively, domestic investment projects were realized at about ALL 42.1 billion, resulting 80.2 percent of the period's plan, while those with foreign financing amounted to about ALL 20.9 billion, resulting 87.2 percent of the period's plan. Investments from higher-education revenues results in ALL 900 million.
Compared to the annual plan, for the 11-month period of 2020, has been ascertained a total realization of public investments of 78.3 percent of the annual plan according to the Initial Budget and 72.8 percent according to NA no. 28, respectively:

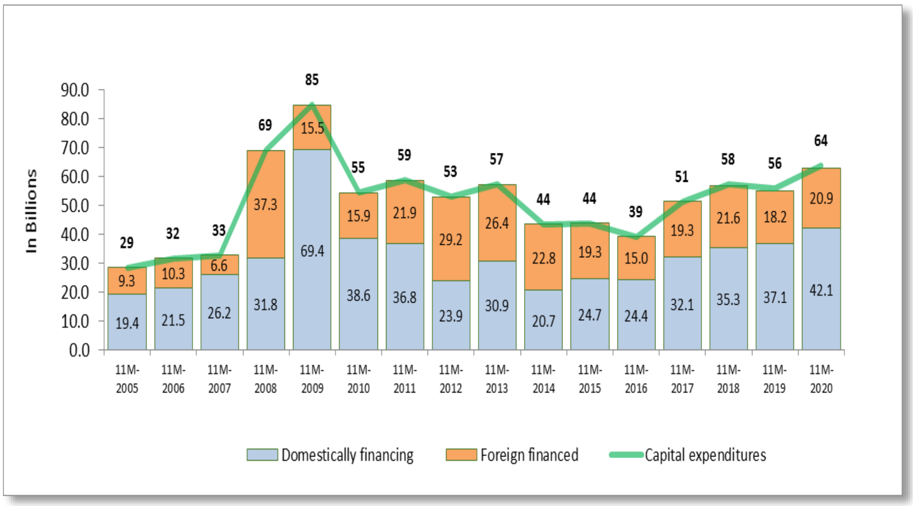
- Domestic financing is realized 82.1 percent of the annual plan according to the Initial Budget and 71.2 percent according to NA no. 28,
- Foreign financing is realized 71.3 percent of the annual plan according to the Initial Budget and 75.5 percent according to NA no. 28.

Chart 4.2.14: Capital Expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy (2020)

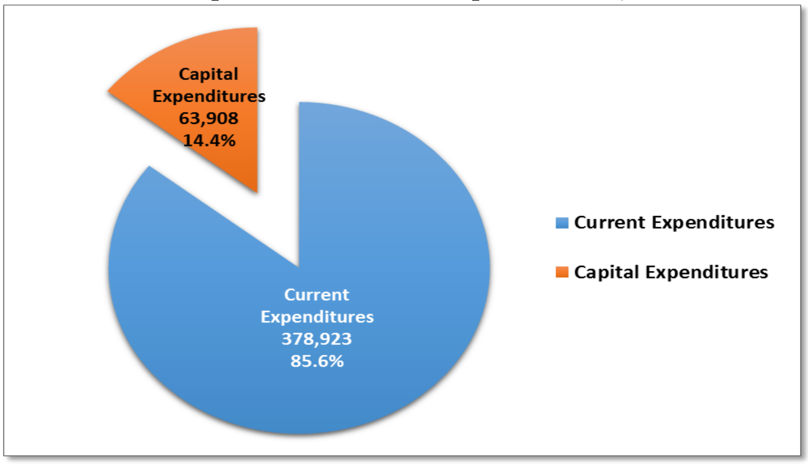
Chart 4.2.15: Capital Expenditures and Source of Financing (in billion ALL)



Source: Ministry of Finance and Economy (2020)

The chart below shows the actual allocation of public expenditures for the eleven-month period of 2020. Current expenditures constitute the main part of total actual expenditures or 85.6 percent of them. Meanwhile, capital expenditures constitute the other 14.4 percent.

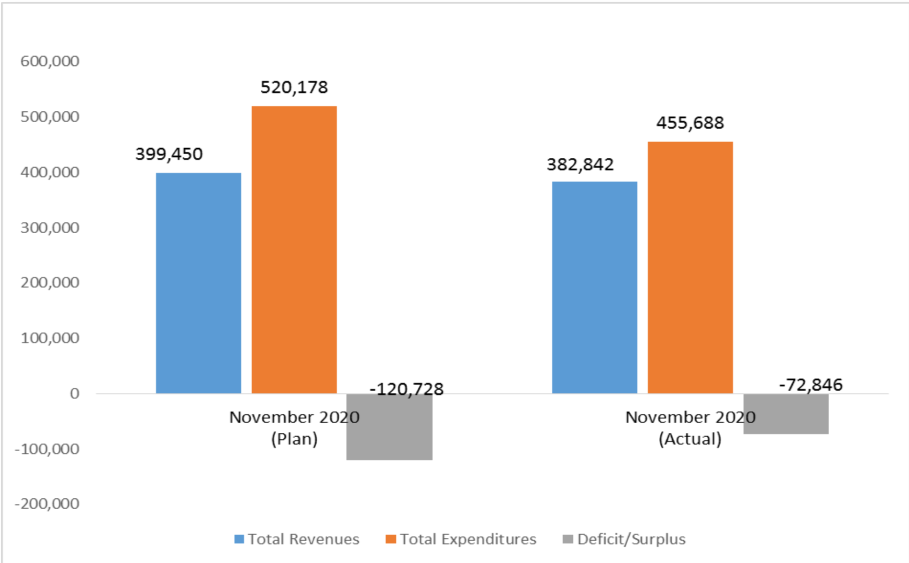
Chart 4.2.16: Capital and Current Expenditures (in million ALL)



Source: Ministry of Finance and Economy (2020)

As evidenced by the table of consolidated fiscal indicators, the realization of total expenditures for the eleven-month period of year 2020 was about ALL 455.69 billion or 87.6 percent against the period's plan. This situation is associated with a budget deficit of about ALL 72.8 billion. The chart below shows the trends of the main budget indicators.

Chart 4.2.17: Total revenues, expenditures and deficit - Planned vs Actual 11M 2020 (in million ALL)



Source: Ministry of Finance and Economy (2020)

Impact of Covid-19 on the 2020 Budget

Budget 2020 has been revised four times, with Normative Act (NA) no. 6 date 21.03.2020, NA no. 15 date 15.04.2020, NA no. 28 date 02.07.2020 and NA no.34 date 16.12.2020. These changes are made to support anti COVID-19 measures. The following funds have been added and reallocated:

- Contingency Fund for social package, anti Covid-19	ALL 13.5	billion
- Reserve Fund	ALL 2.7	billion
- Reallocation on MHSP for Anti Covid-19 measures,	ALL 2.5	billion
- Reallocation on MD for Anti Covid-19 measures,	ALL 1	billion
TOTAL	ALL 19.7	billion

Table 4.2.3: Anti COVID Reserve Funds 2020

000/ALL

No.	Beneficiary	Council of Minister Decision	Caption	Plan		Actual (31.12.2020)	
				Current Ex.	Capital Ex.	Current Ex.	Capital Ex.
1	Ministry of Health and Social Protection	No.240, dt 21.03.2020	"Per nje shtese fondi ne buxhetin e miratuar per vitin 2020 per Ministrine e Shendetesise dhe Mbrojtjes Sociale, per marrjen e masave per plotesimin e nevojave paraprake per infeksionin e shkaktuar nga COVID-2019"	46,106			
2	Ministry of Health and Social Protection	No .205, dt 9.03.2020	"Per nje shtese fondi ne buxhetin e miratuar per vitin 2020 per Ministrine e Shendetesise dhe Mbrojtjes Sociale, per marrjen e masave per plotesimin e nevojave paraprake per infeksionin e shkaktuar nga COVID-2019"	200,000	200,000	1,645,545	168,763
3	Ministry of Health and Social Protection	No.249, dt27.03.2020	"Per detajimin dhe menyren e perdorimit te fondit Anti COVID"	1,500,000	1,000,000		328,215
4	Ministry of Health and Social Protection	No.259, dt 27.03.2020	Për dhënien e ndihmës me personel shëndetësor për Republikën e Italisë"	11,000		18,432	
5	Ministry of Health and Social Protection	No.354, dt 29.04.2020	Për dhënien e ndihmës me personel infermier për Republikën e Italisë"	19,000			
6	Ministry of Health and Social Protection	No.371, dt 6.05.2020	"Per dhenie shperblimi per personelin qe sherben ne institucionet e perkujdesjes shoqerore rezidenciale publike, qe jane ne pergjegjesi administrimi te sherbimit social shteteror dhe te Bashkive"	12,700		28,093	
7	Ministry of Health and Social Protection	No.754, dt 23.09.2020	"Per nje ndryshim ne VKM. nr 371, dt 6.5.2020 te KM, "Per dhenie shperblimi per personelin qe sherben ne institucionet e perkujdesjes shoqerore rezidenciale publike, qe jane ne pergjegjesi administrimi te sherbimit social shteteror dhe te Bashkive"	20,570			
8	Ministry of Tourism and Environment	No.378, dt 8.5.2020	"Per nje shtese fondi ne buxhetin e vitit 2020, miratuar per Ministrine e Turizmit e Mjedisit, per mbulimin e shpenzimeve te akomodimit te personave qe riatdhesohen"	95,200		70,445	
9	Ministry of Defense	No.204, dt 9.03.2020	"Per marrjen e masave per ngritjen e infrastruktures per sherbimin e karantines"	13,824	11,000	13,824	5,330
10	Ministry of Health and Social Protection	No.254, dt 27.03.2020	Për përcaktimin e procedurave, të dokumentacionit dhe të masës së përfitimit të ndihmës financiare për të punësuarit në subjektet e biznesit me të ardhura vjetore deri 14 milionë lekë, ndihmës ekonomike e të pagesës të së ardhurës nga papunësia gjatë periudhës së fatkeqësisë natyrore, të shpallur si pasojë e COVID-19.	1,031,655		1,031,655	
11	Ministry of Finance and Economy	No.254, dt 27.03.2020 changed with No.284, dt 10.04.2020	Per disa ndryshime dhe shtesa ne VKM nr. 254 date 27.3.2020.	5,384,344		5,384,344	
12	Ministry of Finance and Economy	No. 305, dt 16.04.2020	Per percaktimin e procedurave te dokumentacionit dhe te mases se perfitimit te ndihmes financiare per te punesuarit aktuale dhe punonjesit e arguar nga puna si pasoje e COVID-19.	7,040,000		6,771,776	
			TOTAL	**15,374,399**	**1,211,000**	**14,964,114**	**502,308**
			TOTAL PLAN	**16,585,399**			
			GDP 2020	**1,580,960,000**			
			in % of GDP	**1.05%**			

Revenues for the period January – October 2020

Total revenues collected for the period January-October 2020 were about ALL 347.2 billion, marking a decrease of 9.5% or ALL 36.2 billion more than the previous year. Revenues from grants amounted to ALL 5.2 billion, or 29% of the yearly plan and ALL 1.6 billion more than the same period of the previous year.

Revenues collected by the General Department of Customs (GDC) and the General Directorate of Taxes (GDT), including social contributions collected by the GDT for the period January-October 2020, were ALL 304.1 billion, with a realization of 98.7% of plan and 9.7% or ALL 32.7 billion less than the same period last year. Compared to last year, revenues marked a decline as well result of the negative impact of the crisis caused by Covid-19, which forced the closure of economic activities in the second quarter and its reduction in the third quarter, especially in tourism, trade, etc. Also, the state support of the business to avoid its bankruptcy has given a negative effect on income, through legal measures for the postponement of large business tax payments and the raising of the tax rate for small and medium businesses.

Table: 4.2.4 Total Revenues from Tax & Custom Revenues in ALL million

Tax by type	Fact 10M 2020	Plan 10M 2020	Difference Actual-Plan	
			Value	on %
VAT	105,230	105,810	-580	-0.5%
Corporate Income Tax	22,240	23,427	-1,187	-5.1%
Excise Tax	36,123	36,363	-240	-0.7%
Personal Income Tax	28,826	32,324	-3,498	-10.8%
National Taxes and others	28,284	28,951	-667	-2.3%
Customs Duties	5,019	5,272	-253	-4.8%
Total tax revenues	**225,722**	**232,147**	**-6,425**	**-2.8%**
Contributions collected by GDT	78,418	75,885	2,533	3.3%
Grand total (GDT + GDC + Contributions)	**304,140**	**308,032**	**-3,892**	**-1.3%**

Source: Ministry of Finance and Economy

The main factors that have influenced the 10 months performance versus the plan are:
- Reduction of economic activity as a result of the Pandemic, beyond the forecasts according to the optimistic variant on which the revised budget was based. This is also reflected in the state budget revenues.
- Unfavorable exchange rate situation which reduces revenues from imports and exports of minerals.
- Continued decrease in international prices of minerals, mainly oil, which has reduced VAT on fuel imports and royalties on exports of crude oil and other minerals.

Revenues from the General Department of Customs reached ALL 123.4 billion, with a realization of 98.6% of the plan. Compared to the same period of 2019, there is a deficit for this period 8.8%, or ALL 12 billion.

Table: 4.2.5 Revenues collected by Custom Administration in ALL million

Tax by type	Fact 10M 2020	Plan 10M 2020	Difference Actual-Plan	
			Value	on %
VAT on Import	80,709	81,459	-750	-0.9%
Excise	36,123	36,363	-240	-0.7%
Royalty	1,503	2,063	-560	-27.1%
Customs Duty	5,019	5,272	-253	-4.8%
Grand total GDC	**123,354**	**125,157**	**-1,803**	**-1.4%**

Source: Ministry of Finance and Economy

Revenues from Value Added Tax on imports are ALL 80.7 billion with a realization of 99.1% of the plan with a decrease of ALL 8.4 billion or 9.4% compared to the same period last year. The performance of VAT on imports is influenced by several factors such as:
- The decline in taxable imports as a result of the economic situation of Covid-19 is reflected in the reduction of Value Added Tax revenues collected at customs. In the period January-October, taxable imports decreased by -8% compared to the 10-month period last year.

- Drastic reduction of fuel prices in international markets compared to 2019, which occupy a significant share of about 15% in the structure of VAT on imports, giving a negative effect of ALL 1 billion.

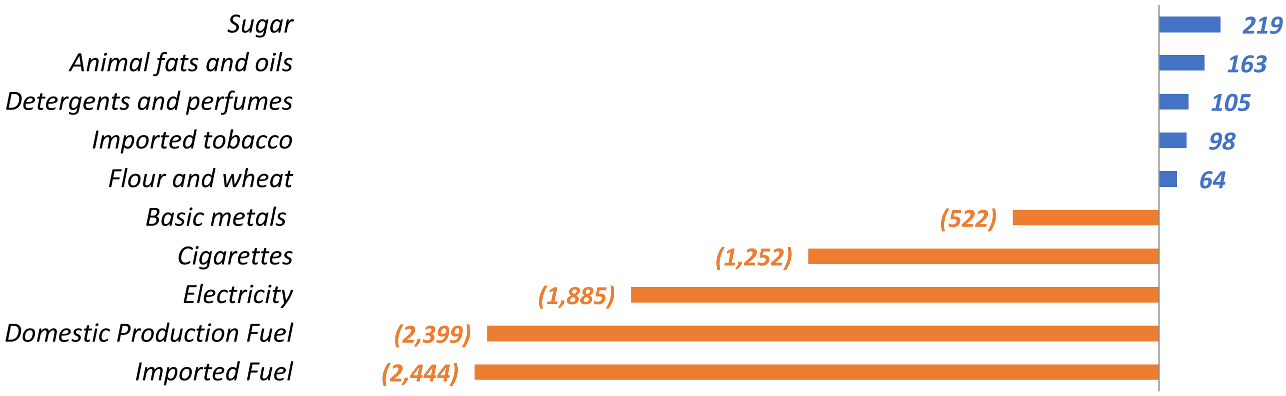
Revenues from excise tax are 36.1 billion ALL, with a realization of 99.3% of the plan or 7% less than the same period of 2019. The performance of excise for the period January - October is affected by several factors:
- Decrease of the produced amount of domestic fuel by 68.7% compared to a year ago, bringing a negative effect on excise by ALL -2.4 billion.
- Decrease of international crude oil price, leading to a reduction of revenues coming from excise duty of imported fuel by ALL -1.2 billion.

Reimbursed excise is ALL 0.5 billion or as much as 33% of reimbursed excise in the same period in 2019.

Revenue performance from Mineral Royalty during January-October 2020 was ALL 1.5 billion with a realization of 72.9% of the plan, marking a decrease of 26.6% or ALL 546 million less than the same period last year. The performance of Mineral Rent has been influenced by several factors such as:
- The decrease in the price of crude oil in international markets, with an effect of -510 million ALL, but this decrease was accompanied by the decrease in the amount of crude oil exported by -3000 thousand tons, which has brought a negative effect on rents by -11 million ALL
- The decrease in the amount of exported minerals by 8.9%, with an effect of ALL 35 million, an effect that has been accompanied by a slight decrease in the price of minerals in international markets (-1.9%), with an effect of ALL 11 million

Revenues from customs duty were ALL 5 billion ALL, with a realisation of 95.2% of the plan and 6.3% or ALL 253 million less than the same period of the previous year.

Chart 4.2.16 Main contributors to customs revenues (January - October 2020/2019)



Source: Ministry of Finance and Economy

Revenues collected by the General Directorate of Taxes (including social and health insurance contributions collected by the GDT) for the period January-November 2019 are 220.8 billion ALL, with a realization of 98.8% of the plan and 3.9% or 8.3 billion ALL more than the same period a year ago. The following table shows detailed data regarding tax performance:

Table 4.2.6 Revenues collected by GDT in ALL million

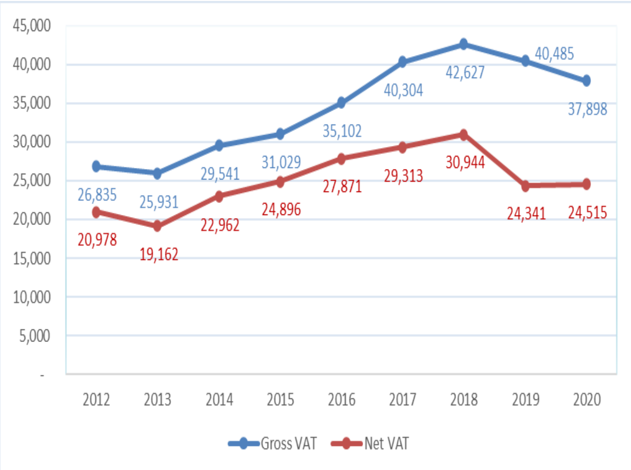
Tax by type	Fact 10M 2020	Plan 10M 2020	Difference Actual-Plan

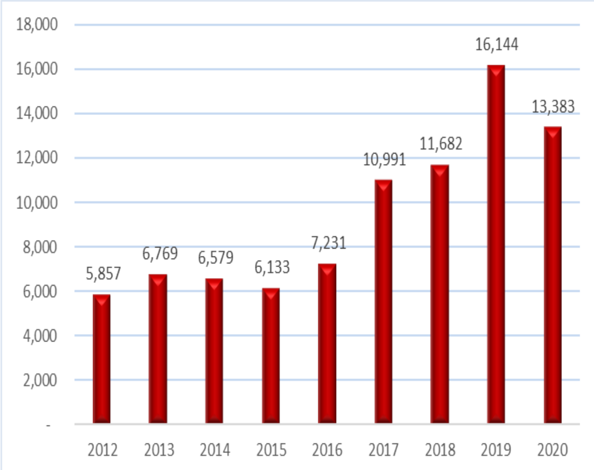
			Value	on %
Domestic Net VAT	**24,521**	**24,351**	**170**	**100.7%**
Gross VAT	37,907	41,751	-3,844	90.8%
Reimbursement	13,386	17,400	-4,014	76.9%
Coorporate Income Tax	22,240	23,427	-1,187	94.9%
Personal Income Tax	28,826	32,324	-3,498	89.2%
National Taxes	26,781	26,888	-107	99.6%
Total tax revenues	**102,368**	**106,990**	**-4,622**	**95.7%**
Contributions collected by GDT	78,418	75,885	2,533	103.3%
Grant total GDT revenues	**180,786**	**182,875**	**-2,089**	**98.9%**

Source: Ministry of Finance and Economy

Revenues from domestic Net VAT are ALL 24.5 billion, with a realization of 100.7% against the plan and ALL 180 million or 0.7% more than 10-months of 2019. In the period January-October 2020, the amount of VAT refunded is 13.4 billion ALL, about 16.9% or 2.8 billion ALL less than the same period of 2019. The negative performance in VAT revenues comes as an effect of the reduction and contraction of the activity of companies as a result of Covid-19.

Chart 4.2.18 VAT performance during 10 months 2020 Chart 4.2.19 VAT refunds during 10 months 2020

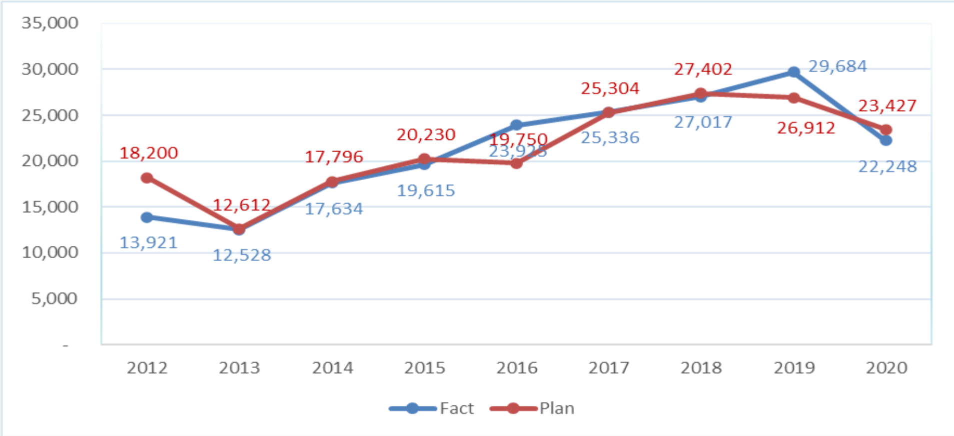




Source: Ministry of Finance and Economy

Revenues from Profit Tax were realized in the amount of ALL 22.2 billion with a realization of 90.8% of the plan, marking a decrease of ALL 25.1% or ALL 7.4 billion less than the same period of the previous year. This performance of Profit Tax revenue comes as a result of extension profit tax payments to companies in accordance with measures taken by government and business assistance.

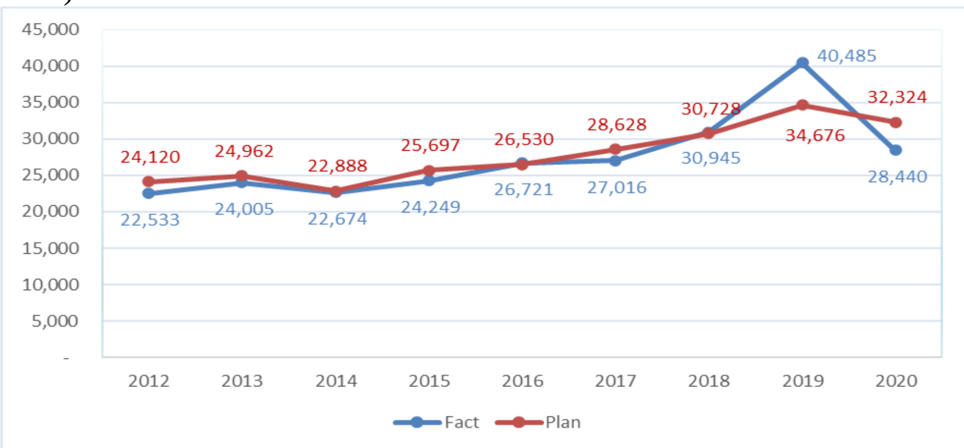
Chart 4.2.20 Profit Tax performance during the years for 10 months' period (in million ALL)



Source: Ministry of Finance and Economy

Revenues from Personal Income Tax were realized with 28.8 billion, with a realization of 89.2% of the plan with a decrease of 28.8% or 11.7 billion ALL compared to 2019. The main factor in the non-realization of Personal Income Tax is the reduction of the number of employees as a result of the crisis caused by Covid-19 and also, the reduction of the duration of work due to the measures taken for the current situation.

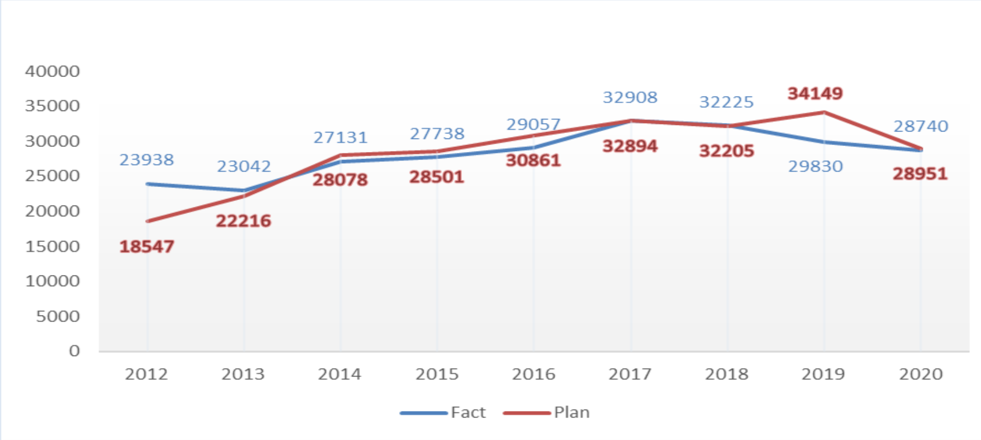
Chart 4.2.21 Personal Income Tax Revenues for the 10 months of 2020 (in million ALL)



Source: Ministry of Finance and Economy

Revenues from the National Tax for 2020 was 26.8 billion ALL, with a realization of 99.6% of the plan.

Chart 4.2.22 Profit tax performance during the years for 10 months' period in mn ALL



Source: Ministry of Finance and Economy

Revenues from contributions collected by GDT reached the value of ALL 78.4 billion by 3.3%, or ALL 2.5 billion more than planned and a decrease of only 1% or ALL 0.8 billion compared to 2019.

4.3. Budget plans for the ERP submission year

Expenditure forecast for 2021 and 2022 (main items)

Total public expenditures for 2021 are projected at ALL 587.6 billion or 34.9% of GDP, and for 2022 are projected at ALL 568.88 billion or 31.5% of GDP.

Personnel expenditures for 2021 reflect the current cost of Public Administration as well as the current cost of institutions created to support justice reform. Total expenditures for salaries and insurance of public administration are projected at ALL 91.8 billion or 5.5% of GDP and for 2022 are projected at ALL 92.1 billion or 5.1% of GDP. Of which, the value of ALL 8 billion for 2021 and onwards is foreseen for new salary policies in the education and health sector.

Interest expenses are projected at ALL 43.8 billion, or 2.6% of GDP for 2021 and ALL 49.4 billion, or 2.7% of GDP for 2022, to cover any potential risk of interest rate hikes.

Operating and maintenance expenditures for the central government for 2021 are projected at ALL 49.2 billion or about 2.9% of GDP and for 2022 are projected at ALL 51.9 billion or 2.9% of GDP. These expenditures are planned to provide priority support to existing central government policies, such as the farmer scheme, maintenance of the national road network and maintenance of information technology systems.

Local budget expenditures for 2021 are projected at 56.3 billion ALL, with an increase of 5.3% more than 2020. These expenditures for 2021 are 3.3% of GDP, from 2.3% in 2013 and for 2022 are projected at 58.07 billion ALL. The main source of growth of local expenditures for 2021 is driven mainly by the increase of revenues from local taxes and fees, as well as by the increase of unconditional transfer. The unconditional transfer of the state budget to local government units will be 1 percent of GDP.

Expenditures of special funds, which include total expenditures for the Social Insurance and Health Fund and compensation to former owners, for 2021 are planned at ALL 193.97 billion, and for 2022 are planned at 203.17 billion. The level of expenditures for the Social Insurance Scheme for 2021 is projected at ALL 142.2 billion or 8.5% of GDP. From this fund, the increase of pensions is foreseen ALL 2.4 billion. Meanwhile, the expenditures of the Health Insurance Scheme for 2021 are projected at ALL 46.3 billion or 2.8% of GDP from ALL 43.8 billion that were projected in 2020.

And finally, the expenditures for the owners' compensation fund, in total, are projected at ALL 3 billion or 0.2% of GDP.

Other social expenses include funding for unemployment benefits, disability, social assistance, reimbursement for ex-political persecutors, and the "Baby Bonus."
- Expenditures for unemployment benefits are estimated at the level of ALL 800 million.
- Expenditures for the payment of social assistance and disability are projected at ALL 22.2 billion or 1.3% of GDP.
- A fund of ALL 1 billion or 0.1% of GDP is provided for ex-political persecuted.
- A fund of ALL 2.2 billion or 0.1% of GDP is foreseen for the "Baby Bonus".

Subsidy expenditures are projected at ALL 1.55 billion, slightly increasing compared to 2020. These expenditures support the water and sewerage sector based on its performance, as well as to cover part of the costs of railway activity, service activities government and stimulate employment.

The level of the Reserve Fund for 2021 is planned at 4 billion ALL, respectively 3 billion ALL the Reserve Fund of the Council of Ministers and 1 billion ALL to cover the cost for the 2021 parliamentary elections.
Public investments for 2021 are projected at the level of 7.2% of GDP or ALL 120.69 billion (including ALL 2.3 billion in support for the energy sector) and for 2022 are projected at the level of 4.7% of GDP or ALL 85.2 billion. All contractual obligations for investment projects with external financing and internal financing are taken into account in investment planning for 2021. As in 2020, and in 2021, financing for on-going projects will be a priority. Investment planning complies with the following criteria:
- Priorities of the Government Program for the period 2017 - 2021;
- European integration priorities;
- Ongoing projects;
- Local cost and VAT support for externally funded projects.

4.4. Medium-term budgetary outlook

Tax revenue forecast for 2021 has considered all relevant factors affecting the budget, especially the economic situation created by the Covid 19 pandemic, including the effect of new fiscal policies aimed at economic recovery.
Revenue programming for 2021, supports the goals of the Ministry of Finance and Economy for fiscal recovery, as well as keeping the budget deficit and public debt under control. This program is based on improving fiscal administration and minimizing informality in the economy, thus supporting economic recovery, as well as boosting production and exports.
The revenue programming methodology is based on contemporary programming models, and on the detailed analysis of the factors that affect each tax. The model used is based on macroeconomic forecasts for 2021 such as nominal growth, deflator, analysis of imports of major product groups, time series analysis and models based on the coefficient of elasticity "Buoyancy" and "Effective Tax Rate" for each tax.
Macroeconomic factors are harmonized in the planning, with the main indicators affecting specific taxes. In detail, the main indicators for estimating income are:
- Nominal GDP growth, analyzing this effect in an integrated manner with other factors for each tax in particular, related to historical data and price projections in international markets to ad-valorem taxes such as Value Added Tax, Mining royalties and customs duties.
- Expected exchange rate of the two main currencies: USD and EURO with Lek;
- Stock prices that affect VAT revenues and royalties;
- Expected quantities of import of goods.

Total Revenues collected from GDC and GDT (including social security) contributions are estimated to be ALL 412.5 billion, or ALL 31.6 billion (8%) more than the preliminary 2020. Revenues from GDC and GDT for 2021 are estimated to be ALL 316.2 billion, or ALL 26.2 billion (9%) more than the preliminary 2020, while revenues from social contributions are estimated to be ALL 96.3 billion or ALL 5.4 billion (6%) more than the fiscal year 2020.

Table 4.4.1 Total Revenues from Tax & Custom Administration in ALL millions

Tax by type	2018	2019	2020 Preleminary	2021 Plan	Difference 2021-2020	
					Value	In %
Total Net VAT	143,464	132,412	130,760	145,983	15,224	12%
Corporate Income Tax	34,461	36,575	30,390	33,577	3,187	10%
Excize Tax	44,987	46,742	45,300	49,596	4,296	9%
Personal Income Tax	36,517	46,124	41,080	41,587	508	1%
National Tax	38,673	36,423	36,010	38,756	2,746	8%
Customs Duty	6,217	6,482	6,462	6,672	211	3%
Total GDT+GDC	**304,318**	**304,758**	**290,000**	**316,172**	**26,172**	**9%**
Contributions (collected by GDT)	91,850	98,300	90,900	96,300	5,400	6%
GRAND TOTAL GDT+GDC	**396,168**	**403,058**	**380,900**	**412,472**	**31,572**	**8%**

Source: Ministry of Finance and Economy

Customs revenues are projected based on the historical trend analysis of 60 major product groups over a multi-year period. This forecast is corrected by the effects of other external factors on each tax. The same procedure was followed for tax revenues, taking into account the statistical model of the projection of expected revenues as well as the exogenous factors influencing each tax.

External factors that have been taken into consideration in the impact of revenue growth for 2021 are:

Macroeconomic framework

Nominal Gross Domestic Product growth, discounted by the Coefficient of Elasticity, is applied by analysing this effect in an integrated mode with other factors for each tax in particular, related to historical data and price projections in international markets to ad taxes -valorem as Value Added Tax, Mineral Rent and Customs Tax. The projection includes factors related to nominal GDP growth, the average exchange rate EURO-Lek and USD-Lek, as well as Brent crude oil and other mineral prices.

Effects of fiscal policies

No major changes in fiscal framework are forecasted to happen in 2020. Revenue programming for 2021, supports the goals of the Ministry of Finance and Economy for fiscal recovery, as well as keeping the budget deficit and public debt under control. This program is based on improving fiscal administration and minimizing informality in the economy, thus supporting economic recovery, as well as boosting production and exports.

The priority will be implementation and measuring the effects of fiscal policies implemented during 2020. It's important to enhance that it is needed to consolidate fiscal stability simulating simplicity, transparency, cost reduction for administration and also avoidance of exceptions and favourable tariffs.

The main difference is linked with the Law "On invoice and circulation monitoring system", which is expected to affect transparency and control of economic transactions, of which tax liabilities arise. Real time transaction from business to business and then business to consumer using electronic system, aims to increase domestic net VAT.

- Reduction of the obligation to pay Simplified Profit Tax for businesses with a turnover of 5-8 million ALL. This change is expected to bring an effect on the state budget of -0.35 billion ALL.
- Coorporate Income Tax of 0% for bussineses with yearly turnover from ALL 8 – 14 million. This change is expected to bring an effect on the state budget of -0.3 billion ALL.
- Increasing the VAT threshold from 2 million to 10 million. Businesses with incomes up to 10 million ALL, will not pay Value Added Tax. This change is expected to bring an effect on the state budget of 3-4 billion ALL.
- Increase of the minimum wage for the purpose of calculating the contributions from 26 thousand ALL to 30 thousand ALL is expected to bring effect on the revenues of 2021 for about 3 billion ALL.

Revenue forecast for each tax for 2021
VAT revenues are projected to reach ALL 146 billion, ALL 15.2 billion, or 11.6% more than in 2020. The main source of VAT revenue growth for 2020 is expected to be:
- VAT to be generated as a result of economic recovery;
- VAT from the increase in the volume of imports and the conjuncture of international prices;
- VAT from improved administration, fight against informality and control of the chain of transactions between operators.

Excise revenues are projected to increase by ALL 4.3 billion, or 9.5% more than the previous year, with a total value of ALL 49.6 billion. The main factors that are projected to affect the increase in excise revenues are as follows:
- Increasing the import of solid goods such as fuels and cigarettes.
- Strengthening the fight against informality, through rigorous control of excise entities. Further discipline of the procedures for obtaining exemptions and refunds from this tax.

Revenues from Profit Tax are projected to be realized in the amount of ALL 33.6 billion, ALL 3.2 billion 10.5% more than the previous year 2020, as a result of:
- In the recovery of the economy and its growth, which will be reflected in the declarations of taxpayers.
- Strengthen statement control, based on risk criteria.

Personal Income Tax revenues are projected to be realized at ALL 41.6 billion, ALL 0.5 billion, or 1.2% more than in 2020. The assessment of Personal Income Tax revenues is made taking into account factors such as growth economic impact and its impact on the average wage level as well as the increase in the number of employees in the private sector, based on the performance of 2019, as well as incentives to promote employment based on the support package for employment growth Covid-19.

Revenues from National Taxes are estimated to be realized at ALL 38.8 billion, ALL 2.6 billion, or 7.4% more than the previous year 2020.

Revenues from Customs Tax are projected to be ALL 6.6 billion, ALL 212 million, or 3.3% more than fiscal year 2020. In revenue planning, the effects of increased taxable imports are taken into account, as well as some minimal effects from change of Customs Tax.

Revenues from Social and Health Insurance Contributions collected by the GDT are considered to be realized at ALL 96.3 billion, 5.4 billion, or 5.9% more than fiscal year 2020. Planning to increase revenues from Social and Health Insurance Contributions is supported by these factors:
- Economic recovery which will be reflected in the increase in the number of employees;
- Strengthening the administration through control of the declared salary level and its deviation from the real salary received;

- Increasing the minimum wage from 26 thousand to 30 thousand ALL with an annual income effect of about 3 billion ALL.

Fiscal risks

Regarding the forecast of tax and customs revenues, fiscal risks for 2021 consist of:

- Extension of the pandemic situation and its unforeseen real effects. Estimated risk in reducing payments for taxes and contributions around -5 to -7 billion ALL
- Unforeseen financial results to be declared by companies in the financial balance sheets of 2020, which may impact the payments of 2021. The estimated risk is around -2 to -3 billion ALL.
- Failure to approve from January 1 the increase of the minimum wage and its postponement. Risk 1 billion ALL if postponed for three months and ALL 2 billion if postponed for 6 months.
- The total potential risk related to revenues is estimated at -8 to - 11 billion ALL.

AGRICULTURE AND RURAL DEVELOPMENT

Priorities 2021-2023

The priorities of the agricultural sector, for the medium term 2021-2023, are as follows:

- Ensuring food safety, animal health and welfare, and plant health through the adoption of relevant EU standards in the domestic normative framework;
- Consolidation of ownership over agricultural land, sustainable management, protection from damage, erosion, misuse and other factors;
- Promoting the land market and consolidating the agricultural farm by increasing the area and promoting cooperation;
- Supporting farmers through the new excise exemption scheme, turnover tax and fuel carbon tax for agricultural production.
- Sustainable development of the fisheries and aquaculture sector, responsible use of fishery resources and capacities of the fishing fleet as well as the establishment of a control and inspection system for fishing at sea, on land and throughout the market chain.

ECONOMIC DEVELOPMENT

Priorities 2021-2023

During the period 2021-2023 the priorities in the field of supporting economic development will be:

- Promotion of Albania as an investment destination through the organization and participation in international fairs and promotional road shows, visits to companies (after care), in the framework of the implementation of activities for the creation of regional economic zone / MAP REA and effective monitoring of strategic investments;
- Successful undertaking of promotional activities for the promotion of foreign investments and "Made in Albania" products;
- Increase efforts to reduce the informality of micro-enterprises, small and medium-sized enterprises, as a key barrier to access to SME financing.

INFRASTRUCTURE AND ENERGY

Priorities 2021-2023

- Expanding the national road network through the construction, rehabilitation and systematization of national roads and in addition the transition to performance-based road maintenance practices;
- Based on the overall objective of the Transport Sector Strategy and Action Plan 2016-2020, aims to: (i) further develop the national transport system, (ii) significantly improve its sustainability, interconnection, interoperability and wider integration, with the international and European transport system and the region;
- Expanding access to and quality of drinking water and sanitation services through: (i) a public investment portfolio; and (ii) radically improving the management of water and sewerage joint stock companies by standardizing the principles of sector governance.

HEALTH

Priorities 2021-2023

- The Ministry of Health and Social Protection in the health sector will prioritize:
- Financing of health services (primary and hospital);
- Sustainability and improvement of the financial situation of health and social protection institutions, through the effective use of funding sources, strengthening expenditure control;
- Increasing the cost-effectiveness of the list of reimbursable drugs and equipment;
- Financing of approved hospital service packages in public and non-public hospitals;
- Payments for health care, according to international agreements signed;
- Intensification of work for the costing of new health services, in health care, with the aim of changing the way of financing health services;
- Funding of the basic medical examination service for at least 50% of the number of citizens aged 35-70 years.

SOCIAL PROTECTION

Priorities 2021-2023

In the field of social protection, the Ministry of Health and Social Protection aims to successfully implement the reform of the social care program in its three main pillars: Social Assistance, Disability and Social Services. More specifically it aims at:

- The number of families and individuals in need that are expected to benefit from the economic assistance scheme is projected to be on average 66 thousand beneficiaries per year during the period 2021-2023.
- The number of beneficiaries from PWDs and their guardians is projected to increase from 172.4 thousand in 2021 to 174 thousand in 2023.
- The support of persons from disadvantaged groups through employment in social enterprises is intended that in the period 2021-2023, be realized by employing 250 people in 2021, 300 people in 2022 and 350 people in 2023.
- Also, the creation of the social fund aims to support local self-government units to provide 20 new territorial social services to groups in need and to support SA families with social health packages.

SOCIAL INSURANCE

Priorities 2021-2023

In the field of Social Insurance, for the period 2021-2023 it is intended:

- Ensuring the fullest possible coverage of the population of the country with elements of compulsory social insurance, kept at acceptable levels.
- Continue the implementation of the pension reform and improve the efficiency of the SSI in the management of mandatory, supplementary and program social insurance funds.
- Improving the management of the social security scheme, especially the collection of contributory income and their fair distribution in the form of benefits, where and when the right arises.
- Placing insured persons and improving service to them, at the center of its activity. Deepening the process of modernization and facilitation of service provision In this context, meeting the requirements of applicants no later than 30 -35 days from the date of application.
- Active support for Albanians living and studying abroad, giving priority to countries where there is more Albanian presence.

EDUCATION, SPORTS AND YOUTH

Priorities 2021-2023

The Ministry of Education, Youth and Sports will continue its integrated measures to support basic, secondary and higher education, orientation of curricula to the needs of the labor market and their modernization, as well as support for training and employment of special categories. For the period 2021-2023, the Ministry of Education, Sports and Youth will finance with priority:

- Increasing the number of children attending preschool education and the inclusion of the preparatory class in compulsory education;
- Reducing the number of collective classes;
- Providing transportation, covering the transportation costs of students who have their place of residence more than 2 km from the school, as well as transportation for about 12 thousand teachers working over 5 km from the place of residence / permanent work center in the school;
- Providing free textbooks for students attending basic education, as well as free textbooks for students from social strata in need in upper secondary education;
- Providing financial scholarships or food quotas for students with special needs as well as children most influential in reducing school dropout, pre-university education students from social strata in need;
- Designing specific programs for the education of disadvantaged groups. By 2022, every Roma and Egyptian child will be enrolled in school, 100% of them will complete compulsory education and 70% more Roma and Egyptian girls and boys will complete all levels of education.
- Improving school infrastructure, schools and new dormitories according to European standards;
- Increasing the number of psycho-social service employees in the pre-university education system;
- Implementation of curricula based on standards comparable to EU countries, through: implementation of the new curriculum throughout the pre-university education system as well as preparation of specific textbooks for national minorities;
- Strengthening ICT in education, through: drafting a platform and national action plan for the implementation of ICT in education and creating a sustainable, widely used digital resource infrastructure in schools;
- The Pact for Universities through priority funding for the establishment of infrastructure and investments in university campuses and the Student Support Fund, to cover the costs of scholarships for students from socially disadvantaged backgrounds, as well as students of excellence in public HEIs, as well as exclusion or reduction of annual tuition fees for students of excellence or students of social categories in need;
- Education through sports as an effective factor in improving the health and well-being of citizens by providing a quality service through elite sports and sports as a whole in educational institutions thus contributing to strengthening the status of Albanian youth in all areas of life.

VOCATIONAL EDUCATION AND EMPLOYMENT

Priorities and objectives during the period 2021-2023 aimed at the field of vocational education and employment are:

Priorities 2021-2023

- Modernization of the existing VET legal framework governing the VET system, as well as aspects related to VET (drafting of curricula, teaching materials, teacher training, etc.) in implementation of the Albanian Qualifications Framework;
- Capacity building and increase of Agency staff;
- Realization of a quality teaching process with optimal learning conditions, theoretical and practical, giving students the necessary competencies;
- Review of existing programs and design of new programs in accordance with the principles of gender equality and inclusion in the implementation of the Albanian Qualifications Framework. Drafting standards of professions and qualifications according to the levels of the ACC;
- Developing the competencies of VET teachers and instructors in line with new technological developments and strengthening the links between learning and work;
- Drafting the accreditation model, setting up the first sectorial committee, and functioning of the National VET Council;
- 6000 unemployed jobseekers will benefit from employment promotion schemes for 2021.

TOURISM AND ENVIRONMENT

Priorities 2021-2023:

In the field of Tourism, the Ministry of Tourism and Environment aims to turn Albania into an attractive tourist destination, quality and sustainable, using local potentials and resources, focusing on what is unique in our country. As for the field of Environment, the aim is to ensure and improve the quality of the environment, for the benefit of present and future generations, as well as to provide conditions for sustainable development of the country.

- Diversification of the tourism product to achieve a year-round tourism;
- Achieve measurable air quality improvements in 2022 as defined in the national air strategy;
- Improving the performance of integrated waste management;
- Increasing the area of protected areas;

CULTURE

Priorities 2021-2023:

In the fields of culture and cultural heritage will be prioritized:

- The National Program "Education through Art" will be the continuation of a deep and sustainable reform in art institutions and cultural policies, emphasizing the importance and role of education through culture in social cohesion, already proven in other countries.
- Improving the physical condition of cultural monuments through continuous interventions throughout the country, improving the infrastructure of National Museums, Archaeological Parks and improving the physical condition of cultural monuments through continuous interventions throughout the country.
- Education through books and library activities, enrichment of the library fund in the entire network of libraries throughout the country, in order to increase and educate the reader.
- Increasing public access to Museums, Cultural Monuments, architectural ensembles, museum cities, historic centers, archeological sites and parks for the purpose of cultural tourism.
- Realization of a network of activities that aim to strengthen and consolidate artistic values and the development of cultural diplomacy at high international levels, through the promotion of Albanian Art in the International Arena (Creative Europe, Traduki, Albania-Kosovo Calendar, Art Calendar with Macedonia, Biennial of Venice of Art, International Book Fairs, etc.).
- Realization of a calendar of activities dedicated to Cultural Tourism and especially the Coastal line, to offer and enable a complete package of values and traditions.
- Supporting the visual arts through the organization of national and international visual arts exhibitions, film.

JUSTICE

Priorities 2021-2023:

- Implementation of Justice Reform;
- Implementing juvenile justice reform;
- Strengthening the Fight against Corruption in the Administration;
- Legalization, urbanization and integration of constructions and informal areas. Regulation of the property issue pursuant to Law 133/2015 “On the treatment of property and the completion of the property compensation process” and bylaws;
- Guaranteeing the fundamental rights and freedoms of persons deprived of their liberty in the prison system and ensuring their reintegration into society;
- Increasing the performance of the Probation Service in the implementation of the legal framework in force and the highest standards in the field of alternative measures for the implementation of programs as efficient as possible in the realization of rehabilitation of convicts with alternative measures.

FOREIGN POLICY

Priorities 2021-2023:

The main objectives that are intended to be achieved by the activity of the Ministry of Europe and Foreign Affairs for 2021-2023 are:

- Opening of negotiations for membership in the European Union;
- Further development of the relations with other countries, with priority relations with strategic partners, friendly and allied countries as well as neighboring countries;
- Continuing the commitment for further international recognition of the state of Kosovo, for its participation and membership in regional and international organizations;
- Functionalization and support of the work of two regional initiatives based in Tirana: Regional Office for Youth Cooperation and the Western Balkans Fund as well as ensuring active participation in multilateral regional cooperation, including the RCC;
- Leading several regional initiatives and international organizations;
- Active participation and realization of the contribution of the Republic of Albania within NATO;
- Implementation of membership obligations in multilateral organizations and forums, to which we are a party;
- Completion of the legal basis for cooperation with other countries;
- Strengthening and increasing the role of public, economic and diaspora diplomacy, in the service of Albania's economic interests, promotion and potentials for investment, trade and economic, trade and cultural cooperation with our bilateral and multilateral international partners.

DEFENCE

Priorities 2021-2023:

The Ministry of Defense aims to fulfill the initiated reforms and the realization of the constitutional tasks of the Armed Forces (AF), international engagements within NATO, engagements of the Armed Forces within the region and in the training capabilities of the Armed Forces itself. More specifically, the Ministry of Defense aims to:

- Modernization of the capacities and infrastructure of the Armed Forces by:
    - Develop the capacities of the Armed Forces in accordance with the Long-Term Development Plan;
    - Continue to equip the Land Forces with new interoperable armaments with NATO allies;
    - Expand infrastructure investments to improve working and military environments;
    - Modernize computer equipment and systems.
- Continuing to participate in NATO operations by increasing the level of engagement of the Armed Forces, in Alliance operations and participation in new missions and initiatives that NATO can undertake.
- Developing and maintaining the capabilities of the Armed Forces for national and collective defense operations, crisis response operations, as well as civil emergency response capacities, providing assistance to countries in the region in case of civil emergencies within NATO, UN and EU.

PUBLIC ORDER AND SECURITY

Priorities 2021-2023:

The Ministry of Interior aims to protect human rights and freedoms, as well as to guarantee the safety of life, health and property of citizens, which are priorities for the activity of the State Police, which will have as key phrases in the activity of its 'territorial control' and 'community policing', implemented in practice through the reorganization of the system of police presence in the territory, in order to have a more effective control of it and the radical transformation of relations and service to the community. It also aims to ensure public order, public and private property, increase road safety parameters, create a safe environment for the community, through professional, timely and quality services and policing with the highest standards of performance.

The Ministry of Interior aims to contribute to the continuous improvement of the Security of Domestic and Foreign Personalities, of the Objects of Special Importance through the increase of the management capacities and the conformity with the European standards in the field of security. Also, the Ministry of Interior aims to further consolidate a modern digitized system of the national civil registry (NRGC), the national address register system (NRC) and the system of personalization and distribution of electronic ID and biometric passport.

Medium-term central government financing needs
In the medium term, the Central Government financing needs will be achieved by using both domestic and external borrowing.

Domestic borrowing sources will continue to be the main contributor *(over 70% of the total gross financing)* in order to support the development of the domestic market for government securities and keep the foreign currency exchange risk under control *(foreign currency denominated debt/total debt less than 55%).* Despite the positive expectations in the activity of nonfinancial institutions and retail sector, domestic borrowing will continue to rely mostly on the banking sector.

Short term securities will be mostly used to refinance the existing maturities and for active liquidity management purposes, meanwhile long-term securities will be used to cover the budgetary deficit. Domestic borrowing structure will remain flexible in terms of government securities selection, depending on the market conditions *(the level of demand, interest rates, etc.)*, in order to ensure an optimal trade-off between cost and risks.

