

INTRODUCTION

Country Context

1. Albania has been considered a development success story. With a population of 3.2 million it has made rapid progress in establishing a democracy and market-based economy. Over the past decade, the country has been one of the fastest growing countries in Europe, enjoying average annual real growth rates of 6%, accompanied by rapid reductions in poverty. In 2009, despite the global financial and economic crisis, Albania was able to maintain positive growth rates (3.3%) and financial stability. Although a middle-income country with an estimated GDP per capita of USD 3 836, Albania still has pockets of deep poverty, mainly in rural mountainous areas where the main livelihood resource is land. Poverty levels have been reduced by half, from 25.4% in 2002 to 18.5% in 2005 to about 12.4% in 2008 and the extremely poor population fell from 5% in 2002 to 1.2% in 2008. Although reduced, rural poverty levels remain above the national average because growth in the rural economy has been slow. Poverty in mountain areas, at 29% is double the national average, and the progress made in poverty reduction comes mainly from internal and external migration, since almost one third of households receive remittances.

2. Albanian macroeconomic situation is characterised by price stability, which is reflected in low inflation rate and relatively stable exchange rate of the domestic currency. Average annual inflation is relatively stable, being 3.7% in 2008 and 3.4% in 2009. The prudent fiscal policy resulted in contraction of budget deficit from 7.6% of GDP in 2000 to 3.3% in 2007. Due to the increased government investments, expenditure on infrastructure, wages and pensions, and deteriorating external environment, the budget deficit started to grow again, reaching 6.8% of GDP in 2009. The deepening of the budget deficit resulted in public debt increase, which at the end of 2009 accounted for 59.5% of GDP. The current account deficit increased in 2009 to 15.1% of GDP from 10.8% in 2007, reflecting mainly a decline of remittances. The remittances have steadily declined in the last years from 14.4% of the GDP in 2005 to 11% in 2009.

3. The trade deficit grew up in the period 2007-2008 partly due to the massive public road works. In 2009, the trade deficit started to decline, but remained high (25.9% of GDP). Albanian export continued to show strong dependency on apparel industries, which accounted for 43% of the total export. Export of mining products grew substantially in 2008 but suffered a severe setback in 2009, partly due to the lower international demand for chromium and nickel. In 2009, export fell by 11%, but recovered fast in 2010. In 2009, net capital inflows covered the current account deficit and contributed to the foreign reserves' increase. Net FDI increased reaching the level of 7.6% of GDP, up from 3% in 2006.

During the first half of 2009, a tender for a syndicated loan of up to EUR 250 million was awarded to a consortium of foreign banks. Albania preserved a sufficient level of international reserves at around 4.2 months of imports.

Agriculture Sector

1. *Overall Sector Performance*

4. In 2009 the agricultural sector accounted for 16.6% of GDP. The agricultural sector Gross Value Added (GVA) amounted to EUR 1,437 million in 2009. During the period 2001-2009, the share of agricultural sector in GDP decreased due to the relatively slow growth of the sector and faster growth of the other economic sectors. The average annual growth of the agricultural sector was about 3%. The number of employed in agriculture in 2008 was 542,000 or 57.4% of the total number of employed. Both the agricultural employment and its relative share in the total labour force changed slightly during the 2000-2008 period. The Labour Force Survey (LFS) 2008 indicated that the number of employed in the age group 15-64 years old was about 500,000, of whom 55% full time and 45% part time employed. The share of employed in agriculture decreased from 47.9% in 2007 to 44.1% in 2009. In 2009, labour productivity in Albanian agricultural sector was EUR 2,660 per employed. Labour productivity in agriculture is only 32% of the labour productivity in the rest of Albanian economy and about 20% of the EU labour productivity in agriculture. During the period 2001-2008, labour productivity increased by about 40%. In 2008, gross fixed capital formation in the agricultural sector was only EUR 18.7 million. The rate of investment, measured by the ratio of investment to agricultural GVA was only 1.9%; in 2008 it averaged to 1.7% for the whole period 2000-2008. This is critically low, especially when compared to the EU-27 (33% in 2005).

5. In 2008, utilised agricultural area was 1,122,000 ha, which represented 39% of the total land area in Albania. Albania accounted for about 2% of the total utilised agricultural area (UAA) of all candidate and potential candidate countries. Compared to the EU-27, Albania has lower availability of the arable land. In 2008, arable land occupied 584,000 ha or 52% of the total UAA (EU-27 – 60.5%). The land under permanent crops was 123,000 ha or 11% of the UAA. Fourteen percent of the total area in Albania is under permanent grass land and pastures.

6. In Albania, more than 75% of the total area is hilly and mountainous. Accordingly, the land used for agriculture is quite hilly, with only about 44% having a slope of less than 5%. Of the arable land, 44% lies along the coast, predominantly in plains, and the remaining 37% and 19% – in hilly and mountainous areas, respectively.

