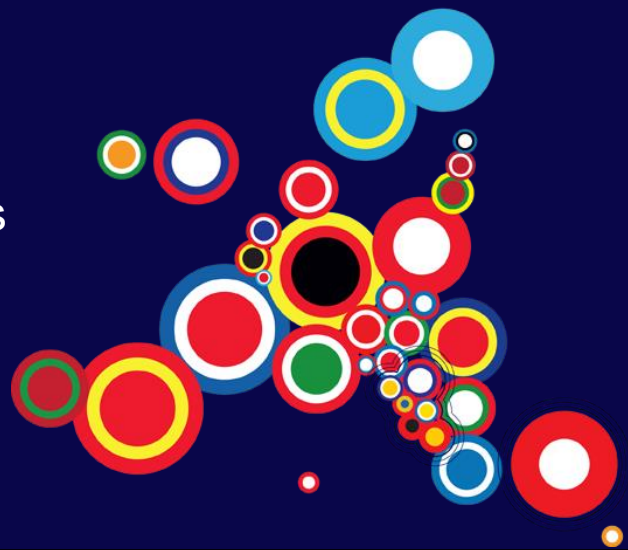




**INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)
2014-2020**

ALBANIA

Sector Reform Contract to Support Transport with Focus on Roads



Action Summary

The overall objective of the programme is to contribute to an efficient transport system, integrated in the region and in the EU network, which promotes economic development and the citizens' quality of life by focusing on the road transport.

This will be achieved by contributing towards the improved efficiency and sustainability of road transport management, by supporting good governance, the implementation of standards for maintenance and safety, resulting in the improvement of the technical and safety conditions of the Albanian National Road Network, and by strengthening the administrative capacities for management of road construction and maintenance at central and regional levels.

Action Identification	
Action Programme Title	IPA 2016 Action Programme for Albania
Action Title	Sector Reform Contract to Support Transport with Focus on Roads
Action ID	IPA 2016/038718.06 /AL/ Support to Transport with Focus on Roads
Sector Information	
IPA II Sector	Transport
DAC Sector	21010 - Transport policy and administrative management
Budget	
Total cost	EUR 24,000,000.00
EU contribution	EUR 24,000,000.00
Management and Implementation	
Method of implementation	<i>Direct management for Sector Budget Support and Direct management for complementary technical assistance</i>
<i>Direct management:</i> EU Delegation	EU Delegation to Albania
Implementation responsibilities	Ministry of Transport and Infrastructure (MoTI) Coordination for all Sector Budget Support for Albania: Ministry of Finance (MoF)
Location	
Zone benefiting from the action	Albania
Timeline	
Final date for concluding Financing Agreement(s) with IPA II beneficiary	At the latest by <i>31 December 2017</i>
Final date for concluding delegation agreements under indirect management	At the latest by 31 December 2017
Final date for concluding procurement and grant contracts	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 189(2) of the Financial Regulation
Final date for operational implementation	6 years following the conclusion of the Financing Agreement

Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)	12 years following the conclusion of the Financing Agreement		
Policy objectives / Markers (DAC form)			
General policy objective	Not targeted	Significant objective	Main objective
Participation development/good governance	<input type="checkbox"/>	x	<input type="checkbox"/>
Aid to environment	<input type="checkbox"/>	x	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	X	<input type="checkbox"/>
Trade Development	<input type="checkbox"/>	X	<input type="checkbox"/>
Reproductive, Maternal, New born and child health	X	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Main objective
Biological diversity	X	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	X	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	<input type="checkbox"/>	X	<input type="checkbox"/>
Climate change adaptation	X	<input type="checkbox"/>	<input type="checkbox"/>

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

The quality of transport impacts all areas of society. Albania considers the transport sector as a key priority, multi-dimensional and vital to socio-economic development and a strong wheel for Albania in its path to the European Union Integration. After the entry in force of the Stabilisation and Association Agreement (SAA), attention was focused on priority areas related to the transport acquis, as well as, upgrading and construction of road transport infrastructure, particularly in the area of the Trans European Network (TEN-T), in accordance with Article 106 and Protocol 5 of the SAA.

Roads and motorways represent the predominant mode of land transportation in Albania and provide essential links for freight and personal mobility in the country. Most of the investments in transport infrastructure have been directed towards roads, which in Albania constitute one of the highest value assets, estimated at about US\$6 billion, with substantial increases over the last decade.

These large investments have contributed significantly also to the development of the Balkans infrastructure network, with a view to a future integration with TEN-T and in addition, have improved transport services and provided a more efficient connectivity to business and citizens, with relevant gains in terms of transport costs and travelling time.

However, the emphasis on new roads has not always been supported by quality construction work. Inadequate procurement and contract management, budget tightness and limited transparency, with sometimes unrealistically discounted prices, coupled with weak quality control, have led to the use of lower quality materials, which hampers the infrastructure quality. In addition, major investment projects have not been properly planned, implemented, monitored, and maintained. Among the signs of poor quality are (i) premature deterioration of new pavement and structures; (ii) development of projects according to different design standards on adjacent sections; (iii) poor and contradictory signalling and other failures to ensure safety; and (iv) non-repair of electrical fixtures and fittings. The generally low quality of new constructions in turn implies an increase in the cost of maintenance **and thus leads to poor value for money from capital expenditures**. Frequently the lifespan of the investments is considerably limited.

In addition roads maintenance has not been addressed systematically as a process to preserve public investment. Because of the **under-investment in maintenance** during the past decades, currently only 42% of the national road network is considered in a good or very good condition. While the primary network is well-defined and information on road condition is available, the condition of 45% of secondary roads is not known. Only 16 % of the secondary network is in good condition.

Limited road safety is another major problem for Albania, as the number of accidents with either fatal casualties, or serious or light injuries, has increased significantly over the last 10 years. The number of fatalities remain high taking into account European standards and the Government of Albania's (GoA) aim to decrease it by half by 2020, using 2009 as baseline.

The World Bank's Public Finance (PF) Review¹, puts a special emphasis on the **weakness of the technical design** of the contract documents, on implementation and quality control of the investments in road infrastructure, namely with domestic investment as compared to external donors' intervention. The reasons identified for the weak performance of contracts financed by national resources are: a) the lack of standards in place for all the above contracting and implementation phases, b) the poor quality of tendering and contracting documents and of technical specifications, and c) the inadequate use of independent supervision services (not necessarily complying with FIDIC norms, for example).

Furthermore the external audit of arrears clearance process² revealed numerous shortcomings in

¹http://www.wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/09/24/000470435_20140924134316/Rendered/PDF/820130v2GRAY0COVER0Box385323B00PUBLIC0.pdf

² a requirement set out in the IMF program funded by the EU – which was concluded in July 2015

relation to public procurement and contract management practices at the Albanian Roads Authority (ARA) and confirmed the findings of the above mentioned report of WB PF review.

The 2016 IMF report on Public Investment Management Assessment noted that

- Most of Albania's public investment institutions are of medium and some of good strength "on paper", but much weaker "in practice (overoptimistic plans, inadequate project design, especially highly granularity and relatively weak project management capacity have contributed to under-execution of capital spending. Most planning and allocation institutions are generally weaker than in peer countries.

- During 2015 new arrears were created amounting to 10 million EUR, mostly by the Ministry of Transport and Infrastructure (MoTI), 83% of which are due to old contracts that are still not finalised and which continue to create liabilities;

- With regards to quality of project management in case of ARA, there are concerns with both the quality of the staff and the number of projects being managed which in the case of roads overwhelms the management. Much of the project supervision is contracted out, although with significant delays in project implementation, the resources for project supervision are severely stretched. There is no proper control on the quality of works undertaken by ARA staff and the organization's laboratory lacks proper equipment and apparatus for testing the quality of accepted works.

In addition, the World Bank is soon expected to present the draft **Country Fiduciary report including the assessment of public procurement efficiency and contract management quality control** and enforcement, in particular in the transport sector which will be used to address weaknesses and step up the management and control practices of ARA.

The main challenges in the road sector could be summarized as: (i) improvement of road network conditions via reliable maintenance practices and balanced investments; (ii) progressing proper implementation of construction, re-construction and safety standards and (iii) enhancing quality of public spending and reliability of the transport system governance, including enhanced planning and prioritization and implementation of the public financial management policies and procedure for investments in line with national and regional policy within the limits of available fiscal space.

