

EN
ANNEX

**to the Commission Implementing Decision
adopting an Annual Action Programme for Albania for the year 2019**

1 IDENTIFICATION

Beneficiary	Albania
Basic Act	Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II)
CRIS/ABAC Commitment references	2019/041-203
Total cost	
EU Contribution	EUR 71 905 555
Budget line	EUR 70 650 000 22.02 01 02
Total cost of the programme	
EU Contribution to the programme	EUR 71 905 555 EUR 70 650 000
Methods of Implementation	Direct management by the European Commission Indirect management with Albania
Final date for concluding <u>Financing Agreements</u> with the IPA II beneficiary	At the latest by 31 December 2020
Final date for contracting, including the conclusion of contribution/delegation agreements	3 years following the date of conclusion of the Financing Agreement
Indicative operational implementation period	6 years following the date of conclusion of the Financing Agreement
Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)	12 years following the conclusion of the Financing Agreement

2 DESCRIPTION OF THE ACTION PROGRAMME

2.1 SECTORS SELECTED UNDER THIS ACTION PROGRAMME

- Rationale for the selection of the specific sectors under this programme:

The Indicative Strategy Paper for Albania (2014-2020)¹ states that pre-accession assistance for the period 2014-2020 will focus on the following sectors i) democracy and governance, ii) rule of law and fundamental rights, iii) environment, climate action and energy, iv) transport, v) competitiveness, innovation, agriculture and rural development vi) education, employment and social policies, vii) territorial cooperation and regional cooperation.

The IPA 2019 programme has one action in the sector of education, employment and social policies.

Enhancing the competitiveness of Albania's economy is an Indicative Strategy Paper priority. To this end, the 2019 Annual Action Programme will support social inclusion. The action **EU for social inclusion** aims at contributing to strengthening social inclusion by increasing coverage, inclusiveness and effectiveness of social care services, the provision of inclusive education and employment opportunities. The action supports populations at risk of poverty and social exclusion, including youth, men and women at risk, people with disabilities and minorities. The action supports the implementation of the National Strategy for Social Protection by improving the accessibility and quality of social care services at the local level through new funding, regulatory and quality assurance mechanisms; and by improving levels of child well-being in pre-university education in accordance with EU inclusive education standards and enhance inspection, pedagogic, social work and psychological interventions. It also supports the National Employment and Skill Strategy by promoting employment and employability through new service delivery models, the introduction of a new employment programme for young people not in employment, education or training, expanding coverage of welfare-to-work programmes, and strengthening vocational and educational training programmes in municipalities.

- Overview of past and on-going EU, other donors' and/or IPA II beneficiary's actions in the relevant sectors:

The EU has provided a major contribution to the sector of **education, employment and social policies** mainly in the area of employment through support to the implementation of the National Employment and Skill strategy with the objective to contribute to a more inclusive and effective labour market: (i) to increase labour market participation and provide job opportunities for all; (ii) to increase the quality and coverage of vocational education and training; (iii) to improve the quality and effectiveness of labour market institutions and services.

Evaluations of IPA assistance 2007-2013 highlighted the need for better indicators and alignment to national priorities. This action is in line with major strategy documents such as the National Employment and Skill Strategy and the National Strategy for Social Protection.

List of Actions foreseen under the selected Sectors/Priorities:

Sector/Priority/Action	Direct management	Indirect management	
		With entrusted entity	With IPA II beneficiary

¹ Commission Implementing Decision C(2018)5027 of 3 August 2018.

<i>Education employment and social policies</i>			
Action 1 - EU for Social Inclusion	EUR 68,650,000	EUR 0	EUR 2, 000,000
TOTAL	EUR 68,650,000	EUR 0	EUR 2, 000,000

2.2 DESCRIPTION AND IMPLEMENTATION OF THE ACTIONS

The envisaged assistance to Annual Action Programme for Albania for the year 2019 is deemed to follow the conditions and procedures set out by the restrictive measures adopted pursuant to Article 215 TFEU².

