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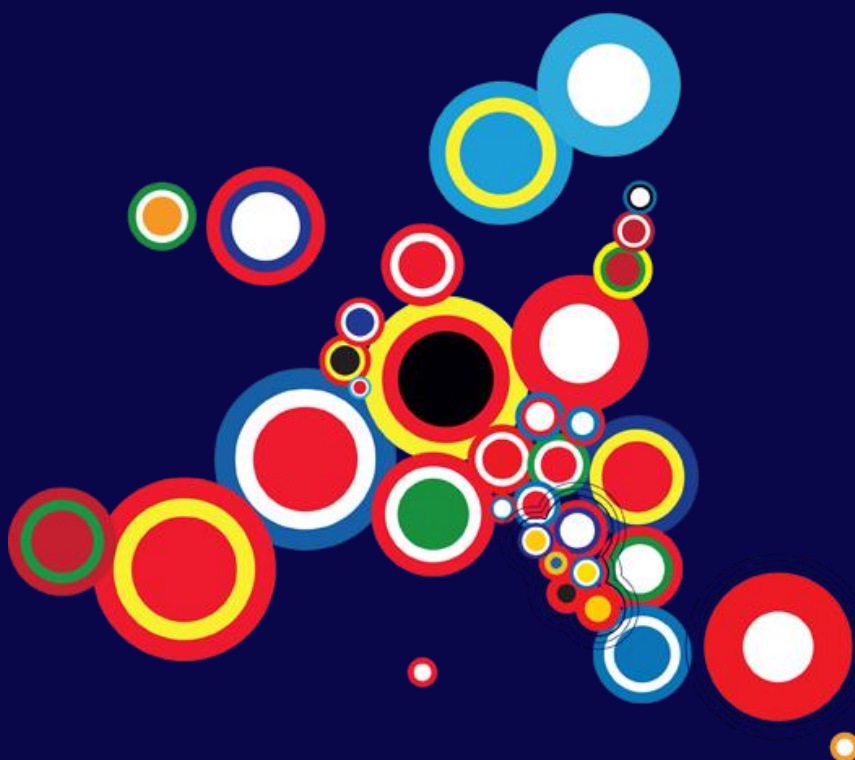
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**COMMISSION IMPLEMENTING DECISION**

**amending Commission Decision C(2014)5770 of 18.8.2014 adopting the Indicative  
Strategy Paper for Albania for the period 2014-2020**



# INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



REVISED INDICATIVE STRATEGY PAPER  
FOR **ALBANIA**  
(2014-2020)  
ADOPTED ON 03/08/2018

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## **PART I: INTRODUCTION**

### **1. Purpose**

The Instrument for Pre-accession Assistance (IPA II)<sup>1</sup> is the main financial instrument to provide EU support to the beneficiaries listed in Annex I of the IPA II regulation in implementing reforms with a view to Union Membership

This Indicative Strategy Paper (the Strategy Paper) sets out the priorities for EU financial assistance for the period 2014-2020 to support Albania on its path to accession. It translates the political priorities set out in the enlargement policy framework into key areas where financial assistance is most useful to meet the accession criteria. This strategy paper – initially adopted by the European Commission with decision C(2014) 5770 final of 18 August 2014- has been revised and updated at mid-term in accordance with Article 6.4 of the IPA II Regulation. It may also be revised at any time upon the initiative of the European Commission.

Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries listed in Annex I to fulfil the obligations stemming from Union membership by supporting progressive alignment with, implementation and adoption of, the Union *acquis*, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for Union membership and related institution-and capacity-building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

Albania and the EU are both committed to the 2030 Agenda on Sustainable Development and its Sustainable Development Goals, adopted at the UN Summit in September 2015, which provides a shared framework for progress.

In order to increase its impact, EU financial assistance shall be concentrated on the areas where reforms or investments are most needed to meet accession criteria, and tailored to take into account the capacities of Albania to meet these needs. Assistance shall be planned in a coherent and comprehensive way with a view to best meeting the four specific objectives and address as appropriate the thematic priorities for assistance listed in Annex II of the IPA II Regulation, as well as the thematic priorities for assistance for territorial cooperation listed in Annex III of the same Regulation.

Moreover, EU assistance is only one of the means to achieve the necessary progress. When deciding on priorities for action, due account is taken of the beneficiary's own means as well as of the support provided through other EU instruments and by other stakeholders, in particular bilateral donors or International Financial Institutions. In view of the above aspects, preference shall be given to providing financial assistance under a sector approach, to ensure a more long-term, coherent and sustainable approach, allow for increased ownership, facilitate cooperation among donors, eliminate duplication of efforts and bring greater efficiency and effectiveness.

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<sup>1</sup> OJ L 77, 15.03.2014, p. 11.

With a view to delivering on the priorities set for EU financial assistance for Albania for the seven years period, this Strategy Paper sets meaningful and realistic objectives, identifies the key actions and actors, describes the expected results, indicates how progress will be measured and monitored, and sets out indicative financial allocations. The priorities defined for financial assistance will serve as a basis for the (multi-) annual programming of IPA II funds. The mid-term revision of this Strategy Paper has taken into account the priorities already addressed in the period 2014-2017.

A performance reward exercise has been conducted during 2017 on the basis of an assessment of performance and progress; a second performance reward exercise will be conducted by 2020, as defined in Article 14 of the IPA II Regulation.

## **2. Consultation on this Strategy Paper**

The Strategy Paper was developed in close cooperation and partnership with the Albanian government. Furthermore, consultations took place with relevant institutions such as the judiciary, local government, civil society, international financial institutions, international organisations as well as other donors.

The Albanian government, the relevant institutions, civil society representatives and international and bi-lateral development partners provided their comments and suggestions to the revision of the strategy papers.

Strategic dialogues with the European Parliament were conducted both when the document was initially drafted in 2014 and at mid-term in 2018.

# **PART II: ANALYSIS OF THE NEEDS AND CAPACITIES**

## **1. Political and economic context**

Albania has a population of 2.8 million inhabitants<sup>2</sup> with a surface area of 28.750 km<sup>2</sup> and a coast line of 362 km. It borders Greece, the former Yugoslav Republic of Macedonia, Montenegro, and Kosovo\*<sup>3</sup> and shares maritime borders with Italy and Croatia.

Albania is a parliamentary democracy. Since the fall of communist rule in 1991 the country has gradually developed its constitutional and legislative framework which is largely in line with European core principles and standards. Local government is founded on the principle of decentralisation and exercises its powers in accordance with the principle of local autonomy.

Albania has a unicameral parliament which is the highest body of state power. The Parliament elects the President of the Republic. Its 140 members are elected by direct, universal suffrage in a regional proportional system every four years. The latest round of General elections was held in June 2017. The political environment continues to be characterised by strong polarization, although in the past few years there have been a number of reforms, including at the level of the constitution, that were adopted based on cross-party consensus. The public

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<sup>2</sup> 2011 population census.

<sup>3</sup> \* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo Declaration of Independence.

administration has undergone a number of reforms, aimed at strengthening professionalism and a merit-based system. Although weaknesses still persist in this regard, public administration reform is implemented and started to show important results. The judicial system is also undergoing comprehensive and thorough reform. In summer 2016, two thirds of the constitution were changed to this end. Since then, close to forty laws have been adopted or amended to step forward Justice reform. This process has also included a re-evaluation of all judges and prosecutors (vetting), which is currently ongoing and that has shown its first results.

Economic growth bottomed out in 2013 but has been on an increasing trend since then, reaching 3.2% in 2016. The gradual economic upturn is expected to continue in the medium term. GDP growth is currently driven by private investment, mainly in the form of foreign direct investment in the energy sector, and is projected to average well above 3%. Consumption spending is also expected to pick up on the back of rising disposable income and employment gains. However, the GDP per capita stalls at 30% of the EU-28 average (in purchase parity standards – PPS).

Services constitute the largest sector of the Albanian economy. They contribute about 53% to gross value added (agriculture 22.9%, industry 13.2% and construction close to 10.5%). Therefore, their importance and potential for further development should be recognised in meaningful strategies and not be given less attention than the industrial or agriculture sectors. In this context, it is important to underline that the export of services is in surplus and that tourism already has a high economic impact in Albania, even though it performs below potential. The total contribution of travel and tourism to GDP, including indirect effects, is estimated at around 20%. However, the sector faces numerous challenges linked to the lack of skills of tourism professionals, widespread informality, low accessibility of tourism services, the absence of a sustainable natural and cultural offer, and the lack of coordination and planning both within the sector and with other relevant sectors such as vocational education and training.

The current account deficit is expected to widen as a result of strong growth in import-intensive investments. A substantial trade deficit, caused by a narrow production and export base and partly funded by remittances from Albanians living abroad, is the main factor driving Albania's historically large current account shortfall. Over the programming period, import growth, driven by strong investment and rising private consumption, might outweigh the impact of a steady increase in exports, especially of agricultural and textile products and tourism. Annual inflation has remained below the central bank's 3 % target for three consecutive years now, reflecting subdued price pressures from still below-potential output and low imported inflation. The central bank cut its policy rate twice in 2015 to a historic low of 1.75 %, but although financial conditions have continued to ease, the bank lending channel is still impaired by a protracted deterioration in the quality of banks' assets and a high level of non-performing loans (20% at the end of 2016).

Albania is committed to an ambitious fiscal consolidation path to tackle vulnerabilities stemming from high public debt. After the repayment of significant government arrears, the public debt has reached a peak of 70% in 2015 but is expected to start falling, backed by consolidation measures and economic growth, reaching a level of about 64% in 2018. A number of fiscal risks linger and may foil the consolidation efforts. Apart from risks inherent in its ambitious plan for fiscal adjustment, Albania's budgetary position may be affected by financial obligations entered into by the public sector for which the government can ultimately be held responsible.

The Global competitiveness index 2016/2017 ranks Albania 80<sup>th</sup> out of 138 economies. The very low capacity for financing through local equity markets, low levels of research and development as well as limited effectiveness of anti-monopoly policy hamper the business environment. Small and medium enterprises (SMEs) play a significant role in the economy. They provide 80 % of employment and two-thirds of value added in the non-agricultural private sector. Micro-businesses in particular make up a high proportion of the number of companies and account for 43 % of jobs. Various state- and donor-funded schemes support SMEs' competitiveness but further steps need to be taken to strengthen their innovation and digital capacities and improve their access to finance - such as developing the venture capital market. Additionally, deficiencies in the rule of law continue to hamper the business environment. The informal economy is estimated to account for more than a third of GDP, leading to tax revenue losses, a lack of labour protection and unfair competition among firms. Inefficient contract enforcement, uncertain property rights and the prevalence of corruption are major concerns repeatedly expressed by businesses. The successful implementation of the wide-ranging judicial reform will be key in order to tackle these interlinked problems.

The economic recovery created jobs and the employment rate rose to 59.3 % in 2015 from the 46.7 % of 2013 (20-64 years)<sup>3</sup>. Over 40 % of the workforce is employed in agriculture, mostly in low-skilled jobs, and informal employment remains widespread. Labour force participation also increased from 67.6 % to 71.3 %. However, overall unemployment remains high at 17% in 2015, and particularly high among youth (40%). Additionally, there are large gender differences in labour force participation: female employment rate 50.7%, while male employment rate is 68.1%; unemployment rates fell from 19.2 % in 2014 to 17.1 % in 2015, while female unemployment increased from 15.2 % to 17.1 % in the same period. Long-term unemployment increased slightly, from 11.2 % in 2014 to 11.3 % in 2015 with a decrease among men (11.7 % in 2014 to 11.2 % in 2015), and an increase for women (from 10.7 % to 11.3 %)<sup>4</sup>. Better aligning education outcomes with labour market needs remains a key challenge for Albania. Activation and outreach of active labour market policies and employment services remains insufficient. High levels of informality continue to act as an impediment to growth and full participation on the labour market, which also affects the social situation of the population. Other labour market challenges relate to legal and institutional labour market framework and include deficiencies in social dialogue and stakeholder involvement.

About 14% of the population is estimated to be vulnerable to poverty.<sup>5</sup> The labour market is distorted by a large informal sector. A substantial labour force potential exists with more than 40% of the working age population<sup>6</sup>, essentially women, being inactive. The share of youth not in education, training and employment (NEET) is twice as high as in the EU-27<sup>7</sup>.

In terms of the general socio-economic development, as measured by the Human Development Index (HDI), the country figures in the 'high human development' category, in the 85<sup>th</sup> position<sup>8</sup> out of 188 countries and territories. Between 1980 and 2014, Albania's HDI

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<sup>3</sup> Source: EUROSTAT

<sup>4</sup> Source: ETF calculations based on Instat-LFS data

<sup>5</sup> Source: Albanian Institute of Statistics (INSTAT).

<sup>6</sup> Source: INSTAT Labour Force Survey, q4 2013.

<sup>7</sup> Source: Albania Jobs and Skills Strategy.

<sup>8</sup> Source: UNDP (2015).



value increased from 0.625 to 0.733, an increase of 17.2 % or an average annual increase of about 0.47%.

Albania has improved the status of women and promoted gender equality. However, the country still faces many challenges in terms of fully displaying and utilising the women's potential in the labour market and economy, increasing participation in decision-making and eradicating the widespread violence against women, particularly domestic violence.

In addition, the country still needs to strengthen its legislative and institutional framework pertaining to gender equality and non-discrimination, improve monitoring and accountability of public offices towards women as well as ensure gender mainstreaming in public policies.

While Albania remains committed to anti-discrimination policies and gender equality, there are concerns as regards the implementation of equal treatment of Roma and Egyptians, the lesbian, gay, bi-sexual, trans-sexual and inter-sexual population (LGBTI) and women.

Albania has considerable investment needs, for instance in transport, environment or energy including digital infrastructure. To illustrate: in 2011 Albania had 113 km of roads and 14 km of rail per 100 000 inhabitants, which only represents the 13.8 % and 32% of the EU-27 average of 821 km and 43 km respectively. A similar picture exists in other sectors requiring infrastructure investments. As regards energy, Albania needs to enhance its capacities for energy efficiency and renewable energy development, apart from improving the electricity interconnections with neighbouring systems such as in Former Yugoslav Republic of Macedonia or Kosovo. In the area of environment, water management, river basin management, wastewater treatment, as well as waste management require substantial investments in order to approximate to EU standards. With regard to the digital sector, investments are needed to rollout large-scale broadband infrastructure development projects to address the low penetration rates, rural-urban divide and to bring the country closer to the EU's ambitious 2025 Gigabit targets.

The country is susceptible to the impact of climate change, in particular flooding and drought, as well as possible electricity shortages due to a high dependence on hydropower, which requires seasonal energy imports.

## **2. Context for the planning of assistance**

### **2.1. EU Enlargement Strategy**

In 2003, the Thessaloniki European Council confirmed that the future of the Western Balkans, including Albania, is within the European Union. Since 2004, Albania participates in the Western Balkans Stabilisation and Association Process and concluded a Stabilisation and Association Agreement with the EU in 2006 (in force since April 2009). Albania applied for EU membership in 2009. Following a request by the Council the Commission submitted its Opinion on Albania's application in November 2010.

In June 2014, the European Council granted candidate status to Albania, after the Commission had recommended it in October 2013 on the understanding that Albania would continue to take action in the fight against organised crime and corruption. Following steady progress towards fulfilling all of the five key priorities, including the pivotal constitutional amendments of July 2016, in November 2016 the Commission recommended opening accession negotiations with Albania, subject to credible and tangible progress in the implementation of the justice reform, in particular the re-evaluation of judges and prosecutors (vetting).

A readmission agreement between the European Union and Albania has been in force since 2005. Visa liberalisation for citizens of Albania travelling to the Schengen area is in force since December 2010.

The present strategy assumes that Albania will remain committed to its EU integration ambitions and that it will continue implementing relevant reforms and that the process will continue in the period 2017-2020, including the starting of accession negotiations once the country has achieved the necessary degree of compliance with the membership criteria.