ARA and the Ministry of Finance (MoF) have been working on developing an action plan for addressing these challenges. The Transport strategy and the related Action Plan which will be supported by the Sector Reform Contract financed from this action aim at addressing and focussing on these challenges in view to strengthen the management of public funds in the transport sector, which, representing a very relevant part of public investment, can definitely contribute to increased efficiency and quality of public spending. In August 2015, GoA adopted the **Road design and construction standards**, which will contribute to improvements of the quality of planning, design and construction of roads' infrastructure.

The **MoTI** is the lead institution for policy making and planning of investments in the sector. The ARA is the main agency for the management of the national road network. These are the principal institutional stakeholders responsible for the management and implementation of the sector reform contract.

In addition, the **Albanian Development Fund (ADF)** which aims to encourage a sustainable, balanced and cohesive socio-economic development at local and regional level, is the implementing agency for rehabilitation and development of small socio-economic infrastructure and social services via the implementation of road infrastructure and small bridges for secondary network.

The Secretariat of the Inter-ministerial Road Safety Council (RSC) has been established as part of the road safety system development and is the representative body of stakeholders for improving the road safety in Albania. The Institute of Transport (IoT) under the MoTI, the General Police Directorate in the Ministry of Interior (MoI), and the Red Cross are key stakeholders for road safety.

The Ministry of Finance (MoF) and the State Supreme Audit Institution contribute to the public

financial management component in the design and implementation of the Road transport management reform in line with the overall public financial management strategy implementation.

ARA is the main asset manager of the national road network, and responsible for the construction, upgrading, rehabilitation, and maintenance of the national road network including associated planning, budgeting, and programming. ARA is accountable to the MoTI and is overseen by the ARA Management Board³. In the specific case of ARA, and in the context of the procurement capacity required for the adequate management of performance-based contracts (PBCs), the WB report has identified the following risks: (i) insufficient experience on procuring and implementing PBCs; (ii) insufficient capacities and knowledge on multilateral procurement guidelines; (iii) implementation delays and insufficient PBC experience of the construction industry.

The **General Directorate of Road Transport Services (GDRTS)** is responsible for issuing: driving licenses; registration documents and certificates of vehicles dealing with international goods transport and transportation of hazardous goods according to the European Agreement Concerning the International Carriage of Dangerous Goods by Road (ADR). Both structures (ARA and the GDRTS) have an adequate organisational chart in numbers, but they are in an important demand of **quality training** and **capacity-building**. Furthermore, GDRTS seems seriously **under-staffed** according to international practice (i.e. a mere team of 2 civil servants supervising the overall implementation of GDRTS policies, and in addition developing regulatory work).

Civil Society (CSOs) and the private sector are also key stakeholders, as exemplified by the importance of the Albanian Transport cluster members. Among others, the Albanian International Road Transport Association and Training Institute (ANALTIR) are strongly involved in the decision making and monitoring processes, playing a decisive role in the achievement of the expected key results of this sector⁴.

RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

According to the IPA II Indicative Strategy Paper for Albania (CSP), in the first phase (2014-2017), assistance is to be focused on supporting further development of transport policies aiming to improve the maintenance and operation of the existing public infrastructure investments in a sustainable and efficient way. In the second part of IPA II, it is envisaged to provide additional support for actual investments.

The Draft Transport Strategy confirms the EU recommendation⁵ *“Following the adoption of a package of road safety measures in March 2014, Albania should focus on its enforcement, as road safety remains a serious concern.”* In addition, the support needs to address the **EU Progress Report 2015 for Albania, Chapter 21: TEN-T**, recommendations related to Trans-European networks: (i) continue work on the development of the transport and energy networks in line with the infrastructure investment priorities for the core network, agreed under the regional connectivity agenda and (ii) step up efforts on transport infrastructure maintenance and land expropriation.

³ The members are from the Ministries of transport, finance, economy, local government, and three are representatives from private sector organisations

⁴ For example, the Training Institute, ANALTIR will be involved in efforts needed in the areas of vehicle inspection and education and training of road users, including professional drivers. In November 2014, the IRU Academy announced the accreditation of the ANALTIR Training Institute in Albania for the Certificate of Professional Competence (CPC) Manager and CPC Driver. This will enable the ANALTIR Training Institute to deliver these high quality training programmes to road transport professionals in Albania, thus contributing to sustainable development, improved road safety and transport efficiency, which ultimately benefit the economy and society as a whole. In addition Albanian Constructor's Association and Albanian Association of Consulting Engineers are active in the road transport sector.

⁵ In October 2014 the EU published a progress report of the reform efforts made by Albania after having adopted a roadmap laying down and structuring its planned reforms under key priorities

Sector Budget Support (SBS) will therefore be provided to support the priorities identified in the road transport sector targeting the capacities and implementation of EU standards in **road asset management, maintenance and road safety** for the period 2017-2019, as well as **improvement for the management of public finances** of the sector to contribute to planning, implementation, **maintenance and operation of existing public infrastructure** investments in a sustainable and efficient way.

Planning of transport infrastructure investments is done in line with the priorities identified in the government's strategic plans and South East Europe Transport Observatory (SEETO) work plans⁶. Furthermore, the support is in line with the Connectivity Agenda and with the recommendations of Vienna Western Balkans Summit held in August 2015, where the six Western Balkans Countries (WB6) have agreed to the SEETO priority list of 'soft measures' in transport. The SBS will therefore contribute to the implementation of the actions agreed in the Vienna Summit and implemented through different mechanisms (SEETO, SEETO Transport Facilitation Working Group, Core Network Coordinators, etc.). In this way Albania would enable additional support from different donors and IFI's through WBIF on delivering the stated goals within the framework of WB6 initiative. The Draft Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey of 12 May 2015, recommend that Albania is encouraged to adopt and start to implement the Transport Strategy and the Action plan for 2016 – 2020, and, as well, to focus investments on the core network, preparing the single sector pipeline of priority investments.

These above-mentioned priorities are duly reflected in the **National Strategy for Development and Integration 2014-2020** : (i) *accelerating the integration of the transport system*, and (ii) *the establishment of an integrated market*, consisting of transport infrastructure by land, by sea and inland waterways that *efficiently support transport demand*.

The 2020 Vision above is in full alignment with the **South-East Europe 2020 Strategy** (SEE 2020) promoted by the European Union, which sets up the Key Strategic Actions for the specific case of *Dimension "I"* (TransportSupport provided under IPA II is pursuant to Directive 2004/113/EC on equal access to and supply of goods and services and contributes to reaching Sustainable Development Goal 11..

SECTOR BUDGET SUPPORT READINESS

Macroeconomic Stability

As noted in the 2015 report published in November 2015, Albania preserved macroeconomic stability and is moderately prepared in developing a functioning market economy. Some progress was made in improving macroeconomic stability, growth prospects improved and a public finance management reform is in place. However, significant challenges remain. Albania should in particular pursue fiscal consolidation, improve the budget management framework, tackle the high-level of non-performing loans and improve the business environment by strengthening the rule of law. The level of unemployment and informal employment remains high. In line with the Economic Reform Program (ERP) recommendations and in order to support long-term growth, in the coming year Albania should pay particular attention to: i) sustaining fiscal consolidation and strengthening the budget management framework; ii) tackling the high level of non-performing loans; iii) improving the business environment by implementing regulatory reforms and adopting the new bankruptcy law.

According to the ECFIN Subcommittee conclusions in December 2015 the Albanian authorities pursue credible and relevant stability oriented macroeconomic policies aiming at supporting economic recovery and restoring fiscal stability and sustainability. Revenue underperformance and high level of public debt remains key source of macroeconomic risks, but the authorities remain committed to addressing it. The government also launched a fight against informality. At the same time, fiscal consolidation should preserve space for growth-enhancing public investment by enhancing revenue collection. The implementation of three-year financing arrangement with the International Monetary

⁶ See <http://www.seetoint.org/library/multi-annual-plans/>

Fund agreed in February 2014 supports strengthened macroeconomic stability and growth-boosting reforms are on track. The IMF Reached Staff-Level Agreement for Completion of Fifth and Sixth Reviews of the program in November 2015 and the Executive Board approved for the authorities to draw an additional amount equivalent to about €72.4 million, bringing total disbursements to about €226.8 million.

The European Commission assessment of Albania's ERP 2017-2019 of May 2016 confirms that the macroeconomic framework presented is coherent, consistent and sufficiently comprehensive and provides an adequate basis for policy evaluation and discussions. In 2015 revenue significantly underperformed against the target as a result of optimistic assumptions but due to under-execution of expenditure the budget deficit was somewhat lower than planned at 3.8 % of GDP against the 4 % target in 2015. The ERP commits Albania to an ambitious fiscal consolidation path to tackle vulnerabilities stemming from high public debt.

