



EN

THIS ACTION IS FUNDED BY THE EUROPEAN UNION

ANNEX

of the Commission Implementing Decision on the Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of the Republic of Albania for 2023

Action Document for State and Resilience Building Contract for Albania

ANNUAL ACTION PLAN

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and annual and multiannual action plans and measures in the sense of Article 9 of IPA III Regulation and Article 23(2) of NDICI - Global Europe Regulation.

1.1. SYNOPSIS Action Summary Table

Title	State and Resilience Building Contract for Albania Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of Albania for 2023
OPSYS	ACT-61604 (State and Resilience Building Contract AL2023AAP-ESP: Energy Support Package)
ABAC	JAD.1106090 (IPAI/2023/JAD.1106090/AAP-ESP Albania 2023)
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)
Team Europe	No
Beneficiary	Albania
Programming document	IPA III Programming Framework
PRIORITY AREAS AND SECTOR INFORMATION	
Window and thematic priority	Window 3 – Green agenda and sustainable connectivity Thematic Priority 2: Transport, digital economy and society, and energy (60%) Window 4 – Competitiveness and inclusive growth Thematic Priority 1: Education, employment, social protection and inclusion policies, and health (20%) Thematic Priority 2: Private sector development, trade, research and innovation (20%)
Sustainable Development Goals (SDGs)	Main SDG: SDG 7 Ensure access to affordable, reliable, sustainable and modern energy for all Other significant SDGs: - SDG 5 Achieve gender equality and empower all women and girls - 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 industrialisation and foster innovation - SDG 10 Reduce inequalities within and among countries - SDG 13: Take urgent action to combat climate change and its impacts - SDG 17 Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development			
DAC code(s)	1510 – Public sector policy and administrative management (5%) 15142 – Macroeconomic Policy 16010 – Social protection (20%) 23110 –Energy policy and administrative management (55%) 32130 - Small and medium-sized enterprises (SMEs) development (20%)			
Main Delivery Channel	12000 – Recipient government			
Targets	<input checked="" type="checkbox"/> Climate <input type="checkbox"/> Gender <input type="checkbox"/> Biodiversity			
Markers (from DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers @	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internal markers and Tags	Policy objectives	Not targeted	Significant objective	Principal objective
	Digitalisation @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Tags digital connectivity digital governance digital entrepreneurship digital skills/literacy digital services	YES <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/>	NO <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>				
	Connectivity @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
	Tags digital connectivity energy transport health education and research	YES <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	NO <input checked="" type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/> <input checked="" type="checkbox"/>				
	Migration @	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
	Reduction of Inequalities @	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>			
	COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			
	BUDGET INFORMATION						
Amounts concerned	Budget line: 15 02 02 01 Total estimated cost: EUR 80 000 000 Total amount of EU budget contribution EUR 80 000 000. The contribution is for an amount of EUR 80 000 000 from the general budget of the European Union for 2023, subject to the availability of appropriations following the adoption of the relevant annual budget by the Budgetary Authority, or as provided for in the system of provisional twelfths						
MANAGEMENT AND IMPLEMENTATION							
Implementation modalities (type of financing and management mode)	Budget Support Direct management through: Budget Support: State and Resilience Building Contract						
Relevant priorities and flagships from Economic and Investment Plan for the Western Balkans	Contributing to the Economic and Investment Plan (EIP):	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No					
	Priorities: "Private Sector Support", "Energy", "Green Agenda", "Human Capital Development"						
Final Date for conclusion of Financing Agreement	At the latest by 31 December 2023						
Final date for concluding contribution / delegation agreements,	Not applicable						

procurement and grant contracts	
Indicative implementation period	24 months following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement	Eight years following the conclusion of the financing agreement

1.2. Summary of the Action

Energy prices in Europe began soaring in 2021 after the lifting of COVID-19 pandemic lockdowns. The situation further exacerbated following the Russian war of aggression against Ukraine in 2022. The war upended energy markets, triggering heightened price volatility and energy insecurity impacting the EU and its immediate neighbourhood. The rise in energy prices impacted consequently other sectors as well, like production, transport and all service sectors in general. This crisis situation has forced the European Commission to refocus its immediate response, through a set of short-term energy security-related measures, in Europe and beyond, as set out in the *REPowerEU* plan¹ and its EU external energy strategy². The current energy crisis is unprecedented, and it is a challenge for not only the EU Member States but also for the Western Balkans partners. In Albania, the energy crisis has increased the cost of electricity provision and heightened the risk of shortages. Albania domestic electricity generation is 100% from renewables and covers about 70% of the annual electricity needs for the country. Hydropower accounts for the largest share of the country's electricity generation, representing around 95% of the Albania's installed power capacity. Because of this large share, electricity production in Albania is highly vulnerable to weather and climatic variations. The situation is compounded by Albania's need to import up to 30% of its electricity supply, making the country particularly exposed to external shocks in the international energy market and to global prices fluctuations. The overall objective of this Action is to assist Albania through targeted growth-enhancing policy measures aimed at mitigating the socio-economic impact of the energy crises and in particular on small and medium sized enterprises and households, and to strengthen the Government's overall capacity to deliver measures to reduce the likelihood of energy poverty, particularly of the most vulnerable segments of the population, and to support long-term socio-economic recovery, energy security and energy resilience and diversification of Renewable Energy Systems of Albania.

This action will contribute directly to SDG 7 "Ensure access to affordable, reliable, sustainable and modern energy for all", and also to other SDGs, among them 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 industrialisation and foster innovation", SDG 10 "Reduce inequalities within and among countries", SDG 13 "Take urgent action to combat climate change and its impacts". The Action directly contributes to the priorities of the Economic and Investment Plan for the Western Balkans (EIP)³ adopted by the European Commission on 6 October 2020 related to "Private Sector Support", "Energy", "Green Agenda", "Human Capital Development" and to the IPA III (Instrument for Pre-Accession Assistance for the period 2021-2027) Programming Framework Window 3 "Green agenda and sustainable connectivity" (Thematic Priority 2: Transport, digital economy and society, and energy) and Window 4 "Competitiveness and inclusive growth" (Thematic Priority 1: Education, employment, social protection and inclusion policies, and health and Thematic Priority 2: "Private sector development, trade, research and innovation").

¹ COM (2022) 230 Final- [See REPowerEU: A plan to rapidly reduce dependence on Russian fossil fuels and fast forward the green transition.](#)

² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=JOIN%3A2022%3A23%3AFIN&qid=1653033264976>

³ SWD(2020) 223 final

2. RATIONALE

2.1 Context

Energy prices in Europe began soaring in 2021 after the lifting of COVID-19 pandemic lockdowns, followed by Russia's war of aggression against Ukraine in 2022. The war upended energy markets, triggering heightened price volatility and energy insecurity impacting the EU and its immediate neighbourhood. The rise in energy prices impacted consequently other sectors as well, like production, transport and all service sectors in general.

This crisis situation has forced the European Commission to refocus its immediate response, through a set of short-term energy security-related measures, in Europe and beyond, as set out in the *REPowerEU* plan and its EU external energy strategy, as reiterated by the President of the Commission in her State of the European Union address⁴.

The current energy crisis is unprecedented, and it is a challenge for not only the EU Member States but also for the Western Balkans partners. The EU and the Western Balkans partners need to work hand in hand to increase energy security in the EU and in the Western Balkans as a matter of urgency.

As immediate response to the energy crisis at EU level there are several objectives that focus on the gas sector. Under the mandate of the European Council, the European Commission and the EU Member States work together on establishing joint purchases of gas. Those efforts are accompanied by supporting measures: international outreach to current and potential gas exporters, and regional and pan-EU work streams for ensuring the most efficient use of the existing infrastructure under new patterns of gas flows. This work will also serve as a basis for the development of the global hydrogen market.

The European Commission and the European Council have invited the Western Balkans to join the platform for joint purchases of gas to lower dependency on Russian gas. The regional platform for South East Europe has prepared a detailed action plan outlining quick measures needed to accurately assess the gas demand and infrastructure potential in the region. Serbia and North Macedonia have participated in this discussion (all IPA III Western Balkans were invited). It should be noted that currently only three of the Western Balkans have gas markets (Serbia, North Macedonia and Bosnia and Herzegovina). The EU Gas Storage regulation⁵ was incorporated in the Energy Community law on 30 September⁶, making the filling targets and arrangements as well as storage certification mandatory also in the Western Balkan countries.

In Albania, the energy crisis has increased the **cost of electricity provision and heightened the risk of shortages**. Albania domestic electricity generation is 100% from renewables and covers about 70% of the annual electricity needs for the country.

Hydropower accounts for the largest share of the country's electricity generation, representing around 95% of the Albania's installed power capacity. Because of this large share, electricity production in Albania is highly vulnerable to weather and climatic variations. The situation is compounded by Albania's need to import up to 30% of its electricity supply, making the country particularly exposed to external shocks in the international energy market and to global prices fluctuations. The energy crisis is also likely to have a strong impact on

⁴ https://state-of-the-union.ec.europa.eu/index_en

⁵ Regulations (EC) n°715/2009 and (EU) 2017/1938 with regard to gas storage as amended by Regulation (EU) 2022/1032 of the European Parliament and the Council of 29 June 2022 amending, OJ 173, 30.6.2022 p.17.

⁶ https://www.energy-community.org/dam/jcr:b0667e99-1b61-4488-a4ba-7bc73442c465/Decision_MC_01_2022_Gas_storage.pdf

Albanian social and economic stability – where a recent UNICEF report indicates that over 35,000 Albanians are expected to fall below the poverty line.