Albania's economic situation requires the strengthening of economic governance to accelerate progress towards gradually becoming a functioning market economy. In line with the Commission's Enlargement Strategy and the "fundamentals first" principle, Albania produces since 2014 an annual Economic Reform Programme (ERP), which covers all sectors related to competitiveness.

On 6 February 2018, the Commission adopted a Communication on "A credible enlargement perspective for an enhanced EU engagement with the Western Balkans". This strategy aims to generate renewed reform momentum in the Western Balkans and provide significantly enhanced EU engagement to better support their preparations on the European path.

For the period 2018-2020, this Strategy Paper has been revised to ensure coherence with the new strategic orientations, in particular as regards the implementation of the six Flagship Initiatives presented in the Communication. For example, the Digital Agenda for the Western Balkans will induce an added emphasis of digital under the seven main sectors in order to support a digital transformation to maximally reap benefits of a digital economy and society.

## **2.2. Relevant national/regional strategies**

Albania has established a comprehensive system for policy-making and coordination. The Integrated Planning System (IPS) provides the overall architecture to ensure that government policy planning, budgeting and monitoring are linked and operate efficiently. The IPS is composed of three cornerstones – the national and sector strategies providing guidance to high-level policy making; the European integration process describing the planning and resource requirements to achieve the objectives under the EU integration agenda; and the medium-term budget process detailing the short and medium-term planning and financial arrangements for the delivery of policies by each ministry and government agency.

The Economic Reform Programme and the policy guidance jointly adopted by the EU and the Western Balkans and Turkey annually are the EU's main instruments for economic policy dialogue with [beneficiary]. The ERP contains a thorough diagnostic of key structural obstacles to long-term growth by sector and a list of structural reform measures to address these. Assistance under IPA II shall take the identified key constraints and the reform priorities identified by the country in the ERP and in the jointly adopted policy guidance into account in its programming and shall support the implementation of both the reform measures included in the ERP and the policy guidance.

The National Strategy for Development and Integration (NSDI) 2015-2020, adopted by the Government of Albania in May 2016, provides the framework for national strategic priorities and targets under 27 sector and cross-sector strategies. The NSDI relies on six pillars: good governance, democracy and rule of law; growth through fiscal stability and increasing competitiveness; sustainable growth through efficient use of resources; development and social cohesion through investment in individuals; EU accession; and involvement of the civil

society. The NSDI serves as an important reference document for Albania's development partners.

In addition to the NSDI, there are other sector and cross-sector strategies that contribute to the strategic goals of the government. The main strategic documents that serve as a reference also for EU programming are: the Public Administration Reform (PAR) strategy, the Strategy for Public Finance Management (PFM), the Digital Albania Strategy, the Strategy for Decentralisation and Local Governance, the National Employment and Skills Strategy (NESS), the Transport Strategy, the inter-sectoral Strategy against Corruption, the Justice Sector Reform Strategy (JSRS), and the road Map for Drafting Policy and Measures for Enabling Environment to Civil Society. The National Strategy on Gender Equality, Gender-based Violence and Domestic Violence (2011-2015) calls for gender-mainstreaming structures within all ministries, departments and agencies as mechanisms to implement and monitor national laws and policies and regional and global commitments for gender equality and women's empowerment. Budget resources, advisory and technical support are needed to accelerate implementation and monitoring, especially at local levels. In addition, in 2016 the National Action Plan for Integration of Roma and Egyptian communities, National Strategy on Social Protection, Policy Document on Monitoring Social Inclusion, National Action plan for LGBTI people, and the National Action Plan for People with Disabilities were approved.

The EU integration process in Albania is governed by two fundamental documents: the Roadmap for addressing the five key priorities and the National Plan for European Integration (NPEI) 2015-2020. The Roadmap provides short term measures designed to meet the five key priorities presented in the EC Enlargement Strategy of 2013. The NPEI extends to medium and long term measures in order for Albania to reach full legal approximation of the national legislation with the EU *acquis* and to align all its sectors with standards set by the *acquis* chapters. Furthermore, NPEI is in line with the budget for the upcoming year and the Mid-Term Budget Programme (MTBP).

The Medium-Term Budget Programme (MTBP) requires each ministry and government agency to develop a three-year plan within a specific expenditure ceiling to fulfil intermediate policy objectives in view of the achievement of long-term goals of the NSDI.

The IPA sector approach is an obvious incentive for sector reforms, in particular where EU assistance supports the implementation of the newly adopted strategies with substantial sector reform contracts, such as the PFM strategy, the PAR strategy, the NESS, the Anti-corruption strategy, the Transport Strategy, and, as planned for the 2018 Annual Action Programme, the Justice Sector Reform Strategy

Albania's national plans are aligned with several regional integration initiatives. This includes the commitment to the regional South East Europe (SEE) 2020 growth targets. Moreover, Albania participates in the EU macro-regional Strategy for the Adriatic and Ionian Region (EUSAIR) which aims at promoting economic and social prosperity and growth in the region by supporting blue growth, improved connectivity of transport/energy networks, better environmental quality and sustainable tourism actions. The strategy also includes, as cross-cutting aspects: capacity-building, communication, research and innovation and SMEs. In the EUSAIR, Albania is notably leading on the Sustainable Tourism pillar, together with Croatia

Furthermore, Albania cooperates to the development of a regional transport network in line with the signed and provisionally applied Transport Community Treaty between the EU and Albania. Besides being a signatory to the Energy Community Treaty, Albania has signed the Central European Free Trade Agreement (CEFTA), which prepares the trade policy of the country to meet the standards of EU membership. Finally, Albania participates in the

Regional Implementation of Paris Agreement Project – RIPAP and the Rural Development Standing Working Group, which enhance regional cooperation in the implementation of environmental and agricultural policies.

In 2017, The Prime Minister's office has initiated the development of a National Action Plan for Albania's pursuit of SDG. In December 2017, the Albanian Parliament unanimously approved a resolution on commitment to Agenda 2030 and the Sustainable Development Goals.

### **2.3 Conditions for managing pre-accession assistance**

The following elements need to be considered, when looking at Albania's general ability to manage funds in line with EU legislation and best practice:

- **Sector approach**

The sector approach is an overarching principle of IPA II for which assessment criteria have been established to determine the level at which beneficiaries qualifies for fully-fledged sector support. The ability of beneficiaries to design sector support programmes is an important success factor for IPA II programming and therefore represents a key element of performance measurement.

A functioning sector approach requires the existence of government policies and strategies, medium term budget frameworks, capacity of lead institutions to coordinate the reform processes, and monitoring of results and performance assessments. Albania is well positioned to meet these criteria, as it developed the NSDI 2015-2020 and related sector strategies (see also 2.2. above). The strategies are complemented by a Medium-Term Budget Plan (MTBP) which outlines the financial framework for the implementation of the sector strategies. During 2004, donor coordination was organised through 32 sector working groups. As of 2015 a new Integrated Policy Management Group (IPMG) mechanism has been launched in five, pilot sectors (competitiveness and innovation, employment and social policies, public administration reform and good governance, public financial management, and integrated water management) which was coordinated by the Prime Minister's office.

Following the reorganisation of the central government in September 2017 the sector strategy monitoring and coordination structures will be streamlined with the mandate of the line Ministries and other strategic processes related to policy implementation and effective coordination.

The thematic evaluation on the sector approach launched in 2017 by the Commission will be relevant for future orientation on the sector approach in Albania.

- **Indirect management of funds**

The conditions are in principle in place for indirect management (formerly decentralised implementation system): in 2014, the Commission adopted a decision regarding the conferral of management of EU funds to the Albanian authorities for component 1 of IPA I.

Under IPA II, budget implementation tasks have been conditionally entrusted under the 2014, 2015 and 2017 country action programmes.

#### **Shared management of IPA funds**

Albania participates in two cross-border cooperation programmes with EU Member States (Greece, Italy), implemented in shared management with the participating EU country. The Albanian partners participate in joint projects on equal footing with the partners from the

Member States (same obligations and responsibilities). This participation allows strengthening capacities of regional/local bodies in the management of EU funds.

- **Sector reform performance contracts**

IPA II support may be delivered through sector reform performance contracts to support key reforms in the enlargement countries upon meeting the eligibility criteria: a stable macro-economic framework; a credible and relevant programme to improve public financial management; transparency and oversight of budget; and credible and relevant sector strategies that are consistent with the EU accession strategy.

In 2014, 2015 and 2016, a substantial part of financial assistance to Albania was channelled through sector reform contracts, focusing on PAR, PFM, anti-corruption, skills and employment, and transport, for up to a total of 135M EUR.

Despite the progress made so far, there is a need for further consolidation and improvements. In particular the costing and budgeting of the strategies need to be further improved, the strategic allocation of resources has to be aligned with the medium term budget and monitoring and evaluation systems require to be enhanced. Concerning macroeconomic stability, Albania needs to further strengthen economic growth and reduce public debt. In terms of public financial management, there is a need to further improve revenue forecasts, improve management and increase voluntary compliance, internal controls, and expenditure management for enhanced quality of public spending. Albania has started to address outstanding issues through the Public Finance Management Strategy 2014-2020 and the Public Administration Reform Strategy 2015-2020 but the current restructuring process is delaying the reforms' agenda.

- **Work with International Financial Institutions (IFIs)**

The Commission has stepped up its activities for further enhancing the relationship and cooperation with European and International Financial Institutions. In Albania, the Commission cooperates so far closely with the European Bank for Reconstruction and Development (EBRD) on local economic development and with the Kreditanstalt für Wiederaufbau (KfW) in the water sector.

- **Visibility**

All stakeholders and implementing partners shall ensure the visibility of EU financial assistance and the communication about the results of the activities implemented through this assistance. Visibility and communication aspects shall follow the guidance provided by the Communication and Visibility manual for EU external actions and shall be complementary to the activities implemented by DG NEAR and the EU Delegations in the field.

In this regard, any visibility or communication measures linked to IPA II assistance shall highlight the impact of EU's interventions and promote transparency and accountability on the use of funds. This can be achieved also by concentrating resources on a lower number of (bigger) actions, which might have a comparative advantage in terms of EU visibility.

#### **2.4. Donor coordination and complementarity with other EU assistance**

Albania will ensure that IPA II assistance is integrated in the national development plans and medium term budget framework and is coordinated well with the assistance provided by other stakeholders. Albania's development and EU integration efforts are supported by over 40 bilateral and multilateral donors.

Sector level donor coordination structures functioned in 2017 however, the set-up is being reorganised. In September 2017, the responsibility for donor coordination was transferred to the Ministry of Finance and Economy, which takes a proactive role in organising this function and aims at increasing the comprehensiveness of resource allocations concerning the national budget and donors. The EU Delegation Chairs the Donor Technical Secretariat which encompasses the key donors and development partners of Albania (Austrian Development Agency, Italian Agency for Development Cooperation, Embassy of the Federal Republic of Germany, Embassy of Sweden, Embassy of Switzerland, European Union, Council of Europe, EBRD, OSCE, USAID, UN, World Bank) and facilitates the government donor exchange. A high-level donor-government dialogue is taking place once per year as 'round table' to focus on aid harmonisation, followed by regular operational meetings.

In addition to the coordination by the government of Albania, the EU is regularly consulting with other donors, civil society and others (e.g. judiciary), both at the time of preparing the overall strategic approach, as well as for the preparation of annual programmes. IPA assistance for Albania is coordinated and complementary with the European Initiative for Democracy and Human Rights (EIDHR).

The implementation of strategic plans is planned through the medium-term budget programmes which shall take into account projections for domestic and donor funded resources to implement the strategies. The donor funds will be recorded in the external assistance management information system as part of the integrated planning system for strategic planning and related budget programmes.

The overall coordination within the Albanian government includes a Strategic Planning Committee as an inter-ministerial committee chaired by the Prime Minister that reviews and endorses the government's policy and fiscal priorities. This involves: (i) setting the policy priorities and strategic directions within a sound fiscal framework at the beginning of the annual planning process; (ii) deciding on the inter-sector resource allocation (MTBP preparation ceilings) over the medium term, i.e. 3 years; (iii) reviewing the draft MTBP prior to the preparation of the state budget; and (iv) receiving regular reports on progress against key IPS commitments.

Following the reorganisation of the central government in September 2017 the sector strategy monitoring and coordination structures are being reorganised to be streamlined with the mandate of the line Ministries and other strategic processes related to policy implementation and effective coordination. Some other aspects to be strengthened are: (i) the streamlining and harmonisation of sector strategy monitoring and coordination responsibilities, (ii) the detailing of the business processes to be applied by the entities and staff involved in operating the mechanism, (iii) the human resources requirements, (iv) systematic support to effective inter-institutional coordination and active engagement of civil society and donor and development partners.

## **2.5 Consistency with EU policies**

Financial assistance to the sectors identified in this Strategy Paper will be granted in line with and in support of the EU enlargement strategy for Albania. It will be shaped to contribute to EU policies relevant for the respective sectors. Attention will be paid in particular to ensure alignment with the European Agenda on Migration, the EU Better Regulation Agenda, the EU Gender Action Plan 2016-2020 as well as with the Europe 2020, the EUSAIR, and the SEE 2020 strategies as EU flagship initiatives to boost growth and jobs and promote smart, inclusive and sustainable growth initiatives. The objectives set until 2020 reflect the level of economic development and Albania's level of preparedness in the accession process. Finally, priorities for IPA II assistance shall also contribute to the reaching of the 17 goals of the

Agenda 20130 for Sustainable Development and objectives of the Paris Agreement targets on climate change.

Priorities for IPA II assistance shall contribute to the reaching of the 17 Sustainable Developments Goals of the Agenda 2030 for Sustainable Development and to the Paris Agreement targets on climate action, which provide a shared framework to which both the EU and Albania are committed.

### **PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY**

The EU is determined to strengthen and intensify its engagement at all levels to support the region's political, economic and social transformation, including through increased assistance based on tangible progress in the rule of law, as well as in socio-economic reforms, by the Western Balkans partners.

The EU's financial assistance will support Albania's policies and strategies for reforms and investments facilitate investments relevant for the accession process and contribute to Albania's socio-economic development.

Clearly, institutional and legislative reforms, as well as investments in the development of infrastructure, require much bigger resources than Albania's national budget, IPA or support from other donors can provide. In line with the Commission approach on "fundamentals first" and taking into account Albania's own needs assessment as well as the Commission's findings, pre-accession assistance for the period 2014-2020 will focus on democracy and rule of law and competitiveness and growth.

#### **Democracy and the rule of law**

Governance and the rule of law have been identified in the Commission's progress reports on Albania as well as in Council conclusions as key challenges Albania will have to address on its way to accession. The rule of law will therefore remain at the heart of the enlargement process. The full and timely implementation of the relevant strategies and the action plans in the area of rule of law and fundamental rights will be essential in this regard.

Concerning **democracy and governance**, there is a need to further strengthen democratic institutions in particular the role of the parliament for national consensus building. Following the territorial administrative reform and decentralisation, the capacity of the 61 newly established municipalities needs to be strengthened to ensure implementation of the EU integration related policies and competences at local government level.

**Public administration reform (PAR)** is closely linked to the EU integration process and is one of the key priorities of the Albanian government. Some progress was made, especially in improving the efficiency and transparency of public services delivery, training civil servants, establishing more transparent recruitment procedures and strengthening the administration's capacity to undertake merit-based recruitment. Implementation of the public administration reform and public financial management reform strategies has continued, although for the past few months some steps in the process have been on hold, following the general elections and central government restructuring.

Further efforts are needed to improve policy-making and coordination, to ensure a depoliticised, professional and merit-based civil service, and to develop efficient and accessible public services both at central and local level. A sound and functioning public administration both at central and local level is a prerequisite for progress in many other sectors, and essential for an increase in investments, both foreign and domestic. Specific measures relating to the judiciary are necessary to improve the business environment and to promote economic growth. Reform of public administration is closely linked with the envisaged reforms under the Digital Albania Strategy and the Decentralisation Strategy.