SECTOR	EDUCATION, EMPLOYMENT AND SOCIAL POLICIES	EUR 70 650 000	
Action 1	EU for Social Inclusion	Direct management budget support	EUR 50 650 000
		Direct management (complementary assistance)	EUR 18 000 000
		Indirect management by Albania	EUR 2 000 000

(1) Description of the action, objective, expected results and key performance indicators

- Description of the action and objectives

The **overall objective** is to expand coverage, inclusiveness, effectiveness and emergency responsiveness of social care services, pre-university education and employment opportunities for youth and adults in Albania, including populations at risk of exclusion.

The **specific objectives** are as follows:

- Improving accessibility and quality of integrated social care services at the local level;
- Promote social inclusion in employment and employability for youth, men and women;
- Enhance inclusive quality learning and promote educational attainment in pre-university education for all girls and boys - with a special focus on Roma and Egyptians, disability and other disadvantaged backgrounds;

Expected results and key performance indicators

The expected results of the action are:

- Functional integrated system of social and community care services at local level is established and functional

² www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

- Financial and regulatory framework for modern social care practice and standards established
- Improved child well-being in schools
- Increased inclusion and well-being of children with special needs
- Increased labour market participation, including youth, women, men and other populations at risk of exclusion
- Vocational education and training (VET) offer tailored to needs of youth, women and men and populations at-risk of exclusion in municipalities
- Increased outreach and targeted cash assistance support to families responding to COVID-19 crisis;
- Extended support to the most vulnerable families through the relief operation responding to COVID-19 crisis;
- Increased outreach and targeted measures to the unemployed responding to COVID-19 crisis.

Key performance indicators (for the specific objective):

- Percentage of population receiving basic package of services (disaggregated by gender, disability, Roma and Egyptian)
- Number of³ public and non-public social care licenced institutions
- Number of local governments outsourcing and procuring social care services
- Youth unemployment rate, for people 15-29 years of age, disaggregated by gender.
- Percentage of VET graduate employment (disaggregated by gender (NESS)
- Net enrolment rate basic education (grade 1-9) disaggregated by gender⁴
- Gross enrolment rate secondary education (grade 10-12) (disaggregated by gender)⁵
- Student performance in mathematics, literacy, and science subjects (Programme for International Student Assessment (PISA) assessment score) Grade 9

(2) Assumptions and conditions

The assumptions for the action include i) Albanian Authorities (Government of Albania, Parliament) will secure their full commitment to work towards the achievements of programme objectives, as well as to guarantee their sustainability ii) the Ministry of Finance and Economy as lead institution for coordination of the stakeholders in the sector will operate a coordination structure for regular monitoring of key strategies and implementation of Action Plans as well as any updates required iii) adequate allocation of funds will be secured in the national budget annually and the medium-term budget programme for the implementation of the NESS, the NSSP and inclusive education measures, and in particular for the operation of the new Social Fund for social care services.

The conditions of the action include:

- The Decision of the Council of Ministers for the establishment of the National Agency for Employment and Skills (NAES) including a 3-year operational plan is adopted by the submission of the disbursement request for the first fixed tranche (indicatively Q2 2020).
- The Decision of the Council of Ministers for the restructuring of the National Agency for Vocational Education and Training and Qualification (NAVETQ) with accompanying 3-year operational plan is adopted by the submission of the disbursement request for the first fixed tranche (indicatively Q2 2020).

³ Number of social care services of different typologies (community, residential, daycare, etc.).

⁴ In addition: MoESY administrative data on number of children enrolled in basic education disaggregated by ethnicity (Roma & Egyptian) and disability

⁵ In addition: MoESY administrative data on number of children enrolled in secondary education by type of education (general, vocational) and disaggregated by ethnicity (Roma& Egyptian) and disability

- The update and extension of the National Employment and Skills Strategy until 2022 and accompanying Action Plan is adopted by the end of 2019.

- The update of National Strategy for Social Protection 2020-2023 and accompanying Action Plan is adopted by the end of 2019.

-The European Union Statistics on Income and Living Conditions (EU-SILC) survey data is published not later than by the submission of the disbursement request for the first fixed tranche (indicatively Q2 2020).

- The Government issues transparent regulatory guidance on the terms and conditions under which non-profit organisations can participate in public procurement for tenders issued by public bodies for the provision of social care services and other essential public services by the submission of the disbursement request for the first fixed tranche (indicatively Q2 2020).