The Government of Albania (GoA) responded to the crises by introducing targeted support measures for the transport and agriculture sectors, which were mostly affected by the increase of fuel price, as well as measures to support vulnerable categories (pensions, people under the social insurance scheme), including some controls on fuel price and on selected food products through ad-hoc price-monitoring boards. The electricity price remained unchanged for households and SMEs due to government subsidies. A plan for introducing higher electricity tariffs for households consuming above 800 kWh, initially planned to enter into force in October 2022 has been postponed. The EU has engaged in regular political and technical dialogue with the Government to ensure EU financial support, and IPA programming could address the most urgent national priorities. Going forward, future EU support to (IPA annual and/or Western Balkans Investment Framework (WBIF) programmes) the energy sector in Albania will build on the results of this SRBC (State and Resilience Building Contract), so as to be aligned with Albania's short-term needs as well as its medium-term reform objectives of energy efficiency, diversification, market access and alignment with the EU *acquis*.

The programme is framed within the **broader regional initiative by the EU** to support all the Western Balkans in addressing the energy crisis and the impact of the Russian war of aggression against Ukraine.

At the Berlin Summit of 3 November 2022, the European Commission announced a pledge⁷ for the Energy Support Package of EUR 1 billion in EU grants, with expectations to leverage investments of up to EUR 2.5 billion. The Energy Support Package aims at addressing immediate, short-term and medium-term needs in the Western Balkans and in the context of the ongoing energy crisis:

- The immediate needs are related to price increases in energy and specifically in electricity, which require the provision of budget **support under this Action**.

- The short- and medium-term needs relate to the energy transition, namely energy diversification, renewable energy generation (except hydropower), energy efficiency, connectivity of electricity and gas networks and interconnectors supported by the funding under the WBIF.

The new Energy Support Package is expected to provide to the Western Balkans approximately EUR 500 million budget support in the form of SRBCs as immediate assistance under IPA III. The present Action addresses the immediate term objective with a budget support to mitigate the impact of rising energy prices on SMEs, avoid energy poverty through measures to support vulnerable households in coping with the rapid increase of prices of energy and equip the countries to transition towards clean energy.

The Energy Support Package is consistent with and further reinforces the EU policy framework for cooperation with and for financial assistance to the Western Balkans, first and foremost the EIP.

While supporting citizens and businesses to face energy and electricity price increase is the urgency, the short and medium term objectives for the region (decarbonisation, energy diversification, renewable energy generation, energy efficiency, connectivity of electricity and gas networks and interconnectors) stay unchanged to achieve the targets set under the Green Agenda for the Western Balkans⁸. The upcoming Energy Community Ministerial Council in December 2022 is expected to adopt 2030 climate and energy targets for each Energy Community Contracting Party. They will also develop National Energy and Climate Plans that

⁷ https://neighbourhood-enlargement.ec.europa.eu/news/berlin-process-summit-eu-announces-eu1-billion-energy-support-package-western-balkans-and-welcomes-2022-11-03_en

⁸ COMMISSION STAFF WORKING DOCUMENT Guidelines for the Implementation of the Green Agenda for the Western Balkans Accompanying the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions An Economic and Investment Plan for the Western Balkans (SWD/2020/223 final)

will provide the roadmaps to achieve 2030 renewable energy and energy efficiency targets and commit to coal phase-out dates.

Against this background, the privileged relationship of the Western Balkans, has allowed to also extend to the Region several initiatives that were taken in the EU in the last months.

Through the EIP, and its flagship projects, the EU support in the field of energy has been reinforced. Strong emphasis is put on energy market integration, decarbonisation and clean energy, increased use of renewable energy sources, increased digitalisation of the energy systems and smart grids, energy efficiency, including modernisation of district heating, and energy security. Enhanced connectivity and extension of the Energy Union to the Western Balkans is also instrumental for a successful clean energy transition in the region. In addition new funding has been approved to replenish the Regional Energy Efficiency Programme in support energy efficiency projects for public and private buildings.

The action will also complement the policy-based lending operation programme of EUR 250 million (phase 1- EUR 150 million and phase 2 - EUR 100 million) “Support of the Energy Sector Reform of Albania” being implemented by Kreditanstalt für Wiederaufbau (KfW) and Agence Française de Développement (AFD) since 2018. The programme is based on the Power Sector Reform roadmap, and includes 18 policy reform elements agreed between the Albanian Ministry of Finance and Economy (MoFE), the Ministry of Infrastructure and Energy, KfW and AFD. The first phase was completed in Q2 2021 with a total disbursement of EUR 150 million done by KfW and AFD upon completion of the agreed policy matrix milestones. The second phase is under implementation and disbursement of EUR 100 million is expected by March 2023.

The **Green Agenda for the Western Balkans** is an essential element of the EIP. Western Balkan leaders endorsed the EIP and the Green Agenda at the Sofia Summit in November 2020.

The **IPA Programming Framework**⁹ sets the overall objectives of the EU’s assistance under Window 3 (Green agenda and sustainable connectivity). The overall objectives of the EU’s assistance under Window 3 are to promote the green agenda by reinforcing environmental protection, contributing to mitigation, increasing resilience to climate change, accelerating the shift towards a low-carbon and circular economy and develop the digital economy and society. The current action will contribute to boosting resilience of the Western Balkans partners in the current energy crises. The action is also relevant for Window 4 (Competitiveness and inclusive growth), particularly for supporting private sector and vulnerable households.

On 12 October 2022, the European Commission adopted its **2022 Enlargement Package**¹⁰, providing a detailed assessment of the state of play and the progress made by the Western Balkans and Türkiye on their respective paths towards the European Union, with a particular focus on implementing fundamental reforms, as well as clear guidance on the reform priorities ahead. When it comes to the energy crisis, the package refers to the need of closer coordination of actions and cooperation amongst the Western Balkans partners and with the EU to tackle the energy crisis.

The Commission Report for Albania 2022¹¹ highlights that the Russian war of aggression against Ukraine is indirectly hitting Albania’s economy. The economic importance of rainfall-dependent hydroelectric production remains a key contributor to the volatility to GDP growth. A real growth rate of 6% in the first quarter of 2022 showed the continuing recovery of the Albanian economy, supported by private consumption, exports and investment. Business and consumer confidence remained upbeat in April and May, despite even more strongly increasing transport and food prices. The price hikes have prompted the

⁹ C(2021) 8914 final

¹⁰ COM(2022) 528 final

¹¹ SWD(2022) 332 final

government to provide about 2% of GDP in support for pensioners, vulnerable households, farmers and transport companies and to keep regulated electricity prices stable.

2.2 Problem Analysis

Short problem analysis

According to the Energy Community Secretariat, the security of supply risk profile for the season 2022/23 in the Western Balkans is considered “low” for Bosnia and Herzegovina and Serbia and “medium” for the remaining four partners (compared to “high” in Ukraine and Moldova). The specific risk profile for Albania is as follows:

Energy Community risk assessment 2022/23 LEVEL OF RISK (high, moderate, low): Moderate
Sources of risk: hydrological conditions, European and regional (SEE) market disturbances; affordability issues.

Total final energy supply by source¹² (approx. 88 000 TJ in total): 57% oil products, 21% hydro, 13% biofuels and waste, 6% coal, 3% gas:

- imports: 3045 TJ coal, 11 435 TJ electricity, 42 022 TJ oil product,
- exports: 24 171 TJ crude oil, 2 774 TJ electricity, 4 331 TJ oil product.

Gas: there is no gas infrastructure in the country, but Albania is considering to establish an interconnection point to the TAP and signed agreements to develop LNG facilities; no dependency on Russian gas.

Electricity.

- Electricity production mix: almost 100% hydropower
- Hydro production was around 33.2% lower this year until, leading to increase of electricity imports;
- Cross-border lines may support high electricity imports if necessary;
- Electricity imports will be needed, as usually in winter, and in a case of high wholesale market prices affordability issues can be expected;
- EIP priority projects: Ionian-Adriatic Pipeline

The most significant problem in the region in the short term is related to prices of imported electricity. Western Balkans partners except Bosnia and Herzegovina are systematically net importers of electricity. The import needs of Albania in 2022 are further exacerbated by the lower outputs of hydro plants due to draught.

Electricity prices in all Western Balkans partners – particularly for domestic users – are centrally regulated and have remained below the production / import price, as well as below the European market price (between 22-41% of the EU average). This puts additional pressure on partners’ budgets to cater for the financial losses of the Utility providers, although the regulated electricity price in Albania is among the highest in the region.

An increase of electricity prices to market level is perceived by partners as destabilising the social situation, being not affordable for the majority of residential consumers, and even a factor leading to bankruptcy for commercial users.

In Albania, the consequences triggered by tightening global energy markets, have led, like in the rest of the region, to increases in electricity prices, added strain on the state budget, and lower prospects for socio-

¹² Does not cover imported electricity, which is impossible to trace back to the source, but covers the energy carrier used to produce electricity domestically; imports and exports may include re-exports

economic growth. In a country where the economy had just started recovering from the protracted negative effects of the 2019 earthquake and the COVID-19 pandemic, and where the state of emergency in the energy sector had already been declared in October 2021, the risks of greater energy poverty and social disruption are particularly significant. In October 2022, the Government declared the further extension of the state of emergency in the energy sector to June 2023.