The Commission has strengthened its focus on public administration reform by outlining six key areas for reform to ensure adequate administrative capacity for implementation of the *acquis*: strategic framework for public administration, policy development and coordination, public service and human resources management, accountability, service delivery and public financial management. Albania adopted a new cross-cutting strategy for the reform of the public administration in December 2015 and a strategy for the reform of public financial management in 2014, laying the ground for improved effectiveness and accountability of its institutions in view of implementation of the adopted legislation and policies, and to ensure better provision of services to the citizens and businesses – this with an enhanced focus on eGovernance and connected eServices.

In view of its high public debt (over 70% of GDP at the end of 2015), Albania needs continued support in reforming its public financial management (PFM) system. Support has been provided in order to enhance the administrative capacity for the monitoring and implementation of the PFM reform strategy and action plan. Support in this area will be addressed in coordination with other international institutions such as the International Monetary Fund (IMF) and the World Bank, who have already launched support measures in early 2014. Improvements in the PFM system will also provide a sustainable basis for economic governance programmes. Furthermore, the statistical systems need further support in order to increasingly perform in line with EU standards.

The **Economic Reform Programmes** and the policy guidance jointly adopted by the EU and the Western Balkans and Turkey annually are the EU's main instruments for economic policy dialogue with Albania. Assistance under IPA II shall take the respective reform efforts into account and where possible support the implementation of both the reform plans included in the ERP and the policy guidance.

**Civil society** needs further strengthening, including capacity building and encouraging of the creation of an enabling environment for its development and greater involvement of stakeholders in reforms, including through greater transparency of government action and spending. Civil society involvement will be ensured in the identification, planning, implementation and monitoring of actions, in particular in key policy areas such as human rights, gender equality, migration, local development, territorial cooperation, good governance, public administration reform, public finance reform, employment, social policies, environment, agriculture, competitiveness and innovation.

The 2013 Council conclusions underline in particular the need to intensify efforts in the area of the **rule of law and fundamental rights**. The recommendations by the Council of Europe's Venice Commission will provide the framework for future support to the justice system. The fight against corruption, especially within judiciary institutions, is a key priority in this regard. The enforcement of **fundamental rights** of vulnerable groups including Roma and Egyptians as well as children also requires EU support.

The 2018 "Western Balkans Strategy" reiterates the importance of Roma integration as part of the Fundamental Rights enlargement priority. Furthermore, the EU Roma integration Framework (2011-2020) mandates the Commission to improve the delivery of support under IPA towards a strategic and results oriented programming. The Roma integration objective will be supported both by including Roma integration benchmarks in mainstream actions and through targeted projects. IPA II assistance will also take into account the national policy framework (Roma integration Strategy and Action Plan), the enlargement related Roma integration commitments taken under the negotiation chapter 23, the visa liberalisation and the conclusions of the Roma Seminar.

The system for social inclusion and protection remains mostly donor-driven and lacks adequate budgets. The lack of access to services leads to the deprivation of fundamental rights. The level of investments in social protection is among the lowest in the region (1.6% of GDP) and is primarily linked with cash assistance. The social protection institutional set-up and mechanisms lack the systemic approach that is required to respond to the multi-dimensional nature of poverty.

Albania and the EU are both committed to the 2030 Agenda on Sustainable Development and its Sustainable Development Goals, adopted at the UN Summit in September 2015, which provides a shared framework for progress. In this context, IPA II will further contribute to the 2030 Agenda for Sustainable Development, notably in pursuing sustainable development and fulfilling the "leave no-one behind" pledge, by applying the Rights-Based Approach (RBA) principles [ (i) legality, universality and indivisibility of human rights, (ii) participation, (iii) non-discrimination, (iv) accountability, and (v) transparency] in each step of the programming, implementation, monitoring and evaluation of its support.

The Albanian government's efforts to establish a clear framework for **property rights** deserves IPA II assistance in consideration of the wide impact that property rights have on issues such as land and credit markets, infrastructure and economic development. Efforts to strengthen the **enforcement of the legislation** need substantial and sustained support, especially regarding the fight against corruption, organised crime, money laundering, trafficking in human beings and of drugs. Furthermore, increasing cybersecurity threats and online disinformation issues need to be addressed in a coherent manner and in line with the approach of the EU.

Keeping in mind the external dimension of EU's migration policy (the policy framework of which is set by the Global Approach to Migration and Mobility and the European Agenda on Migration), IPA II supports: legal migration and mobility, including through maximising the development impacts of migration; the development of functioning asylum systems; the improvement of integrated border management; and reduction of irregular migration through both focused actions and technical assistance. Assistance should aim to develop efficient national systems of **migration management** by formulating actions that balance out the support given to the specific areas of migration and that mainstream migration in the implementation of the bilateral and regional cooperation frameworks. The Albanian government's efforts to strengthen identification mechanisms regarding irregular migrants and asylum seekers, including screening on nationality, deserve further support. Albania intensified its dialogue with the most affected Member States and in June 2017 the government adopted an action plan to prevent asylum abuse in EU and Schengen countries. Thirty-six migration desks have been established across the country to provide support to those returning to Albania. In December 2017 Albania signed an agreement with France on strengthening operational police cooperation and regulating the deployment in France of four French-speaking Albanian police officers. They will support the dismantling of criminal organisations of Albanian origin, including those involved in organising asylum seekers' journeys to France.

Ongoing EU assistance will increase the country's reception capacity (e.g. EU-funded rehabilitation of the Babrru Centre for asylum seekers). However, a sharp increase on the inflow of migrants would rapidly lead to a bottleneck on Albania's reception capacity. Therefore, additional support in this area would serve to reinforce contingency measures and ensure an appropriate emergency response in case of new sudden influx of people. The EU provides assistance to key Albanian law enforcement agencies – in particular the Albanian State Police and the General Prosecutors Office – to bring their performance and procedures closer to EU standards. Improving technical and institutional capacity of the Border and

Migration Police Department, in compliance with EU best practices and the recommendations of the Schengen Code, continue to be deemed necessary. Additional measures aiming at improving regional Integrated Border Management will enhance migration management and will foster rule of law in Albania and its neighbours.

The issue of **radicalisation leading to violent extremism** is increasingly a part of policy discussions in the Western Balkans. The prominence of the topic has been driven to a large extent by the concerns of ISIL-inspired terrorist acts, the threat of foreign terrorist fighters (FTFs) returning to their home countries and the media attention surrounding terrorist activities.

As stated in the EU Global Strategy on Foreign and Security Policy (dated June 2016), the EU will work on preventing and countering violent extremism by broadening partnerships with civil society, social actors, the private sector and the victims of terrorism, as well as through inter-religious and inter-cultural dialogue.

Within the scope of the current enlargement policy, which is also a strategic investment in Europe's security and prosperity, the challenges of terrorism and organised crime are shared between the EU and the Western Balkans and should be tackled in cooperation, as highlighted by the Integrative Internal Security Governance adopted by the JHA Council and endorsed by the Western Balkans. A comprehensive EU response would therefore include strengthening partnerships with key countries, supporting capacity building, countering radicalisation and violent extremism, as well as addressing underlying factors and the ongoing crisis.

Countering Violent Extremism (CVE) is a relatively new area of engagement in Albania. In July 2016 the Albanian Prime Minister appointed a National Coordinator (NC) for CVE who reports directly to the Prime Minister and is tasked to coordinate inter-ministerial activities on CVE, as well as to serve as focal point for international partners who are active in this sensitive domain

The NC is currently consolidating a mapping of ongoing / foreseen initiatives from national stakeholders and international partners to provide an accurate picture of areas of interventions by different actors including the two ongoing EU-funded programs on CVE (€ 0.6million) which started in January 2017 and cover the increase the common understanding on pushing factors and patterns behind radicalisation at local level.

### **Competitiveness and growth**

Albania needs to strengthen its economic governance in particular the policies towards competitiveness and growth. In this regard, several related sectors will be supported: environment, climate action and energy; transport; competitiveness, innovation, agriculture and rural development; education, employment and social policies; as well as territorial cooperation and regional cooperation.

Further mainstreaming of **environment and climate related actions** within the priorities highlighted for IPA II assistance shall be enhanced and ensured by all relevant stakeholders. This will be done keeping in mind the aim to gradually increase the share of DG NEAR climate spending with a view to reaching the 20% target by 2020 for IPA II. Increasing share of these resources shall be invested in all relevant types of projects including sustainable infrastructures and capacity building.

The programming frameworks for IPA need to be aligned to the EU policy on the transition to a low carbon, resource efficient and circular economy. Challenges and benefits of circular economy could be further reflected. Specific areas where the macro-economic relevance of the circular economy and improved resource efficiency are significant are green public

procurement, investments in waste and water infrastructure, sustainable and climate-resilient construction, critical raw materials, biofuels and bio-chemicals, as well as energy and climate related investments, which should also reflect the alignment with the relevant acquis. Circular economy provides benefits both in economic and sustainability terms, for the health of the citizens and the protection of the environment, issues that are becoming relevant on the policy agenda of our partner countries.

IPA II assistance will foresee the development of Albanian administration's capacities to operate and sustain investments in the environment sector, before considering new ones. Concerning **transport**, priorities are to ensure the completion, maintenance and connectivity of the trans-European (TEN-T) network extended to the Western Balkans and to address safety and maintenance issues in all modes of transport. The connectivity agenda, with its special emphasis on the preparation and financing of regional investment projects and on the implementation of technical standards and connectivity reform measures contributes to the overall strengthening of Albania's competitiveness. This should be done also through the timely implementation of the Transport Community Treaty signed and provisionally applied between the EU and Albania. There is a strong need to better align investments and structural reforms (as outlined and implemented in the context of the annual ERP exercise) in order to achieve best results from infrastructure investments in the transport sector. This is true for the **energy sector**, too, with its need for reforms to ensure liberalisation of the markets, the smooth functioning of the overall system, the good governance of the sector, increased energy efficiency, diversification of energy sources (including better use of renewable energies) and efficient interconnections with neighbouring countries. Funding for energy generation is usually bankable and could be funded by financial institutions. Support to strengthening administrative capacities, alignment with the EU legislation and special efforts needed to resolve problems related to the accumulated debts in the sector, losses and theft, as well as the low bill collections rates will be considered for support.

Albania actively participates in the **connectivity** agenda which aims to reinforce integration between the individual WB6 countries and with the EU through funding regional infrastructure investment projects. This means focusing investments on establishing and improving transport and energy infrastructures and networks, so as to strengthen the countries' backbone of competitiveness. Of equal importance are commitments of the beneficiaries on the connectivity reform measures, as agreed by the Prime Ministers at the Vienna summit in 2015, which provide added value to the investment priorities. The following summit in Rome in 2016 agreed to support several national and regional projects, among which the rehabilitation of the Tirana – Durrës rail section as part of the Mediterranean Corridor and its Montenegro – Albania – Greece Rail Interconnection. Albania will also benefit from other regional projects such as the Regional Energy Efficiency Programme (REEP Plus) for the Western Balkans and the financial support for the Green for Growth Fund addressing Hydropower and other Renewable Energy Schemes for the Western Balkans. Albania also signed with the other WB6 countries the Roadmap for a Regional Electricity Market, which requires substantial national reform measures in order to establish market-based electricity spot trading.

The functioning of a Single Project Pipeline (SPP) and the SEETO Multi Annual Plan priority project list for the Core Network is now the basis for all IPA funding of investment projects via the WBIF and national IPA envelopes

Connectivity is also the backbone of the EUSAIR macro-regional strategy with a view to strengthen transport and energy networks among countries in the region, both Western Balkans and EU Member States.

Strengthening **competitiveness and innovation** would contribute to improving the current account balance and increasing economic growth. SMEs play a significant role in the economy, providing 80% of employment and two-thirds of value added in the non-agricultural private sector. However, they suffer from poor innovation capacity and access to finance, such as developing the venture capital market. SMEs integration in regional and EU markets needs to be enhanced, as well as the contribution of exports to the country's growth.

Investments in a further digitalisation of the business sector are also needed to support for example the roll-out of large-scale broadband infrastructure projects in order to address low penetration rates, rural-urban divide; but also to prepare the business environment for a digital transformation by investing in digital skills, entrepreneurship and the development of sector-specific digitising strategies.

IPA II funding is required to support the accessibility of business development services, access to finance for SMEs, market integration, to further develop export markets, including niche markets and tourism. In this context, IPA II might also foresee assistance to the preservation of cultural heritage. The EUSAIR macro-regional strategy provides a useful framework for Albania's cooperation with EU member states and Western Balkans on sustainable tourism development and cultural heritage in the Adriatic and Ionian region.

The low levels of productivity and competitiveness as well as of the living conditions in the rural areas require specific support within the **agriculture and rural development** sector. The preparation of administrative structures able to provide services and manage funds in line with the EU agricultural policy is required. IPA II support is needed to create an efficient, sustainable and innovative agro-food sector, which is competitive in the EU market and offers employment, social inclusion and better living standards for farmers and the rural population. Sound implementation of agricultural support measures strengthening business approaches and access to information and markets; food safety, veterinary and phytosanitary services, and controls functioning in line with EU directives all require IPA II assistance, with special attention to potential export markets. Additionally, IPA II funding is needed to assist in improving the fisheries sub-sector.

The sector **education, employment and social policies** equally requires support, notably for achieving inclusive growth. Beyond informal employment and low participation, there is a need to design relevant capacity building accordingly. Albania needs to improve the quality and relevance of all levels of education and develop its skill-base in line with labour market needs, in accordance with the reforms outlined in the annual Economic Reform Programme and policy guidance. The chances of entering the labour market for women and disadvantaged groups have to be improved. Support to youth and education policies shall be supported and mainstreamed through IPA II. This will be in line with the major EU policies in the area, in particular the Education and training 2020 and the Bruges - Copenhagen Process for Vocational Education and Training. Good governance of this sector also needs strengthening.

Finally, further consolidation of the regional cooperation and of the good neighbourly relations requires assistance in the area of **territorial cooperation and regional cooperation**.

The IPA CBC programmes and the Interreg transnational programmes in which Albania participates, allowing cooperation of local authorities and stakeholders across the border, will contribute to this end.

In addition, IPA support may also be given to unforeseen priority needs relevant to the course of accession negotiations, which do not fall under these sectors. In particular, this may include, but will not be limited to, ad hoc and short-term technical assistance to be supported under the TAIEX instrument and through Twinning. Furthermore, IPA II may continue to co-

finance Albania's financial contribution for its participation in Union Programmes and Agencies in the context of the on-going policy dialogue under the relevant sector and accession negotiations chapters.

**Gender mainstreaming** shall be ensured by all stakeholders and implementing partners throughout all phases of the programme cycle. IPA assistance shall include an assessment of the different situations and needs for women and men and translate this assessment into indicators, activities and results.

All stakeholders and implementing partners shall ensure the **visibility** of EU financial assistance provided through IPA II throughout all phases of the programme cycle. The activities shall be implemented based on clear and strategic **communication** plans in order to increase the awareness and understanding about the objectives and the results of EU support to Albania under IPA II. Visibility and communication aspects shall follow the guidance provided by the Communication and Visibility manual for EU external actions and shall be complementary to the activities implemented by DG NEAR and the EU Delegations in the field. In this regard, any visibility or communication measures linked to IPA II assistance shall highlight the impact of EU's interventions and promote transparency and accountability on the use of funds.

Keeping in mind the importance of public administration reform in the enlargement process, the commitment of Albania to meet the Principles of Public Administration in the cross-cutting strategy for the reform of its public administration and the commitment of the EU to the Better Regulation agenda, the key elements of public administration reform will be systematically addressed in all IPA II sector interventions. IPA II assistance will especially ensure the **Better Regulation approach**, whereby policies and legislation in all sectors are prepared on the basis of the best available evidence (impact assessments) in an inclusive approach, involving both internal and external stakeholders.

An indicative financial allocation per policy area and sector resulting from the priorities defined in this strategy paper are set out in Annex 1.