- The Government demonstrates that in the draft medium term budget 2020-2022 it provides sufficient coverage to fund the Social Fund, and review and revise the Social Fund distribution and funding methodology to ensure transparency and horizontal equity across municipalities by the submission of the disbursement request for the first fixed tranche (indicatively Q2 2020).

- The Government delivers a financing policy proposal and commitment to reduce the estimated funding gap including budgeting for the costing of the action plan for the relevant strategies to be submitted with each disbursement request.

Failure to comply with the requirements set out above may lead to a recovery of funds under this programme and/or the re-allocation of future funding.

(3) Implementation modalities

(3)(a) Direct management through Budget Support

a) Eligibility for budget support

Public Policy

The priorities for this Action are defined in accordance to the Government of Albania policies as stipulated in Pillar 3 (*Investing in People and Social Cohesion*) of the **National Strategy for Development and Integration** (NSDI) 2015-2020. The priorities for assistance are also directly linked so specific social inclusion policies set out in sector strategies and recent priorities set related to the COVID-19 crisis response. Main policy directions as stipulated by the main strategies are:

1. To improve accessibility and quality of integrated social and community and health care services at the local level – Objective A- Poverty reduction and alleviation, Objective B- Improved quality of life for people with disabilities and Objective C: Development of social care services based on the principles of decentralization and deinstitutionalization. The National Strategy for Social Protection (NSSP) 2020-2023 and the package of response measures on COVID-19.
2. To promote social inclusion in employment and employability for all women and men in Albania - Objective C in The National Employment and Skills Strategy (NESS) 2020-2022 and the package of response measures on COVID-19;
3. To enhance inclusive quality learning and promote the educational attainment in pre-university education for all boys and girls with special focus on Roma and Egyptians, People

with Disabilities and other groups with disadvantaged backgrounds - Objective B: The strategy for Social Protection (2020-2023) and Objective B: The Strategy for the Development of Pre-university Education (PUE) 2014-2020.

The NESS, NSSP and PUE are aligned to the **Europe 2020** and **South East Europe 2020** strategies, as well as the **European Pillar of Social Rights**. They are also aligned with the **National cross-sectoral Strategy on Decentralisation and Local Governance 2015 – 2020**, which, inter alia, has a direct impact on access to services and integrated service delivery at the municipal level. It emphasises the links between social protection, poverty reduction, employment and skills, and inclusive and quality education. It is critical that the Action links to **Public Administration Strategy** and its principles as it will contribute directly to a professional administration with improved skills in analysing and addressing inclusion policy applications, it will ensure well targeted training and capacity development to strengthen capacity in the public administration at local and central level and establish citizen's oriented social services through an integrated approach.

The package of measures approved by the Government of Albania in the framework of responding to COVID-19 crisis is linked to the Social Protection Strategy and Employment and VET strategy, as they aim to contribute mainly in addressing coverage of the most vulnerable groups through the cash assistance and address employability created as a result of such crisis.

Below is a description of the three specific sectoral strategies that the Action will contribute to:

The **National Strategy of Social Protection 2015–2020**⁶ aims at reforming social protection policies through transformation of the social assistance (NE) scheme into an active scheme enabling social re-integration; revision of the system of disability evaluation; intervention and ensuring re-integration of children in families and community, while placing particular care for social and biological orphans, and ensuring delivery of integrated social and community welfare services. One of the priorities is to ensure the necessary funding for groups at stake through the Social Fund. NSSP also elaborates the need to establish linkages and better integration between active employment policies and social inclusion and protection policies. The action will contribute to all three objectives and will have **a particular focus on objectives A and C** related to **local decentralisation and development of integrated social and community care services and outreach and transparency of the cash assistance scheme**. The three main strategic objectives of NSSP are:

Poverty reduction and alleviation, focusing on the modernisation of the system of Economic Aid (NE) including through the administration of the national electronic register and scoring system; enhanced management capacities at the national and local level; better targeting as well as its transformation into a social reintegration programme through labour market activation measures. More specific actions included in the specific objective of the action programme is: A1- Increased effectiveness and transparency of the cash assistance scheme.

Improved quality of life for people with disabilities, focusing on the reformation and better targeting of cash benefit scheme for people with disabilities based the bio-psycho-social evaluation system; increased transparency including through establishment of management information systems; strengthened monitoring and inspection systems as well as establishment of an integrated system of social care services to complement cash benefits.