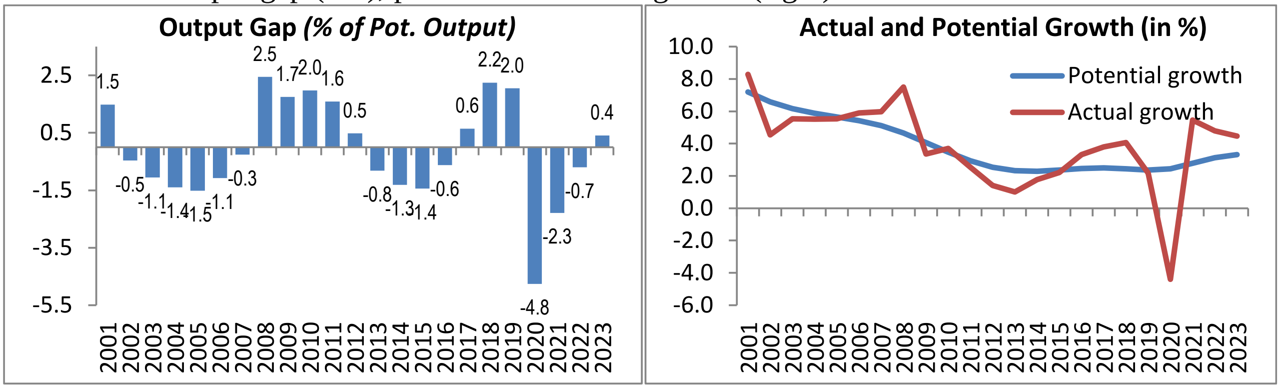
In the medium-term external borrowing sources will cover up to 30% of the Central Government gross borrowing needs, and will contribute on the cost optimization of the debt portfolio, since a considerable part of this borrowing is expected to be conducted through concessional and semi-concessional terms. External borrowing by bilateral and multilateral sources will be utilized mostly to finance the government strategic projects and the reforms undertaken by the government. Also, private sources of financing acquired in the international capital markets will be used, mostly in order to manage risks, manage the debt liabilities in foreign currency, and keep domestic borrowing within acceptable levels in order to avoid crowding out of the domestic private sector.

4.5. Structural balance *(cyclical component of the deficit, one-off and temporary measures, fiscal stance)*

Estimating potential GDP and output gap
The HP filtering technique was deployed to estimate a time series of potential GDP. An HP-filter was applied on the actual real output (GDP) in constant prices by considering the literature most advocated values for the parameter lambda in the case of annual data, namely $\lambda = 100$; $\lambda = 30$; $\lambda = 6.5$. The potential GDP was then derived as an average of the HP-filtered series based on those three different lambda parameters. Based on the obtained potential GDP the output level is then calculated accordingly. The most recent MFE projections up to 2025 were utilized to address the end-point problem common with this filtering technique.

The output gap, formally defined as $OG_t = \frac{GDP_{t,actual} - GDP_{t,potential}}{GDP_{t,potential}}$ is presented on the left side of figure below. While the respective potential growth versus actual one is presented on the right side.

Chart 4.5.1: Output gap (left), potential and actual growth (right)



Source: Ministry of Finance and Economy

The results indicate that the actual output has been below potential for the period 2002 – 2006, almost closing in 2007 and then jumping to a relatively large positive gap in 2008. The last positive shift in output gap persisted somehow also during 2009-2012 gradually shrinking in reflection of a lower actual growth compared to the potential one due to the negative effects of the global financial crises. Despite Albania managed to absorb relatively much smother the first hit from the global crises in 2009 avoiding a likely severe recession which took place in most of the other countries, still the actual growth was weakened substantially compared to pre-crises levels but also compared to its potential one. In 2013 the lowest growth was recorded and at the same time the output gap shifted on negative territory and staying into negative until 2016 with the trough reached in 2015. The output gap shifted slightly into positive territory by 2017, intensified strongly in 2018 and also persisted strong in 2019 as well, despite considerably lower actual growth in this year, particularly the growth of last quarter when the country was hit by the November earthquake. In 2020, most importantly due to the pandemic Covid-19 shock which forced the economy into a sharp recession foreseen at about -4.4 percent but also reflecting to some degree the significant slowdown of actual growth which already took place in 2019, output gap is projected to reach the most negative point in decades by about -4.8 percent of potential GDP. Although the actual growth is foreseen to pick up fast in 2021 and continuing rather strong over the medium, hence leading the output to gradually converge toward its potential, still, due to the drastic loss of output in 2020, the negative output gap is foreseen to persist until 2022 and then go slightly into positive only by 2023.

Estimating elasticity and budget sensitivity to output gap

After removing one-off items present in the fiscal indicators, the revenues' and expenditures' elasticities are estimated based on both the disaggregated (OECD 2005 approach) and aggregated approach (IMF 2010 approach). However, the final overall elasticity obtained from each approach were quite similar. More specifically, the overall revenue elasticity derived from specific revenue items' elasticities estimated through the disaggregated approach was 1.033, while the revenue elasticity estimated from the aggregated approach was 1.462.[9] Total revenues were adjusted for cyclical effects by applying the average elasticity obtained from both approaches, specifically

$$\varepsilon_{R,Y} = average(1.033, 1.462) = 1.248$$

The expenditure's elasticity didn't differ from zero. The regression analysis yielded expenditures elasticity with a negative sign based on both approaches but none of them was significant at conventional levels, implying an elasticity coefficient equal to zero,

$$\varepsilon_{G,Y} = 0.$$

[9] Due to lack of data and relatively short series, in the case of disaggregated approach some of the estimated elasticity / coefficients were not significant at conventional levels and several assumptions were imposed.

Therefore, total expenditures were not adjusted for cyclical effects. Applying straightforward the formula of the budget balance's sensitivity to the output gap (or the so-called semi-elasticity) we obtained the following value:

$$\sigma_B \equiv r(\varepsilon_{R,Y} - 1) - g(\varepsilon_{G,Y} - 1) = 0.257(1.248 - 1) - 0.264(0 - 1) = 0.328$$

Where: *r = 0.257* is the average ratio of total revenues to GDP (excluding one-offs) for the last five years (2015 – 2019); g = 0.264 is the average ratio of primary expenditures to GDP (excluding one-offs) for the last five years (2015 – 2019). The estimated parameter of budget sensibility implies that for each percentage point of negative (positive) output gap the overall primary fiscal balance will deteriorate (improve) by 0.328 percentage points of potential GDP.

Estimating the cyclically adjusted fiscal balance and assessing the fiscal policy stance

Based on estimated output gaps *(OG)* and the budget sensibility parameter *(σ_B)* the cyclical component of the primary fiscal balance *(CPB)* in terms of potential GDP is calculated as:

$$CBT_t = \sigma_B * OG_t \,.$$

Whereas, the automatic stabilizers *(AS)* are defined as the change in *CPB* in two consecutive years, as: $AS_t = CPB_t - CPB_{t-1}$

The cyclically adjusted primary balance *(CAPB)* is calculated as the difference between the actual primary fiscal balance *(PB)* and its cyclical component *(CPB)*:

$$CAPB_t = PB_t - CPB_t$$

The overall cyclically adjusted balance *(CAB)* is derived after subtracting interest expenditures *(INT)* to the cyclically adjusted primary balance:

$$CAB_t = CAPB_t - INT_t \,.$$

Fiscal impulse *(FI)* in terms of potential GDP is the change of the cyclically adjusted primary balance at each year relative to the previous one:

$$FI_t = CAPB_{t-1} - CAPB_t$$

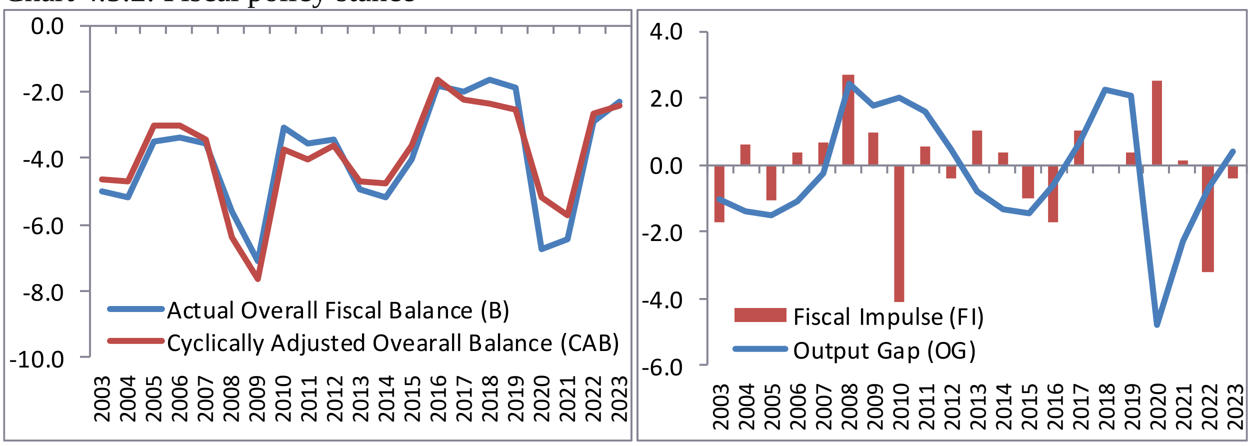
Based on the direction of fiscal impulse (tightening or easing) and output gap (negative or positive) a simple assessment as regards the nature of fiscal policy stance is presented, whether it has been pro-cyclical, counter-cyclical or neutral during certain periods of time. The obtained results are presented in the following tables and graph.

Table 4.5.1: Fiscal policy stance

Year	Output Gap (OG)	Actual Overall Fiscal Balance (B)	Actual Primary Fiscal Balance (PB)	Cyclical Primary balance (CPB)	Cyclically Adjusted Primary balance (CAPB)	Interest Expenditures (INT)	Cyclically Adjusted Overall Balance (CAB)	Automatic Stabilizers (AS)	Fiscal Impulse (FI)	Fiscal stance relative to output gap
1999	1.4	-9.6	-1.7	0.5	-2.2	7.9	-10.0	-	-	-
2000	0.5	-8.0	-2.1	0.2	-2.2	5.9	-8.1	-0.3	0.1	Neutral
2001	1.5	-7.2	-3.0	0.5	-3.5	4.2	-7.7	0.3	1.2	Pro-cyclical
2002	-0.5	-6.2	-2.2	-0.2	-2.0	4.1	-6.1	-0.6	-1.5	Pro-cyclical
2003	-1.1	-5.0	-0.6	-0.3	-0.3	4.4	-4.7	-0.2	-1.7	Pro-cyclical
2004	-1.4	-5.2	-1.3	-0.5	-0.9	3.9	-4.7	-0.1	0.6	Counter-cyc
2005	-1.5	-3.5	-0.3	-0.5	0.2	3.2	-3.0	0.0	-1.1	Pro-cyclical
2006	-1.1	-3.4	-0.5	-0.4	-0.1	2.9	-3.0	0.1	0.4	Counter-cyc
2007	-0.3	-3.5	-0.9	-0.1	-0.8	2.7	-3.5	0.3	0.7	Counter-cyc
2008	2.5	-5.6	-2.7	0.8	-3.5	2.9	-6.4	0.9	2.7	Pro-cyclical
2009	1.7	-7.1	-3.9	0.6	-4.5	3.2	-7.6	-0.2	1.0	Pro-cyclical
2010	2.0	-3.1	0.3	0.6	-0.4	3.4	-3.7	0.1	-4.1	Counter-cyc
2011	1.6	-3.5	-0.4	0.5	-0.9	3.2	-4.0	-0.1	0.5	Pro-cyclical
2012	0.5	-3.4	-0.3	0.2	-0.5	3.1	-3.6	-0.4	-0.4	Counter-cyc
2013	-0.8	-5.0	-1.7	-0.3	-1.5	3.2	-4.7	-0.4	1.0	Counter-cyc
2014	-1.3	-5.2	-2.3	-0.4	-1.9	2.9	-4.7	-0.2	0.4	Counter-cyc
2015	-1.4	-4.1	-1.4	-0.5	-0.9	2.7	-3.6	0.0	-1.0	Pro-cyclical
2016	-0.6	-1.8	0.7	-0.2	0.9	2.5	-1.6	0.3	-1.7	Pro-cyclical
2017	0.6	-2.0	0.1	0.2	-0.2	2.1	-2.2	0.4	1.0	Pro-cyclical
2018	2.2	-1.6	0.6	0.7	-0.1	2.2	-2.3	0.5	0.0	Neutral
2019	2.0	-1.9	0.2	0.7	-0.5	2.1	-2.6	-0.1	0.4	Pro-cyclical
2020	-4.8	-6.7	-4.5	-1.6	-3.0	2.2	-5.2	-2.2	2.5	Counter-cyc
2021	-2.3	-6.5	-3.9	-0.7	-3.1	2.6	-5.7	0.8	0.2	Counter-cyc
2022	-0.7	-2.9	-0.1	-0.2	0.1	2.7	-2.6	0.5	-3.2	Pro-cyclical
2023	0.4	-2.3	0.6	0.1	0.5	2.9	-2.4	0.4	-0.4	Counter-cyc

Source: Ministry of Finance and Economy

Chart 4.5.2: Fiscal policy stance



Source: Ministry of Finance and Economy

Table 4.5.2: Fiscal policy relative to economic cycles

Fiscal stance	Unit	Number of years	
		2000 - 2020	2021 - 2023
Pro-cyclical	number	11	1
Counter-cyclical	number	8	2
Neutral	number	2	0
Cumulative output gap *v.s.* Cumulative fiscal impulse --> Overall fiscal stance			
Cumulative output gap	p.p. of GDP	0.4	-2.6
Cumulative fiscal impulse	p.p. of GDP	0.8	-3.5
Overall fiscal stance		Pro-cyclical	Pro-cyclical

Source: Ministry of Finance and Economy

This simple descriptive analysis shows that during 2000 – 2020 the fiscal policy stance has been pro-cyclical in eleven years, counter-cyclical in eight years and neutral in two of them. When measured as a cumulative sum of fiscal impulses all years (2000-2020) relative to the cumulative output gap for those respective years, the fiscal stance results slightly on the pro-cyclical side, however given the period length (two decades) and the magnitudes of output gap and fiscal impulse (both less than one) it could be considered rather on the neutral range. More specifically, the cumulative output gap for 2000-2020 results slightly positive at 0.4 percentage points of potential GDP, while the cumulative fiscal impulses for the respective period results also positive of just 0.8 percentage points of GDP. While for the three-year horizon ahead (2021-2023), despite the cumulative output gap is foreseen to be negative as it gradually converges towards its potential recovering from the huge lost in 2020, still the cumulative fiscal stance is targeted to be negative as well. This indicates a pro-cyclical fiscal policy most likely reflecting the relatively high-level public debt and therefore implying for a higher importance being given toward the objective of ensuring long term sustainability of public finance versus the objective of short-term stabilisation of economic cycles. The clear direction towards a stronger consolidating path takes even more importance out of the necessity to improve faster the main public finances parameters in the afterwards of the significant deterioration in 2020. Therefore, in the current three-year program the cumulative fiscal stance during 2021-2023 is targeted to be pro-cyclical in cumulative terms for the whole-time horizon. However, this is almost entirely due to the highly negative fiscal impulse and therefore pro-cyclical fiscal stance in 2022, while for the other two years (2021 and 2023) the fiscal stance is rather counter-cyclica, and consolidation effort each year. In the medium term ahead 2020-2022 cumulative fiscal impulse is still projected to be negative, in line with the main objective of public debt reduction, however during this period that is expected to be somehow more in supportive also toward the economic stabilisation objective as far as the cumulative output gap is expected to be positive.

4.6. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments

Contingent liabilities, Concessions, and Public-Private Partnerships

The Ministry of Finance and Economy evaluates and approves in advance all concessions and public private partnership (PPP) projects, as well as any change to them, in terms of individual or portfolio implications to budget expenditures, deficit, public debt sustainability and eventual contingent liabilities. The total amount of net payments made by central government units, arising from concessions or public private partnerships (PPP) contracts should not exceed the limit of 5 percent of actual tax revenues of the previous budget year. In case of exceeding this limit, Council of Ministers takes necessary and sufficient corrective measures toward budgetary revenues, to return within the allowed limit, over the next two budget years.

Currently, 13 concessions and public private partnerships (PPP) contracts are active, according to the following table:

Table 4.6.5: Concessions/PPP active with budget support

in 000 ALL

Contracting Authority	No.	Contract of Concession / PPP	Starting year	Ending Year	Program	Type of expenditure	2020 Actual	2020 Planned	2021 Planned	2022 Planned	2023 Planned
Ministry of Infrastructure and Energy	1	Construction, operation and transfer of incinerator for urban waste processing of Elbasan Municipality	2015	2021	06220	Investment	582,720	586,770	49,124	0	0
	2	Construction, operation and transfer of incinerator for urban waste processing of Fier Municipality	2016	2023	06220	Investment	752,770	755,500	752,770	752,770	0
	3	Construction and Operation of the Arbër Road	2018	2030	04520	Investment	2,691,055	2,691,110	4,105,100	3,055,000	2,844,000
	4	Construction, Operation and Maintenance of Milot-Morinë Road	2017	2047	04520	Investment	811,734	813,259	800,259	762,643	740,259
	5	Construction and Operation Porti Jahteve Orikum - Dukat	2018	2030	04520	Investment	0	500	393,979	1,076,792	1,039,400
	6	Construction and Operation Milot - Balldren	2018	2032	04520	Investment	0	0	65,000	312,000	987,945
Ministry of Finance and Economy	1	Customs scan service	2013	2030	01150	Current	1,140,893	1,140,896	1,580,698	1,628,118	1,676,962
Ministry of Health and Social Protection	1	Concession / PPP Basic control of population (check up)	2015	2024	07220	Current	322,322	352,083	876,090	876,090	876,090
	2	Concession / PPP (Provision of personalized sets of surgical instruments, sterile single-use medical materials in surgical rooms, treatment of biological waste and disinfection of surgical rooms)	2015	2024	07330	Current	1,288,269	1,300,700	1,704,982	1,750,000	1,750,000
	3	Concession / PPP (Provision of dialysis service in 5 regional hospitals)	2016	2025	07330	Current	733,203	733,300	779,000	827,000	879,000
	4	Hospital Laboratory Services	2019	2028	07330	Current	30,670	80,000	1,280,444	1,290,241	1,300,136
Municipality of Tirana / Ministry of Education, Sports and Youth	1	Improving the educational infrastructure in Tirana Municipality	2017	2024	09120	Investment	0	0	685,325	1,515,507	1,457,308
Ministry of Infrastructure and Energy / Municipality of Tirana	1	Construction of landfill, incinerator and rehabilitation of existing landfill of Tirana and electricity generation	2017	2046	06220	Current	1,280,000	1,280,000	1,386,921	1,553,351	1,739,753
	13	**TOTAL**					**9,633,635**	**9,734,118**	**14,459,692**	**15,399,512**	**15,290,853**
Total Expected Tax Revenues for the period 2020-2023								410,045,000	442,152,809	480,722,186	519,018,422
Fiscal Rule (Payments should not exceed 5 percent of actual tax revenues of the previous budget year)							**2.3%**	**2.28%**	**3.5%**	**3.5%**	**3.2%**

According to the article 4/2, Law No. 9936 date 26.06.2008 "On the management of the budgetary system", where it is determined that "the total amount of net payments made by central government units, arising from concessions or public private partnerships (PPP) contracts should not exceed the limit of 5 percent of actual tax revenues of the previous budget year", for 2021 it is noticed that:

- For year 2021, the allowed limit of net payments for concessions and PPP contracts, of 5 percent of planned tax revenues of the year 2020, is about ALL 20.5 billion.
- According to the table above, for the year 2021 expected net payments from central government units for concessions and PPP, are about ALL 14.46 billion.
- Therefore, according to the specific fiscal rule, the legal limitation abovementioned is fulfilled for the budget year 2021, as the estimated value of ALL 14.46 billion for concessions and PPP contracts for 2021 represent about 3.5 percent of total planned tax revenues of 2020, amounting to ALL 410.045 billion.

To date, the 2020 Budget Law has been revised four times, also under the procedure of Normative Acts, namely NA no.6 dated 21.03.2020, NA no.15 dated 15.04.2020, NA no.28 dated 02.07.2020 and NA no.34 dated 16.12.2020. Their crucial aim was to guarantee the due financial support for the Government's action plan and execution of the respective anti-Covid19 social packages.
These changes also affected the annual payment plan for concession/PPP contracts with budget support. Respectively:

- According to the Initial Annual plan for the year 2020, budget funds planned to support concession/PPP contracts, amounted to about ALL 12.02 billion, of which ALL 5.13 billion investments and ALL 6.89 billion current expenditures.
- The annual plan for 2020, changed with NA no.6, for concession/PPP contracts, results in about 10.07 billion ALL (about 4.68 billion ALL investments and 5.39 billion ALL current expenditures) or ALL 1.944 billion less than the initial plan of 2020.
- The annual plan for 2020, changed with NA no.15, for concession/PPP contracts, results in the amount of about 7.57 billion ALL, of which 2.88 billion ALL investments and 4.69 billion ALL current expenditures. This plan results in about ALL 2.5 billion less than the annual plan changed with NA no. 6 or ALL 4.444 billion less than the Initial Annual Plan for 2020.
- The annual plan for 2020, changed with NA no.28, for concession/PPP contracts, results in the amount of about 7.89 billion ALL, of which 2.9 billion ALL investments and 4.99 billion ALL current expenditures. This plan results in about ALL 4.125 billion less than the Initial Annual Plan for 2020.
- The annual plan for 2020, changed with NA no.34 and referring to the recent changes realized through transfers of budget funds and the approval of the respective DCMs, for concession/PPP contracts, results in the amount of about 9.7 billion ALL, of which 4.8 billion ALL investments and 4.9 billion ALL current expenditures. This plan results in about ALL 2.3 billion less than the Initial Annual Plan for 2020.

A comprehensive summary of the actual performance of concessions/PPP budgetary payments, for the year 2020, is described below:
- Budget funds planned for the year 2020, to support concession/PPP contracts, are about ALL 9.7 billion, of which ALL 4.8 billion investments and about ALL 4.9 billion current expenditures.
- Compared to actual payments for 2019 which amounted to ALL 13.7 billion, the 2020 plan result 29 percent lower or about ALL 3.97 billion less.
- Compared to the same period of the previous year, the actual payments for the year 2020, result in ALL 4.07 billion less.
- Total actual payments for year 2020 are about ALL 9.63 billion or 99 percent of the total plan for 2020, changed.
- For the year 2020, the highest level of payments is realized in December with ALL 1.68 billion of which ALL 664 million is the payment to "Construction and Operation of the Arbër Road" contract.

4.7. Sensitivity analysis and comparison with the previous program

This section presents the expected implications on the fiscal framework as well as overall fiscal policy and budgetary possible adjustments under each scenario. It goes consistently in line with the two alternative macroeconomic scenarios presented in section 3.3.
In the case of the "pessimistic" macroeconomic scenario, which assumes a significantly lower economic growth for each year compared to the baseline, would be reasonable and adequate for this sensitivity exercise to assume lower tax collection efficiency for a number of the major tax components. Whereas, higher tax collection effectiveness might be expected should the "optimistic" macroeconomic scenario take place. Therefore, to account for likely alterations in revenues collection performance under each alternative scenario as well as to account for "an overall net effect" of automatic stabilizers at play, in the case of the pessimistic scenario we shock the "ratio of total revenues to GDP" by one third of the respective shock (in p.p.) we introduced in the "real growth" for each year and asymmetrically shock this variable by one tenth in the case of the "optimistic" scenario.

While in each alternative scenario we keep the same assumption of the effective interest rates as in the baseline (defined as interest expenditures in year "t" divided by the debt stock in year "t-1"), we account for the alterations in respective interest expenditures levels due to higher or lower borrowing under each scenario. The assumed nominal exchange rate remains also identical in all scenarios. One should note that embodied in each year budget there is also a contingency (legally mandatory as per the stipulations in the OBL) of about 0.3 percent of GDP which would cover any higher interest expenses due to any increase in interest rates or exchange rate depreciation.

The overall consolidating fiscal policy is planned to be preserved in each macroeconomic scenario. However, the quantitative target of annual fiscal deficit differs in each scenario, mainly reflecting a countercyclical response toward different assumed dynamics of the economic cycle. More specifically, it is foreseen a relaxation of the fiscal deficit target in case of the "pessimistic" scenario and a stronger fiscal consolidation in the case of the "optimistic" scenario.

In the "pessimistic" scenario the fiscal policy loosening, as compared to the "baseline", would be materialised up to the extent that all the main public finances parameters (i.e. debt to GDP ratio, primary balance and current balance) will remain simultaneously compliant with all the respective fiscal rules stipulated in the Organic Budget Law. The necessary spending adjustment (measures) to ensure compliance with the fiscal rules under the "pessimistic" scenario is carried out in "domestically financed capital spending" as well as in "operational and maintenance expenditures". More specifically, the annual average reduction of capital spending during 2021-2025 under the "pessimistic" scenario versus the "baseline" is 14.8 billion Lek or 0.6 percent of GDP in average for each year. Under the "pessimistic" scenario the annual average level of total CapEx during 2021-2025 drops to 4.7 percent of GDP from 5.3 percent of GDP planed in the "baseline". Operational and maintenance spending during 2021-25 reduce by an average of 10.4 billion Lek per year as compared to the baseline, or in average by 0.4 percent of GDP per year.

In the "optimistic" scenario all discretionary expenditures items in nominal terms are assumed identical as in the "baseline" and all revenues windfall is reflected as a higher overall fiscal balance (i.e. lower deficit) in each year as compared to the "baseline".

In order to adequately serve all budget and debt service needs (i.e. financing needs) over the time horizon of five years (2025 included), three financing items, namely "net domestic borrowing", "change of liquidity stock in TSA" and "liquidity stock in TSA" are simultaneously optimised in each alternative scenario, most importantly in the "pessimistic" one. Whereas, net foreign borrowing, both commercial and concessional borrowing, in both alternative scenarios remain exactly the same as in the "baseline".

An implicit assumption in the case of the "pessimistic" scenario presented here is that, first, the inflation and inflation expectations will remain well below the monetary policy target and, second, the monetary policy stance will remain broadly accommodative but still completely within the conventional framework, without any utilisation of "the unconventional" toolkit. Whereas, only in another "very extreme pessimistic" scenario, meaning only in case of a severe economic crisis which would seriously jeopardise the macroeconomic stability and long-term outlook, one might reasonably assume the utilisation of any available and adequate to the circumstances of certain "unconventional" monetary policy instrument only as a last resort option and, in such a case, presumably under very close coordination and supervision of international partner institutions. At the same time, it would be quite reasonable to assume that in such a "very extreme pessimistic" scenario, a wider and deeper range of public finances adjustment/measures/reforms could and should be triggered, and probably extended over the whole of the public sector and publicly supplied goods/services.

The following charts and tables present the main fiscal implications of alternative scenarios.

Chart 4.7.1: Dynamics of main indicators under different scenarios

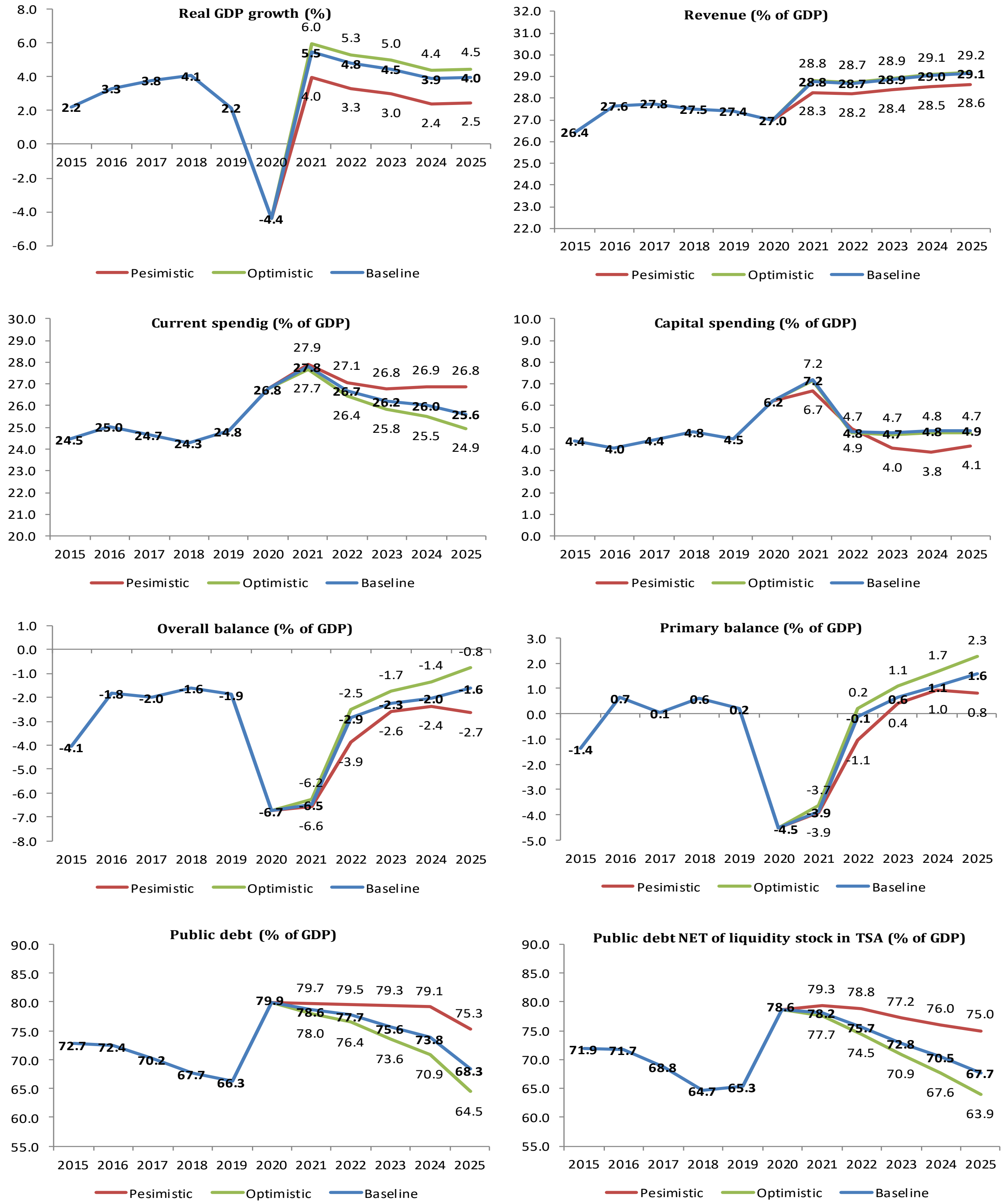


Table 4.7.1A: Main revenues and expenditures in each scenario (in billion Lek)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
						Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total Revenue											
Baseline	379.2	407.0	430.4	449.9	460.3	424.1	484.1	517.4	556.9	595.4	636.5
Pesimistic							468.9	493.9	524.1	552.3	581.9
Optimistic							487.2	523.2	565.9	607.9	652.9
Total expenditures											
Baseline *from which:*	437.4	433.7	461.4	476.1	491.9	530.1	592.8	569.0	600.5	637.0	671.9
Current expenditures *from whhich:*	350.8	368.7	382.3	397.3	416.9	420.7	467.8	481.3	505.5	533.6	559.8
Operational & Maintenance	42.4	44.3	43.4	45.5	47.2	49.3	49.9	51.4	55.6	57.7	60.5
Interest	38.6	36.3	31.9	36.5	35.1	35.1	43.8	49.5	55.8	64.1	69.8
Capital expenditures *from wich:*	63.1	59.5	68.5	78.4	75.0	97.3	121.0	86.2	91.4	99.4	106.2
Domestic financing	38.1	39.1	46.2	52.2	51.5	49.2	58.6	46.0	58.8	62.4	66.0
Foreign financing	24.9	20.4	22.3	26.2	23.5	27.2	34.4	30.1	32.7	37.0	40.2
Reconstruction fund						21.0	28.0	10.0	0.0	0.0	0.0
Pesimistic *from which:*							577.8	562.0	572.1	598.3	635.8
Current expenditures *from whhich:*							462.8	474.3	494.2	519.9	545.6
Operational & Maintenance							44.9	44.4	44.6	43.7	45.5
Interest							43.8	49.5	55.4	64.4	70.6
Capital expenditures *from wich:*							111.0	86.2	74.4	74.4	84.2
Domestic financing							48.6	46.0	41.8	37.4	44.0
Foreign financing							34.4	30.1	32.7	37.0	40.2
Reconstruction fund							28.0	10.0	0.0	0.0	0.0
Optimistic *from which:*							592.8	568.8	600.1	636.1	670.4
Current expenditures *from whhich:*							467.8	481.2	505.1	532.8	558.2
Operational & Maintenance							49.9	51.4	55.6	57.7	60.5
Interest							43.8	49.4	55.4	63.2	68.2
Capital expenditures *from wich:*							121.0	86.2	91.4	99.4	106.2
Domestic financing							57.6	45.0	57.8	61.4	65.0
Foreign financing							34.4	30.1	32.7	37.0	40.2
Reconstruction fund							28.0	10.0	0.0	0.0	0.0

Source: Ministry of Finance and Economy

Table 4.7.2A: Main fiscal parameters and financing items in each scenario (billion Lek)

	2015	2016	2017	2018	2019	2020 Est.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Overall balance											
Baseline	-58.2	-26.7	-31.0	-26.2	-31.5	-106.0	-108.7	-51.6	-43.6	-41.6	-35.5
Pesimistic							-108.9	-68.0	-48.0	-46.0	-53.9
Optimistic							-105.6	-45.6	-34.2	-28.2	-17.5
Finacing of overall balance											
Baseline *from which:*	58.2	26.7	31.0	26.2	31.5	106.0	108.7	51.6	43.6	41.6	35.5
Net domestic borrowing	-17.3	10.6	16.3	19.6	17.8	49.4	49.9	30.0	25.0	20.0	20.0
Change of liquidity stock in TSA	-2.5	0.3	-11.0	-30.5	16.6	-4.0	14.2	-30.2	-16.8	-15.3	55.3
Net foreign borrowing *from wich:*	64.6	17.5	29.1	33.1	-9.4	60.6	38.6	51.8	35.4	36.9	-39.8
Earmarked project financing	17.8	18.8	23.4	21.2	20.5	19.2	23.4	19.1	20.7	25.0	27.7
Eurobond	61.9	0.0	0.0	62.5	0.0	80.5	0.0	61.9	61.9	61.9	61.9
Budgetary support from IFIs	49.5	21.1	31.3	0.9	1.6	22.7	55.3	12.4	0.0	0.0	0.0
Repayments	-61.7	-22.0	-25.8	-51.7	-29.8	-62.7	-40.9	-42.5	-48.1	-51.0	-130.4
Other flows	13.4	-1.7	-3.4	4.1	6.5	0.0	6.0	0.0	0.0	0.0	0.0
Pesimistic *from which:*							108.9	68.0	48.0	46.0	53.9
Net domestic borrowing							49.9	21.4	40.4	31.4	39.4
Change of liquidity stock in TSA							14.4	-5.2	-27.8	-22.3	54.3
Net foreign borrowing *from wich:*							38.6	51.8	35.4	36.9	-39.8
Earmarked project financing							23.4	19.1	20.7	25.0	27.7
Eurobond							0.0	61.9	61.9	61.9	61.9
Budgetary support from IFIs							55.3	12.4	0.0	0.0	0.0
Repayments							-40.9	-42.5	-48.1	-51.0	-130.4
Other flows							6.0	0.0	0.0	0.0	0.0
Optimistic *from which:*							105.6	45.6	34.2	28.2	17.5
Net domestic borrowing							46.8	24.0	15.6	6.6	2.0
Change of liquidity stock in TSA							14.2	-30.2	-16.8	-15.3	55.3
Net foreign borrowing *from wich:*							38.6	51.8	35.4	36.9	-39.8
Earmarked project financing							23.4	19.1	20.7	25.0	27.7
Eurobond							0.0	61.9	61.9	61.9	61.9
Budgetary support from IFIs							55.3	12.4	0.0	0.0	0.0
Repayments							-40.9	-42.5	-48.1	-51.0	-130.4
Other flows							6.0	0.0	0.0	0.0	0.0
Primary balance											
Baseline	-19.6	9.6	0.9	10.3	3.6	-70.9	-64.9	-2.1	12.2	22.5	34.3
Pesimistic							-65.1	-18.5	7.4	18.4	16.7
Optimistic							-61.8	3.8	21.2	35.0	50.8
Current balance											
Baseline	5.9	38.3	46.7	52.2	43.4	-8.7	12.3	34.6	47.8	57.8	70.7
Pesimistic							2.2	18.2	26.4	28.4	30.3
Optimistic							15.5	40.5	57.2	71.1	88.7
Public debt											
Baseline	1,043.2	1,066.6	1,088.2	1,107.3	1,112.6	1,255.5	1,321.9	1,400.6	1,458.2	1,513.5	1,493.2
Pesimistic							1,321.9	1,392.0	1,465.0	1,531.7	1,530.9
Optimistic							1,318.8	1,391.5	1,439.7	1,481.6	1,443.4
Liquidity stock in Treasury Single Account (TSA)											
Baseline	12.0	10.5	21.9	49.4	16.2	20.1	6.0	36.2	53.0	68.3	13.0
Pesimistic							5.8	11.0	38.8	61.1	6.8
Optimistic							6.0	36.2	53.0	68.3	13.0
Public debt NET of liquidity stock in TSA											
Baseline	1,031.3	1,056.1	1,066.3	1,057.8	1,096.5	1,235.4	1,315.9	1,364.4	1,405.2	1,445.2	1,480.2
Pesimistic							1,316.1	1,381.0	1,426.2	1,470.6	1,524.0
Optimistic							1,312.8	1,355.3	1,386.7	1,413.3	1,430.4

Source: Ministry of Finance and Economy

Table 4.7.1B: Main revenues and expenditures in each scenario (% of GDP)

	2015	2016	2017	2018	2019	2020 Est.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Total Revenue											
Baseline	26.4	27.6	27.8	27.5	27.4	27.0	28.8	28.7	28.9	29.0	29.1
Pesimistic							28.3	28.2	28.4	28.5	28.6
Optimistic							28.8	28.7	28.9	29.1	29.2
Total expenditures											
Baseline *from which:*	30.5	29.5	29.8	29.1	29.3	33.7	35.2	31.6	31.1	31.1	30.8
Current expenditures *from whhich:*	24.5	25.0	24.7	24.3	24.8	26.8	27.8	26.7	26.2	26.0	25.6
Operational & Maintenance	3.0	3.0	2.8	2.8	2.8	3.1	3.0	2.9	2.9	2.8	2.8
Interest	2.7	2.5	2.1	2.2	2.1	2.2	2.6	2.7	2.9	3.1	3.2
Capital expenditures *from wich:*	4.4	4.0	4.4	4.8	4.5	6.2	7.2	4.8	4.7	4.8	4.9
Domestic financing	2.7	2.7	3.0	3.2	3.1	3.1	3.5	2.6	3.0	3.0	3.0
Foreign financing	1.7	1.4	1.4	1.6	1.4	1.7	2.0	1.7	1.7	1.8	1.8
Reconstruction fund						1.3	1.7	0.6	0.0	0.0	0.0
Pesimistic *from which:*							34.8	32.1	31.0	30.9	31.3
Current expenditures *from whhich:*							27.9	27.1	26.8	26.9	26.8
Operational & Maintenance							2.7	2.5	2.4	2.3	2.2
Interest							2.6	2.8	3.0	3.3	3.5
Capital expenditures *from wich:*							6.7	4.9	4.0	3.8	4.1
Domestic financing							2.9	2.6	2.3	1.9	2.2
Foreign financing							2.1	1.7	1.8	1.9	2.0
Reconstruction fund							1.7	0.6	0.0	0.0	0.0
Optimistic *from which:*							35.1	31.3	30.7	30.4	30.0
Current expenditures *from whhich:*							27.7	26.4	25.8	25.5	24.9
Operational & Maintenance							3.0	2.8	2.8	2.8	2.7
Interest							2.6	2.7	2.8	3.0	3.0
Capital expenditures *from wich:*							7.2	4.7	4.7	4.8	4.7
Domestic financing							3.4	2.5	3.0	2.9	2.9
Foreign financing							2.0	1.7	1.7	1.8	1.8
Reconstruction fund							1.7	0.5	0.0	0.0	0.0

Source: Ministry of Finance and Economy

Table 4.7.2B: Main fiscal parameters and financing items in each scenario (% of GDP)

	2015	2016	2017	2018	2019	2020 Est.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Overall balance											
Baseline	-4.1	-1.8	-2.0	-1.6	-1.9	-6.7	-6.5	-2.9	-2.3	-2.0	-1.6
Pesimistic							-6.6	-3.9	-2.6	-2.4	-2.7
Optimistic							-6.2	-2.5	-1.7	-1.4	-0.8
Finacing of overall balance											
Baseline *from which:*	4.1	1.8	2.0	1.6	1.9	6.7	6.5	2.9	2.3	2.0	1.6
Net domestic borrowing	-1.2	0.7	1.1	1.2	1.1	3.1	3.0	1.7	1.3	1.0	0.9
Change of liquidity stock in TSA	-0.2	0.0	-0.7	-1.9	1.0	-0.3	0.8	-1.7	-0.9	-0.7	2.5
Net foreign borrowing *from wich:*	4.5	1.2	1.9	2.0	-0.6	3.9	2.3	2.9	1.8	1.8	-1.8
Earmarked project financing	1.2	1.3	1.5	1.3	1.2	1.2	1.4	1.1	1.1	1.2	1.3
Eurobond	4.3	0.0	0.0	3.8	0.0	5.1	0.0	3.4	3.2	3.0	2.8
Budgetary support from IFIs	3.5	1.4	2.0	0.1	0.1	1.4	3.3	0.7	0.0	0.0	0.0
Repayments	-4.3	-1.5	-1.7	-3.2	-1.8	-4.0	-2.4	-2.4	-2.5	-2.5	-6.0
Other flows	0.9	-0.1	-0.2	0.2	0.4	0.0	0.4	0.0	0.0	0.0	0.0
Pesimistic *from which:*							6.6	3.9	2.6	2.4	2.7
Net domestic borrowing							3.0	1.2	2.2	1.6	1.9
Change of liquidity stock in TSA							0.9	-0.3	-1.5	-1.2	2.7
Net foreign borrowing *from wich:*							2.3	3.0	1.9	1.9	-2.0
Earmarked project financing							1.4	1.1	1.1	1.3	1.4
Eurobond							0.0	3.5	3.4	3.2	3.0
Budgetary support from IFIs							3.3	0.7	0.0	0.0	0.0
Repayments							-2.5	-2.4	-2.6	-2.6	-6.4
Other flows							0.4	0.0	0.0	0.0	0.0
Optimistic *from which:*							6.2	2.5	1.7	1.4	0.8
Net domestic borrowing							2.8	1.3	0.8	0.3	0.1
Change of liquidity stock in TSA							0.8	-1.7	-0.9	-0.7	2.5
Net foreign borrowing *from wich:*							2.3	2.8	1.8	1.8	-1.8
Earmarked project financing							1.4	1.1	1.1	1.2	1.2
Eurobond							0.0	3.4	3.2	3.0	2.8
Budgetary support from IFIs							3.3	0.7	0.0	0.0	0.0
Repayments							-2.4	-2.3	-2.5	-2.4	-5.8
Other flows							0.4	0.0	0.0	0.0	0.0
Primary balance											
Baseline	-1.4	0.7	0.1	0.6	0.2	-4.5	-3.9	-0.1	0.6	1.1	1.6
Pesimistic							-3.9	-1.1	0.4	1.0	0.8
Optimistic							-3.7	0.2	1.1	1.7	2.3
Current balance											
Baseline	0.4	2.6	3.0	3.2	2.6	-0.6	0.7	1.9	2.5	2.8	3.2
Pesimistic							0.1	1.0	1.4	1.5	1.5
Optimistic							0.9	2.2	2.9	3.4	4.0
Public debt											
Baseline	72.7	72.4	70.2	67.7	66.3	79.9	78.6	77.7	75.6	73.8	68.3
Pesimistic							79.7	79.5	79.3	79.1	75.3
Optimistic							78.0	76.4	73.6	70.9	64.5
Liquidity stock in Treasury Single Account (TSA)											
Baseline	0.8	0.7	1.4	3.0	1.0	1.3	0.4	2.0	2.7	3.3	0.6
Pesimistic							0.3	0.6	2.1	3.2	0.3
Optimistic							0.4	2.0	2.7	3.3	0.6
Public debt NET of liquidity stock in TSA											
Baseline	71.9	71.7	68.8	64.7	65.3	78.6	78.2	75.7	72.8	70.5	67.7
Pesimistic							79.3	78.8	77.2	76.0	75.0
Optimistic							77.7	74.5	70.9	67.6	63.9

Source: Ministry of Finance and Economy

4.8. Quality of public finances

The quality of public finances in Albania has been under reforming process starting from 2014, with the adoption of the Public Finance Management (PFM) Strategy 2014-2020, and followed by 2019-2022 PFM Strategy. Public finances improvements over years proof the reform progress during these years. The revised PFM Strategy 2019-2022, addresses a number of challenges that our country should tackle in its path towards European Union. PFM Strategy aims at supporting a more developed economy with better services to citizens; it aims at increasing the accountability, efficiency and fiscal discipline in planning and spending public funds. With the support of this Strategy, GoA expects to improve gender-based budgeting and thus undertake a tangible step in increasing equal opportunities between men and women for our country’s development and for social transformation. The Strategy enables local government to provide better and more transparent services to citizens and gives them the opportunity to have a say in planning and spending public money, the accountability, efficiency and fiscal discipline in planning and spending public funds.

The vision of the PFM reform Strategy is to ensure a public finance system that promotes transparency, accountability, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development.

Ministry of Finance and Economy is working to introduce new standards to increase transparency in planning and spending of public funds. This Strategy will serve as the basis for a full commitment in improved fiscal administration, tax collection and reduced informality in economy. The strategy provides for an improved financial management system, in line with the legal framework and higher degree of control over public spending.

During 2020, MFE undertook a revision process to update the PFM Action Plan 2020-2022. The purpose of the revision is to take into account the negative impact of the earthquake and the COVID-19 pandemic on reaching the results. While changes have been incorporated into the Strategy log-frame, the foundation remains the same with the overall and specific objectives being maintained.

One of the most important changes proposed, relates to expenditure composition, since it is one of the most influenced aspects of public finances, considering that re-prioritization and re-allocation of the budget spending have impacted the composition. With the aim to ensure medical care and support to affected households and businesses, more support is channelled for business spending for healthcare and support for the people and firms that are hurt by the COVID-19 pandemic, as well in response to the effects caused by earthquake, more the support for reconstructions has fed the capital expenditure in this direction. The revision of the PFM AP 2020-2022, aims to support and to catch these changes in order to be aligned and to push the recent policy measures in country that support an inclusive economic growth. An integrated report to present all changes proposed and the updated PFM log-frame have been prepared and are expected to be approved within 2020, depending on the pandemic situation.

4.9. Fiscal governance and budgetary frameworks

The PFM Strategy describes envisaged changes to the country's fiscal governance, i.e. to the set of arrangements, rules, and institutions that underlie the conduct of fiscal policy and *who* should do *what* in order to bring novelties in public finance management processes. The Strategy provides Specific, Measurable, Achievable, Realistic, Timely (SMART) outcomes for each of the Specific Objectives which are detailed along with Interventions (Components). Each Specific Objective includes a description of progress since 2014 along with lessons learned and priorities for 2019 – 2022. Key interventions are directly linked to outcomes and lead stakeholders are identified to ensure clear lines of accountability. Outputs are also clearly identified for each Component within the Specific Objectives. 2019-2022 strategy is reorganised in seven Specific Objectives:

Specific Objective 1: Sustainable and prudent fiscal framework; Through Specific Objective 1, the Government expects to have a prudent macroeconomic framework and fiscal policy in place with the objective to decrease the debt/GDP ratio over the medium term and to contain fiscal risks more effectively.

Specific Objective 2: Well-integrated and efficient planning; The Government recognises the need to further align key Government planning documents, such as the National Strategy for Development and Integration (NSDI-II), Sectoral Strategies and the Medium-Term Budget Programme (MTBP), which is the focus of Specific Objective 2. The annual budget and MTBP processes will continue to be enhanced and arrears will be minimised. It is also crucial that Public Investment Management (PIM) is streamlined between the MFE and PMO and that oversight is strengthened.

Specific Objective 3: Revenue mobilization; Increased revenue mobilisation is the focus of Specific Objective 3 with improved efficiency in collection of revenue resources encompassing both taxation and customs leading to greater stability in financing the budget at both national and Local Government (LG) levels. Informality will also be reduced.

Specific Objective 4: Efficient execution of the Budget; Specific Objectives 1-5, and Specific Objective 4 particularly, will include a focus on the full integration of the Financial Management Information System (FMIS) with other PFM systems, minimising manual operations and enabling more accuracy and timeliness of reporting across all financial operations of the government. Its overall objective is to ensure efficient and effective use of approved budget resources. Interventions will seek to minimise arrears; reduce the costs of borrowing; and increasing the efficiency and transparency of the procurement system

Specific Objective 5: Transparency of Public Finances; this objective seeks enhanced accountability and transparency through better financial and non-financial performance reporting in line with international standards to improve coverage, quality and accessibility of information on public. Further efforts shall be made to engage the public in the budget process.

Specific Objective 6: Effective internal control; Financial discipline, control and transparency through improved Internal Audit (IA), Financial Management Control (FMC) and efficient Public Financial Inspection at central and LG levels is the focus of Specific Objective 6.

Specific Objective 7: Effective external oversight of the Public Finances; Finally, Specific Objective 7 seeks to increase the effective external oversight of public finances by enhancing the capacity of the Albanian Supreme Audit Institution (ALSAI) (formerly known as High State Control (HSC)). Financial and performance audits will increase, so their value and benefits to society can be maximised.

All of the above specific objectives have been revised in 2020, to take into account the negative impact of the earthquake and the COVID-19 pandemic on reaching the results.

4.10. Sustainability of public finances

The implementation of PFM reform serves as roadmap for Albania, to maintain the sustainability of public finances.
The overall objective of the PFM reform Strategy is to achieve a better-balanced and sustainable budget with a reduced debt ratio through stronger financial management and control and audit processes and where budget execution is properly linked to Government policies.

This strategic document in the domain of public finance management serves as a roadmap in:
- Reducing public debt;
- Settling and preventing arrears;

- Continuous mobilization of tax and customs revenue collection;
- Improving public investment projects, including Public Private Partnership and concessions;
- Ensuring a better linkage between strategic policies and Mid-term Budget Program;
- A more structured and timely engagements with citizens, Civil Society Organizations and
- Academia in budget planning, monitoring and reporting;
- Increasing efforts to improve the degree of implementation of SAI's recommendations and findings.

MFE has provided a specific focus to the PFM reform: starting with the formulation of the PFM Strategy, the implementation of the reform overs years, the monitoring and reporting and evaluation. For all these processes, it is already built a dedicated system to manage the PFM reforms. The main purpose for all these efforts can be summarized on the desired outcome that is the sustainability of public finances.