## **PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020**

### **1. Democracy and governance**

#### **1.1. Needs and capacities in the sector**

This sector covers democratic institutions and overall public sector management, including public administration reform (PAR) coordination, policy-making, civil service reform, accountability and service delivery both at central and local level. It also covers public financial management (PFM), including revenue collection and administration, budget preparation, budget execution with cash management, gender budgeting, public procurement, accounting and reporting, debt management, public internal financial control and external audit. In addition, support will be provided for improving government IT interconnectivity and interoperability, including for customs and tax administrations with EU systems. Furthermore, the sector covers support to statistics and evidence-based policy development, as well as the strengthening of capacities to progressively adopt relevant EU legislation. Finally, civil society development is a crucial area of this sector.

Previous IPA assistance was provided for PAR, notably to strengthen the capacities in a number of crucial areas, such as civil service and human resource management, PFM including taxation and customs administration, public procurement, external audit, and

statistics, strategic planning linked with medium term budgeting via tailored interventions of technical expertise. EU support over the period 2007-2013 stands at more than EUR 75 million. Ongoing IPA II assistance provides support for the implementation of the PFM and PAR strategies by means of primarily Sector Reform Contracts. IPA II multi-country allocations also support PAR and public finance management reforms through OECD/SIGMA, the World Bank and the IMF implemented programmes.

As regards other donors' contributions to the sector, Sweden, and Switzerland support statistics and taxation policies; Austria supports gender budgeting; Austria, Switzerland and USAID support fiscal decentralisation activities, Austria, Switzerland and Germany are also active in the area of regional development; Sweden, Switzerland, Italy, UN and USAID support decentralisation and territorial reform; World Bank and Italy support public service reform. An Integrated Planning System is being developed with funding from the EU, as well as from Austria, Sweden and Switzerland, managed through the World Bank. A Strategy for the Integrated Planning System for 2005-2015 covered the modernisation of the policy making and budget planning processes and capacities at central level. Both IMF and World Bank are supporting PFM reforms, including the focus on the long-term reduction of public debt, public expenditure management and revenue administration.

This sector still needs improvements in democratic consensus building, and faces a low degree of available human resources, a high degree of politicisation and, in general, an insufficient and slow implementation of the legal framework. Performance based monitoring mechanisms need to be strengthened, while regulatory and fiscal impact assessment mechanisms have to be established across all ministries with a view to improve the quality of legislative and policy proposals and ensure sound implementation of policies, as well as evidence-based policy making. These issues are being addressed in the cross-cutting PAR strategy and are addressed in the policy dialogue with the Albanian authorities in the PAR Special Groups.

In the area of **local governance** the Strategy on Decentralisation and Local Government has been adopted; support should be provided to the 61 newly established municipalities to raise their governance capacities, in particular in the EU related fields. Strengthening administrative and institutional capacities of local government units, increasing local service delivery, as well as enhancing local democracy through fostering citizen-oriented governance and participatory decision making are key other areas where EU assistance is also needed.

Employment and career advancement are among the new competencies of the local government units. To ensure that services address women's and men's different interests and needs and that they are equally accessible to them specific structures and mechanisms need to be operationalised, such as gender-responsive budget analysis, gender assessments, and gender audit exercises.

**Economic governance** has improved since Albania started to participate in the Economic Reform Programme exercise in 2015. Analytical capacities, inter-ministerial coordination and involvement of external stakeholders in economic policy-making have improved, although further efforts are still needed. Challenges related to economic governance and policy-making are addressed in the annual Albania-specific policy guidance, jointly adopted at Ministerial level by the government of Albania and the EU. The implementation of this targeted policy guidance will depend on further strengthening of the government's capacity for effective economic governance.

Public Finance Management needs further improvements particularly in view of the high level of **public debt**. The Albania Public Finance Management Strategy 2014-2020 is a comprehensive PFM reform programme covering i) sustainable and prudent fiscal framework,

ii) well integrated and efficient planning and budgeting of public expenditure, iii) efficient execution of the budget, iv) transparent government reporting, v) effective internal control, vi) effective external oversight of the public finances (see also part II, section 2.3). Structural obstacles to growth, including the judicial and legal environment, inefficiencies of spending in the public administration should also be addressed. Specific areas, such as **statistics**, are vital for policy-based decision making. The management of specific sectors such as the **energy** sector has been targeted but needs further strengthening.

In terms of the conditions for **sector support**, as mentioned in Part II, section 2.2, a PFM and a cross-cutting PAR strategy have been adopted and are under implementation, with sector reform coordination structures in place. The Digital Agenda for Albania and the Strategy against Corruption have both been adopted. The Official Statistics Programme for the period 2017-2021 has been adopted by the Albanian Parliament in February 2017. INSTAT shall improve its mechanisms for monitoring the implementation of the statistical programme and in general there is lack of impact assessment mechanisms, monitoring and performance assessments.

**Civil Society** organisations (CSO) and media lack the necessary capacity to spread the democratic political culture and engage citizens to participate in democratic decision making processes in an informed way. In addition, civil society organisations are overly dependent on funding by foreign donors. Civil Society actors and organisations, including women organisations, could make a more substantial contribution to addressing many of these challenges through their lobbying, advocacy and oversight activities at national, regional and local level in every sector. They could be supported in the role of watchdog on policy dialogue and sector reforms, holding institutions accountable, as well as creating demand for enhanced transparency, accountability and effectiveness from public institutions and facilitating greater focus on the needs of citizens in policy-making. The capacity building and enhancing of CSO expert knowledge could be accompanied by building capacities of civil servants, responsible for public consultation or managing public funds for civil society. The legal and regulatory framework on basic legal guarantees of freedom for CSOs is generally harmonised and in line with international standards. However, financial viability and sustainability and the available public funding is insufficient. CSO sector expertise should be strengthened by bringing unique knowledge and experience to shape policy and strategy, identifying and building solutions, as well as playing the role of enabler in driving change in collaboration with other stakeholders such as business community, media, social partners etc. Civil society engagement and public consultations will contribute to the efficiency, effectiveness and accountability of the Parliament.

## **1.2. Objectives, results, actions and indicators**

In order to address the above mentioned challenges, the **objective** of IPA II assistance in this sector is to strengthen democratic institutions, enhance transparency, accountability and effectiveness of the public administration, with a greater focus on the needs of citizens and businesses with a view of creating a solid administrative basis for implementation of the EU *acquis*. A specific objective is to enhance economic governance and support implementation of a comprehensive public financial management reform. Support to civil society aims at further deepening the democratic culture in the country, by developing an enabling environment by increasing their autonomy, representativeness, accountability and the capacities of the various actors.



In the framework of the 2030 Agenda for Sustainable Development, the priorities for IPA II assistance as outlined above for democracy and governance shall also contribute to the reaching of SDG 16 - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

EU support will aim at achieving the following **results**:

- Democratic institutions conform to legal framework and allow for consensus building to support EU-related reforms;
- A de-politicised, merit-based civil service system with integrity systems and ethical standards in place; gender balance career management in line with European standards
- Civil service and public administration organisation, coordination, and functioning fully defined, including competency and responsibility of local governments, for increased capacities in the delivery of services to citizens and businesses;
- Amending legal frameworks to remove gender-based discriminations
- Legal predictability and enforcement of laws and court decisions improved in the interest of businesses and citizens;
- Inclusive strategic planning and policy making established, and participatory and evidence-based and legislative development aligned to the Government's medium term budget programme;
- Improved fiscal stability;
- Gradually improved quality of the annual Economic Reform Programme and consistent implementation of the reforms contained in the programme and of the Ministerial policy guidance jointly adopted each year.
- Public finances managed efficiently and sustainably, following implementation of a sequenced public financial management reform programme covering arrears clearance, revenue collection and administration, budget preparation, budget execution with cash management, public procurement, accounting and reporting, debt management, public internal financial control and external audit;
- Improved IT interconnectivity and interoperability of tax and customs administrations with EU systems;
- Decision making processes follow performance based monitoring and quality statistical data collected and analysed in line with the standards of EUROSTAT;
- Strengthened municipal's EU related governance capacities as well as an improved reach out to citizens and local administrations with information about the EU, its policies and programmes.
- Strengthened administrative and institutional capacities of local government units, improved local service delivery, and enhanced local democracy through fostering citizen-oriented governance and participatory decision making.
- Strengthened role and capacities of civil society in democratic processes, enhanced cooperation of civil society with public institutions for reform processes, such as in the framework of the National Council for Civil Society, and the Integrated Policy Management Group, as well as thematic groups across all sectors and cooperation at local level, such as through Municipal Councils and other local level mechanisms. In

addition, increased financial viability and independence of civil society from foreign donor funds.

The **indicators** to measure the achievement of the objectives will include:

- Extent of progress made towards meeting accession criteria (EC);
- Composite indicator (Government Effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB));
- Composite indicators Global Corruption (TI) and Control of Corruption (WB);
- Statistical compliance (Eurostat);
- Stock of budget arrears (Deloitte survey);
- Quality of existing legislation and policy framework for civil society (indicator 1.1.a of the civil society Guidelines)
- Quality of structures and mechanisms in place for dialogue and cooperation between CSOs and public institutions (indicator 3.1.b. of the civil society Guidelines)

Regarding the **actions** to be supported, EU assistance will include technical assistance and capacity building for public finance, public administration reform, local governance, and for democratic institutions, including the parliament and the various independent institutions.

As concerns economic governance, challenges related to macroeconomic stability and the progress necessary to gradually become a functioning market economy will be dealt with through the existing bilateral surveillance and the resulting country specific **policy guidance**. The Economic Reform Programme process has been in place since 2015 to follow the main economic reforms and report on their implementation. The process will align with the country reporting and prepare Albania for the European semester. Implementation of this policy guidance is subject to an annual cycle of stock-taking, which will clearly identify the gaps that will have to be addressed in order to make further progress towards meeting the economic accession criteria. Based on this policy guidance, annual follow up actions are prepared in cooperation with providers of technical assistance, in particular through the IMF. Implementation of a sequenced public financial management reform programme is supported, and monitored in close cooperation with development partners as well as IMF and the World Bank in line with their already ongoing lending operations and technical assistance to manage the reform efforts.

In the area of **statistics**, a close cooperation with Eurostat is envisaged in order to ensure compliance with EU methodology, as well as assistance for capacity building and surveys. Further strengthening of the **taxation and customs** administrations will be supported in particular on implementation and enforcement of legislation, together with the IT interconnectivity and interoperability with EU systems. Capacity building and other technical assistance to support the strengthening of the public administration in the various sectors (e.g. energy) will be considered.

The development of sustainable **civil society organisations** (CSO) and media freedom will be supported through technical assistance. The support to the enabling environment and the building of capacities of civil society will be provided in line with specific 'EU guidelines' for Civil Society development in the enlargement region. Special attention will be given to strengthen civil society capacities and engagement in policy dialogue and reform processes. The civil society facility will combine both multi-country and national IPA II funds in order to respond to different types of CSOs, needs and sector contexts with a flexible, transparent, cost-effective and results-oriented approach.

The specific needs in the area of public financial management will be supported through a sector approach in close cooperation with the IMF and the World Bank under the leadership of the Ministry of Finance.

### **1.3 Type of financing**

Assistance will be provided primarily through twinning, technical assistance, supplies of equipment and possibly also through calls for proposals and direct grants to relevant national authorities. A sector reform contract is provided to support the PFM reform implementation and the implementation of the cross-cutting PAR strategy. Complementary support for the PAR reform area will be provided from the IPA II multi-country programme through cooperation with SIGMA (OECD) and the Regional School of Public Administration. Economic governance is also among the priorities of the multi-country Strategy Paper where support is foreseen through cooperation with IMF and, in the area of statistics, Eurostat will continue to provide support to the National Statistical Offices. In the area of customs administration and regional trade, cooperation with the Secretariat of the Central European Free Trade Agreement (CEFTA) will be ensured through multi-beneficiary programmes. Finally, IPA II may co-finance Albania's contribution for its participation in the relevant Union Programmes.

### **1.4 Risks**

The **risks** which could affect the achievement of the intended objectives and results are:

- a) The macroeconomic situation could limit the scope for improvements in remuneration, employment, and PFM reform efforts;
- b) A politicisation of civil society and media, as well as the lack of willingness on the side of government to engage with civil society in real dialogue and effective consultations in all processes of the policy dialogue, might limit the civil society's potential role for strengthening the culture of democracy.
- c) Weak capacity of line-Ministries in the ERP exercises resulting in poor analysis, design and implementation of economic reforms.

Possible risk mitigating measures include the strengthening of both (i) the capacities of the Albanian authorities to monitor reform progress and take corrective action, and (ii) the involvement of independent monitoring for recommending corrective action to be taken. Moreover, both the Economic Reform Programmes and the political dialogue on the public administration are playing important roles as mitigating measures. In the area of PFM, a sector reform contract directly addresses the risk related to public debt and weaknesses of the national PFM systems.

## **2. Rule of law and fundamental rights**

### **2.1. Needs and capacities in the sector**

The area of **justice and fundamental rights** covers the functioning of the **justice system** in Albania, including relevant activities of the Ministry of Justice, the judiciary and penitentiary institutions and also broader issues such as the protection of **human rights** and the reform

process concerning the **property rights**, as well as **media freedom**. It will also address the **fight against corruption** across the public institutions.

Previous IPA assistance focused on key institutional reforms and capacity building of the various judiciary actors, primarily through assistance to the modernisation of the justice system (EURALIUS projects). In addition, a number of infrastructure projects have considerably increased the capacity of the penitentiary system to comply with international standards. The EU stands as a leading donor also in relation to the promotion of human rights also as a result of several projects financed under the civil society facility and in the framework of the European Instrument for Democracy and Human Rights. IPA I assistance in the sector amounts to more than EUR 86.5 million. Various donors are providing support in the area of justice and fundamental rights, e.g. Sweden, Italy, Netherlands, as well as the United States and the United Nations. The World Bank is leading the reform process on property rights. In addition, human rights and anti-discrimination measures receive support from the Council of Europe and the OSCE.

In the period 2014 – 2017, IPA II assistance addressed in particular fundamental rights, law enforcement, the fight against corruption and the consolidation and the reform of the justice system including the re-evaluation of the judges and prosecutors, a priority that was also noted as requirements for opening accession negotiation with the European Union.

Key challenges include the clear lack of efficiency and performance of the **judicial system** as a whole, and an uncompleted legislative framework to strengthen the accountability, independence, and efficiency of the judiciary. In this respect, the recommendations of the Council of Europe's Venice Commission provided feedback on the framework for effective actions to strengthen the judiciary power in the Albanian constitutional architecture as envisaged under the Justice reform. Furthermore, the judiciary infrastructure needs upgrading and the education and training systems for the judiciary are insufficient. **Corruption** is prevalent in many areas of public life and constitutes one of the major challenges Albania is facing. The independence and effectiveness of institutions in charge of the fight against corruption continued to be limited by political pressure and weak administrative capacity. The track record shows that convictions and proactive investigations in the area of corruption remain low, especially regarding corruption cases involving high-level officials. To make investigations more efficient, the legislation on interceptions and surveillance, time limits for investigations and admissibility of evidence before courts needs to be amended in line with European standards and best practices. Direct access to databases for prosecutors and police needs to be enhanced. There has been no progress in meeting the recommendations on making more effective use of the case management system, on issuing reasoned adjudications in due time and on allocating cases randomly to judges and prosecutors. Random allocation of cases to prosecutors is partially used, but prosecution offices often fail to fully use the system and produce reliable data. The laws provide for strict procedures in case of undue influence over a court case or when judges consider their independence to be jeopardised. . The legal framework on political party finances needs to be amended to establish an effective and accountable audit system. Sound investigation and prosecution of cases referred to prosecutors by the High Inspectorate for Declaration and Audit of Assets and Prevention of Conflicts of Interest (HIDAACI) and the High State Audit needs to be ensured. A holistic approach requires establishing a robust institutional framework that prevents corruption, by improving the inter-agency co-operation and co-ordination, strengthening internal control mechanisms, verification of asset declarations, and control over political party financing. Particular attention needs to be paid to tackle corruption in vulnerable areas, such as public procurement, health, taxation, education, police, customs and the local administration as well as to increase the watchdog role of civil society both at local and national level. The

institutional setup needs to be substantially strengthened, both in terms of staff and in terms of respecting the full independence of law enforcement and judicial bodies dealing with investigations into corruption cases.