Development of social care services based on the principles of decentralisation and deinstitutionalisation, for the inclusion of vulnerable groups in Social Protection programmes. More specific actions included as part of the strategy and related to this specific objective are: C1 - Establishing an **integrated system of social care services at the local government** units in the selected areas, by 2017 and at the national level by 2020; C2 - Revision of the **planning and**

⁶ The NSSP has been revised and extended to cover 2020-2022 and retains key objectives set out in this EU Action. The revised strategy is currently awaiting adoption through a Decision of the Council of Ministers.

delivery authorities in the social care services at different tiers of local governments and **new models** to be implemented C3 - Establishing an **integrated information system** at the regional and central level, in order to identify and refer the needs for social care services by 2018; C4 - Establishing and strengthening of the **monitoring and inspection of quality of services** at the local, regional, and central levels by 2020; C4 - **Training of the labour force and social service providers** through the introduction of a qualification system, raising **awareness and public education for preventing social problems** and addressing them to social services, through communication campaigns.

The **National Strategy for Decentralisation and Local Government for 2015-2020** outlines an ambitious programme for the development of service provision by municipalities. However, it is evident that sufficient capacity or know-how does not exist on a uniform basis at the level of local governments for the effective coordination of social inclusion measures or the provision of social care services. For instance, only a minority of the municipalities have drafted costed social service plans as envisaged in the decentralisation strategy, and 27 municipalities currently provide no social care services which exacerbate inequality and social exclusion. Furthermore, expanding the provision of social care services requires the ability of central and local government to engage in **contracting and outsourcing of services based on the establishment of partnerships between municipalities, Non-Governmental Organisations NGOs and the private sector**. The goal is particularly important with regard to services that are designed to address complex needs and improve economic and social opportunities for the social inclusion of disadvantaged communities. The issue is especially pertinent in Albania, where the experience of local governments regarding social service provision is very limited, and where input by the civil society would therefore be particularly desirable. In advancing, the goal of outsourcing service provision the government needs to ensure that there are conducive public procurement rules that enable the participation of NGOs in public tenders for the delivery of social care services.

Albania has made significant progress in the areas of employment policy and vocational education and training (VET): The **National Employment and Skills Strategy 2014 – 2020 (NESS)**⁷, currently in its fourth year of implementation, has generated a significant positive impact both in terms of employment outcomes and towards modernising the vocational education and training system in the county. NESS underlines its commitment to boosting employment in a period of economic slowdown. The strategy seeks to integrate economic, education, vocational and entrepreneurship policies together through an action plan and by unifying employment and vocational education and training in an attempt to get closer to the labour market demands. The strategy features four main pillars or strategic objectives: A) foster decent job opportunities through effective labour market policies; B) offer quality vocational education and training to youth and adults; C) **promote social inclusion and territorial cohesion**; D) strengthen the governance of the labour market and qualification systems.

It puts knowledge and skills at the heart of the economic model and expects to trigger a positive impact on the long-term growth by promoting decent employment opportunities through more effective labour market policies and ensuring qualitative VET for young people, women and men while at the same time lowering opportunities for informal employment and informal employment rates in non-agriculture sectors. The strategy is comprised of 52 Actions and monitoring reports and according to the NESS 2017 Progress Report with 49 actions having been already initiated with the average level of implementation for the initiated actions of 74%. Nevertheless, challenges persist: the 2018 NESS Medium Term Review (MTR) report indicates that more needs to be done to ensure quality and equal access employment promotion programmes and the introduction of measures to support young people not in employment,

⁷ The NESS has been revised and extended to cover 2020-2022 and retains key objectives set out in this EU Action. The revised strategy is currently awaiting adoption through a Decision of the Council of Ministers (DCM)

education or training (NEET), expand the coverage of welfare-to-work measures that seek to reduce the number of people in receipt of cash transfers, and to expand access and relevance of Vocational Education and Training to youth, women and men across the country.