5. STRUCTURAL REFORM PRIORITIES IN 2020-2022

5.1. Update on key obstacles to growth and competitiveness and inclusive growth

The key obstacles to growth, competitiveness and inclusive growth remain, for the most part, of a similar disposition to the ones presented in earlier ERP: informal economy, social protection, business environment, education & skills, labour & employment, RDI, etc. In the year 2020, owing almost exclusively to the aftermath of the earthquake that hit parts of Albania on 26 November 2019 and the outbreak of the COVID-19 epidemic, the situation in the country was further exacerbated, exposing the economy to the aftereffects of both natural disasters and bringing to the forefront seemingly new challenges and obstacles. The global lockdown as a result of the pandemic, had exceptionally unfavourable impact in several sectors, with travel, tourism, and trade feeling the shocks stronger than the others. Several efforts have been undertaken as part of the recovery from the earthquake, with pledges made at the international donors' conference on February 17, 2020 complementing the government's own efforts.

Informality remains a burden on the private sector, which consists primarily of micro, small and medium enterprises. Following the 2016 nationwide campaign to combat informal economy, the number of registered tax payers and social contributions has increased significantly. Since 2019, the government has implemented risk-based approach to focus its action on the informal economy in a more efficient way and to shift the focus away from mobilising additional budget revenue by stepping up the number of checks and inspections. Despite the recent progress in number of registered businesses, there is still a trend of not declaring taxes or workers and chiefly cash transactions. Informal businesses generally have lower productivity than formal businesses, which is both a drag on firms and a drag on the economy. Public revenues are reduced by hidden economic activity, resulting in diminished provision of public goods.

The outbreak of COVID-19 has affected every sector of the Albanian economy forcing nearly half to shut down. A majority of businesses, whether they be small or large, expect more than 20 percent reduction in annual turnover. Regardless of sector or size, businesses estimate that the impact of COVID-19 on the economy will linger for a year. The pandemic exposed several shortcomings of private sector companies in trying to cope with the new normal, such as lack of preparation to manage human resources – layoffs, regular leave, and teleworking. Import companies are considering finding new sources for raw materials in the country. The pandemic made companies realise the importance of using online services changed their investment plan towards new technologies, the need to strengthen sales channels, etc.

Another obstacle to growth remains the limited access to finance and business services of Albanian entrepreneurships. A reform measure introduced in the previous ERP and rolled over in the current 2021-2023 cycle, seeks to address this obstacle, supported by various donor-financed mechanisms.

Increasing investment in education and competencies is critical to increasing human capital and improving labour productivity, as a long-term driver of economic competitiveness. Closing the gap between private sector needs and the skills provided by the education system is key to lowering unemployment rate, in particular among the youth. Activation policies need to support women, youth and vulnerable groups to find suitable employment and increase their employment opportunities.

Low funding in universities negatively impacts their ability to conduct scientific research. Cooperation with the business community is below the potential and there is reluctance to further explore this cooperation. Another long-term challenge is inclusive education, and in order to do that is necessary to lay the foundations to ensure participation of all children with special needs. The current school system does not yet meet the standards to ensure appropriate level of inclusion. To that end, a measure has been proposed to help address it.

Increasing relevance and linkages between VET offer and the demand from private sector, while striving to ensure core principles of inclusiveness, autonomy, quality, cooperation, participation, mobility and diversity remains a priority carried on forward. As with most other sectors and policies, the pandemic imposed significant challenges in the development and implementation of VET policies, as well as in the delivery of vocational education and training programmes.

The labour market was also affected by Covid-19. The impact became more pronounced in Q2-2020, as reflected by the standard labour market indicators (employment, unemployment, and labour force participation rate). In Q2, employment declined by 3.6% in annual terms and by 2.6% in quarterly terms (a decline by 16,800 persons in Q1 and by 33,235 persons in Q2). Services, agriculture and industry all experienced a decline, by 1.5, 1.4 and 0.7 percentage points respectively. Unemployment (15+) in Q2 of 2020 rose by 0.4 pp in annual terms and by 0.5 pp in quarterly terms to 11.9%.

There is global evidence that pandemic is exacerbating poverty, inequality and vulnerability experienced by families and their children. This pandemic has increased and differentiated the notion of vulnerability. Although, the percentage of GDP spent on social protection has more than doubled since 2005, overall social protection spending remains low.

5.2. Summary of reform measures

The Economic Reform Programme 2021-2023 includes 18 structural reforms, many of which are rolled over from the previous ERP. However, there are new additions introduced in this cycle. These reform measures encapsulate some of the priorities of the current government, ranging from energy market liberalisation, diversification of energy sources, transport, broadband connectivity, land consolidation, businesses environment, education and VET, employment and labour market, and social inclusion. Below is a list of the reform measures elaborated in the next section 5.3.

I. Energy and transport market reform
Reform measure 01: Further liberalisation of the energy market
Reform measure 02: Diversifying energy sources through the promotion of renewable energy sources and energy efficiency improvements
Reform measure 03: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana
II. Agriculture, Industry and Services
Reform measure 04: Reform on the Water and Waste Water Sector
Reform measure 05: Better marine and maritime governance and services
III. Business environment and reduction of informal economy
Reform measure 06: Strengthening the fight against informality
Reform measure 07: Developing a legal framework in support of innovative start-ups
Reform measure 08: Improving access to finance for SMEs
Reform measure 09: Modernisation of retail payment instruments
IV. Research, development and innovation and the digital economy
Reform measure 10: Improving institutional, financial and human capacities for research and innovation
Reform measure 11: Development of the broadband infrastructure for digital economy
V. Economic integration reforms
Reform measure 12: Facilitating cross border movement of goods
VI. Education and skills
Reform measure 13: Finalize and support the implementation of pre-university curricular reform, teacher training and employment
Reform measure 14: Inclusiveness and equality in education
Reform measure 15: Improve the quality and coverage of VET while ensuring linkages with the labour market
VII. Employment and labour market
Reform measure 16: Improving the employability of the most vulnerable unemployed jobseekers through better targeted EPPs and employment services

VIII. Social protection and inclusion
Reform measure 17: Strengthen and expand health and social protection coverage reducing inequality and supporting inclusive and sustainable growth
Reform measure 18: Increasing access to healthcare

The reform measure Property tax reform and establishment of a fiscal cadastre under the thematic area of "business environment and reduction of informal economy", has been retired from this ERP 2021-2023. The project supporting this measure was completed on 31 December 2020, and the request to extend the duration of the project was approved via the Decision of the Council of Ministers No. 1107, dated 24.12.2020 on adoption of the amendment to the project. The details of the future activities and timeline are still being fleshed out, therefore it was considered adequate to retire the measure. It will be reconsidered for introduction in future ERPs, after consulting with the responsible institutions, and depending on the progress of extended project and measures. Annex 1, table 11 for the corresponding measure provides information on the activities carried out during 2020.

In line with the assessment of the EC, the reform measure "Modernisation of the pre-school education system" has been retired from the ERP. Moreover, the reform measure on the consolidation and defragmentation of agricultural land has been retired from the ERP, upon proposal by the Ministry of Agriculture and Rural Development, pending future decision making as regards its reintroduction should there be progress in the implementation of the measure.

A measure addressing informality has been introduced for the first time under the title of "Strengthening the fight against informality". It is proposed by the Directorate-General of Taxation. As a result of the pandemic, a measure in the area of healthcare has been introduced in the ERP 2021-2023 "Increasing access to healthcare".

5.3. Analysis by area and structural reform measures

5.3.1. Energy and transport market reform

a. Analysis of main obstacles

Energy is one of the strategic sectors in Albania and continues to be a priority of the government given the diversity of energy resources (water, wind, solar, oil, gas, etc.) that our country possesse. The National Energy Strategy 2018 – 2030 states that the energy sector has the potential of being a sustainable source of growth for the country over the short to medium and long-term. Electricity imports remain high and and require better use of all potential available energy sources.

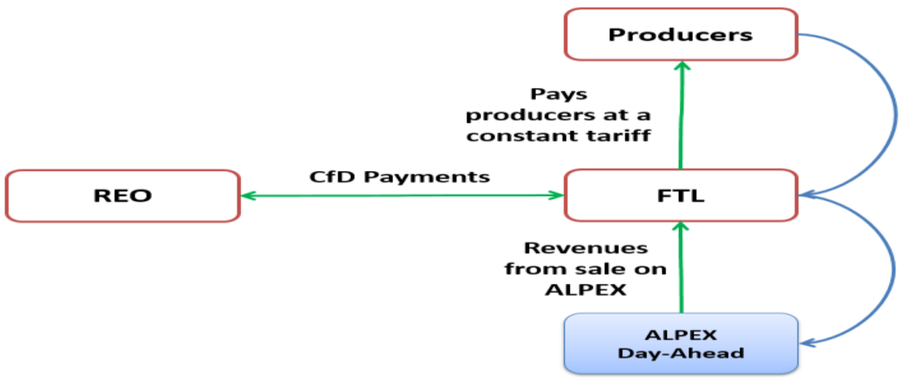
If we refer to the ERE annual report for 2019, energy production marked a decrease as a result of the relatively poor hydro power year, which led to a decrease in the total production of electricity in the country, enabling the realization of the demand through the increase of imports, to enable the uninterrupted supply of electricity. This fact also contributed to the increase of the financial costs to be covered by companies charged with the public service obligation. The total production of the country during 2019 was at 5.2 TWh level, with a decrease of about 40% compared to 2018, while the import of energy electricity was in 2.4 TWh values; Approximately 57% of this production is produced by the Public Generation Company, KESH sh.a, the other part 43% is produced from the private concessionary/not concessionary plants; However, there is still work to be done in terms of the diversification of generation resources, the handle of issues and efficient settling regarding the support of renewable generation resources development

In the last 5 years Albania has seen huge improvements in the approach towards renewables. Historically the only policy of developing new production capacities has been in the Hydro Power sector and this has and this has made electricity production dependent on climatic conditions. Dependency on climate and lowered security of supply.

Energy Policy of Albania include the promotion for the use of renewable energy sources beyond hydropower due to the significant potential our country has for photovoltaic and wind energy production, and its favourable geographical position, climate conditions and high intensity of the solar radiation for the use of solar energy. To achieve the national objective, regulated tariff permits for these sources and methodologies for RES electricity purchase prices have been approved. Referred to the Law 7/2017 are established two types of financial support for RES from solar and wind:

Feed-in-Tariff "FiT" tariff is a legal financial support for the purchase price of electricity produced from renewable sources with limited generation capacity up to 2MW for solar and up to 3 MW for wind, in essence, an approved methodology by MIE, proposes to ERE the approval of the fixed price of sales of the energy from the producer to OSHEE for 15 years.

FiP tariff, "Feed-in-Premium", is legal financial support in the purchase price of electricity generated from renewable sources with generation capacity over 2MW. These electricity generating facilities are approved under a transparent bidding procedure approved with DCM No 349 of 12.06.2018 "On the approval of support measures for the promotion of the use of electricity from renewable sources of sun and wind, as well as procedures for selecting projects for their benefit".
Procedures for selecting projects that benefit from these measures are related to the announcement submitted by MIE setting the relevant deadlines, criteria, assessments the connection point, land ownership etc., through a PPA (Power Purchase Agreement) or a pre-purchase contract. The Energy that comes out of the auction purchased at a fixed price, for 15 years is the key points of the future pre-purchase contract. In this case, this contract is a Contract for Difference (CfD) and could be exercised in a liberalized electricity market.
Actually MIE has drafted a new Strategy of moving from the existing schemes "Feed-in-Tariff" (FiT) to "Feed-in-Premium" (FiP tariff) that basically consist on the transformation of FiT in Contract for Difference (Auctions) which will be implement through the Operator of Renewable Energies, FTL and ALPEX based on the scheme below:



Principles:

- FTL remains responsible for all the FIT contracts (current and future ones). FTL bundles all FIT into one item "Renewable Generation from FIT contracts".
- FTL is legally obliged to sell all this generation into ALPEX (not authorized to perform bilateral trades with this particular generation,). FTL must therefore keep a separate accounting for this generation.
- FTL and REO signed a CfD contract for this item (or multiple CfD contracts since there would be multiple strike price potentially).
- Balancing costs and trading costs (ALPEX fees) are covered by FTL. If needed, we could imagine that these fees are passed on to REO. FTL is responsible for forecast, balancing, etc.

Advantages:

- Absolutely no change in the contracts for existing FIT (even no change of offtaker).
- REO is only managing CfDs (CfD with FTL and CfD with new renewable producers). REO is not a market player on ALPEX.

Very similar to new scheme for CfD, roles of REO are similar for existing FIT contracts and future CfD contracts. This Strategy will be approved within January 2021.Based on the draft-Strategy, the auctions realised up to now (Karavasta 140 MW & Spitalla, still in process 100 MW) will continue to be part of FiT schemes as CfD schemes are not yet in force.

According to the provisions in the renewable energy law of 2017, all auctions for new renewable capacities will be supported through KpD. Also, current FIT beneficiaries can switch to support under KpD at a fixed price equal to the FIT tariff. Small priority producers will continue to be supported through the Feed In tariff. The FiT scheme remains similar to them. OER would be the sole recipient of their energy and sell it to ALPEX.

Energy efficiency plays a major role in the National Energy Strategy, in particular, two short and medium term policies have been considered: increase of energy savings and reduction of greenhouse gas emissions. One of the main objectives was the diversification through construction of renewable energy sources and energy efficiency measures, to achieve the political and macroeconomic security of energy production.

Reducing Energy consumption by increasing energy efficiency is a highly successful way of meeting the key energy policy targets of security of supply, affordable costs of Energy services and environment sustainability.

Within 2021 will be drafted and approve some ordinances of Minister remained from the secondary legislation based on the law on energy efficiency[10] and the law on the energy performance in buildings[11].

Related to the project of Akernia PV Power Plant, which is forseen in the above activities, there are some new developments related to contract obligations that are under discussion.

Currently, MIE as a policy- making institution cannot figure out better realistic indicators related to renewable energy sources (PV and Wind) and energy efficiency in terms of amount of energy produced by renewable sources and amount of energy saved by energy efficiency measures taken. The legal framework on both fields are not fully completed yet and MIE is still working on that issue to prepare the conditions for their integration in the market. Furthermore, the legal procedures for preliminary authorisation (approval) of PV plants and eolic centrals (parks) take time (from 6 – 24 months), time that is postponed due to Covid-19 situation in some cases. Moreover, the final approval is given usually for 18 months until the finalisation of construction of energy generating sources. Taking into consideration that the Law no. 7/2017 "On the promotion of the use of energy from renewable sources" was approved in 2017, the bylaws are in process of drafting and the approval procedures until ther constructions take time, MIE cannot provide better indicators in this moment. The same situation is still with auctions. None of them isn't constructing yet (example: The deadline for the construction of Karavasta PV Plant is 4 years). MIE is still working on fulfilling the legal framework. The methodology for EPC that will be used from Energy Audits certified by AEE is in the phase of approval and will be in force within 2020. There are no audit reports on place yet.

Regarding the Reform 2 measures costing, the figures remain the same for 2021 due to the current situation in the field of renewable energies and efficiency, as follows:

1- The Consolidated National Action Plan for Renewable Energy Sources 2019-2020, approved with DCM 580, date 28.08.2019 was amended last year with new objectives and capacities launched, which are still in process and have not been completed. Given that, due to the recent amendment of the DCM and the COVID-19 situation, this Plan will be in force even for 2021. It's important to be mentioned that the costs of measures placed in the Plan (Reflected in ERP 2021-2023, Tab 10b) are not paid by State Budged. Based on the legislation in force, the Priority Producers will be paid by FTL (Free Market Supplier).
2- For the completion of the objectives of NREAP (2019-2020), the direction of achieving the national objectives and targets has been changed, whereas the most recent change is the revision of DCM no. 349, dated 12.06.2018 which was approved by DCM no. 858, dated 04.11.2020 and opens the path for the development of hybrid auctions 5-10 MW for Photovoltaic plants and unlimited for Wind Farms related to the targets of the NREAP. This process is not finalised yet due to the procedures ongoing for providing technical by

[10] Law No.124/2015
[11] Law No 116/2016

EBRD before their launch.

3- Regarding the costing of energy efficiency measures, can be mentioned that MIE is in process of drafting the National Energy and Climate Planwhich will replace the National Action Plan for Energy Efficiency which should be active for 2021-2023 according to the legislation in force. The year 2021 will be a year of transition in terms of efficiency reforms until the approval of the new plan mentioned above.

In this context, another DCM will be drafted which will postpone the validity of the current National Plans in the field of renewable energy and in the field of Energy Efficiency.

Given the geographical location of the country, Albania's transport sector is strategically important for competitiveness and economic growth. Albania is ranked 109th out of 140 countries for transport infrastructure in the World Economic Forum's Global Competitiveness Report 2018, which is below its regional peers. The Albanian railway network operates below its actual capacity, due to lack of investment, maintenance operations, and outdated network. The unbundling of train operations from infrastructure management has not yet been achieved. Implementing legislation is under preparation for the establishment of relevant structures and agencies, in particular, the Railway Regulatory Authority. Maritime infrastructure is underdeveloped with inadequate capacity. The low quality of its transport infrastructure has affected the country's integration into regional and global supply chains and has a direct impact on the development of tourism and transit services. The proposed measure on transport sector will help curb these issues, as well as help increase economic growth and competitiveness of the country.

b. Reform measures

Reform measure 01: Further liberalisation of the energy market

1. Description

In line with the measures introduced in previous ERPs, and with a view to the already achieved milestones, for the ERP 2021-2023 reporting period the focus will be on:

Developing an organized electricity market and the integration of the Albanian electricity market with the wider regional energy markets and finally the internal energy market in the EU.

The aim is to create a market that generates, transmits and consumes electricity efficiently, as well as a market that leads to higher profits, organized according to the EU model, which is guided by the principles of transparency, non-discrimination and sustainable in the long run, based on competitive prices.

a. Activities planned in 2021

- Further Liberalisation of the electricity market (consumers in the free market) - customers (electricity clients) connected to 20 kV grids will be supplied in the liberalised market.

The entry into the unregulated market of electricity customers is closely related to the quality of service provided by the DSO S.A as well as the allowed performance indicators. One of the main elements for controlling the monitoring of voltage quality and performance indicators of the electricity distribution network is:

a. installation of smart metering in clients which is still in process by the DSO
b. preparation of 20kV network by turning it into a SMART network, replacement of 6 /10kV overhead networks that are out of technical standards and their replacement with cable network with length and sections in accordance with these standards.
c. Planning of electricity networks in active form (where energy has two directions) which comes as a result of energy injection by users / producers in the distribution network. The planning of these investments brings as a consequence the demand to implement quality indicators, and consequently the entry into an unregulated market. The deadlines for the implementation of quality indicators are not related to the deadlines for the unregulated market entry of non-household customers, but may determine an exit trend in an escalated manner according to the areas with the highest load / consumption.

- **The unbundling of the distribution activity from the supply;**
- **Operation of the Albanian Power Exchange – ALPEX**
- **Security of Supply**
  a. Implementation of the project Elbasan (Albania) - Bitola (RNM) 400 kV interconnection line: Lot 1 & Lot 2.
  b. Further reduction of distribution losses.
  c. Further increment of bill collection rates.

b. Activities planned in 2022
- Further Liberalisation of the electricity market (consumers in the free market)
- Operation of the Albanian Power Exchange – ALPEX Security of Supply\
- Security of Supply
  a. Implementation of the project Elbasan (Albania) - Bitola (RNM) 400 kV interconnection line: Lot 1 & Lot 2.
  b. Further reduction of distribution losses.
  c. Further increment of bill collection rates

c. Activities planned in 2023
- Further Liberalisation of the electricity market (consumers in the free market)
- Security of Supply
  a. Implementation of the project Elbasan (Albania) - Bitola (RNM) 400 kV interconnection line: Lot 1 & Lot 2.
  b. Further reduction of distribution losses.
  c. Further increment of bill collection rates

2. *Results indicators*

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Reduction of energy imports	1,175 GWh	1,143 GWh	1,184 GWh
Domestic Production (KESH + Existing HPP + PP)	6,252 GWh	6,730 GWh	6,875 GWh
Increased investment in the network/grid	-	-	-
Reduction in technical and non-technical losses in the network	-	-	-
Increased bill collection	-	-	-

3. *Expected impact on competitiveness*

Strengthens the interconnection links with the regional electricity network, creating conditions for trade exchanges and unrestricted transit of electricity in the region. The further liberalization of the energy market, which will lead to decentralization of the energy power system, will have direct positive impacts on competitiveness by enabling the participation of the private operators in the electricity market and will increase the quality of supply. This reform measure will increase considerably the investments and contribute to job employment and competitiveness and will also allow the decrease the cost of energy for consumers.

4. *Estimated cost of the activities and the source of financing*

There is no direct impact on the state budget but investments in the distribution/transmission grid and power generation are defined in the development programmes of companies (KESH, OST and OSHEE). In support of this point, the estimated cost for the completion of 400 kV Interconnection line Elbasan (Albania) – Bitola (RNM), Albania's part is 70 million EUR *Financed in the amount of EUR 50 million from a foreign loan; EUR 15 million from a grant and EUR 5 million from OST sh.a (including VAT.).*

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

This reform measure contributes to job employment and competitiveness and will also allow the decrease the cost of energy for consumers. This reform measure will indirectly contribute to job creation by ensuring reliable energy supply at reasonable price levels and therefore stimulating the general business environment and making the sector more attractive to investors. It is a gender-neutral reform measure.

6. *Expected impact on the environment*

Taking into account the type of the project, the impact on the environment is inconsiderable.

7. *Potential risks*

<table>
<tr><th>Risk</th><th>Probability (low, high)</th><th>Planned mitigating action</th></tr>
<tr><td>Obstacles may arise during expropriation, procurement and licencing process for the 400 kV interconnection line project between Albania and RNM, as well as technical impediments.</td><td>Medium</td><td rowspan="3">Better monitoring, evaluation and coordination with all stakeholders through all stages of the project. Raising relevance of the reform measure.</td></tr>
<tr><td>Lack of capacity and coordination among institutions</td><td>Low</td></tr>
<tr><td>Delays in the adoption of sub-legal acts</td><td>Low</td></tr>
</table>

Reform Measure 02: Diversifying energy sources through the promotion of renewable energy sources and energy efficiency improvements

1. *Description*

This reform measure aims to contribute on the diversification of the sources through the promotion of renewable energy production beyond hydropower and energy efficiency improvements, as an important tool of energy policies of Albania, for the increase of the security in energy supply, in a sustainable way and environmentally friendly.

The measure is in line with Energy Policy of Albania, National Strategy for Development and Integration (2015-2020), National Energy Strategy (2018-2030), international agreements (Paris Agreement, UNFCCC etc.), the current National Action Plan for Renewable Energy Sources (2019-2020), and the National Energy Efficiency Action Plan of Albania (2017 – 2020).

Within this reform, further efforts has been taken to move from the existing schemes "Feed-in-Tariff" (FiT) to "Feed-in-Premium" (FiP tariff) that basically consist on the transformation of FiT in Contract for Difference (Auctions), that is a new incentive scheme of financial support for RES as provided by Law 7/2017

Through this measure is aimed the implementation of EE improvements in public and private buildings, households, industry, transport etc. Building sector is expected to contribute largely to national energy savings increase. Investments on energy efficiency are ongoing, invested from state Budget and Foreign Financial Aid projects through donors. State budget has raised the contribution in this field for 2021-2023. As above mentioned, the amended Law in Energy efficiency will contribute in achievements on energy savings target, furthermore considering the big investments to be made for the post-earthquake reconstruction process, through added mechanisms, including an Energy Efficiency Obligation scheme foreseen. The adoption the secondary legislation that derive by the Law No. 116/2016 on "Energy performance of Buildings" will improve the energy efficiency and increase savings in the new buildings that will be reconstructed post-earthquake.

a. Activities planned in 2021

- Preparation and approval of secondary legislation based on the law no. 7/2017 on the promotion of the use of energy from renewable sources (MIE/AKBN/FTL/OSSH/FSHU/OST/OST/ERE):
  a. DCM "On the obligation to purchase electricity produced by priority electricity producers that do not benefit from the support scheme under the difference contract;
  b. DCM "On the Methodology for calculating the electricity price for self-producers that benefit from the Net Metering Scheme";
  c. Draft DCM on NECP – National Energy and Climate Plan 2021-2030.
- Finalization of the bidding procedure of the auction of Spitalla with a capacity of 100 MWp of PV installation published on 2nd of December 2020.
- First hybrid auctions on 5-10MWp for overall 200 MWp PV plants.
- Commencement of the construction of the Karavasta photovoltaic plant after a successful tender and contract signing procedure.
- Establishment of the National Energy Agency as a competent authority for the implementation of the climate project, RES, EE and NECP.
- Setting new targets for EE and RES and reviewing the Energy Strategy in line with the European Green Agreement.
- Pilot project for the construction of a building with "0 Energy".
- Complete feasibility study for the installation of Charging Towers for electric cars in the Republic of Albania.
- Project idea on Electrification of urban and intercity transport lines in the Municipalities of Tirana, Vlora, Durres. (In stages).
- Preparation and approval of some ordinances of the Minister has remained from the secondary legislation based on the law on energy efficiency and the law on energy performance in buildings (MEI / EBRD / AEE).
- Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval for the construction of new electricity generation capacities (MEI / AKBN).

b. Activities planned in 2022

- Preparation and approval of secondary legislation based on the law on the promotion of the use of energy from renewable sources (MEI/AKBN/FTL/OSSH/FSHU/OST/OST/ERE):
  a. DCM "On the obligation to purchase electricity produced by priority electricity producers that do not benefit from the support scheme under the difference contract";
  b. Draft DCM "On the Approval of the Types of Certificates and the Necessary Certification Criteria for the Installation of Biomass Boilers and Small Stoves, Solar PV, Thermal, Thermodynamic, Shallow Systems and Heat Pumps;
  c. Draft DCM "On the methodology of calculating the share of energy from renewable sources in the national balance sheet".
- Construction phase of Karavasta 140MW PV Plant".
- Implementation of the Spitalla Project for the construction of the PV plant with the capacity of 100 MW (Contract and permit signing phase).
- The first hybrid auction in wind power for 35 to 75MW each for a total capacity of up to 130 MW.
- Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval for the construction of new electricity generation capacities; (MIE / AKBN).
- Pilot project for the construction of a building with "0 Energy" (continued).
- Complete feasibility study for the installation of Charging Towers for electric cars in the Republic of Albania (continued).
- Project idea on Electrification of urban and intercity transport lines in the Municipalities

of Tirana, Vlora, and Durrës (continued).

c. Activities planned in 2023

- Implementation of the Project "Karavasta PV Power Plant 140MW" (Construction Phase).
- Implementation of the Project of Spitalla PV power Plant of 100 MW (Construction Phase).
- Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval to build new electricity generation capacities; (MIE/AKBN).
- Pilot project for the construction of a building with "0 Energy".
- Complete feasibility study for the installation of Charging Towers for electric cars in the Republic of Albania.
- Project idea on the Electrification of urban and intercity transport lines in the Municipalities of Tirana, Vlora, Durres. (In stages).

2. *Results indicators*

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
% of electricity generated from PV solar plants and wind turbines	4%	40%	81%
Energy saved from measures (pilot projects) in energy efficiency sector	30%	60%	100%
Energy efficiency audit reports / Building Performance certificate	2%	20%	50%

3. *Expected impact on competitiveness*

The energy sector is entering into an era of significant transformation due to increase penetration of renewables. Diversification of energy sources (renewables) will have direct positive impact on increasing competitiveness as a result of using new energy sources (solar and wind) that will increase the domestic production of the energy in Albania' s market. As renewable power generation technologies have matured and their costs are decreased, there is a growing shift towards auctions. In Albanian market with limited volumes on offer, this has led to intense competition for projects and has resulted in falling costs of the energy prices (Akernia auction 59.9 Euro KWh and 24.89 Euro/MWh for Karavasta 70MWp).

Promotion and incentive measures on renewables sources will contribute in the increase of security of energy supply in the country and will forced developers to implement best practices in terms of project development, utilise newer innovative technology solutions, and generally reduce margins.

The results of the energy saving and efficiency will have direct positive impact on increasing competitiveness by making possible the reduction of energy consumption and lower costs as a result of savings. Reduction of the emissions of CO_2 and the improvement of environment.

4. *Estimated cost of activities and source of financing*

To ensure the achievement of the national target of RES consumption (38%) in 2020, authorisations with regulated tariffs for these sources have been approved and methodologies for RES purchase prices have been adopted. The law preserves concession contracts for small hydropower plants previously approved up to 15MW. Also as a need for diversification, are considered promoting other sources of renewables such as Eolic or PV, beyond hydropowers. In any case, the Law provides the possibility of financial support with regulated feeds (feed-in-tariffs) and under the Feed-in-Premium Contract, both for existing and young priority producers, as well as new producers after the end of 2017 when contracts that were not subject to concession began to operate under a procedure approved by DCM no. 822 dated 7.10.2015 as amended. According to NREAP, the total investment for the RES and EE sector for 2021 will be part of the new Action Plans that will be drafted this year.

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

Renewable sector will have direct social and economic impact by contributing in the improvement of employment opportunities. Renewable energy has increased the number of employees in a variety of capacities, including project development, construction, installation, operations and maintenance, transportation and logistics, financial, legal, and consulting services. In the industrial sector, highly qualified staff with appropriate professional qualifications (auditors and ESCO companies) will also be recruited, who will be continuously engaged in the monitoring of consumption and proposing of new measures for achieving savings. Gender equality is making steady progress in every field of economy as well as in renewables industry. The number of women in business roles exceeded that of women heading human resources, which signals a shift in the types of responsibilities women are now assuming. In Albania, there are no legal requirements that specifically target the participation of women on boards of companies. However, for several reasons it seems an accelerate rate at which companies increase participation by women in the field of renewables and Energy Efficiency. Strategic priorities address the health service needs of all communities and population categories. Better access of vulnerable communities to health care services will be achieved through a better horizontal integration of different specialized professionals, working at community level.

6. *Expected impact on the environment*

GoA is taking actions to proceed with the preparation of the Integrated Plan of Energy and Climate taking into account climate change adaptation. National climate change adaptation strategy is adopted by July 2019. Albania signed the Paris Agreement on 22 April 2016, entering a new era of the international climate policy process. Albania joined the United Nations Framework Convention on Climate Change (UNFCCC) in 1995 and the Kyoto Protocol in 2005 and has begun the process of changing the status of a developing country to a developed one, in the context of the UNFCCC.

Most renewable energy sources produce little to no global warming emissions. Wind, solar, and hydroelectric systems generate electricity with no associated air pollution emissions. In addition, wind and solar energy require essentially no water to operate and thus do not pollute water resources or strain supplies. Energy production from renewable installation does not contribute in carbon gas emissions. Energy efficiency measures are an important tool to reduce CO2 emissions through the savings in all sectors, industry, residence, transport etc. The correlation between CO2 emission reduction and the RES &EE measure will be part of the NECP document to be adopted by the end of 2021.

7. *Potential risks*

There are foreseen risks in the realisation of the reform through the implementation of projects and finalisation of the legislative framework in support of diversifying sources of energy supply through the increase of the energy production from PV and wind, financed by donations, state budget approved (in some cases) and "Free Market Supply" SA etc. There might be a general risk due to the necessary interplay between all relevant stakeholders. Delaying on the approval of secondary legislation; The lack of a financial instrument whereas projects will be implemented from the state budget and some from Foreign Financial Instruments (IPA Funds); Delays on the approval of PBC DCM; EEA not fully equipped in staff; Delays on projects activities (Procurement phase etc.), Delays in authorisation and construction phase of the PV and Wind projects due to the abovementioned phenomena and due to COVID-19 postponed procedures.

Risk	Probability (low, high)	Planned mitigating action
Prolongation projects activities	medium	Regular monitoring of the implementation of the activities
Delay in adoption and	low	Using EU technical assistance for a better and

approval of secondary legislation.		efficient legislation approximation

Reform measure 03: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana

1. *Description*

The project is under consultation for hybrid trains, which allows DMU and EMU operations. It is related to the concept of electric traction / power supply is foreseen only in the maximum scenario (same as with Durres-Elbasan-Pogradec railway line / North Macedonia railway lines). Future electrification of the railway line involves the construction of stable electric traction facilities, which need to include electric traction substations; sectioning points with neutral section; overhead contact line.

Albanian stakeholders are expecting to sign the contract to the EU technical assistance in reviewing the methodology on the track access charges calculation (TAC). This technical assistance project related to the main project for the rehabilitation is related to the contract concluded between the ministry responsible for transport and the infrastructure manager, where taking into account the defined principles and parameters, for a period of at least four years. The signing of a 5-year contract expected according to the order of the minister responsible for infrastructure No. 40/2020, on the ANTP3, incl. a multiannual maintenance (55 € M) to the decarbonisation and digitalization.

The main infrastructure manager is responsible for the administration, management and internal control of the infrastructure network, in a TAC contract with the competent state authority (MIE).

a. Activities planned in 2021

- During 2021, the measure will continue with the preparation of the demolition of the existing RW line and rehabilitation of works in the first section starting from Durres to Tirana PTT (PIU HSH).

b. Activities planned in 2022

- During 2022, rehabilitation of works will be carried out in the main section from Durres to Tirana PTT and construction of the new railway line up to Tirana International Airport will start. The Project is foreseen to be finished and handed over at the end of 2022 (PIU HSH).

c. Activities planned in 2023

- Construction activities are only foreseen in the Defects Liability Period, which will last 12 months (PIU HSH).

2. *Results indicators*

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2047)
Outcome Indicator 1 - Million passengers/year	0.75881	1.1741	1.25
Outcome Indicator 2 - Tons/year	198,900	51,100	250,000
Outcome Indicator 3 (tons/year) - Reduced CO2 emissions vs. cars	0	486	486
Project Specific indicator 1 - Car-km removed from road per year	0	8,700,000	8,700,000
Project Specific Indicator 2 - Truck-km removed from road per year	0	138,000	138,000
Cross sector indicator (# in millions) - Total number of beneficiaries	0	2,9	2,9

3. *Expected impact on competitiveness*

The measure is a priority strategic project that will give prosperity and development to the citizens' transport facilities among the largest cities of Albania. The Tirana – Durrës railway project and the connection with TIA complete and fully achieve the multimodality of the infrastructure network between the two metropolises, creating an efficient network between the road infrastructure, the airport and the Port of Durrës. The project will have a great economic and social impact on cluster building in the growing region Tirana-Durrës. Providing the region with a well-functioning railway line will be an advantage, beneficial for both companies already settled as well as for potential local and foreign investors.

4. *Estimated cost of the activities and the source of financing*

The project has a total estimated cost of EUR 90.45 million. The contract includes works for the rehabilitation of the Tirana-Durres railway line and construction of the new rail link, as well as consultancy services for the supervision of works, for which the tendering processes are ongoing too. A sovereign loan of up to EUR 36.87 million for civil works (incl. contingencies) and in additions for the strengthening institutional capacity through an EBRD grant 0.87 mln EUR.

A grant from WBIF-EU of EUR 35.435 million comprising of 32.935 mln EUR for civil works and 1.5 mln EUR for supervision and 1 mln EUR for ESIA implementation and project management and the tendering documentation amounting of 1,215 mln EUR totalling 36.65 mln EUR is already given for this important project. In addition, Land expropriation (1 mln EUR) and VAT (15.06 mln EUR) is part of the state budget (over EUR 16.06 million). The number of facilities from the project are 39 houses and other warehouses in the technical Domestic Triangular Railroad Junction, as amended.

The command-control systems (CCS) is approved into the open procurement criteria of the main railway project, at the ECTS level "1" in order to be raised to level "2" in the future. Albania has ordered the preparation of a 5-year maintenance plan with Ministerial Order no. 40/2020 on the approval of the National Transport Plan 2020-2024, which is published by MEI - IoT. The approval of the maintenance plan for 2020-2024 for the entire Albanian Railway Network with the technical assistance of Connectivity in the core transport network the CONNECTA/ EC, has been completed.

Rail investments approved in the Master Plan ANTP3, 40/2020, and already published on the web portal of the Albanian Institute of Transport, which acts as digital service unit and control of licensing criteria as in the: http://ital.gov.al/wp-content/uploads/2019/12 /PKT3-PJESA-I.pdf. All railway investments approved and included in a single SSP package, including the state budget.

This general process of strategic importance was approved via negotiation process in the region with the follow up of the Berlin process and Connectivity agenda in the EU.

With the assistance of the EBRD, the Albanian Railways – Track Access Charges Methodology Review and Asset Management Plan Project is under implementation. The kick off meeting for this project was organised on 5.02.2020 and its duration is foreseen for 9 M. The project will prepare the electronic register and AMP system of railway infrastructure assets (RIA).

In the meantime, the EU TA on International Financial Reporting Standards / Systems (IFRS) is supporting the design and implementation of the AFMIS system. The Albanian Railways is part of the AFMIS system via the management information system (MIS)

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

New jobs are expected to be generated, both during construction of works as well as during operation of this railway line. It is estimated around 1,375 new jobs during the construction and an estimated 2,200 new jobs during the operation of this line for the RU who has benefitted the PSC in 15 years (whereas the maximum duration of rail passengers public service contracts is 15 years, which could extent to 50% in cases specified by the Rail Code). The expected impact and employment outcome will also include the maintenance working staff by the IM.

A railway intermodal school established in Albanian Railways, three years ago and the top priority of this school emphasizes the role of a vocational training centre, at the digitalization via the ICT.

Furthermore, the creation of an electronic railway-training program is a great help to just in time and transparent in the transfer of our know- how. Railway curricula prepared by UAMD University through a joint agreement for cooperation with Albanian railways. The intelligent transport systems for this case will help a lot, as in the case of the preparation of curricula, of road inspectors, by UPT of Tirana. The EU framework for harmonized qualifications remains a challenge for the railways. Woman in rail transport promoting the equally paid salaries for the new creating jobs to the project. The second revision of the Albanian National Transport Plan (ANTP 3) 2020 – 2023 has a total budget for the soft measures included in the Action Plan of 24.33 million euro, including training programmes to all staff increase competences of the staff of licensed schools in the transport sector.

Albania has learnt on how to maintain safe transport including the operations in the green corridors respecting the health safety protocols. The Albanian parties prepare the Risk Declaration for the Albanian Railways. In this respect, the Albanian Railways included in the Risk Declaration, the register and risk mitigation plan of measures due to COVID-19 pandemic. The Risk Declaration includes as well the economic, social, financial, technical, interoperability, cross-border points operations and the human resources management and gender equality in the workplace.

The Risk Declaration is dedicated to all the railway undertakings and infrastructure managers, and includes the harmonised cross-border procedures with the neighbouring countries on freight transport operations in the Green Lines of the indicative extension of TEN-T Mediterranean crossing the Albanian and EU borders. The efforts and measures taken by the Albanian Railways were financed under the state budget and the EU co-financing.

6. *Expected impact on the environment*

The objective is to reduce the negative environmental impact of road traffic between Durrës, Tirana and TIA, and contribute to the reduction of CO_2 and local air pollution from road traffic in the Durrës-Tirana region.

The provision of high-quality rail services, which is one key element of sustainable transport systems, will help reduce CO_2 emissions in line with national and EU transport policy targets.

Measures will be put in place to reduce energy consumption and costs per unit of transport service; this is done with the implementation of ANTP3 (the 2nd review with the planning of DMU or EMU units).

Developing multi-modal transport solutions by focusing on energy-efficient and environmental-friendly modes of transport is ongoing. For that reason, Albanian railway is included in the National Medium Term Energy Efficiency and the Renewable Energy Plan RES.

Measures are put in place to improve the share of rail transport and inland waterways since both can be eco-friendly modes of transport (if fuelled by renewable energy) and promote the regional cohesion.

7. *Potential risks*

Risk	Probability (Low/High)	Planned mitigating action
Urban territory and spatial planning and bottlenecks to permissions	Low	The proposed design gave special attention to the access of the neighbouring land uses and properties as well as to the pedestrian and road connection.
Inability to negotiate the settlements.	Low	Negotiated settlements are encouraged to help avoid expropriation and eliminate the need to use governmental authority to remove people forcibly.

5.3.2. Agriculture, industry and services

a. Analysis of main obstacles

The perception of tourism sector as one of the main engines of the country's economic development is also supported by the latest official data. During 2019, an increasing number of

6,406,028 foreign tourists visited our country. In addition, according to the World Travel and Tourism Council (WTTC) 2020 publication, during the year 2019, the tourism sector recorded a total contribution of $ 3,264.5MN, accounting for about 21.2% of GDP. Also, in terms of employment, the total contribution of travel and tourism was 254,000 jobs or 22.2% of total employment in Albania.

However, in normal situation tourism sector in Albania is still far from the potential represented by the country's natural, historical and cultural resources. Furthermore, the emergency created by the earthquake of November 26, 2019, as well as the immediate and extraordinary shock as a result of the COVID-19 pandemic have put tourism sector in the country in a difficult situation.

In the face of the crisis caused by the pandemic, in addition to financial support packages and decision-making regarding monetary and lending policy presented by the Albanian Government where among the main beneficiaries were individuals and businesses from the tourism sector, the Ministry of Tourism and Environment undertook a series of immediate, short-term measures in support of coping with the situation caused by the pandemic such as: online application for the categorization process by the subjects and facilitation of the procedure; online application for exercising the activity as a beach station, drafting safety protocols in cooperation with the Ministry of Health to be implemented by accommodation structures and other entities operating in the tourism sector etc.

Preliminary data* for the first 6 months of 2020 show a contraction of the tourism sector due to the pandemic, expressed in a decrease of about 52.2% of travel / tourism revenues compared to the same period of 2019. In addition, the number of foreign tourists visiting the country for the period January-September 2020 was 2.122.202 tourists, or 61.1% decrease compared to the same period of 2019.

According to the Albanian Investment Council, tourism and services are expected to be maximally affected by the pandemic. Among all economic sectors, tourism is most affected with an activity closure of up to 75%.

In these conditions, the diversification of the tourist offer in order to further consolidate it, through the use and optimization of untapped tourism potentials, such as maritime tourism, is seen as one of the long-term measures to support the development of the tourism sector. Nautical tourism, as has been proved in other countries of the region such as Croatia, Montenegro, Greece and Italy, is a major industry and Albania is missing from this valuable Mediterranean corridor due to its scarce marina economy. The favourable geographical position of Albania, linking the Adriatic and Ionian Seas and the Central Mediterranean Sea, makes it an important country for the development of maritime activities.

Also, "drafting the regulatory and institutional framework for the development of services and the way of operation of Tourist Ports and activities in their function", as well as the "Development of the Coastal and Maritime Tourism Program and the creation of new products" are among the specific objectives of the National Strategy for Sustainable Tourism Development 2019-2023.

Albania's maritime activities are rather limited, focused mainly on fisheries. Albania lacks the basic infrastructure, people and facilities to service even a modest number of pleasure boats, less of all a sustainable marina industry; the country's rules and procedures, many unchanged from the communist era, stand out for their complexity and intractability, making the country the least welcoming destination in the northern Mediterranean Sea.

b. *Reform measures*

Reform measure 04: Reform on the Water and Waste Water Sector

1. *Description*

To address challenges in the water sector, the GoA is reforming and water and wastewater sector. Since the reform has begun, there have been 39,000 new contracts signed and 80,000 new meters installed and 22 million Euros in revenue generated.

The reform measure covers water supply service and urban wastewater treatment and disposal, and is based on the establishment of three main pillars, Good Governance, Effective Investments, and

Action against Informality. The sector overview is oriented on: (i) reducing non-revenue water by 20%; (ii) providing 24/7 water access in coastal areas; (iii) improving water quality. The focus is to:
- Ensure efficient governance of the water and sanitation sector;
- Provide universal access to safe drinking water and sanitation;
- Achieve compliance with water pays for water principle through full cost recovery;
- Achieve compliance with the polluter pays principle;
- Provide water supply and sanitation services to consumers at an affordable price;
- Ensure public participation and transparency in water policy.

The reform will strive to reduce informality increase water service and sewerage coverage and improve wastewater treatment. In addition, there are two national objectives set for:
- Reducing non-revenue water by 20% until 2021;
- Increasing the hours of service in the coastal area aiming 22 hours by 2021.

a. Activities planned in 2021
- Continued evaluation and optimization of performance contracts;
- Implementation of the:
  a. Law on water supply and sewerage services of urban waste waters;
  b. National water supply and sewerage services sector strategy 2019 – 2030";
  c. Master plan for water supply and sewerage services of urban waste waters";
- Water supply and water supply projects for coastal areas –I;
- Technical support for the implementation of the reform in the water supply and sewerage sector;
- Establishment and implementation of national testing and certification program in the water sector;
- Adoption of indicators and criteria, included in the performance contract, for service providers in the water supply and sewerage sector.

b. Activities planned in 2022
- Continued evaluation and optimization of performance contracts;
- Implementation of national testing and certification program in the water and wastewater sector;
- Follow up of performance contract for service providers in the water supply and sewerage sector;
- Monitoring and implementation of the law on water supply and sewerage services of urban wastewaters (MIE, AKUM, ERRU).

c. Activities planned in 2023
- Continued evaluation and optimization of performance contracts;
- Implementation of national testing and certification program in the water and wastewater sector;
- Follow up of performance contract for service providers in the water supply and sewerage sector;
- Monitoring and implementation of the law on water supply and sewerage services of urban waste waters (MIE, AKUM, ERRU)

2. *Results indicators*

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Water Supply Coverage at National Level	84.6%	87.7%	96.4%
Sewer Coverage (National Level)	56.3%	62.5%	74.1%
Continuity of Water Supply (hours / days)	13.3%	20	24

3. *Expected impact on competitiveness*

The foreseen actions have several dimensions of impact, such as enforcing the consumer pays principle; providing a better climate for tourism; implementation of the law, reducing informality; providing citizens with the service they deserve; supporting health, safety and social responsibilities through governance; supporting financial stability and efficiency; supporting environmental protection.

4. *Estimated cost of the activities and the source of financing*

Some of the actions will have an impact on the budget; however, the exact figures are still being calculated.
- 24/7 coast water supply;
- 20% reduction NRW - 60 million Euro
- Water supply - 80 million Euro
- WWTP - 280 million Euro
- Total - 360 million Euro (2018-2021)

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

It is a gender-neutral reform measure. It will have a direct effect on employment during the construction phase of the water and wastewater treatment facilities in the short term and may have a positive indirect effect on employment in such sectors as tourism, agriculture, etc.

The reform measure is expected to improve the wellbeing of citizens by providing water supply services and wastewater disposal and treatment in accordance with internationally recognized standards.

6. *Expected impact on the environment*

One of the Mission and Strategic Objectives of the National Water Supply and Sewerage services sector strategy 2019 – 2030 is to ensure quality collection, treatment and disposal to safeguard public health and in compliance with national environmental regulations.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Delays due to lack of funds	Low	A careful planning on the central level
Delays due to work load	Medium	a team that has started working for the development of a detailed plan
Lack of political will	Low	A commitment of the highest levels of government, and inclusion of all possible partners in the sector

Reform measure 05: Better marine and maritime governance and services

1. *Description*

Previous studies have identified and analysed gaps in the legislation, which affect especially the transport and marine sectors, part of the maritime economy. This reform measure seeks to amend, align and complete the current legislation and procedures to create a regulatory framework that is modern, in line with EU regulations and tailored to the needs and distinct characteristics of the Blue Economy. Also, the certification of maritime tourism operators will enable the provision of maritime tourism activities such as: sailing for tourist and entertainment purposes, surfing, recreational diving, windsurfing, water skiing, wakeboarding, water motor, tourist fishing etc. only by licensed maritime tourism operators.

a. Activities planned in 2021

- *Finalisation of the legal framework on maritime tourism activities*

  The Law on Maritime Tourism Activities was recently adopted. It sets out the rules, conditions and criteria for activities in maritime tourism, tourist vessels and entertainment purposes, the necessary infrastructure needed for their exercise, as well as institutional responsibilities in this field. Further on, the entire supplementary legal framework deriving from this law will be drafted, such as: DCM "On the approval of detailed criteria on the operation of maritime tourism activities performed through nautical vessels for touristic and recreational purposes", DCM "On the establishment of criteria and functioning of seasonal anchorage stations", Decision of National Council of Territory "On the approval of permitted areas to perform maritime tourism activities", Guideline of the Minister of Tourism and Environment "On criteria and procedures for certification of Maritime Tourism Operators" etc. (MTE, MoI; MIE)

- *Certification of maritime tourism operators*

  This will be a well-regulated and very transparent process that will create the conditions to further develop the sector, improve the quality and establish high safety standards. The operators have to demonstrate compliance of their equipment and devices with the provisions of the legislation and the appropriate professional education. This will be an on-going process that will reflect and address the market needs for maritime services. (MTE, MoI, MIE)

b. Activities planned in 2022

- Certification of maritime tourism operators (MTE, MFE)
- Promotion of maritime tourism sector

  This activity comprises support for different promotional activities in different municipalities, organization of international activities etc. (MTE, National Tourism Agency, LGAs)
- Increase human resource capacities

  Promote vocational training related to maritime tourism professions. (MTE, MFE, LGAs)

c. Activities planned in 2023

- Certification of maritime tourism operators (MTE, MFE)
- Promotion of maritime tourism sector

  This activity comprises support for different promotional activities in different municipalities, organization of international activities etc. (MTE, National Tourism Agency, LGAs)
- Increase human resource capacities

  Promote vocational training related to maritime tourism professions. (MTE, MFE, LGAs)

2. *Results indicators*

Indicator	Baseline (2020)	Intermediate target (2021)	Target (2022)
Number of certified maritime tourism operators	0	Positive Trend	Positive Trend
Number of employees on maritime tourism sector	N/A	+ 400	Positive Trend
Number of yachts visiting the ports and their number of port touches	N/A	Positive Trend	Positive Trend
Increased safety and quality of services related to navigation, diving, tourist fishing	N/A	+ 30%	Positive Trend
Number (inventory) of tourist vessels etc.	N/A	+ 2000	Positive Trend

3. *Expected impact on competitiveness*

This reform will contribute to the reduction of informality and to enabling better quality services in the maritime tourism sector. Setting and implementing clear rules and regulations will further encourage and promote competitiveness among businesses operating in the sector within the country as well as in the regional level. It will strengthen human capacities as a crucial precondition towards growth.

4. *Estimated cost of the activities and the source of financing*

The source of financing is from state budget (no additional costs).

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

Maritime tourism in Albania is among the sectors with widespread economic benefits, but with untapped potential. In addition to the revenue generated in direct servicing, nautical tourism generates myriad indirect benefits in employment and income as the success practices of neighbouring countries show. As a result, a positive effect is expected in terms of increased investment, and consequently employment and budget revenues. Other sectors related to tourism will also increase, mainly fuel suppliers, importers of spare parts, professional courses for a number of job positions. Economic impacts are expected to particularly affect public authorities and small and medium-sized businesses.