The legal and policy framework to protect fundamental **human rights** is broadly in line with European standards and Albania has ratified most international human rights conventions. Key strategic documents and action plans have been developed and approved in different fields, including on prison overcrowding, child protection, persons with disabilities, and rights of LGBTI persons, Roma integration, and housing. However, implementation is limited and enforcement of human rights remains insufficient as institutional protection mechanisms remain weak. A properly functioning social service system that effectively ensures rights of people in need remains to be established. Institutional mechanisms to ensure child protection, protection of victims of gender based violence and services for people with disabilities and for vulnerable groups need to be improved. The protection of the fundamental rights of all minorities in Albania should be ensured in practice within the context of the Albanian Framework Law on National Minorities and the relevant secondary legislation, which remains to be adopted. In this context, the right to self-identification needs to be safeguarded. Social exclusion and discrimination of Roma and Egyptians need to be tackled through better policy implementation and better inter-institutional cooperation. Financial resources are limited and access to various educational, health, housing, legal and social services is still limited across the country for the most vulnerable groups. Concerns remain over economic aspects of **media freedom** as well as the independence of the media regulator. The country failed to implement the **digital switchover** within the 2015 deadline and despite steps taken in that regard, the process has still to be completed. The legal guarantees on audio-visual media pluralism regressed following a Constitutional Court decision on the matter. The management of **property rights** is a particular concern because of the importance for land and credit markets and their impact on the performance of the economy.

The focus of the **home affairs** area is on police cooperation and the fight against organised crime, terrorism and drugs, trafficking in human beings, money laundering, migration, asylum, and integrated border management. Gender-responsive policy, protocols and procedures should be promoted.

IPA support has so far focused on the enhancement of the capacities of the Albanian State Police and other law-enforcement agencies. Assistance has been mostly provided through technical assistance projects, which have played an important role in the support for the fight against organised crime, corruption and illegal trafficking, as well as the development of the integrated border management. IPA I support also focused on the enforcement of the regulatory framework on anti-corruption and anti-money laundering in order to devise effective tools to fight crime (e.g. seizure of assets). A number of infrastructure projects have created or upgraded the police facilities, including the border crossing points. The US Government is a complementary donor in this area.

Concerning home affairs, the main challenges related to EU integration which need to be addressed by future assistance include the need for more proactive law enforcement approach that make greater use of intelligence - led and financial investigations, a credible track record of investigations, prosecutions and final convictions, especially in corruption and in organised crime cases. There is a general need for better enforcement of legislation, in particular regarding anti-money laundering, seizure and confiscation of assets, irregular migration and trafficking in human beings and of drugs. In 2017 Albania was involved in four Eurojust cases (16 in 2016 and 12 in 2015), mainly dealing with drug trafficking, fraud and organised property crime. Albania participated in one joint investigation team supported by Eurojust. Albania signed the EU Justice programme and started to build the capacity needed to

implement it. The Memorandum of Understanding on the drugs component of the EU Justice Programme was signed in February 2018.

As regards migration and asylum, there is a need to increase Albania's capacity to host asylum seekers, refugees and migrants and to strengthen its reception and accommodation capacity for asylum seekers, in line with the international standards, in particular near its border with Greece. There are neither sufficient structures nor capacities for screening, identification and processing of refugees.

Operational cooperation with neighbouring countries continued to be good. Albania conducted joint patrols with Italy, Kosovo, Montenegro and the former Yugoslav Republic of Macedonia. Cross-border police cooperation agreements were signed with Italy, Kosovo and the former Yugoslav Republic of Macedonia. A Europol Guest Liaison Officer to Albania is expected in the summer of 2018.

On border management, Albania should continue risk analysis training at all levels and ensure sufficient training for border police, in particular by including protection-sensitive migration management in the curriculum of the Police Academy. In particular, border officers should be sensible to the needs of vulnerable groups such as children, disabled persons, elderly people, victims of trafficking or pregnant women. The border police's investigative powers need to be strengthened, in particular for the detection of people smuggling and trafficking cases.

In February 2018 Albania initialled the status agreement for operational cooperation with the European Border and Coast Guard Agency (EBCGA), which will allow the deployment of EBCGA teams with executive powers on Albanian territory, and ensure a better management of irregular migration.

The enforcement capacity on countering terrorism and violent extremism needs to be improved. Following the recently adopted EU Policy Cycle 2018-2021 for serious international and organised crime, Albania is encouraged to participate in priorities such as the fight against migrant smuggling, drug and firearms trafficking or organised property crime.

## **2.2. Objectives, results, actions and indicators**

The objectives of EU support in the field of **Rule of law and fundamental rights** are:

- to create an accountable, independent and efficient justice system, aligned to EU legislation and best practice;
- to creating a robust system to prevent and fight corruption.
- to strengthen the legal and policy framework to protect and enforce human rights in Albania.
- to create an effective and efficient law enforcement system which is able to produce a credible track record in fighting organised crime.

In the framework of the 2030 Agenda for Sustainable Development, the priorities for IPA II assistance as outlined above for competitiveness and innovation shall also contribute to the reaching of SDG 16 - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

The **results** to be achieved with EU support include the following:

- The overall set-up of the justice system is reviewed, gaps analysed, and areas for improvement are identified in regular intervals;

- Legislation is further enhanced in order to ensure the independence of the judiciary;
- Professionalism is strengthened through merit-based and transparent criteria for appointments of judges, prosecutors and court administrators as well as through evaluations of performance, merit based promotions and court inspections;
- Full enforcement of judicial rulings is ensured and the system of bailiffs is strengthened and fair;
- Further progress on establishing a solid track record regarding successful investigations, prosecutions and final convictions in corruption cases;
- The penitentiary system complies with international standards, including specific treatment for different categories of detainees;
- The approach to the fight against corruption has been reviewed and adjusted to increase its effectiveness, including through necessary legislative changes, and fully functioning capacities of the prosecution and law enforcement agencies, as well as through a robust institutional framework;
- Property rights management is further advanced and in line with the relevant jurisprudence of the European Court of Human Rights;
- The legislation on juvenile justice is in line with international standards.
- The implementation of anti-discrimination and legislation related to the protection of human rights is enhanced;
- The national Action Plan for social and economic integration of the Roma is implemented;
- Establishment of a solid track record of proactive investigations, prosecutions and final convictions against corruption and organised crime groups, including confiscating of criminal assets and successfully dismantling of criminal networks;
- Further increase cooperation and the exchange of information between the Albanian law enforcement authorities and Europol;
- Anti-money laundering legislation and the anti-mafia law improved and further aligned to EU standards, and their effective implementation ensured;
- Enhanced capacities of the border and migration police department to tackle irregular migration through, among others, improved cross-border and inter-agency co-operation and investments in infrastructure;
- Addressing trafficking in human beings improved;
- Measures against drug production and trafficking, as well as sustained impact of drug prevention and demand and supply reduction achieved;

The **indicators** to measure the achievement of the objectives/results will include:

- Composite indicator Access to Justice (WJP) and Judicial Independence (WEF);
  - Composite indicator (Government Effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB);
- Composite indicator Global Corruption (TI) and Control of Corruption (WB);
- Composite indicator Freedom of Press (FH) and Press Freedom (RWB).

In terms of **action**, EU support to the sector will include technical assistance and capacity building for all judicial institutions. On the protection of human rights there might be cooperation with other organisations active in this field in order to strengthen synergies and allow economies of scale of the assistance. In terms of sequencing, it is envisaged to review both the judiciary and the anti-corruption set up before designing further support.

With respect to the conditions for **sector support**, there is an approved Justice Sector Strategy and Action Plan for 2016-2020. The inter-sectoral Strategy against Corruption 2015 – 2020 is implemented through an Action Plan 2015-2017. The Action Plan for 2018-2020 will be developed following the mid-term review of the strategy in 2017. The crosscutting Strategy on Land Property Rights has been adopted for 2011-2015 and should be updated. The updated strategies are covered under the NSDI 2015-2020. The lead Ministry in the justice sector is the Ministry of Justice. Coordination with the judiciary institutions is essential for planning resources and ultimately achieving results. The budget allocations to the sector have historically been low and it is necessary to substantially increase them to implement the reforms.

The area of property rights deserves special attention due to the enormous impact it has on economic development, agricultural development, credit markets, and other. A strategy is in place, as well as some donor funding from the EU and the World Bank. A separate programme with the World Bank is envisaged to address the needs.

The protection of human rights will be supported through targeted measures, notably stand-alone actions, to better align the country's institutional framework with the EU and other international standards and further improve the protection mechanism of existing bodies (Ombudsman and Commissioner for the protection from discrimination). The promotion of human rights will be enhanced through *ad hoc* support to civil society, particularly in relation to access to justice, treatment of detainees and actions such as access to health in favour of vulnerable groups and minorities such as Roma and Egyptians, as well as LGBTI.

As regards Roma inclusion, in accordance with the EU Framework for National Roma Integration Strategies up to 2020 and the Western Balkans Strategy of February 2018, IPA II will continue encouraging social inclusion of these groups through actions supporting, among others, the implementation of the National Action Plan for Integration of Roma and Egyptians 2016-2020, with improved cooperation with other international partner organisations and civil society.

In the area of home affairs, actions will include technical assistance for capacity building and policy reforms regarding law enforcement incl. integrated border management. Assistance will be provided to improve the police and prosecutor offices infrastructure in terms of buildings and equipment, provided that there is a clear commitment and progress in implementing the reforms in the sector and that the infrastructure can be operated and maintained.

As regards the conditions for **sector support**, the National Cross-cutting Strategy on Fight against Organised Crime, Trafficking and Terrorism for 2013-2020 the National Strategy on Integrated Border Management and the National Strategy on Public Order are in place and in line with the NSDI 2014-2020. . The lead ministry in the home affairs sector is the Ministry of Interior which is responsible for the expenditure programmes of the Albanian State Police. The coordination of the police and other law enforcement agencies, such as the prosecutor's office, the courts, and joint investigation units, needs improvement. Similarly, monitoring and coordination of donors need to be strengthened. Overall, elements are in place, further improved compliance with sector approach might be foreseen in the second half of IPA II,



provided that the conditions are in place, especially concerning improved coordination, reporting and performance monitoring.

### **2.3. Types of financing**

The assistance to justice reforms and the fight against corruption will preferably be through sector reform contracts. In addition, service contracts, twinning and TAIEX will be used to deliver the assistance. On property rights, there will be close cooperation with the World Bank which is already actively engaged in this area.

Assistance to improve the judicial and penitentiary infrastructure in terms of buildings and equipment will be delivered through works and supply contracts and possibly through reform contracts, provided there is clear commitment to and progress in implementing reforms in the sector and the infrastructure can be operated and maintained.

Assistance to home affairs related reforms and investment will preferably be delivered through service contracts, grants with EU member states mandated bodies and TAIEX.

The participation in relevant Union Programmes will be supported and details decided later at the time of programming.

### **2.4 Risks**

The main **risk** that could affect the achievement of the intended objectives and results are serious delays occurring due to the limited financial and human resources available to carry out the reform processes. It is therefore important to strengthen both (i) the capacities of the Albanian authorities to monitor reform progress and take corrective action, and (ii) the involvement of independent monitoring for recommending corrective action such as additional capacity building or additional financial support to be taken.

## **3. Environment, Climate Action and Energy**

### **3.1. Needs and capacities in the sector**

Efforts in this sector include the development of capacity building, support for the adoption and enforcement of EU-aligned legislation and infrastructure investments, notably in water, floods and waste management as well as climate change actions.

Previous assistance targeted the support for the alignment with the extensive and complex EU regulatory framework and helped better shape the policy development. Assistance first of all focused on the capacity of central and local institutions to enforce the relevant sector legislation and to monitor the level of pollution (air and water). The assistance also included a series of infrastructure projects to build wastewater collection and treatment facilities along the Adriatic coast with the purpose of safeguarding the sea water. Other complementary areas, such as nature protection and climate change, have also received IPA support. Overall, EU assistance over the period 2007-13 amounts to more than EUR 126 million, in particular in water/wastewater areas. Various other donors contribute to the sector, either through the Western Balkan Investment Framework (WBIF) or directly; among them international financial institutions (IFIs) with loans from the World Bank, the EIB, the EBRD, and other donors such as Germany, Italy, Japan, Austria, Sweden, Switzerland and the United Nations. The role of the Energy community Secretariat is steadily growing.

In the period 2014 – 2017, IPA II assistance addressed water management and waste water treatment as priority areas.

Important lessons learned are that (a) capacity building and investments require a minimum level of human resources in terms of both skill and number; (b) the ownership for EU funded investments is jeopardised if they are not linked to the sector strategies and budgets of the relevant Ministries; (c) that infrastructure development requires strong and efficient coordination between Ministries at central level and with local government institutions; and (d) that land availability for infrastructure construction is a serious constraint in Albania. Moreover, basic conditions in terms of construction permits, land titles and operating and maintaining resources must be met in order to ensure sustainability of the assistance. Finally, future feasibility studies should carefully assess institutional due diligence.

Albania is at a very early stage of alignment with the *acquis* waste and water sectors and the challenges are still manifold. Priority needs include further development of capacities at both central and local level government for developing and implementing policies. Further alignment with and mainstreaming of the EU environment and climate policies and legislation is needed, with effective implementation ensured. This includes in particular climate legislation, monitoring, reporting and verification of greenhouse gases emissions; emissions trading, effort sharing decision; fluorinated gases; ozone-depleting substances; vehicle efficiency and fuel quality standards; carbon capture and storage and other relevant legislation.

Utility prices need to reflect the full costs of services, including e.g. waste management and/or wastewater treatment. The polluter-pays principle should generate revenues that will be used to fund environmental protection measures.

Investment needs in the water sub-sector are substantial, whilst management capacity constraints exist.

In particular, it is important that investments are made in full compliance with the Environmental Impact Assessment and the Strategic Environmental Assessment Directives, and also that public consultations are effectively conducted.

Waste management remains a major challenge, including increasing recycling performance and providing for better services to the public. Illegal dumping and not adequate legal dumping sites pose threats to environment. The switch to circular economy principles and goals with measures covering the whole cycle: from production and consumption to waste management and the market for secondary raw materials will help the country boost its global competitiveness, foster sustainable economic growth and generate new jobs. The aim is to contribute to "closing the loop" of product lifecycles through greater recycling and re-use, by this bringing benefits for both the environment and the economy.

The operation of several investments, notably in the water sector, which have been supported by IPA I, is not at a satisfactory level yet. Albania is susceptible to climate change, notably flooding and land erosion, at certain times. Overall, climate change mitigation and developing climate relating measures are necessary in these areas.

Particular attention is required in the air quality sector. Albania needs to take decisive steps to improve air quality, in particular in the cities. Albania needs to strengthen monitoring capacities and patterns in line with the Ambient Air Quality Directive 2008/50/EC.

In the sustainable energy sector, Albania depends almost exclusively on hydropower for electricity generation and on electricity imports due to limited domestic production and vulnerability to hydrological conditions. The National Energy Strategy up to 2030, yet to be finalised and adopted, would contribute to implementing the Paris Agreement commitments, be in line with the Strategy on Climate Change and its Action Plan and considers, on the other hand, issues of energy security and diversification. The recently adopted Law on Promotion

of Use of Energy from Renewable Sources improves Albania's compliance with the EU acquis and gives an opportunity for further unlocking Albania's renewable energy potential beyond hydropower.

Primary energy intensity in Albania is above the EU average, affecting the competitiveness of the economy and putting further pressure on the constrained electricity supply. Considerable effort would still be needed to bring the national legislation on energy efficiency in line with the EU acquis

### **3.2. Objectives, results, actions and indicators**

The assistance in the first period of IPA II (2014-2017) has been providing support to (a) build capacities for managing the sector in line with EU policies and consolidate earlier efforts and (b) operate and maintain existing and new public infrastructure investments in a sustainable and efficient way including through the preparation of a pipeline of feasible, mature, and implementable environmental infrastructure investments. This will continue in the second period of IPA II (2018-2020). Finally, it is important to support public awareness-raising on issues relevant to environmental protection and climate change action, as well encourage the "greening" of public procurement.