As an economy that is highly dependent on hydroelectric production, Albania has benefited from favourable weather conditions and recent rain falls which created good Hydro Power Plants (HPPs) reserve and buffered somewhat the urgency for energy imports. On the other hand, dependence on hydroelectric production – hence on climatic conditions – is also a main contributor to GDP volatility. In 2021, Albania had to purchase its electricity at prices about four times higher than in previous years, while selling – in different periods – at low prices. The average annual price of purchasing energy in 2021 has almost tripled compared to 2020. For the year 2020, the average annual price was EUR 56.19 MWh. The import prices for 2022 have touched levels above EUR 700 MWh (for 2023, over EUR 500 MWh are predicted).

The high purchasing prices are borne predominantly by the large commercial consumers, which face increasingly high costs and lower competitiveness as a result. In particular textile manufacturers are among the most vulnerable, as they employ about 150,000 people in Albania. Higher energy and food prices contribute to high inflation, which -although below the level of regional peers- lowers living conditions and can contribute to higher emigration. Albania is already facing an increase in energy poverty rates, with the number of vulnerable customers expected to multiply. Albania has spent EUR 360 million in electricity imports until October 2022, with over EUR 200 million injected in the form of budgetary support, in an effort to protect householders and businesses from increased energy prices.

To assure electricity production the GoA has contracted, since September 2022, two oil-powered power-plant-ships to operate from the Vlora area. The plants will only be operational as of January 2023. The ships will have an electricity generation capacity estimated at 100 - 114 MW and an average cost of around EUR 200/MWh. This will serve up to 15% of the overall consumption need of Albania.

Ongoing efforts to diversify electricity production with other renewables continue. A solar photovoltaic plant with an estimated capacity of 5.2 MW owned by Albanian Elector power Corporate - Korporata Elektroenergjitike Shqiptare (KESH), and two small HPPs with around 5 MW capacity were added to the domestic power generation capacities. By the end of 2023, the 140 MW photovoltaic plant in Karavasta will generate the first 70 MW of solar energy.

The Government also adopted a financial package to support the operator of electrical energy distributor – Operatori i Shpërndarjes së Energjisë Elektrike (OSHEE), through loan and sovereign guarantees to secure liquidities and avoid interruption of supply. OSHEE forecasted a loss of EUR 72 million in 2021 and EUR 59 million in 2022, which will be compensated by an approved sovereign guarantee of EUR 100 million, and a similar guarantee is planned in the 2022 budget. OSHEE also relies on the EUR 70 million European Bank for Reconstruction and Development (EBRD) loan approved in 2021 for COVID -19 measures, and the EUR 50 million AFD loan recently approved to consolidate OSHEE's structure. Despite these measures, fiscal space remains limited and inflation increased above target in the first half of 2022, in particular as of March, pushing the overall inflation rate to a historic high of 8.3% % in October.

The World Bank projections for the year 2023 show that the total cost of securing full electricity supply (KESH) - the annual cost of KESH generation and the cost of purchased electricity, estimated respectively at EUR 50 million and EUR 410 million - will be well below the KESH estimated annual revenue of around EUR 280 million. Hence a financing gap of EUR 200 million to be covered by the state budget or by increased end-users' tariffs. The situation could further deteriorate if the hydrology is not favourable and much better if the hydrology is favourable for electricity production, respectively.

Taking into consideration the energy market situation and tightening external financing conditions, compounded by the vulnerability of domestic consumers (especially socially vulnerable households and SMEs), and the high volatility of hydropower and its contribution to GDP, Albania will need additional support to ensure sustainable public finances, keep the reform and growth momentum, and prevent a possible emergency caused by scarce or no access to electric power supply or heating.

2.3 Lessons Learned

In the aftermath of the COVID-19 pandemic, the European Commission adopted several crisis-response programmes as SRBCs (in addition to a significant refocus of ongoing budget support programmes to meet the arising socio-economic needs) to support the partner Governments in their efforts to mitigate the socio-economic impact of the COVID-19 pandemic specifically on vulnerable households and SMEs and implement their Crisis Response Action Plans. This approach was assessed in a fast-track evaluation of the COVID-19 response in 2020-2021¹³. The evaluation found that the crisis response (including the SRBC approach) has been effective in granting the beneficiary countries the fiscal space enabling budgetary rearrangements to respond to the social needs of the vulnerable actors (households and economic stakeholders).

Several recommendations are relevant for the current crisis response action:

- To maximise the use of policy dialogue as a leverage to inform and monitor the implementation of the crisis response plans of partner countries
- To pursue support to medium- to longer-term fiscal and public expenditure reforms aimed at increasing domestic revenue mobilisation and at promoting debt sustainability during both crisis and post-crisis responses.
- To support partner countries in developing their capacities for the vertical and horizontal expansion of social protection systems in EU partner countries to increase crisis preparedness and resilience.
- To further cooperate with partner governments to be more targeted, open and accountable in their present and future crisis policy response and crisis spending.

2.4 Additional Areas of Assessment

2.4.1 Public Policy

Long-term development and economic policy

The energy sector is a strategic one for Albania's integration into the EU and the regional energy markets, as well as for the achievement of objectives of the green and climate agenda. The recent international energy price crisis is indeed affecting the whole national economy. As a member of the Energy Community, Albania is legally bound to implement substantial parts of the energy *acquis*, including the Third Energy Package. Albania is a signatory of the Paris Agreement on Climate change, and at the COP26 in 2021 committed to a Nationally Determined Contributions (NDC) target of 20.9%.

The country's main strategic planning document, which serves as a basis for the current programming, is the National Strategy for Development and Integration-NSDI II (2015–2020) and draft NSDI III (2021-2030). It sets the national policy goals and sustainable development objectives and confirms the Government commitment to achieve energy efficiency in all sectors.

¹³ Fast-track assessment of the EU initial response to the COVID-19 crisis in partner countries and regions (2022), available at https://international-partnerships.ec.europa.eu/policies/monitoring-and-evaluation/strategic-evaluation-reports/fast-track-assessment-eu-initial-response-covid-19-crisis-partner-countries-and-regions-2020_en

The National Energy Strategy 2018–2030 currently being implemented, focuses on enhanced security of energy supply and minimized environmental impacts at affordable costs for Albanian citizens and in all economic sectors. The upcoming National Energy and Climate Plan (NECP 2021-2030) that complements the Energy Strategy, draws up an integrated policy framework to steer decarbonisation efforts until 2030 and beyond, aligning with the goals of the European Green Deal.

The 2017 Law on renewable energy increased compliance with the EU *acquis*. Albania had committed to a 38% target from renewables in gross final energy consumption by 2020 from 31.2% in 2009. The share of renewable energy sources in Albania's energy consumption reached 45.01% in 2020¹⁴, exceeding the target of 38%. In addition, the Albanian National Action Plan on Renewable Energy recommends specific actions to promote economic diversification and energy production from renewable sources.

The National Energy and Climate Plan (NECP) was adopted in December 2021. In order to reflect the Energy Community 2030 targets, the Albanian authorities have continued to refine the NECP in the course of 2022, with the objective to adopt the updated NECP in 2023 at the latest. The diversification of electricity production has advanced and promoted alternative sources of renewable energy (wind, solar) through private investments and auctions.

The Laws on Energy Efficiency and Energy Performance of Buildings are adopted, and were revised in 2021. However, some secondary acts are needed to implement the new legislation. The Energy Efficiency agency formed in 2019 needs to be fully staffed and operational, and to be able to play a strong role in the implementation of the NECP and 2030 targets.

The energy crisis, as outlined above, has created additional challenges and intensified existing ones. The National Action Plan on Response to the Energy Crisis that this SRBC will support seeks to address the most urgent needs of Albanian households and businesses and to overcome the short-term impact to socioeconomic growth and stability.

State of Emergency Declaration and the Government Energy Crisis Action Plan

To address the energy crises effects, with the Decision of Council of Ministers, No 584 of 8.10.2021 “On the declaration of the state of emergency in the supply of electricity” amended, it was announced the state of emergency in the supply of electricity which will be in force until 30 June 2023. Pursuant to this Decision of Council of Ministers, an inter-institutional group for emergency management in electricity supply was set up, chaired by the Deputy Prime Minister and composed of the Minister of Infrastructure and Energy, Minister of Finance and Economy and representatives from other institutions, deemed necessary by the Deputy Prime Minister.

According to this decision, the MoFE was charged to ensure the appropriate financial mechanisms, in order to manage the import of energy to ensure the uninterrupted supply of electricity, while the electricity companies have to suspend investments.

In its response to the energy crisis, Albania will make sure that the supply of electricity is stable and it will protect households and small businesses from the current price spike.

Energy policy and provisions for vulnerable citizens

In March 2022, the Prime Minister of Albania presented the Social Resistance Package designed by his Government to mitigate the impact of the global energy crisis, as well as the impact of Russia's invasion of Ukraine on prices. Including concrete measures with immediate effect, the package has been designed to offset

¹⁴ <https://www.energy-community.org/news/Energy-Community-News/2022/02/16.html>

the rising prices of basic food items for retired people, families in need benefiting economic assistance and individuals with disabilities. It also provides support to farmers and small businesses, and funds the energy price shield for household consumers and small businesses.