Overall the eligibility requirement that there is a credible and relevant stability-oriented macroeconomic policy is met.

Public Finance Management

The Government completed the first year of the implementation of the **PFM Strategy for 2014-20 and a related Action plan**, whose goal is to improve the fiscal framework, budget process, enforcement of rules and procedures and prudent management of public funds, as well as to strengthen transparency and accountability mechanisms. The PFM annual report for 2015 was presented and endorsed by the PFM Steering Committee on 23 March 2016 and presented to the public on 11 April 2016. The 2015 annual report for the PFM strategy implementation noted that out of 80 actions/activities for 2015-2020 18% were completed, 65% of the activities are in progress and 17% have not yet started. The report also provides a summary update of selected indicators of the strategy monitoring⁷, according to which nine areas progressed, three regressed and two are not measured, however these do not cover the entire spectrum of the strategy and the development of a comprehensive performance assessment framework with SIGMA's support has just started in May 2016. The annual report was published in May 2016⁸ and consultation with civil society representatives took place at the end of May 2016. The related engagement of IMF and World Bank programmes also progressed.

The strategy implementation **remains credible and relevant**. The implementation progressed in most key areas although in some areas with delay. The coordination framework and monitoring structures were set up, although its operation and Technical secretariat requires to be strengthened in the number of policy staff to efficiently coordinate and monitor the reform implementation. A reinforcement of the Ministry of Finance (MOF) by an additional 45 staff positions was approved in 2015 as well as in early 2016 although actual recruitment is progressing slowly and the MOF still has 98 vacancies out of 293 positions and it requires to further streamline its operation to ensure efficient follow up of the cross sectoral PFM strategy implementation. There are risks related to fraud and corruption - which is targetted by the Anticorruption Strategy - and to inefficiencies for the enforcement of good financial management practices across the administration, which will require stronger coordination with the public administration reform. The strategy implementation continues to take into account inputs from major stakeholders and latest findings. In 2015 the MOF has proactively engaged in carrying out additional diagnostics to formulate policy directions for improvements including the Transparency Code Assessment, the MOF Functional review, the Public Procurement review, the Public Investment Management assessment and others in preparation e.g. WB review on local government to take stock of local government arrears). The action plan for 2016 was updated however will need to further incorporate the latest findings and analytical studies.

⁷ See Page 7

⁸ http://www.financa.gov.al/files/userfiles/Raportimet/PFM_reform_report_-FV_31_March_2016-_for_publication_-2-.pdf

Overall, the eligibility requirement that there is a credible and relevant programme to improve public finance management is met.⁹

Budget transparency and oversight

Information regarding Albania's budget transparency as well as oversight mechanisms is generally available. The minimum requirement of 2016 budget publication is met. The Government published a Citizen's budget for the draft 2016 budget¹⁰ and the requirement for publication of additional information has been incorporated in the draft organic budget law.

The Open Budget Index assesses whether the central government makes eight key budget documents available to the public in a timely manner and whether the data contained in these documents are comprehensive and useful. Albania's score decreased from 47 to 38 between 2012 and 2014 assessment although change is minimal and relate to the period prior to first transparency eligibility so does not represent a decrease trend.

The comprehensiveness of the Executive Budget proposal and the Pre budget information in terms of information on fiscal risks alternative macroeconomic scenarios and submission of medium term budget with medium term ceilings to Parliament together with the Executive Budget proposal has been improved in 2015. However the publication of mid-year report and year-end report is required to be addressed as a priority therefore it has been incorporated in the draft organic budget law. It also notes that the legislature provides limited oversight during the planning stage of the budget cycle and weak oversight during the implementation stage of the budget cycle. Another important conclusion is the weak public participation. Public participation processes exist in limited fashion and remains to be introduced in a more structured way.

TRANSPARENCY (OPEN BUDGET INDEX)

The Availability of Budget Documents Over Time

Document	2006	2008	2010	2012	2015
Pre-Budget Statement	●	●	●	●	●
Executive's Budget Proposal	●	●	●	●	●
Enacted Budget	●	●	●	●	●
Citizens Budget	●	●	●	●	●
In-Year Reports	●	●	●	●	●
Mid-Year Review	●	●	●	●	●
Year-End Report	●	●	●	●	●
Audit Report	●	●	●	●	●

● Not produced/published late ● Produced for internal use ● Published

Albania's score of 38 on the 2015 Open Budget Index is lower than its score in 2012.

Since 2012, the Government of Albania has decreased the availability of budget information by:

- Reducing the comprehensiveness of the Executive's Budget Proposal.
- Reducing the comprehensiveness of the Pre-Budget Statement.

Moreover, the Government of Albania has failed to make progress in the following ways:

- Not making the Year-End Report available to the public.
- Not producing a Citizens Budget or a Mid-Year Review.

IMF Fiscal Transparency Code assessment¹¹ published in January 2016 noted that some 10 of the Code's 36 principles are rated as either "good" or "advanced," and 14 principles rated as "basic". However, in eight areas the basic requirements of the Code are "not met."

⁹ Progress in the areas of public financial management and transparency has been found satisfactory by DG NEAR in June 2016, as part of the assessment for the disbursement of fixed and 2015 variable tranche.

¹⁰ <http://www.financa.gov.al/al/legjislacioni/buxheti-thesari-borxhi/buxheti/buxheti-i-qytetarit-2016>

¹¹ <http://www.imf.org/external/np/sec/pr/2016/pr1611.htm>

The Transparency roadmap for 2016 was updated to address the findings of the Open Budget Index and the Fiscal Transparency Code assessment.

The **Extractive Industry Transparency Initiative (EITI)** Annual Report for the years 2013- 2014, published in December 2015¹² notes that Albania stands among those 49 countries which comply with the **EITI**. The Albanian Working Group which is the decision-making body supervising the implementation of EITI is chaired by the Deputy Minister of the Ministry of Energy and Industry and composed of the representatives of the **Government, extractive companies, civil society** etc. The Government publishes information on the extraction of oil, gas and other minerals, contribution of this industry to the State budget and allocation and spending of these income. The aim is to promote **transparency in order to prevent corruption, and raise awareness among citizens** to demand from their Government proper use of the fiscal and non-fiscal income generated from the exploration and exploitation of natural resources in Albania. *Overall, the eligibility requirement for budget transparency is met.*

Public /Sector policy

The overall objective of the **National Transport Strategy and Action Plan 2016-2020** is to (i) further develop Albania's national transport system, and in addition (ii) to significantly improve its sustainability, interconnectivity, interoperability and integration with the international and European wider transport system and region. The document has been structured into five chapters: (i) Current conditions (overall assessment and detailed assessment by transport mode); (ii) Vision, strategic priorities and goals; (iii) Policies (Priority Actions); (iv) Resources implications; and (v) Accountability, monitoring and evaluation.

The Transport strategy includes the Transport Action Plan 2016-2020, listing the strategic priority actions and identifying the related list of tasks, based on the analysis, therein presented. The priorities are designed to address the main challenges as well as the weaknesses in the sector. Furthermore the strategy responds to the strategic priorities for the regional developments in the sector regarding the EU Enlargement perspective. The document includes the analysis and develops an action plan for all transport modes (road, rail, maritime, civil aviation, including multi-modal **transport**).

The **Road section of the Transport Strategy and related Action Plan** is the main priority for the sector and serves as a **sector policy base for this program. Hereafter this chapter is referred to as the Road Transport Strategy**

The Road Section of the Transport Strategy considers four strategic priorities, which are broken down into seven goals that reflect their expected results, as well as eleven priority actions. The goals and results of these Priorities are summarised below:

Strategic Priority N°1. Create the adequate legal and governance conditions for an efficient transport system. Goal 1.1.:To finalise the alignment of the Albanian transport legislation to the EU acquis and ;Goal 1.2: To ameliorate the existing governance structures. The result expected from Goal 1.2 is: *The operation of efficient public structures supporting the deployment of the transport strategy defined by the Government of Albania*

Strategic Priority N°2. Complete and modernise Albania's primary and secondary road network. Goal 2.1 is to complete the "missing links" and upgrade the standards of the existing road infrastructures, aiming to obtain a comprehensive road network in alignment with SEETO commitments and securing the connectivity of the primary and secondary network.