6. *Expected impact on the environment*

Among other things, in drafting the legal framework for maritime tourism activities, international maritime conventions have been reviewed and taken into account, such as: UNESCO Convention for the Protection of the Underwater Cultural Heritage, Convention for the Protection of Marine Life and the Mediterranean Coast, The International Convention on Marine Search and Rescue, the International Convention for the Prevention of Ship Pollution, as well as all the principles and standards of the European Union acts on the free movement of people and goods. The new legal interventions aim to keep in control the pollution caused by maritime navigation activities due to the increasing degree of control brought about by the regulatory intervention.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Non-preparation and non-approval of bylaws in accordance with the provisions of the law, which are mainly related to lack of experience.	Moderate	Resources that provide technical assistance in the preparation of all the bylaws will be identified. For this it will be necessary the expertise of foreign and domestic experts.
Covid-19 pandemic hampering efforts to push the reform ahead	Moderate	Careful planning of the calendar of activities taking into account the alternating work between the physical presence and the online one, as well as close cooperation with partner institutions.

5.3.3. Business environment and reduction of the informal economy

a. Analysis of main obstacles

COVID-19 has affected each sector of the Albanian economy, particularly tourism. Covid-19 forced almost half of the Albanian economy to shut down, except agriculture. Despite size or sector, most of companies expect more than 20 percent reduction in annual turnover. Regardless of the sector or size, businesses estimate that the impact of COVID-19 on the economy will last up to a year. Main challenges are unprepared for human resource management – layoffs, regular leave, and work from home. Importers are considering finding new sources for raw materials in the country, companies without risk and emergency management approved plans. COVID-19 made companies aware about the effectiveness of using online services, also changed investment plans towards new technologies, strengthening sales channels, risk management.

The current analyses found many shortcomings regarding to the Albanian entrepreneurship support system, including: Limited access to finance (no basic access to bank products) - only 40% of adults and about 75% of SMEs hold bank account, only about 1% of SMEs in Albania use grants which is around 3 times lower than the regional countries' average and limited access to business services. The government is committed to improve the entrepreneurship support system and better grant usage of SMEs.

Some areas for intervention are identified, such as: the redesign of the state grant scheme to support SMEs and improve access to finance, aid to SMEs so that this crisis does not undermine their activity, creation of effective calls for proposals with improved conditions, selection criteria, easier application and simpler monitoring, identification of eligible entities to support, creation of better indicators to measure performance.

The COVID-19 pandemic and the lockdown between March and June 2020 has also severe implications for the start-up and innovation ecosystem in Albania. Due to the imposed restrictions on business activities, start-ups and support organisations are facing severe problems at the moment. The number of more advanced and scalable start-ups in Albania is relatively low. There are only few start-up teams that would be interesting for international partners to collaborate with.

In combination with the generally weak ecosystem, this influences the opportunities and chances for collaboration with ecosystem players and start-ups from the region and internationally. Access to Finance for start-ups and ISOs is very limited. To ensure start-up development and survival in the early stage there must be availability of investors who not only invest financial assets, but also additional expertise and know-how. Governmental financial support is also needed.

Albania's private sector mainly consists of micro, small, and medium enterprises (MSMEs), which are burdened by informality. Albania rolled out a country-wide campaign to combat the informal economy in 2016 and the numbers of registered tax payers and social contributors increased significantly. Since 2019, the government has implemented a risk-based approach to focus its action on the informal economy in a more efficient way and to shift the focus away from mobilising additional budget revenue by stepping up the number of checks and inspections.

Despite recent progress increasing the number of registered businesses, they sometime still do not declare taxes or workers and mainly transact in cash. Informal businesses generally have lower productivity than formal businesses, which is both a drag on firms and a drag on the economy. Public revenues are reduced by hidden economic activity, resulting in diminished provision of public goods. Business conducted outside the regulated economy raises safety, health, and environmental risks for workers and communities. Informality impedes not only the development of those businesses that decide to remain informal but is also a hindrance to the formal companies faced with competition from the informal sector. By being outside the formal economy these companies lack the opportunity to benefit from access to formal finance, access to formal markets, and from the legal protection of their property, contracts, and investments. To allow businesses to better contribute to the economy it is important that the government continues to invest substantially in formalizing these MSMEs.

The Albanian government is committed to serving the good governance of businesses, as well as reducing the corruptive approach in some aspects in the fight against evasion and informality. During 2020, the Albanian government was involved in a very important process related to the Fiscalization Law, which will directly help the Tax Administration to obtain real-time and accurate data, for all transactions of business with the tax administration, but also all the information that circulates in the "business to business" and "business to government" relationships.

The goal is that in 2021 the entire information process through invoicing will be electronic and this will exert an even greater pressure towards access to real financial statements and not fiscal ones that today we consider to be far from reality.

b. Reform measures

Reform measure 06: Strengthening the fight against informality

1. Description

The main initiatives taken by the Tax Administration against informality in 2020 are based on clear principles and objectives based on intelligence (Risk).

The risk criteria applied in the implementation of the tax administration's operational plan were:

- *Taxpayers whom during the period January-May 2020 result with an increase in turnover but a decrease in VAT due to be paid.*
- *Taxpayers who are the main contributors of income excluding banks, public entities which based on the Risk Module have broken risk criteria but have not been audited after June 2019. Tax administration's reaction to these taxpayers will be proportional to the number of broken criteria.*
- *Taxpayers who exercise activity in the Trade Sector that, based on the VAT returns' data and payments results in a carried-over credit balance in excess of 1,000,000 ALL.*

Other initiatives, promoting voluntary compliance, have also been undertaken:

1. Comparison of turnover by cash register / income tax return for 2019;
2. Taxpayers with the purchase-sale ratio greater than 25% (excluding investment purchases), monthly for the period July-November 2020;
3. Taxpayers that do not declare electricity expenses from OSHEE in the purchase books;
4. Verification of balance sheet compilers;
5. Identification of taxpayers that apply reduced rates of Income Tax and VAT; sending these cases to Regional Tax Directorates (RTD) for verification.
6. Identification of active taxpayers in the trade sector with turnover over 14 million ALL, that result in turnover decrease by more than 20%, for the period August-September 2020, compared to the same period of the previous year;
7. Identification of taxpayers that, based on the monthly turnover, meet the criteria for changes to their tax liabilities.
8. Identification and monitoring of taxpayers performing high value purchases in the end-of-month periods. This aims at detecting cases of receiving fictitious purchase invoices on the last day of the month in order to reduce VAT tax liability.
9. Informality in the labor market for all its 4 components:
   - Non-registration of employees;
   - Non-declaration of real wages;
   - Inaccurate declaration of working hours;
   - Inaccurate declaration of the profession category and social insurance' category.

(personalized letters sent to employees and employers, estimated with unrealistic salaries for the professions they declare; for taxpayers who make a social security declaration worth 0-1 ALL and taxpayers with frequent movements of employees; for RTD Tirana and RTD of Large Taxpayers, as a pilot phase, the comparison of salaries between the periods 12/2019 and 06/2020, aiming to identify and contact taxpayers with reduced salaries per employee by more than 5,000 ALL / month; Non-declaration of sales / purchase books for the year 2019.

From the measurement of the impact from the plan "Informality in the labor market", it was noticed that the tax administration had impressive results during the period October-December 2019, where 11,941 letters were sent to taxpayers. Referring to the total data, the increase of revenues for the tax administration for the period October 2019-August 2020 was 238.4 million ALL, respectively + 167.2 million ALL for social contributions and + 71.2 million ALL for TAP. This plan, after being evaluated by the experts of the World Bank, continued during the beginning of 2020, but the Covid-19 pandemic affected the progress of its wide implementation. Using the best communication practices, the Tax Administration is initiating a new way in communication with taxpayers. In the period August 2020, 5,270 taxpayers were contacted through letters to identify the risk of inaccurate declaration of salaries.

The revenue projection for 2021 supports the government's goals of gradual fiscal improvement, keeping the budget deficit and public debt under control and gradually reducing. This program is based on improving fiscal administration and minimizing informality in the economy, thus supporting economic recovery, as well as boosting production and exports.

This reform will contribute to the reduction of informality and to enabling better quality services in the taxation sector.

a. Activities planned in 2021

- New and improved risk criteria for identifying non-compliant taxpayers (taxpayers with increased revenue, but decreased due VAT; taxpayers not declaring expenses for electricity bills; taxpayers with under-declared wages for their employees – identified by comparing several years' data)
- The Fiscalization process as a key indicator in tackling tax evasion, tax fraud and informality, by making use of real-time monitoring of financial transactions between taxpayers under the newly implemented fiscalisation system (invoicing and monitoring system of the trading activities of taxpayers by the Albanian tax authorities). It will bring more reported cash transactions and it will reduce hidden cashless transactions, with better control of the fiscal system. It will also help efficiency in the fiscal reporting, by gathering more data from the taxpayers and pre-filling the VAT returns with these data. This process will go through three phases:
  - On January 1 2021, for cashless transactions between taxpayers and public bodies;
  - On July 1 2021, for cashless transactions between taxpayers;
  - On September 1 2021, for cash transactions by all taxpayers.
- Detecting undeclared global income from taxpayers and individuals, through the first Automatic Exchange of Information on Financial Accounts in 2021 and onward, under the OECD's Common Reporting Standard. The information exchanged each year includes financial accounts' balances at the end of the reporting year, capital gains (including interest, dividends, royalties and proceeds from the sale of financial assets), reported to governments by financial institutions, covering accounts held by individuals and entities including trusts and foundations.
- Integrating and making use of data from third parties in the tax administration's Data Warehouse, {utilities' national authorities (water, electricity), vehicles registration, municipalities, etc.}. Taking into consideration the VAT gap as well as data inconsistencies, data collection and their good administration, building a Data Warehouse (as one of IMF's recommendations) with centralized data, managed by only one source, becomes a big step forward in terms of fight against informality.
- Creating an effective mechanism for detecting and preventing criminal activity in the economy and making available accurate and up-to-date information from every bank account' holder (individuals, taxpayers and other entities).
- Building the Register of Taxpayers' Assets (tangible & intangible), with the aim of a real assessment of taxpayer's assets, by building a system to verify and track taxpayers' income, full control of payments made on property taxes. Taxpayers' Register of Assets. This process will go through 3 phases: a. Creating an Asset Register with relevant attributes; b. Exchange of data with the web-service; c. Data Analysis with BI Reports. Meanwhile the draft law on bank accounts has already passed the Committee of Laws and Integration. It is expected to be discussed within coming days in the Committee of Economy. After passing in the Committee of Economy, it is expected to be presented to the Parliamentary Assembly and final step will be the decree by the President of the Republic of Albania. After passing these two steps after 15 days from the publication in the official journal, the law enters into force.

- Investigating cases of high and unexplained wealth of individuals. Failure to address potential compliance risks in this small, but often very obvious group of taxpayers, can lead to a decrease in public trust toward fair taxation, which tends to reduce compliance in the wider taxpayers' population

2. *Results indicators*

Indicator	**Baseline (2020)**	**Intermediate target (2021)**	**Target (2022)**
Introducing new risk criteria for identifying non-compliant taxpayers, aiming under declared wages and transactions	50 criteria	+3	+3
Increased VAT revenue	-	>5%	>10%
Increased no. of Personal Income Tax' returns submitted from individuals	12.915	-	>1%
Level of completion - Building the Data Warehouse and populating it with internal and third parties' data	-	80%	100%
Level of completion - Building the Banking Accounts' Register	-	70%	100%
Level of completion - Building the taxpayers' Register of Assets	-	70%	100%
Identifying risks presented by the high wealth individuals' segment. Gathering needed data from various sources, including data from Automatic Exchange of Information.	-	60%	100%

3. *Expected impact on competitiveness*

Strengthening the fight against informality in economy will create a better climate of fair taxation and will increase the taxpayers' trust toward tax administration.

4. *Estimated cost of the activities and the source of financing*

State Budget.

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

This reform measure contributes to competitiveness and will also allow the decrease the cost of tax collection. This reform measure will indirectly contribute to job creation by ensuring fair taxation.

6. *Expected impact on the environment*

The reform is not expected to have an impact on the environment.

7. *Potential risks*

There are foreseen risks in the realisation of the reform through the implementing of activities and finalisation of the legislative framework. Delaying on the approval of primary / secondary legislation. The lack of a financial instrument whereas activities will be implemented from the state budget; Delays on reform activities (Procurement phase, etc.).

Risk	Probability (low, high)	Planned mitigating action

Prolongation of activities.	Low	Regular monitoring of the implementation of the activities
Lack of capacity and coordination among institutions.	Low	
Delays in the adoption of legal acts.	Low	

Reform measure 07: Developing a legal framework in support of innovative start-ups

1. *Description*

In recent years, the role of innovative start-ups has steadily gained importance as a driving force for economic and social development towards a knowledge-based society. The success of start-up companies and their potential to scale-up depends on a variety of factors.

Based on the technical assistance from GIZ, a draft for a new start-up law was discussed and revised by an inter-ministerial working group between the Ministry of Finance and Economy and the State Minister for Entrepreneurship. One of the crucial elements of the new draft law is the setup of "Start-up Albania", the Agency that will implement this law.

In November 2020, started the public consultation of the draft law with stakeholders and awareness raising for the start-up law, meanwhile, within in December 2020 it will be developed the concept and the stakeholder engagement for a new "Online Ecosystem Portal" which will bring together all the stakeholders, programmes and support schemes of the Albanian start-up and innovation ecosystem. Connecting the Diaspora to the Albanian Entrepreneurship Ecosystem is an expected outcome. Also, it expected the finalization of the Prime Minister's Office – Start-up Programme.

a. Activities planned in 2021

- Adoption of the law on start-ups (MFE and MHSP)
- Establishment of the state agency "Start-up Albania", composed of government officials and ecosystem stakeholders, which will work on and propose the bylaws and other measures/schemes in supporting the development of the innovation and entrepreneurship ecosystem in Albania (MFE and MHSP)
- Development of a strategy for the Start-up Albania Agency, including a brand for the Albanian start-up and innovation ecosystem to enable the effective communication of the comparative advantages of the Albanian ecosystem (CoM)
- Analysis on creating a financial support scheme for accelerating start-ups in growth phase, as well as support for incubators and accelerators (Start-up Agency)
- Drafting and adoption of bylaws based on the adopted law (Start-up Agency)
- Drafting and adoption of the policy framework and supportive schemes with focus on innovative product or service and new business model; (Start-up Agency)
- Development of project fiches under the Prime Minister's Office – Entrepreneurship Programme; (EU for Innovation)
- Support the selected local governments in developing the local entrepreneurship ecosystems; (EU for Innovation)
- Training of selected government officials in Innovation Management; (EU for Innovation)
- Support the bridging of the start-up ecosystem with the business community. (EU for Innovation)
- Continued/follow up support for incubation and acceleration programmes in Albania. (EU for Innovation)
- Setting up a multi-university incubation programme (Tirana Inc) for students in Albania; (EU for Innovation)
- Linkages and networking activities for connecting Albanian start-ups and other stakeholders with regional and EU counterparts; (EU for Innovation)

- Continue to reach out to Diaspora and involve them in building the ecosystem and connecting with the stakeholders. (EU for Innovation)

b. **Activities planned in 2022**
   - Implementation of the new law on start-up and support schemes. (MFE and Start-up Agency)
   - Implementation of the activities, which will be planned in the BIDS 2021-2027, "Innovation and Entrepreneurship Pillar". (MFE, Start-up Agency, MESY, AKKSHI, AIDA, etc.)

c. **Activities planned in 2023**
   - Implementation of the new law and support schemes (MFE and the Start-up Agency)
   - Implementation of the activities, which will be planned in the BIDS 2021-2027, "Innovation and Entrepreneurship Pillar" (MFE and the Start-up Agency)

2. *Results indicators*

Indicator	Baseline	Intermediate target	Target
Adoption of the new law "On innovative start-ups" and the bylaws	0	Implementation (2022)	Implementation (2023)
Creation of the state agency "Start-up Albania", composed of government officials and ecosystem stakeholders, which will work on and propose the bylaws and other measures/schemes in supporting the development of the innovation and entrepreneurship ecosystem in Albania;	0	Implementation (2022)	Implementation (2023)
Adoption of the policy framework and supporting schemes on start-ups	0	in place (2022)	Implementation (2023)
At least two calls for applications for supporting schemes on start-ups and at least 5 start-up financed by the calls	23 start-ups and 4 Innovation Supporting Organizations (ISOs) grants under the first and second call launched during 2019. The 3rd call was launched in 2020 and is currently in the final phase of the evaluation.	≥ (t-1) (growing trend)	≥ (t-1) (growing trend)

3. *Expected impact on competitiveness*

Entrepreneurship and start-up policies can encourage the emergence and growth of start-up companies by providing an entrepreneurship-friendly environment (e.g. through easing the financial burdens for start-ups). With their focus on innovative business ideas and services, start-ups represent a specific segment of the economy, which has the potential to determine the success and well-being of the economy in the long run. Start-ups bring new interventions, adapt existing technologies to the market, and therefore create possibilities for the commercialization of scientific research outputs.

4. *Estimated cost of the activities and the source of financing*

Cost of activities and source of financing are detailed in table 10a and table 10b, respectively.

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

Start-ups create jobs in future-oriented sectors of the economy and bring a proactive impulse to the economy through their competitive and dynamic way of operating. Planned start-up and entrepreneurship activities will have a focus on female founders and female run start-ups.

6. *Expected impact on the environment*

The measure does not foresee direct impact on the environment.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Low level or lack of cooperation and coordination among competent government bodies and nongovernmental organizations	low	
Start-up and innovation ecosystem is in a very early stage of its development so this status comes along with a couple of challenges (capacity building, staff etc.)		

Reform measure 08: Improving access to finance for SMEs

1. *Description*

SMEs in Albania are significant contributors to the economy. In 2018 SMEs created 79.8 % of all employment, corresponding to almost four out of five Albanian jobs, and generated more than two thirds (69.1%) of total value added. In terms of SME employment, Transport and telecommunication was the fastest growing sector in Albania in 2018, generating growth of 14.5 %, significantly exceeding the average growth rate of around 2 % for EU SMEs in the same sector. While the number of the persons employed has increased by 59.4% since 2012, the increase of the value added by SMEs has been 32.2 %.

In the context of the COVID-19 pandemic, the Albanian government reviewed the level of advisory services to better design and implement the business-support policy responses to help mitigate the economic impact of the pandemic in SME's.

A considerable number of the recommendations issued and endorsed in the meeting of the Investment Council (where private business community is also represented) in June 2020, addressed necessary support to SMEs, that have been severely impacted by the pandemic in almost all sectors of the economy, focusing on measures to support their digitalisation and maximise their access to Information and Communication Technologies (ICT). These recommendations were being taken over by the Ministry of Finance and Economy for implementation.

Since June 2020, the Ministry of Finance and Economy (MFE) has requested the support of EBRD, with technical assistance in implementing in particular 2 of these recommendations, both aiming digitalisation of SMEs as a response to the pandemic crisis:

(i) a deep analysis of the current situation and recommendations for the Government in setting up policies for the digitalization of SMEs and improving their access to ICT;

(ii) Digitalization and centralization of the information on existing and forthcoming financing schemes and resources, as an important online tool for SME's access to finance.

Within March 2021, it is expected an assessment on the digitalisation of SMEs in Albania and recommendations for improvements.

A TAIEX (on line) mission assisted the staff of the Ministry of Economy and Finance and AIDA, during September 2020, on the assessment of the current grant schemes in Albania dhe provide recommendation of their redesign. The direct financial support provided by AIDA during the 6-year period (2014-2019) has been at around 264 ALL million granted at 373 businesses SME. Currently, MFE and AIDA are under the redesign of the grant schemes in order to be effective starting in 2021.

The Covid-19 Pandemic brought to everyone's attention the importance of digitalization, online payments, and further advancement in shopping and electronic commerce (e-commerce). Overcoming barriers in e-commerce is essential for Albania to realize its full development potential. Based on a World Bank study, we are in the process of approving of a 4-year Action Plan related to the facilitation of e-commerce in Albania.

An assessment is done based on a project funded by GIZ on the effectiveness of the SME law, which will serves as basis for estimating the necessary amendments to be done at the SME law on improving the provisions for the supportive measures for SME.

a. **Activities planned in 2021**
   - Establishment of a dedicated unit within the MOFE to promote SMEs development (MFE)
   - Finalization of an analysis of the current situation and recommendations for the Government in setting up policies for the digitalization of SMEs and improving their access to ICT (MFE)
   - Establishment of a centralized information platform for the financial resources from donors, private and public sectors- accessible by SME (MFE, AIDA)
   - Implementation of SMEs state budget support scheme (MFE)
   - Review of the effectiveness of state budget grants (MFE)
   - Encourage stakeholders to make better use of opportunities offered by EU programmes (COSME) (MFE, AIDA)
   - Monitoring the implementation of the Action Plan on e-commerce (MFE)

b. **Activities planned in 2022**
   - Drafting of the annual SME state budget grant schemes (MFE)
   - Encourage stakeholders to make better use of opportunities offered by EU programmes (COSME) (MFE, AIDA)
   - Monitoring the implementation of the Action Plan on e-commerce (MFE)
   - Drafting the amendments of law No. 8957, date 17.10.2002 "On SME", as amended (MFE)

c. **Activities planned in 2023**
   - Drafting the annual SMEs state budget grant scheme (MFE)
   - Adoption of the amendments of law No. 8957, date 17.10.2002 "On SME", as amended.
   - Monitoring the implementation of the Action Plan on e-commerce (MFE)
   - Encourage stakeholders to make better use of opportunities offered by EU programmes (COSME) (MFE, AIDA)

2. *Results indicators*

Indicator	Baseline	Intermediate target	Target
Adoption of the new structure in MFE	0	June 2022	December 2023
The number of users of the centralized information platform	1000	≥ (t-1) (growing trend)	≥ (t-1) (growing trend)
Implementation of SMEs state budget support scheme	373	≥ (t-1) (growing trend)	≥ (t-1) (growing trend)

Increased rate of SMEs benefiting from increased access to finance	0	5%	10%

3. *Expected impact on competitiveness*

Improved access to finance for SMEs and a direct impact on higher competitiveness of that part of the economy, which has the largest contribution to GDP and employment in the non-financial sector. Investment growth driven by better access to finance will have a positive impact on capacity expansion, technological modernization of production, productivity growth and introduction of new, innovative products and services by SMEs.

4. *Estimated cost of the activities and the source of financing*

Cost of activities and source of financing are detailed in table 10a and table 10b of Annex 1.

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

Introduction of new financial instruments for starting a business and development of SMEs will contribute directly to job creation and self-employment. The reform is particularly important because it will help empower women entrepreneurship by facilitating communication channels towards financing, which is important for women entrepreneurs.

6. *Expected impact on the environment*

This measure is not foreseen to have an impact on the environment.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Potential risks associated with the implementation of the reform measure such a macroeconomic and fiscal instability, and low inter institutional cooperation and coordination between government and non-government organisations	low	
Start-up and innovation ecosystem is in a very early stage of its development so this status comes along with a couple of challenges (capacity building, staff etc.)	low	

Reform measure 09: Modernisation of retail payment instruments

1. *Description*

The overarching objective of the National Retail Payments Strategy is to promote the intensive use of modern retail payment instruments across the whole country, with the goal of achieving 10 cashless payments per capita by end-2022. Broadening access to transaction accounts is a necessary condition to achieve the overarching objective. In this regard, Albania aims at achieving an adult account ownership ratio of 70% by 2022.

1) Improvements of legal and regulatory framework
   a) The approval of the draft Law "On payment services" which transposes the revised EU Directive 2015/2366 – **approved in April 2020.**
   b) Drafting a legal act that will transpose the European Union directive "On the payment account" within 2021.
2) Infrastructure and technological improvements like:
   a. Possibility of implementing a national card-processing platform (SWITCH)/'instant payment'.

b. Implementation of interbank direct debit schemes.
c. Establishing a system for the settlement euro transfers for domestic payments.
d. Operationalizing the category of "indirect participation" in the AECH.

a. Activities planned in 2021
- Drafting the legal act that will transpose the European Union directive "On the payment account"
- Entering into force of the Law 55/2020 "On payment services" (January 2021) act that transposes the European Union directive "On payment services in the internal market" and drafting the regulatory framework enforcing the Law".
- TORs for implementing a national card-processing platform (SWITCH) / "instant payment".

b. Activities planned in 2022
- Implementing a national card-processing platform (SWITCH) / "instant payment".
- Monitoring the implementation and effects of already achieved objectives/ measures.

c. Activities planned in 2023
- Monitoring the implementation and effects of already achieved objectives/ measures, as well as evaluating the possibility to extend BoAs and other actors efforts on enlarging financial inclusion to greater financial services access and usage.

2. *Results indicators*

Indicator	Baseline	Intermediate Target	Target
Entering into force of the Law "On payment services"	Approval of law (Q2 2020)	The creation of sublegal acts enforcing the Law (Beginning 2022)	Final implementation of the Law (Q2 2022)
Drafting a legal act that will transpose the European Union directive "On the payment account" within 2021.	Drafting of the Law (2020)	Approval of the Law (2021)	Implementation of the Law - 2021-2022
Approval of changes in regulation and infrastructure for the interbank direct debit schemes.			2020 – in process
Approval of changes in regulation and infrastructure for "indirect participation" in the AECH.			2020 - already achieved by June 2020
Feasibility study for implementing a national card-processing platform (SWITCH) / 'instant payment'.	Feasibility Study (2020)	ToR (2021)	Implementation 2022

3. *Expected impact on competitiveness*

i. The Law 55/2020 "On Payment Services" is evaluated to increase competition in the payment service market through:

Creating an appropriate level playing field for non-bank financial institutions to offer innovative electronic payment services through: a) allowing them to open payment accounts and offering electronic payments (which in actual legislation is not permitted); creating a licencing and supervision of the institutions offering payments services proportionate to the risk that these institutions bears; c) guarantying their access to payment systems; d) guaranteeing access to TPP (account information service providers and account information payment services providers) to clients account information after the explicit consent of the client through the creation of Open Banking infrastructure; and e) the creation of prudential framework for consumer protection.

ii. Drafting the legal act that will transpose the European Union directive "On the payment account".

Is expected to increase competition through enhancing further the transparency of the services offered in the market and by increasing movability of clients through establishing more cost effective switching procedures between deferent payments service providers.

iii. Approval of changes in regulation and infrastructure for "indirect participation" in the AECH-enhance the level playing field between banks and non-bank financial institutions which offer payments services. Approved by the Supervisory Board of Bank of Albania in June 2020.

iv. Possibility of implementing a national card-processing platform (SWITCH)/'instant payment'.

Increasing competition for processing costs of card payments and also increasing completion between card payments and electronic credit transfers.

4. *Estimated cost of the activities and the source of financing*

The drafting process of the "Law on Payment Services" and its sublegal acts, as well as the draft law that will transpose the European Union directive "On the payment account" is finance by SECO. The infrastructural developments is going to be covered by Bank of Albania (with the exception of national SWITCH which is going to be an interbank consortium)

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

Taking into account that the draft law on "Payment Services" fosters the involvement of fintech companies in the financial sphere, is evaluated that the entrance of new payment service providers is going to also enhance employment.

On the other hand, is broadly accepted that financial inclusion is an important component on reducing poverty. In this regard, taking into account that the strategy has as overarching objective of increasing the percentage of population, which have access to finance from 40% to 70%, is assessed that the strategy has a direct impact in poverty reduction.

6. *Expected impact on the environment*

The strategy is evaluated to promote the electronic payments versus paper based one. To this extend is evaluated that the new payments services is going to promote more environment-friendly policies.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Failure to approve laws and regulations at the appropriate level on the planned schedule for approval and/or approval of other laws indirectly related that impede or cannibalise the aimed objectives of listed planned law/regulative changes.	Low	Coordination between different institutions through National Payment Systems Committee.
Lack of involvement of all stakeholders that contribute to drafting, implementing and executing changes in laws/regulations and in infrastructures planned to be implemented.	Low	Coordination between different institutions through National Payment Systems Committee.
Lack or limited know-how and expertise to apply	Low	Bank of Albania is working

changes in law/regulation and/or technical implementations of foreseen infrastructural improvements		intensively to have the appropriate expertise form World Bank and EU countries' Central Banks

5.3.4. Research, development and innovation and the digital economy

a. Analysis of main obstacles

Albania is at an early stage when it comes to scientific research and innovation. It faces challenges which prevent it from performing its supporting role for a sustainable economic development of the country.

Although the strategic and legal frameworks continue to improve, there is still much to be done in terms of their implementation and realization. Thus, there is a constant challenge to improve the capacity of scientific research.

Despite the fact that the goal to increase investment in Science Research, Technology and Innovation by up to 1% of GDP by 2022, has been taken into account by institutions marking a significant increase in national resources for research and innovation, the current level of 0.06% of GDP is still far from the target and there is still a need to increase investment in research and other measures to strengthen research and innovation capabilities at the national level.

Albanian universities also suffer from a lack of funding. Although they aspire to a "triple helix" model for developing innovation based on scientific research, it is a fact that few of these aspirations are realized. Moreover, university - industry / business cooperation is currently very weak and both sides are reluctant to broaden and deepen the cooperation.

The Smart Specialization Strategy (S3) is in the process of being drafted. It began in September 2016 and had a good progress until the end of 2019, when the drafting of the road map and the qualitative analysis of resources was completed. The year 2020 marked a slowdown in the implementation of the foreseen activities, and consequently the deadline has been extended until September 2022 with respect to the strategy's implementation. In 2021 are foreseen to be carried out the EDP analysis and the stakeholder consultation.

Regarding Innovation, based on the Global Innovation Index (GII), for 2020 Albania remains ranked 83rd place out of 131 countries and economies worldwide, but sees a significant decline of 27.1 points (0 in 100), compared to a year ago (30.3).

Digital infrastructure and broadband is crucial for all other developments in digital integration and impacts all sectors of the economy. Digital infrastructure is a precondition for developments of digital economy in innovative industry, e-government, e-health, provision of interoperable services, provision of cross border services etc. As demonstrated during the COVID-19 pandemic crisis, digital connectivity was a vital necessity for citizens and businesses. Digital Infrastructure, the development and rollout of national broadband infrastructure in the six Western Balkans is one of the flagships of the Economic and Investment Plan for the Western Balkans adopted from the European Commission on 6th of October 2020[12].

Broadband development is one of the key priorities in the strategic documents in Albania. Albania has approved a new National Plan for Sustainable Development of Digital Infrastructure, Broadband 2020-2025 (NBP) by Decision of the Council of Ministers No 434 dated 3.6.2020. The Plan has defined three strategic objectives of broadband development as follows:

- ✓ Strategic Objective 1: Sustainable development of broadband infrastructure.
- ✓ Strategic Objective 2: Reducing the digital divide and providing comprehensive broadband services.

[12] https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/communication_on_wb_economic_and_investment_plan_october_2020_en.pdf

- ✓ Strategic Objective 3: Increasing Demand for Digital Economy Development and a Gigabit Society.

The Plan aims to further advance the development of broadband infrastructure throughout the country and address the digital divide. The four priority pillars that the new National Broadband Plan is built on are: 1) Broadband infrastructure builds out; 2) Strengthening of financing and broadening of funding basis; 3) Spectrum management; and 4) Sustainable competition. A key new element in the NBP includes the planned enablement of public funding though USO and State aid to further infrastructure coverage in rural and remote areas. The National Broadband Plan has defined objectives to increase the broadband penetration. The development of broadband and digital infrastructure asks for large investments and for creating synergy between all infrastructure projects and projects related with digitalization in central and local level.

A fully-fledged Feasibility Study on broadband development was prepared with the support of EU through WBIF project[13]. The feasibility study has estimated the investment costs for future proof broadband investment in white areas, grey areas, and black areas under different scenarios. The development of broadband networks requires huge investments especially to cover the white areas.

The main legal framework for telecommunication sector is the law no. 9918, dated 19.5.2008 for electronic communications in Republic of Albania as amended. This law is based on EU electronic communication package of 2002 as amended by directives of 2009. Furthermore, Albania has approved also the Law no. 120, dated 24.11.2016 [14] for broadband development. This law aims to increase the investment, improve the broadband penetration, increase the efficiency of the existing infrastructure through infrastructure sharing, as well as will increase the competition. In addition, there are some social and environmental benefits. The implementation of the Law no. 120/2016 is ongoing. OST (Transmission System Operator), the electricity provider, has recently been provided with Authorization by AKEP, for the provision of telecommunication services, the provision of broadband access over OST fibre optics.

During 2020, by the decision of the Council of Ministers was approved the Spectrum Policy document. This document defines the multi-annual program of spectrum policy aiming a strategic planning and harmonization of the use of the frequency spectrum to ensure the efficient use of the frequency spectrum in accordance with EU policies on the use of the frequency spectrum, in the field of electronic communications, research, technological and spatial development, transport, energy and audio-visual broadcasting.

In December 2018, the European Union has approved a new electronic communications code by Directive 2018/1972/EU. The new electronic communications code repealed the EU regulatory package for electronic communications 2002/19/EC, 2002/20/EC, 2002/22/EC and 2002/21/EC, as amended. The code's provisions include measures to stimulate investment in and take-up of very high capacity networks in the European Union, new spectrum rules for mobile connectivity and 5G, as well as changes to governance, the universal service regime, end-user protection rules, and numbering and emergency communication rules. The transposition of this new directive in national legislation is planned during 2021.

Based on Prime Minister's Order no. 157 dated 22.10.2018, "On measures for the implementation of a broad sectorial / cross-sectorial approach, as well as the establishment and functioning of the sectorial / cross-sectorial integrated mechanism" the IPMG-s (Integrated Programme Management Groups) and Sectorial Lead Committees were established. The "Connectivity" Sectorial Lead Committee leaded from Ministry of Infrastructure and Energy. The telecommunication and broadband is a specific thematic group part of the Connectivity Committee.

b. Reform measures

Reform measure 10: Improving institutional, financial and human capacities for research and innovation

[13] https://eeas.europa.eu/delegations/albania/83464/regional-broadband-infrastructure-development-albania-closing-workshop_en

[14] Law "On the development of high-speed electronic communication networks and the provision of the rigjt of way" fully approximates Directive no. 2014/61/EU

1. *Description*

The reform measure, proposed by NASRI and supported by MESY, is in line with the Strategy for Science, Technology and Innovation 2017-2022, the National Plan for European Integration 2021-23, "Chapter 25" Science and Scientific Research, and recommendations of the European Commission for Science and Scientific Research. The aim of the measure is to develop the infrastructure of research and innovation, activate public and private financial resources that support scientific research and promote scientific researchers. Moreover, it aims to increase collaboration between researchers and business community that support job creation and the country's economic development.

The measure includes legal initiatives that will be developed over the period 2021-2023; activities related to the improvement of research infrastructure; promotional activities for European scientific programs; investments to support research closely linked to the country's economic development; human capital promotion activities, etc.

a. Activities planned in 2021

- Capacity building for research, development and innovation within universities. In particular, the research infrastructure will continue to be supported based on performance monitoring. (MESY and NASRI).
- Introduction of indicators in the statistical program for the production of statistics and reliable data on science and technology. (NACS and INSTAT).
- The implementation of the steps foreseen in the drafting plan of S3 continue until the end. (MESY and Inter-Institutional Working Group).
- Involvement of the diaspora in research and development projects.
- Improving the legal framework in order to increase the number of valid applications in EU programs and the number of winning projects. (DCM on academic degrees, load of university staff, special status of academic staff, instruction / regulation NACS / MESY / MFE for IPA applicants, etc.).
- Improve and support the H2020 NCP network and participate in ERA Committees and national / international meetings by establishing methodology and allocating funds to ensure participation.

b. Activities planned in 2022

- Completion of S3 and ensure the start of its implementation. (MESY and inter-institutional group).
- The research infrastructure will continue to be supported based on performance monitoring. (MESY and NASRI).
- Implementation of the platform of Albanian scholars including the diaspora and awareness about it. Prepare guidelines on how researchers in countries to cooperate with those in the diaspora. (NACI and the Ministry of Diaspora).
- Evaluate the work of the H2020 NCP network and support them for participation in national / international meetings. Support participation in ERA Committees and envisage necessary legal changes to implement ERA priorities and principles (NACI and MESY).

c. Activities planned in 2023

- Innovation projects will be supported and funded if they have in essence the collaboration between Science (Universities) and Business, promoting new models like hackathons and triple-helix.
- Implementation of S3.
- Prepare the legal framework to support companies investing in research. (MESY and MFE).
- Establishment of the first regional center of excellence in Albania. (MESY and PMO).

2. *Results indicators*

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Number of patents registered and of innovative projects	5/10	8/15	10/15
% of the research and development fund to the GDP	0.06%	0.1%	0.15%

3. *Expected impact on competitiveness*

Strengthening institutional research capacities is expected to contribute to improve participation in Horizon Europe programs and strengthen links between academia, business and government in the medium and long term.

Supplying the business community with research and innovation is expected to have an impact in the development of innovative products by the latter and the creation of added value through the commercialization of these products.

4. *Estimated cost of the activities and the source of financing*

400 million ALL.

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

The measure aims to improve the financial and managerial capacity of research infrastructures in universities where qualified researchers will collaborate with the business community on innovative new businesses promoting job creation. The positive impact on employment is reflected in the creation of a long-term sustainability for qualified personnel. Funds provided by MESY through its NACI instruments "Infrastructure Improvement Projects"; "Bilateral projects" and "Research and development projects", among others, support job creation. The developments in innovations are expected to have a positive impact on a wide range of aspects of economic and social aspects and development.

6. *Expected impact on the environment*

The measures is considered neutral in terms of impact on the environment. There are no foreseen negative impact on the environment; on the contrary, innovative projects have the potential to bring in positive results.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action

Reform measure 11: Development of the broadband infrastructure for digital economy

1. *Description*

Development of the broadband Infrastructure is one of the important goals for social and economic development. Digital infrastructure and digitalisation is part of regional strategic documents. The objectives for broadband development are in line with EU Digital Agenda, and part of priorities of SEE-2020 Strategy under smart growth pillar part of the MAP-REA of WB6 endorsed in Trieste Summit on 12th of July 2017. Furthermore, digital Infrastructure, the development and rollout of national broadband infrastructure in the six Western Balkans is one of the flagships of the Economic and Investment Plan for the Western Balkans adopted from the European Commission on

6th of October 2020[15]. The Commission is therefore presenting, together with this Communication, a Green Agenda for the Western Balkans, as foreseen in the European Green Deal. The European Green Deal appreciates that 'digital technologies are a critical enabler for attaining the sustainability goals of the Green Deal in many different sectors'. 'The Commission will explore measures to ensure that digital technologies such as artificial intelligence, 5G, cloud and edge computing and the internet of things can accelerate and maximise the impact of policies to deal with climate change and protect the environment. Digitalisation also presents new opportunities for distance monitoring of air and water pollution, or for monitoring and optimising how energy and natural resources are used'.

- The proposed reform measure will Increase the investment, improve the broadband penetration, increase the efficiency of the existing infrastructure through infrastructure sharing, as well as will increase the competition. In addition, there are some social and environmental benefits through:
- Better broadband coverage which means social and territorial cohesion,
- Increase synergies across sectors e.g. smart grids and intelligent transport systems,
- Less duplication of civil works, less digging or nuisance
- Improve the business environment through transparency and simple procedures for building permits etc.

The development of broadband infrastructure is going in parallel with a significant development in e-government, e-services, digitalization of ICT systems in public administration that is an important component for ICT ecosystem and digital economy. This part of investment is related with demand side of broadband. During the COVID-19 crisis the needs for digital connectivity for equal treatment/ non-discrimination/ addressing needs – for digital connectivity, digital skills and reliable connections are more important.

The plan to implement this reform measure during the coming years will be:

- Establishment/nominate a national Broadband Competent Office
- Launch pilot projects for development of broadband infrastructure in rural and remote areas
- Establishment of synergies with utility projects: follow up recommendations of Balkan
- Digital Highway study.

a. Activities planned in 2021
  - Establishment of national Broadband Competent Office (MIE);
  - Launch pilot project for development of broadband infrastructure in Zone 1 (rural and remote/tourism areas in north part of Albania (Shkodër, Kukës, Tropojë, Dibër) (MIE);
  - Adoption of the new law on electronic communications, in line with the new European Electronic Communication Code approved by the EU in 2018 (MIE);
  - Increase, strengthened capacities to drive digital transformation and broadband infrastructure development (MIE other related institutions);
  - The Broadband Atlas development Project (MIE, AKEP).

b. Activities planned in 2022
  - Broadband Development in south part of the country (for broadband development in white areas Vlora, Gjirokastra, Fier, Berat, Korçë) (MIE);
  - Investments in white areas (MIE).

c. Activities planned in 2023
  - Investments in white areas (MIE);

2. Results indicators

Indicator	Baseline (2020)	Intermediate target (2022)	Target (2023)

[15] https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/communication_on_wb_economic_and_investment_plan_october_2020_en.pdf

Increase penetration of fixed broadband, including rural areas	58%	70%	90%
Increase number of public schools and health facilities with broadband connection – average internet bandwidth	6-12 Mbps	20 Mbps	100Mbps
Increase broadband connection for SME			100%

3. *Expected impact on competitiveness*

The proposed reform measure is foreseen to increase the investments in the country, improve the broadband penetration, increase the efficiency of the existing infrastructure through infrastructure sharing, as well as increase the competition. The development of rural and remote areas through usage of ICT for businesses and farmers, and the resultant access to knowledge and state of art of technological methods as part of this reform are expected to improve the competitiveness in these areas. Some of the social benefits of the reform are:

- Better broadband internet coverage, which translates to social and territorial cohesion;
- Increase of synergies across sectors, e.g. smart grids and intelligent transport systems;
- Less duplication of civil works, which means less digging and/or noise pollution;
- Improved business climate via transparent and simpler procedures for construction permits;
- Equal access;
- Non-discrimination;
- Job creation etc.

4. *Estimated cost of the activities and the source of financing*

A specific budget program was created for support of the communications networks development. The plan of investments needs submitted to Ministry of Finance and Economy in the framework of Mid Term Budget planning (PBA) as below. This section to be reviewed –after the PBA approval.

The estimated cost of the activities required during Medium term Budget Program 2021-2023, are:

- Establishment of national Broadband Competent Office

EUR 100.000 MIE budget (separated in 2021, 2022 and 2023)

- The Broadband Atlas Project

Total cost 250.000 Euro (MIE budget 30.000 Euro; Grants 220.000 Euro)

- Launch pilot project for development of broadband infrastructure in Zone 1 (rural and remote/tourism areas in north part of Albania (Shkodër, Kukës, Tropojë, Dibër);

Total cost 700.000 Euro (MIE budget 100.000 Euro; Grants 700.000 Euro)

- Adoption of the new law on electronic communications, in line with the new European Electronic Communication Code approved by the EU in 2018
- Broadband Development in south part of the country (for broadband development in white areas Vlora, Gjirokastra, Fier, Berat, Korçë);

Total cost 1.000.000 Euro (MIE budget 100.000 Euro; Grants 900.000 Euro)

- Investments in white areas

Total cost 200.000 Euro [MIE budget 24.000 Euro (2022/2023); Grants 38.000 Euro in 2022/ 38.000 Euro in 2023, 100.000 Euro in 2023-]

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

Development of broadband is expected to increase the number of employments and to create more possibilities for online working for gender. Referring to study "The Impact of Digital Transformation on the Western Balkans – Tackling the Challenges towards Political Stability and Economic Prosperity", broadband investments could potentially contribute to the dynamics of new job openings in Western Balkan economies. It is estimated that broadband investments of 100 million euro could induce new jobs in a range from 3,000 to 10,000. As result of lower labour productivity, (more labour is required per unit of output), employment potential of broadband investments is the highest in Albania about 10000.According to the study, a demand stimulus through 100 million euro broadband investments would induce additional GVA (gross value added) up to 0.9% in Albania. In addition, the broadband investments will improve the overall productivity as the relative effects on GVA exceed the effects on employment. By adding new economic benefits and job vacancies, broadband investments not only induce economic benefits, but also promote greater political stability, higher quality of public services. The reform creates the possibilities to address gender issue in ICT through increase possibilities for women, as online workers from home in remote/rural areas

6. *Expected impact on the environment*

The reform measure is not expected to have an impact on the environment.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
The digital infrastructure and other infrastructures such as transport and energy project need to be coordinated in order to benefit from synergies and joint investments	medium	Monitoring, reporting and continued close cooperation between stakeholders
Lack of cooperation between different actors involved in this process is one of the difficulties identified in the sector	medium	Monitoring, reporting and continued close cooperation between stakeholders

5.3.5. Economic Integration Reforms

a. Analysis of main obstacles

Albania's trade exchanges are concentrated with EU-28 countries. During 2019, exports of goods to EU-28 countries amounted to ALL 228.9 billion, or about 76.6% of total exports. These exports decreased by about 2.9% compared to 2018. During the same period, imports of goods from EU-28 countries amounted to ALL 379.7 billion, recording a decrease in annual terms by 3%. Imports from these countries account for about 58.4% of total imports.

Italy is the main destination of Albanian exports, where during 2019, 47.9% of total exports have gone. To total exports Spain results with 8%, Germany with 4.8% and Greece with 4.3%. Important partner countries within the EU-28 are Italy with 62.5% Spain 10.5%, Germany 6.2% and Greece 5.6%, France with 2%. In the same time, the main share in imports from EU-28 countries is occupied by Italy with 43.2%, Greece with 14.3% and Germany with 12.3%. To total imports Italy occupies 25.2%, Greece 8.4% Germany 7.2%.

During 2019, exports of goods to CEFTA countries reached ALL 51.4 billion with an annual increase of 1.3%. They accounted for 17.2% of total exported goods. Imports from CEFTA countries amounted to ALL 44.5 billion, or about 6.9% of total imports, with a decrease in annual terms of 1.4%.

Exports of goods are concentrated in the category "Textiles and footwear", which accounts for over 54% of total exports for 2019. Exports of this category fell by 5% in annual terms. The volume of exports in the category of "Fuels" has decreased to 19.1% compared to 2018, as a result of the decline in electricity exports. The same goes for the category "Metals and metal articles" which has been hit by the unfavourable international conjuncture both in terms of demand and prices.

According to the customs data, the Albanian exports at CEFA parties is increased by 8% in volume and by 1%in value during 2019 compared with 2018. Albania, as the chair of CEFTA for 2019, has participated and contributed constructively in all CEFTA meetings and activities. Furthermore, during this chairmanship, from the Joint Ministerial Meeting, held on 18 December 2019 in Tirana, very important decisions were approved by the CEFTA parties, such as: Decision on mutual recognition of AEO status; Protocol AP 6 of Service Trade Supplements and Recommendation for the approval of the Risk Management Strategy.

Additional Protocol 5 on trade facilitation ratified by the Albanian Parliament with Law no. 18/2018, dated 5.4.2018 "On the ratification of Additional Protocol 5 of the Agreement on amendment and accession to the Central European Free Trade Agreement" is being implemented. Additional Protocol AP 6 was approved in April by law no. 46/2020 “For ratification of Additional Protocol 6 to the Agreement on Amendment and Accession to the Central European Free Trade Agreement”.

Law no. 82/2020 ratified the amendment to Protocol II of the Free Trade Agreement between the Republic of Albania and the Republic of Turkey ”, ratified by law no. 9733 dated 14.05.2007, regarding the definition of the concept "originating products" and "method of administrative cooperation". Currently, MFE is in consultation with the Union of Chambers of Commerce and Industry as well as the Ministry responsible for agriculture for drafting the list of agricultural products for which further concessions will be negotiated with the Turkish party.

During July-October 2020, Albania has been an active part of the consultations for the drafting of the Multi-Annual Plan for the establishment of a Regional Economic Zone MAP REA 2. With its approval, Albania will create the appropriate instruments for the implementation and monitoring of the implementation of this multi-year plan.

During 2020, Albania has continued to fulfil its obligations to make notifications to the World Trade Organization.

Albania remains highly committed to strengthening the capacities of the National Trade Facilitation Committee. During 2019, there were held three meetings of KKLT and were organized five seminars, such as: E-Commerce Seminar, Workshop for AP6 CEFTA Rules of Origin; Seminar Trade Facilitation Seminar on Agricultural Products Consultation seminar on the extension of the mission of KKLT as a Forum / mechanism for the development of DGC. The various issues discussed in these meetings show the ongoing need for cooperation between the public and private sector. These meetings have simultaneously helped to inform the private sector with current national and regional trade policy initiatives, and at the same time have intensified the level of cooperation between us.

In July 2020, the Prime Minister's Order no. 104 dated 07.08.2020 "On the establishment of the inter-institutional group for the coordination of trade policy and trade facilitation". The composition of this committee is currently being reconstituted and the monitoring of the measures foreseen in the National Plan for Trade Policy Coordination and Trade Facilitation 2017-2020 is being reconstructed. The first meeting of KKLT is expected to take place during November 2020.

Measures that have been introduced to the ERP 2021-2023, which are in line with the MAP REA 2 that is going to be approved at Sophia Summit in November 2020 and aim at reduction of costs and time of cross-border trade procedures will continue to be implemented accordingly. Moreover, in order to implement the commitments arising for Additional Protocol 5, at regional level, the highest priority will be given to preparations of the implementation provision of the mutual recognition of border documents and authorized economic operator.

Albania has continued to facilitate customs procedures and lowing the business costs. There are revised the fees and charges applied by customs authorities. The current level of the green channel (January-July2020) is 13%. During 2019, it was at the level of 12.1%. The current level of the blue channel (January-July2020) is 10.3%. For 2019, it was at the level of 7.6%. Based on the commitments undertaken at CEFAT with the aim at further facilitation of the cross border movement of goods, a special attention has been paid at AEO. Awareness campaigns have been conducted with business representatives and chambers of commerce regarding AEO authorization requests. As a result, there have been submitted nine requests for authorization for AEO, which are in the process of reviewing and completing the documentation by customs authorities. A working group has been set up by Order of the General Director to review the applications of Economic Operators for AEOs in order to verify the fulfilment of the conditions and criteria provided by the legal and sub-legal framework in force.

a. Reform measures

Reform measure 12: Facilitating cross border movement of goods

1. Description

While Albania is ranked 25th in terms of trading across borders in 2020 Doing Business report, it does not perform well in other competitiveness indicators on trade and transport infrastructure reports. Albania is ranked 81st in the Global Competitiveness Index 2019 out of 141 economies, gaining 65.8 points out 100 in trade openness sub-pillar and 35.5 out 100 in transport infrastructure sub-pillar.

Coordination and collective actions is necessary to reduce trade transactions costs along the regional trade corridors. Removing constrains in the trade corridors can allow the formation of Global Value Chains and promote better specialization of industries in the country. Trade and transport facilitation are key elements to deepening economic integration in the region, which had been completed over the latest years by high level diplomatic efforts “the Berlin Process “which aims the facilitation of issues of infrastructural and economic development.

Single window” and NTCS there are two regional projects funded by World Bank. Regarding “Single Window”, at the end of September 2020 was signed the contract with the Swedish consultancy company that will perform the preliminary study regarding the needs and defining the activities. There is vitalised the Working Group established by the Order of Prime Minister, by nominating the persons that will be involved in the project. It is foreseen to be organised a workshop between 15 – 18 November 2020, in Tirana.

Regarding NCTS project the tender procedure is completed and it is expected that the contract to be signed in middle of November 2020. The implementation period of the contract is foreseen 6 months.