The total area planted in 2009 was estimated to be 402,000 ha out of 584,000 ha of arable land. The remaining 182,000 ha, or about 31% of arable land, was not cultivated. The 9 years average of not cultivated land amounts to 181,000 ha with a standard deviation of 11,000 ha. The problem of idle land affects not only mountainous areas, but also other parts of the country. About 80% of 697,000 ha of the arable land and area under permanent crops are in private ownership and the remaining 20% is in public ownership. In the land reform process, 16% of the agricultural land has been refused by farmers and 2% was illegally occupied and used as construction sites. About 20,000 ha of the total state-owned land are foreseen for the compensation of previous land owners and 110,000 ha low fertile soils have passed under the administration of the local governments. It can be used for rent or concession.

7. The land privatisation was implemented by distributing the land of 550 large state farms to about half-million Albanian families in rural areas. This led to very small-sized and fragmented land-ownership in Albania. The structure of farming in Albania is characterized by a large number of very small farms. Despite reduction in the number of farms from 418,000 in 2000 to 353,000 in 2008, it remains very high. Albanian physical farm size is very small. In 2009, the average farm size was only about 1.2 ha and varied between 0.7 ha in the region of Kukes and 1.6 ha in the region of Fier. During the period 2000-2009 the increase of the farm size was small. In 2009, 51% of the farms used up to 1 ha of land and 88% – up to 2 ha. The farms smaller than 2 ha utilised about 70% of the total agricultural land. In 2009, farms with more than 2 ha comprised 12%, but almost all of them used up to 5 ha. There were only about 1300 farms larger than 5 ha and the majority of them cultivated up to 50 ha.

8. In the last 20 years, the main source of the agriculture growth in Albania was total factor (land, labour and capital) productivity growth. Macroeconomic stability and economic liberalisation lead to reallocation of resources from less profitable (cereals) to more profitable activities (horticulture and livestock), which allowed agriculture to generate growth with low rates of investment. However, there is evidence that total factor productivity growth caused by post-transition reallocation is gradually coming to an end. This suggests that in order to sustain the growth of the agricultural sector, Albania have to find a way to raise the investments in physical and human capital.

9. Albania has large and increasing deficit in agrifood trade, which in 2009 amounted to EUR 471 million (Figure 9). In 2009, the value of agrifood trade deficit with EU was EUR 236 million, and compared to 2005 it increased by 50%. In 2009, the value of agrifood export amounted to EUR 55 million, of which about 80% was for the EU countries (Italy and Germany were the main partners). In the 2000-2007 period, the average growth of export was 12.3%, but in the 2008-2009 period, the export declined. The main export products are tinned fish and herbs (about 50% of exports), raw hides and skins, edible offal and oilseeds. In 2009, the import of

agricultural products amounted to EUR 502 million, of which about 60% from EU (Italy and Greece mainly). The most significant imports of agricultural products in value terms were: dairy produce and other products of animal origin; preparations of cereals, flour or starch; miscellaneous edible preparations; alcoholic beverages tobacco and manufactured tobacco.

2. Agriculture and Rural Policy Framework

The Agricultural Policy is conducted in the context of EU requirements for harmonising the Albanian agricultural systems with EU legislation and standards. The challenge is for policy makers to transform agriculture from subsistence-oriented production into a modern, commercial and competitive sector, while fostering economic opportunities for rural residents leaving the sector. The Government of Albania (GoA) has recently formulated a draft Rural Development Programme (2011-2013) that sets out key steps towards these objectives. With regards to tackling entrenched poverty in mountain areas, the national focus will be on building on the comparative advantage and natural resources of each mountain region, whilst placing a greater emphasis on non-agricultural policies. The draft strategy also highlights that non-wood forest products and services are an important source of income in rural Albania, and that the country is a globally significant producer of wild herbs and spices. However, most of these are exported in raw form, and there are substantial opportunities for value adding in this sub-sector.

10. For rural development, the NSDI notes that living standards and incomes in rural areas are significantly lower than those in urban areas; that poverty reduction is linked to both agricultural growth and with non-farm employment; and that farm modernisation and diversification of activities will be the main drivers of income growth. Furthermore, it states that there is sufficient potential for growth in rural areas, including favourable natural resources and a well-educated population which includes a relatively high proportion of young people. The NSDI approach to rural development is based on the 2007-13 EU Rural Development Regulation. The strategic priorities include increasing the competitiveness of the agricultural and agro-processing sectors through farm modernisation and investment in value-adding activities; sustainable management of natural resources; promoting diversification of economic activities to create new jobs; and developing the capacity of local actors and institutions to manage rural development programmes.

11. The Poverty Reduction Strategy of Albania is framed within the 2007-13 National Strategy for Development and Integration (NSDI). Key over-arching points within this strategy are: integration into the EU; adoption of the time frame of 2007-2013 in order to comply with the financial framework of the EU; the Instrument for Pre-Accession Assistance (IPA); and

optimising the use of foreign aid in agreement with the Paris Declaration on aid effectiveness. Strategic goals of the NSDI include key MDGs related to poverty reduction, infant mortality, and access to water and sanitation. Its strategic priorities are to raise the income generation opportunities of individuals, facilitate access to services and assist vulnerable groups.