The second goal (Goal 2.2) for completing and modernising Albania's primary and secondary road network is to secure a good governance structure across the whole life cycle of a road infrastructure project. Achievement of this goal would result in the *operation of a national road network satisfying the mobility needs of Albania in a safe, sustainable and competitive manner.*

¹² https://eiti.org/files/albania_eiti_report-2013-2014_final.pdf

Strategic Priority N°3. Strengthen the regional cooperation via road connections with the first goal (Goal 3.1) is To reduce border crossing times and procedures, which would aid in achieving: (i) improvement of connectivity, safety and security on Border Crossing Points (BCPs); (ii) an increase in the average annual volume of goods with Kosovo¹³, the former Yugoslav Republic of Macedonia, Greece and Montenegro by 10% and that of passengers by about 15% by 2020. The second goal in this priority aims to avoid the discrimination exerted to Albanian road transport operators. In doing so, this would achieve harmonised or, at least, non-discriminatory axle load taxes between all SEETO countries (including Albania) and the EU member states.

Strategic Priority N°4. Ensure the functioning of the road transport market in line with EU standards, Goal 4.1: To complete efficient operational and institutional framework for road freight and passenger transport, which would allow for provision of efficient road transport services to Albania's citizens and businesses.

The Strategy aims to achieve the results expected for the Road sub-sector by 2020:(i) Albania's international accessibility and competitiveness improve, (ii) travelling from one part of the country to another is faster, more comfortable and safer, and in addition (iii) new transport capacities which meet the demand for transportation of goods and passengers emerge.

With regard to the *efficiency*, **the Transport strategy formulates a number of recommendations**, as follows: (i) *Money spent on roads needs to be rebalanced from capital investments to maintenance and rehabilitation;* (ii) *Capital investments could also be carefully phased so that they do not come at the expense of maintenance and rehabilitation* and (iii) *Modernizing maintenance practices by extending output and performance-based contracts could offer significant efficiency gains.*

The aforementioned Strategic priorities, goals and expected results are of **relevance** for the sector due to the following:

- The proposed Strategic priorities and goals related to the Road transport sector are logically linked to the socio-economic analysis. They are mutually consistent and well embedded in the regional, national and Community policy objectives and interventions.
- The draft road section of the Transport strategy is in line with the connectivity agenda
- The Transport strategy needs assessment conclusions and particularly for its Road Section are aligned with the SEETO analysis, stating that "*Homogenously detailed analytical data on performed/implemented (design) standards on the core network are hardly easily at hand at this time*".
- The analysis available gives the general picture that -with respect to infrastructure facilities for the dominant road transport- the core network mostly needs **rehabilitation/upgrading rather than building of new linkages**.
- The SEETO strategy paper stresses the need for regional cooperation in the process, the application of European technical and planning standards and already identified preferred network solutions of regional importance which are well elaborated in the Strategy.
- The Strategy is also in line with the **European Union Strategy for the Adriatic and Ionian Region (EUSAIR)** of 2014, which in relation to Transport highlights that the Region has significant infrastructure deficits, notably between long-established EU Member States and the other countries, resulting in poor accessibility. According to the assessment made by EUSAIR, the Western Balkans road network needs urgent rehabilitation, removal of bottlenecks and missing links, intermodal connections, traffic management systems and an upgrade in of capacity.
- The European Transport policy "Connecting Europe's citizens and businesses" stated that "*Competitive transport systems are vital for Europe's ability to compete in the world, for economic growth, job creation and for people's everyday quality of life.*"
- The strategy, also in line with the Vienna Summit of August 2015, identified 'soft' measures on transport as medium-term Regional Actions (2020 Goals)

¹³ This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

- The Road Transport strategy includes findings and recommendations made under Road Safety Strategy concerning improvements in design, implementation and maintenance of road infrastructure which has an impact on decreasing the number of accidents especially in relation with identification and elimination of road black spots.
- In order to ensure sustainability of public investment in the sector the Priority actions have been formulated in the strategy in line with international practice in the road sector, for example by focusing to **improve road maintenance practices**. Furthermore, the Road Transport strategy implementation will allow prioritizing public sector investments, as well as **targetting significant gaps in institutional and public financial management capacities and good governance of the road sector**.

As regards to credibility of the Road Transport Strategy:

- The Integrated Program Management Groups (IPMG) including all stakeholders of the sector is the National structure accountable for the coordination of sector policy preparation, monitoring of implementation of the National Transport Strategy 2016-2020 and the Road Transport Strategy which is in the process of being set up.
- The Road Transport strategy, under the *Accountability, monitoring and evaluation chapter* presents the monitoring indicators which assess progress towards achieving the goals of the National Transport Sector Strategy for the Road Sector. Statistical information and sources are made available by the Albanian IoT14 database for use.
- According to the Transport Strategy and the related Action plan the **total budget** for road sector during 2016-2020 will be 875,3 million EUR for 5 years, which is at an average of 175,06 million Euro per year. Table: MTBP 2016-2018 Ceilings for the Ministry of Transport (in million EUR)

Programme in the sector	2016		2017		2018	
	State budget	donors	State budget	donors	State budget	donors
Road transport	26,6	62,7	26,8	62,7	26,8	62,7
Road maintenance	11,0	8,1	11,3	12,8	12,2	12,8

- According the MTBP 2016-2018 the forecasted budgeted for roads is of 336,6 million EUR for 3 years, which is at an average of 112.2 million EUR per year. This presents a gap of 60 million EUR per year for implementation. This means implementation will require additional funding from the budget or the action plan. During its update of the annual action plans will have to be revised on the basis of fiscal space over the medium term in line with the medium term budget.
- The Strategy identifies capacity weaknesses of the implementing agencies and targets the addressing of related capacity building activities.

Overall, the eligibility requirement that there is a credible and relevant public policy, namely the Road Section of the Transport Strategy is met.

LESSONS LEARNED, LINK TO PREVIOUS/OTHER FINANCIAL ASSISTANCE AND INTERVENTIONS BY OTHER COOPERATION PARTNERS

Substantial funding through IPA I and other international donors has been mobilized over years for the Road sector in various areas such as road network, preparation of legislation, capacity development and other areas, mainly in the form of loans from IFI, as the WB, being the leading in transport as well as the European Bank for Reconstruction and Development (EBRD), the Central

¹⁴ Annual Update of National Transport Plan (2014). IoT. September 2015.

European Bank (CEB) and the European Investment Bank (EIB) KfW , Czech Republic and Italy, Kuwait fund for Arab Economic Development, the Saudi Fund for Development, the Organization of the Petroleum Exporting Countries (OPEC) fund for International Development and the Abu Dhabi fund.

Technical assistance was provided by the EU for the preparation of the national legislation in line with the EU regulatory framework, capacity building and preparation of strategic documents.

Some main issues that remain to be addressed are: (i) the importance of coordination and structuring the development process (who, what, by when); (ii) identification of key partners, stakeholders and proper cooperation between the various agencies and IFI funded project teams involved; (iii) good consideration of implementation risks during the programming phase; (iv) the importance of relevant ownership by the project beneficiaries; (v) ensuring a strong link between national sector policies and integration priorities – as a basis for a more strategic programming of resources, and finally (vi) the existence of appropriate administrative capacity in beneficiary agencies.

Lessons learnt of earlier intervention point to the need for addressing the following weaknesses:

There is still no regular **monitoring of asset conditions**. Records of the road and structures' inventory need to be updated and little information is collected on traffic volumes or axle loads. Such deficiencies hamper the development of a professional approach to road asset management and financing. In addition, until mid-2015, working in the absence of the requested **technical standards** leaves space for poor design and implementation of roads projects and increasing the maintenance costs due to fast deterioration of the completed roads' sections.

During 2006-2010, the GoA supported a large programme of domestically-financed road construction, resulting in the fact that the budgeting process did not ensure that funding was committed to complete the on-going projects. Urgency for establishing a mechanism for prioritization and selection process for investment projects in line with sector strategies and taking into consideration the affordability of such investments is evident.

Some important lessons are learned since the start of Results-based Road Maintenance and Safety (RRMS) project. These include the linkage of tranche payments to the achievement of **disbursement-linked indicators**; the importance of sound monitoring and reporting mechanisms to measure progress towards the attainment of the results using an indicators system. The need to integrate policy objectives to budget programmes and to align with the budgetary limitations set in the medium-term expenditure framework is well acknowledged.

Among other, the Strategic/Interim Evaluation of EU IPA Pre-Accession Assistance to Albania formulated recommendations in this respect: (i) GoA to ensure that a result orientated monitoring system is in place and fully operational; (ii) ensures that institutional staffing and skills' levels are adjusted according to the results of workload analyses; and (iii) in order to increase the rate of contracting and to decrease delays in implementation it is recommended to involve beneficiaries in the procurement procedures and the implementation of on-going IPA assistance.