It has to be mentioned that due to the pandemic situation there is a delay of starting of project implementation with at least 3 months.

Based on the above analyses, even for the ERP 2021-2023 the main focus on trade liberalization will be on the continuation of the realization of two measures foreseen at ERP 2020-2022, with the focus on facilitation of trade and transport in the border*: Improvement of Border Crossing point of Qafë-Thanë (Albania) with North Macedonia, through establishing single operational one stop shop*, and *develop the New Computerized Transit System* fully compatible with EU-NCTS.

a. Activities planned in 2021

- Review of the existing physical condition and equipment and projected needs with North Macedonia.

b. Activities planned in 2022

- Review the current practices and plan to promote the integration of information flows among border agencies and traders and harmonization of their operational procedures with North Macedonia.
- Implement the plan to promote integration and harmonization.
- Situation analysis and review of international best practice in implementing a new NCTS

c. Activities planned in 2023

- Architecture and deployment of the National Transit Application and Economic Operator Registration and Identification fully compatible with EU-NCTS.
- IT deployment of modules for NCTS implementation, including the national IT system establishing connectivity to the EU common domain through “CCN/CSI”/”SPEED 2”.

2. Results indicators

Indicator	Baseline (2020)	Intermediate Target (2021)	Target (2022)
Increase of exports share to the region;	6%	10%	12%

Time taken to clear goods in export[16] (hour)	9	9	8.5

3. *Expected impact on competitiveness*

The main benefits of these measures will be time saving for import and export clearance procedures, queuing and traveling between crossing points that will stimulate cross-border trade and contribute positively to economic growth, while possibly bringing positive effects for productivity.

4. *Estimated cost of the activities and the source of financing*

The estimated cost for implementation of the NCTS and single operational one stop-shop with North Macedonia is approximately 2.7 million euro loan for a 5 years project, from an IFI.

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

A direct impact will be in increasing the volume of trade, boosting economic growth, promoting new jobs and new opportunities.

6. *Expected impact on the environment*

The measure is neutral in terms of environmental impact.

7. *Potential risks*

Risk	Probability	Planned mitigating action
Insufficient institutional capacity for implementation of the reform.	Moderate	The measures entail high inter-agency coordination with the neighbouring country which could delay or stall implementation

5.3.6. Education and skills

a. Analysis of main obstacles

The Ministry of Education, Sports and Youth is committed to providing inclusive education for all children, but some important foundations have yet to be laid for the participation of all children with disabilities. Schools still do not meet all inclusion standards such as the number of support teachers, psycho-social services, textbooks, and disability equipment. Albania has a considerable number of small schools with joint classrooms where students of different grades study together.

Based on the draft National Education Strategy, there is a need for a stronger link between the output of universities and the needs of the private sector. For this, administrative data will be used to examine how students are employed after graduation. The national strategy for education also includes the aim of supporting universities to have curricula that are more adapted to the labour market. The need to anticipate the demand and supply for professions is imperative to be realized in the entire community of providers, both in vocational education and in universities. This foresight of professions can serve to guide funding priorities, as well as programs and sectors where the workforce should be concentrated. The results of such an exercise would be favourable for the field of employment as well. At the same time, university-related teacher programs have not yet been fully adapted to pre-university education curricula, not providing a community of young teachers who are prepared to teach with competency-based curricula.

The reform of the vocational education and training (VET) system in Albania has largely focused on improving the attractiveness of the VET system, accessibility and labour market linkages / relevance, while it strives to ensure core principles of inclusiveness, autonomy, quality, cooperation, participation, mobility and diversity. Notwithstanding the potential for the VET system to embody

[16] Trade across borders indicator- Doing Business Report 2020

these principles challenges related to the coherence of the legislative framework, clear institutional roles and responsibilities, and in the capacities at all levels persist. The VET system still struggles to respond proactively to private sector needs / requirements, offers a narrow range of programmes / courses, and mainly caters to low skills acquisition to the detriment of medium and high vocational skills. VET providers have limited autonomy with decision-making centralized and limited financial autonomy. Collaboration with the private sector has yielded some positive results especially in the area of work-based learning, and in terms of their participation in the management boards of VET provider boards. Nonetheless, private sector participation at higher governance levels is needed.

Despite COVID-19 related challenges, 2020 marked progress with regards to the implementation of the National Employment and Skills Strategy 2019-2022 and its related action plan. The establishment and staffing of the National Agency on Employment and Skills (NAES) and the restructuring of the National Agency for VET and Qualifications (NAVETQ) largely completes the institutional framework governing the VET sector. Nonetheless, institutional capacity challenges remain, particularly at the central policy level.

The COVID-19 pandemic imposed significant challenges in the development and implementation of VET policies, as well as in the delivery of vocational education and training programmes. At the onset of the pandemic, all secondary vocational education providers had to switch from classroom and work-based learning to online learning (using various online platforms, including Google classroom, Zoom, Skype, WhatsApp, etc.). To support the latter, a guide was developed and approved[17]. Course work and lectures for general subjects, such as mathematics, language, biology, chemistry, were broadcasted on National Albanian Radio Television Broadcasting Channel (RTSH). Progress in the implementation of online learning was monitored through questionnaires designed by NAVETQ, providing an overview of the implementation of this process and the difficulties encountered. Whereas VET providers report that on average 87.6% of all students participated in some form of online learning[18], issues related to access to internet, and digital devices/technologies and teacher capacities to use online platforms and develop digital content cannot be underscored. With schools closed and limited access to distant learning, the risk of permanent school-drop-out and learning-inequalities might have been exacerbated, particularly for those that have already been disadvantaged before the pandemic.

Initial training and continuous professional development of teachers / instructors continued during 2020 despite COVID-19. Specifically, 35 teachers / instructors were trained with the program Basics of Didactics in VET and 40 teachers and instructors with programs other training for continuing professional development. Webinars were also organized in the training of teachers / instructors for aspects of online learning and assessment of students in the context of Covid-19. Nonetheless, continued professional development of teachers and instructors, as well as the digitalization of the VET system overall require a stronger impetus.

The employability rate of graduates in vocational education, according to INSTAT[19] data shows that the employment rate of persons with secondary vocational education for 2018 is 68.7% compared to 54.9%, for those with general secondary education, emphasizing the increase of employment opportunities for those who have professional skills. Despite the clear advantage of hiring AP graduates, enrolment in public vocational high schools in the 2020-2021 academic year has dropped to 17,000 students (from 18,164 in 2019-2020). Whereas demographic trends are largely the cause for the decline, the promotion of VET needs increased focus, but more importantly infrastructural investments in the sector need to increase in line with the action plan for the optimization of VET providers, particularly in providers that face high demand (i.e. in the central region of Albania). Municipalities have not advance much with their efforts to improve the VET infrastructure that is under their responsibility (i.e. VET schools' dormitories).

[17] http://www.akafp.gov.al/wp-content/uploads/2014/09/Udhezues-Mesimi-e-vleresimi-online-ne-AP-.pdf.
[18] http://www.akafp.gov.al/wp content/uploads/2014/09/RAPORTI1.pdf
[19] Vjetari statistikor 2019, INSTAT www.instat.gov.al/al/publikime/librat/2019/vjetari-statistikor-2019/

In the current academic year 2020-2021 there is an increase in the number of students from rural areas and marginalized groups. More specifically, the participation of Roma and Egyptians reached 592 students (compared to 580 in the previous year), while the participation of people with disabilities increased from 128 to 143. About 45% of students are from rural areas. Despite the nominal increases, they do not represent a significant improvement in outreach.

An additional step towards quality assurance is self-assessment, a process that now takes place annually in all VET providers and serves as a good basis for further improvements at the provider level. Work is also underway to establish an accreditation model for VET providers.

The adoption of the work-based learning regulation was an important step towards increasing private sector participation in VET and streamlining WBL practices among VET providers. The development of professional practices in the workplace has increased, the modules of internships envisaged to be developed in the workplace are developed 100%, but the quality of their development remains to be monitored. Setting up sectoral skills committees has been identified as a priority in the NESS; however, the first sector skills committee has yet to be established. Following the approval of the DCM "On the manner of functioning and the criteria for selection of members of sectorial committees and the manner of their remuneration", the terms of reference for the development of methodology for selection and definition of the sector have been elaborated.

b. Reform measures

Reform measure 13: Finalize and support the implementation of pre-university curricular reform, teacher training and employment

1. <u>Description</u>

During the school year 2020 - 2021, the competency-based curricula is implemented in all grades 1 through 12 of the pre-university education system: The national textbooks for students at the end of grades 9 and 12 were based on the competency curriculum.

At the end of the piloting and implementation in the competency-based curriculum system, ASCAP conducted an external evaluation of this curriculum. During the situation created by the Covid 19 pandemic to help teachers, students and parents, MESY and ASCAP have drafted and published several orders and guidelines to assist educators. ASCAP conducted a survey with teachers, students, parents for the start of the school year. Also, the guide for the beginning of the school year 2020 - 2021 has been designed, which includes possible scenarios for the development of the teaching-learning process in the conditions created by the pandemic COVID 19. The Akademi.al platform is being used, which provides students and teachers free access to the online teaching platform, which is based on the pre-university education curriculum.

Regarding the professional development of teachers, the functioning of professional networks of teachers has continued according to the relevant profiles or according to the roles of teachers in the school. During the period 2019-2020, in the conditions created by the COVID 19 pandemic, 1180 professional network managers were trained to implement the guidelines developed by ASCAP regarding the development of home (online) learning, in relation to the end of the year school year 2019-2020 and with the assessment of the student, in relation to the drafting of subject plans, etc. ASCAP in cooperation with the British company TeachPitch developed trainings and certifications to increase digital teaching skills to help Albanian teachers during the period of the Covid-19 virus, March 31-October 2020 with 5508 trained teachers. ASCAP in cooperation with Junior Achievement trained online 170 teachers, professional network leaders regarding the implementation of the Student Assessment Guide and the end of the 2019-2020 school year. ASCAP has trained about 1180 professional network leaders to develop unified plans in the conditions created by the COVID 19 pandemic, who have attended training with 2000 members of professional networks.

Albania has a functional and transparent system of teacher training. Teachers and school leaders must attend at least 3 days of training per year from authorized providers, among which ASCAP is central. Teachers have the opportunity to share experiences and reflect through "professional development networks", which are organized regularly and where school staff can share their challenges and achievements. The reason why networks work is because teachers see them as a place where they can share their concerns and achievements. In Albania there are professional networks, which are based on subject areas, classes and topics.

With the legislative changes of 2013, Albania has put into operation a new system of teacher recruitment. Upon completion of the master studies at the master's level, the teacher is required to develop a professional internship for a period of one year, after which he can take the state exam organized by QSHA. Certified teachers apply for jobs through the online system known as "Teachers for Albania" (https://mesuespershqiperine.al/), and are ranked by the system, while this ranking must be respected during the recruitment process. Since 2014, when the portal started operating, 6,104 teachers have been employed through this system. The latest EU progress report hails the new way of recruiting as an achievement. It is a system that avoids corruption, nepotism and recruitment politics, ensuring transparency and merit-based employment.

a. Activities planned in 2021

- Review of the curriculum for basic education based on the results of internal and external evaluation.
- Capacity building and training of 1180 ToT (professional network leaders), for competency-based curricula as well as the use of online platforms in the learning process.
- Establishment of lifelong learning training centers in universities for the organization of teacher training in pre-university education.
- Employment / recruitment of teachers in the Teacher Portal for Albania through file evaluation and digital testing.
- Capacity building and staff training in local educational units (responsible for pre-university education) for the implementation of quality assurance guidelines (200 trained and mentored specialists.
- Training of 4800 preschool principals and teachers of children aged 3-6, on the new curriculum documentation.
- Training of 1100 teachers and implementation of the program "Schools of the 21st Century" for 20,000 students.

b. Activities planned in 2022

- Review of the curriculum for basic education based on the results of internal and external evaluation.
- Capacity building and training of 1180 ToT (professional network leaders), for competency-based curricula as well as the use of online platforms in the learning process.
- Establishment of lifelong learning training centers in universities for the organization of teacher training in pre-university education.
- Employment / recruitment of teachers in the Teacher Portal for Albania through file evaluation and digital testing.
- Capacity building and staff training in local educational units (responsible for pre-university education) for the implementation of quality assurance guidelines (200 trained and mentored specialists.
- Training of 4800 preschool principals and teachers of children aged 3-6, on the new curriculum documentation.
- Training of 1100 teachers and implementation of the program "Schools of the 21st Century" for 20,000 students.

c. Activities planned in 2023

- Development of support materials to assist teachers in implementing the competency curriculum.
- Capacity building and training of 1180 ToT (professional network leaders), for the competency-based curriculum as well as the use of online platforms in the learning process.
- Hiring / recruiting teachers in the Teacher Portal for Albania through file evaluation and digital testing.

2. *Results indicators*

Indicator	Baseline (2021)	Intermediate	Target

		Target (2022)	(2023)
Number of teachers trained through professional networks	22500	22500	22500
OECD PISA results for 15 year olds	PISA 2018 Reading: 405; mathematics 489; sciences: 417.	Next examination in 2022	Next examination in 2022

3. *Expected impact on competitiveness*

In the long run - according to studies like the OECD PISA study that make a link between better outcomes in basic skills and economic development of countries - improving teacher quality increases outcomes in basic skills, which enables this generation of students to be prepared better for the job market: either as an employee or job creator.

4. *Estimated cost of the activities and the source of financing*

Year	Activity	Estimated cost	Source of financing
2021	Curriculum review for basic education based on the results of internal and external evaluation;	2 000 Euro	State budget
	Capacity building and training of 1180 ToT (professional network leaders), for competency-based curricula as well as the use of online platforms in the learning process;	40 000 Euro	State budget
	Establishment of lifelong learning training centers in universities for the organization of teacher training in pre-university education;		
	Hiring / recruiting teachers in the Teacher Portal for Albania through file evaluation and digital testing;		
	Capacity building and staff training in local educational units (responsible for pre-university education) for the implementation of quality assurance guidelines (200 trained and mentored specialists);	4 000 Euro	State budget
	Training of 4500 preschool education principals and teachers for ages 3-6 on new curriculum documents	60 000 Euro	
	Training of 1100 teachers and implementation of the program "Schools of the 21st Century" for 20,000 students	45 000 GBP	British council
2022	Review of the primary and secondary education level curricula based on the results from internal and external assessments;	2 000 Euro	State budget
	Capacity building and training of 1180 ToT (professional network leaders), for the competency-based curriculum as well as the use of online platforms in the learning process;	40 000 Euro	State budget
	Hiring / recruiting teachers in the Teacher Portal for Albania through file evaluation and digital testing.		
	Assessment of the effectiveness of the initial ToT program for new teachers;	2 000 Euro	State budget

	Capacity building and staff training in local educational units (responsible for pre-university education) for the implementation of quality assurance guidelines (200 trained and mentored specialists);	4 000 Euro	State budget
	Training of 4500 preschool education principals and teachers for ages 3-6 on new curriculum documents;	60 000 Euro	
	Results analysis of the “21st Century Schools” program.	3 000 GBP	British council
2023	Development of support materials to assist teachers in implementing the competency curriculum;	5 000 Euro	State budget
	Capacity building and training of 1180 ToT (professional network leaders), for the competency-based curriculum as well as the use of online platforms in the learning process;	40 000 euro	State budget
	Hiring / recruiting teachers in the Teacher Portal for Albania through file evaluation and digital testing;		

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

Transparent employment according to merits via the portal “Teachers for Albania”. The measure is considered gender-neutral. Gender equality will be respected during implementation of the reform measure.

6. *Expected impact on the environment*

The reform measure is neutral as regards the impact on the environment.

7. *Potential risks*

Risk	Probability	Planned mitigating action
Low performance of newly hired staff in local education units (LEU)	Low	Capacity building of the new staff in the LEUs to assess school quality.

Reform measure 14: Inclusiveness and equality in education

1. *Description*

Inclusiveness has been the focus of education policies in Albania in the last decade, aiming to increase participation in early childhood education, as well as the participation in education of children from vulnerable groups. MESY, in 2016, approved the document "Education and training-Profile of the inclusive teacher" in order to identify the essential skills, knowledge, attitudes and values that every teacher should have, such as one who is preparing to join the ranks of the teaching profession as well as he who is in service. This has made the society aware of the need to include children from vulnerable groups, which has resulted in increased participation of children with disabilities, as well as children from the Roma and Egyptian minorities.

Teaching in joint classes takes place in rural areas and deep mountainous areas. For years, MESY has pursued a policy of closing collective classrooms, bringing together small schools to relocate students from those classes to schools where teaching takes place in separate, larger classrooms, and providing transportation for these students. This intervention has ensured the provision of a better quality education for students in rural areas.

From year to year, the number of children who have benefited from the free textbook program has increased. Students attending basic education in public educational institutions from the second to

the seventh grade are given free textbooks. According to decision no. 486, dated 17.06.2020 there are also 18 categories that benefit from free textbooks, such as: students who in basic education belong to the category of national minorities, those who have received orphan status, students who come from families who are treated with economic assistance and unemployment benefits from employment offices, students with disabilities, students admitted to the Oncology Service, students belonging to Roma and Egyptian minorities, etc.
For the school year 2020-2021 there are about 230,291 students who have received free textbooks.
The reform measure aims to provide inclusive education by further increasing the number of support teachers for children with disabilities in mainstream public schools and further reducing the number of students attending high-class, low-quality classes. Efforts have been made to organize and train assistant teachers in professional networks. So far, 42 professional networks have been set up and trained by the Quality Assurance Agency for Pre-University Education as well as by non-governmental partners. The needs for assistant teachers for children with disabilities are determined by the multidisciplinary commissions set up in each local education office. Since 2014, 1100 assistant teachers have been added.
Concerning the centralization of multi-classrooms by transferring students studying in small multi-classrooms to larger schools nearby where they can teach in classrooms with their peers. All measures have been taken to ensure the transportation of students. Currently, every child living over 2 km from the nearest school receives free transportation. A dedicated competency-based curriculum and guide has been developed for students in the multi-grade classroom with basic literacy achievements.

a. **Activities planned in 2021**
   - Inclusion of 8th grade in the 'free textbook' policy and 16 categories of social strata in need.
   - Providing additional support teachers for students with disabilities and teachers who know the Albanian sign language for deaf students.
   - Reducing the number of schools with collective classes and the number of respective students.
   - Increasing the quality and psycho-social service for all students.
   - Training of 42 ToT (heads of professional networks of assistant teachers) and assistant teachers

b. **Activities planned in 2022**
   - Inclusion of grades 9 in the 'free textbook' policy and 16 categories of social strata in need.
   - Providing additional support teachers for students with disabilities and teachers who know the Albanian sign language for deaf students.
   - Increasing the quality and psycho-social service for all students.
   - Training of 42 ToT (heads of professional networks of assistant teachers) and assistant teachers.

c. **Activities planned in 2023**
   - Providing additional support teachers for students with disabilities and teachers who know the Albanian sign language for deaf students.
   - Increasing the quality and psycho-social service for all students.
   - Training of 42 ToT (heads of professional networks of assistant teachers) and assistant teachers.

2. *Results indicators*

Indicator	Baseline (2020)	Intermediate Target (2022)	Target (2023)
Number of pupils that benefit free textbooks	230 291[20]	260 000	290 000
Number of additional assistant teachers for pupils with special needs	1 100		1 300
Number of staff in the psycho-social service in schools	342	630	700
Number of children in collective classes transferred to better quality schools nearby	2 829 pupils	(2020) +250 referring to	(2022) +500 referring to the

[20] Kjo përfshin përfituesit nga klasa e parë në klasën e shtatë dhe kategoritë përfituese nga 16 grupe vulnerabël.

		the base assessment	base assessment

3. *Expected impact on competitiveness*

In the long run, by providing better educational opportunities multi-grade classes and children with disabilities will increase their chances of achieving the skills needed to join the job market and lead independent lives as well adults.

4. *Estimated cost of the activities and the source of financing*

Year	Activity	Estimated cost	Source of financing
2021	Inclusion of 8th grade in the 'free textbook' policy and 16 categories of social strata in need.	45 million lek	State budget
	Providing additional support teachers for students with disabilities and teachers who know the Albanian sign language for deaf students.	35 000 Euro	State budget
	Reducing the number of schools with collective classes and the number of respective students.	0[21] Euro	
	Increasing the quality and psycho-social service for all students.	54 000 Euro	State budget
	Training of 42 ToT (heads of professional networks of assistant teachers) and 1150 assistant teachers.	27 000 Euro	State budget
2022	Inclusion of 9th grade in the 'free textbook' policy and 16 categories of social strata in need.	45 million lek	State budget
	Providing additional support teachers for students with disabilities and teachers who know the Albanian sign language for deaf students	35 000 Euro	State budget
	Increasing the quality and psycho-social service for all students.	54 000 Euro	State budget
	Training of 42 ToT (heads of professional networks of assistant teachers) and 1150 assistant teachers.	27 000 Euro	State budget
2023	Providing additional support teachers for students with disabilities and teachers who know the Albanian sign language for deaf students	35 000 Euro	State budget
	Increasing the quality and psycho-social service for all students.	54000 Euro	State budget
	Training of 42 ToT (heads of professional networks of assistant teachers) and 1150 assistant teachers.	27 000 Euro	State budget

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

The measures aims to create better opportunities Better inclusion, better opportunities for children. Employment of assistant teachers. Gender equality will be respected throughout the measure's implementation.

6. *Expected impact on the environment*

The measure is not expected to have an impact on the environment.

7. *Potential risks*

[21] Nuk ka kosto shtesë për këtë aktivitet, meqë efekti neto në buxhet është pozitiv për shkak të reduktimit të shpenzimeve.

Local communities might resist the transfer of students to a nearby school, thereby closing classes in their villages

Risk	Probability (low, high)	Planned mitigating action
Budgetary constraints related to the project "1 free schoolbook"	Low	Inclusion in the MTBP 2020-2022
Reluctance on the part of families to allow their children to be transferred in nearby schools	Low	Supporting measures for children and parents. Cooperation with the community in this process..
Lack of sufficient funds to employ/hire assistant teachers	low	Annual budget planning.

Reform measure 15: Increasing the quality and access to VET, aiming at integration in the labour market

1. *Description*

The National Employment and Skills Strategy 2019 - 2022 is the main policy document that guides the implementation of actions related to employment and skills development in the country. The objectives (Increase the quality of education outcomes, the development of qualifications, the attractiveness and relevance of the vocational education system and the prediction of skills to correct discrepancies and improve skills recognition) will be achieved through several activities related to the modernization of VET involvement, aiming at the development of the labour market.

Provision of quality vocational education and training for young people and adults are the overall strategic priorities of VET.

a. **Activities planned in 2021** (MFE, NAES, NAVETQ)
   - Commence the implementation of the Optimization Plan for VET providers and develop infrastructure development plans (school infrastructure and well-equipped workshops / laboratories) for the re-organized providers. Provide capacity support to providers in the re-organization process.
   - Complete the legal framework to ensure financial autonomy, income generation for VET providers. Revise the budget allocation method. Develop an instrument to assess the programme- specific cost implications in close consultation with VET providers.
   - Further development and implementation of the Albanian Qualifications Framework. Consolidate the existing building blocks for the design of occupational qualifications and training programmes into a coherent methodology that combines all elements: skills need analysis, occupational standards development, qualifications, framework curricula, assessment standards and construction of test items.
   - Complete the regulatory framework and start the pilot implementation of the Accreditation Model (standards, criteria, processes)
   - Develop the competencies of 150 VET teachers as well as teacher trainers.
   - Establish VET Information System.
   - Establishment of first sectorial committee.

b. **Activities planned in 2022** (MFE, NAES, NAVETQ)
   - Continue the implementation of the Optimization Plan for VET providers and develop infrastructure development plans (school infrastructure and well-equipped workshops / laboratories) for the re-organized providers. Provide capacity support to providers in the re-organization process.
   - Finalize the process of referencing the Albanian Qualification Framework to that the European Qualification Framework,
   - Refine the process of translating Occupational and Qualification Standards into Assessment Standards with the assistance of sector specialists and subject-matter experts

from the private sector to ensure that the level examinations are suitable for verifying a candidate's occupational competences as defined by the industry.
- Roll-out, building the capacities of the involved stakeholders and consolidate the implementation of the Accreditation system.
- Develop the competencies of 170 VET teachers and supporting staff as well as teacher trainers.
- Establishment of Second sectorial committee.

c. **Activities planned in 2022** (MFE, NAES, NAVETQ)
- Continue with the implementation of infrastructure and institutional development plans.
- Develop the competencies of 200 VET teachers and supporting staff as well as teacher trainers.

2. *Results indicators*

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
% of graduates now in employment			
Number of teachers trained in lifelong training	150	170	200
Number of enrolments in the VE and % of the students attending the general upper secondary education	17%	17.5%	18%
% of female students attending VE schools	16.4%	16.7%	17%

3. *Expected impact on competitiveness*

The reform seeks to equip young people with the necessary training, skills and qualifications to compete in the labour market and increase their employment opportunities. A qualified workforce is a precondition for attracting technology-based investments, further development of Albanian sectors with comparative advantages and/or opportunities and strengths and an important factor incentivizing FDI inflows.

4. *Estimated cost of the activities and the source of financing*

The costs for implementation of the VET measures are included in the Medium-Term Budget Program. The mid-term budget 2021-2023, is in the approval process.

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

The reform aims at ensuring inclusive and equal quality education and promoting lifelong learning opportunities for all. Also, the refocus aims at skills development, especially regarding access to vocational skills for employment, decent work and entrepreneurship; the elimination of gender disparity and ensuring access for the vulnerable.

6. *Expected impact on the environment*

The reform measure is not expected to have an impact on the environment.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Inadequate availability for on-the-job training/internship in the market.	Low	Awareness campaign for businesses for the recognition and implementation of the regulation of learning in the workplace.
Reluctance of teachers to participate in continuous training.	Low	Information in VET providers about the importance of continuing training.

		Implementation of promotional measures for rewarding qualifications on the salary
Inadequate level of coordination with businesses for better support on VET.	Medium	Strengthening the role of the development unit of providers and business associations by increasing the capacity of business coordinators
Lack of specific regional assessment for skills lacking in labour market.	Medium	Study on the missing skills in the regional labour market
Lack of high technology equipment	Medium	Identification, planning of needs and costs for equipping VET providers for digitalization and focus and investments for technology growth

5.3.7. Employment and labour markets

a. Analysis of main obstacles

During 2014-2019 Albania has made significant progress towards ensuring that both men and women have access to increased employment opportunities. The positive trend of the last few years continued throughout 2019 and the first quarter of 2020 across all labour market indicators. Employment increased at a faster rate than in 2018, averaging 2.5% quarterly. In 2019, 1.26 million people were in employment, the highest historical level.

Compared to the previous year employment has increased by 2.8 pp. Growth in employment has been accompanied by an increase in labour force participation, which reached 69.6% in 2019. For male population aged 15-64, the labour force participation rate is 16.0 percentage points higher than females. The number of participants in the labour market increased to 1.43 million (nearly 28,000 more people than at the end of 2018) of which 44.4% are women and 55.6% are men. Women's participation has increased by more than 14% over the past 6 years, from a low of 47.4% at the last quarter of 2013 to 61.9% at the last quarter of 2019.

Despite marking the highest employment ratio among the Western Balkan countries, Albania lags European Union averages. The employment rate has improved significantly especially among women (from 40% in 2013 to 54.8% in Q4-2019). Nonetheless, gender inequality in employment remain problematic, with men's employment rate exceeding women's by 13.8%. Despite an increase of 1.7 percentage points in 2019, youth employment 15-24 years lags behind the rest of the adult population, standing at an average of 41.2% in 2019 (46.6% men and 35.7% women). However, labour force participation rates also remain below EU averages, with a significant gender gap of 16%. In 2019, the youth participation rate continued to be lower than for the rest of the adult population (52.5% with a gender gap of 13.7%).

Unemployment for the 15+ age group reached a record low at 11.5% in 2019 compared to 12.7% at the end of 2018. The unemployment rate is 0.2 percentage points higher for males than females. Only less than half of the unemployed seek employment through public employment services, proving that the economic aid scheme, labour offices and active labour market policies need to be better structured to support the unemployed. The labour market situation of young people continued to improve, in line with economic growth and overall labour market trends. Youth unemployment has decreased from a peak of nearly 43% in 2014 to 27.4% at the end of 2019 for the 15-24 age group. Similarly, for the 25-29 age group unemployment declined from a high of 27.1% in 2014, to 16.6%. Young women and men have experienced a similar improvement trends, however with a slight difference in favour of men that has remained roughly constant over the past 5-6 years. A high share of young people neither in employment nor in education and training (NEET), particularly among the most educated indicates a challenging labour market transition for young people. At the end of 2019, 26.6% of youth were in this category, significantly above EU 28 average of 12.5%. 36.5 % of those classified as NEET are unemployed, 12.7% are discouraged, 18.1% are tending to domestic and family responsibilities, and the remaining 32.7% are inactive for other reasons.

However, during 2020 the Covid-19 pandemic and the measures adopted to limit the spread of the virus affected the Albanian labour market. The impact of Covid-19 became more pronounced in Q2-2020, as reflected by the standard labour market indicators (employment, unemployment, and labour force participation rate). In Q2, employment declined by 3.6% in annual terms and by 2.6% in quarterly terms (a decline by 16,800 persons in Q1 and by 33,235 persons in Q2). Services, agriculture and industry all experienced a decline, by 1.5, 1.4 and 0.7 percentage points respectively.

Unemployment (15+) in Q2 of 2020 rose by 0.4 pp in annual terms and by 0.5 pp in quarterly terms to 11.9%. The rather moderate rise can be attributed to both an increase in inactivity and the support measures undertaken by the government to minimize employment losses and support for the rapid labour market reintegration of those laid off due to COVID 19 pandemic situation. By mid-2020, the share of NEET had also deteriorated, reaching 29.4%.

b. Reform measures

Reform measure 16: Improving the employability of the most vulnerable unemployed jobseekers especially those affected by COVID-19, through new and revised EPPs and employment services

1. Description

The National Employment and Skills Strategy (NESS) 2019-2022, the strategy and its related action plan is supported by MTBP, as well as the donor projects. The main objective of the National Employment and Skills Strategy 2019 - 2022 and its action plan is to identify and design the appropriate incentives policies in the country for employment and vocational training of the workforce in order to create quality jobs and opportunities for employment and skills throughout the life cycle. The action plan focuses on enhancing decent work opportunities through efficient labour market policies, providing quality youth and adult education and training, fostering inclusion and social cohesion, and strengthening the market job and qualifications system.

With the view of the NESS action plan the reforms seeks to enable better profiling of jobseekers through the revamped information system of NAES and the development of individual employability plans. The new and revised Employment Promotion Programs including the ones for COVID – 19 situation, in order to achieve a better response to the needs of unemployed jobseekers, particularly the most vulnerable and harmonize the interactions and interventions of NAES, State Social Service and local authorities.

Covid-19 exposed further the added vulnerability that informal workers face in the labour market. Support to the reintegration in the labour market of formerly informal workers and their formalization will continue, as will interinstitutional collaboration between the General Directorate of Taxation, State Labour Inspectorate, and NAES. In addition, labour market policies and regulations (e.g. unemployment benefits) will need to be analysed in terms of the impact that they can have in reducing informal employment.

a. Activities planned in 2021

- Continue the operationalization of NAES functions and capacity support to NAES staff at all levels.
- Finalization of NAES information system.
- Profiling of jobseekers and the development of individual employment plans.
- The implementation of employment promotion programs focused on COVID-19 dedicated programs aimed at supporting the most vulnerable groups and activation and the number of registered unemployed jobseekers benefiting from employment promotion programs is targeted to reach 6.7%.
- Drafting Youth guarantee program (DCM) targeting youth unemployment especially NEET.

- Implementation of the agreements signed with municipalities in uncovered areas.
- Undertaking a Skills Needs Analysis.
- Maximizing the interaction and improving the targeting of active labour market policies and implement the prepared Vocational Education and Training reform package including upskilling and reskilling, through a referral system for the pursuit of jobseekers who receive vocational training services, job mediation or employment promotion programs, within "Start Smart" Course and / or vocational training courses.
- Conduct a process evaluation on the implementation of the reformed Employment Promotion Packages (EPPs) and the programmes that address the context after COVID-19.

b. Activities planned in 2022

- Improve the quality and effectiveness of institutions and services of the labour market, through increased staff performance.
- Development and publication of information and quality analysis of the labour market and improvement of public relations.
- Prepare all the procedures for implementation of youth guarantee program and pilot it for 200 NEET.
- The implementation of employment promotion programs aimed at supporting the most vulnerable groups and activation and the number of registered unemployed jobseekers benefiting from employment promotion programs is targeted to reach 7%.
- Conduct an assessment to measure the impact of the implemented Employment Promotion Programmes (2020-2021).

c. Activities planned in 2023

- Improve the quality and effectiveness of institutions and services of the labour market, through increased staff performance.
- Implementation of youth guarantee program countrywide.
- The implementation of employment promotion programs aimed at supporting the most vulnerable groups and activation and the number of registered unemployed jobseekers benefiting from employment promotion programs is targeted to reach 7%.

2. *Results indicators*

Indicator	Baseline (2021)	Intermediate target(2020)	Intermediate target (2021)	Target (2022)
Increase employment of jobseekers through job mediation services	28%	38%	43%	48%
Increase participation of unemployed job seekers in Employment promotion programs	6,4%	6,7%	7.,0%	7.3%
Increased training for unemployed jobseekers	50%	60%	65%	70%

This is the updated table with the statistical data for 2018, 2019 and 2020 (preliminary).

Indicator	Baseline (2018)	2019	2020	Target (2021)	Target (2022)
Increased participation in vocational training courses for unemployed jobseekers	(8,770/16,574) 53%	(8,818/15,143) 58%	(5,698/10,009) 57% (January-October 2020)	65%	70%
Increase employment of jobseekers through job mediation services	(20,808) 28%	(20,880) 29.4%	(8,281) 10.2% (January-November 2020)	43%	48%
Increase participation of unemployed job seekers in Employment promotion programs	(4,808) 6,4%	(5,338) 7.5%	(4,141) 5.1% (January - December 2020)	7.,0%	7.30%

Average number of registered unemployed jobseekers (Stock)	74,686	70,930	81,069 (January-November 2020)		

3. *Expected impact on competitiveness*

The reform measure aims to improve skills and qualifications of the unemployed; therefore increasing the quality of the labour force. In the medium to long term, the measure is expected to help attract foreign direct investment as a skilled workforce belongs to the most important location factors.

4. *Estimated cost of the activities and the source of financing*

	2020	2021	2022
	Forecast in EUR	Forecast EUR	Forecast EUR
Mediations carried out by Employment Offices	2,341,070.09	2,480,394.53	2,480,394.53
Implementation of employment promotion programs	2,044,692.38	4,769,989.49	4,769,989.49
Training in VTC	2,340,813.32	2,322,742.34	2,322,742.34
Unemployment Benefits/transfer	7,837,476.76	5,174,225.89	5,659,309.56
Investment	329,856.90	525,507.32	1,220,793.92
Other administrative expenses	593,014.80	1,236,154.90	1,236,154.90
Total (w/ administrative expenses)	15,486,924.25	16,509,014.47	17,689,384.75
Total (w/o administrative expenses)	14,893,909.45	15,272,859.57	16,453,229.85

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

Reduce unemployment and high passivity, especially in the group of young people and women. Increasing the satisfaction of women and girls involved in active labour market programs.

6. *Expected impact on the environment*

The measure is neutral in terms of environmental impact.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
COVID-19 limits the ability of NAES to implement EPPs and other employment / training services.	High	Simplification of application procedures to enable great participation of the private sector; transfer of selected services online.
Lack of cooperation between different actors involved in this process is one of the difficulties identified in the sector.	Low	By having monitoring, reporting and close cooperation between relevant stakeholders
Increasing the trust of citizens in the services provided by the employment offices VT centres.	Low	Publications of active programs, as well as successful cases with all possible electronic means and through the media
Lack of improvements of quality of services in regional and local level, due to insufficient training	Low	Close monitoring of training activities and increasing the number of available trainers.

5.3.8. Social protection and inclusion, including health care

a. Analysis of main obstacles

While extreme poverty has been reduced, 38.3% of households remain materially deprived and 23.4% of the populations are at risk of poverty[22]. Inequality remains higher than in the benchmark countries. There is global evidence that COVID-19 is exacerbating poverty, inequality and vulnerability experienced by families and their children. This pandemic has increased and differentiated the notion of vulnerability. Social protection schemes are among the most effective interventions in the fight against poverty and vulnerability. Although social assistance program has proved effective at targeting the poorest, they still might end up excluding several vulnerable groups such as the working poor (especially informal workers).

In response to the crisis, the government doubled the amount of the cash assistance per recipient and expanded the pool of the eligible persons.

The first support package (March 27th, 2020), totalling 6.4 billion ALL targeted businesses with annual turnover up to 14 million ALL, closed down as a result of the imposed restrictions by the government – this measure targeted 30,000+ enterprises whose employees are to receive monthly payments equal to the minimum wage (26,000 ALL) over the months of April, May and June 2020. This measure targeted both the self-employed and unpaid family members who would not otherwise benefit from unemployment benefits, and informal sector employees, including the rural farmers were excluded from the scheme. The package included also the above-mentioned support for economic assistance, targeting 63,510families, recipients of Ndihma Ekonomike (cash transfer program), which received double the amount of benefit in April, May and June 2020.

The second support package (April 16th, 2020) extended the support to all workers in companies that were directly affected by business close downs, recently unemployed, workers in the tourism sector, and all workers in companies with an annual turnover of less than 14 million ALL which faced reduction in economic activity due to the COVID-19 crisis. The government supported with financial assistance of 16,000 (sixteen thousand) ALL also the families who had applied for economic aid from July 2019 until April 2020, who had not received economic aid and, at the time of entry into force of the decision, still did not receive economic aid from the scoring formula or from the fund 6% allocated to municipalities. 4,524 families benefited from this measure

Albania spent 9.4% of its GDP on social protection. Although it more than doubled since 2005, Albania's overall social protection spending remains low. Albania's social protection system is dominated by both social insurance schemes (pensions, unemployment benefits)[23] and non-contributory cash programmes (proxy-means tested social assistance/economic aid, disability transfers). The recent reforms to Albania's non-contributory schemes to improve targeting, efficiency and transparency, such as a National Electronic Registry of applicants and efforts to consider broader social and psychological factors associated with disability, will still need to be assessed**.** Spending on social assistance in particular needs to be ramped up.

Improvement of the outreach and coverage of social care services, such as childcare facilities, settings for persons with disabilities or the elderly, is a key component lacking in the social protection system and will help these categories increase labour market participation and alleviate poverty.

Non-public centers provide about 46% of social services, compared to 54% of the total provided by public centers, while community/day care centers provide about 74% of social services versus 26% provided by residential centers. There are currently 232 children in the 9 (nine) public care service institutions and 192 children with disability in 5 (five) development centers.

Any efforts to improve social service delivery will need to be accompanied with significant capacity building for local governments, to which the responsibility for provision of social care is decentralised. Particular attention is given to deinstitutionalization reform in aim to transform child residential care institutions into community based social care services, institutionalize with the approval of Deinstitutionalization Action Plan 2020-2022 (DCM 706/September 2020).

[22]http://www.instat.gov.al/media/6543/anketa-e-t%C3%AB-ardhurave-dhe-nivelit-t%C3%AB-jetes%C3%ABs-2017-2018_.pdf

[23]Social insurance scheme are under the

Any efforts to improve social service delivery will need to be accompanied with significant capacity building for local governments, to which the responsibility for provision of social care was decentralised. Recently the legal framework for qualification system and training skills for social workers, as labour force in social service providers is approved by Council of Ministers. State Social Services continues to serve as a key intermediary between national and local government authorities playing a crucial role in the development of capacities of local government staff in charge of providing social care services. During 2020 the Directorate of Social Services has organized the training of social services staff of 21 municipalities that do not provide any social care services. A set of trainings has been provided to all social care institutions staff on different topics delivered by the State Social Service specialists themselves, as well as from ASPA center related to the protection of the rights of children, PwD, potential victims of human trafficking and of other groups in need issues. The social welfare staff of 61 Municipalities have been trained with using MIS for social care services supported from UNICEF

The capacities of local government to benefit from the Social Fund and expand the range of integrated social care services, employment measures and inclusive education at the local level in line with the municipal social plans, are not sufficient.

To date, more than 3/4 of the municipalities have a costed and approved social care plan, supported by UNICEF, UNDP and World Vision and monitoring by State Social Service, in line with social care services legislation framework (50 municipalities have already approved SP, 10 municipalities are in the process of approval, , only 1 municipality has not started drafting the Social Plan yet). .

The State Social Services will continue, for 2021 supporting municipalities which have not yet initiated the process of needs assessment analysis and improving local social plans. Social Plans drafted by municipalities foresee the sources of funding for the establishment or improvement of social care services both from funding allocated by the Central State Budget (social fund program) and from funding allocated by the local budget and/or donors.

The MoHSP has started to operationalize the social fund launching the first call for proposals Mars 2019. The disbursement of funds was executed in March 2020, from which has benefited 14 municipalities and 12 specialized services in 6 regions with a total fund amounting to 150 million ALL. The second call for proposal was launched on 20 October 2020 and published on the official website of the ministry. http://shendetesia.gov.al/njoftime-2/, where to date 40 municipalities have applied.

Measures to promote social inclusion and equal opportunities for vulnerable groups focus on women, youth, Roma and Egyptian minorities, people with disabilities and older people. Empowerment and promoting of equal rights and non-discrimination constitute key for addressing disparities in living conditions. Tackling the problem of exclusion and discrimination in urban and rural areas needs to be addressed through wider coverage and access to service target the vulnerable population to support social cohesion. Albania has cooperated with UN for SDG mainstreaming and acceleration in policies and monitoring of social inclusion and SDG's. Policy document for Social inclusion and national action plans (NAPs) for children, Roma and Egyptians and Persons with Disability include a range of indicators. Data collection has improved on employment, education, health care and housing; however the challenges remain with the definitions of indicators and disaggregated data.

Ministry of Health and Social Protection is developing the following strategic documents:

- Revision of the Policy Document on Monitoring Social Inclusion, in the view of SILC.
- Strategy on Gender Equality and PoA.
- National Plan of Action for Integration of Roma and Egyptians 2021-2025.
- Plan of Action for Children's Rights 2021-2025.
- Plan of Action for Lesbian, Gay Bisexual, and Transgender (LGBT) people.

b. Reform measures

Reform measure 17: Strengthen and expand health and social protection coverage reducing inequality and supporting inclusive and sustainable growth

1. *Description*

The overall goal of this measure is to expand the coverage, inclusiveness, effectiveness,better targeting people in need through social integrated services and through financial mechanisms Strengthening monitoring, evaluation and capacity building in local, regional and central structures is the precondition to empower vulnerable groups/people in need.

The Law 57/2019 "On social assistance in Republic of Albania" determines the disability benefits and benefits for individuals and families in need who cannot provide minimum of living, poverty reduction and social protection through the systemic interventions and services for improving their livelihood and social assistance through immediate financial assistance to new born babies in the amount of 2.2 billion ALL. It is approved the National Social protection Strategy 2020-2023, which is focused on the Economic assistance, disability assessment and social care services. Particular attention will be paid to integrated social services and empowerment of local government units to include appropriate social care services and mechanisms in their Social Policy Plans aiming at deinstitutionalization reform. It has been established an inter-institutional coordination mechanism at the central level, with working teams at the regional and local level for the referral and employment of individuals and members of working age of families receiving social assistance. These structures will ensure the social reintegration, through the coordination and implementation of an exit program from the social assistance (economic aid) scheme. The aim of establishing the coordination mechanism is to integrate the beneficiaries of economic aid in the labour market, through their involvement in public works in the sectors of infrastructure, energy, agriculture, tourism, rural development, and investments provided by municipalities. It encourages citizens to be involved in vocational training programs to get a profession, involvement in employment counselling programs, as well as their employment through job offers available to employment offices. An "exit program" and its action plan is being approved with the aim of promoting integration into the social life of families through employment promotion programs, so that this scheme (economic aid) will not be used as a benefit mechanism that may lead to prolonged unemployment of the beneficiary families of economic aid and turn it into an active scheme.

The new law 57/2019 "On social assistance in the RA" removed the restriction on the cessation of the disability payment due to employment, guaranteeing that this benefit is not terminated in case of employment, but it serves to the persons with disabilities to be fully integrated into the social life.

Concrete interventions aim to:

(i) establish a mechanism to revise the benefit amount of economic assistance and.. According to Law 57/2019 the amount of economic assistance for the family in need is determined according to the family structure and goes up to 150% of the amount of social and indexed pension. The poverty map sets out the requirements for new financial, administrative and legislative instruments that will create a comprehensive system of monitoring mechanisms It is approved in the budget law for the year 2021 the increase of the fund for the budget program "Social Protection and Inclusion" of MoHSP for the revision of the cash assistance allowance.

(ii) improve the standards of delivery of existing social care services; planning and creating new missing services and developing social policies at central and local level and deinstitutionalization. Such is the Social fund, a financial mechanism through which financial support is provided to local self-government units. Based on the Social Plan of the Municipality and the funding methodology, social services in the territory must respond to the needs of the vulnerable groups but also to the integrated approach with activation measures.

(iii) support the people from disadvantaged groups through employment in social enterprises is the implementation of the legislation on social enterprises and sub-legal acts, as a means for reintegration of persons from vulnerable groups.[24] From this measure has benefited the status of social enterprises 8 organizations, which in total are planned to be employed 80 persons from vulnerable groups.

[24] Social enterprises legislation foresees that 30% of the staff are from specific categories.

(iv) support to continue to access social support services even in the new circumstances created by COVID 19 to vulnerable women, men, girls, boys and children who risk being left behind.

a. Activities planned in 2021

- Assessment of adequacy of economic aid benefits taking into account the data from the Survey on Income and Living Conditions and establishing a transparent mechanism for their regular annual review.
- Implement the bio-psycho-social evaluation scheme to support with persons with disabilities with combined cash support and social care in three regions (Tirana, Durres and Elbasan.
- Support persons from disadvantaged backgrounds, especially beneficiaries of economic aid and persons with disability through toward employment in social enterprises. Financing of social enterprises.
- Improve delivery of community-based social services by local government units to all categories in need within the frame of Social Fund.
- Assessment of all public residential care institutions and develop their transformation plan.
- Draft National Action Plans for social inclusion and poverty reduction through enhanced policy-making and indicators.

b. Activities planned in 2022

- Adjust the benefits of economic aid.
- Expand the implementation of the bio-psycho-social evaluation scheme to support with persons with disabilities with combined cash support and social care in other regions.
- Support persons from disadvantaged backgrounds, especially beneficiaries of economic aid and persons with disability through toward employment in social enterprises. Financing of social enterprises.
- Improve delivery of community-based social services by local government units to all categories in need within the framework of Social Fund.
- Advanced implementation of the residential care services transformation plan toward the deinstitutionalization (piloting in at least two municipalities: Korce, Vlore).
- Implement National Action Plans for social inclusion and poverty reduction through enhanced policy-making and indicators.

c. Activities planned in 2023

- Expand the implementation of the bio-psycho-social evaluation scheme to support with persons with disabilities with combined cash support and social care in other regions.
- Support persons from disadvantaged backgrounds, especially beneficiaries of economic aid and persons with disability through toward employment in social enterprises. Financing of social enterprises.
- Improve delivery of community-based social services by local government units to all categories in need within the frame of Social Fund.
- Advanced implementation of the residential care services transformation plan toward the deinstitutionalization (piloting in two municipalities: Tirana, Shkodra).
- Implement National Action Plans for social inclusion and poverty reduction through enhanced policy-making and indicators.

2. *Results indicators*

Indicator	Baseline (2019)	Intermediate target (2022)	Target (2023)
% of population at risk of poverty and social exclusion	49% (2018)	49%	46%
Number of new social services for disadvantaged	14	35	45

groups provided through local government units using resources from social fund			
Number of vulnerable persons employed by social enterprises	N/A§	100 (cumulative)	150 (cumulative)

3. *Estimated cost of the activities and the source of financing*

Social Protection &Inclusion Budget for 2021 is 27.9 billion ALL or 226.369.417 EUR[25]
Social Protection &Inclusion Budget for 2022 is 25.3 billion ALL or 204.603.560 EUR
Social Protection &Inclusion Budget for 2023 is 26.2 billion ALL or 211.561.489 EUR

From this budget for the year 2021 the fund for the payment of economic aid and disability is estimated 26.9 billion ALL or 217.637.540 EUR.
The fund for Social Fund is estimated 200 million ALL and for social enterprises 120 million ALL.
From IPA (IPA 2019/04 l-203/Albania/ EU for Social Inclusion is estimated a fund for Social Fund 1 million Euro for 2022 and 1.5 million for 2023.

4. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

Improving the socio-economic situation of the categories in need, the direct impact on poverty alleviation by increasing the amount of economic assistance.
Increased access to the basic package of social and health services.

5. *Expected impact on the environment*

The reform measure is not expected to have an impact on the environment.

6. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Lack and low skilled capacities at the local level for the drafting of detailed social plans.	low	Cooperation with local actors to build capacities for social plans.
The increase of the poverty level beyond the forecast made due to COVID-19 crises.	high	Revising the social assistance benefits

Reform measure 18: Increasing access to health care

1. *Description*

Universal Health Coverage remains a long-term objective of the Government of Albania in order to guarantee access, quality and safety in the provision of health care services. Progressive and sustainable budget increase for the health care sector starting from 2014 and reflected in the projection of Medium Term Budget 2021 - 2023 aims to improve the health care sector, increase of the number of preventive control programs, improve diagnostic of, treatment as well as rehabilitation of infrastructure of health care facilities. 600 thousand non-contributing citizens in the scheme of health care contributions benefit from the List of Reimbursable Drugs and free health care services from the general practitioner.

There has been a progressive increase in the budget dedicated to health. In 2021 the budget dedicated to health is ALL 56.5 billion or 9.61% of the state budget and 3.7% of GDP (compared to 2020 increase by 0.12% of GDP). The health budget for 2021 is 10.6% higher than the health budget

25 www.bankofalbania.org/Markets/Official_exchange_rate/

for 2020 and 57.71% higher compared to 2013. Health expenditures per capita have increased from 12,295 ALL in 2013 to 19,820 in 2021 with an increase of 61.2%. Health care contributions in 2020 amount to ALL 13.1 million and the forecast for the next three years predicts a progressive annual increase in health contributions by an average of 7%. The projection for year 2023 foresees that health contributions will reach 16.1 million ALL or will increase by 22.7% compared to 2020.

Another important reform is the salary revision for medical professionals. The salary of medical professionals has increased from 2013 by 27%, whereas the 2021 budget foresees a 40% increase in the salaries of 18,000 medical professionals. The budget for the increase of salaries for medical staff is ALL 5.4 billion.

The Earthquake of November 26.2020 along with the Pandemic of COVID-19 tested the health care system and re-dimensioned the need for investment in the sector to manage post-disaster situations. The Albanian government is committed to continue with the integrated approach for the better functioning of the public health care sector at all levels, focusing on the health of citizens as the only functional mechanism that guarantees the provision of quality, accessible and safe services for disadvantaged groups such as the elderly, children, women and people with disabilities.