The NESS 2020 focuses on two **key aspects of social inclusion**: 1) development of employment services for disadvantaged groups and 2) improving opportunities for skills formation through better access of VET. In the 2018 MTR, employment programmes were estimated to have achieved a positive overall impact, but the impact on employability of vulnerable and disadvantaged groups was detected to be modest. As envisaged in the NESS, the National Employment Service is currently being reorganised into a modern nationwide network of employment services. Training and capacity-building activities have started to raise the level of competence of the NES staff from 2017, and these efforts have brought about a significant improvement, but further support to the capacity-building programmes needs to be provided. The limited number of staff and the challenges related to the transition from the old model of service delivery to a modern one continue to present problems to the development of employment services, in particular as regards to service provision to disadvantaged and vulnerable groups with special needs. In 2017-18, the National Employment Services, in cooperation with donor-supported programs, have tried to improve targeting of services on disadvantaged groups and diversified service provision, which has led to some positive outcomes. No significant progress has been so far made regarding the extension of the coverage of employment services and VET provision salient to skills required in the rural economy. The MTR of the NESS covering the four first years of the implementation has informed the process of revision/readjustment of NESS and its Action Plan which is aligned with this EU Action.

The Objective B of the National Strategy for Pre-University Education (2014-2020) is **relevant** and very closely aligned to Objective C of the NSSP which targets several shortcomings and challenges linked to providing child-friendly environments in schools; the need for inclusive quality learning for disadvantaged children; expansion of quality assurance in accordance with **EU standards which foster close cooperation and coordination between education, social care services and social inclusion**⁸; and implementation of contemporary professional training and development of teachers and administrators in inclusive education. Current shortcomings are linked to the absence of emphasis accorded to quality and inclusive education for disadvantaged children, to support for competence learning, and to quality assurance and standardisation, transparency and accountability. The absence of deconcentrated institutions that can support schools and provide community-based support services is also a significant omission. The ambition is to offer an education system that has students' needs and interests at its core; that creates opportunities and conditions conducive for students to build and develop their knowledge, skills, and values; that allows students to develop independently and to contribute to their welfare and that of the society, in a constructive way, and to face life's challenges. Strategic objectives in inclusive pre-university education therefore include the improving access and increasing enrolment; maintaining the ratio between the number of students finishing basic education and those finishing higher education. The reduction of dropout rates in basic education and implementation of policies for attracting children from vulnerable groups through the provision of "Quality Education for All".

Some key advances expected for 2019 include the Medium-Term Reviews of the sector strategies and the elaboration of revised action plans for the achievement of objectives, as well as the establishment and activation of the Social Fund as an instrument to support establishment

⁸ See European Agency for Special Needs and Inclusive Education:
<https://www.europeanagency.org/resources/publications/evidence-literature-review>

of social care services. Implementation is closely linked with capacities of the key sector stakeholders both at national and local levels. Even though the strategic objectives are linked with medium term budgeting, based on funding from Government and financing partners, successful implementation will largely depend on the government's ability to foster inter-sectoral coordination and integrated delivery of services. The lead institutions in the sector as regards the implementation of sector strategies are the Ministry of Health and Social Protection (MoHSP), the Ministry of Finance and Economy (MoFE) and the Ministry of Social Welfare and Youth (MoESWY), and in full accordance with **the Law on Management of Budgetary System**.⁹ The abovementioned budget programmes compose the Employment and Skills sector under the Government of Albania policy coordination structures, led by the respective Integrated Policy Management Group (IPMG). Strategies for the social inclusion sector have been costed and are linked to the budgeting process and the Mid Term Budget Planning (MTBP) for the next three years' allocation (2019-2021). The institutional and budget programmes considered relevant for this Action are based on the allocation and composition of expenditures related to social protection, employment and skills, and inclusive education for the Ministry of Finance and Economy, Ministry of Health and Social Protection, and the Ministry of Education.

Over the mid-term, annual spending across social protection, inclusive pre-university education (excluding pre-school), and employment and skills amounts to just under 19 per cent of the state budget, just over 3% of Gross Domestic Product GDP, and around 11% of Consolidated General Government Expenditure. Spending on social policies in Albania is below the average expenditure allocations in the EU (28)¹⁰ in both relative and absolute terms, and has distinctive features that set it apart from other countries in the Western Balkans¹¹. Total medium term expenditure ceilings (2018-2021) in social protection, employment and skills, and pre-university amount to Euro 1.193 billion.