The most recent WB-supported *Secondary and Local Roads Project*, in some cases, identified **insufficient institutional capacity to manage and monitor huge IFI funded investment** interventions, which could hamper the long-term impact and inappropriate practice to plan and design/implement the road projects without referring to approved standards, especially in the projects funded by the national budget.

2. INTERVENTION LOGIC

DESCRIPTION OF OBJECTIVES, MAIN ACTIVITIES AND EXPECTED RESULTS

The overall objective of the programme is to contribute to an efficient transport system, integrated in the region and in the EU network, which promotes economic development and the citizens' quality of life, by focusing on the road transport.

The **specific objectives** of the programme are therefore to contribute to

- 1, Create an adequate legal and governance conditions for an efficient transport system established by aligning the Albanian transport legislation to the EU acquis (Pillar I of the Road Transport Strategy) and
- 2, Modernise and upgrade Albania's primary and secondary road network (Pillar II of the Road Transport Strategy).

The expected results related to this action will contribute to:

- Overall improved design and implementation of road transport policies;
- Improved alignment of the Albanian transport legislation to the EU acquis;
- Improved quality of public spending / value for money for road transport;
- Modernised and upgraded primary and secondary road network;
- Improved road safety conditions;
- Improved road maintenance performance;

Main activities of this action will include:

The main activities to implement the budget support package are policy dialogue, financial transfer, performance assessment, reporting and capacity development;

Engagement in dialogue around conditions and government reform priorities, the verification of conditions and the payment of budget support;

Transfer of EUR 21 million to the beneficiary country in fiscal years 2017, 2018, 2019 and 2020 when disbursements are expected;

Continued effort to reinforce Government's institutional capacities to implement the transport reform strategy;

Enhancing donor coordination

Strengthening of monitoring and evaluation systems for transport strategy implementation

Regular monitoring of budget support eligibility criteria.

The focus of EU support is on addressing the most critical and urgent problems in the roads sector e.g. on maintenance, implementation of standards, asset management, and public financial management improvements due to their expected impact in the medium term and importance of improvements on governance, sustainability and efficiency of the investments. The implementation of such activities will strengthen the overall capacities for preparation and implementation of the pipeline projects selected in the framework of the connectivity agenda and maximise benefits from making more efficient public spending in the transport sector in the conditions of a limited fiscal space.

At input level, the transfer of funds will improve the financial space of the government to pursue road transport policy objectives and implementation. At the input level, also TA is proposed to enhance capacities of ARA, for the development of skills and legislative framework concerning Private Public Partnership in the transport sector, addressing financial control weaknesses in the sector (addressing recommendations of earlier twinning) It will provide supplies for technical equipment required to check road safety and maintenance standards, which will lead to increased the institutional capacity of the Ministry of Transport and the Albanian Road Authority enhancing good governance and the quality of public spending in the road transport sector..

At the output level, the assistance aims to establish stronger policies and institutions, improved sector coordination, better follow up of policy implementation and improved sector monitoring and evaluation strengthening governance in line with EU legislation and technical standards for design and

construction, introducing performance-based maintenance practices implementing safety measures, Intelligent Transport System (ITS), enhanced sustainable asset-management system.

At the outcome level this will form the basis for enhanced quality of public services, improved efficiency and sustainability of road transport management enabling economic development and more cost effective transport services and better quality of life for the citizens.

COMPLEMENTARY SUPPORT

The objective of the complementary action, under direct management, is to strengthen the Government's capacity to coordinate and implement its Transport sector reform strategy, to monitor and report on performance and ensure coordination, inclusive policy making and transparency. There are two complementary action components.

The first complementary component will:

- Strengthen the capacity of the Albanian Road Authority (ARA), notably with a view to ensuring that ARA staff are better at implementing transport policies and legislation, and at carrying out public procurement and contract implementation in line with applicable procedures and sound financial management principles;
- Assist and train relevant staff of the Ministry of Transport and Infrastructure and ARA on Public Private Partnerships (PPP) schemes;
- Provide equipment to the road works quality (materials) laboratory of the ARA.

The second complementary component will be implemented via technical assistance for monitoring and evaluation as well as communication and visibility.

As part of the first component, the expected result of the accompanying twinning and technical assistance is that ARA and MoTI staff is trained and capacities upgraded with regard to issues related to public investment assessment feasibility study, quality control processes, procurement, monitoring implementation and maintaining the road assets in line with the adopted standards, as well public private partnership policies and practices. The expected result of the supply of equipment is that the ARA has adequate means for checking and controlling the quality and compliance with the standards of the works undertaken for construction and maintenance of the Albanian national roads network. The expected result of the second complementary component is that the sector budget support action is properly monitored and evaluated, and that it benefits from proper communication and visibility.

Key performance indicators of the accompanying technical assistance / twinning are (i) number of ARA staff better at implementing transport policies and legislation, (ii) public procurement and contract implementation by ARA staff carried out in line with applicable procedures and with sound financial management, and (iii) good quality Public Private Partnerships (PPP) schemes prepared and implemented by ARA/MoTI trained staff. Key performance indicators of the supply of equipment are (i) increased number of on the spot checks by ARA with regard to the quality of works performed by the contractor and certified by supervisors, and (ii) quality of works contracted by ARA implemented in line with standards and technical specifications. The key performance indicator second complementary component is the Albanian population's awareness of the action and the related issue area.

RISK MANAGEMENT FRAMEWORK

Based on the Risk Management Framework (RMF) of February 2016, the risks which could impact the proposed programme, include those which are mostly minor or moderate and one of them has been identified as a major risk.

Regarding the political aspects, although Albania's transport sector has been one of its Government's top priorities, there remains a potential for lacking commitment given that there are other reforms that are considered of a higher priority. Shortfalls in cross-party cooperation and lacking political support for following up with processes for policies and implementation are other risks which are foreseen.

Mitigation of these risks could be done by maintaining these issues in a high level dialogue and receiving support from the European Union. Cross-party cooperation and lacking political support can be mitigated with the aid of EU dialogue regarding cross-party work support to the parliament and independent institutions for assistance with oversight and monitoring.

While positive growth has been taking place in Albania during the last decades, it still strives for economic renovation and other risks still remain at hand, given the high unemployment and spending and low income. There are risks concerning an increase in public debt weak tax collection, accumulation of new liabilities and arrears. Macroeconomic stability needs to be further anchored beyond the ongoing IMF program;

Weak commitment and political support are the main risks for Public Financial Management and developmental issues, but can be reduced through mitigation measures such as close monitoring and continuous dialogue with the government

Corruption and Fraud is the most substantial risk due to resistance to prevention and control. In order to mitigate this high risk, corruption cases must be brought to justice while participation of stake holders and law enforcement agencies need to be enhanced.

Risk	Level	Mitigation measures
Political		
Lack of commitment from the Government for undertaking targeted reforms in the area of rule of law, public administration reform, anti-corruption and respect of fundamental rights. Shortfalls in cross-party cooperation on key EU-related reform issues, political cooperation and the effective functioning of independent institutions. Lack of high level political support to monitor and follow up on the policy making and implementation processes.	Moderate	Continuous policy dialogue in the context of the High Level Dialogue and the EU support for the implementation of the Roadmap concerning the key priorities with specific focus on justice reform in view of the opening of accession negotiations. Guidance from EU through political dialogue on cross-party work on EU integration. EU support to the Parliament to fulfil its oversight role and to independent institutions to strengthen their monitoring role. Implementation of targeted and well-planned communication and visibility activities.
Macroeconomic		
Further increase of public debt; increase of fiscal risks, weak, continuous revenue underperformance, weak prevention mechanisms against the accumulation of new arrears; unbalances in the account deficit (import-export); fiscal buffers exhausted.	Moderate	The Government stability oriented macro-economic policy is being closely monitored under the PFM sector reform contract and also through the annual ECOFIN and Economic Reform Programme program processes. The IMF and the World Bank programmes are also expected to act as an anchor for enhancing macroeconomic stability and implementing growth-boosting reforms, including liquidation and prevention of new arrears.
Public Financial Management		
Lack of capacity and commitment to coordinate and implement the reform of public financial management, public administration reform. Lack of institutional cooperation, insufficient medium term funding perspective to implement the reform strategies. Weak public investment management in respect of prioritisation and screening of investment proposals. Weak co-ordination of the strategies with insufficient links to budgetary systems (for annual budget and medium term), coupled with growing constraints on public finances. Weak institutional capacity of the Government to increase overall effectiveness of public service delivery and to enhance PFM processes. There is also risk to overload capacities of current staff of the respective institutions. Lack of capacity and commitment from the Government to improve transparency of the budget; to enhance revenue	Moderate	Continuous dialogue with the Government on public finance policy issues and PFM reforms especially in the transport sector. Use of the PFM and Road Transport budget support and complementary capacity building to facilitate and embed the reforms for budget transparency, tax administration reforms and budget planning and execution and public procurement system, strengthening of the capacities of the institutions in general as well as in particular in the transport sector. Continuous dialogue with the Government, the Parliament and the HSC on public finance reforms and enhanced oversight and transparency. The EU to support HSC with twinning project in order to ensure compliance with international standards of external audit. Ongoing technical