The specific measures are:

- a. Allocation by GoA of ALL 3.6 billion or EUR 30.6 million to index pensions (3.5% increase). The measure was first reflected in the April 2022 month's pension payment for 673,542 retirees.
- b. Provision of cash handout to 434,000 citizens to offset the increased prices of basic food items – calculated at 7% by Institute of Statistics (INSTAT) or ALL 2 500 monthly equivalent; and provision of cash handout of ALL 3000 month for three months to the following social categories: retirees receiving less than half of the minimum wage, disabled individuals that are currently under the economic assistance scheme and older adults living alone;
- c. Increase by ALL 1.4 billion or EUR 12 million of the tax-free oil scheme in support for farmers – corresponding to a total additional allocation of EUR 5 million.
- d. Provision of ALL 500 million or EUR 4.25 million to cover the marginal increase in public transport ticket prices to all Albanians who use urban and intercity urban lines.
- e. Law on zero rate personal income tax for monthly wages below ALL 40 000; 50% cut in personal income tax on salaries up to ALL 50 000; reduction on personal income tax on salaries of ALL 1.5 million and 2 million- measures which were introduced in April, and continue to remain in force. First reflected in the April 2022 salary for around 360,000 employees
- f. Setting of minimum wage at ALL 32 000 starting April 2022
- g. ALL 28 billion or EUR 23.8 million Government investment to cover energy financing gap and buffer electricity prices increases for households and small business.

In September 2022, the government decided to increase households' electricity tariff for all consumption in excess of 800 kWh/month per month to ALL 42 (EUR 0.36) per kWh , while consumption of up to 800 kWh /month would continue to be subsidised at price of ALL 9.5 (EUR 0.08) per kWh (four times lower).

The proposed tariff scheme was initially set to enter into force on 1st of October 2022 and be accompanied a plan to reduce electricity consumption by State institutions by 15% over the same period.

However, on 30 September, in light of an improved hydric situation and the reduction of imports by the Power Generation Company, the government decided to postpone the entry into force of the new tariff scheme with a tentative plan to start in December 2022. The government may decide to revise the new electricity tariffs again, should the hydric situation in the country further improve.

National Measures for mitigating the Energy Crisis

In coherence with the emergency declaration, the Government prepared an Energy Crisis Action Plan that will focus on the immediate needs to avoid energy poverty among vulnerable households¹⁵, support SMEs to foster

¹⁵ The main law defining the vulnerable households is Law no 57/2019 on Economic Assistance in the Republic of Albania. The law does not define as a specific vulnerable category Roma and Egyptian families however, they benefit as part of each category. For example, for the month of October there were around 2,700 families on the cash assistance scheme, (around 11,423 individuals from Roma and Egyptian groups benefiting). These families are assessed based on a set of criteria which are used determine the situation of a family in need for cash assistance.

Article 7 of this law defines the following categories benefiting cash assistance:

- a) families in need that do not have any income or not adequate income,
- b) orphans who are not under the state residential care,
- c) parents with more than 2 children born at the same time (twins, triple children and so on) belonging to families in need,
- d) victims of trafficking until the moment they reintegrate and get a job,
- e) victims of domestic/gender based violence,

the 2022-2023 winter and continue along its path on energy sustainability, namely by building its resilience through diversified sources of energy. The Action Plan is being developed in cooperation with EU services and should anchor the immediate crisis response in the overall energy strategy.

The plan aims to mitigate the impact of rising energy prices on population and particularly to protect most vulnerable groups and to prevent similar situation in the future.

The objectives of the action plan are:

1. Support for households and SME for reducing the impact of high energy price,
2. Support in format of social protection measures to vulnerable groups,
3. Adopt a short to medium term energy resilience strategy/action plan,
4. Address structural issues related to Green transition strategy.

GoA priorities for 2023

Increase the energy efficiency as a share of the overall energy consumption through implementation of programs that promote the use of advanced technologies and the use of renewable energies. Specifically:

- Increase the use of renewable energies in 2023 by 38% as compared to 2022
- Increase the energy efficiency in 2023 by 6.5% as compared to 2022

Diversification of energy resources and integration into regional and European energy networks, by enhancing investments and improving the encashing (bill collection) and liquidity status

The 2023 budget proposal plans a fund of ALL 12 billion (c.a. EUR 102 million) sector budget support in the energy sector, to be used upon a decision of the Council of Ministers.

The 2023 Fiscal Package includes amendments to the VAT law and excise law that would incentivise investments in solar panels and electric vehicles, and regulate the trade of electricity through the Albanian power exchange (APEX). Due to the extended state of emergency on energy until June 2023, and in order to enhance electricity savings and the use of alternative energy sources, the government proposes to remove the VAT on imported and domestic supply of firewood in 2023, and the introduction of a special Tax on “Producers of electricity for export”. Profits made by electricity producers who, due to prices hike during 2022, have made profits without increasing costs, will be taxed for these additional profits at the rate of 33%. The expected income in the budget is estimated to be ALL 8.3 billion. The Government also proposed a windfall tax (a one-off tax imposed by a government on a company) on electricity producers, expected to yield ALL 8.3 billion (c.a. EUR 70.6 million).

Albania’s electricity market is partly regulated. Households and small businesses are under the regulated market and the currently pay EUR 0.08 kWh and EUR 0.12 kWh, respectively. These prices have been established in 2015 and have remained unchanged since. Private consumers, including businesses connected to the medium voltage level, have been on the regulated market, paying an electricity price of EUR 0.09 kWh. According to the “Law of Electricity Sector”, from 1 January 2022, the latter category should have been supplied by the deregulated market. However, due to the extraordinarily high prices in the market and the risk of bankruptcy in case of exposure to these prices, the GoA decided to continue supplying them at the fixed price of EUR 0.16 kWh, which is significantly lower than the market price, but second highest in the region in the second poorest country of the region.

Article 8 defines also groups benefiting from the disability allowance, based on the bio-psycho-social assessment. Roma individuals benefit as well. The DCM no 616 defines specific groups based on the law on economic assistance for which the Government has established the specific package on social resistance. All families classified on economic aid benefit +10% in addition to the monthly allowance of cash assistance to the family while two other groups: a) elderly people +65 years old with no social pension or any other income; and b) women heads of households with up to 2 children benefit the double amount of cash assistance. Roma and Egyptian families are tracked within the system, see the number above.

The Albanian legal framework includes social schemes that provide monthly cash benefit to categories of people with disabilities as an allowance for energy supply. Following the Decision of Council of Ministers no. 616, dated 22.09.2022 “On some amendments in DCM (Decree of Council of Ministers) no. 404”, that entered into force on 1 October 2022, the benefit amounts were increased, accounting for a total annual budget is around ALL 134 million.

The total number of beneficiaries of the energy supply is around 11,200 individuals disaggregated as follows: 7,400 blind people and 3,800 paraplegics and quadriplegics,

This support is going to be long-term and sustainable even for 2023 and in the coming years.

The Government plan to respond to the energy crisis aims to balance short term measures to mitigate the immediate socio-economic impact of the energy crisis and trying to maintain affordable tariffs for electrical energy supply to households and SMEs as well as to continue subsidising electricity prices for the most vulnerable groups. This is a short-medium term measure aimed to promote energy resilience in the immediate term, with a view to maintaining the path towards a green transition, as established by the energy sector public policy.

Subsidising and maintaining the affordable tariffs for households and SMEs should thus be seen as a temporary measure to address the energy crisis effect and is not as pre-empting the achievement of ongoing reforms in the energy sector – particularly that towards deregulation of the market.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

2.4.2 Macroeconomic Policy

Albanian economy showed resilience and rebounded faster than expected in 2021, making up for most economic losses caused by the COVID-19 pandemic. Despite the shock to the global economy coming from the Russian war of aggression against Ukraine, Albania recorded a positive GDP growth rate, averaged at 4% during the first half of 2022, with the second quarter indicating the lower growth rate (2.2%) than the first one (6.5%) while the summer tourism season was quite positive. FDI inflows over the first half of 2022 reached the level of EUR 634 million, considerably higher (35%) than the same period in 2021.

The first signs of slower growth were evidenced in the second quarter of 2022. The energy crisis has hit the Albanian economy directly, due to its high dependence on imported grain from Russia, and indirectly through higher commodity prices and lower growth in its main EU trading partners. The government expectations for the overall growth forecast in 2022 are around 3.7%, similar to the IMF forecast, and slightly higher than the Western Balkans (3.2%) or the European Commission (3.2%) forecasts. In the medium term, private consumption is projected to be the key driver of growth. While the government plans to contain spending in line with fiscal consolidation plans, higher costs of public service provision are expected to create additional pressure on growth.

As reported in the European Economic forecast Autumn 2022 of the Commission¹⁶, “for 2023 and 2024, growth is set to be strongly affected by uncertainty whether the government increases the regulated electricity price and how the war will impact exports to and investment from the main trading partners in the EU. In addition, household consumption in 2023 is expected to be impacted by the negative effect of lasting high food and transport prices as these items account for almost half of the household budgets”. The GDP growth forecast for 2023 and 2024 is 2.6% and 3.4% respectively.

¹⁶ https://economy-finance.ec.europa.eu/publications/european-economic-forecast-autumn-2022_en

In 2022 the Albanian economy has been highly affected by soaring domestic inflation – mainly driven by imported inflation. The inflation rate reached its peak in October 2022, at 8.3% as compared to a 3.7% level in January 2022, fuelled predominantly by food and oil price increases. In the above-mentioned European Economic forecast Autumn, the Commission states that Monetary policy normalisation continues. Indeed, the Bank of Albania (BoA) has “raised the key policy interest rate by 1.55 pps to 2.25% to counter the inflationary pressures”... “For 2023, inflation is expected to subside to 4.1% before approaching the target rate (3%) in 2024”. The IMF forecasts inflation to only begin receding in 2023 before returning to BoA’ target of 3% by mid-2024, as international commodity prices stabilise, fiscal and monetary policies tighten, and growth slows down.