In line with key objectives of the **Law on Local Government Finance** (Article 2), Local Government (LG) financing policy has to ensure the adequacy of financial resources to Local Government units (Municipalities and Regions) for the financing of their functions and competences, to guarantee their fiscal autonomy as regards the collection of local taxes and fees and to rely on an effective mechanism for equalisation. LG finances referred to in the same law (Article 10) relate to local taxes and fees and other local revenues, funds transferred from the state budget, funds from shared national taxes and charges, local borrowing, donations; any other local sources defined by law.

Fiscal year 2019 has seen a further consolidation of funding sources and implementation of new instruments foreseen by the Law, following fiscal decentralisation and increased financial autonomy. Transparency and further enhancement of effective financing mechanisms are important success factors for developments in the employment/skills and social sector. Financing policies of the Government of Albania and budget authorities to guarantee the fiscal autonomy of LGs has been aiming to (i) provide a stable flow of revenues correlated with the development of overall economic wealth GDP through "*Unconditional transfers*" from the

⁹ Law No 9936 provides for budgetary classification in Albania - including codes and denominations for all general government entities (central and local government entities as well as special funds). The budget of each general government entity is divided into programme (policy) areas. The budgetary programme is a group of activities of general government units that are managed effectively and together contribute to identifiable and measurable outputs which contribute directly or indirectly in achieving objectives and goals of its budgetary policy. Each budget programme is subdivided into activities (set of activities undertaken at the programme level for the delivery of an output), and outputs (goods and services delivered by activities of a budgetary programme)

¹⁰ Conclusions about social protection and education expenditures in Western Balkan countries have to be drawn on the basis of national statistics, which are not comparable to the **European System for integrated Social Protection Statistics** (ESSPROS) methodology which is used by EU/Eurostat).

¹¹ http://www.perform.network/upload/resources/documents/1510824428602_The_Welfare_State_in_Western_Balkan_Countries_Position_Paper.pdf

central level (State Budget) to the sub-national level (Municipalities/1st tier of LGs and Counties/2nd tier) and (ii) create favourable conditions for LGs to increase their *Own source revenues (OSR)*, both geared at an adequate level of financing of their expenditure functions through free discretionary revenues, conditional grants from line ministries or allocations from the Regional Development Fund (RDF).

Specific transfers are also foreseen for three years to finance new own LG functions by conditional grants and allow Central Government to adjust the intergovernmental finance system (and sectoral legislation/harmonisation) aimed at municipalities to cover spending for new responsibilities from general revenues (which is discretionary based on taxes/fees and unconditional transfers).

There are also transfers, which are not based on budget formulas and relate to deconcentrated, delegated or shared functions between Central Government and Local Governments and are designed to compensate for specific expenditures such as payments for cash benefits or specific costs for providing social care service. The **Social Fund**, due to commence in 2019, will contribute to financial spending for the delivery of social care services based on municipal social plans. The Social Fund will be a specific grant based on legal and regulatory rules/secondary legislation. The Albanian Government will follow a widely observed practice of financing specific services through additional transfers to cover financial gaps for expenditure functions that are in principle decentralised de jure and cover, at least in a transition phase, gaps between subnational expenditures and revenues. Transfers earmarked to specific expenditures will therefore coexist with general transfers in the case of social care services.

Total underfinancing at central level government level based on implementation of objectives and measures set out in the National Employment and Skills Strategy (NESS) and National Social Protection Strategy (NSSP), and child well-being in schools and inclusive education as set out in the Pre-University Education Strategy (PEU) Action is Euro 129.7 million. In the context of implementing the decentralisation strategy, shortfalls for unfunded mandates in social care services (estimated Euro 15.8 million) and education (Euro 9 million) Euro 24.8 Million. This means that in MTBP 2018-2021 unfunded mandates in social protection, employment and skills and inclusive education across central government and local government amounts Euro 154.5 million – see Table 2. There are however significant disparities in the abilities of municipalities to mobilise own source revenues and LGs remain significantly dependent on national level resources; in particular as regards funding new mandates such as social care services. The unconditional transfer is the main resource used to fund the majority of own functions in the sectors of transport and infrastructure, waste management as well as education

The **MTBP 2019-2021** reflects all the core elements of Social Inclusion reform in social protection, employment and skills and inclusive education. Budget provisions for reforms in the relevant sector strategies have been partially accounted for, but preparations of MTBP 2020-2023 will need to ensure that unfunded mandates in social protection, employment and skills and inclusive education are minimised. The timing and costings of the Action Plans of the revised NESS and NSSP will need reviewed on an **annual basis** and adapted to the progress of implementing the **MTBP and vice versa**.