<p>collection and budget execution; to review the public procurement system and improve the operation of the High State Control (HSC) to be aligned with INTOSAI. Weak political support and ownership for enforcing the Law on Civil Servants at all levels. Fragmented sector coordination and slow progress in setting-up the governing framework for the implementation and monitoring of the PAR Strategy (IPMG for PAR). Complexity of the reform cannot be handled effectively and efficiently by the lead institution. Slow progress in the recruitment of qualified staff horizontally in the public administration.</p>		<p>assistance. Close liaison with IMF World Bank and other partners.</p>
<p>Developmental risks</p>		
<p>Lack of commitment from the Government to develop and implement a comprehensive transport strategy addressing system weaknesses and institutional deficiencies.</p> <p>Weak transport strategy design and co-ordination with other processes and strategies with insufficient links to actual fiscal space and budgetary systems (for annual budget and medium term), coupled with growing constraints on public finances.</p> <p>Weak institutional capacity of the Government to increase overall effectiveness of public service delivery for the transport sector., weak sector reform coordination and slow progress in setting-up the governing framework for the implementation and monitoring of the transport strategy</p> <p>Slow progress in the recruitment of qualified staff horizontally in the public administration.</p> <p>Limited capacities for adequately absorbing the guiding EU principles of equality and accountability to female and male citizens throughout the civil service system, and for implementing the EU Gender Equality acquis in the design, implementation and monitoring of legislation, policies, programmes, budgets, and services.</p>	<p>Moderate</p>	<p>Continuous dialogue with the Government on the policy making and on the SBS conditionality and eligibility requirements. Support through ongoing or proposed complementary capacity building to facilitate the reforms. Engagement of all stakeholders including relevant development partners to create a participatory policy framework with more demand and pressure to address</p> <p>Continued dialogue between the Ministry of Finance and Ministry of Transport and the Ministry of Economy on investment planning and prioritisation in the transport sector.</p> <p>Tailor-made technical assistance for integrating gender equality goals into reform, policy dialogue, and sector governance, targeting specific government institutions and bodies essential engaging in key reform areas.</p> <p>Ensuring civil society is associated to the sector coordination structures and has access to information about the reform implementation.</p>
<p>Corruption and fraud</p>		
<p>Political and corporate resistance to fight corruption and strengthen control practices, implement anti-corruption measures and increasing the transparency on public spending for the transport sector</p>	<p>Substantial</p>	<p>Enhanced policy dialogue through the sector budget support instrument. Rigorous follow up with the Government to apply the anti-corruption legislation and rules, as well as monitoring of track record related to corruption cases and their legal consequences, including fight against corruption in this sector through policy dialogue, strategy implementation, indicators for variable tranches. Better engagement of all stakeholders (non-state actors, High State Control, Parliament) to create more demand and pressure for change, including through the ongoing technical assistance projects. Implement Roadmap for key priority 3 on anti-corruption and monitoring the implementation of Anti-corruption Strategy and Action Plan with possible EU support. Government to enhance inter-agency cooperation and efficiency of investigations through legal changes in the Criminal Procedure Code. EU to consider support to enhance the capacity of law enforcement agencies through sufficient resources and training.</p>

3. IMPLEMENTATION ARRANGEMENTS

ROLES, RESPONSIBILITIES AND POLICY DIALOGUE

The following institutions/structures will nominate official representatives to the IPMG responsible for Transport in the thematic area of Road which will be the main structure for policy monitoring and dialogue as well as consultation with donors and civil society: Ministry of Transport and Infrastructure (MoTI) ; Directorate of Transport Policies ; General Directorate of Road Transport Services (GDRTS); Albanian Road Authority (ARA); Directorate for Road Safety in the MoTI. In addition, the following bodies will be invited to participate: The Albanian Development Fund (ADF); The Institute of Transport; The Ministry of Economy; The Ministry of Finance

The Inter-ministerial working groups such as the Inter Ministerial Working Groups on European Integration and other relevant ministerial working groups will also be associated as deemed necessary. The Gender Equality Employee of the lead Ministry (MoTI) is a core member of the IPMG, ensuring the anchoring of gender expertise in sector governance, planning, and policy dialogue.

This IPMG will be supported by a Technical Secretariat for the preparation of work plans and annual reports on actions, deliverables and outcomes, in cooperation with relevant Directorates and Departments of MoTI .

Policy dialogue between DG NEAR / EU Delegation and the MoTI and MoF, and donors and civil society representatives, will focus in the coming period on the launch of the monitoring and reporting of the strategy implementation, donor coordination,, design of complementary capacity building measures at national, sector and local level, further development of cross cutting issues, visibility of the Road Transport Strategy and the Sector Budget Support, awareness raising and consultation with non state Actors for enhanced participatory sector governance including policy setting and monitoring.

During the implementation of the SBS the dialogue will broadly but not exclusively cover the operation of the Integrated Policy Management Group and the performance of its monitoring systems, the sector policy progress, the Medium Term Budget Programs, the bottlenecks and potential gaps in capacities identified of the national, sector and regional structures to implement the strategy and action plan, indicators and related targets for both the strategy itself and the SRC (matrix for the disbursement of the tranches).

IMPLEMENTATION METHOD AND TYPE OF FINANCING

The Programme will be subject to direct management by the European Union Delegation to Albania, for the budget support component of EUR 21 million EUR as well as for complementary capacity building support (EUR 3 million) including a technical assistance contract for monitoring and evaluation of SBS and for EU visibility and communication (see details below). These amounts are based on comprehensive discussions with the stakeholders and is reflective of: the financing needs of the partner country; the sums allocated by the Government in the Annual Budget 2016 and the Fiscal Framework 2017-2018 to support the implementation of the Transport sector reforms; the effectiveness, impact and added value that Sector Budget Support will bring to the achievement of the partner country's policy objectives; and the incentive that it will provide to introduce a more policy-driven, results-oriented, information-based management approach.

Disbursement of sector budget support

The amount allocated for the budget support component is EUR 21 million under direct management by the EU Delegation. Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed in four tranches will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

The general conditions for disbursement of all tranches are as follows:

- Implementation of a credible and relevant stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of the public financial management reform strategy;

- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive and sound budgetary information;
- Satisfactory progress in the implementation of the Road section of the Transport Strategy and continued credibility and relevance thereof.

A number of specific conditions for disbursement may be used preliminary to the disbursement of tranches: for example. The chosen performance targets and indicators to be used for disbursements of the variable tranches, described in Annexes 1 and 2, will apply for the duration of this Sector Reform Contract and will be specified in the IPA 2016 Financing Agreement. However, in duly justified circumstances, MoTI may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators can only come into force after the signature of the amended Financing Agreement.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the Financing Agreement.

Budget Support details

The full budget support amount is split in a base tranche of EUR 6 million, and three variable tranches of EUR 5 million each. The specific conditions for the disbursement of each tranche are specified in the Annex.