Electricity prices remained unchanged thanks to government subsidies which continued to cover part of the electricity market price for households, public institutions and small businesses. In line with the extension of the state of emergency in energy to June 2023, the government introduced some energy efficiency and energy saving measures to be implemented by households, institutions and private entities, as well as a differentiated electricity tariff scheme establishing a four-fold price increase for households’ electricity consumption electricity above the 800 kWh/month.

Public debt is projected to decline further to about 68% of GDP in 2022 from 73.2% in 2021 but fiscal space remains limited, in particular in view of the country’s vulnerability to external shocks. The budget balance was positive in the first half of 2022 at about 1.5% of GDP, reflecting higher revenues and cautious spending given the uncertainties ahead. The budget deficit is expected to turn out at 3.3% of GDP, thus 1.2 pps below planned. Investment spending declined by 16.4%. Fiscal revenues increased by 19.2% in the first half of 2022 on account of robust growth, increased inflation, formalisation efforts and higher profit tax revenues. VAT revenues contributed 10 percentage points to total revenue growth. Revenues from profit tax generated the second highest contribution to total revenue growth. On the other hand, during the period January-September budget support for the energy sector reached ALL 7.9 billion (EUR 67 million) and the loan for energy sector ALL 8 billion (EUR 68 million).

Albania continued the fiscalisation process and actions to tackle informality. The July budget revision supported additional targeted assistance to the vulnerable categories and reduced the deficit target to 3.3% and additional fiscal measures to reduce the tax exemptions will be included in the 2023 fiscal package.

Going forward, tightening financial conditions call for prudent fiscal policies and adequate debt management. The outlook is subject to significant uncertainty and potential worsening of the international energy crisis – and resulting price hikes – weakening growth prospects. Tightening in global financial conditions could hamper Albania’s access to financing, and borrowing conditions. As the economy is vulnerable to weather and climatic conditions, higher spending may be needed to guarantee the energy supply through more costly energy imports and support to the fragile energy State Owned Enterprises. The medium to long-term economic impact of sanctions imposed on Russia represents an additional risk and cause of uncertainty.

Albania remained committed to stability-oriented policies but some weaknesses in economic governance persist. In its Economic Reform Program 2022-2024, it confirmed its commitment to return to its pre COVID-19 fiscal consolidation path as soon as the economic recovery allows, and underlined its plan to achieve a positive primary balance in 2024. In March and September 2022, Albania revised its budget to accommodate the high cost of energy subsidies and the social support extended in relation to the international prices hike. In the European Economic forecast Autumn 2022, the Commission confirmed the resilience of the Albanian Economy despite the three shocks (2019 earthquake, COVID-19 pandemic and the ongoing Russian war against Ukraine). As indicated in the Commission annual report on Albania¹⁷, “Albania made good progress and is moderately prepared for developing a functioning market economy”. The impact of the COVID-19

¹⁷ https://neighbourhood-enlargement.ec.europa.eu/albania-report-2022_en

pandemic on the economy, the budget deficit and the public debt ratio were lower than expected, but Russia's war against Ukraine caused price increases and lower trade. Fiscal space remains limited. Revenue-related reforms progressed, but investment expenditure remains weak. Frequent budget revisions weaken fiscal credibility. Inflation increased above target. Increased public service digitalisation, financial inclusion, and labour inspections benefitted the business environment and the formalisation of the economy, but the informal economy remains significant. Public consultation remains weak. Albania made some progress and is at some level of preparation to cope with competitive pressure and market forces within the EU. Energy and transport infrastructure, digitalisation and education improved, but entrepreneurial and technological know-how remain low, with unmet investment needs in human and physical capital, skills and education gaps, and low R&D spending. Low export diversification increases vulnerability to external shocks. Regional integration and exports increased but remained below potential. In light of this assessment, Albania accepted the policy guidance in the 2022 conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey¹⁸, which recommend to Albania the gradual reduction of the public debt ratio and of arrears but also to increase revenue mobilisation by implementing the medium-term revenue strategy and to increase expenditure on social protection, education and research and implement the reform of public investment management procedure. A prudent assessment of the fiscal risks from state-owned enterprises and development of their mitigation plans were also recommended.

The October 2022 IMF Article IV mission statement concluded that challenges from soaring international food and energy prices are likely to remain, together with low growth prospects in Europe. They recommend to maintain prudent economic policies, capitalizing on the positive growth momentum while focusing on maintaining public finance credibility and efficiency, safeguarding financial stability and implementing fundamental structural reforms to ensure sustainable and inclusive growth.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.4.3 Public Financial Management (PFM)

PFM reforms are ongoing and the overall appraisals of PFM shows a positive trend confirmed by recent diagnostics. Reforms in some PFM domains were impacted by COVID-19 pandemic and some political and institutional changes; as well as capacity constraints.

The Support for Improvement in Governance and Management (**SIGMA**) assessment of Public Administration Principles of November 2021¹⁹ concludes that, **for PFM, the overall trajectory is upwards** with the PFM score improving from 2.7/5 in 2017 to 3.3/5 in 2021. Performance in Albania is now above the regional average. Most improvements have been in transparency and comprehensiveness of budget reporting, operational framework of internal audit; and the institutional and legal framework for procurement. Challenges remain on full implementation, notably for internal audit and procurement competitiveness and transparency.

A comprehensive **PFM Strategy** (2019-2022) is in place, with regular reporting on its progress. The formulation of a new follow-up PFM Strategy has been initiated and should be concluded in the first half of 2023, also integrating reforms required under the EU accession process. This strategy is complemented by additional plans, including a PIFC Action Plan 2021-2022, a Medium Term Debt Strategy 2022-2024 and a National Strategy on Public Procurement. A Medium Term Revenue Strategy (MTRS) is under preparation but not yet adopted. Albania remains open to **diagnostic assessments** with a second TADAT recently

¹⁸ 9459/22

¹⁹ <https://www.sigmaweb.org/publications/Monitoring-Report-2021-Albania.pdf>

concluded, and a new Public Expenditure and Financial Accountability (PEFA) (with a review of PFM aspects related to climate change) under preparation.

Years 2021 and 2022 saw a continuation of a relatively **prudent fiscal management**, albeit facing increasing risks linked to the energy crisis, global economic slowdown and monetary tightening. The application of a new **fiscal rule** obliging a primary deficit was postponed by one year to 2024 to allow a COVID-19 and earthquake fiscal response. Nevertheless, the budget deficit remains relatively controlled (primary deficit at -2.6% in 2021 and lower in 2022) and public debt has fallen back under 70% in 2022 after peaking at 73% in 2021. The 2022 State budget and also the proposed 2023 budget include measures to cushion the impact of the energy price crisis; and these have been fiscally managed in 2022 thanks to a significant revenue increase helped by a strong economic recovery. The measures included targeted social expenditure, loan guarantees and direct transfers and loans to the Electricity State owned enterprises (SoE).

Over the last two years the MoFE strengthened its macro-economic and fiscal forecasting capacity. Efforts continue to improve the quality of the medium-term budget programme and links between budget and planning documentation, but progress is slow and the new methods and systems (AFMIS, IPSIS) are not yet fully applied. Ongoing capacity building, particularly at local government level, continues on **gender-responsive budgeting** (GRB), but without extension to new budget programmes.

The **Fiscal Risk** unit set up in 2019 has gradually expanded the scope of its monitoring and reporting functions, although coverage remains incomplete. Monitoring of SoEs was broadened in 2021, adding the water sector and a selection of other companies, in addition to the energy sector. Particular attention will need to be paid to **energy utilities** impacted by higher input costs and caps on electricity retail prices. A number of state financial injections and an increase in sovereign guarantees was already necessary in 2022. Further steps are also needed to clear **cross-debt** between SoEs. A more structured follow-up of all 228 Public Private Partnerships (PPPs) and concession contracts (which have a combined value of 50% of GDP) was introduced and in 2021 reporting was done on 61% of contracts, although not all information received was complete and timely. Payment **arrears**, particularly for VAT reimbursement, were much reduced in 2021 thanks to one-off clearances through special budget funding. Reporting on arrears is regular and improving in comprehensiveness and automated data generation. A number of system changes were introduced to strengthen commitment control, but further strengthening of internal control procedures remains necessary. In 2022 arrears are increasing again, attributed to the impact of inflation and increased energy prices.

The reform of public investment with introduction of a more streamlined Single Project Pipeline (regardless of source of financing) is work in progress. The process continues to be characterized by fragmentation of decision-making and management, particularly for PPPs.

2021 saw some improvements in the financial management system, but no roll-out to more budget entities. Automated generation and payment of payroll started, but is still challenging due to the complexity of salary structures. The legal framework for procurement was further fine-tuned with a number of bylaws implementing the new procurement law of 2020. A new digital complaints system allowed improvements in the timelines of procurement appeals.

On **Domestic Revenue Mobilisation**, tax revenue saw significant post-COVID-19 rebound with higher than forecast receipts in 2021 and 2022. Although rising again, the revenue/GDP rate remains lower than in peers, and concerted efforts for boosting revenues should be pursued to move away from the rather piecemeal tax system reforms. EU and IMF have advocated strongly for a Medium-Term Revenue Strategy to reach this. A draft has been prepared, but the adoption has been postponed due to the complicated economic context. On tax policy significant taxation potential is achievable through reducing exemptions and aligning thresholds over different taxes. Some such measures have been introduced in 2021, but not yet comprehensively. A new fiscal amnesty law is under discussion. Both EU and IMF have clearly stated that adoption of this law in its current draft form would be problematic since the amnesty provisions are too broad and the law is not aligned

to money laundering engagements. The government has indicated that modifications remain possible and it will consider the recommendations.