With regards to the track record, all relevant pieces of legislation which are crucial for the successful implementation of reforms in the NESS strategy have been adopted; likewise, in the NSSP strategy and its interface with the PUES and inclusive education. *On the basis of the assessment, the NESS and their extension until 2022 are considered relevant and credible as underlying sector development strategies for this Sector Reform Contract.*

Macroeconomic policy

Following subdued growth and the earthquake in 2019, Albania is facing a deep recession in 2020, while the recession in the EU affects remittances and FDI inflows and puts pressure on the current account and the exchange rate.

Already before the outbreak of the COVID-19 crisis, annual GDP growth slowed considerably to 2.2 % in 2019, mainly because of low hydroelectric production due to below average rainfall, aggravated by the strong earthquake in November that caused substantial damage and loss of lives. In addition, the finalisation of some large energy projects led to a 4.1 % contraction in investment. Household consumption continued to be the main growth driver (+3.3 % y-o-y), based on growing wages and employment, because the performance of most sectors remained relatively strong. Employment growth accelerated to 2.4% and nominal wages grew 3.8 % in 2019. The unemployment rate (15-64 years) declined to 12% in 2019, down 0.8 pps y-o-y, while the labour force participation rate increased to 69.6% in 2019. Strong growth of services exports, mainly tourism, offset the fall of electricity exports and net exports contributed 0.6 pps to growth.

Fiscal consolidation continued, but fiscal governance showed weaknesses. In 2019, the fiscal deficit turned out 1.8 %, slightly below plan, partly due to an underspending of the capital budget. In response to the earthquake, the government initially planned an increased fiscal deficit of 2.2% of GDP in 2020. The gross public-debt-to-GDP ratio declined by 1.4 pps to 66.3 % at the end of 2019; public external debt decreased to 30.2 % of GDP. In recent years, the government shifted public debt to longer maturities to reduce the high annual rollover needs, but refinancing needs remain high.

The high current-account deficit slightly widened from 6.8% in 2018 to 7.6% of GDP in 2019 because the large surplus of the service balance, mainly from tourism, and remittances of 5.2 % of GDP, could not offset the increased deficit of the goods trade balance in 2019. Net foreign direct investment kept its share in GDP stable at 7.9 %, and continued to cover fully the current account deficit. Gross external debt decreased to about 60% of GDP (down 2 pps. from 2018). Foreign exchange reserves covered more than 6 months of imports and 40 % of the total external debt.

The inflation rate dropped to 1.4% in 2019, remaining well below the central bank's target of 3%. The Bank of Albania kept its very accommodative monetary policy unchanged in 2019.

The real-effective-exchange-rate index climbed 9% by the end of 2018, reflecting the acceleration in the appreciation of the Albanian currency while in 2019 the local currency was back to normal levels.

The stability of the financial sector improved, as banks continued to reduce non-performing loans. However, lending to the private corporate sector remained muted and the high use of foreign currency in the domestic market persisted. The new bankruptcy law still awaits the adoption of accompanying regulations, and the implementation of the amended private bailiffs law is hampered by disputes.

In its Economic Reform Programme (ERP) 2020-2022 which was adopted in January 2020 – prior to COVID-19, Albania projected economic growth to accelerate to 4.1% by 2020 based on strong private domestic demand due to greater employment, rising wages and favourable lending conditions for households. Private investment activity was projected to remain at a steady level of 17.8% of GDP during 2019-2021, slightly lower as compared to 18.5% of GDP in 2018. This situation is expected to be further deteriorated after the March-April COVID-19 emergency and the government austerity measures which caused the blocking of activities of the majority of enterprises. Net exports are expected to make only a marginal contribution to the economic expansion. The growth outlook appears optimistic in light of a worsening external environment,

continued low levels of lending to businesses, and enduring weaknesses in the business environment.