In the planning and programming of actions in the environment, climate change and energy domains, coherence/coordination with the commitments taken by Albania in the EUSAIR context will be actively sought.

In the framework of the 2030 Agenda for Sustainable Development, the priorities for IPA II assistance as outlined above for competitiveness and innovation shall also contribute to the reaching of SDG 7 - Ensure access to affordable, reliable, sustainable and modern energy for all and SDG 13 - Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy.

The **results** to be achieved with EU support include the following:

- Environment and climate change policies and legislation are further aligned with EU standards and best practice and effectively implemented, including to support the 2015 Paris Agreement on Climate Change, to increase global expenditure dedicated to climate action;
- Sustainability and climate-resilience of environmental infrastructure investments through better coordination of relevant stakeholders is improved;
- Sound funding for operating and maintenance expenditures is ensured, along with the support to operation, monitoring and maintenance capacities;
- SEA and EIA are systematically carried out and mitigations measures implemented;
- Pipeline of investment projects in line with the existing master plans established;
- Waste water collection and treatment has increased in line with the EU legislation the largest agglomerations and environmentally sensitive areas are prioritised;
- Waste management capacity and facilities, especially recycling, increased, and a master plan for waste management investments, especially recycling, developed.
- The selection mechanism for identifying priority investments (connectivity single project pipeline) in water, flood protection, waste management and climate change, considered for blending IPA II grants with IFI loans, is functioning;

- Climate change mitigation and adaptation strategies and action plans at local, regional and national level developed and implemented.
- Adoption of maritime spatial planning and integrated coastal management strategies.

The **indicators** to measure the achievement of the results will include:

- Percentage of Population connected to waste water collection and treatment systems (national statistics);
- Population with access to waste differentiation/sorting at source.
- Number of climate change strategies (a) developed and/or (b) implemented with EU support

In terms of the **action** to be supported, a differentiation is needed between: (a) development of *policies, legislation, planning and preparation of investments* and (b) the support to implementation of policies and *actual investments*, incl. ensuring their operation and maintenance and (c) increased role of civil society organizations in the area of policy dialogue.

The development and implementation of the environment and climate action policies, as well as the approximation of the regulatory framework with the EU legislation, will be supported through technical assistance, provided via twinning, service contracts, TAIEX and international specialised agencies. The technical expertise will also strengthen the capacities of the central and local institutions to enforce the relevant regulatory measures for the protection of the environment. If needed, the support will also include specific equipment to monitor sector policy benchmarks. Support will also be provided for public awareness raising and meaningful integration of environment and climate change into other policy areas such as energy, transport, agriculture.

The preparation of feasible, mature and implementable infrastructure investment projects will be supported through technical assistance for feasibility, appraisal, impact assessment, designs and other studies. It is envisaged that all EU and other donor funding will be included in one single prioritisation and selection process. IPA II funds within the connectivity agenda in the Western Balkans will primarily be invested for feasibility studies, impact assessments or design studies in order to prepare bankable investments which meet eligibility criteria for funding from IFI or other donors.

In order to ensure that loans are able to address the priority development needs and to speed up investments, considering the limited public resources available, IPA II funds could be provided to co-fund investments and combine loans with a limited amount of grant funding. The precise nature of co-funding investments depends on the available resources, the quality and maturity of the proposed projects, the cooperation with other donors, the completion of on-going appraisals and feasibility studies, and on the availability of sufficient funding for adequately operating and maintaining the investments (see above). The preferred modality for delivering assistance is the management of EU funds by the same donor that provides the loan for the investment, in order to maximise the efficiency of the implementation in respect of timing and economies of scale in contracting.

With regards to the conditions for **sector support**, it has to be noted that there are different Ministries, strategies and budgets covering water and waste management. In addition, local government institutions are responsible for infrastructure at the local level. Water and waste issues should therefore be treated separately in order to reduce the complexity and allow

effective management of sector support. Regarding strategies, a National Water Strategy 2011-2017 (undergoing a revision), the Water Investments Master Plan 2011-2026, and the National Waste Management Strategy Action Plan 2012-2025 are integrated in the new NSDI. In this regard, it is essential to ensure that the sector strategies and action plans are fully in line with the relevant EU policies and requirements of the *acquis*. The experience from past assistance has shown that the currently allocated national resources are not sufficient to cover adequately neither the investment needs, nor the operating and maintenance expenses. These shortcomings must be addressed as a matter of priority, before further assistance to actual investments is justified. In the period 2014-2017, the focus was on developing the basic elements of a sector approach for water such as the development of a strategy and an implementation plan, budget planning, institutional and organisational development and coordination amongst others. For the period 2018-2020, assistance will apply a more clearly defined sector approach which might include sector reform contracts and/or a blending mechanism to complete an IFI's investment programme with EU grants, conditioned to the achievement of a set of performance targets and indicators for the EU assistance. With regard to climate action, the Strategy on Climate Change and its Mitigation Action Plan focussing on three main components: mitigation, adaptation and sustainable development, was developed with the EU support but has not been adopted yet, slowing down the necessary reforms. Sector approach requirement remain to be further addressed for waste management and climate change.

### **3.3. Type of financing**

Sector reform contracts are the preferred type of financing in this sector, or respective sub-sectors such as water or waste management, if the conditions are met as well as service contracts, twinning and TAIEX will be used to deliver the assistance. Regarding investments, a coordinated approach for the blending of IFI loans with IPA grants is foreseen through the Western Balkan Investment Framework. The participation in relevant Union Programmes will be supported.

### **3.4. Risks**

There is a **risk** that the resources available both in terms of funds and human resources are not sufficient. Therefore the mitigating strategy is to focus on the affordability 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 maximise efficiencies.

## **4. Transport**

### **4.1. Needs and capacities in the sector**

This sector covers capacity building, policy development, legislation approximation, and investments in transport, incl. regional and EU integration of the road and rail networks, aviation and ports.

Substantial IPA I funds have been mobilised for this sector, with investments on small and medium-scale road infrastructures in cooperation with IFIs, amounting to over EUR 91 million. Significant technical assistance is provided for the preparation of the national legislation in line with the EU regulatory framework, capacity building, and preparation of strategic documents. In addition, IPA I assistance was provided to establish a unified road

network, connecting peripheral communities to the main national and regional transport lines, notably the TEN-T connection from Durres to Pogradec) and the Route 2 (north-south axis from Shkoder to Tepelene-Gjirokastra). The EU has financed upgrading along these two axes, e.g. the Vlora and Rrogozhina bypasses and supported the construction and upgrading of rural roads. In terms of donor coordination, funds for transport infrastructure development are provided primarily in the form of loans from IFI such as the World Bank, the EIB, the EBRD and the bilateral cooperation with Germany and Italy. Further transport projects are funded by the Kuwait fund for Arab Economic Development, the Saudi Fund for Development, the Organisation of the Petroleum Exporting Countries (OPEC) fund for International Development and the Abu Dhabi fund. In terms of the Connectivity Agenda, Albania's government has played an active role in the region. Furthermore, Albania has signed and provisionally applies the Transport Community Treaty, which provides for, among others, the implementation of the TEN-T acquis by Albania.

In the period 2014 – 2017, IPA II assistance addressed the governance of road transport and road maintenance as priorities.

The road core network, which is to be connected with the EU TEN-T corridors includes a road from Durres to the fYRoM border (part of Corridor VIII), a section of the "Adriatic-Ionian Corridor" between Podgorica and the Greek border, and a road starting in Lezhe going through Pristina to Nis. Regarding railways, the section from Durres port to the border with Montenegro is part of the rail core network and will serve as an extension of the EU rail network. Durres port and Rinas Airport belong to the regional core network.

The transport sector suffers from the lack of funds for maintenance. It is therefore important that both resources and tools for public financial management, needed for ensuring long term commitments, should be a pre-condition for successful infrastructure investments. Institutional assessments, such as due diligence assessments, of implementing institutions should be included in future feasibility studies. It is essential that the planning of transport infrastructure investments is done in line with the priorities identified in the government's strategic plans and the South East Europe Transport Observatory (SEETO) comprehensive network development plans<sup>9</sup>. In addition, infrastructure maintenance should be carried out in line with already existing asset management tools and manuals. Albania needs to select projects which are strategically relevant, as to ensure the most effective and efficient use of the national budget resources in support to infrastructure development in Albania. It is also a requirement for accessing EU financing. Albania shall focus on those projects which adhere to the TEN-T and TEN-E guidelines, as formulated in the Western Balkan Six (WB6) process and in accordance with the Transport Community Treaty. Consistency shall also be ensured with the measures and actions regarding transport (maritime, road, rail, air, border crossing, capacity building, etc.) identified by Albania together with its fellow EU and non-EU countries in the context of the EUSAIR, as priorities for the Adriatic-Ionian macro-region.

The challenges in the transport sector include the already mentioned inadequate allocation of resources for infrastructure maintenance (25% of what is needed). Albania must pay attention to the so called "soft measures" identified in the WB6 process. The capacity of Albania to maintain its road network affects the choice of any possible future new investment. Albania has considerable needs for additional investments in line with the National Transport Strategy, the SEETO comprehensive network development plans, the Connectivity Agenda and the Transport Community Treaty. However investment projects should be identified

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<sup>9</sup> See <http://www.seetoint.org/library/multi-annual-plans/>

based on prioritisation criteria including the technical and financial abilities for implementing these projects within their medium- (and long-) term budget framework, thus creating a single pipeline of projects and considering the available fiscal space. Furthermore, there are specific challenges to further develop transport policies, for instance regarding the update of the National Transport Plan in line with the 2016 National Transport Strategy, the in-depth reform of the rail sector, opportunities and resources for the development of maritime transport and multimodality, security and safety standards for all modes of transport, urban mobility, the aviation market, and others in line with the relevant EU policies.

#### **4.2. Objectives, results, actions and indicators**

Due to the issues of insufficient maintenance of transport infrastructure, IPA II support from 2014 to 2017 was targeted to: i) further development and implementation of transport policies; and ii) maintain and operate existing and new public infrastructure investments in a sustainable and efficient way, selected through the pipeline of feasible, mature, and implementable infrastructure projects including maritime transport and intermodal connections to the hinterland that can be tackled through cooperation at the level and scale of the Adriatic-Ionian macro-region . In the period 2017-2020, priorities will be the same as for 2014-2017 but it is envisaged to provide additional support for actual investments and further develop transport policies. A further prioritisation of projects and comprehensive sector related structural reforms is also carried out through the annual ERP exercise.

In the framework of the 2030 Agenda for Sustainable Development, the priorities for IPA II assistance as outlined above for competitiveness and innovation shall also contribute to the reaching of SDG 9 - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

The **results** which are expected to be achieved with EU support include:

- Transport policies and legislation further aligned with EU legislation and best practice, including to support the 2015 Paris Agreement on Climate Change, to increase global expenditure dedicated to climate action;
- Administrative capacity for managing transport policies improved;
- Sustainability of investment projects improved through support to realistic maintenance programmes and to the coordination of relevant stakeholders for funding operating expenditures;
- Transport safety significantly improved, especially regarding road transport, maritime transport and aviation;
- Investments in transport infrastructure advanced in line with the SEETO network development plan priorities, the Connectivity Agenda and the Transport Community Treaty;
- A single selection mechanism functioning for identifying priority investments considered for blending IPA II grants with IFI loans in line with the existing transport strategies and public investment plans;
- In depth reform of the rail sector, starting with the alignment of the legislation and setting up the required bodies.
- Maritime transport further developed as part of the multimodal integrated transport system.

The **indicators** to measure the achievement of the objectives will include:

- Logistics performance indicator – score (WB);

Regarding the actions to be supported, there is a need to differentiate: policy and legislation development and implementation, the planning and *preparation* of investments, the support to maintenance of investments and *actual* investment.

The development and implementation of the **transport policy**, as well as the approximation of the **regulatory** framework with the relevant EU legislation, will be supported through technical assistance. Technical expertise will also help prepare mature and implementable infrastructure investment projects. It is envisaged that all EU and other donor funding will be included in one **single prioritisation and selection process** for investment projects. In that respect, coherence/coordination in the context of the EUSAIR will be actively sought. IPA II funds will primarily be used for feasibility studies, impact assessments or design studies or other related services in order to prepare bankable investments which meet eligibility criteria for loan funding from IFIs or other donors.

IPA II funds will as well contribute to the setup of programmes for the **maintenance** of investments. However, IPA II funds cannot substitute the obligation of the beneficiary to provide the resources for operating and maintaining the investments. EU assistance might be used to set up the mechanisms and provide co-funding for a limited time with a reduction of the part co-funded by IPA II over time.

In order to ensure that loans are able to address the priority development needs and also to speed up investments, the provision of IPA II funds will be coordinated in line with the WBIF.

In terms of the conditions for **sector support**, it has to be noted that there are different Ministries, strategies and budgets engaged in the transport sector: the Ministry of Transport and Infrastructure is leading in the sector, whilst local government institutions are responsible for infrastructure at the local level. The National Transport Strategy, covering the period 2016-2020, was adopted in November 2016 and provides a good strategic basis for the future choices to be made in the sector. The update of the National Transport Plan is expected to be finalised early 2019. The priority for the first half of IPA II (2014-2017) has focused on supporting various Ministries to develop the elements of a sector approach such as, policy and strategy development and its linkages to medium term budget planning, institutional and organisational development, coordination, and monitoring of sector reforms amongst others. This has facilitated the approval in 2016 of a Sector Reform Contract in the Transport Sector. This programme will assist the Government of Albania in enhancing the transport sector governance and harmonising it with the EU regulatory framework of the road transport system

### 4.3 Type of financing

Sector reform contracts, blending of grants with loans from IFIs and Technical Assistance is the preferred type of financing in the transport sector, if the conditions are met. Before the eligibility is established, service contracts, twinning and other<sup>10</sup> will be used to deliver the assistance. Regarding investments, a coordinated approach to blending of IFI loans with IPA II grants is foreseen through the Western Balkan Investment Framework. Road maintenance might be supported through cooperation with other donors, e.g. the World Bank. The

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<sup>10</sup> For instance from multi-beneficiary assistance or TAIEX



participation in relevant Union Programmes will be supported and details decided later at the time of programming.

#### **4.4 Risks**

There is a **risk** that the resources available both in terms of funds and human resources may not be sufficient. Therefore, the mitigating strategy is to focus on the affordability 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 maximise efficiencies. Due diligence assessments will be applied thoroughly in project preparation activities.

### **5. Competitiveness, innovation, agriculture and rural development**

#### **5.1. Needs and capacities in the sector**

The scope of the competitiveness and innovation component includes boosting the overall competitiveness of the economy with a particular focus on SME development and the promotion of tourism, which have a particular potential for growth. This sector is an important element of the EU support to strengthening Albania's **economic governance**, in addition to public administration reform and public financial management mentioned above in section 1.

Support from the IPA I national programme has focused on regulatory and competitiveness aspects and advice to develop the SME policy, including technical support for businesses for access to credit. In addition, through multi-beneficiary programmes a range of regional credit facilities have been set up in order to increase investments. With respect to the support of other donors, Italy has created a credit line for SMEs while Germany, Switzerland, the UN and the US are supporting different aspects of SME policy development, capacity building and business support services. Regarding tourism, the EU has so far covered this area through the promotion of cultural heritage and urban requalification in various locations (e.g. in Korca, Elbasan, Shkodra and Berat). In the area of tourism Albania is also receiving technical assistance from Germany, the UN, and from Italy through NGOs.

In the period 2014 – 2017, IPA II assistance addressed support for SME, in particular in the tourism sector. Promotion of sustainable tourism is also one of the four pillars of the Adriatic-Ionian macro-regional strategy (EUSAIR). Albania is leading on that pillar, together with Croatia.

The agriculture and rural development component includes focus on the ability of the agri-food sector to cope with competitive pressure and market forces and to progressively align with the EU rules and standards; increased resilience to adverse effects of climate change, and food safety, veterinary and phytosanitary policies.