Remodelling public funding in the health sector by focusing on health investments beyond health spending will be our medium-term priority.

a. **Activities planned in 2021**
   - Financing of health care services (at all three levels of the health system primary, secondary and tertiary).
   - Increase the cost-effectiveness of the Reimbursed Drug List and review national legislation on drugs and pharmaceutical services.
   - Continue funding of 12 health care packages offered in public and private hospitals and increase the number of beneficiaries by 5% per year.
   - Review of the hospital law and methodology of the cost of health care services in order to improve the financing mechanism of health care institutions.
   - National Health Strategy 2021 - 2025 and budgeted Action Plan.

b. **Activities planned in 2022**
   - Financing of health care services (at all three levels of the health system the primary, secondary and tertiary).
   - Increase the cost-effectiveness of the Reimbursed Drug List and review national legislation on drugs and pharmaceutical services.
   - -Continue funding of 12 health care packages offered in public and private hospitals and increase the number of beneficiaries by 5% per year.
   - Continue funding for screening prevention programs and increase the number of beneficiaries by up to 10%.
   - Policies dedicated to healthcare professionals provide for dual practice and salary classification according to performance indicators.

c. **Activities planned in 2023**
   - Financing of health care services (at all three levels of health system of the primary, secondary and tertiary)
   - Increase the cost-effectiveness of the Reimbursed Drug List and review national legislation on drugs and pharmaceutical services
   - Continue funding of 12 health care packages offered in public and private hospitals and increase the number of beneficiaries by 5% per year.
   - Continue funding for screening prevention programs and increase the number of beneficiaries by up to 10%
   - Establishment of the National Health Service as the sole payer and gradual transformation of the hospital financing from the historical budget into health service packages.

2. *Results indicators*

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of citizens that benefit from public health care services	93%	95%	97%
Number of citizens that benefit from the 12 health care packages and the 3 national screening programs financed 100% by the state budget	+5%	+5%	+5%

3. *Estimated cost of the activities and the source of financing*

- The Health Budget for 2021 is 56.5 billion ALL + 5.4 billion ALL salary increase by 40% for medical staff and 15 million EURO EBRD loan for the management of the pandemic COVID - 19.
- The budget of Health for 2022 is 53.9 billion ALL.
- The budget of Health for 2023 is 55 billion ALL.

4. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

Health reforms target the elderly, women, children, the poor and people with disabilities. The reform measure is expected to improve the well-being of citizens by providing free health care services aiming at achieving Universal Health Coverage

5. *Expected impact on the environment*

The reform measure is not expected to have an impact on the environment.

6. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Constraints due to COVID – 19 pandemic	Medium	Careful planning on the central level
Delays on specific activities especially relating to the remodelling of health care financing	Medium	Working team has started working for the development of a detailed plan
Lack of political will	Low	A commitment of the highest levels of government, and inclusion of all possible partners in the sector

6. THE COST AND FINANCING OF STRUCTURAL REFORMS

Expected expenditures in the state budget include funds for key structural reforms for the upcoming medium-term period. Budgetary expenditures are spread across the structural reforms included in the Economic Reform Programme 2021-2023. Details of the budgetary implications of the reforms are found in table 10a and table 10b of Annex 1. The projected expenditures of the budget of the Republic of Albania also include expenditures for key structural reforms in the following period.

7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The Economic Reform Programme (ERP) 2021-2023 was prepared thanks to the close collaboration between the Ministry of Finance and Economy and the various line ministries and Bank of Albania. The ministries involved in the process are: Ministry of Finance and Economy; Ministry of Infrastructure and Energy; Ministry of Agriculture and Rural Development; Ministry of Health and Social Protection, Ministry of Education, Sports and Youth, Ministry of Tourism and Environment.

The Order of the Prime Minister No. 107, dated 6.8.2019 defines the framework for coordinating the ERP process at the national level and designates the Ministry of Finance and Economy with the function of National ERP Coordinator. Additionally, it establishes the high-level inter-ministerial group and inter-institutional technical secretariat tasked with the overall coordination from beginning until approval by the CoM. Institutional coordination has improved in several ways. A higher degree of ownership and institutional responsibility for the proposed reforms is clearer, mainly as a result of defining the duties, functions and responsibilities of each reporting institution, based on the provisions of the order.

The ERP 2021-2023 cycle was officially kicked off by the European Commission in mid-September 2020, differing from the previous kick off events, which were primarily held in the period between June-July. This was a result of the exceptional circumstances due to the COVID-19 pandemic. The annual regional meeting of the ERP Coordinators was organised virtually. As part of the FISR project, CEF organised several learning initiatives during the ERP 2021-2023 cycle. A multi-day virtual workshop was organised on the fiscal implications and costing of the structural reforms. Moreover, a webinar on inter institutional coordination and challenges faced was also organised in late fall/winter. In both instances adequate and active participation was ensured by representatives of line ministries and the Bank of Albania.

The COVID-19 pandemic and the measures aimed to curb its outbreak also affected coordination of the ERP. Of particular notice was the challenge to ensure efficient coordination for the timely and adequate submission of contributions from the LM and BoA. Beyond that, there were challenges in ensuring that a few institutions came up with new reform measures, as a result of the former ones being retired.

The ERP draft was shared for consultation to various stakeholders such as development and integration partners, business associations, NGOs, CSOs, universities, etc. from December 14 through the week of January 9 2021. In exceptional cases the deadline was extended for a few stakeholders to allow adequate time for the submission of their feedback. All the feedback, comments and suggestions received as part of the stakeholder consultation was disseminated to the LM and BoA for consideration and inclusion, under their discretion, in their revised contributions to the ERP. Annex II includes all of the feedback received during that time window listed by institution/agency.

ANNEX I[26]

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	Year 2019	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	13.586	2.2	-4.4	5.5	4.8	4.5
2. Current GDP at market prices	B1*g	13.651	2.7	-6.4	7.0	7.2	7.0
Components of real GDP							
3. Private consumption expenditure	P3	10.837	3.3	-4.7	2.1	4.1	3.0
4. Government consumption expenditure	P3	1.559	3.8	6.2	3.0	0.3	2.8
5. Gross fixed capital formation	P51	3.072	-3.3	-6.9	10.1	6.2	6.4
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	-0.137	-1.0	-0.5	-0.5	-0.4	-0.4
7. Exports of goods and services	P6	4.454	6.0	-26.4	20.9	8.5	8.7
8. Imports of goods and services	P7	6.199	3.0	-18.8	9.9	5.4	5.1
Contribution to real GDP growth							
9. Final domestic demand		15.5	2.3	-4.6	4.3	4.6	4.1
10. Change in inventories and net acquisition of valuables	P52+P53	-0.1	-0.6	0.0	0.0	0.0	0.0
11. External balance of goods/services	B11	-1.7	0.5	0.2	1.1	0.2	0.3

Table 1b: Price developments

Percentage changes, annual averages	ESA Code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. GDP deflator		0.5	-2.1	1.5	2.2	2.4
2. Private consumption deflator		1.0	-1.8	1.2	3.4	3.6
3. HICP		1.7	1.7	2.4	2.8	3.0
4. National CPI change		1.4	1.7	2.4	2.8	3.0
5. Public consumption deflator		0.9	1.2	1.2	1.2	1.2
6. Investment deflator		0.0	0.6	0.6	0.6	0.6
7. Export price deflator (goods & services)		-3.3	-3.0	1.7	0.5	0.5
8. Import price deflator (goods & services)		-0.2	0.4	0.5	2.0	2.0

[26] Please replace in the tables the placeholders (Year X+/-n) indicating the programme period with the concrete years, with the year X being the year of the submission deadline

Table 1c: Labour markets developments

	ESA Code	Year 2019	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
		Level	Level/Rate of change				
1. Population (thousands)			2,854.2	2,848.5	2,842.3	2,835.3	2,827.4
2. Population (growth rate in %)			-0.4	-0.2	-0.2	-0.2	-0.3
3. Working-age population			1,966	1,962	1,958	1,953	1,948
4. Participation rate			69.6	69.3	69.9	70.4	70.8
5. Employment, persons [2]			1,203	1,197	1,217	1,233	1,249
6. Employment, hours worked[3]			:	:	:	:	:
7. Employment (growth rate in			2.4	-0.6	1.7	1.4	1.3
8. Public sector employment			169.9	169.9	169.9	169.9	169.9
9. Public sector employment			0.0	0.0	0.0	0.0	0.0
10. Unemployment rate [4]			12.0	12.0	11.1	10.3	9.4
11. Labour productivity,		1388.9	-0.2	-3.9	3.7	3.4	3.1
12. Labour productivity, hours			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

Table 1d: Sectorial balances

Percentages of GDP	ESA code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-8.0	-9.2	-7.1	-7.2	-7.1
of which:						
- Balance of goods and services		-13.8	-15.4	-13.1	-12.7	-12.2
- Balance of primary incomes and transfers		5.2	5.4	5.3	4.8	4.5
- Capital account		0.6	0.8	0.7	0.6	0.6
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-6.7	-3.3	-1.3	-5.0	-5.4
3. Net lending/borrowing of general government		-1.9	-6.7	-6.5	-2.9	-2.3
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
GDP and investment						
GDP *level* at *current* market prices (in domestic currency)	B1g	1,679.3	1,572.3	1,682.6	1,803.0	1,928.8
Investment ratio (% of GDP)		22.5	22.5	23.3	23.2	23.2
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		0.4	1.9	2.3	2.4	2.7

2. Industry (excluding construction)		3.5	-3.6	5.8	6.1	5.6
3. Construction		-2.6	0.6	6.1	3.1	3.9
4. Services		3.5	-7.3	6.5	5.7	5.0

Table 1f: External sector developments

Billion Euro unless otherwise indicated		Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Current account balance (% of GDP)	% of GDP	-8.0	-9.2	-7.1	-7.2	-7.1
2. Export of goods	bn EUR	0.9	0.8	0.9	1.0	1.1
3. Import of goods	bn EUR	4.1	3.4	3.8	4.0	4.2
4. Trade balance	bn EUR	-3.1	-2.7	-2.8	-3.0	-3.1
5. Export of services	bn EUR	3.4	2.3	2.8	3.1	3.3
6. Import of services	bn EUR	2.1	1.6	1.8	1.9	2.1
7. Service balance	bn EUR	1.3	0.7	1.1	1.1	1.2
8. Net interest payments from abroad	bn EUR	:	:	:	:	:
9. Other net factor income from abroad	bn EUR	-0.2	-0.1	-0.1	-0.1	-0.1
10. Current transfers	bn EUR	1.0	0.9	0.9	0.9	0.9
11. Of which from EU	bn EUR	:	:	:	:	:
12. Current account balance	bn EUR	-1.1	-1.2	-1.0	-1.1	-1.1
13. Capital and financial account	bn EUR	0.9	1.3	1.0	1.2	1.3
14. Foreign direct investment	bn EUR	1.0	0.8	1.0	1.1	1.1
15. Foreign reserves	bn EUR	-0.1	0.2	0.1	0.2	0.3
16. Foreign debt	bn EUR	:	:	:	:	:
17. Of which: public	bn EUR	4.2	4.7	5.0	5.4	5.7
18. O/w: foreign currency denominated	bn EUR	:	:	:	:	:
19.O/w: repayments due	bn EUR	:	:	:	:	:
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	123.0	123.8	123.8	123.8	123.8
p.m. Exchange rate vis-à-vis EUR (annual average)	*%, year-on-year*	*-3.6*	*0.6*	*0.0*	*0.0*	*0.0*
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	122.2	123.8	123.8	123.8	123.8
p.m. Exchange rate vis-à-vis EUR (end-year)	*%, year-on-year*	*-1.0*	*1.3*	*0.0*	*0.0*	*0.0*
22. Net foreign saving	% of GDP	8.0	9.2	7.1	7.2	7.1
23. Domestic private saving	% of GDP	10.9	13.5	15.6	13.8	13.4
24. Domestic private investment	% of GDP	17.0	16.2	16.1	17.6	17.7
25. Domestic public saving	% of GDP	3.7	-0.2	0.6	2.2	2.8
26. Domestic public investment	% of GDP	5.5	6.3	7.2	5.6	5.6

Table 1g: Sustainability indicators

	Dimension	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. Current Account Balance	% of GDP	-7.6	-7.5	-6.8	-8.0	-9.2
2. Net International Investment Position	% of GDP	-4.8	-5.4	-6.3	-6.8	
3. Export market shares	%, yoy	0.016	0.018	0.014	0.019	

4. Real Effective Exchange Rate [1]	%, yoy	106.0	102.0	92.7	92.0	88.9
5. Nominal Unit Labour Costs	%, yoy	106.7	104.7	107.3	112.1	118.8
6. Private sector credit flow	% of GDP	19.8	25.6	29.7	43.0	47.8
7. Private sector debt	% of GDP	912.6	907.2	879.7	910.6	
8. General Government Debt	% of GDP	72.4	70.2	67.7	66.3	79.9

Table 2a: General government budgetary prospects

	ESA code	Year 2019	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
		Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-31.5486	-1.9	-6.7	-6.5	-2.9	-2.3
2. Central government	S1311	68.6325	4.1	0.3	0.0	4.0	4.0
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-26.5131	-1.6	-2.2	-1.5	-1.7	-1.5
5. Social security funds	S1314	-73.6680	-4.4	-4.8	-4.9	-5.1	-4.7
General government (S13)							
6. Total revenue	TR	460.3487	27.4	27.0	28.8	28.7	28.9
7. Total expenditure[1]	TE	491.8972	29.3	33.7	35.2	31.6	31.1
8. Net borrowing/lending	EDP.B9	-31.5486	-1.9	-6.7	-6.5	-2.9	-2.3
9. Interest expenditure	EDP.D41 incl. FISIM	35.1428	2.1	2.2	2.6	2.7	2.9
10. Primary balance[2]		3.5943	0.2	-4.5	-3.9	-0.1	0.6
11. One-off and other temporary measures [3]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		273.5429	16.3	15.6	16.9	17.2	17.4
12a. Taxes on production and imports	D2	185.6354	11.1	11.4	12.1	12.3	12.5
12b. Current taxes on income and wealth	D5	51.3329	3.1	2.5	2.8	2.9	2.9
12c. Capital taxes	D91	36.5746	2.2	1.7	2.0	2.0	2.1
13. Social contributions	D61	97.3962	5.8	6.0	5.9	5.9	5.9
14. Property income	D4	0.2665	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14)) [4]		89.1431	5.3	5.3	6.0	5.6	5.5
16 = 6. Total revenue	TR	460.3487	27.4	27.0	28.8	28.7	28.9

p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		370.9391	22.1	21.6	22.8	23.1	23.3
Selected components of expenditures							
16. Collective consumption	P32	160.9785	9.6	10.9	10.6	10.0	9.8
17. Total social transfers	D62 + D63	199.8849	11.9	13.2	13.3	12.7	12.3
17a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
17b. Social transfers other than in kind	D62	199.8849	11.9	13.2	13.3	12.7	12.3
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	35.1428	2.1	2.2	2.6	2.7	2.9
19. Subsidies	D3	1.4205	0.1	0.1	0.1	0.1	0.1
20. Gross fixed capital formation	P51	92.8856	5.5	7.3	8.3	5.8	5.8
21. Other (21 = 22-(16+17+18+19+20) [6]		1.5848	0.1	0.1	0.3	0.2	0.3
22. Total expenditures	TE [1]	491.8972	29.3	33.7	35.2	31.6	31.1
p.m. compensation of employees	D1	98.0495	5.8	6.1	6.2	6.3	5.9

Table 2b: General government budgetary prospects

	ESA code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
		bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	-31.55	-105.99	-108.69	-51.59	-43.61
2. Central government	S1311	68.63	4.25	-0.22	71.22	77.17
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-26.51	-34.28	-25.96	-30.19	-29.72
5. Social security funds	S1314	-73.67	-75.96	-82.52	-92.62	-91.06
General government (S13)						
6. Total revenue	TR	460.35	424.12	484.11	517.37	556.88
7. Total expenditure[1]	TE	491.90	530.12	592.80	568.95	600.48
8. Net borrowing/lending	EDP.B9	-31.55	-105.99	-108.69	-51.59	-43.61
9. Interest expenditure	EDP.D41 incl. FISIM	35.14	35.06	43.80	49.53	55.82
10. Primary balance[2]		3.59	-70.93	-64.89	-2.05	12.21
11. One-off and other temporary measures [3]		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		273.54	245.61	283.82	309.95	336.18
12a. Taxes on production and imports	D2	185.64	179.22	204.14	221.62	240.24

12b. Current taxes on income and wealth	D5	51.33	39.13	46.65	51.55	56.06
12c. Capital taxes	D91	36.57	27.25	33.03	36.79	39.88
13. Social contributions	D61	97.40	94.08	99.56	106.71	114.17
14. Property income	D4	0.27	0.33	0.30	0.30	0.30
15. Other (15 = 16-(12+13+14)) [4]		89.14	84.10	100.43	100.41	106.22
16 = 6. Total revenue	TR	460.35	424.12	484.11	517.37	556.88
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		370.94	339.69	383.38	416.66	450.35
Selected components of expenditures						
16. Collective consumption	P32	160.98	171.13	178.35	181.05	188.31
17. Total social transfers	D62 + D63	199.88	206.78	223.87	228.57	238.19
17a. Social transfers in kind	P31 = D63	:	:	:	:	:
17b. Social transfers other than in kind	D62	199.88	206.78	223.87	228.57	238.19
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	35.14	35.06	43.80	49.53	55.82
19. Subsidies	D3	1.42	1.54	1.55	1.50	1.50
20. Gross fixed capital formation	P51	92.89	114.33	139.83	105.36	111.66
21. Other (21 = 22-(16+17+18+19+20) [6]		1.58	1.27	5.40	2.93	5.01
22. Total expenditures	TE [1]	491.90	530.12	592.80	568.95	600.48
p.m. compensation of employees	D1	98.05	95.34	103.99	112.69	114.67

Table 3: General government expenditure by function

% of GDP	COFOG Code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. General public services	1	5.0	2.5	2.1	:	:
2. Defence	2	0.8	1.0	0.9	:	:
3. Public order and safety	3	1.8	2.0	1.9	:	:
4. Economic affairs	4	3.0	2.6	2.9	:	:
5. Environmental protection	5	0.2	0.1	0.1	:	:
6. Housing and community amenities	6	2.2	1.8	2.0	:	:
7. Health	7	3.0	3.4	3.4	:	:
8. Recreation, culture and religion	8	0.4	0.2	0.3	:	:
9. Education	9	3.3	2.9	2.7	:	:
10. Social protection	10	9.5	10.4	10.3	:	:
11. Total expenditure (item 7 = 23 in Table 2)	TE	29.3	33.7	35.2	31.6	31.1

Table 4: General government debt developments

% of GDP	ESA code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Gross debt [1]		66.3	79.9	78.6	77.7	75.6

2. Change in gross debt ratio		-1.4	13.6	-1.3	-0.9	-2.1
Contributions to change in gross debt						
3. Primary balance [2]		-0.21	4.5	3.9	0.1	-0.6
4. Interest expenditure [3]	EDP D.41	2.1	2.2	2.6	2.7	2.9
5. Real growth effect		-1.4	3.1	-4.1	-3.5	-3.2
6. Inflation effect		-0.3	1.5	-1.1	-1.6	-1.7
7. Stock-flow adjustment		-1.6	2.3	-2.6	1.4	0.6
of which:						
- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		:	:	:	:	:
of which:						
- Privatisation proceeds		0.0	0.0	0.0	0.0	0.0
- Valuation effects and other [6]		:	:	:	:	:
p.m. implicit interest rate on debt [7]		3.2	3.2	3.5	3.7	4.0
Other relevant variables						
8. Liquid financial assets [8]		1.0	1.3	0.4	2.0	2.7
9. Net financial debt (9 = 1 - 8)		65.3	78.6	78.2	75.7	72.8

Table 5: Cyclical developments

% of GDP	ESA Code	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Real GDP growth (%, yoy)	B1g	2.2	-4.4	5.5	4.8	4.5
2. Net lending of general government	EDP.B.9	-1.9	-6.7	-6.5	-2.9	-2.3
3. Interest expenditure	EDP.D.41	2.1	2.2	2.6	2.7	2.9
4. One-off and other temporary measures [1]		:	:	:	:	:
5. Potential GDP growth (%, yoy)		2.4	2.4	2.8	3.1	3.3
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		2.0	-4.8	-2.3	-0.7	0.4
7. Cyclical budgetary component		-0.1	-2.2	0.8	0.5	0.4
8. Cyclically-adjusted balance (2-7)		-1.8	-4.5	-7.3	-3.4	-2.6
9. Cyclically-adjusted primary balance (8+3)		0.3	-2.3	-4.7	-0.6	0.3
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. GDP growth (%, yoy)					

Previous programme	2.7	4.1	4.0	4.0	:
Latest update	2.2	-4.4	5.5	4.8	4.5
Difference (percentage points)	-0.5	-8.5	1.4	0.8	:
2. General government net lending (% of GDP)					
Previous programme	-1.9	-2.2	-2.0	-1.7	:
Latest update	-1.9	-6.7	-6.5	-2.9	-2.3
Difference	0.1	-4.5	-4.5	-1.2	:
3. General government gross debt (% of GDP)					
Previous programme	66.2	65.4	62.3	62.0	:
Latest update	66.3	79.9	78.6	77.7	75.6
Difference	0.1	14.4	16.3	15.7	:

Table 7: Long-term sustainability of public finances

Table 7a: Contingent liabilities

% of GDP	Year 2019	Year 2020
Public guarantees	4.6	3.1
Of which: linked to the financial	:	:

Table 8: Basic assumptions on the external economic environment underlying the programme framework

	Dimension	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
Short-term interest rate	Annual average	-0.4	-0.4	-0.5	-0.6	-0.6
Long-term interest rate	Annual average	-0.3	-0.5	-0.5	-0.5	-0.5
USD/EUR exchange rate	Annual average	1.12	1.14	1.18	1.18	1.18
Nominal effective exchange rate	Annual average	-1.2	3.9	2.7	0	0
Exchange rate vis-à-vis the EUR	Annual average	123.01	123.80	123.79	123.79	123.79
Global GDP growth, excluding EU	Annual average	2.9	-3.8	4.7	3.7	3.7
EU GDP growth	Annual average	1.5	-7.4	4.1	3	3
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	-0.5	-10.3	6.3	4.1	4.1
Oil prices (Brent, USD/barrel)	Annual average	64.1	42.6	44.6	46.4	46.4

Table 9: Selected employment and social indicators[27]

[27] Given the disparate availability of data and variety of definitions used for indicators, countries should use EUROSTAT data when available. In case of data from national or international sources, a footnote should be added for each indicator indicating how it is defined. In case no data are available for an indicator, please see whether any data would be available for a similar indicator and

	Data source[28]	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019	Year Q.2/2020
1. Labour market participation rate (%) total(15-64 years old)	INSTAT	64,2	66.2	66.8	68,3	69,6	68.1
-male	INSTAT	73,4	74,1	75,8	76,9	77,6	75.7
-female	INSTAT	55,1	58,3	57,7	59,7	61.6	60.7
2. Employment rate (%) total (15-64 years old)	INSTAT	52,9	55,9	57,4	59,3	61.2	59.6
-male	INSTAT	60,5	61,9	64,3	66,7	68,2	66.2
-female	INSTAT	45,5	49,7	50,3	52,4	54,4	53.2
3. Unemployment rate (%) total	INSTAT	17,5	15.6	14,1	12,8	11,5	11.9
-male	INSTAT	17,5	16,4	15.1	13,2	11,6	12.0
-female	INSTAT	17,4	14,6	12,8	12,3	11,4	11.9
4. Long-term unemployment rate (%) total	NES	47,5	58	51	50	51	45
-male	NES	51	48	49	45	45	45.9
-female	NES	49	52	51	55	54.6	54.1
5. Youth unemployment (15-29 years old) rate (%) total	INSTAT	33,2	28.9	25.9	23.1	21,5	21.4
-male	INSTAT	32,3	29,7	27,0	23,1	21,3	21.9
-female	INSTAT	34,7	27,8	24,0	23,1	21,7	20.8
6. Young people (15-24 years old) not in employment, education or training (NEET), in %	INSTAT	32,8	30,0	29,7	26,5	28,9	
7. Early school leavers, in % (Eurostat definition)							
8. PISA Rating							
9. PIAAC rating							
10. Participants rate in early childhood education or care							
11. Gini coefficient							
12. Inequality of income distribution S80/S20 (income quintile ratio)	e						
13. Social protection expenditure in % of GDP	e						
14. Health expenditure in % of GDP	e						
15. At-risk-of-poverty before social transfers, % of the population	e						

explain so. It is recommended that year X = 2017. In case that no data are available for the year 2017, the data available for previous years (2016, 2015) shall be introduced in the respective columns. For all indicators the values shall be inserted in the table, not the year-on-year change of the values as in some other tables.

[28] For the indicators marked "e", Eurostat indicators should be available for all enlargement countries.

16. Poverty rate (Please indicate which data are available for your country)							
17. Poverty gap (Please indicate which data are available for your country)							
Other indicators used in the EU Social Scoreboard							
18. Real adjusted GDHI – per capita in PPS (Index 2008=100)							
19. Impact of social transfers (other than pensions) on poverty reduction							
20. Self-reported unmet need for medical care							
21. Individuals' level of digital skills (% of individuals with basic or above basic overall digital skills)							

Table 10a: Costing of structural reform measures (in EUR)

Reform measure 01: Further liberalisation of the energy market					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021					
2022					
2023					

Reform measure 02: Diversification of energy sources through the promotion of energy sources and energy efficiency improvements					
Energy efficiency improvements					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021	19 400 000		0	0	19 400 000
2022	15 400 000		0	0	15 400 000
2023	15 400 000		0	0	15 400 000
Promotion of renewable energy sources (financial support for RES FiT &FiP (KpD)					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021	982,723.42		0	0	982,723.42
2022	0		0	0	
2023	0		0	0	

Reform measure 03: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana					
Year	Salaries[29]	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021		69,800,000	3,720,000	6,060,000	79,580,000
2022		0	870,000	5,000,000	5,870,000
2023		0	0	5,000,000	5,000,000

Reform measure 04: Reform on the water and waste water sector					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021	403,225	334,677	3,064,516	82,317,475	86,119,895

[29] The Construction company awarded shall determine those values, as appropriate. By now, salaries to the Project Implementation Unit, are executing/reporting, given the subsidies/transfers item of the HSH budgeting

2022	403,225	375,000	3,064,516	72,570,104	76,412,846
2023	403,225	415,322	3,064,516	83,111,137	86,994,201

Reform measure 05: Better marine and maritime governance and services					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021	X	X			439,562.5
2022					
2023					

Reform measure 06: Strengthening the fight against informality					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021	X	X			439,562.5
2022					
2023					

Reform measure 07: Developing a legal framework in support of innovative start-ups					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021					
2022					
2023					

Reform measure 08: Improving access to finance for SMEs					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021					
2022					
2023					

Reform measure 09: Modernisation of retail payment instruments					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021	0	0	0	100k[30]	100k
2022				Up to 3 mn[31]	3 mn
2023					

Reform measure 10: Improving institutional, financial and human capacities for research and innovation					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021					
2022					
2023					

Reform measure 11: Development of the broadband infrastructure for digital economy					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021					
2022				190K	190K

[30] Capital expenditure is foreseen for the infrastructural development of "*Implementation of the system for the settlement euro transfers for domestic payments*

[31] For the development of Instant payment solution in Albania. It needs to be mentioned that BoA has not finalized yet the feasibility study and ToRs. In this context, the foreseen amount is a rough estimation based on other countries' experiences.

2023				2.5M	2.5M

Reform measure 12: Facilitating cross-border movement of goods					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021					
2022					
2023					

Reform measure 13: Finalize and support the implementation of pre-university curricular reform, teacher training and employment					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021					
2022					
2023					

Reform measure 14: Inclusiveness and equality in education					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021					
2022					
2023					

Reform measure 15: Increasing the quality and access to VET, aiming at integration in the labour market					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021	570,800	1,300,000		7,962,195	9,832,995
2022	570,800	1,770,000		8,196,964	10,537,764
2023	570,800	1,350,000		6,666,915	8,587,715

Reform measure 16: Improving the employability of the most vulnerable unemployed jobseekers especially those affected by COVID-19, through new and revised EPPs and employment services (*in ALL*)					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
Investment for reconstruction and reorganization of employment offices, regional and local					
2,020	0	0	0	329,856.90	329,856.90
2,021	0	0	0	525,507.32	525,507.32
2,022	0	0	0	1,220,793.92	1,220,793.92
Mediations carried out by Employment Offices					
2,020	1,800,201.79	540,868.30	0	0	2,341,070.09
2,021	1,926,590.67	553,803.86	0	0	2,480,394.53
2,022	1,926,590.67	553,803.86	0	0	2,480,394.53
Implementation of employment promotion programs					
2,020		2,044,692.38		0	2,044,692.38
2,021		4,769,989.49			4,769,989.49
2,022		4,769,989.49			4,769,989.49
Training in VTC					
2,020	1,855,729.97	485,083.68			2,340,813.65
2,021	1,878,082.30	444,660.04			2,322,742.34

2,022	1,878,082.30	444,660.04			2,322,742.34
Benefits from unemployment					
2,020		7,837,476.76			7,837,476.76
2,021		5,174,225.89			5,174,225.89
2,022		5,659,309.56			5,659,309.56
Total					**46,619,999.19**

Reform measure 17: Strengthen and expand social protection coverage reducing inequality and supporting inclusive and sustainable growth					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021	0	0	226.369.417	0	226.369.417
2022	0	0	205.603.560	0	205.603.560
2023	0	0	213.061.489	0	213.061.489

Reform measure 18: Increasing access to healthcare					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021	0	0	0	0	0
2022	0	0	0	0	0
2023	0	0	0	0	0

Table 10b: Financing of structural reform measures

Reform measure 01: Further liberalisation of the energy market								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021								
2022								
2023								

Reform measure 02: Diversification of energy sources through the promotion of renewable sources and energy efficiency improvements								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
Energy efficiency improvements								
2020	345,227.80	0	0	0	0	0	0	345,227.80
2021	210,306.30	0	0	0	0	0	0	210,306.30
2022	108,097.29	0	0	0	0	0	0	108,097.29
Promotion of renewable energy sources (Financial support for RES FiT &FiP (KpD)								
2020	982,723.42	0	0	0	0	0	0	982,723.42
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0

Reform measure 03: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana								
Year	Central Budget	Local Budgets	Other national public	IPA funds	Other grants	Project loans	TBD	Total

			finance sources					
2021	6.06 mn	6.06 mn	0	26 mn	10.65 mn	36.87 mn		79.58 mn
2022	5 mn	0	0	0	870k	0		5.87 mn
2023	5 mn	0	0	0	0	0		5 mn

Reform measure 04: Reform on the water and waste water sector								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021	39,180,395			806,451	23,964,024	22,169,024		86,119,895
2022	35,555,798			654,838	24,115,637	16,086,572		76,412,846
2023	45,330,701				24,770,475	16,893,024		86,994,201

Reform measure 05: Better marine and maritime governance and services								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021	X							439,562.5
2022								
2023								

Reform measure 06: Strengthening the fight against informality								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021								
2022								
2023								

Reform measure 07: Developing a legal framework in support of innovative start-ups								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021								
2022								
2023								

Reform measure 08: Improving access to finance for SMEs								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021								
2022								
2023								

Reform measure 09: Modernisation of retail payment instruments								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021			BoA					100k
2022			BoA				TBD[32]	3 mn
2023								

Reform measure 10: Improving institutional, financial and human capacities for research and innovation								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021								
2022								
2023								

Reform measure 11: Development of the broadband infrastructure for digital economy								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021								
2022								
2023								

Reform measure 12: Facilitating cross-border movement of goods								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans[33]	TBD	Total
2021								
2022								
2023								

Reform measure 13: Finalize and support the implementation of pre-university curricular reform, teacher training and employment								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021								
2022								
2023								

[32] Possible source of financing would be from International Institutions such as World Bank, International Monetary Fund of European Union for credit / loan to support such infrastructure development.
[33] Overall cost of the project is 10 million USD for 5 years

Reform measure 14: Inclusiveness and equality in education								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021								
2022								
2023								

Reform measure 15: Increasing the quality and access to VET, aiming at integration in the labour market								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021	4,550,800	0	0	0	3,900,000	1,382,195		8,450,800
2022	4,145,000	0	0	0	3,700,000	1,792,764		7,845,000
2023	2,974,300	0	0	0	2,550,000	1,463,415		5,524,300

Reform measure 16: Improving the employability of the most vulnerable unemployed jobseekers especially those affected by COVID-19, through new and revised EPPs and employment services (in 1000/ALL)[34]								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021	1,236,155	15,272,860	0		328,216			16,837,230
2022	1,236,155	16,453,230	0		328,216			18,017,600
2023			0		0			

Reform measure 17: Strengthen and expand social protection coverage reducing inequality and supporting inclusive and sustainable growth								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2021	226369417							226369417
2022	204603560			1500000				205603560
2023	211561489			1500000				213061489

Reform measure 18: Increasing access to healthcare								
Year	Central	Local	Other	IPA	Other	Project	TBD	Total

[34] Te dhenat ne tabele jane ne leke, Tek Grandet nga BE kemi grandin ne shumen 649.548 euro e ndare ne dy vjet 2021 dhe 2022. Ne Kollonen e pare jane buxheti per Drejtorine Qendrore te AKPA-s

	Budget	Budgets	national public finance sources	funds	grants	loans		
2021								
2022								
2023								

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2020-2022[35]

	Reform measure 01: Further liberalisation of the energy market	Stage of reform implementation (1-5)
Activities planned for 2020	Liberalisation of the electricity market (consumers in the free market).	4
	The unbundling of the distribution activity from the supply.	4
	Establishment of Albanian Power Exchange	3
	Security of supply	3
Description of implementation and explanation if partial or no implementation	Starting from 18 March 2020, all the clients connected to 35 kV grid are supplied in the liberalised market, with the exception of the subjects defined by Article 5(4.2) of the Decision of Council of Ministers No 244 of 30.03.2016 "*On the approval of the conditions to impose the obligation of public service that will be applied to the licensed in the electricity sector, which carry out producing, transmission, distribution and supplying of electricity*", as amended. This Article stipulates that "to fulfil a public interest, the universal service provider, as part of the public service, provides uninterrupted supply to the following clients: - State institutions that provide public health services (hospitals and emergency centres); - Companies that provide drinking water to consumers; - State institutions that execute criminal punishments and state institutions. The plan is that starting from the fourth quarter of 2020 the customers (electricity clients) connected to 20 kV grids will be supplied in the liberalised market.	
	The legal and functional unbundling of Distribution System Operator (OSHEE S.A.), which aim the unbundling of distribution from the supply activity, as stipulated by the article 72 of the Law No 43/2015 of 30.04.2015 "On Power Sector" had to be carried out within December 2017. For this purpose, OSHEE S.A. has prepared the unbundling plan and has selected the COM METODI S.P.A as a consulting company for this process. The unbundling model was approved by the Supervisory Council of OSHEE S.A. with its Decision No 65 of 19.12.2016 "On approval of the corporate model" and by the Minister of Energy and Industry as the General Assembly of the Company.	

[35] 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

	By order of the Minister of Infrastructure and Energy (MIE) no. 157 dated 12.02.2018 "On the creation of three companies controlled by the Electricity Distribution Operator", was ordered the creation from the OSHEE S.A (the parent company) of the three controlled companies, with the aim of splitting the distribution activity, the universal service of supply and the sales activity in the free market of electricity. The administrator of OSHEE S.A has completed the registration of the 3 companies at the National Business Center, in March 2018, as follow: - **Universal Service Supplier S.A (FSHU),** with the object of activity "Electricity supply of end-customers operating in the regulated market defined by the legislation in force”. This company was established on 28.03.2018 and registered in the National Business Center on 30.03.2018, with Unique Identification Number L81530016L. - **Free Market Supplier S.A (FTL),** with the object of activity "Purchase and management of electricity and operation in the free market, etc". This company was established on 28.03.2018 and registered in the National Business Center on 30.03.2018, with Unique Identification Number L81530029T. - **Distribution System Operator S.A (OSSH),** with the object of activity "Distribution of electricity, construction, operation and maintenance of the electricity distribution network for the supply of electricity to customers, connection of customers and users of the network electricity distribution, installation and electricity measurement services, etc". This company was established on 28.03.2018 and registered in the National Business Center on 30.03.2018, with Unique Identification Number L81530018E. In accordance with the applications of these new companies: - NRA, with its decision No. 198, dated 03.09.2018 «*On the License of the "Free Market Supplier" S.A (FTL SH.A) company in the electricity trading activity*», decided to license the "Free Market Supplier" S.A (FTL SH.A) company, in the electricity trading activity, for a period of 5 years. - NRA, with its decision No. 199, dated 03.09.2018 «*On the License of the "Free Market Supplier" S.A (FTL SH.A) company in the electricity supply activity*», decided to license the "Free Market Supplier" S.A (FTL SH.A) company, in the electricity supply activity, for a period of 5 years. - NRA, with its decision No. 215, dated 11.10.2018 «*On the transfer of electricity supply license no. 251 with series p14 FPP, approved with the decision of ERE no. 97, dated 27.10.2014, valid until 27.10.2019 and the*	

	obligation of the Universal Service Supplier of the DSO (OSHEE S.A), approved with the decision of ERE no. 112, dated 08.07.2016 to the company Universal Service Supplier" S.A (FSHU SH.A)», decided the transfer of electricity supply license no. 251 with series p14 FPP, approved with the decision of ERE no. 97, dated 27.10.2014, valid until 27.10.2019 and the obligation of the Universal Service Supplier of the DSO (OSHEE S.A), approved with the decision of ERE no. 112, dated 08.07.2016 to the company "Universal Service Supplier" S.A (FSHU SH.A). - NRA, with its decision No. 216, dated 11.10.2018 «*On the transfer of the license for the operation in the electricity distribution system of the DSO (OSHEE S.A), no. 250, series p14sh, approved with the decision of ERE no. 96, dated 27.10.2014, valid until 27.10.2044 to the company "Distribution System Operator S.A" (OSSH SH.A), valid until 27.10.2044*», decided the transfer of the license for the operation in the electricity distribution system of the DSO (OSHEE S.A), no. 250, series p14sh, approved with the decision of ERE no. 96, dated 27.10.2014, valid until 27.10.2044 to the company "Distribution System Operator S.A" (OSSH SH.A), valid until 27.10.2044. Taking into account the request of OSHEE S.A and the opinion of the Ministry of Infrastructure and Energy, NRA, with the Decision of the Board of Commissioners No 264, dated 20.12.2018 "*On deciding on the transitory period to make effective the transfer of licenses for the operation in the power distribution system, of the Distribution System Operator S.A. (OSHEE S.A.) to the enterprise 'Distribution System Operator S.A. (O.S.SH S.A.); license for electricity supply and the universal service obligation of the enterprise Distribution System Operator S.A. (OSHEE S.A.) to the enterprise 'Universal Services Supplier' S.A. (FSHU S.A.)*" decided to set a 12 month transitory period, in order to make effective the transfer of licenses to the Distribution System Operator S.A. (O.S.SH S.A.) approved with the Decision of Board of ERE No 216 of 11.10.2018 and of the license for power supply and of the universal service obligation for power supply to 'Universal Service Supplier' S.A. (FSHU S.A.) approved by the Decision of Board of ERE No 215 of11.10.2018. Concerning the unbundling of OSHEE S.A., with the Order of Minister of Infrastructure and Energy No 341 of 17.09.2019, it was setup a Working Group (with participants from the Ministry of Infrastructure and Energy, Energy Regulatory Authority, OSHEE S.A, OST S.A. and KESH S.A.) tasked to assess and analyze the legal framework and to accelerate the unbundling of OSHEE S.A according to the requirements of the Law No 43/2015 of 30.04.2015 "On Power Sector", as	

	amended, within the prescribed deadlines. The goal was to complete the legal and functional unbundling of OSHEE S.A. by 1 January 2020 to the three established daughter companies according to the Decision of Board of Commissioners of ERE No 264 of 20.12.2018. Upon the request of OSHEE S.A., the Board of Commissioners of NRA approved the Decision of Board of Commissioners of NRA No 211,dated 18.12.2019 "*On postponing the transitory period to make effective the transfer of licenses for the operation in the power distribution system, of the Distribution System Operator S.A. (OSHEE S.A.) to the enterprise 'Distribution System Operator S.A. (O.S.SH S.A.); license for electricity supply and the universal service obligation of the enterprise Distribution System Operator S.A. (OSHEE S.A.) to the enterprise 'Universal Services Supplier' S.A. (FSHU S.A.)*". **As of 1 January 2020, the legal and functional unbundling of Distribution System Operator (OSHEE S.A.) was completed in line with the abovementioned Decision of Board of Commissioners of NRA No 211, dated 18.12.2019 and the three incorporated daughter companies are carrying out their activities**: 1. **Universal Service Supplier S.A.** (FSHU) with the object of activity "Electricity supply of end-customers operating in the regulated market defined by the legislation in force"; 2. **Free Market Supplier S.A.** (FTL) with the object of activity "Purchase and management of electricity and operation in the free market, etc"; 3. **Distribution System Operator S.A.** (OSSH) with the object of activity "Distribution of electricity, construction, operation and maintenance of the electricity distribution network for the supply of electricity to customers, connection of customers and users of the network electricity, distribution, installation and electricity metering services, etc". In the article 5, point 1 of the Law No 61/2020[36] of 14.05.2020 «*On some amendments and addenda to Law No 43/2015 "On power sector"* as amended», was foreseen that: The Distribution System Operator must have full effective decision-making rights, independent of the integrated electricity company, regarding the assets necessary for the operation, maintenance or development of the Distribution	

[36] The Law No 61/2020 of 14.05.2020 «*On some amendments and addenda to Law No 43/2015 "On power sector" as amended*», was published in the Official Gazette No 109 of 9.06.2020. The Law entered in force 15 days after its publication in the Official Gazette http://qbz.gov.al/eli/ligj/2020/05/14/61

	network. To fulfil these tasks, the Distribution System Operator must have the necessary resources available, including human, technical, physical and financial resources. The parent (controlling) company has the right to economic and managerial supervision regarding the return of assets, the approval of the economic financial plan, or any equivalent instrument, of the distribution system operator, and to set general limits on the debt levels of the daughter company (controlled). The parent (controlling) company cannot provide instructions for the daily operational activity of the Power Distribution System Operator and has no right to make decisions regarding the construction or reconstruction of distribution lines, the investment value of which does not exceed the levels of the approved financial plans or the values defined in the statute of the company, or the legislation in force. In the letter "b", point 3, of article 72 (Distribution System Operator Unbundling) of Law 43/2015 "*On Power Sector*", amended by the Law No 61/2020 of 14.05.2020 «*On some amendments and addenda to Law No 43/2015 "On power sector" as amended*», article 5, point 2, it is foreseen that: The Distribution System Operator shall establish a compliance program that sets out the measures to be taken to ensure that non-discriminatory actions are stopped, and to ensure that compliance with the program is properly monitored. The compliance program sets out the specific obligations of employees to meet this objective. The person or body responsible for monitoring the compliance program (compliance officer of the distribution system operator) submits annually to the ERE, an annual report, which sets out the measures taken under the compliance program. This report is published. The Distribution System Operator Compliance Officer is fully independent and has access to all necessary information of the Distribution System Operator and any cooperating undertaking to fulfill its task. ERE, with its letter No. 143 Prot. dated 13.08.2020 "*Information on the drafting of the Compliance Program*", addressed to the Electricity Distribution System Operator (O.S.SH S.A) and for the information to the Ministry of Infrastructure and Energy, referring to the Resolution for the evaluation of the activity of the Energy Regulatory Entity for 2019 https://ere.gov.al/doc/Rezoluta_2020.pdf (page 7414),[37] approved by the Assembly of Albania, informs that one of the tasks set for the ERE for 2020 is also related to the compilation and approval of the Compliance Program of the Distribution System Operator. As above and pursuant to the provisions of law 43/2015 "On Power Sector", as amended, has requested	

[37] Resolution for the evaluation of the activity of the National Regulatory Authority for 2019 https://ere.gov.al/doc/Rezoluta_2020.pdf (page 7414), approved by the Assembly of Albania.

	from the Distribution System Operator information regarding the measures taken for the submission to ERE of the approved Compliance Program by the governing bodies of the company OSSH S.A.	
	The Law No 43/2015 "*On Power Sector*" was amended by Law No 7/2018 of 15.02.2018 "*On some amendments and addenda to Law No 43/2015 of 30.04.2015 'On Power Sector*". These amendments introduced a new deadline and conditions for the setup of the Power Exchange. Following the amendment of the Law No 43/2015 of 30.04.2015, the Council of Ministers approved these implementing legal acts: - Decision of Council of Ministers No 322 of 15.05.2019 "*On the set up and legal form and capital structure of the market operator*". The Decision is based on Article 57(1/1) of Law No 43/2015 of 30.04.2015 "On power sector", as amended. The Article 57(1/1) stipulates that "The market operator is established in the form of a joint stock company by the OST or by the OST and other legal persons, as provided for in item 1/2 of this Article. The set- up, legal form, ownership structure of the market operator's capital are approved by a decision of Council of Ministers, upon the proposal of the minister responsible for energy and the minister exercising the rights of the OST S.A., within six months from the entry into force of this law"; - Decision of Council of Ministers No 609 of 11.09.2019 "*On defining the criteria and procedures for the selection of shareholders in market operator capital*". The Decision of Council of Ministers provides the rules for the setup of the Special Commission that will assist in the selection of shareholders, the rules for the functioning of the Special Commission and the general criteria that should be fulfilled by the shareholders and the procedure for their selection. These two Decisions of Council of Ministers completed the necessary legal base for the set-up of the market operator in Albania. According to point 2 of the Decision of Council of Ministers No 609 of 11.09.2019 "*On defining the criteria and procedures for the selection of shareholders in market operator capital*" and the conclusions of the APEX Steering Committee, the Minister responsible for energy (Minister of Infrastructure and Energy) and the Minister exercising ownership rights over OST S.A. (Minister of Finance and Economy) issued the Joint Order No 10313/2 of 14.01.2020 "*On the establishment of the special commission to determine the criteria and procedures for selecting participants in the market operator's capital*" setting up the Special Commission.	