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into Albanian LEK will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

Complementary support (direct management by the EU Delegation)

Procurement:

- a) the global budgetary envelope reserved for procurement: EUR 2,200,000
- b) the indicative number and type of contracts:
One service contract for assisting and training relevant ARA/MoTI staff on Public Private Partnerships (PPP) schemes, one supply contract to provide equipment to the road works quality (materials) laboratory of the ARA, and one service contract for monitoring and evaluation as well as communication and visibility.
- c) indicative time frame for launching the procurement procedure: Q2 2017

Grant – Twinning – Call for proposal (Strengthening the capacity of the ARA):

- a) Objectives and foreseen results: strengthening the capacity of the ARA, notably with a view to ensuring that ARA staff are better at implementing transport policies and legislation, and at carrying out public procurement and contract implementation in line with applicable procedures and sound financial management principles
- b) The essential eligibility criteria: applicants must be EU Member State administrations or mandated bodies.
- c) The essential selection criterion is the operational capacity of the applicant.
- d) The essential award criteria are technical expertise of the applicant, and the relevance, methodology and sustainability of the proposed action.
- e) The maximum possible rate of EU financing may be up to 100% of the total cost of the action in accordance with Article 192 of Financial Regulation if full funding is essential for the action to be carried out. The necessity for full EU funding will be justified by the responsible authorising officer in the award decision, in respect of the principles of equal treatment and sound financial management.
- f) Indicative amount of Twinning contract: EUR 800,000

g) Indicative date for launching the selection procedure: Q2 2017

Justification for the choice of implementation arrangements:

The budget support direct management implementation modality has been selected to:

- Increase the overall socio-economic impact of EU assistance by supporting overarching reforms in comparison with implementation of isolated projects;
- Increase the ownership/accountability of the beneficiary country for the reform of the entire sector;
- Improve capacity building of the beneficiary country as the institution which will directly be involved and responsible for the monitoring and implementation of the whole programme;
- Increase the efficiency of implementation by reduction of transaction costs for the EC and the beneficiary country;
- Link economic reform policy agenda whereby the Transport strategy adoption and implementation is a key joint recommendation of the ECOFIN council to EU financial assistance
- Complementary support (the two service contracts as well as the twinning contract and the supply contract) is centrally managed to guarantee timely contracting.

4. MONITORING AND EVALUATION

MONITORING AND REPORTING

The Integrated Policy Management Group (IPMG) structure manages on systematic basis the development, implementation and monitoring of Transport sector reforms in Albania. This requires good national systems to collect information and provide statistics, monitor progress, evaluate impact, ensure sound results, focused public financial management, transparent reporting and public accessibility to information. In Albania, this system is expected to structure the policy dialogue between the government and donors and to ensure that factual and verifiable information on results is collected reported and placed in the public domain.

The IPMG Technical Secretariat will ensure the provision of technical, administrative, communication and coordination services to all IPMG structures, including monitoring of progress and problematic issues in the sectorial reforms and the investments' planning (including budget support and foreign financing). Among other, the Secretariat's tasks include close coordination with the Road Thematic Group, responsible to ensure coordination, dialogue, regular monitoring and evaluation of progress in the sub-sector reforms, encourage the distribution, analysis and absorption of strategic and technical information and provide the feedback to the IPMG and Development and Integration Partners' meeting to ensure sub-sector monitoring and coordination on cross cutting issues. Report, indicators and targets, as well as identification of suitable review tools in line with the strategy documents will be used to assess the progress.

Regular reviews from the Transport Strategy-committee meetings, from DG NEAR, World Bank and other IFIs will also provide valuable information for the IPMG to assess the overall situation and progress made in the implementation of the strategy.

The Road Transport Sector Reform Contract provides a platform to engage in a dialogue with the beneficiary country on road sector-specific issues covering the whole range of key performance indicators (KPI) of the sector.

The Road Transport strategy, under the *Accountability, monitoring and evaluation chapter* presents the monitoring indicators which assess progress towards achieving the strategic goals identified for this transport mode. Statistical information and sources are made available by the Albanian IoT15 database for use. The Transport strategy foresees the establishment of a central database of freight, passenger and operators' data, enabling a comprehensive monitoring of road transport operations in

¹⁵ Annual Update of National Transport Plan (2014). IoT. September 2015.

Albania. Pursuant to Council of Europe's Recommendations of the Committee of Ministers to Member States on Gender Equality Standards and Mechanisms Recommendation CM/Rec(2007)17, adopted 21 November 2007, provisions for the coherent collection, analysis, and use of sex- and age-disaggregated data and gender statistics in all matters where individuals are concerned will have to be integrated. Availability and use of such data will increase the effectiveness of policy dialogue, planning and reform measures, and will also enable the adequate monitoring of impact of reform. Management and monitoring arrangements are expected to positively affect the achievement of the Strategy's objectives, and also contribute to positive results.

Performance reports will capture progress against the policy performance assessment framework developed in the annual action plan. IPMG is responsible for the development, implementation and monitoring of Road sector reforms in Albania, on a systematic basis, in line with the Government's Priorities, the National Transport Strategy and the Action plan, NSDI, the Medium Term Budget Programme (MTBP), the EU accession process and Albania's international obligations. The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and a part of the implementing partner's responsibilities. To this aim, the implementing partner - the MoTI/ARA - shall establish a permanent internal, technical and financial monitoring system for the action and elaborate official annual regular progress reports (and an update by mid-year) and final reports. Every report will provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as a reference the list of result indicators. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation. Reports shall be prepared by technical departments in close cooperation with the Statistics, Monitoring and Planning Unit of MoTI and submitted to the Technical secretariat for the annual approval. A mid-term review is foreseen at the end of 2018. A final evaluation is planned to be carried out at the end of 2020.

The part of **complementary support technical assistance** will be a subject to: (i) Regular monitoring of performance, which will be an on-going process as a part of the Ministry of Finance responsibilities; and (ii) Optionally an external monitoring (Results Oriented Monitoring System - ROM) by independent consultants hired by the European Commission on the basis of corresponding terms of references. The Commission will undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews, taking place twice a year.

EVALUATION AND AUDIT

Evaluations of the budget support component should be aligned with similar exercises of other budget support providers for accountability and learning purposes at various levels (including for policy revision) and carried out via independent consultants.

Considering the number of budget support operations expected, a specific budgetary line is foreseen for each budget support operation with an allocation for programme evaluation. The evaluation will be contracted by Commission services, along the lines of the suggested OECD/DAC methodology, as soon as the programme is completed.

An interim evaluation of the NTS to analyse the results achieved, the management of resources and the quality of its implementation is planned. It will assess the success of the measures undertaken, the resources invested and the extent to which the expected effects have been achieved. Data from various sources, including the findings of performance monitoring and impact evaluation of active WB roads maintenance programme shall be used for this purpose. For complementary support, the Commission may also carry out external evaluations as follows: (a) possibly a mid-term evaluation mission; (b) a final evaluation, at the beginning of the closing phase; (c) possibly an ex-post evaluation.

5. CROSS-CUTTING ISSUES

GENDER MAINSTREAMING

Equality in the freedom and rights of citizens are stipulated in Article 18 of the Albanian Constitution. The support provided through IPA 2015 to the Gender Equality Facility will ensure to strengthen capacities of the EU delegation and line ministries to implement and mainstream gender into all program cycle, reporting, monitoring and evaluation and exchanging best practices. GEF will provide consistent support and technical advice to ensure mainstreaming of gender across the sector strategy as well as support gender responsive planning and budgeting, capacity building and coaching to respective ministries.

Special measures will be required for gradually including equality goals in the transport sector. Towards this end, activities will be undertaken for enhancing overall capacity to conduct gender analyses and assessments in the sector. As a basis for further programming in the sector, where unavailable, assessment of gender equality implications in the transport sector will be supported, including analyses of (i) gender differences - interlinked with other factors such as ethnicity, handicap, geographical location as well as in the use of different modes of transport, and possible differences in preferences and needs as well as on causes of gender differences; (ii) issues of personal security in use of different transport modes; (iii) traffic safety from the perspective of different groups of women and men as motorized and non-motorized participants in traffic; (iv) transport sector as an area of employment for women and men ; (v) interlinkages between transport and environmental issues from a gender perspective. Balanced representation of women and men in relevant institutions and activities of the programme and its actions will be ensured. Support will be provided for establishing relevant sex-disaggregated and gender indicators, compliant with EUROSTAT standards and national legislation.

Mobility - including access to transport - is highly gendered, with predominantly men using and owning motorised vehicles. This in turn results in limited mobility of the female population, restricting women's and girls' access to markets, education, and employment opportunities. Women's increased mobility/access to transport can therefore serve as a statistically reliable indicator measuring equity outcomes of reform measures in the transport sector.

Some of the activities under the interventions will increase the capacities for gender mainstreaming as per EU quality assurance, and particularly pursuant to CoM Decision no. 465 (2012) on gender mainstreaming in the medium-term budgetary programme. The essential starting point is to identify the number of women, girls, boys and men who are the target as beneficiaries.

Progress in addressing specific elements of the EU Gender Equality *acquis* relevant in the transport sector include (i) coherent collection, analysis, and use of sex- and age-disaggregated data and gender statistics in all matters where individuals are concerned, and (ii) assessment of the impact of reform measures in the transport sector on the female and male population, will be gradually considered to be integrated as part of performance monitoring.