Previous assistance under IPA I included support for the definition of the relevant policy, with particular reference to capacity building activities to set up the administrative structures for the management of the IPA II rural development (IPARD) programmes. Capacities have been consolidated in a learning-by-doing exercise, where the national structures in conjunction with external expertise provided funding for co-financing IPARD-like measures, i.e. small and medium scale investments in the agro-food sector. IPA I support also focused on capacity building in the area of food safety and veterinary services. Other donors supporting agriculture and rural development include Germany, Denmark, Sweden and Italy.

In the period 2014 – 2017, IPA II assistance addressed the support for the improvement of food safety, veterinary and phyto-sanitary standards, and support for the fishery as priorities.

The main **challenges** with respect to the competitiveness of the Albanian economy are linked to the respect of the rule of law (weak law enforcement especially regarding contracts, concerns with the judiciary and corruption, including in tax, customs and local administration). There are concerns regarding the security of land titles and land ownership, consolidation and constraints for businesses in getting reliable power supply connections. Limited access to business services and credit is an additional limitation. A poor education and vocational training system with a mismatch between available and needed skills results in a limited human resource capacity. The tourism sector development based on cultural and historical heritage, natural resources, local traditions, agri-food production, suffers from the lack of financial resources; shortage of expertise and technical know-how for the improvement of sector policies; insufficient institutional capacities; lack of relevant data for evidence based policy making; limited capacity to assess and monitor the impact of policies and measures in the sector.

The integration of the Albanian economy into regional and EU networks and markets is limited. The potential of SMEs notably in the tourism industry is underdeveloped. The link between tourism and preservation of natural and cultural heritage and urban requalification could represent an important source for economic growth and development particularly when well integrated with local territorial development and decentralization process. Further on, Albania needs to improve the business environment by developing access to information via availability of broadband to reduce both the digital divide within the country and the digital gap with the EU. Similarly, Albania needs to increase its efforts to develop research and innovation capacities in order to strengthen competitiveness and growth. With respect to the credit facilities, Albania implements several different 'funds', e.g. a credit line and SME credit guarantee fund<sup>11</sup>, an 'export guarantee fund', a 'creative economy fund', an 'innovation fund', a 'competitiveness fund'. The Albania Investment Development Agency (AIDA) manages most of them but a better coordination of these funds is needed. . Scaling up the role and capacities of Regional Development Agencies could contribute to a better balanced economic, social and territorial development.

Finally, Albania needs to further exploit possibilities regarding access to the international gas market to be provided by the Trans Adriatic Pipeline (TAP) which will be constructed to deliver gas from Azerbaijan to Europe passing through Albania.

In the agriculture area, despite the progress made so far, Albania is still **challenged** by low productivity and underdeveloped rural areas. Farmers and agri-business operators are not yet sufficiently prepared to manage the opportunities and challenges originating from the integration in EU agricultural markets and policies. Currently, agriculture is mainly subsistence-oriented and average farm sizes are small due to fragmentation.<sup>12</sup> The notion of 'farmer' is not sufficiently developed in the legislation. Farming is labour intensive with low levels of labour productivity and efficiency as a result of low level of technological advancement and insufficient adoption of know-how. The overall investment in agro-food sector is limited. Advisory and extension services are weak, and agriculture-related information systems are not well developed (land register, functional farm and animal registers). Further harmonisation with EU legislation in order to optimise the access to EU

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<sup>11</sup> Funded by Italy.

<sup>12</sup> The average holding size is 1.26 ha, average parcel size is 0.27 ha.

market opportunities is not yet ensured with respect to food safety, veterinary, and other related areas. The country lags behind in having in place functioning quality policy legislation (organic farming, protection of geographical indications).

New agricultural funding facilities have been set up. Under IPA 2012 project a Rural Credit Guarantee Fund has been established. The national authorities, with the support of EBRD, have set up a National guarantee fund. Interest for similar activities have been shown by some other financial partners as well. Furthermore, national support measures provide coupled subsidies for actual production rather than promoting competitiveness and facilitating access to credit. The administrative capacity of the country remains low. Albania will need to expand the administrative capacity in order to be able to approximate its legislation and policy instruments to the EU *acquis*.

Neither the public nor producers have adequate knowledge of the environmental and food safety standards in farming and primary food processing. Adherence to environmental standards, e.g. for applying agricultural chemicals, and food safety standards, such as facilities to treat animal by-products, remain low. Relevant functional infrastructure is missing. Additionally, the increased vulnerability to climate change of the ecosystems, water supply and infrastructure affects directly the agricultural production.

Regarding fisheries, there is currently no clear and structured policy to ensure that resources are well managed, that illegal and unregulated fishing is controlled and that the sustainable production and processing of fish is supported. Food safety standards need to be improved.

Albania's annual ERP contains an analysis of key obstacles to competitiveness, growth and job creation within the agricultural sector. It also contains several reform measures planned to be implemented over a three-year period. IPA II should support the reforms mentioned in article 5.2 below.

## **5.2 Objectives, results, actions and indicators**

Main objectives of EU assistance to Albania will be:

- to enhance the competitiveness of the Albanian economy in particular by i) developing competitive SMEs, ii) enhancing market integration and the contribution of exports to growth, iii) preparing the country for exploiting possibilities originating from the forthcoming access to the above mentioned gas market.
- to support reforms of the business environment, trade and investment facilitation and research and innovation foreseen in the Economic Reform Programme.
- As regards agriculture, to support the development of an *efficient, sustainable and innovative agro-food sector which is* competitive on the EU market and offers employment, social inclusion and quality of life for the population.
- As regards tourism, coherence will be sought with measures and actions agreed by Albania with its fellow EU and non EU countries participating in the EUSAIR macro-regional strategy.
- As regards research and innovation, the support the development of a Smart Specialisation Strategy, being the prerequisite that underpins national research and innovation strategies and policies. It helps to prioritise national research efforts and to allocate the resources needed. In terms of research and innovation capacity building it also helps to identify regional centres of excellence. In addition to further promote the development of the Albanian National Research and Education Network and its connection to GÉANT.

In the framework of the 2030 Agenda for Sustainable Development, the priorities for IPA II assistance as outlined above for competitiveness and innovation shall also contribute to the reaching of SDG 2 - End hunger, achieve food security and improved nutrition and promote sustainable agriculture, SDG 8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, SDG 9 - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation and SDG 10 - Reduce inequality within and among countries.

The following **results** are expected to be achieved with EU support:

- Accessibility and demand for business development services improved;
- Access to finance for SMEs improved;
- Enhanced integration of Albania's economy in regional markets and export markets further developed, incl. tourism;
- Good governance and fight against informality is improved in key sectors such as energy, tourism, culture, etc.;
- Economic possibilities for accessing new gas market are better exploited;
- Albania participates in the EU competitiveness reform programme;
- Digital agriculture-related information systems in place, which are well-functioning and dynamic (i.e. continuously updated digital land, farm, and animal registers);
- Quality of agricultural advisory services improved;
- Income generated by women and young entrepreneurs in rural areas increased;
- Adverse climate impacts reduced through introduction of climate-resilient measures, improved environmental protection, well-planned production structure and increased awareness among rural population
- Application of environmental and food safety standards in the entire agro-food chain improved especially regarding meat and dairy production as well as products for export;
- Management and protection of fishery resources improved in line with the EU Common Fishery Policy.
- Development of a Smart Specialisation Strategy.

The **indicators** to measure the achievement of the expected results will include:

- Doing business - distance to frontier (WB).
- Travel & Tourism Competitiveness Index (WEF).
- Total investment generated via IPA II in the agri-food sector and rural development (DG AGRI).

Regarding the **actions** to be supported, business services and access to capital for loans and loan guarantees will be delivered through the already established **European Fund for South East Europe** and the **Western Balkans Enterprise Development and Innovation Facility**, both established through EU support. With respect to overall policy development, market integration and export development, technical assistance will support Albania to manage the various regional and national funds in support of SMEs, to optimise their impact and to coordinate the funding provided by donors. The authorities' capacities will be strengthened to develop and monitor their respective policies and their implementation. The development of the **gas market** will take place in close cooperation with the Energy Community Secretariat.

With respect to the conditions for **sector support**, a new Business and Investment Development Strategy is part of the NSDI 2015-2020. The tourism strategy is expected to be finalised by mid-2018. The Ministry of Economic Development, Tourism, Trade and

Entrepreneurship (MEDTE) is leading the sector. Some responsibilities in service delivery are allocated to the local government institutions, i.e. municipalities and communes. The coordination of activities and budgets between State level and local government institutions is however not always clear.

Within the framework of the Western Balkans Six Process, the regional economic integration agenda has accelerated over the years leading to new agreements (for instance Trade Facilitation Agreement in 2016, Agreement on Trade in Services in 2017 as additional protocols to CEFTA). These agreements, based on the compliance to the EU *acquis*, will require significant involvement of the Ministry of Finance and Economy and other governmental stakeholders (custom authority, phyto-sanitary agency, market surveillance, etc.) to allow for smooth implementation. In this context, the National Committee for Trade Facilitation, whose Secretariat will have a key in the implementation of the agreements, may need support to reinforce its capacity. This could be also the case for other governmental stakeholders involved in the process.

Overall, the elements are in place for a sector approach to support the economic development. The financial commitment by Albania is manifested in budget programmes in various Ministries to implement the BIDS and related strategies.

Over the years EU support to the agriculture and rural development has been including technical assistance to capacity building of relevant bodies. This includes assistance in preparation for implementation of IPARD, extension and advisory services, as well as to the set up technical bodies in charge of food safety and quality, agricultural policy formulation, agricultural statistics, information management systems, sustainable production and processing of fish and to improve the food safety standards, as well as fishery sector management.

Of particular relevance is EU support to develop the administrative capacity for implementing rural development programmes in line with EU policies, incl. sound financial management and to receive entrustment of budget implementation tasks of its management and operating structures.

In terms of the conditions for a **sector approach**, a strategy for agriculture and rural development has been adopted which should be implemented by a programme for rural development in line with EU policies. The administrative structures need further strengthening to ensure successful entrustment.

An operating structure for implementation of pre-accession assistance in the field of rural development has been set up and strengthened over the past years. Staff has undergone substantial training, mainly through technical assistance projects and the use of TAIEX.

### **5.1.3. Type of Financing**

Assistance will be provided through twinning, technical assistance, supplies of equipment and investments, including through financial instruments, possibly also through calls for proposals and direct grants to relevant national authorities. Indirect management with other organisations may be suitable. Specific infrastructure projects in the competitiveness sector may be also funded in coordination with the through WBIF. Sector reform contracts will be considered, especially to support the ongoing structural reform process, provided that Albania meets the relevant pre-conditions.

IPA II multi-annual support in the area of rural development shall be provided through measures financed under the Rural Development Programme (IPARD). The management of IPARD is done through indirect management by Albania.

IPA II also co-finances Albania's contribution for its participation in the relevant Union Programs for instance Horizon 2020 (research and innovation), and COSME (competitiveness of enterprises and SMEs) once the benefit in Albania's participation has been established in view of the costs.

#### **5.1.4. Risks**

The main **risks** that could hamper economic development including tourism originates not only from the (difficult/deterioration of the) macro-economic situation in the country but also in the region and major trading partners. For that reason, the EU assistance will consider the diversification of economic activity as an important element of strategic SME development. The assistance to the development of tourism will equally consider the need to adjust to market developments.

In addition, there are risks that delays in the reforms of property rights will affect the development of land markets which in turn will limit the access to credit and ultimately the development of agriculture and rural areas.

Furthermore, the low awareness in society at large and among economic operators of agro-food related environmental and food safety standards, jeopardises the acceptance of reforms. Raising awareness, whilst being sensitive to the cultural and economic context, will be a possible response to address this risk.

## **6. Education, employment and social policies**

### **6.1. Needs and capacities in the sector**

The scope of this sector includes education and employment systems which improve the skill base of the labour force, enhance social inclusion of the vulnerable population and the development of human resources that are necessary to support growth and development.

Previous assistance has included the development of the vocational education and training system, both in terms of the definition of the policy definition and the construction and supply of the infrastructure (VET schools). IPA I also supported social inclusion of vulnerable groups and minorities, in particular Roma and Egyptians, through tailored interventions under the national programme or through specific actions financed under the Civil Society Facility and in the frame of the European Instrument for Democracy and Human Rights. The overall IPA support over the period 2007-13 amounted to over EUR 24 million. Other donors assisting the sector include Germany, Austria, Italy and Switzerland, which are complementing the government's budget programmes in the area of VET, labour and social policies. Labour market governance, youth and women employability, social inclusion and tripartite dialogue are also addressed by several international organisations such as the World Bank and the UN family (UNDP, UNWOMEN, ILO).

In the period 2014 – 2017, IPA II assistance addressed employment and vocational education and training as priorities in the sector.

Despite the progress made, Albania still faces **challenges** in this sector. Further development of the country's human resources, in terms of skills, competences, and qualifications in line with the labour market needs remains a challenge. The country also needs to tackle informality and undeclared work as well as redefining and aligning labour market statistics. Improved access to and quality of education and training for young people and adults will need to be linked with economic and regional development goals which will eventually enhance employment and social inclusion. Fostering labour market participation, notably for women, or people with no specific education or training is a further challenge. Albania needs to approximate education policies more closely with EU policies, for instance regarding labour market, statistics, teacher training and learning methods, participating in relevant EU programmes such as ERASMUS +, and implementing the Bologna reforms to ensure comparability in the standards and quality of higher education qualifications. Also, the country needs to tackle informality and undeclared work and improve labour market statistics.

On Quality Assurance, the former Public Accreditation Agency for Higher Education was reorganized into the Quality Assurance Agency in Higher Education (ASCAL) back in 2015, which is an affiliate of ENQA<sup>13</sup> since then. ASCAL also signed a memorandum of understanding with the QAA<sup>14</sup> to conduct institutional reviews for accreditation. These began in 2016 and resulted in a handbook for the methodology<sup>15</sup> and a joint review of all HEIs against Albanian Standards and the ESG2015<sup>16</sup>.

Albania ranked 51<sup>rd</sup> out of 72 countries participating in the latest available Programme for International Student Assessment (PISA) from the Organisation for Economic Cooperation and Development (OECD), which was conducted in 2015. The results showed a positive trend compared to those in 2012 and Albania's participation in 2018 round of test is seen as a positive stepping stone to improve the overall results

Despite improvements on the labour market, the employment rate and labour market participation remain low and the incidence of undeclared work is significant. Unemployment decreased overall, but it remains very high for young people. The high unemployment rate of high-skilled workers reflects the skills mismatch. Labour market participation of women also remains low as they face more barriers related to childcare and care for the elderly and social norms. There are limited links between passive and active employment schemes. The informal economy is being tackled to some extent by fighting tax evasion and promoting tax compliance, but undeclared work is not addressed in a comprehensive manner. Labour inspections suffer from low administrative, human and financial capacities. Stronger enforcement is needed along with the incentives schemes to encourage formal hiring.

Social inclusion and access to social welfare services is a challenge. The social welfare system needs to be reformed to be more supportive of labour market participation and of active inclusion. The most vulnerable groups still have very limited access to community-based social services. This needs to be improved along with the availability and mainstreaming of social services at local level such as home-care, child protection services and day-care for children with disabilities, family strengthening, support to victims of domestic violence etc. The de-institutionalisation of the residential care for children and adults also needs to be further supported through the development of local community based

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<sup>13</sup> European Association for Quality Assurance in Higher Education

<sup>14</sup> Quality Assurance Agency for Higher Education

<sup>15</sup> [https://www.aal.edu.al/accreditation/images/documents/Albanian%20handbook%20FINAL%20VERSION\\_web.pdf](https://www.aal.edu.al/accreditation/images/documents/Albanian%20handbook%20FINAL%20VERSION_web.pdf)

<sup>16</sup> The Standards and guidelines for quality assurance in the European Higher Education Area

services. Furthermore, the provision of social and health services and infrastructure in support of the disadvantaged population, with particular reference to minority and other groups are inadequate. Inclusion policies have to be strengthened and better targeted to relevant vulnerable groups notably to the Roma population which is among the most vulnerable and disadvantaged in Albania. It continues to be exposed to multiple forms of exclusion, while the range of social services and initiatives to promote their inclusion such as ensuring access to social, education, legal and health care centres remains to be improved.