	The Special Commission has five members: - The chairman from the ministry responsible for energy (Ministry of Infrastructure and Energy); - one member from the ministry responsible for energy (Ministry of Infrastructure and Energy); - one member from the ministry exercising ownership rights over OST S.A. (Ministry of Finance and Economy); - two members from the OST S.A. The Special Commission has the following tasks: - To prepare, within 30 days, the bidding documents specifying the bidding procedures; - To develop the special application and qualification criteria; - To develop the evaluation methodology, which is part of the bidding process documents; - To evaluate the bids, based on the qualification criteria; - To draft the final evaluation report and submit it for approval to the Minister responsible for energy and to the Minister exercising ownership rights over OST S.A.; - To engage special expertise, domestic or foreign, to assist in the development of the process; - To carry out any other task based on the provisions of the Decision of Council of Ministers No 609 of 11.09.2019. According to Decision of Council of Ministers No 609 of 11.09.2019, the Special Commission may engage special expertise, domestic or foreign, to assist in the development of the process. Following the approval of the report by the two Ministers, the Commission notifies the winners of each category. Following this, the Minister responsible for energy (Minister of Infrastructure and Energy) and the Minister exercising ownership rights over OST S.A. (Minister of Finance and Economy) with their Joint Order No 1851 of 18.02.2020 "*On commencement of the procedure of selection of participants in the market operator's capital*" ordered: - The approval of the documents of the competitive procedure for selection of participants in the market operator's capital, prepared by the Special Commission pursuant to the Joint Order of the Minister of Infrastructure and Energy and the Minister of Finance and Economy No 10313/2 of 14.01.2020 "On the establishment of the special commission to determine the criteria and procedures for selecting participants in the market operator's capital"; - The authorisation to commence the competitive procedure of selection of participants in the market	

	operator's capital, on 2.03.2020, according to the documents of the competitive procedure of selection of participants in the market operator's capital, prepared by the Special Commission pursuant to the Joint Order of the Minister of Infrastructure and Energy and the Minister of Finance and Economy No 10313/2 of 14.01.2020 "On the establishment of the special commission to determine the criteria and procedures for selecting participants in the market operator's capital". Referring to the Joint Order No 1851 of 18.02.2020 "*On commencement of the procedure of selection of participants in the market operator's capital*", OST S.A., on its website published the announcement on the competitive selection procedure of participants in the market operator's capital. The announcement can be accessed in these two links: Link 1 and Link 2 The deadline for submission of proposals in the procedure was April 27, 2020. The procedure was suspended due to the situation created by COV-19. On June 8, 2020, the Special Commission decided to continue the procedures and the deadline for the submission of proposals was June 29, 2020. In the competitive procedure participated only the System of Transmission and Market Operator of Kosovo – (KOSTT S.A), as a winner in the category "Electricity Transmission System Operators (TSO)" in accordance with its proposal for participation in the capital of the Operator of the Market with 51,250.00 (fifty one thousand two hundred and fifty) shares (equivalent to 20.5% of the share capital). The Transmission System Operator – (OST S.A) and the System, of Transmission and Market Operator – (KOSTT S.A), have signed on 5 October 2020 the Shareholders' Agreement and Articles of Association for the establishment of the power exchange company that will operate the short term electricity markets in Albania and in Kosovo. The power exchange operator, called ALPEX, will have its main seat in Tirana and will operate the day-ahead market coupling between Albania and Kosovo soon after its operationalization.	
	Investments in the distribution/ transmission grid and generating system (Completion of the project in the transmission system. Construction of the 400 kV Interconnection line (Albania) - (NRM) The tender procedure for the selection of contractors for each LOT of the project is in progress / ongoing. The first pre-qualification phase for both LOTs has already been completed. The second phase of the tender procedure started with the submission of technical bids which was foreseen to be on	

	25.02.2020 for Lot 1 and 05.03.2020 for Lot 2. The submission of technical bids had a new submission deadline, based on the numerous requests for postponement of the bid submission date by applicants / bidders, for Lot 1 and Lot 2, due to Covid - 19. Following the above, the new deadline for submission of technical bids was: For Lot 1 - 15.06.2020 For Lot 2 - 16.06.2020 The bidders submitted their bids respectively on the above dates. The technical evaluation process for both LOTs is in progress: The draft technical evaluation report for the LOT 1 / OHL bids has been agreed between the TSO and the Consultant and the TSO JSC is awaiting comments / No Objection from kfW. The evaluation process for the bids submitted for LOT 2 is still ongoing. After receiving No Objection from kfW for the draft evaluation reports for both LOTs, the technical phase will be completed and the financial evaluation phase will begin. The signing of the contract for both LOTs is expected to be completed by the end of December 2020. - ***Further reduction of distribution losses*** - Level of electricity losses in distribution grid Year 2019 – 21.79 %; Year 2020 (January – July) – 19.05% - ***Further increment of bill collection rates - Bill Collection Rate*** Year 2019 – 98.40 % Year 2020 (January – July) – 39.05%	

	Reform measure 2 :Diversification of energy sources through the promotion of renewable energy sources and energy efficiency improvements:	Stage of reform implementation (0-5)
Activities planned for 2020	- Preparation and approval of secondary legislation based on the law no. 7/2017 on the promotion of the use of energy from renewable sources (MIE/AKBN/OSHEE/OST/ERE); a. DCM "On the obligation to purchase electricity produced by priority electricity producers that do not benefit from the support scheme under the difference contract; b. DCM "On the Methodology for calculating the electricity price for self-producers that benefit from the Net Metering Scheme".	0
	- Preparation and approval of secondary legislation based on the law on energy efficiency[38] and the law on the energy performance in buildings[39] (MIE/EBRD/AEE); a. DCM "On the Approval of the National PEN Calculation Methodology";	4

[38] Law No.124/2015
[39] Law No 116/2016

	b. DCM "On Minimum PEN and Building Element Requirements"; c. DCM "On the procedures and conditions of certification of energy performance in buildings. - DCM "On the National Methodology of calculating energy performance in buildings adopted by 24th December 2020.	
	- Implementation of "Akernia PV Power Plant 100 MW" project (permits phase);	0
	- Announcement of the bidding procedure to select the project developer for the construction of a 70MW photovoltaic plant, as part of the support measures, in the Karavasta (Lushnje - Fier) area and the construction of additional 70 MW capacity, which will not be part of supportive measures and the signing of the PPA Contract	4
	- Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval to build new electricity generation capacities (MIE/AKBN);	4
	- Pilot project on promotion of energy efficiency;	5

Description of implementation and explanation if partial or no implementation	1- The secondary legislation based on the law no. 7/2017 on the promotion of the use of energy from renewable sources isn't prepared yet. There are no new development on these issues. 2- The secondary legislation based on the law on energy efficiency and the law on the energy performance in buildings is developed as follows: -The draft DCM "On the Approval of the National PEN Calculation Methodology" is still in process; - DCM Nr. 537, date 8.7.2020 "On Minimum PEN and Building Element Requirements"; was approved by the Council of Ministers; - The project DCM "On the procedures and conditions of certification of energy performance in buildings" was submit for approval at the Council of Ministers. 3- The activity: Implementation of "Akernia PV Power Plant 100 MW" project (permits phase) has been removed. The bidding procedure for the project of the construction of a photovoltaic plant with an installed capacity of 100 MW, in the Akërni Area (close to Vlora) has failed. The selected winner is the joint venture The agreement on the development of the project was signed between the Ministry of Infrastructure and Energy and the developer selected. Recently MIE has rejected the company's request for extension, taking into account the non-compliance with various points of the contract by the winning company for the development of the project. 4- The contract is under negotiation process between MIE and the selected developer of the project (a well-known international experienced company on solar called "Voltalia") for the construction of a photovoltaic plant in Remas – Karavasta (close to Lushnja area) with an installed capacity of 140 MW, where 70 MW, as part of the support and 70 MW which will not be part of the Support Measures. 5- Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval to build new electricity generation capacities has been slowed down due to the restricted measures of Covid-9 situation. 6- Pilot project on promotion of energy efficiency has been achieved fully. The reconstruction of one of the buildings of Ministry of Infrastructure and Energy with energy efficiency measures is finished and alternative system is conducted as one of the measures of National Action Plan on Energy Efficiency for the renovation of public buildings.	5

	Reform measure 03: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana	Stage of reform implementation[1] (0-5)
Activities planned for 2020	- With closing deadline of the tendering procedure set by 15.01.2020 - The preferred technical solution is selected during the 4M II 2020 - The most feasible offer is pre- selected at the most economic price	5

	The European Bank for reconstruction and development published its strategy for Albania 2020-2025 and the project as the 1st measure for transport sector, and air, road safety and investments in port of Durres	5
	The winner is to be published by the Promoter MIE for the Project The Project environmental, social, and health and safety plan is also ongoing to assist at drafting certain reports before the first withdrawal	4
Description of implementation and explanation if partial or no implementation	D/Contract and its annex of the ESIA is drafting and Consulting TA The 4 other EU TAs are ongoing with IFRS and TAC and RIA-AMS	4
	The complains handling mechanism is in place and collect by PMG where Liaison Community Manager and the 5 other Project Managers	4
	The project shall ensure the interoperability for a midterm program in purchasing new hybrid trains, and increased safety level at ECTS '1'	4

	Reform measure 06 Increasing service standards in the tourism sector	Stage of reform implementation (0-5)
Activities planned for 2020	Categorization of accommodation structures	5
	Increasing service standards at beach station activities in coastal and lake areas	5
	Improving standards in structures that operate as agro-tourism structures	5
Description of implementation and explanation if partial or no implementation	The process of categorization of accommodation structures has already been set up and continues in its normal course of operation. So far, 1477 subjects have applied for obtaining the categorization certificate (until 24.9.2020), out of which 1251 are categorized, while the rest is in the documentation review phase. Pursuant to Order no. 267, dated 24.07.2019 "On the approval of the regulation on the manner, criteria and procedures for categorization of accommodation structures", as amended, the process of categorization of accommodation structures is continuing. So far, 1477 subjects have applied for obtaining the categorization certificate (until 24.9.2020), out of which 1251 have been categorized, while the rest are in the documentation review phase. The application procedure has been simplified, enabling the subjects to initially submit only 4 documents at the time of application (Request to obtain a categorization certificate; Self-declaration form; Certificate of registration in the National Business Center as a natural / legal person with object activity as an accommodation structure, which is provided through the e-Albania portal; Certificate of the judicial status of the owner / administrator (proof of the penalty / provided through the e-Albania portal)), while the rest of the documents	

	can be submitted until 31.12.2020. The process of categorization of accommodation structures has continued even during the pandemic period. Given the situation and the conditions created, arrangements were made for the development of the application process (including submission of relevant documentation) online. One of the problems encountered during this process is the assignment of categories for structures such as apartments, villas, etc. Due to their characteristics, it is difficult to categorize these structures into one of the 8 categories defined in law no. 93/2015 "On Tourism", as amended. In this context, we are studying the international practices of categorization of accommodation structures, in order to see the possibility to add as new categories in tourism legislation even the apartments, villas and apartment blocks.	
	The online application system for obtaining the certificate for exercising the activity as a beach station has been set up and has functioned throughout the summer season 2020. This has influenced the reduction of informality, bureaucracies, as well as the protection of health and life in conditions of Covid-19 pandemic making it possible. Thus, the number of entities that have received certificates for exercising the activity as a beach station for this tourist season was 965. In addition, the number of observation points has reached 965, as well as certified observers have increased by 557 persons more compared to 2019. In accordance with the DCM Nr. 424, dated 27.5.2020 for an addition to the decision of the Council of Ministers no. 171, dated 27.03.2019 "For the approval of the regulation on the conditions and criteria of exercise of beach station activity", this tourist season, the management of spaces along the coastline was achieved through the online e-Albania service delivery system. The newest electronic service included in this platform is "Application for exercising the activity as a beach station" and it offers the only opportunity for accommodation or service entities to use beach stations spaces. Referring to the data, the number of entities that have received certificates for exercising the activity as a beach station for this tourist season was 965. Compared to 2019, this number has increased by 147 entities. The number of observation points is 965 increasing by 403 observation points more compared to 2019, as well as certified observers have increased by 557 persons more. Also, revenues from the 2020 tourist season, from the rental of public spaces (beaches), have increased by 16.4% compared to the summer tourist season 2019. Through this application process, tour operators can easily perform at no cost, the online application procedure in e-Albania, by uploading the documents required by the Ministry of Tourism and Environment, in accordance with 2 specific phases, categorically eliminating bureaucracies, walks and bribes. The maximum deadline for receiving the service is 9-	

	12 days. The online application process has continued even during the pandemic period as it guarantees among other things, life safety and health protection in the context of the pandemic.	
	The legal framework has been reviewed and currently we have 18 entities that have been provided with the final agro-tourism certificate and 7 entities that have been provided with the preliminary agro-tourism certificate. The process continues normally. Regarding the activity envisaged for the improvement of standards for agro-tourism structures, the legal framework regarding the approved criteria and the procedure for certification of agro-tourism activity has been reviewed and supplemented, as well as the regulation on the functioning of the evaluation commission for certification of entities exercising agro-tourism, application procedures, preliminary and final evaluation, as well as suspension and / or revocation of the preliminary certificate or certificate. Currently we have 18 entities that have been provided with the final agro-tourism certificate and 7 entities that have been provided with the preliminary agro-tourism certificate. Problems encountered during the process are mainly related to ownership, where some entities in remote mountainous areas lack ownership certificates. Agro-tourism or Rural Tourism is a new reality in Albania, which is proving in a short time that it has a high potential of vitalization of rural areas. Having in mind the importance of agro-tourism as a development opportunity for the whole territory, as well as in the context of the difficult situation caused by the pandemic, the Ministry of Tourism and Environment through the financial support it provides for projects in the field of tourism, in its last call, aims to promote the development of the tourism product throughout the year in relation to various tourism activities related to gastronomy, rural areas ethnography, cultural heritage, natural heritage, etc.	

	Reform measure 07: Property tax reform and establishment of a fiscal cadastre	Stage of reform implementation (0-5)
Activities planned for 2020	**Implement a market value based property taxation.** The market value approach will be applied to all 61 municipalities.	1
	Drafting of a new law on property tax. Actual legal framework shall be in force for a transitory period until a new and complete law on property tax should be approved.	3
Description of implementation and explanation if partial or no implementation	The implementation of a market value based on property tax has no implementation due to the missing data, as the register of sales was not available to proceed with the analyses of this data and start with the market value.	
	The process of drafting a new law on property tax is continuing. Currently working on the implementation plan for the first phase with the 6 pilot municipalities.	

	Reform measure 08: Developing a legal framework in support of innovative start-ups	Stage of reform implementation (0-5)
Activities planned for 2020	Initiate public consultation with stakeholders for drafting the start-up law;	4
	Drafting of the law on start-ups.	5
Description of implementation and explanation if partial or no implementation	Under EU for Innovation project was drafted the law on start-ups. During 2020, there are several consultation stages of the working group, since the drafts of the law.	4
	In February 26, 2020, the Minister of Finance and Economy (MFE) and the Minister of State for the Protection of Entrepreneurship (MSPE) established a joint working group for drafting the start-up law. The aim of this initiative is to create a favourable legislative framework for start-ups. Publish the draft law prepared by the MFE and MSPE within October 2020 for opinions in the public consultations portal.	5

	Reform measure 09: Improving access to finance for SMEs	Stage of reform implementation (0-5)
Activities planned for 2020	Establishment of a dedicated unit within the MOFE to promote SMEs development.	0
	Conducting appropriate analysis for establishment of a centralized information platform for the financial resources from donors, private and public sectors - as an important tool for SMEs.	5
	Study for potential implementation of credit guarantee schemes, based on international best practices to facilitate lending to MSMEs.	5
Description of implementation and explanation if partial or no implementation	The structure is not yet established. During these months the Business Promotion Unit in MFE under the TAIEX recommendations is working for: - having a single scheme for the business support - Increasing the amount of benefit per applicant. Over the last few years, there have been increases, which have been in fixed value by type of program. - Online application at AIDA - We are working to make it possible for businesses to apply online by the end of 2020 and with simplified documentation to facilitate the process. - Coordination with other programs: we are analyzing the possibility of coordination with other programs that are co-financed with international donors and partners to have a well-organized approach mainly related to assistance and training programs.	
	The EBRD contracted experts endorse an Inception Report, which presents the initial understanding of the assignment of the consultant team and the proposed work plan for completion of the assignment.	5
	Study for potential implementation of credit guarantee	5

	schemes, based on international best practices to facilitate lending to MSMEs With the support of World Bank it was performed a study on "Albania Public Credit Guarantee Scheme Functional: Review of Institutional Set-up Options", which was endorsed in MFE in June 2020. The study analysed issues related to the housing the public credit guarantee scheme, retain in MFE, use an existing institution, set up a new institution associated with comparative assessment.	

	Reform measure 10: Modernisation of retail payment instruments	Stage of reform implementation (0-5)
Activities planned for 2020	1.Entering into force of the Law "On payment services" which transposes the revised EU Directive 2015/2366, and drafting and approval of bylaws for this Law -	4
	2.Drafting the legal act that will transpose the European Union directive "On the payment account".	2
	3.Approval of changes in regulation and infrastructure for the interbank direct debit schemes.	2
	4.Implementation of the system for the settlement euro transfers for domestic payments	3
	5.Approval of changes in regulation and infrastructure for "indirect participation" in the AECH.	5
	6.Feasibility study for implementing a national card-processing platform (SWITCH) / 'instant payment'	2
Description of implementation and explanation if partial or no implementation	**Measure 1 – the Law "On Payment Services" is approved by the Parliament on 30/04/2020- Entering into force 6 months after the publication in the Official Gazette (February 2021)** Bank of Albania is working on establishing the regulatory framework enforcing the Law. This regulatory framework is going to transpose EBA regulations and technical standards.	
	Measure 2 - Bank of Albania with the support of the World Bank has prepared a "note" on analysing the different options for transposing the directive (regulation/ new legal act/ intervention on existing Laws). Furthermore, Bank of Albania has conducted a survey with Banks aiming to understand the actual practices followed by market actors and their efficiency.	
	Measure 3 - As soon as the rules governing the Direct Debit Scheme (from the right and obligation perspective) are based on the Law "On Payment Services", to this extent as soon as the Law is going to be enforced by the beginning of 2021[40] the approval of the regulation is postponed.	
	Measure 4 - The Term of references of the project have already been finalized by the end of 2019. However, because one component of the existing systems was under upgrade the procurement of the infrastructure was postponed. Is mentionable that actually, this upgrade is effective and BoA is starting with the procurement procedures.	

[40] *Entering into force is legally 6 months after publication on the official gazette (July 2nd 2020), thus January 2nd 2020.*

	Measure 5 - Achieved already in June 2020 with the approval on the Supervisory Board of the revised regulations on the functioning of RTGS & ACH systems.	
	Measure 6 - From Instant Payment perspective-With regard to this project, with the support of World Bank, has been conducted a survey to Banks aiming to understand the existing situation and the need for intervention in the future. Furthermore, Bank of Albania is starting to draft the feasibility study of the project on Instant payment.	

	Reform measure 12: Development of the broadband infrastructure for digital economy	Stage of reform implementation (0-5)
Activities planned for 2020	Approval of new National Broadband Plan	5
	Complete the Feasibility Study and Cost-benefit analysis for Regional Broadband; Infrastructure Development	5
	Adoption of 5G roadmap for Albania	4
Description of implementation and explanation if partial or no implementation	Pilot project for development of broadband infrastructure in Zone 1 (rural and remote/tourism areas in north part of Albania (Shkodër, Kukës, Tropojë, Dibër)	
	Broadband Development in south part of the country (for broadband development in white areas Vlora, Gjirokastra, Fier, Berat, Korçë)	

	Reform measure 13: Facilitating cross border movement of goods	Stage of reform implementation (1-5)
Activities planned for 2019	1. Effective implementation of the implementing provisions of the Customs Code, including the implementation of the AEO programme.	5
	2. Promote AEO concept and mutual recognition of AEO programs under AP5 with private sector.	5
Description of implementation and explanation if partial or no implementation	1. Law number 102/2014 of 31.07.2014 "The Customs Code of the Republic of Albania" became fully applicable on 1 June 2017. Articles 40 and 41 of the Customs Code regulate the status of the Authorised Economic Operators. For the implementation of the Customs Code, a decision of the Council of Ministers (DCM No. 651 of 10.11.2017 "On the implementing measures of the Law no. 102/2014 "The Customs Code of the Republic of Albania"" was approved. Under section 3, Articles 42 until 60 regulate the status of AEOs. Customs provisions related to AEO are aligned with the respective EU provisions. Moreover, in the regional level, by the Joint Ministerial Meeting, on 18th of December under the Albanian Chairmanship, in CEFTA was approved the Decision on the mutual recognition of the AEO status.	5
	2. The General Directorate of Customs organised several meetings with Albanian exporters aiming to inform them on the facilities and benefits provided by the AEO status. 9 companies have applied up to now to obtain the AEO status.	5

	Reform measure 17: Increasing the quality and access to VET, aiming at integration in the labour market	Stage of reform implementation (0-5)
Activities planned for 2020	1. VET offer optimization plan in line with regional skills development need developed and adopted by the Ministry of Finance and Economy and the process of re-organization of VET providers commenced;	1
	2. Develop the competencies of 200 VET teachers as well as teacher trainers (initial and on-going vocational training) (MFE; NAVETQ; VET provider);	4
	3. Analysis of existing VET information systems;	5
	4. Strengthening and capacity development of NAES and NAVETQ;	3
	5. Establish the National VET Council;	2
	6. New / revised vocational qualifications in line with the AQF and according to labour market needs.	5
Description of implementation and explanation if partial or no implementation	1. A draft study / plan has been drafted for the optimization of providers of education and vocational training. For the follow-up of the work for the realization of this plan with Order no. 249, dated 9.10.2020, of the Minister of Finance and Economy, a working group has been established.	
	2. During the 7-month period (January-July 2020) the initial training continued and the continuous professional development of teachers / instructors continued during 2020 (even in the conditions of COVID 2019. 35 teachers / instructors were trained with the program Basics of Didactics in VET and 40 teachers and instructors with other training programs for continuous professional development Webinar also organized training of teachers / instructors for aspects of online learning and assessment of students in the conditions of COVID19.	
	3. The analysis of the information system in the field of PA has been completed and the SMIP system is being set up - the national information management system, for public and non-public education. The system includes data for students, learning process, student assessment, curricula for each educational level as well as information for system employees.	
	4. The National Agency for Employment and Skills as well as the National Agency for Education, Vocational Training and Qualifications are being supplemented with human resources and work is being done to increase their capacities.	
	5. The National VET Council has been established and its first meeting is expected to be organized.	
	6. In accordance with the needs of the labor market for qualified employees, in 2020, 18 descriptions / standards of professional qualification were drafted, 2	

	new skeleton curricula were drafted and 19 skeletal curricula were revised in accordance with the 2 + 4 levels of the AQF.	

	Reform measure 18: Improving the employability of the most vulnerable unemployed jobseekers especially those affected by COVID-19, through new and revised EPPs and employment services	Stage of reform implementation (0-5)
Activities planned for 2020	NAES 3-year work plan 2020-2022 developed in line with the revised NESS 2019-2022 and the new functions of the agency. Roles and functions for the new structure of NAES and specified and service instruments / guides are finalized During 2021, the new structures of NAES are expected to be fully operational.. NAES is preparing the • Implementation of the Employment Services Guide Package and training of staff for capacity building • Manual of work processes (Finalization, submission for implementation and training of Labour Office Staff) • Assessment and fulfilment of infrastructure needs (Access, Signalling, Furnishing and branding offices with new logos) • Implementation of the new system of employment services, assistance and ongoing training of the employment office staff • Putting the complaints system into operation	5
	Service protocols and tools, based on the three-tiered service model designed and IT system that adequately profiles jobseekers in place.	4
	New profiling module in the information system is in place and annual goals are derived, a target setting system is in place and the employability plan methodology has begun to be built. During the first 6 months of 2021, in the new system of employment services will be entered the data for all unemployed jobseekers (who are also equipped with IEP). This process will be launched initially for the category economic aid and then for all the other unemployed jobseekers. The process of inputting data in the system will be accompanied by assistance and ongoing training of the employment office staff. The new system of employment services which will be functional during 2021: ➢ includes automatic mediation which relies on skills related to the profession (ESCO) ➢ the employer can choose the type of service he requires from the employment office. He can announce the vacancies on the NAES portal himself as a service without agreement, or the employer can choose the service with agreement for the announcement and mediation of vacancies by the Labor Offices ➢ For the profiling of jobseekers, the system includes an econometric formula which is based on several factors	3

	such as: age, gender, educational level, job qualification, literacy skills, etc. ➢ Each jobseeker is subject to an interview, the duration of which varies according to the jobseeker's level of employability. The duration of the interview is: • for the first level 25 minutes • for the second level 35 minutes • for the third level of 45- 60 minutes At the end of the interview, the individual employment plan is drafted and agreed. ➢ The category of jobseekers who register to receive unemployment benefits is also subject to the same interview and profiling process.	
Description of implementation and explanation if partial or no implementation	New and revised employment promotion programs in accordance with the new employment promotion law 15/2019 aimed at supporting the most vulnerable groups and registered unemployed jobseekers benefiting from these programs; After the approval of DCM 638, dated 28.10.2020 "On the procedures, criteria and rules for the provision of employment services, a package of guidelines was drafted. The purpose of all guidelines is to increase the quality and productivity of service delivery to jobseekers and employers, as well as to standardize and unify the work of all employees at all levels of the NAES. The guidelines set out the procedures and rules to be followed in providing employment services to unemployed jobseekers and employers registered with the employment office, starting from the moment of registration with the relevant employment office, the provision of all services dedicated to each of them and until their emergence. The Guidelines package for employment services was finalized during 2020, and for 2021 their implementation and staff training is planned.	5
	Cooperation agreements signed with at least 3 municipalities in uncovered areas During 2019, NES has taken the initiative to sign agreements with Local Government Units in the framework of strengthening and coordinating employment policies at the regional and local level. These agreements consist of building a bilateral relationship in order to institutionalize service and help jobseekers for a better and dignified life, as well as coordinating institutional efforts at local and regional level under the main objective of reducing the unemployment rate in the unit relevant to local government and addressing as effectively as possible the social problems faced by individuals.	5
	A referral system for the pursuit of jobseekers who receive vocational training services, job mediation or employment promotion programs, within "Start Smart" Course and / or vocational training courses.	5

	Reform measure 19: Strengthen and expand health and social protection coverage reducing inequality and supporting inclusive and sustainable growth	Stage of reform implementation (0-5)
Activities planned for 2020	Efficient targeting of economic aid scheme and disability cash payments combined with services	5
	Support persons from disadvantaged backgrounds, especially beneficiaries of economic aid and persons with disability through toward employment in social enterprises	3
	Support local government to draft social plans	4
	Capacity building of municipalities to benefit from social fund. Monitor social inclusion indicators through improved data in the NAPs	4
Description of implementation and explanation if partial or no implementation	Economic Assistance Scheme has provided accurate criteria and procedures. In total across the country, 95% of economic assistance applicants are beneficiaries. The exit program from the economic assistance scheme has been approved to ensure their social reintegration. The implementation of the reform of the disability assessment system on the basis of a 'bio-psycho-social' model is continuing and was extended from two administrative units of the capital to the whole municipality of Tirana covering about one third of the Albanian population. Disability payments and benefits, personal assistant payments and the in-kind benefits have been restructured and have been combined with social, health, education, vocational training, employment services, etc.	
	The Call for applications to register and assume the status of social enterprises was launched in the framework of establishing the first social enterprises, approved by the Ministry of Health and Social Protection. This initiative supports non-profit organizations that aim at providing services, and it should contribute to the creation of new jobs, employment of persons from the list of disadvantaged groups, which has already been approved by Decision of the Council of Ministers. To date, 6 NGOs have assumed the status of Social Enterprises.	
	More than 3/4 of the municipalities have a costed and approved social care plan, supported by UNICEF, UNDP and World Vision and monitoring by State Social Service, in line with social care services legislation framework (50 municipalities have already approved SP). The State Social Services will continue, for 2021 supporting 5 municipalities which have not yet initiated the process of needs assessment analyse and producing local social plans The MoHSP has started to operationalize the social fund launching the first call for proposals Mars 2019. The disbursement of funds was executed in March 2020, from which has benefited 14 municipalities and 12 specialized services in 6 regions with a total fund amounting to 150 million ALL. The second call for proposal launched on 20 October	

	2020 and was published on the official website of the ministry. http://www.shendetesia.gov.al/njoftime-2/, where to date 40 municipalities have applied.	
	In the monitoring of the situation for Social Inclusion, data from the SILC are important to assess the country situation. IPMG sub-thematic on social inclusion and protection Group. Monitoring social inclusion and disaggregation of data is relevant to the poor and disadvantaged population. Rom-Alb system has continued to provide data for the Roma and Egyptian communities' situation with administrative data from all institutions and country reports. Monitoring report for Gender Equality, National Disability action Plan and Agenda Children have been completed.	

ANNEX II

EXTERNAL CONTRIBUTIONS TO THE ERP 2021-2023

The Economic Reform Programme 2021-2023 was shared with the Development and Integration Partners in Albania, Civil Society Organisations, business associations, NGOs, chambers of commerce and industry, academia, etc. The process of collecting, consolidating, and reflecting of the feedback, received as part of the public consultation involved both the ERP national coordinator office, and the public institutions has been extended in time throughout the ERP drafting and preparation process.
This annex serves to showcase the consolidated feedback that was sent as part of the public consultation process. To the extent possible and within the sole discretion of the responsible institutions, the final ERP document has been reviewed to include incoming contributions. Due to the revision of the content of the document throughout the consultation period, there will be some inconsistencies or references to outdated information, such as reform measure number, page numbers, etc. This is to be expected and is in line with the principle of leaving submitted contributions unmodified.

I. Austrian Development Agency

- The approach of integrated water resources management initiated long time ago from GoA is missing. Establishment of important institutions such as the Agency for Water Resources Management is missing. The description fragmented institutional set-up of the water sector in overall, that directly affects the implementation of the reform, the activities and risks is missing. We suggest to ensure coherence and would like to suggest and recommend to revise and update this section accordingly.
- Reform measure 17: Targets mentioned in the activities do not correspond with the targets mentioned in the Results indicators table below.
- Reform measure 18: Targets mentioned in the activities do not correspond with the targets mentioned in the Results indicators table below.
- In general, there should be a clearer gender lens/focus and gender indicators to ensure that proper attention is given to women and girls' needs in order to ensure their equal participation and inclusion in employment programs.

II. European Bank for Reconstruction and Development

In the new Chapter: IMPLEMENTATION OF THE POLICY GUIDANCE, the main issues of concern to the economy and general plans of the Government have been identified and laid out, however these are not fully translated into concrete measures, and less so in the second Chapter: STRUCTURAL REFORM PRIORITIES IN 2021-2023.

- Ensuring public debt sustainability demands fiscal adjustments once Covid concerns fade away, as highlighted in the draft ERP. The document could however identify actions and activities related to strengthening public investment management and containing fiscal risks such as those from the public-private partnership programmes.
- Non-performing loans are still relatively high and will likely increase in the near future. Hence, further reforms in the financial sector would support credit growth and financial stability. Resolution of the issues in the bailiff system, implementation of the insolvency law, and enhancement of property rights should be high on the agenda, and accompanied in the ERP with concrete reform measures.
- Under ENERGY AND TRANSPORT MARKET REFORM, you may want to include and mention the following:
- Natural gas sector development in general and related activities: The preparation of the detailed design for the Fier – Vlora pipeline and preparation of the Feasibility Study for the

Dumrea UGS are ongoing. You may want to include under the reforms these activities and the expected timeline for their implementation;

- Road sector reform and ARA (ARRSH) restructuring: You may want to include the planned completion of the Fier and Vlore Bypass roads and the activities planned for the Tirana Bypass, amongst others;
- The activities in rail transport could include the preparation of a number of projects, including the rehabilitation of the Vore – Hani i Hotit railway line;
- While the draft ERP acknowledges that maritime transport is underdeveloped, there are no reform measures planned for the development of this sector. At the same time, the status of the project for Rehabilitation of Quays 1 & 2 at the Port of Durres remains unclear. While the EBRD supported Albania's application to the WBIF to obtain an investment grant in the amount of approx. EUR 27m, plans to relocate commercial activities to another location and transform the Port of Durres into a touristic port have been announced.
- Under BUSINESS ENVIRONMENT AND REDUCTION OF INFORMAL ECONOMY, considering how pervasive informality hinders competitiveness of economy and significantly reduces government revenues you may want to scale up reforms in this area to include activities that see to the introduction of a simplified tax system and procedures, strengthened capacities for inspections and the fight against corruption and bribery in public administration, as ways to stimulate the formalisation of activities.
- While public consultation of new legislation is given importance to in the draft ERP, the practice of ad hoc changes to tax policy should be avoided as it might discourage compliance of both existing and potential taxpayers.
- A timeline should be planned for the approval and implementation of the Law on Investments, which has been out for consultations for more than a year and has been revised with external international resources.

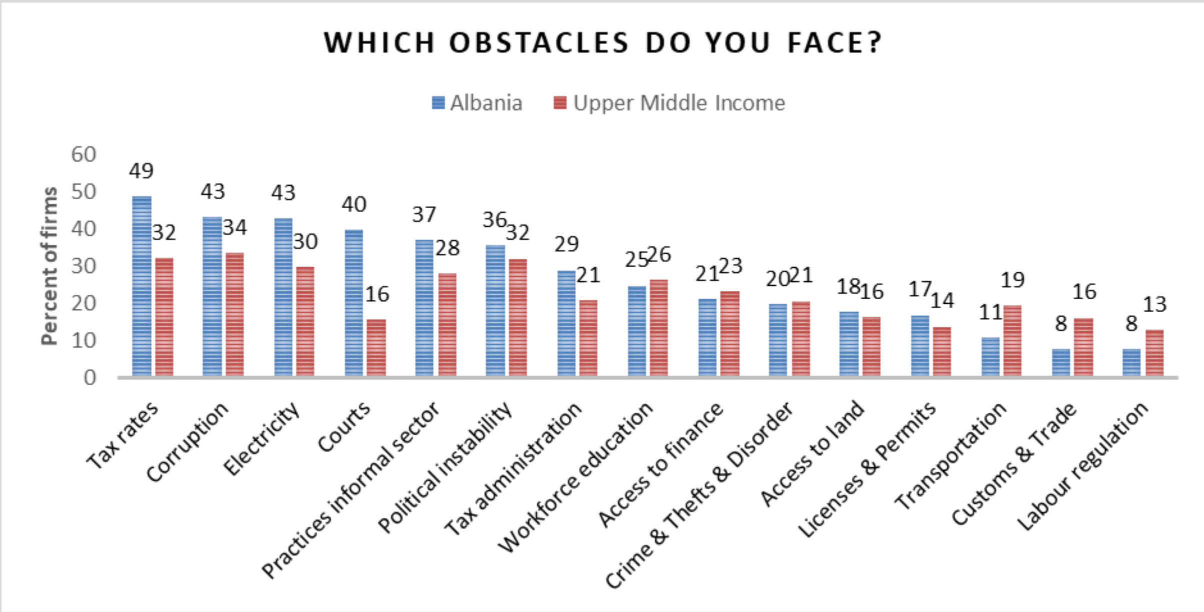
III. European Investment Bank

We welcome the careful focus of the proposed programme on fiscal sustainability and financial stability challenges. A stable macroeconomic environment is a necessary condition to make the seeding ground of good business prospects fertile.

Against this backdrop, our contribution to the ERP is first concentrated around the following thematic objectives 1) business environment and firm-level investment barriers 2) financing constraints of SMEs, 3) digital economy and skills improvement and 4) climate change mitigation. Additionally, we provide our suggestions on areas of intervention specifically by different sectors.

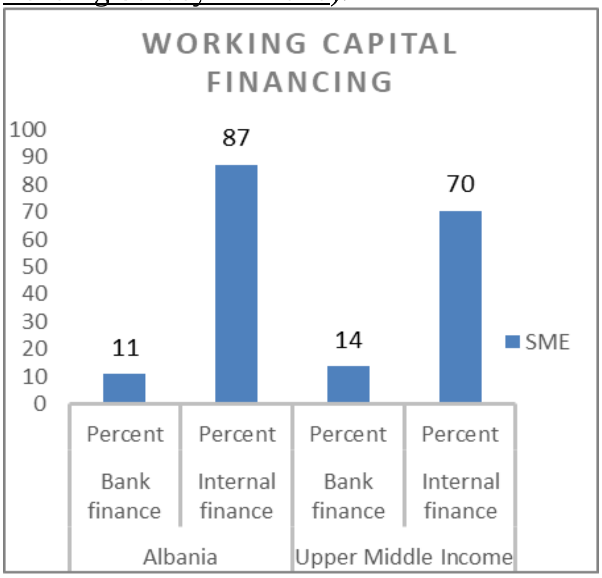
1) **On the business environment**:

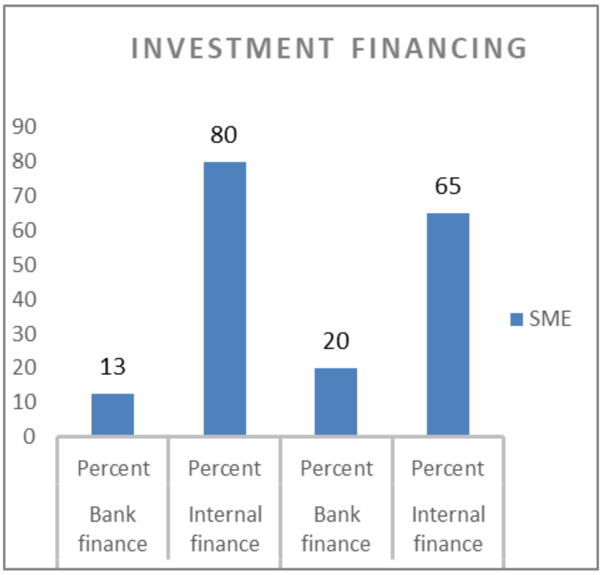
We strongly support the proposed measures aimed at advancing judicial reforms and fighting organised crime and corruption. Strengthening the rule of law and governance is very much needed to further enhance the quality of the business environment and to attract more investment. According to the latest Enterprise Survey (Joint EIB-EBRD-WB Enterprise Survey, 2019) around 40% of the firms in Albania consider corruption, courts and practice of informal sector as a major obstacle to running their businesses, which is considerably above the average upper-middle income countries (around 30% of the firms). Additionally, high tax rates and access to electricity are mentioned as the most frequent obstacles of firms, pointing to structural reforms on fiscal side and energy infrastructure.



2) **On the financing constraints of SMEs:**

According to the latest EIB-EBRD-WB Enterprise Survey, around 38% of SMEs needing a loan are financially constrained (below the Upper Middle Income countries average of 54%). These firms are discouraged from applying for a loan due to unfavourable rates and expected rejection. Access to finance is a major or very severe obstacle for about 20% of the companies in Albania. Most of the SME activity is self-financed, 80% of investments (16 percentage point above the Upper Middle Income average) and 87% of working capital (17 percentage point above the upper middle income average).Moreover, the most recent round of the EIB's CESEE Bank Lending Survey shows that credit demand declined during H2 2020, impacted by the economic contraction due to the pandemic while approval rates have also dropped. Still, banks that took advantage of public guarantee schemes indicate that these measures have been very effective in supporting loan extensions (see CESEE Bank Lending Survey H2-2020).





3) **On the digital economy:**

We strongly agree on the importance of digital infrastructure as a precondition for the development of the digital economy in innovative industry, e-government, e-health, provision of interoperable services, provision of cross border services etc.

We believe that the medium-term growth objectives of the country should be centred around innovation, digitalisation and a strong focus on skills and labour force. We consider that a key area for action to fully leverage digitalisation is to strengthen the skills base. This is crucial to advance the digitalisation transformation in Albania and the Western Balkans and mitigate the risk that people may be left behind. Skills shortages remain a major bottleneck for long-term growth. Countries of the region need to step up efforts to boost adult learning, apply a wide range of active labour market policies to improve job matching.

Based on our earlier research, firms' readiness to innovate is closely linked to the availability of staff with the right skill sets. This can negatively affect the potential of CESEE firms when it comes to boosting their innovation activity (see EIB Working Paper: Innovation investment in Central, Eastern and South-Eastern Europe: Building future prosperity and setting the ground for sustainable upward convergence). Moreover, there is a need of well-functioning innovation finance ecosystem to support the innovative companies. (Report of the Working Group on Financing for Innovation, in the context of the Vienna Initiative: State of Innovation Finance in CESEE).

4) **On climate change mitigation:**

We strongly support the objectives of increasing reliance on renewable energy, improving energy efficiency and lowering greenhouse gas emission in line with the Green Agenda for the Western Balkans and proceeding with the preparation of the Integrated Strategy of Energy and Climate. Europe is in the process of taking an unprecedented action in terms of global leadership in the fight for climate change and the new accession countries, like Albania can make a significant contribution boosting prospects for success.

Specific areas of intervention by sectors:

Transport

Support is needed for the provision of high capacity urban public transport, digitalization of services and the stimulation of rail freight services. There is a particular need for greater multi-modality. All major investments should be subject to comprehensive option analysis, CBA and climate change and vulnerability and resilience analysis.

Energy

Adoption and implementation is needed of laws and by-laws required for coordinated energy and climate policies, renewables auctions and smart support schemes as well as further reforms aimed at more liquid energy markets.

Digital Economy

Coordination among the responsible institutions is essential to fostering the deployment and take-up of digital infrastructure and services. In order for investments to be made efficient and effective, the investment gap between the status quo and the goals set in the Digital Agenda and Gigabit Society of the EC should be comprehensively assessed.

Education

Policy reforms regarding teacher education and more equitable (domestic and foreign) education financing as well as coordination among different ministries (Education, Digital, Labour, Social, etc) are required to improve education standards and ensure outcomes are relevant to the jobs market and distributed as widely as possible. There is a need to put an emphasis on supporting and involving minorities and vulnerable groups. Project preparation should include gap analysis in education provisions and integrate an inclusive approach from the design phase. Project implementation should focus on providing continuous teacher training.

Health

Consideration should be given to the pooling of health and social care budgets at facility or regional level and to the reform of procurement of supplies and pricing policies, in particular for drugs. In addition, allowance should be made in budgets to improve allocative efficiency, provide adequate OPEX budgets for maintenance and personnel costs to operate infrastructure efficiently. In terms of investment planning, the sector would benefit from needs-based capacity planning and multi-annual strategic investment plans for infrastructure with realistic implementation timetables. Finally, facilities should be adapted for crises response and future care needs and obsolete facilities repurposed, and all facilities should provide integrated care services using innovative care models and e-health solutions.

Environment

For attracting innovative financing mechanisms asset owners must accelerate the application of cost-recovery and polluter-pays principles along with improving the governance, management and financial sustainability of asset operators. The sector needs continued professional technical support in terms of both strategic plans, feasibility studies and designs, especially to ensure alignment with climate action and low-carbon targets.

Tourism

The tourism sector would benefit from increased support from territorial-based multi-sector investment programmes that can create the enabling environment for growth. Decentralization and empowerment of regional and municipal authorities would help the regions develop their unique offerings to the tourism market.

IV. Embassy of Germany, GIZ, KfW

PG 1.3: How will the revision affect the aforementioned objective of increasing the budget revenues by about 2-3% of GDP? As this is an Economic Reform Programme for 2021-2023, it should be mentioned here.

PG 2: Maybe its pertinent mentioning MFE effort to further align the Albanian Law no.48/2014 on late payment in commercial transactions, as amended, with the EU Directive 2011/7/EU on combating late payment in commercial transactions. MFE intervention purports repealing current Art.8 of the Law which allows for a period of a maximum of 1 year for payment of obligations in case debtor is a public authority which provides services in the field of health, which runs counter to said Directive allowed time period, i.e. 60 days. This shall discipline public authorities in abovementioned field in fulfilling in due time contractual obligations, thus preventing arrears in very sensitive sector. Proposed legal amendment is planned for Q1 2021.

PG 2.3: These measure don't reflect the severe fiscal risks from the increase of PPPs in ALB; it remains too vague how the government should scrutinize and better assess the performance of existing PPPs <u>and</u> of future assignments

PG 3: This paragraph is backward looking and misses an outlook on steps for the 2022/2023.

PG 4.2: Suggest to add the GoA efforts to further formalize the informal economy beyond the current measures until 2023.

PG 5.2: Plans for 2021-2023 should be added. What are the next steps?

…600 thousand uninsured benefit from the scheme of Reimbursed Medicines and free services at the family doctor…

Can you specify in which period this took place? Was it related to the pandemic or even before?

Transport area: The report correctly analyses the poor condition the transport sector is in– even more so taking into account its strategic importance for competitiveness and economic growth. However, the report hardly draws any conclusions or concrete concepts from this analysis – apart from the rehabilitation and construction of the railway segment Durrës-TIA-Tirana. (Also, no mentioning of public transport at all).

SR 3: - Why no other measures are listed under this area?

- This is a high risk to the sustainability criteria of the whole project. I would try to better describe the two future scenarios and lay out the plan for full electrification. Full electrification, despite higher capital costs, should be the policy objective of the Albanian Government.
- I would add 1-2 sentences on the further integration of the corridor in the wider regional context. What are future plans to integrate this corridor to other regions in an outside of Albania? You could add that the reduction of journey time for people and goods between Durres-TIA-Tirana will lead to more competitiveness of the region in general.
- The ANP itself could be described as an "economic reform activities" and would provide a comprehensive window into (international) investment opportunities; e.g. if combined with

investment programmes and policy-based lending schemes. Suggest to add the ANP3 as an economic reform activity.
- Could this be explained a bit more? "Green corridors" refer to a specific policy item in Albania or used as a general term for "sustainable transport modes".
- I would say again, not relevant for this chapter. But the point of market liberalisation and the focus on ITS are two valid points to make in that chapter.

Analysis of agriculture situation is missing.

Tourism sector: Pertinent mentioning: Screening of sectorial legislation for compliance with the EU Service Directive, incl. service activities in the tourism sector, with GIZ support through SANECA project. Aim of the exercise: identification of barriers to trade in services and planning removal thereof, which is supposed to ease (administrative) barriers for establishment of EU/EEA tourist operators and provision of tourism related services by the latter (thus liberalising the market and making doing business in the tourism sector more attractive). Reference to the Strategy for Tourism 2019-2023 could also be made not only related to maritime tourism. Reference as well as to regulatory interventions, e.g. reduction of VAT for all tourist accommodation structures, profit tax exemption for new international brand name hotels/resorts 4-5 stars.
- SR tourism: Focus here is largely on maritime tourism. However, we see a lot of potential in green tourism as well, as Albania has large areas of unspoilt nature and attracts a lot of tourists looking for environmentally sustainable tourism offers (nature based tourism, hiking, climbing, mountain biking, wild water kayaking). Maritime governance including tourism has its own policy measure but it is important to cater for other tourism segments, too. This is also relevant for providing for a much larger number of tourism businesses that could not profit from maritime tourism due to their location (esp. in the Northern Alps incl. Diber).
- Measures in the frame of establishment of Common Regional Market/Tourism one of the priority sectors. Measures to further remove barriers in services in tourism. There is a mismatch between the situation analysis/obstacles and the response (reform). The reform tackles only interventions on the maritime law, etc. What about other touristic potentials?
- The analysis of the main obstacles in the agricultural sector is still missing in the document. With regard to agriculture/rural development the land issue is mentioned as the only reform measure concluded by the Joint Conclusions in May 2020. We totally agree that it is an important reform measure and would benefit the agricultural development on a long-term. However, also the expected impacts on social and environmental issues and the associated risks are not yet described. Surely there are various other reforms needed in the agricultural sector e.g. extension service, technology transfer, ATTCs, human resources for better planning/ implementing the rural development program and its financial instruments etc.

Business climate: Consider including other SBA dimensions as policy priority measures, e.g. entrepreneurial learning & women entrepreneurship; bankruptcy & second chance.

Economic integration: Pertinent adding Facilitation of (cross-border) service provision: The screening exercise against the EU Service Directive supported by SANECA, which began in July 2020 and is ought to be completed by July 2021 for 20 selected service sectors, incl. tourism, veterinary, crafts, legal professions etc. Full screening is planned to be completed by 2022, encompassing all sectors. It contributes to identification of barriers in trade in services and planning of removal thereof. It also goes in line with country's regional integration commitments (i.e. CEFTA AP6 and MAP-REA). Furthermore, MFE/MESY are supported by SANECA in drafting a Roadmap for harmonisation with the acquis on mutual recognition of professional qualifications (primarily Directive 2005/36/EC as amended) (to be completed by Sept. 2022). This will allow planning of alignment measures in order to facilitate free movement of professionals and goes in line with country's commitments in regional integration for a (CEFTA/MAP-REA).
- The statistical data referred here might be updated with those of 2020; This section looks more as a state of play, no obstacles or challenges are mentioned or described, in order to then make a link with the measures to tackle them; There are also other aspects that need to be integrated here, which are linked with the EU integration process in the area of free movement of goods

and free movement of services, both having high impact on Albanian economic integration with the internal market of EU. Aspects covered here would then have to be reflected with concrete reforms measures to tackle them. Concrete suggestions are made in the following sections.

- SR 13: It is suggested to expand and include more reform measures to reflect the analysis of obstacles. The activities mentioned here only cover one tiny aspect of the overall concept of economic integration, thus lacking important reform measures which are already being implemented or ready to start, such as those related with removal of barriers for free movement of services, removal of non-technical barriers to trade in goods, alignment of EU legislation to ensure free movement of goods (all these are being supported by GIZ in the frame of preparing for EU accession negotiations). It is important to foresee them in this document, as their ultimate goal is to gradually prepare the Albanian market to be part of EU internal market, while giving a fresh boost to goods and services sectors. In addition, also measures in the frame of CEFTA and Common Regional Framework are not reflected.

Education and skills:

- if possible to make reference here to Change project and Digitalization roadmap with its foreseen actions. Additionally to mention the contribution in developing the Anti-covid 19 measures for safe re-start of VET activities.
- GIZ supported the MoFE, NAVETQ and NAES to assess the needs and draft the "Roadmap for the Digitalizing of Public VET providers" defining three main intervention areas: (i) digital infrastructure, (ii) digital skills of managers, teachers and instructors and (iii) digital content (blended learning). The document will be endorsed by MoFE, and implementation will roll in 2021.
- The MoFE drafted the National Plan for Restructuring of Public VET Providers. The document was presented and received feedback by donors at IPMG meeting held in November 2020. A final approval has to be granted by the minster. The implementation should be planed and budgeted to roll out in 2021.
- Between March and September, the learning activity for unemployed job seekers (UJS), in both subjects Start Smart and vocational training courses, in 10 public VTC was suspended. GIZ supported NAES in drafting the new health and safety regulations for reopening of VTC. SST curricula was revised to suit new safety measures at VTC. As result this year a lower number of UJS benefited from public vocational offer. A good alternative to compensate this deficiency was involvement of the private VET providers by different donors like GIZ & Risi Albania-Swiss. Based on this experience MoFE and NAES have initiated a regulatory framework to involve in the future the business and private VET providers, funded by the government budget.
- During pandemic, as indicated by the survey data about 12.4% of students did not attend the online teaching leading to dropout. MoFE should ensure access of poor and disadvantaged students providing digital facilities at school premises.
- SR 17: Additional suggested activities for 2021: Implementation of the Plan for Restructuring Public VET providers; Endorse and mainstream "Public VET Providers Digitation Roadmap" in the NSES Action Plan for 2021; etc.
    - In the activities planned it is maybe relevant to make reference to the digitalization of VET system
    - I would add here the importance of empowering young people meaning make them aware of their potential and the different opportunities around before they decide on the necessary skills, trainings and qualifications. That is address through social inclusion measures that's why it is important the synergy of measures between VET and SI (as we have been doing in an embryonic way recently under ProSEED)

Employment:

- SI measurers are need to activate those that are most disadvantaged
- SR 18:

- Digital competences for unemployed job seekers should be part of the reformed vocational training "upskilling and reskilling" at public VTC
- Finalise and approve relevant bylaws to involve private sector in the VET Provision (private sector funded by the state budget.

Social protection:

- It is suggested that the actions under this measure be more in line with the new Social protection strategy and its actions where the new concept of integrating employment measures with social protection/inclusion is very clearly introduced. This approach is very much in line with the work we are doing under VET&SI.
- I find this measure a bit outdated as it seems it has been there for so long now. The social care service reform has been going on for a long time supported recently from UN, and it is not clear what are the achievement and challenges so far. The measures need to be build on the ongoing work of this reform not be repetitive

V. Embassy of Slovenia

Drafting better legislation

Achieving the goal of economic reforms will also require changes in the legislative bases, as already envisaged in the document. From the point of view of drafting better legislation, we would like to draw your attention to the key principles that ensure an evidence-based and effective regulatory environment.

When drafting legislation take note to reduce unnecessary regulatory and administrative burdens, and ensure that regulation and its enforcement are proportionate, consistent, transparent and targeted. We would also like to underline the importance of effective, efficient, innovation friendly, future proof and resilient regulatory framework, to overcome the crisis, as well as to increase growth and competitiveness. In this regards, it needs to be evidence-based and has to protect and support citizens as well as businesses without imposing unnecessary burdens. So it is important to follow the better regulation principles to ensure that political decisions are prepared in an open, transparent manner, informed by the best available evidence and backed by the comprehensive involvement of stakeholder.

VI. Embassy of Switzerland

Implementation of the policy guidance

PG 1.2 Set time-limits for tax-relief measures, while paying all VAT refunds in time: only information on VAT refund has been reported while the component on temporary tax reliefs is not explained. On the issue of VAT refunds, beyond the reporting of the figures, a more analytical discussion on the structural causes of VAT refund arrears and relative solutions to address those would be needed.

PG 1.3 Adopt the medium-term revenue strategy, with a particular focus on reviewing tax expenditures: we strongly encourage the authorities to resume swiftly and intensively the work on the MTRS in cooperation with IMF and define a clear timeline for that.

PG 4.1 Establish an effective and transparent mechanism to support the businesses affected by the crisis

Some funds are reported to be allocated in the 2021 budget for support to businesses in difficulty from COVID; however is not clear why there is a limit of 300 businesses to be supported and how this scheme will work. Also, the figure of 2.3 Mio Euros (280 million ALL) for these funds seems quite low in view of the economic crisis. Finally, there is no mentioning of any impact assessment of the COVID crises for the private sector, which could have served to better design the support scheme foreseen for 2021.

PG 4.2 Extend social protection coverage and provide incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy.

Even though it has followed a declining trajectory over time, the existence of the informal sector of the Albanian economy is still a challenge with negative consequences on several aspects (i.e. tax revenues; low level of public services; poor competition in the private sector; holding back of financial deepening; more burden towards a transparent and functioning market economy). Although the informal sector contributes to the employment, the COVID crises further highlighted the vulnerability of such employment with a lot of (already vulnerable) people being unable to earn their minimal daily income and/or to benefit from the governmental protective measures. Therefore we strongly encourage the authorities that besides facilitating the transfer to the formal economy, they should also develop policy guidance targeting the vulnerable people employed in the informal sector.

PG 5.2 Increase access to healthcare and public health insurance coverage while reducing the share of out-of-pocket payments on total health expenditure

GoA changes have been made to increase access to health care by abolishing the fee of Primary Health Care (PHC) service for all uninsured and by providing free medical Checkup for 1.2 million people between the ages 35 – 70. In addition all patients categorized as chronically ill get free access on drugs and visits to specialist doctor, regardless of their insurance status.

However the Out of pocket payments (OOP) as share of total spending continue to remain high at 58% (WHO 2016), very much higher than the EU countries and the highest share of OOPs relate to co-payments for outpatient medicines. In addition the level of unmet needs for health is at 22%, much higher than the EU average at 3% (EU SILC published in 2019), with the main cause being the cost. If GoA has more recent evidence on OOP and unmet needs on health if would be beneficial to include this information in the ERP.