EQUAL OPPORTUNITIES

For the roll out of the reforms, the EU principle of equality between women and men will be reflected in the design and implementation of the interventions, in line with Directive 2004/113/EC on equal access to and supply of goods and services; and Sustainable Development Goal 11.2 "by 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons".. Special measures will be set out to solving the issues of different forms of emissions (noise, particles, etc.) and quality of life in different urban and rural settlements. Equality in the freedom and rights of citizens are stipulated in Article 18 of the Albanian Constitution.

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

The relationship between transport and environmental and climate changes issues is one of the most crucial elements in progress towards sustainable development. Continued growth in transport services and traffic volume has led to environmental problems, which are further accentuated by heavy congestion at system bottlenecks. Public awareness of the problems is increasing.

Road transport contributes about one-fifth of the EU's total emissions of carbon dioxide (CO₂), the main greenhouse gas. While these emissions fell by 3.3% in 2012, they are still 20.5% higher than in 1990. Forecasts on road transport predict continuing steady growth over the next decade, and a substantial trend reversal is not yet in sight (source: European Conference of Ministers of Transport data). Transport is also the major generator of noise and in countries where data is available appears to account for 80% of noise nuisance.

These trends strongly reinforce the need for fully developing and consistently implementing a policy response which has a sustainability at its core, as set out in the 1992 Green Paper on Transport and the Environment and taken up by the 1992 White Paper on the future development of the common transport policy. Among the measures announced, the Green Papers on the internalization of external costs and the Citizens Network, the environmental assessment work on the Trans-European Networks, the environmental framework on road freight transport are of particular importance for the integration of transport and environment policies.

At EU level, the integration of environmental considerations into the transport sector is an important priority. Among other EU policies the agenda foresees (i) measures to internalize external costs and fiscal measures to address transport demand; (ii) strategic environmental assessment (SEA) of transport networks; (iii) the integration of transport/environment concerns into land-use planning; and (iv) the promotion of public awareness.

The strategic vision of the Albanian Government, presented in the Transport Strategy, the Action Plan and the Support for Road Transport Strategy SPD are in full alignment with the main concepts of the European Transport Policy. These strategic documents aim at development of an efficient, sustainable and environmentally friendly transport system, able to support the key objectives of economic and social development of Albania and the country's future integration to the European Union. Albania's Transport Strategy and Action Plan well formulated Long-Term Environmental outcomes expected, among other: (i) Increase the use of more sustainable materials and reduce the contribution of transport to greenhouse gas emissions and (ii) Reduce the contribution of transport to air pollution and other harmful emissions and incorporate environment indicators. In addition the Strategic Environmental Assessment (SEA) is under development in parallel with the transport strategy and will be followed by wide public consultations as per the related law and regulations in force. The intervention should ensure that national legislation in Transport sector is in line with the EU environmental legislation and enforced (proper SEA and EIA's). Proper monitoring should be in place and environment and climate changes should be taken into account in all preparatory phases of the Transport projects.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

Social partners and civil society organizations (CSOs) will be involved in the monitoring of the programme. The intervention intends to ensure a continued close coordination and alignment of the activities of development partners, allied to the active participation of stakeholders in the civil society and local governments. NGOs, foundations and philanthropic institutions are emerging as chosen partners by the Government in contributing to the implementation of the reforms, particularly for efficient service delivery to the public. Representatives of civil society and the National Council on Civil Society in Albania will be involved in the IPMG as well as to become active members of working groups.

Among other, for the implementation of its responsibilities the Directorate of Road Safety is cooperating with the Albanian Carrier Associations (ANALTIR), for carrying out road controls and

inspections of the transport operators, documentation, economic uses of the vehicles etc. An addition, the representatives of the civil society active in the field related to road safety from Albania will be involved in a participatory and advisory manner in the implementation of the Road safety part of the actions from the very beginning.

MINORITIES AND VULNERABLE GROUPS

Improving the transport network will have positive effects over business development and fight against poverty. During the last years, in Albania, a number of improvements have been registered in the legal, institutional and policy framework of human rights in various fields. Development and implementation of various strategic documents affecting directly vulnerable groups will be very important and interlinked to the Transport strategy.¹⁶

As stated above in the Gender mainstreaming Sub-chapter, this strategy and SBS Contract will contribute to the achievement of the Sustainable Development Goal 11.2 specifically intentional on vulnerable groups.

Interventions will in no circumstance be the cause of eviction or displacement of people, unless alternative and acceptable solutions are found in agreement with the communities living in the areas involved. In doing so, the involvement of civil society organizations representing minorities and vulnerable communities will be continuously sought in order to promote their active participation in the decision making and implementation phases. It is well known that when the transport access is limited, lower socioeconomic groups and those living in deprived areas experience the greatest burdens. Among other, person's ability to attend healthcare services can depend on available transport. Moreover, the relationship between deprivation and risk of road traffic injury is particularly strong for children. This SBC is expected to decrease the transport externalities (such as vehicle emissions and traffic incidents) and hence, the relationship between the level of road safety and drawbacks could be used as a reliable, statistical variable indicator measuring success of road safety, improved road conditions and good governance interventions.

6. SUSTAINABILITY

The Transport infrastructures and services are generally considered key factors in improving living conditions and facilitating economic growth and sustainability. The physical remoteness of Albania, due to its rugged terrain, and the considerable traffic increase over the last ten years, call for urgent improvements in the transport sector. The GoA well considers that the good transport connected with its neighbouring countries and the European Union, as well as safe access to remote urban districts are crucial to the sustainable development aiming to improve living standards and to provide for an unrestricted flow of goods, services and people. The level of ownership of the beneficiaries is high.

Focusing on the implementation of road standards ensures that the right standards are complied with permits and a permanent quality system will be put in place and operating. Focus on road maintenance and safety management, strengthened scrutiny for value for money analysis and a good financial governance of the sector, including the tightening of the wasteful operation of public investment management will increase the sustainability of new investments and make sure that existing investments, as well as new ones, are operated and maintained adequately. New investments will only be supported once the basic requirements for adequate management are in place. A close cooperation with IFIs is necessary in order to maximize efficiencies, within the limits of a sound public finance management and against a debt reduction scenario.

The sustainability of the Transport SBS intervention will be ensured in several ways, primarily through the continuation of a comprehensive policy dialogue between the EU and the principal stakeholders (the central public authorities), but also with civil society organizations. A key element

¹⁶ The Plan of Action on Integration of Roma and Egyptian Communities (2015- 2020).
The National Strategy on Social Protection (2015- 2020)

for this consideration is Albania's clear political determination toward accession to the EU, for which the reform of the Transport and the PFM sectors is a crucial step. This Transport SBS intervention has been specifically designed in line with the strong focus of IPA II on supporting key stakeholders' reform efforts directly linked with the negotiation process, in particular, in the area of transport safety and good governance.

The programme includes complementary assistance, which is geared towards the creation of the required capacities within the key institutions leading the reform process, which will ensure consistency and continuation in the reform processes. The visibility component will help improve the internal and external communication lines which are necessary so that the reform has a spill-over effect. This aspect will also ensure that the citizens of Albania understand the reform process and the objectives and deliverables of the reform. A key element of the sustainability of the intervention is the ownership over the process and the reform results.

7. COMMUNICATION AND VISIBILITY

Communication and visibility are tools for implementation of sector reforms and will be given high importance during the implementation of the Action. There will be a dedicated communication and visibility plan for the sector strategy and the budget support programme.

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the Commission (DG NEAR) will have to be followed.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and the impact of the EU's interventions and will promote transparency and accountability in the use of funds.

It is the responsibility of the beneficiary to keep the EU Delegation and the Commission fully informed of the planning and implementation of the specific visibility and communication activities.

A contractual obligation in the IPA 2016 Financing Agreement between Albania and the EU will stipulate that a strategy for visibility and a visibility and communication plan will be developed between the parties. This strategy will set out the measures to be taken by the Albanian authorities to publicise (i) the assistance activities of the EU, (ii) the various milestones of the budget support programme, such as the disbursement of tranches, (iii) the technical assistance provided.

The following publicity events provide an example of a platform for visibility: (i) policy dialogue, (ii) the launch of Albania's reform programme, (iii) steering committee sessions. A continued, vigilant and pro-active press work will be foreseen by the Albanian MoTI/ARA and the EU Delegation.

To promote transparency and visibility of its support, the EU on its side will regularly publish relevant information on budget support actions, such as press releases on budget support payments and results achieved. Joint press activities between the EU and Albania may enhance the impact of individual publicity events.