The recently concluded second Tax Administration Diagnostic Assessment Tool (TADAT) shows improvement in tax administration performance since the previous exercise in 2017. Some areas of weakness remain; including tax arrears and payment compliance; although these were affected by COVID-19. An important effort is ongoing on fiscalisation of VAT payers, providing online transmission of invoice details to the tax authorities.

Albania is signatory to international conventions on Base Erosion Profit Shifting (BEPS) and exchange of information, and regularly submits to peer reviews. It started automatic exchange of information for tax purposes in 2020. Albania continues to be "grey-listed" by the Financial Action Task Force (FATF), for strategic deficiencies in its Anti-Money laundering framework. An action plan to achieve delisting is being implemented, but a number of actions remain outstanding. A beneficial ownership register was set-up in 2021, as well as a centralised bank account register.

For the upcoming period, the PFM reform strategy will need to be further implemented and renewed. Particular attention will need to be paid to the management of **PFM risks**, including:

- An improved application of the existing framework for **medium-term and annual budgeting**, including greater inclusion of Parliament in budget revisions even where normative acts are not required. Continued application of the **fiscal rules** when the economic situation allows. Reflect the changed outlook of financial markets in the new **debt strategy**.
- Continued efforts to improve the monitoring and management of **fiscal risks**, in particular those associated to SoEs in the energy sector; increase transparency and prevent the build-up of **arrears** in a light of persistent inflationary risks; monitor PPPs related fiscal risks, as well as those stemming from different **sovereign guarantee schemes for loans to companies**,

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

2.4.5 Transparency and Oversight of the Budget -

Budget transparency has improved in terms of quantity and relevance of information at both central and local level with the implementation of the Public Financial Management (PFM) reforms since 2014. The organic budget law prescribes budget documents to be published and respective timelines, while the Law on the Albanian Supreme Audit Institution (SAI) law stipulates requirements for external audits and provides for adequate independence provisions. Government now publishes all key budget documents in a timeframe consistent with international standards. Improving budget transparency and budget oversight are dedicated objectives included in the PFM Strategy.

All budget documentation foreseen for 2021 was published in a timely manner. The 2022 budget (Executive's budget proposal and the enacted budget) was published in a timely manner on the MoFE website and in printed form in the Official Gazette and the 2023 Executive's Budget proposal was published on 20 October 2022. Therefore, the **entry level requirements for budget support** are met as both the Executive's budget proposal and the enacted budget were published within the legal time limit.

The **Open Budget Index (OBI)** survey covering 2021²⁰ scored Albania 52/100, in line with scores from 2019 and a significant improvement compared to 2015 and 2017. OBI found that all required budget documents were published, but the audit report was delayed (partly caused by impact of COVID-19 on audit work). Albania scores well for the quality and comprehensiveness of its pre-budget statement and enacted budget,

²⁰ [Open Budget Survey Albania 2021 | International Budget Partnership](#)

but there is scope for improvement in its mid-year review and citizen's budget. Albania scores relatively low for public participation, due mainly to the absence of formal public consultation during the budget approval (there is consultation during the formulation) and on external audit programming. Both MoFE and the Supreme Audit Institute have responded by organising more formal consultations with civil society in 2021 and 2022. On budget oversight Albania scored 67/100, with good scores for legislative and audit oversight (64 and 72 respectively). The assessment concludes that Albania's Parliament provides adequate budget oversight.

The **budget preparation and reporting calendar** was respected in 2021 and 2022. The government has continued to make use of **normative acts** to introduce relatively significant modifications to the budget that were endorsed by Parliament ex post. These include budget adjustment related to COVID-19, and also the introduction of some of the social measures in response to the energy crisis in 2022. Given the declared emergency on energy, more normative acts adjusting the budget can be anticipated in response to the energy crisis. Although the uncertain economic context justifies the use of normative acts to a certain extent, a return to more regular budget review mechanisms with ex ante parliament approval is encouraged if circumstances allow. In 2021 the then President returned to Parliament for reconsideration a number of these normative acts as well as the adopted Budget Law. In each case the legislative confirmed its approval of the acts and they were promulgated by the President.

The MoFE has also improved financial reporting, including expanded **reporting on fiscal risks** emanating from SoE's, local government and PPPs. This includes specific reports or reporting integrated in the budget documentation. The content and coverage of the fiscal risk statement and supporting documentation can still be improved. In light of the potential fiscal risk impact of the energy crisis, particularly the reporting on SoE's (with a focus on energy SoEs) should be maintained and improved.

In 2021, SIGMA assessed the quality of **external audit reports** as improved compared to 2017 in terms of compliance of audit methodology with international standards and quality control of audits. However, the use of Supreme Audit Institutions (SAI) reports by the legislature decreased, resulting in an unchanged overall score of 3 out of 5 for the effectiveness of the external audit system.

In 2021, the SAI was able to resume its regular **audit programme**, after a slowdown in 2020 due to COVID-19, 158 audits were concluded (out of 120 planned). A number of thematic audits linked to COVID-19 and earthquake spending were added to the programme. There was progress on objective to increase the proportion of financial and performance audits. Auditing local government increased with 45 audits performed in 2021 (12 in 2020). This in part due to a Constitutional Court decision imposing that all municipalities be audited annually. For this purpose an increase in the SAI budget was approved by Parliament. The SAI has a system to track the acceptance and implementation of its **recommendations** and reported a slight 1% decrease in acceptance and an 8% increase in implementation of recommendations.

A number of important steps were also undertaken to improve **transparency related to COVID-19 and post-earthquake expenditure**, which may provide useful lessons for emergency expenditure related to the energy crisis. Initially the earthquake and COVID-19 expenditure was partially kept outside the regular budget processes due to its exceptional nature. In 2021, reporting and oversight of this expenditures was integrated in regular budget preparation and reporting (included in the 2022 budget as well as in the budget implementation report for 2020). Previously this was reported separately. The SAI also conducted performance audits on the effectiveness of COVID-19 management and conducted compliance audits of the Ministry of State for Reconstruction and the State Commission for Reconstruction. So far, the measures in response to the current energy crisis have been included as part of the regular budget, although a number of the measures – due to the uncertain context – have been introduced through normative acts that were endorsed ex post by the Parliament.

In conclusion, the relevant budget documentation has been published and the eligibility criterion met.

2. DESCRIPTION OF THE ACTION

The Action consists of a SRBC to mitigate the immediate socio-economic impact of the energy crisis and set the basis for building energy resilience in Albania. The budget support contract will contribute to the government's resources allowing for measures to reduce the likelihood of energy poverty by assisting the SMEs and vulnerable households, ensure their continuous delivery and access to essential services, particularly to the most vulnerable segments of the population and to support long-term socio-economic recovery, energy security and energy resilience and diversification of Renewable Energy Sources (RES) of Albania.

3.1 Intervention Logic

The Action will support the Government in providing financial space to SMEs affected by energy price increases, addressing energy poverty through financial support to vulnerable households, at the same time ensuring that support measures do not lead to increase in energy consumption but are coupled with energy efficiency measures, improving labour market access by setting up short-time work and equivalent schemes to maintain jobs and to support the long-term socio-economic recovery, energy security and energy transition of the country, building on and in line with commitments Albania has under the Energy Community law and in line with the Energy Community Decarbonisation roadmap. Policy dialogue with the relevant public authorities will accompany the present financial assistance and will help identify and follow up on the most relevant measures implemented in response to the socio-economic needs. Performance assessment, together with regular policy dialogue, under the present action will ensure that accountability rules and transparency of budget implementation are respected. In addition, close co-ordination with international partners, business community and civil society organisations will be of the highest importance.

The EU-Albania High Level Dialogue on Energy will be an important element in achieving this goal. EU-Western Balkans High Level Dialogue on management the Energy Crisis situation (co-chaired by Commissioner for Neighbourhood and Enlargement and Ministers of Energy of Western Balkans) was launched on 17 October 2022 to discuss short, medium and long-term issues, such as addressing the energy crisis for the coming winter and year 2023 as well as increasing Western Balkans and in particular Albania's energy security and efficiency.

The Action will follow the key intervention objectives of the government Action Plan, and will be based on the assumption of strong government commitment and sufficient capacity to deliver on broader society expectations for a socio-economic growth, while maintaining macroeconomic stability.

The Overall Impact of this action is to mitigate the immediate socio-economic impact of the energy crisis and set the basis for building energy resilience.

The Specific Outcomes of this action are to:

1. Socio-economic impact of energy crisis is mitigated, with a special focus on vulnerable households;
2. Socio-economic recovery and economic growth for SMEs are supported to cope with the combined negative effects of the rise in energy prices and the COVID-19 crisis;
3. Albania's mid- and long-term objectives of energy resilience are supported, including increasing energy efficiency and promoting the use and diversification of renewable energy sources

The Outputs to be delivered by this action contributing to the corresponding Outcomes are:

1.1 contributing to Outcome 1:

Measures to support households and vulnerable groups are put in place to fight against energy poverty.

2.1 contributing to Outcome 2:

Support measures to SMEs are in place to protect them from increased electricity market prices

3.1 contributing to Outcome 3: A short to medium term energy resilience strategy/action plan is developed

A plan for gradually reducing / removing such measures, subsidies and support scheme will also need to be developed for the long term sustainability of the action, including establishing the conditions under which the schemes can be phased-out. Ensuring that energy prices duly reflect the cost – while shielding vulnerable consumers – is critical for promoting energy efficiency and ensuring sufficient revenues for investment in the green transition of the sector.