PG 6.1 Take short-term measures to preserve employment including through short-time work schemes, and once the COVID-19 pandemic subsides, ensure an increased provision of advice labor market policies, especially training, upskilling and reskilling.

The diversification of the public Employment Promotion Programs (EPM) and the recent re-conceptualized based on the individual-centered approach is very welcome. Switzerland remains committed to continuing to support Albania to improve the performance of the EPM implementation. We encourage the authorities to develop policy guidance on an impact assessment process for these short-term measures. This structured process would serve for considering the implications and achievements of these actions while there is still an opportunity to modify this specific EPM.

PG 6.2 Improve the adequacy of social assistance benefits and set up an objective mechanism for their regular update, taking into account the data from the Survey of Income and Living Conditions. Take more effective steps to increase the availability of social care services through enhancing ability of municipalities to identify needs for social services and to prepare social care plans.

The majority of the municipalities have prepared their Social Care Plan and have initialized the process of its approval. In order to ensure that all municipalities have achieved a basic level of progress linked to the planning, budgeting, and monitoring of social care services and provision, targeted support and encouragement should be provided by the authorities to those municipalities that do not yet have finalized a Social Care Plan.

We encourage the authorities to make further progress on the establishment and operationalization of the Statistical Indicators and Integrity Group. The same is valid for the Social Protection MIS component module for local social services. The functionality of these systems is central to the long-term success of social protection schemes. Failure to operationalize the systems substantially hampers the monitoring of social inclusion.

Reform measures

Energy and transport market reform

Reform measure 1 "Further liberalization of the energy market": We would welcome the operation of the Albanian Power Exchange which has been supported by Switzerland and IFC with legal and technical assistance. We look forward to realization of the complete process of unbundling the energy distribution activity from the supply. We suggest that the results indicators including baseline, intermediate and targets for reduction of technical and non-technical losses in the energy network as well as the increased bill collection could be reflected on page 16.

Reform measure 2 "Diversification of energy sources": This section could also reflect the following important work, with the respective expected result and indicators which will be supported by Switzerland.

- A new initiative on Smart Energy Municipalities Project will be implemented during 2021-24: (i) Impact: Energy efficient municipalities contribute to a low-carbon development of the economy, improved quality of life and reduced pollution of the environment; (ii) Indicators: (a) Greenhouse gas emissions saved or avoided in t CO_2 eq. (b) Kilowatt hours saved through energy efficiency measures or kilowatt hours additionally produced from renewable energy; (c) Amounts of € saved on electricity bills per year.
- EBRD in cooperation with Switzerland will support implementation of a renewable energy wind auction which will produce the following expected results: (i) increased MW capacity of renewable energy within the target area (e.g. 75 MW); (ii) contributing to climate change mitigation (iii) private sector investment in sustainable energy markets leveraged (e.g. $30 million).
- Two recently launched projects of Skavica hydropower plant and Spitallë solar power plant
- Update of two actions plans on Renewable Energy Sources and Energy Efficiency which expire by the end of 2020.

Agriculture, Industry and Services

Reform measure 5 "Water and Waste Water Sector": This section could reflect the indicators of percentage of cost coverage and quality of services where EU, KfW, WB and Switzerland will contribute to their realization through the implementation of three initiatives:

- Ongoing Municipal Infrastructure Programme III & IV which will complete the infrastructure investments in 6 municipalities by the end of 2021;
- Water Sector Performance Investment Programme which covers 7 mid-sized municipalities;
- New National Water Supply and Sanitation Sector Modernization Program which targets three key Results Areas: (i) Strengthened National Sector Framework; (ii) Improved Operational and Financial Performance of Utilities including a pilot on aggregation of public water utilities; (iii) Improved Access to Water Supply.

Reform measure 6 "Increasing service standards in the tourism sector": This section shows the high importance placed on the tourism sector, given its untapped potential. We suggest that additional measures could be reflected to support development of inland tourism around the year through preparation of innovative tourist products/services, marketing and implementation of sustainable tourism standards in the whole value chain: destination management arears, hotels, guesthouses, restaurants, guides and tour operators. Switzerland supports development of sustainable tourism through two ongoing projects of Risi-Albania focusing on Gjirokastra region and Swiss Import Promotion Programme (SIPPO) which supports Albanian Tourism Agency to improve market access for the tour operators.

Business environment and reduction of informal economy

Reform measure 7 "Business environment and reduction of the informal economy": only the analysis part is filled with information while the rest of the text with regard to reform measure 7 is empty.

Reform measure 08 "Improving access to finance for SMEs": we suggest to consider in the analysis and relative reform actions the work done by the WB in cooperation with MoFE, BoA, AAB and other financial sector stakeholders in defining a roadmap for "Finance for Growth" in 2019.

Education and skills

Reform measure 13 "Improve the quality and coverage of VET while ensuring linkages with the labor market": In view of the main obstacles we suggest to add the following considerations:

(i) *Lockdown measures and vocational education*. With schools closed and limited access to distant learning, the risk of permanent school-drop-out and learning-inequalities increased, particularly for those that have already been disadvantaged before the break out of COVID-19 (marginalized and vulnerable children and those with special needs). There is a reasonable assumption, which indicates that students coming from low-income and vulnerable families are the ones with less access to the internet and devices.

(ii) *Disparities between urban and rural service coverage*. No significant progress has been made in extending the labor market and VET services to rural areas. Likewise, the municipalities did not advance much with their efforts to improve the VET infrastructure that is under their responsibility (example: VET school' dormitories). Due to these reasons, the disparities between urban and rural service coverage remain.

(iii) *Private sector engagement in VET*. The Work-Based Learning regulation that has been recently adopted does not promote the practical learning that takes place in private sector companies. While the policy direction is to increase the involvement of the private sector in the (among other) delivery of VET, the regulation undermines this by limiting to a maximum of 50% the time students can spend in companies during a qualification level (Level 2, 3, 4 and 5). Furthermore, and without justifiable reasoning, it limits eligible participating companies only to those that are member of either the Chamber of Commerce and Industry or the Chamber of Crafts.

Employment and labour market

Reform measure 14 "Improving the employability of the most vulnerable unemployed jobseekers especially those affected by COVID-19, through new and revised EPPs and employment services":

We encourage the authorities to advance with the implementation of the re-conceptualized EPPs, based on an individual-centered approach. In view of expansion of the population coverage and the increase of the reimbursed services reached through general taxation, it would be beneficial to include information on how much these measures has influenced the public health expenditure.

Social protection and inclusion

Reform measure 15: Strengthen and expand health and social protection coverage reducing inequality and supporting inclusive and sustainable growth

The new service models such as the prevention and control of non-communicable diseases, home care services for the elderly, models of care through digital technology, especially in remote areas, etc., are a very good way to increase access to health services for most vulnerable groups of the population. Would these measures as well be coupled with structural changes on health financing policies for both PHC level and secondary care in order to incentivize the health service to implement in the best possible ways these new models proposed?

Health sectors indicators are not included yet. Some proposed examples may be (1) Decrease of the level of Out of pocket expenditures as a share to the total health expenditures and/or (2) Indicators that aim to decrease unmet needs for health by the population.

The GoA needs to continue its efforts to strengthen the function and delivery operations (effectiveness/ efficiency) of the recently established set of state financing mechanisms for social inclusion and social care services (example: strengthen the functionality of the emerging social fund). We encourage further efforts to operationalize the MIS module for social services and to consolidate the capacities for analytical review of the data generated. The municipalities needs to speed up the implementation of their social care plans.

VII. United Nations

UNCT

Generic comments:

Sustainable and green growth. Focus on economic transition that is green and sustainable could be more pronounced in the draft ERP. The report details reforms in the areas of energy, transport, agriculture and water, and links them with the environmental benefits. However, the report could also introduce more overarching objectives in regard to achieving the Sustainable Development Goals by 2030 and transitioning to a green economy. It could then discuss the key elements/reform measures that underpin and drive the transition. The earthquake and the global pandemic can be seen as factors slowing down the shift to sustainable and green growth. Yet, the period of overall slowdown in normal economic activity can provide an opportunity to build a strong, resilient, green and inclusive recovery from the two consecutive crises.

Aligning the objectives and reform measures more closely with the 2030 Agenda and SDGs is also in line with the Economic and Investment Plan and the Green Agenda for the Western Balkans, focusing on decarbonisation, air pollution, water and soil, circular economy, agriculture, and protecting biodiversity.

Tourism: As long as the Covid-19 situation remains dynamic, it will be difficult to estimate the impact on tourism sector, which was hit hard in 2020. Even if the situation improves due to increased vaccination efforts, it may take some time before travel and tourism bounces back to pre-Covid levels. Consequently, 2021-2023 could be a favorable moment to further develop the tourism sector and increase its competitiveness. Reform measure 06 on marine and maritime governance and services introduces many good measures in this regard. Further measures for the development of sustainable tourism could also be considered, making optimal use of environmental resources while maintaining essential ecological processes and helping to conserve natural heritage and biodiversity and diversifying local value chains.

Energy efficiency and renewable energy. Reform measures 01 and 02 rightly point out to the employment opportunities linked with the sector. It would be useful to also refer to the skills base needed for the transition to renewables, as more vocational training, stronger curricula, more teacher training will be needed to harvest the growth potential of the sector. As regards renewable energy source diversification, the focus is very much on the solar and wind. Other sources, such as bioenergy, hydrogen and wave and tidal, could be/become considerable options as new technologies mature and costs start to decline, and can help to even out variability of solar, wind and hydro power.

Start-up and innovation ecosystem. The draft report has a strong focus on measures enhancing the start-up environment and building innovation ecosystems. The focus on female founders and start-ups run by women is welcome. It is recommended to also add aspects to encourage and support start-ups in incorporating sustainability in their business concepts and introducing new ways to transition to sustainable and inclusive growth.

Digitalization. It is suggested that when discussing measures for digital economy and digitalization, online safety and security, privacy and data protection are also taken into consideration in the activities planned for 2021-2023. Also, some additional consideration could be placed on the skills needed to benefit the improved connectivity and what kind of capacities are needed to translate the increased connectivity to economic benefits. Report of the UN Secretary-General Roadmap for Digital Cooperation could be an interesting reference document in the area of digitalization https://www.un.org/en/content/digital-cooperation-roadmap/assets/pdf/Roadmap_for_Digital_Cooperation_EN.pdf

IOM Comments:

Migration is not factored in the document, any of the dynamics. This might be of relevance if we consider the impact of the outmigration of the Albanian citizens to the labour market and demand for skills (VET related) as well as the impossibility to do so (in particular for seasonal migration) due to COVID-19, which also could, presumably, have an impact on the number of unemployed job seekers and related employment programs. There is no mention of foreigners in Albania, both in regular and irregular situation, when considering social support, which might be because no distinction is made and support is provided to all equally.

Remittances. It might be of relevance to consider the drop of remittances in relation to financial sources. Latest Bank of Albania data show a decrease in remittances compared to the same period of last year, attributed to the impact of COVID-19.

WHO Comments:

- The additional public spending on health in response to the Covid-19 pandemic is clearly needed and very much welcome, but should not be a one-off increase as need for health services will continue to increase in the coming years and gaps in coverage are significant in Albania. The government should increase its priority to health (share of health in total government spending) with year-on-year increases to reduce the system's extensive reliance on out-of-pocket payments (OOPs).

- We recommend several additional indicators or revisions of proposed indicators including on public spending on health, financial protection (catastrophic and impoverishing OOPs, unmet need) and out-of-pocket share of total spending on health (using the international standards of health accounts).
- We think the strategy should explicitly address to what extent the efforts of formalizing the economy may improve health insurance coverage since labor informality is a significant driver of gaps in coverage. Currently, Albania links entitlement to health services to payment of contributions (except for GP visits). Since these policies are not discussed in connection, but separately in different parts of the document, it remains unclear what progress is expected by this new economic reform programme. In general, we would recommend that Albania considers abolishing this link between entitlement and payment of contribution, so limiting access to health is not used as an instrument for enforcing tax collection.

UN Women comments:

Overall comments:

This is a solid early draft however in general we face challenge to provide feedback on a plan which is generally lacking information on expected financial investments.

The document requires a fair bit of copy editing and in some places the formulations cause confusion to the reader leaving the reader to assume what was meant.

In the early part of the document – which is in essence an executive summary – there is almost no mention of gender. Gender is used in later sections but often only because it has to be used as part of the official/necessary sub-headings. As such, the overall impression is that gender is not at all to the forefront of the authors' minds.

Notwithstanding the above point, there does seem to be plenty of places where gender issues could easily be integrated into the document.

In general gender analysis in lacking, including the use of gender data and sometimes uses wrong concepts and definitions, and measure proposed are not appropriate because of the inaccurate meaning of gender differences and gender-related needs. None of the measures included in the document is based on gender analysis of the specific sector and the expected social impact is not properly assessed.

In the context of UN Women's general feedback on the ERP in previous rounds, there are some guidance documents on gender-sensitive recovery that would be highly relevant for those drafting and/or advising on the ERP:

- Selected principles of international guidance on gender-responsive COVID-19 recovery
    - ILO Policy Brief (2020). The Covid-19 response: Getting gender equality right for a better future of women at work. See: https://www.ilo.org/global/topics/coronavirus/WCMS_744685/lang--en/index.htm
    - UN Women (2020). Gender equality and the Covid-19 outbreak: key messages and advocacy points from the Europe and Central Asia Regional Issue-Based Coalition on Gender. See: https://eca.unwomen.org/en/digital-library/publications/2020/04/gender-equality-and-covid19-outbreak-key-messages-from-regional-issue-based-coalition-on-gender
- European Commission's 10 key actions for G7 Member States to promote gender equality and women's economic empowerment in COVID-19-induced crisis response and recovery. See: https://ec.europa.eu/fpi/news/gender-equality-experts-recommend-key-actions-covid-19-response-and-recovery-g7-leaders_en
- EU's "Declaration on human rights in times of the coronavirus pandemic", clearly highlighting women's and girls' rights, High Representative Josep Borrell, 5 May 2020. See: https://www.consilium.europa.eu/en/press/press-releases/2020/05/05/declaration-by-the-

high-representative-josep-borrell-on-behalf-of-eu-on-human-rights-in-the-times-of-the-coronavirus-pandemic/
- OECD COVID-19 Policy Guidance (September 2020). "Response, recovery and prevention in the coronavirus (COVID-19) pandemic in developing countries: Women and girls on the frontlines". See: http://www.oecd.org/coronavirus/policy-responses/response-recovery-and-prevention-in-the-coronavirus-covid-19-pandemic-in-developing-countries-women-and-girls-on-the-frontlines-23d645da/

We would also like to bring to attention issues related to external employment/migration to ensure economic reforms also address needs to re-think labour migration regulations, based on COVID-19 lessons. This is related also to care economy since a significant share of migrants provide care services and this may require new/adapted regulations to ensure principles of decent work and protection.
Below recommended ILO and UN recent policy briefs which would be useful in this regard:
- ILO Policy Brief (April 2020) "Protecting migrant workers during the COVID-19 pandemic Recommendations for Policy-makers and Constituents". See: https://labordoc.ilo.org/discovery/delivery/41ILO_INST:41ILO_V2/1268859610002676?lang=en
- UN Policy Brief "COVID-19 and People on the Move". See: https://unsdg.un.org/sites/default/files/2020-06/SG-Policy-Brief-on-People-on-the-Move.pdf

Overall Comment on Gender and Labour Market:
Table 9 in Annex I (page 62) contains some key information on gender, as does the related discussion towards the end of the document (page 54 in particular in the context of 2.3.7 Employment and Labour Markets). Labour market participation rates differ significantly between men and women and this gap has not really closed during the past five years. This non-convergence seems key, e.g. if the young (across gender) were more similar than the old (across gender) then we would expect to see at least some convergence.
However, the unemployment rates (and youth unemployment rates) are similar across men and women. The gender differences seem to stem from different long-term unemployment rates (where females have done a fair bit worse in recent years but starting from apparent equality five years ago) and of course the initial participation rates; indeed, the gap between employment rates for young women versus young males seem as big or bigger than the gap across female and males (contained in Annex 1).
If some of the explanation is that women depend to a greater extent on the informal economy such as parts of tourism then the pandemic (and the earlier earthquake) is likely to have a particular gender dimension. Of course, there could be other or additional explanations, but the key thing is that if there is no account of a gender dimension then one is not likely to see the possibility of different policy impacts.

Micro Comments/Examples:
Implementation of the Policy Guidance
1.1 The public debt figures do appear to allow some room ("fiscal space") for manoeuvre. Perhaps put these debt figures in front of the budget deficit figures?
1.3 Similarly there could be a gender dimension to tax expenditures, e.g. pension contributions, treatment of pension fund income, but again probably not the main concern although the timely withdrawal of inappropriate tax expenditures is likely to create a fair bit of fiscal space.
4.1 Discussion of SME's and self-employed (e.g. tourism) would have seemed the obvious place to discuss gender implications
4.2 Again, reference to informal sector would have seemed a good place to mention and consider gender dimension
5.2 Are health care workers not more likely to be women? Again, no mention of gender.
6.1 Reference to employed insured and uninsured – but no mention of gender dimension

6.2 No mention of gender. Possible example of confusing typo referred to earlier – WV should be WB?

Gender is mentioned in the subsequent more detailed sections but not in a convincing manner. Even if mentioned a few times in the detailed sections, its absence from the summary suggests its effective absence.

2.3 Analysis by area and structural reform measures
Page 16: In principle it may seem as a gender-neutral reform measure, however, one could argue that lower energy prices might not be gender-neutral.
2.3.2 Tourism – A more substantial discussion from a gender perspective could be introduced.
Reform on the Water and Wastewater Sector – page 28 – again it may be considered a gender-neutral measure. However, in the next sentence there is mention of a positive indirect effect on employment in tourism and agriculture which could be a gendered impact.
2.3.3 Business environment and reduction of the informal economy – again, this seems an obvious area for a gender-based discussion especially given the likely importance of the informal sector (tourism = hotels, restaurants and catering etc.) for women.
Page 35: Suggest expanding discussion re female founders and female-run start-ups
Page 38: Suggest expanding discussion re women entrepreneurs
Page 40: If population access to finance increases from 40% to 70% might there be a gender effect (for self-employed women)?
Page 45: A mention of possible increased (on-line workers from home) opportunities for women is a good start but some examples perhaps?
2.3.6. Some gender-based discussion in the introduction (on education and skills) would be recommended.
Reform measure 16: Some gender-based discussion in the introduction on early-childhood education-system financing would be recommended. (Page 52: A very short mention of impact or no impact but this should go beyond the gender of the extra teachers and consider the impact on the female (and/or male) parent(s).)
2.4.7 Finally, a solid discussion on labour force and gender but one is left with the feeling that these statistics needed to be considered much earlier as they might have then informed the subsequent discussions and the whole document.

Under the sub-heading no. 5 of the Informality Section (page 34 – second draft of the document): *Expected impact on social outcomes such as employment, poverty reduction, gender equality and access to health care* we recommend that a gender assessment is conducted on informality in order to identify the sectors with higher informality for women as compared to men. Labour Force Survey provides enough data for such gender analyses of informality.

Comments integrated directly in the draft ERP shared for consultation:
PG 2.3: Despite the gender analysis offered in the document below, I strongly suggest that this part of the document sets upfront an active gender responsive fiscal policy: gender responsive: classifying the property and size of companies, will help to identify the micro, small and medium-sized businesses that are owned by women, and ensure the support efforts respond to their specific needs.
PG 3.1: I would suggest the inclusion of a gender perspective in financial support policies would aim to break formal and informal barriers preventing women's access to credit and financial services, due to collaterals and physical guarantees (such as real estate property, land or equipment) and level of income.
PG 3.1 (continued): As well as representation of women in the boards and in managing positions.
PG 4.1: It should take into consideration women running small and medium enterprises and self-employed.

Results from Albania Rapid Gender Assessment (RGA) of Covid – 19 https://albania.unwomen.org/en/digital-library/publications/2020/12/the-impact-of-covid-19 show that:

1. Self-employed women in the 45-54 age group reported the highest proportion (66.7%) of women experiencing a decrease in working time.

2. Among self-employed women it is those living in households with children (46%) that are cutting their working time, mainly to take responsibility over children or housework.

3. Shows that as a result of the outbreak every second employed woman (51%) has been working remotely (from home) compared to almost every fourth man (27%).

Impact on businesses is reported to be immense as the government has acknowledged these potential negative repercussions of the contracted business activities. *Some of that support needs to address difficulties that women and young entrepreneurs face, as they run activities in the low end of profitability while having a large impact on the local economy.* Sectors suffering the most negative impacts, such as tourism and the service sectors, are important to the economic recovery program. However, attention and support might be needed to family operated and small farming or tourism activities, which employed women and they seem to lack a potential to finance adjustment of their activities to the new conditions of COVID-19.

PG 4.1 (cont.): The new financial support scheme targeting SMEs should prioritise women-owned SMEs as beneficiaries of the funds, given that the percentage of women owners or administrators in small enterprises (1-4 employees) is 26.2 %, which is lower than in other categories (the number of businesses with women owners or administrators is greater in the Service Sector than in the Production Sector, 33.2% and 11.8 % respectively). The actual SMEs fund managed by the Ministry of Finance and Economy, which targets mainly artisans and new technologies, needs to be adequately capitalized in order to ensure sustainability or a significant market share of the SMEs benefiting from the scheme.

(i)…Provide trainings and technological assistance for women owners or working is SMEs to access ICT.

(ii)…Provide facilitations and incentives for women in Start-ups in their access to finance: ex. Exemption from loan payment for the first year of activity; free tax loans; soft loans and credits lines, etc.

(iii)…Ensure access of women in these platforms by providing trainings and technological supplies.

(iv)…Women are more exposed to work in the informal sector compare to men. The results of RGA https://albania.unwomen.org/en/digital-library/publications/2020/12/the-impact-of-covid-19 show that

T**he economic insecurity will particularly impact women and female headed households.**

The proportion of women receiving/or expecting to receive support is higher among Roma/Egyptian, rural women and unemployed women.

(v)…Language used is gender blind. Therefore, I would strongly recommend to use a gender sensitive language that would also reflect better gender responsive measures that include those aiming at extending social protection policies, ensuring cash transfers, subsidies and pensions, as well as social security schemes addressing the special needs of women and young girls, such as the elderly women, informal female workers, remunerated domestic workers, who the majority are women and young girls, women, families with women heads of households in poverty or at high risk of falling back into poverty with dependent family members. Gender responsive measures for protecting and supporting labour demand and retaining women employment (such as reduced working hours, paid leave and other subsidies), as well as policies targeting the informal sector.

(vi)…Consider ways and incentives (such subsidizing the social insurance contribution for the first year or other tax relief measures) in order to target all affected women and men in the newly approved unemployment scheme without excluding those not legally registered (undeclared work) and living in remote rural areas and from vulnerable groups.

PG 4.3: Ensure women participation and representation in public hearings/consultations on the matter.

PG 5.1: Consider best practices from the world on ensuring energy efficiency in the households also as a means for supporting women, especially those who are engaged in the unpaid care work activities and those from vulnerable groups. Awareness raising as well as information activities on innovative ways that promote energy efficiency should specifically target women from these categories.
PG 5.1 (cont.): Development and adoption of relevant legislation need to have a keen focus on women's needs and therefore, have a clear gender perspective.
(i)…UNDP prepared the fund operational rules, revenue management, project cycle management.
PG 5.3: This section doesn't further focus on the policy guidance to lower out-of-pocket spending in health.
(i)…Data should be sex disaggregated to show the possible gender gaps among beneficiaries. Further disaggregation such as age groups, social status, etc are necessary to access the effectiveness of the scheme. Data from the MoHSP show that the majority of women that benefit from the public primary and secondary health care services come from vulnerable groups, showing also a impossibilities and/or poor attention to prevention of diseases. Specific attentions should be given to the prevention activities targeting these groups, such as awareness raising and information campaigns, especially in times of emergencies. Health Counsellors dealing with women from vulnerable groups can be assigned to primary Health Care institutions. Regular visits to the family doctor, especially of women, children and men with chronic diseases can also be used as selective criteria for social benefits. Eg. Vaccination of children, check-up fro women and men aged 35-70, etc.
(ii)…Results from RGA show that: More frequently than men, women experience limited access to basic health services. Almost every fifth respondent mentioned major or some difficulties in seeking health services for any purpose; women experienced some difficulties in accessing gynaecological and obstetric care services both women and men faced difficulties to find the necessary medical supply for personal protection against COVID-19 infection women reported more frequently challenges on buying medical supplies, (51% compared to 43% men) Among age groups, young women 18-24 reported a higher prevalence of facing major/some difficulty in accessing health services and medical supplies.
(iii)…It would be interesting to add some statistics that show a greater use of primary health services over time.
(iv)…The practical implementation is not clear.
PG 6.1: The measures should address women needs. Strong evidences from RGA show: Women self-employed workers are most affected by COVID-19. Results highlight a disproportionate impact of lockdown on working time for employed women: regardless of the status in employment, women are more exposed to unexpected challenges associated with decrease in working hours and potential loss in income.
The share of women who had to reduce working time exceeded that of men for employed workers and for self-employed; self-employed women in the 45-54 age group reported the highest proportion (66.7%) of women experiencing a decrease in working time; Among self-employed women it is those living in households with children (46%) that are cutting their working time, mainly to take responsibility over children or housework.
…Women should be targeted with special focus.
…The budget rebalancing of 13.5 million ALL or 10.8 million euros for the **Economic Development Sector** has enabled also the payment of cash transfers, in the amount of 74 million ALL or 588.000 Euros, to registered unemployed women and men, out of which 55% (or 1553) are women. These figures confirm the higher rate of women vs men among the active unemployed citizens. The scheme targets only those who were registered as unemployed from January to March 10th2020) reaching a total of 2823 beneficiaries, still leaving unattended women engaged in care economy and unregistered.
…The effect of COVID-19 on workplace flexibility and the burden of unpaid domestic and care work for women.
COVID-19 has hit income generating sources hard for both women and men, with women suffering a decline of income **from farming and remittances.** It shows that as a result of the outbreak every

second employed woman (51%) has been working remotely (from home) compared to almost every fourth man (27%)
Women have been taking on more household chores and care work and **every second woman reported an increase in performing at least two activities related to unpaid domestic work**
76% of women reported an increase in providing unpaid domestic work
72% of women reported that they experienced an increase in providing unpaid care work.
The social assistance should target women needs by taking into consideration the fact that the *coping strategies with the impacts of COVID-19 results to be relied mainly on support from relatives.* Furthermore, in order to reduce or eliminate the impact of COVID-19 and lockdown measures on the long-term health of individuals, particularly that of women, social and health care services need to develop and deliver targeted support programs to families, and in particular, to women.
…SILC data are **also a valuable source of information for unmet need in health care**. Recent WHO analysis shows that unmet need for health care and dental care are much higher than in the EU countries. The main cause of unmet need for health care and dental care is **cost**. Source: Tomini F and SM Tomini (2020). Can people afford to pay for health care? New evidence on financial protection in Albania. Copenhagen: WHO Regional Office for Europe (https://www.euro.who.int/en/health-topics/Health-systems/health-systems-financing/publications/2020/can-people-afford-to-pay-for-health-care-new-evidence-on-nancial-protection-in-albania-2020).
… To be commended that Social protection component is stronger than ever. A strong and effective social protection lays the ground for the social and economic development of a nation.
…***Self-employed women and men were the most affected by lockdown measures.*** Those not registered were given the opportunity to be registered (by declaring the name of the employer) and benefit a cash transfer. No data is available on the number of women and men pursuing this opportunity but the rapid Gender Assessment shows that 56% of women self-employed vs 50% of self-employed men were the most affected from the crisis. Almost all women working in care economy in the private sector, such as cleaners, babysitters, kindergarten and nurseries staff, but also fassoneries, as well as men working in the construction and farming activities, are not legally registered (undeclared work) and therefore excluded from the schemes designed to mitigate the negative impact of the pandemics. *One of the unique features of this crisis is that it is disproportionately affecting low-wage workers in the service sector more than previous recessions*.
…Household Budget Survey data are a valuable source of information to monitor financial protection in health. See Tomini and Tomini (2020) (full reference above).
…Ensure that social plans are properly engendered and budgeted according to the Program and Performance Budgeting procedures in the Medium term Budget Programs of the Municipalities.
…In addition, during 2019-2020, 17 municipalities were supported by UNDP through grants allocated to their Social Funds for establishing and providing new social care services.
… At the end of 2020, UNICEF has finalized the training of staff of all 61 municipalities.
…The social welfare staff of the Municipalities should be trained to understand and use Gender Responsive Budgeting as a tool to properly address the different needs of women and men from vulnerable groups, benefiting from the social services.

Area 3.3.1

- Analysis of the areas need to include gender analysis
- Despite the untapped potential, it is important to diversify energy sources, and even if there is further hydro potential, environmental cost-benefit calculations taking into consideration potential long-term impacts of climate change would be necessary. Also, potential efficiency gains of existing hydro plants should be considered as options for new plants.
- Important to make sure mentioning what measures will be taken so the market will also benefit/accessible the most vulnerable population.
- To address this gender neutrality – the foreseen reform in this area need to have a keen gender perspective

- These indicators seem ambitious. It is also recommended to add an indicator for the audit reports.
- As per the official data of the National Chamber of Commerce of Women in Albania the number of businesses owned by women that could benefit from the Sovereign Guarantee scheme (in response to the pandemic) is 105 out of 760 big businesses registered in Albania, or only 14% of the potential beneficiaries.
- What about the 30% gender quota? Although it is required from the Law on GE only for public institutions, it can be applied also to private companies in view of the women representation and empowerment efforts. Nevertheless changes to the legal framework on trading companies, aiming their proper engenderment should be considered.
- The strategy should consider the role of women in preserving the flora and fauna as well as the big impact of the climate change in their lives. The strategy should specifically target women in protected areas with information activities as well as subsidies for their work, especially when it comes to the preservation of endangered species of flora and fauna.
- Is there a calculation of potential energy efficiency savings? This would also be a good result indicator for this reform measure.
- Energy efficiency programmes tend to be lower cost alternative to capacity expansion, freeing up capacity for new RE investments. In general, EE programmes can also help customers to avoid the impacts of increasing energy prices/expansion in demand.
- There is no analysis on the impact this railway construction has on women and there are no foreseen measures to respond to such specific needs.
- Does not make any sense. Women and girls participation should be ensured not only in the vocational training for rail transportation, but also in all the chain of this service. Women should take active part in the studies, projections, design and implementation of railways. Planning of railway paths should take into consideration thorough gender analysis of areas of the intended implementation.
- In this context of this project should be implied the engagement of both men and women in gender equality in the workplace by considering the locally-managed road maintenance work. It should identify the women's role in enhancing the supply of skilled workers and management staff of the companies contracted to the construction of Railway. It should be assessed and explored women's current employment situation at all levels in the contractor workforce as well as in construction work, and to identify ways in which the involvement of women can contribute to socio-economic development and hence the sustainability of the Project. It should be prepared by the end a concrete action plan for women involvement in the construction project.
- Recommend to specify and budget for increased public awareness about the benefits of rail transportation and to promote safe rail crossing practices in Albania.
- High-quality of rail services should mean amongst others also safe transport for every woman and men in the country.

Area 3.3.2

- As tourism is one of the key pillars of the economy, it might be useful to have a separate reform measure on sustainable tourism. The slowdown due to Covid-19, could also be an opportunity to reform and diversify the tourism sector towards more sustainable offering.
- Still the scheme targeted only registered employees and businesses. Small family businesses such as vacation houses and/or family kitchens were hardly hit from the pandemic and could not benefit from any of the schemes. All these family businesses who have women as main workers as they provide for the services of cleaning and cooking, rely on the incomes generated during the three months of summer to support their families for the whole year.
- Other options of diversifying the tourism sector could be explored as well, i.e., what are the building blocks for developing sustainable tourism and building and expanding local value chains.
- Not only, it should ensure women representation in public participation as women, especially

in these pandemic times, are responsible for ensuring a safe environment through cleaning and disinfection for the whole family, meaning they are also the main users of water in the households. Lack of water supply is not only an increased financial burden for the whole family but an increased overall burden for women and girls in the households.

- A thorough gender analysis of the problem is missing and therefore the expected impact on social outcomes, especially on gender equality is not assessed.
- **This is not gender-neutral reform.** There are gender differences in different steps of *Water and Waste Water Sector*, defined by women's primary household responsibility, by different perceptions on views what is waste and what is not, on consumption behavior between men and women etc. wastewater treatment processes impact production, industrial pollution, household behavior etc., and as a consequence men and women are differently affected. Women are more affected by the lack of wastewater treatment and by an inoperative sewerage system; when sanitation is not separated women's contamination risk is greater than men.
- Same comment and suggestion as above.
- It should be address in the focus of women employment in tourism and development of small-medium SME…
- No gender analysis of the impact of such reform.

Area 3.3.3

- Good point to be followed-up…
- Access to finance should also be ensured for women, especially for SMEs in tourism and agriculture sector as main contributors to the economy.
- Gender analysis is missing, therefore the expected social outcome, especially on the lives of women, is not assessed.
- There is no analysis on gender impact of such measures
- How this objective address women in order to increase the access to finance and to reduce poverty? Which is gender mechanism? It's needed the gender assessment… The data in the publication of Women and Men 2020 show a gender gap on the depositors refers to the number of customers who have a deposit account in financial institutions by 14,6 (pp) in the favour of the men.

Area 3.3.4

- It should include activities targeting women and girls, especially from vulnerable groups and from rural areas, not only on the use of digital services but also on the possible dangers and threats they can encounter. Trainings on safety and proper use of the digital services should be considered as part of the school curricula.
- Does the Committee ensure women representation and participation?
- The issue of lack of broadband for schools to improve learning outcomes and reducing digital divide is quite important and missing.
- This indicator could be reformulated as to show the number of schools/ health facilities benefitting from improved internet traffic otherwise the indicator will not be very telling of the expansion of high quality broadband.
- New technologies and innovative ways of communication, such as virtual/online meetings, SMS, phone applications, etc could be considered as alternative ways to develop activities targeting women in rural areas during the pandemic, while face-to-face meetings are not such as the ***purchase of electronic devices and online services for women farmers.***
- How it will increase possibilities? This should be link to employment opportunities and which typology of women worker we have in rural areas….This should have more in focus women in urban as online workers and ensure the access for good quality of public service for women in rural areas.
- This last sentence needs further elaboration to look at the intersectionality of gender impact of such measures
- The digital literacy needs to be strengthened so every Albanian can equally benefit from the opportunities that digital systems create – otherwise it will further broaden the divide.

3.3.5

- No gender analysis of the current situation and possible impact of these policies in the lives of women and men is available therefore the social outcome is not assessed.
- There is a need to articulate gender impacts here.
- By taking into account women and men opportunities…

3.3.6

- The quality and inclusion agenda for preuniversity education are not mentioned at all. At a time where education was hard hit by COVID -19, one of the important objectives of Gov reforms should be to maintain education outcomes: Issues of low outcomes in education as confirmed by PISA results, equity issues, improved teaching practices, digital literacy would need to be considered along with the skills agenda, 21-st century skills, skills for life and employability. The skills agenda should not only be captured by the vocational education which comes late in life as skills build on skills and we cannot have employability skills if we haven't built on foundational and transferrable skills which are built in the course of years of education starting from ECE.
- VET should reflect the different needs of girls and boys in the framework of Covid-19 impact.
- The curricula should be designed considering not only the actual labour market demands and offers, but also the different needs of boys and girls as well as the possibility to build new opportunities for them in the future.
- This is one of the most important indicators of the whole VET policies. It should be gender disaggregated as well as disaggregated for sectors.
- The very low rate of participation of girls in VET should yield to some extensive studies on the reasons and ways to improve it.
- The reform should refocus skills development, especially regarding access to vocational skills for employment, decent work and entrepreneurship from gender perspective.

3.3.7

- **Employment in Albania at a glance**
  Labor Participation Gender Gap: 16 percent in favor of men.
  Employment Rate: 68.2 percent for men compared to 54.4 percent for women.
  Outside Labor Market: 38.4 percent of women aged 15-64; compared to 22.4 percent of men.
  Inactivity rate in the Labor Market: fulfilling domestic tasks is the main reason for 18 percent of inactive women compared to one percent of men.
  Self-Employment: 51 percent of women who are self-employed work in agriculture.
  The overall rate for Youth not in Employment, Education or Training (NEET) is 30.1 percent (the highest in Europe). It is high for both sexes, with an overall average 0.7 percentage points higher for young men. However, gender differences in NEET rates are compounded by residence. In rural areas, NEET rates are 2.0 percentage points higher for young women, while in urban areas, rates are 3.5 percent higher for young men
  Women's employment is shaped by domestic and caregiving responsibilities in ways that men's is not: when juxtaposing LFS employment data with women's civil status and the number of dependent children, the negative impact of marriage and child-birth on women's presence in the labour market becomes readily apparent. This points to the obstacles women face in entering, remaining, and progressing in the labor market, which is partially related to gender-stereotyped patterns in education, but also to the lack of affirmative action, and scarce or missing social care policies and investments, particularly for child care provision.

3.3.8

- I would suggest that the contribution of donors to establish HCT to help families cope with the financial burden of COVID should be added in the Analysis of main obstacles section (page 58). Additional to the vertical expansion of ndihma ekonomike, UNICEF piloted HCT project in three municipalities demonstrated that horizontal expansion is possible. Attached a short summary of the work done, which can be sent to MoF. Also suggest to acknowledge in the analysis of main obstacles that children are disproportionally affected by poverty. About 29,6 % of Albanian Children have been reported to be at-risk -of poverty in Albania for 2017 and 2018 with girls being more affected by poverty: about 30,6% of girls were at-risk-of poverty versus 28,7% boys in 2018, while the figures for 2017 were respectively 31,8 % versus 27,7%. Due to UNICEF support, INSTAT has collected data on child non-monetary deprivation for 2018 and 2019 according to EUROSTAT methodology With UNICEF support, NSTAT has a roadmap to measure child multiple deprivation using the EU child deprivation index.

- It would be good to make the link with PG4, point 4.2 i.e. provide incentives for businesses and employees in the informal economy sector to register and to facilitate their transfer to the formal economy. Entitlement to health benefits is linked to payment of contributions, which is particularly challenging given Albania's large informal sector. Addressing labour informality will yield positive results in the health sector, too.
- Which are the benchmark countries?
- Recent studies have shown that individuals who have experienced several months of unemployment in a given year or only worked part time are likely to be disqualified for this reason. This presents a disadvantage for those who were not consistently attached to the labor market in the last year, including many students, low-wage workers, parents, people with minor disabilities, or formerly incarcerated people. Because of occupational segregation patterns and labor market discrimination, these requirements also tend to disproportionately exclude women, Roma and Egyptian minorities working in green economy.
- The link between poverty and informality is significant. However, not all informal workers are poor and not all working poor are engaged in the informal economy.
- No gender disaggregated data have been used to assess the impact on the beneficiaries of the measures. Gender Responsive Budgeting has not been used as a tool to engender the neither the immediate response measures, nor those aiming to further mitigate the risks and effects of the ongoing pandemic.
- Again the response measures did not include non-registered workers, which are mainly from vulnerable groups. Women victims of violence, women in process of divorce or separated, especially during the pandemic, have not been targeted from any of the schemes as the cash transfers are devoted per family and not per person.
- I suggest to add that the 14 municipalities benefitted in 2019 from Social Fund and add a line about what happened in 2020. From what we know, the Ministry of Health and Social Protection did make the call for municipalities to apply for SF. Many applications have been submitted and UNICEF has even supported some municipalities, but no news yet on the budget allocated for SF and how it is going to be divided among municipalities.
- 17 municipalities were supported by UNDP through grants allocated to their Social Funds for establishing and providing new social care services.
- There is still a share of the population that doesn't benefit from health coverage. It's commendable that uninsured people are entitled to free GP visits, but their entitlements do not extend to treatment in primary care (medicines or diagnostic tests) or to nonemergency specialist treatment. Uninsured people have access to a very limited range of publicly financed health care; they are also more likely to be poor, come from minority groups and live in deprived areas. Source: Tomini F and SM Tomini (2020). Can people afford to pay for health care? New evidence on financial protection in Albania. Copenhagen: WHO Regional Office for Europe (https://www.euro.who.int/en/health-topics/Health-systems/health-systems-financing/publications/2020/can-people-afford-to-pay-for-health-care-new-evidence-on-nancial-protection-in-albania-2020).
- Expanding the list of covered medicines can improve financial protection if percentage co-payments are zero or very low. WHO analysis (2020 → full reference above) shows that outpatient medicines are the main driver of financial hardship, reflecting gaps in coverage and inadequate regulation. Measures to improve financial protection include: the use of low fixed

co-payments rather than percentage co-payments; exemption from co-payments for low-income households; and an annual income-related cap covering all co-payments.

- To be commended the clearly spelled out goal on improving the targeting, inclusiveness and effectiveness of cash assistance in line with the new poverty measures. UNICEF would propose that the adequacy of the ndihma ekonomike is also considered. UNICEF also believes that making the social protection system flexible to respond to shocks and risks should also be a priority for the government in the next three years. The earthquake of November 2019 and the COVID19 pandemic revealed the necessity to make changes in the system. The report of what UNICEF has done also helps there. Lastly, the plan of activities outlined is to be commended and UNICEF is ready to support on several of them, like: (i)Assessment of the cash assistance scheme. This activity is part of the recently approved Joint UN Programme on SDG financing which is also signed by Ministry of Finance. (ii)Capacity building of municipalities for better planning and delivering social care services; (iii)Development of standards for social care services, including new standards of services in crisis and pandemic situations. Strengthening the MIS for social protection integrating cash and social care
- UNICEF, ILO and Un WOmen have jointly committed to support the assessment of the adequacy and effectivenes of ndihma ekonomike, therefore we express the willingness to support
- We suggest **monitoring unmet need for health care** with the use of SILC data. This indicator is mentioned in Annex 1 (p. 63) but should be presented here as well. From the WHO report (2020) (p. 17): "The EU-SILC data show that unmet need for health care grew from 19% in 2017 to 21.5% in 2018 and unmet need for dental care grew from 20.5% to 23.6). Unmet need is much higher in Albania than the EU average (3% for health care and 4% for dental care in 2018)". We also suggest **monitoring catastrophic health spending** using HBS data and WHO EURO methodology as presented in the WHO (2020) report. Source: Tomini F and SM Tomini (2020). Can people afford to pay for health care? New evidence on financial protection in Albania. Copenhagen: WHO Regional Office for Europe (https://www.euro.who.int/en/health-topics/Health-systems/health-systems-financing/publications/2020/can-people-afford-to-pay-for-health-care-new-evidence-on-nancial-protection-in-albania-2020).
- The transitory, economic empowerment schemes require financial and human resources as well.
- Gender poverty alleviation should be taken in to account. The reasons of falling into poverty or being vulnerable are different for women and men. International studies show that if these differences are not taken into consideration the reform measures, the impact of poverty reduction is minor.
- Here it is a need to have gender impact analysis of the respective reform
- In fact, prioritisation of Roma and Egyptian community members, girls, children in conflict with the law or victims of crime, institutionalised children or young adults leaving residential care institutions, etc. will likely contribute to a more equitable development, and to narrowing the gap between boys and girls, men and women; Roma&Egyptians and the majority population; poor and non-poor, etc.

UNDP

Reform measure 17: Increasing the quality and access to VET, aiming at integration in the labour market.

In the recently conducted Review of Albania's Vocational Education and Training System[41], commission by UNDP, took a detailed look into the system of VET governance and provision in Albania and aimed to identify the challenges that hamper the system from responding effectively to

[41] The full publication can be found in UNDP Albanian website, available at: https://www.al.undp.org/content/albania/en/home/library/crisis_prevention_and_recovery/review-of-albania-s-vet-system-.html

the skill demand of the labour market. Throughout the report the focus was put on how to establish a collaborative partnership between the key actors in VET, namely the institutions at central level, VET providers, and social partners. The VET system was reviewed in the light of seven quality indicators:

(1) Coherent regulatory framework,
(2) Clear roles and responsibilities among all actors,
(3) Equitable funding arrangements,
(4) Strong labour market relevance
(5) Standard-based assessment and certification
(6) Quality mechanism for VET provision and delivery
(7) Systemic cooperation with private sector.

In accordance with the recommendations provided in this report, and the current VET reform agenda support also by UNDP, we would propose the following action to be included in the ERP 2021-2023 for Reform Measure 17:

2021

- Continue drafting, discussing and approving the by-laws of the VET law that are still outstanding, in close dialogue with the private sector.
- Complete the legal framework to ensure financial autonomy, income generation for VET providers. Revise the budget allocation method. Develop an instrument to assess the programme- specific cost implications in close consultation with VET providers.
- Further development and implementation of the Albanian Qualifications Framework. Consolidate the existing building blocks for the design of occupational qualifications and training programmes into a coherent methodology that combines all elements: skills need analysis, occupational standards development, qualifications, framework curricula, assessment standards and construction of test items.
- Complete the regulatory framework and start the pilot implementation of the Accreditation Model (standards, criteria, processes)

2022

- Finalize the process of referencing the Albanian Qualification Framework to that the European Qualification Framework,
- Refine the process of translating Occupational and Qualification Standards into Assessment Standards with the assistance of sector specialists and subject-matter experts from the private sector to ensure that the level examinations are suitable for verifying a candidate's occupational competences as defined by the industry.
- Roll-out, building the capacities of the involved stakeholders and consolidate the implementation of the Accreditation system.

Reform measure 18: Improving the employability of the most vulnerable unemployed jobseekers especially those affected by COVID-19, through new and revised EPPs and employment services

UNDP has supported the MoFE in the process of reforming the Employment Promotion Programme during 2019-2020, and during 2020 worked together with the MoFE, National Employment and Skills Agency to draft specific EPPs that address the added vulnerabilities of jobseekers in the labour market due to the impact of Covid-19. As such, during the coming years it's important to include process and impact assessments to understand the effectiveness and efficiency of the implemented programmes.

2021

- Conduct a process evaluation on the implementation of the reformed Employment Promotion Packages (EPPs) and the programmes that address the context after COVID-19;
- Completion of the legal and administrative framework for the impelementation of the Employment Social Fund;

2022

- Conduct an assessment to measure the impact of the implemented Employment Promotion Programmes (2020-2021)

The Social (Employment) Fund: Improving the employability of the most vulnerable groups with focus on Persons with Disabilities, through new partnerships with the private sector and businesses UNDP has supported the MoFE in the process of the revision of the Employment Law, including the articles related to the employment of persons with disabilities. We have also supported the creation of the Social (Employment) Fund. It would be useful in the coming years to advance this agenda and operationalize as well as capitalize the Fund.

VIII. Foreign Investors Association of Albania (FIAA)

Proposed Point: <u>Business environment and reduction of informal economy (SME)</u>
<u>Recommendation:</u>
As the pandemic taught us, the need for digitizing the economy is greater than ever. SME's are a crucial component to bring forward development in Albania, and therefore is outmost important that in the Recovery plan, strong attention should be given to the digitizing of the SME's. Studies in Albania, (EBRD, WB etc.) indicate there is much room for enhancing digital adoption, entrepreneurship, and innovation across Albanian businesses.

- Find concrete engaging schemes for, large, small and start-ups, in further digital transformation. The pandemic has highlighted the need for enterprises to be digitally agile.
- Introduce a voucher scheme targeted to specific support for digital investment from all business.
- Introduce a simplified tax credit scheme for SME which will allow them to overcome funding constrains on their innovative activity.
- Digitizing government services as (e-Albania a great example) to show leadership in realizing the digital opportunities.

<u>Proposed Point: IV. Research, development and innovation and the digital economy</u>
<u>Recommendations:</u>

- *Enabling Digital Infrastructure*: There is a need for a dedicated policy framework outlining a series of measures to support an investment environment for the deployment of critical digital infrastructure, through public-private mechanisms.
- Promoting world leading connectivity through facilitated technology shifts accelerated 5G roll-out.
- Investment and support for industrialization of key technologies such as OpenRAN in support of EU and Balkan strategic autonomy.
- **Smart Cities**: The digitalization of cities, underpinned by the emerging technologies of 5G, big data, edge computing and IOT, will be key to the transformation needed to meet future digital challenges.
- A significant gap remains in providing mobile voice and data services to address blackspots areas, which continues to have a negative impact on business and tourism in Albanian's mountain and rural regions.

<u>Proposed Point: VI. Education and skills</u>
<u>Recommendations:</u>

- Promote digital literacy and skills, promote inclusion and awareness of the opportunities present in a more digitized Albania.
- Invest, promote and provide access to the necessary digital skills that enable organizations, educators, and individuals to engage with technology:
- Help educators and students to adopt remote learning; ensure that lack of access to technology does not exacerbate inequality amongst learners. (Connectivity and laboratories in schools)
- Provide alternative pathways for attaining digital skills, including apprenticeships.
- Intensify efforts to promote STEM skills from primary levels.

<u>Proposed Point VII. Employment and labor market</u>
<u>Recommendations:</u>

- Digital talent matters enabling further economic development, improved services, and resilience. Unfortunately, we do not see that depicted in the Education skills plan. Not investing in early digital education can bring social exclusion opportunities in an evolving digital European market.
- Demand for ICT specialists and advanced digital skills remains a key priority for the advancement of the SMEs and large firms in Albania. During pandemic times, the ICT sector has exceeded previous projections in the European market.

IX. Consorzio per Valutazioni Biologiche e Farmacologiche (CVBF)

CVBF is strongly working on the inclusion of paediatric research within the strategic planning of the forthcoming Horizon Europe funding programme as well as in the national agenda.

Today, in fact, the majority of the drugs used for children and young patients have not been specifically developed and tested for them. Children and young patients cannot be compared to adults in their growth path and have a different metabolism.

To this aim, we have carefully analyzed the EFR document and we would like to make the following suggestions about the Priority VII **Social protection and inclusion** (also in the attached document):

- To strengthen and expand health protection coverage with particular reference to the vulnerable populations (paediatric and rare diseases).
- Improve access to health care services for vulnerable populations (paediatric and rare diseases) and in particular we would suggest improving healthcare services for people with autism spectrum disorders by creating tools to help the communication and improve the quality of life of these populations.
- Promoting actions to also raise paediatric patients' voices and improving the quality of paediatric healthcare services, through the direct involvement of paediatric patients from Youth Patients Organisations and members of the Young Persons Advisory Groups (YPAGs).

CVBF Albania has promoted the launch of the first YPAG in Albania, named KIDS Albania, in collaboration with the University Hospital Center Mother Teresa and the TEDDY Network (European Network of Excellence for Paediatric Research). YPAG is composed of youths actively participating as partners, advising researchers and their teams on a full range of activities in various research projects and initiatives.

- Adding the topic of rare diseases in the National Health Strategy 2021 -2024 to foster research in this field to be able to make an accurate medical diagnosis and to move towards patients' personalized therapies.
- The creation of a **National Register for Rare Diseases** (an electronic registry) to better identify and to follow up the patients, to observe the course of diseases, understand variations in treatments and outcomes and to examine factors that influence prognosis