Another important need is to build capacity for inter-institutional cooperation so that integrated policies, including employment and social reform programmes, can be developed and implemented in this area. The local government is not well -equipped to deal with related tasks. The coordination between State Ministries and local government is still insufficient.

## **6.2. Objectives, results, actions and indicators**

The EU will assist Albania with the **objective** to contribute to a more inclusive and effective labour market by supporting the employment and skills development policies of the Albanian Government. This will be achieved through a range of actions modernizing the education and training system and strengthening the active labour market measures targeting inter alia women and youth, as well as specific actions to support the most disadvantaged groups of the Albanian society.

In the framework of the 2030 Agenda for Sustainable Development, the priorities for IPA II assistance as outlined above for competitiveness and innovation shall also contribute to the reaching of SDG 4 - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, SDG 8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all and SDG 10 - Reduce income inequality within and among countries.

The **results** expected to be achieved with EU assistance include:

- Quality and relevance of the education and training system is improved for developing labour force skills in line with Albania's medium-term growth and development prospects;
- Competences of Vocational Education and Training (VET) teachers are improved by updating their training and teaching methods and enhancing their mobility opportunities;
- Development and implementation of the legal framework, including the adoption of the law on VET and the Albanian Qualification Framework (AQF);
- Labour market participation and employment is increased, especially for women and youth;
- Marginalised and disadvantaged population are better included in the labour market and in the VET system;
- Adequacy and efficiency of social and health services and their accessibility are improved for the population in need on the basis of objective and transparent criteria, reducing risks for corruption and other abuses;
- Partnerships between local government institutions and civil society are promoted for delivery of social welfare services;
- The quality and effectiveness of labour market institutions and services is improved.



The **indicators** to be used to measure the accomplishment of the expected results of EU assistance in this area will include:

- Employment rate of population of 15 to 64 years, total % (Eurostat);
- Employment rate of population of 15 to 29 years, youth % (Eurostat);
- Gender gap in employment of 15 to 64 years (Labour Force Statistics).

Regarding the **action** to be supported, EU assistance will address the capacity building and policy reform needs related to the quality and inclusiveness of the human resource development of the country. The EU might further support the consolidation of infrastructure development in the education system, once the conditions for adequately operating and maintaining equipment and infrastructure are in place.

In order to improve the living conditions of marginalised and disadvantaged population in line with European standards, the EU might support reforms needed for improved social services and social housing. Such assistance will be based on the new 'Jobs and Skills' Strategy on Social Protection and Policy document on Social Inclusion, and has to be feasible and affordable.

With respect to the conditions for **sector support**, the relevant sector strategy for Employment and Skills has been adopted in 2014 and its implementation is ongoing, supported by a Sector reform contracts programme financed under IPA 2015. The Strategy on Social Protection and Policy Document for Monitoring Social Inclusion are approved during 2016 and expected to be implemented further enhancing the comprehensive coverage and application of the sector approach.

### **6.3. Type of financing**

Sector reform contracts will be the preferred type of financing if the conditions are met. Until the eligibility is established, EU assistance will include technical assistance through service contracts, TAIEX or other. Assistance may be implemented in combination with other donors' funding, in particular from IFIs, and might include the cooperation with civil society organisations. Regarding social inclusion and protection, and with an active policy of integration into the labour markets, the EU envisages close cooperation with other donors in the area in order to ensure efficient support for those in need and promote employability, productivity and opportunity. The participation in relevant Union Programmes will be supported and details will be decided at the time of programming.

### **6.4. Risks**

The **risks** related to achieving the intended objectives relate to the available financial and human resources. Close monitoring and reporting should help to mitigate these risks. In addition, there are external factors affecting the employment situation especially for migrant workers who are affected by the economic situation in neighbouring countries. The possibilities to mitigate these risks are limited.

## **7. Territorial cooperation and regional cooperation**

### **7.1. Needs and capacities in the sector**

In the period 2014-2020, the European Union finances a number of programmes for cross-border cooperation (CBC). The cooperation aims at promoting reconciliation and good neighbouring relations and fostering sustainable local development also by improving

prosperity in remote and rural border areas which are most often lagging behind. Therefore, cross-border programmes seek to address common challenges in the fields of economic competitiveness, social inclusion, protection of environment and cultural heritage and promotion of tourism.

Key lessons learned about cross border cooperation at borders between IPA beneficiaries were identified in two interim evaluations and a final evaluation, recently finalised. Results and recommendations have been taken on board under IPA II for programmes involving Albania and its neighbours IPA beneficiaries. In particular, the institutional framework governing IPA II cross-border programmes among IPA beneficiaries has been simplified with a single contracting authority per programme, a single financial envelope per programme, as well as fewer thematic priorities to ensure greater focus and more impact.

Albania also takes part in IPA CBC programmes with neighbouring EU Member States and as well as in Interreg transnational cooperation programmes with EU Member States. Both these programmes are managed by DG Regional and Urban Policy in shared management with the participating EU countries. In these programmes, Albania participates on equal footing with the EU countries. This is an opportunity for the Albanian applicants (e.g. regional and local institutions, civil society organisations, universities, etc.) to practise with rules and procedures of EU territorial cooperation programmes and extend the network of potential partners for regional cooperation activities.

## **7.2. Objectives, results, actions and indicators**

Albania participates in the implementation of three IPA II cross-border cooperation programmes with other IPA II beneficiaries, notably Montenegro, Kosovo\* and the former Yugoslav Republic of Macedonia. Each programme focuses on three thematic priorities:

- Environmental protection, climate change and risk prevention
- Tourism and cultural and natural heritage
- Competitiveness, business, trade and investment
- The cross-border programme with Kosovo\* has an additional component on youth and education

Specific objectives per thematic priority of each cross-border cooperation programme are laid down in a dedicated seven years multi-annual programming document, which has been drafted on the basis of extensive consultation of local stakeholders.

As regards cross-border cooperation programmes with EU Member States, Albania participates in the implementation of a trilateral programme with Italy and Montenegro and in a bilateral programme with Greece. Each of the IPA CBC programmes with Member States focuses on four thematic priorities as listed in Annex III to the IPA II Regulation<sup>17</sup>.

Italy-Albania-Montenegro programme focuses on the following priorities:

- “Strengthening the cross-border cooperation and competitiveness of SMEs”

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<sup>17</sup>(1) promoting employment, labour mobility and social and cultural inclusion; (2) protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management; (3) promoting sustainable transport and improving public infrastructures; (4) encouraging tourism and cultural and natural heritage; (5) investing in youth, education and skills; (6) promoting local and regional governance, planning and administrative capacity building; (7) enhancing competitiveness, business and SME development, trade and investment; (8) strengthening research, technological development, innovation and ICT.

- “Smart management of natural and cultural heritage for the exploitation of cross border sustainable tourism and territorial attractiveness”
- “Environment protection, risk management and low carbon strategy”
- “Increasing cross border accessibility, promoting sustainable transport service and facilities and improving public infrastructures”
- “Technical Assistance”

Greece-Albania programme focuses on the following priorities

- “Promotion of the environment & sustainable infra-structure”
- “Boosting the local economy”
- "Technical Assistance"

During the period 2014-20, Albania continues to participate in the Interreg V-B Mediterranean (MED transnational cooperation programme and has also joined the new Interreg V-B Adriatic-Ionian transnational cooperation programme. These programmes have a rather broad geographical outreach, which encompasses EU member states and non-EU countries.

The Mediterranean (MED) programme covers the coastal regions of all EU countries on the Mediterranean shores as well as Bosnia and Herzegovina, Montenegro and Albania. It focuses on (i) Innovation, (ii) Low Carbon Economy, (iii) Natural and Cultural Resources as well as (iv) Enhancing Mediterranean Governance. The Albanian applicants have built contacts and networks with partners from other MED participating countries under the previous 2007-13 programme. Under the 2014-2020 programmes, programmes, the number of Albanian applicants to the Call for proposals the share of Albanian participation in successful initiatives is growing.

The Adriatic-Ionian (Adriatic-Ionian) programme covers the same countries and territories of the EU macro-regional strategy for the Adriatic and Ionian Region (EUSAIR). The programme’s priority axis - (i) Innovation, (ii) Natural and Cultural assets, and (iii) Transport - are also pretty aligned with the (broader) pillars of the Strategy. The programme’ priority axis (iv) is dedicated to support the governance system of the EUSAIR.

The Balkan-Mediterranean (Balkan-Med) programme covers Bulgaria, Cyprus, Greece as well as Albania and the former Yugoslav Republic of Macedonia. It focuses on (i) Entrepreneurship & Innovation and (ii) Environment

### **7.3 Type of financing**

The three CBC programmes with IPA beneficiaries are funded under IPA II, 2014-2020 and are regulated by the Framework Agreement between the Republic of Albania and the EU on arrangements for implementation of Union financial assistance.

According to the FA, cross border cooperation programmes can be implemented under direct or indirect management; in case of direct management the Contracting authority is the designated EU Delegation.

The EU Delegation to Albania has been entrusted the role of CA for the Albania – Kosovo\* programme.

Financial allocations (EU contributions) are the following:

Albania- Kosovo\* 8,400,000 Euro + a separate allocation for technical assistance (TA) of 840,000 Euro in Direct management

Montenegro - Albania 10,710,000 Euro + a separate allocation for TA of 1,190,000 Euro in indirect management.

FYROM - Albania 10,710,000 Euro + a separate allocation for TA of 1,190,000 Euro in direct management.

The beneficiary countries co-fund 15% of the above 3 programmes.

The two **IPA CBC programmes with Member States** are funded under IPA II, with an equal contribution of ERDF, and regulated by the relevant IPA II regulations and the Financing Agreements concluded at programme level between the Commission and Albanian authorities. They are implemented in shared management between the Commission (DG REGIO) and (one of) the participating EU Member State.

The Interreg V-B transitional cooperation programmes are funded by the ERDF. The participation of candidate/potential candidate countries in these programmes is financed with IPA II funds. The programmes are implemented in shared management between the Commission (DG REGIO) and (one of) the participating EU Member State.

#### **7.4. Risks**

While the institutional set up for implementation of CBC programmes has been simplified and rationalised, the current set up has not proven to be adequate and risks still remain.

Besides, there are risks connected to limited capacities and insufficient commitment in the beneficiary institutions to manage the complex programming procedures foreseen notably for the CBC programmes.

This can be addressed through a targeted dialogue with the joint operating structures in the countries.

With regards to the Interreg V-B transnational cooperation programmes, the limited amount of IPA II funds allocated to finance the participation of Albania is insufficient to respond to the large demand of Albanian partners willing to cooperate in joint projects with partners from EU countries.

Albania	2014	2015	2016	2017	Total 2014 -2017	2018	2019	2020	Total 2018-2020	Total 2014-2020	Of which climate change relevant (%)
<b>DEMOCRACY AND RULE OF LAW</b>	68,7	61,9	32,7	19,6	182,9	69,4	29,0	61,2	159,6	342,5	
Democracy and governance	64,7	48,9	10,2	19,6	143,4	10,4	16,4	38,5	65,3	208,7	
Rule of law and fundamental rights	4,0	13,0	22,5	0,0	39,5	59,0	12,6	22,7	94,3	133,8	
<b>COMPETITIVENESS AND GROWTH</b>	0,0	30,0	49,7	60,6	140,3	46,2	70,0	40,5	156,7	297,0	

## ANNEX 1 – REVISED FINANCIAL ALLOCATIONS

Environment, climate change and energy	0,0	0,0	4,0	0,0	4,0	26,2	0,0	0,0	26,2	30,2	66%
Transport	0,0	0,0	24,0	0,0	24,0	0,0	0,0	0,0	0,0	24,0	27%
Competitiveness, innovation, agriculture and rural development <sup>18</sup>	0,0	0,0	21,7	60,6	82,3	20	40	40,5	100,5	182,8	34%
Education, employment and social policies	0,0	30,0	0,0	0,0	30,0	0,0	30,0	0,0	30,0	60,0	
<b>TOTAL</b>	<b>68,7</b>	<b>91,9</b>	<b>82,4</b>	<b>80,2</b>	<b>323,2</b>	<b>115,6</b>	<b>99,0</b>	<b>101,7</b>	<b>316,3</b>	<b>639,5</b>	

<sup>18</sup> Part of these funds have been allocated to the IPARD programme for Albania C(2015) 5073 of 20.07.2015. The following funds have been earmarked: EUR 13 million (2016), EUR 14 million (2017), EUR 12 million (2018), EUR 16 million (2019) and EUR 16 million (2020).

## ANNEX 2: INDICATORS AND TARGETS

### Context indicators

Indicators	Baseline (2010)	Last value (year)
General government gross debt/GDP (%) (Eurostat)	54.0	68.7 (2016)
GDP at market prices (million euro (Eurostat)	8,996.6	10,740 (2016)
Unemployment rate (%) (Eurostat)	14,04 (e)	15.2 (2016) (e)
GDP per capita at current prices (PPS €) (Eurostat)	7,400 (p)	8,500 (ep) (2015)
Inward FDI flows to the country per capita (€) (Eurostat)	272	327 (2016)
CO2 emissions (metric tons per capita) (World Bank)	1,579	1,979 (2014)

### Outcome and impact indicator

Indicator	Baseline (2010)	Last value (year)	Milestone (2017)	Target (2020)
Composite indicator - average ranking provided by eight external sources: Corruption Barometer, Control of Corruption, Freedom of Press, Press Freedom, Rule of Law, Government Effectiveness, Regulatory Quality, Voice and Accountability	48.93	50.2 (2016)	57.43	64.33

Sectors	Sub-Sectors	Indicators	Baseline (2010)	Last value (year)	Milestone (2017)	Target (2020)
Democracy & governance	<i>Governance and PAR</i>	Composite indicator (Government effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB)) 54	53.19	59.57 (2016)	60.19	63.19

	<i>Statistics</i>	Statistical compliance - % - Eurostat	12-18	32%-38% (2015)	20-30	70-80
Rule of law & fundamental rights	<i>Judicial reform</i>	Composite indicator (Access to Justice (WJP) and Judicial Independence (WEF))	45.28	45.07 (2016)	46.43	55.71
	<i>PFM and Public procurement</i>	Stock of budget arrears	N/A	72.57 billion Lek 2013		0
	<i>Fight against corruption and organised crime</i>	Composite indicators Global Corruption (TI) and Control of Corruption (WB)	34.60	40.17 (2016)	42.33	51.33
	<i>Fundamental rights</i>	Composite indicator Freedom of Press (FH) and Press Freedom (RWB)	35.75	40.46 (2016)	30.50	28.25
Energy and climate action	<i>Energy</i>  <i>Climate Action</i>	Quality of electricity supply (score) - WEF  <i>Extent to which climate action strategies (a) developed and/or (b) implemented with EU support</i>	4 a) None	4.60 (2017)	4.60 a)Yes, but not adopted	NA Climate change strategy and law adopted, financing secured
Transport		Logistics performance indicator (score) - WB	2.46	2.41 (2016)	2.99	3.21
Competitiveness and innovation, agriculture and rural development	<i>Competitiveness &amp; innovation</i>	Distance to frontier, Doing Business (score) – WB	63.79	60.5 (2015)	66.42	67.54
	<i>Agriculture &amp; rural development</i>	Total investment generated via IPA in agri-food sector and rural development – DG AGRI			Not provided	Not provided
Education, employment and social policies	<i>Employment</i>	Employment rate (15-64 years; also 20-64 years if available) (%) - Eurostat	53.50	52.90 (2015)	54.50	60.00
Regional & territorial cooperation	<i>Regional &amp; territorial cooperation</i>	N. of involved municipalities - MIS			26.00	30.00