3.2 Indicative Activities

Activities related to Output 1.1

As increased electricity prices will lead to a significant growth of tariffs, the Albanian Government is developing solutions to minimise the impact on final consumers. These solutions will particularly target vulnerable households that are already struggling in an economic context marked by high poverty levels and the impact of the COVID-19 pandemic. An analysis to identify the impact of the high electricity prices on final tariffs for different consumers was performed based on the total number of natural electricity consumers.

The activities will aim to provide assistance to the Albanian government and authorities to increase the capacity to deliver such basic services to its population in the fiscal year 2023 and in particular to the vulnerable groups and to extend such actions to cover more vulnerable households and consumers. Overall, these activities will aim to provide immediate assistance to counteract the rising levels of energy poverty throw:

- continued subsidies for households to counter the price increase of energy bills throughout the state of emergency period
- continued support to vulnerable categories of people that are beneficiaries of economic aid schemes with an allowance for energy supply

Activities related to Output 2.1:

The government intends to ensure continuous support for employability, and support for socio-economic recovery. Support can include measure assisting SMEs to cope with economic shocks in order to prevent unemployment and related poverty.

Albania's economic growth is based on Services (48.43%) where Tourism is estimated to count for 20%, Agriculture at 19.25%; followed by Industry at 10.5% of which manufacturing counts for 6.2%, and construction 9.17%. SMEs operating in the trade sector, represent 40.1% of total SMEs and 28.5% of employees. Enterprises with 250+ employees, even though they constitute only 0.2 % of enterprises, engage 18.4 % of employees, and account for 31.8 % of investments and 21.1 % of turnover. The use of technology and ICT by enterprises has improved, as due to COVID-19 pandemic many businesses had to reorient their businesses processes and marketing through remote/online operations.

SMEs have been exponentially hit by the combined negative effects of the energy and COVID-19 crisis which will pose acute threats for their economic activities. Structural challenges related to skilled labour force, improved quality infrastructure for agriculture, increased agro-processed outputs; diversification of export products including tourism services as well as need for clarity on property titles and increased opportunities for access to financing remain impediments to further investment and growth.

Currently there are at least 7358 customers connected to medium voltage (20/10/6 kV level) with total demand of 1.1 TW. Almost half of the number of total number of customers in this group is private SMEs, and the other half is public companies/institutions. The medium Voltage level has been deregulated by Decision of

GoA and are now being supplied by the Last Resort Supplier with market prices. However, due to the crises, this group of customers is benefiting by being supplied from KESH with current price of 12 Lek/kWh (10.4 € cents/kWh) or 104 €/MWh. The total costs for this protection are calculated amounting to EUR 114.4 million.

Activities will include support to SMEs to reduce the effects of the energy prices in order to ensure sustainability of their economic activity and prevent increase of unemployment.

In addition to the direct support for subsidising the electricity price for SMEs during 2022-2023, other measures will be promoted through policy dialogue, including actions which seek to increase employability, support economic activity and socio-economic recovery.

Activities related to Output 3.1:

In order to increase energy security, initiate the energy transition and increase the resilience of the Albanian energy system in the face of energy supply crises. Specific legislative actions will be needed particularly in the identification and protection of vulnerable consumers.

Supporting energy efficiency initiatives and in particular energy efficiency in public and private buildings, schools and hospitals can be a key component of lowering the overall energy demand and energy costs. Such key actions for Albania's longer term energy transition should be implemented in conjunction with the measures undertaken by WBIF, other donors and International Financial Institutions (IFIs), following the EU Economic and Investment Plan.

The focus of activities will be on sectors where energy efficiency gains can be most effectively realised. To do so the action will be supporting:

- Legislative changes to promote of use of energy from Renewable Energy Sources
- Making the established power exchange APEX operational and coupling it with the regional and European markets.
- Progress in development and implementation of projects for diversification of RE production through solar and/or wind.
- Promotion of solar energy for water heating for households
- Implement energy efficiency in public buildings, i.e. EE retrofitting and/or installing solar panels

3.3 Mainstreaming

3.3.1 Environmental Protection, Climate Change and Biodiversity

The Action will support Albania in achieving its targets in relation to diversified electricity production, through the development of renewables other than hydropower.

Some of the urgent response measures to the energy crisis may create a short term deviation from the longer term objective of decarbonisation. This includes the mobilisation of two floating power plants and the introduction of some tax exemptions for some fuel products in particular sector and on fire wood. These measures are of a temporary nature and their impact will need to be closely monitored. Clear conditions for their continued existence determined.

3.3.2 Gender equality and empowerment of women and girls

The **COVID-19 pandemic**, including emergency measures introduced to curb its spread, has had a negative impact on gender equality, especially when it comes to increased risk of gender-based violence and the burden of unpaid care work, while also limiting access to services. The economic impacts of the crisis are felt especially by women and girls who are generally earning less, saving less, and holding insecure jobs or living close to poverty. The recent energy crisis is also expected to have a great impact on women, in particular

women at risk of poverty, unemployed women, women in rural areas or women as heads of households. In this regard, according to the labour force survey, women are less likely to participate in the labour market. In terms of the population aged 15-64, the participation of women in the labour force has decreased to 61.2 % in from 61.6 % in 2019. According to causes of inactivity, women remain out of the labour force mostly because they are busy with unpaid work at home (18.8 %), or are attending school (20.9 %). The structure of employees shows that 43.3 % of women in the labour force are employed in paid positions while 22.8 % of them engage in unpaid work in the family business. In 2020 47.4 % of people benefiting from urban pensions are women. The gender ratio for rural pension beneficiaries significantly differs, of whom 66.5 % are women. Registered unemployed jobseekers receiving economic assistance for 2020 are 49.2% men and 50.8% women, while the beneficiaries of unemployment benefit are women with 54.7%²¹. According to the European Union Statistics on Income and Living Conditions (EU SILC²²) data, in 2019, 46.2% of women are at risk of poverty or social exclusion. This digit has decreased by 2.8 percentage points compared to 2018. Girls and women have a higher risk of poverty or social exclusion than men and in all determinants category measuring the risk of poverty or social exclusion.

The action is in line with the GAP III Agenda for Gender Equality²³ and Women's Empowerment in EU External Action²⁴. It responds to the specific objective related to women, men, girls and boys, in all their diversity, fully enjoy and exercise their equal economic, labour and social rights and more specifically to increased coverage of very vulnerable groups through social protection measures. Furthermore the action is in line with the National Strategy on Gender Equality for Albania 2021-2030 and contributes to objective 1 on ensuring social and economic rights for all girls and women in Albania.

Based on the activities to be conducted in the framework of the Action, both vulnerable women and men shall be provided with economic assistance support to cope with the negative effects of the rising energy prices. The project will hence have a direct impact both on women and men as final beneficiaries of the Action. During the implementation stage and through policy dialogue, a focus on gender-specific issues will be taken into account.

Specifically, the action will have positive impact on women by increasing the quality of indoor air and better housing conditions. Women spend more time than men in unpaid household work. This means that women spend more time at home and are therefore more dependent than men on heating and indoor air quality. In addition, women are more dependent on energy to use household devices (e.g. ovens, dishwashers and vacuum cleaners). Poor housing conditions (such as poorly insulated environments) and pollutant electronic devices and fuels may have a negative impact on women's health.

The principle of gender equality will be embedded in the activities related to support to households and small businesses. It will ensure, in particular, to alleviate the economic burden of the inflation and the high energy prices on women and girls in vulnerable position. By supporting households, the Action will help ensure sufficient domestic heating primarily for women and children, who, in a number of instances spend more time at home. The action will equally focus on promoting gender equality and empowering women through support to women-led small business, and ensuring that measures are put in place to mitigate the impact of that and girls by ensuring that measures will be put in place to mitigate the negative effects of the energy crisis on women and girls.

²¹ Instat, Institute of Statistics www.instat.gov.al/en/

²² [EU statistics on income and living conditions \(EU-SILC\) methodology - Statistics Explained \(europa.eu\)](#)

²³ SWD(2020) 284 final

²⁴ JOIN(2020) 17 final

3.4 Risks and Assumptions

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
Macroeconomic	The high energy prices and its impact on the Balance of Payments will hamper the economic growth, leading higher public debt, slow implementation of social reforms and increase the poverty gap among different groups.	Medium	Medium	<ul style="list-style-type: none"> - Continuous coordination with international partners (IMF, WB, EU M S) to agree on short to medium term response. - EU Delegation (EUD) to observe Albania's adherence to the Energy Community Platform and application of its reduction targets. - EUD to promote continuous pursuance of the emergency declaration including through an action plan targeting energy resilience through diversification and further implementation of the energy strategy 2030.
Public Finance Management and budget transparency	The crisis response measures are not part of the regular budget mechanism and reporting.	Low	Medium	<ul style="list-style-type: none"> - EUD to promote the independence and role of the Supreme Audit Institution, including by a request for a performance audit on the emergency measures implemented in 2022-2023. - EUD to engage on regular policy dialogue observing the status of the transparency of the emergency response measures and accountability. - EUD to involve in its regular policy dialogue the Supreme Audit Institution and civil society organisations.
Political	Risk of social instability caused by the high costs of living leading to government instability.	Low	Medium	<ul style="list-style-type: none"> - EUD to support the Government in the implementation of its external communication strategy informing public stakeholders on the nature of the crisis and of the measures in place to alleviate the economic burden on the most vulnerable.

External Assumptions

- The financial input will provide the fiscal space for the Government to implement measures that alleviate the socioeconomic burden on vulnerable households during the 2022-2023 winter and support SMEs to continue their economic activity through the implementation of specific measures and thus contribute to safeguard jobs during this period.
- The continuous policy dialogue between the EU and Government will help identify the vulnerable categories and provide that the measures are targeted towards them. The development of the energy crisis action plan is one output of this dialogue and is the framework in which the type of support measures are jointly identified.

- Performance assessment and policy dialogue will closely observe that the budget allocations are in line with internal fiscal rules, are transparent and accountability is ensured.
- Despite the continuous energy crisis of the 2022-2023 winter generated by the Russian war of aggression against Ukraine, the Government is engaged in providing immediate support measures and continuous a stability oriented macroeconomic policy.

3.5 Indicative Logical Framework Matrix

Results	Results chain	Indicators	Baselines (value and year)	Targets by the end of the budget support contract (value and year)	Sources of data
Indicative Impact of the policy	To mitigate the immediate socio-economic impact of the energy crisis and set the basis for building energy resilience in Albania	<p>Annual growth rate of real GDP per capita (SDG 8.1.1)</p> <p>Proportion of population below the international poverty line by sex, age, employment status and geographic location (urban/rural) (SDG 1.1.1)</p> <p>Renewable energy share in the total final energy consumption (SDG 7.2.1)</p> <p>Energy Intensity Level of Primary Energy (SDG 7.3.1)</p>	Baselines and values to be specified before signature of Financing Agreement. (2022)	Targets and values to be specified before signature of Financing Agreement (end 2023)	<p>Partner's strategy/policy and reporting (ideally)</p> <p>EU SILC for Albania</p>
Expected Outcomes of the policy	<p>1. Socio-economic impact of energy crisis is mitigated, with a special focus on vulnerable households as defined by the DCM no.616, of 22.09.2022</p> <p>2. Socio-economic recovery and economic growth for SMEs are supported to cope with the combined negative effects</p>	<p>1. Number of Universal Service Supply customers benefiting from support, disaggregated by sex and age when relevant</p> <p>2. Number of SMEs connected to 0.4 voltage network and medium voltage network supported</p>	Baselines and values to be specified before signature of Financing Agreement (2022)	Targets and values to be specified before signature of Financing Agreement (end 2023)	<p>Partner's strategy/policy and reporting (ideally)</p> <p>1.1</p> <p>1.2</p>

	<p>of the rise in energy prices and the COVID-19 crisis</p> <p>3. Albania's mid- and long-term objectives of energy resilience are supported, including increasing energy efficiency and promoting the use and diversification of renewable energy sources</p>	3. Increased diversification of energy production	98% hydropower (2022)	More than 2% other sources (2022)	
Induced Outputs	<p>1. Measures to support households and vulnerable groups are put in place to fight against energy poverty, including clear conditions for their phasing out</p> <p>2. Support measures to SMEs are in place to protect them from increased electricity market prices, including clear conditions for their phasing out</p> <p>3. Development of a short to medium term energy resilience strategy/action plan</p>	<p>1. Status of support schemes to households and vulnerable groups</p> <p>2. Status of support schemes to SMEs</p> <p>3. Status of implementation of GoA action plan on energy resilience strategy</p>	<p>Baselines and values to be specified before signature of Financing Agreement (2022)</p>	<p>Targets and values to be specified before signature of Financing Agreement (end 2023)</p>	<p>Partner's strategy/policy and reporting</p> <p>1.1.1</p> <p>1.1.2</p>

Direct Outputs	1.1. Continued subsidies for households to counter the price increase of energy bills	1.1 Share of households benefiting from subsidy support in 2023	Baselines and values to be specified before signature of Financing Agreement (2022)	Targets and values to be specified before signature of Financing Agreement (end 2023)	Partner's strategy/policy and reporting 2.2.1 2.2.2
	1.2. Continued support to vulnerable categories of people that are beneficiaries of economic aid schemes with an allowance for energy supply	1.2. Number of beneficiaries of allowance for energy supply	11 200 persons (2022)	Equal or more (end 2023)	
	2. Support to SMEs to reduce the effects of the energy prices in order to ensure sustainability of their economic activity and prevent increase of unemployment	2. Share of SMEs benefiting from support	Baselines and values to be specified before signature of Financing Agreement (2022)	Targets and values to be specified before signature of Financing Agreement (end 2023)	
	3.1. Legislative changes to promote of use of energy from Renewable Energy Sources	3.1 Adoption of law “On the promotion of use of energy from Renewable Energy Sources” by the Parliament fully aligned with EU Directive 2018/2001	Non adopted (2022)	Adopted (end 2023)	
	3.2. Progress in development and implementation of projects for	3.2. Status of project on RE production (wind, solar)	Shortlist of companies wishing to participate in the	Auctions for wind turbines finalised (2023)	

	diversification of RE production through solar and/or wind.		first wind auction in Albania completed (2022)		
	3.3. Promotion of solar energy for water heating for households	3.3. Number of households supported	0 (2022)	2 000 (2023)	

4 IMPLEMENTATION ARRANGEMENTS

4.1 Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with Albania.

4.2 Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 24 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3 Implementation of the Budget Support Component

The Programme will be subject to direct management by the European Union Delegation to Albania.

4.3.1 Rationale for the Amounts Allocated to Budget Support

The amount allocated for budget support is EUR 80 000 000. No complementary support is foreseen.

This amount is based on the commitment of Albania to allocate national budget resources to mitigate the socio-economic impact of the energy crisis generated by Russian war of aggression against Ukraine. This amount is informed by a comprehensive discussion with the stakeholders and by the preparation of a National Energy Crisis Action Plan to address the consequences of the energy crisis, particularly on vulnerable households and SMEs.

4.3.2 Criteria for Disbursement of Budget Support

a) Conditions.

The general conditions for disbursement of all tranches are as follows

:

- Satisfactory progress in the implementation of the National Energy Crisis Action Plan to address the consequences of the socio-economic impact of the energy crisis.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) Fundamental values

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

4.3.3 Budget Support Details

The budget support component consists of two fixed tranches. Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into Albania Lek will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

4.4 Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)
Budget support - cf. section 0	80 000 000
Evaluation – cf. section 5.2 Audit – cf. section 5.3	will be covered by another Decision
Communication and visibility – cf. section 6	will be covered by another Decision
Contingencies	N.A.
Total	80 000 000

4.5 Organisational Set-up and Responsibilities

To address the energy crises effects, with the Decision of Council of Ministers No 584 of 8.10.2021 “On the declaration of the state of emergency in the supply of electricity” - amended - it was announced the state of emergency in the supply of electricity which will be in force until 30 June 2023. Pursuant to this Decision, an inter-institutional group for emergency management in electricity supply was set up, chaired by the Deputy Prime Minister and composed of the Minister of Infrastructure and Energy, Minister of Finance and Economy and representatives from other institutions, deemed necessary by the Deputy Prime Minister.

According to this decision, the MoFE was charged to ensure the appropriate financial mechanisms, in order to manage the import of energy to ensure the uninterrupted supply of electricity, while the electricity companies have to suspend investments.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5 PERFORMANCE MEASUREMENT

5.1 Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its Outputs and contribution to the achievement of its Outcomes, and if possible at the time of reporting, contribution to the achievement of its Impacts, as measured by corresponding indicators, using as reference Albania Energy Crisis Response Action Plan and policy reform priorities.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring: The inter-institutional group for emergency management in electricity supply will be in charge of monitoring implementation of the Albania Energy Crisis Response Action Plan and policy reform priorities. Relevant department Line ministries will be in charge of data collection and providing analysis and for the preparation of the implementation monitoring report. The inter-institutional group shall present the report to the National Strategic Investment Committee.

5.2 Evaluation

Having regard to the nature of the action, a final evaluation will be carried out for this action or its components, via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that it consisted of a specific emergency support package.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall form a Reference Group (RG) composed by representatives from the main stakeholders at both EU and national (representatives from the government, from civil society organisations (private sector, NGOs, etc.), etc.) levels. If deemed necessary, other donors will be invited to join.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

5.3 Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document *Communicating and raising EU visibility: Guidance for external actions* (or any successor document).

This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the partner country, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and contribution agreements.

Given that a similar action is financed simultaneously in each beneficiary in the Western Balkans, joint visibility and communication activities may be undertaken. Visibility and communication aspects shall be complementary to the activities implemented by the Directorate-General for Neighbourhood and Enlargement Negotiations and will be coordinated with the EU Delegation, to ensure coherence of narrative and message, as well as horizontal strategic communications.

This programme is part of the EUR one billion Energy Support Package, which comprises also direct support to the six IPA beneficiaries through the Western Balkans Investment Framework for energy diversification, energy transition and energy security. Visibility and communication activities should be pursued strategically also in this context and with the aim to promote the Package as a whole at regional and national level.

7. SUSTAINABILITY

This action responds to immediate crisis needs of the most vulnerable stakeholders throughout the winter of 2022-2023. Nevertheless, this action also seeks to support long term energy resilience through the preparation of a National Energy and Climate change Plans (Energy Community plan) and adherence to the targets therein beyond 2023 as part of the wider efforts to achieve energy resilience and clean energy transition. This action is coherent with other budget support programmes supporting social protection mechanisms and complementary to the development/implementation of a Domestic Revenue Mobilisation strategy.