In the ERP Albania confirmed its commitment to continue decreasing the public debt from the peak of about 73% of GDP in 2015 to about 65.4% of GDP in 2020; 62.3% of GDP in 2021 and 62.0% in 2022. To achieve this reduction, the baseline fiscal scenario targets a fiscal deficit at the level of 2.2% of GDP in 2020; 2.0% in 2021; and 1.7% by 2022 while targeting a positive primary balance. The relatively low public expenditure ratio does not allow for significant expenditure cuts, which partly explains the moderate pace in debt reduction. The recent multiplication of VAT exemptions will complicate attempts to broaden the tax base and improve the efficiency of tax collection, alongside informality and tax evasion in the formal economy.

In 2019, capital expenditures were at the level of 4.5% of GDP or 15.2% of total expenditures as compared to 4.8% of GDP and 16.5% of total expenditures in 2018. For the period 2020-2022 government public investments were estimated at an average of about 4.7% of GDP for each year (or about 5.5% of GDP if local government investments were included). Weaknesses in the planning and management of capital expenditure still persist. In order to bridge the large infrastructure gap government is seeking to mobilise private capital - mainly through public-private partnerships (PPPs). The increasing reliance on PPPs generates contingent liabilities and therefore fiscal risks, for which there is limited monitoring capacity.

The overall macroeconomic policy mix has been broadly appropriate, and Albania has complied with fiscal rules – mainly to keep the public-debt-to-GDP ratio declining until the limit of 45% is reached despite the force major earthquake. Budget implementation and PFM should be strengthened to avoid arrears and manage fiscal risks. Increasing tax revenues could help speed up the path to the 45%-debt-to-GDP limit, thus strengthening debt sustainability.

As the effects of COVID-19 crisis to the Albanian economy continue deepening, the government intends to increase the borrowing and the budget deficit is expected to increase in 2020 in order to ensure basic services and to help businesses survive, in the mid to long run the government is committed to maintain the fiscal consolidation. After the March amendment to the state budget, a second budget revision was approved in April 2020.

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

Public financial management

The Ministry of Finance and Economy (MoFE) set up intra- and inter-ministerial consultation mechanisms to conduct the midterm review of the PFM reform strategy 2014-2022 and to develop and consult the revised and extended PFM strategy for 2019-2022. The midterm review of the PFM strategy was completed with a consultation workshop in March 2019 including the identification of priorities to be addressed during the extended period until 2022, among others: public investment management including fragmented approval, appraisal, selection, and monitoring processes for public investment projects, PPPs and concessions; analysis of, monitoring, reporting and mitigating fiscal risks; re-accumulation of arrears¹² at local and central government levels following the clearance of all pre-2014 arrears; improving the follow-up of internal and external audit recommendations; strengthening of internal control standards across government in line with a comprehensive PIFC policy; online access to the treasury for all budget institutions; and the creation of a separate pillar for Domestic Revenue Mobilisation. The

¹² <http://www.financa.gov.al/al/raportime/shlyerja-e-detyrimeve-te-prapambetura>

strategy revision is marked by a shift from action-orientation to focusing on results and outputs, including performance indicators and costing.

MoFE's coordination unit to facilitate and monitor the implementation of reform actions and indicators led this process for which consultation started in July 2019 and were concluded in the PFM Steering Committee, the formalised government coordination and dialogue mechanism, in September 2019. The Council of Ministers approved the revised and extended PFM strategy for 2019-2022 in December 2019.

2019 marked the fifth year of the implementation of the Public Financial Management (PFM) Strategy and related action plan. Annual monitoring reports are published in Albanian and English language¹³. Overall, there has been progress which, however, slowed down following the November 2019 earthquake and the COVID-19 situation in the first half of 2020. In particular, the approval and implementation of the coordination framework and regular monitoring, in line with the revised strategy, have been delayed.

The latest 2017 Public Expenditure and Financial Accountability (PEFA) assessment¹⁴ indicates mixed performance with 15 out of 31 indicators reflecting strong performance while the other 16 indicators reflect weak performance. The aggregate comparison with the previous assessment in 2011 shows no change in performance for sixteen indicators, an improvement for five indicators, and a lower score for seven indicators. Of those seven indicators, three scores did not relate to a change in performance but to an over-optimistic interpretation of the framework in 2011. *Overall, the eligibility requirement that there is a credible and relevant programme to improve public finance management is considered to be met.*

Budget transparency and oversight of the budget

The Government of Albania published the 2020 budget (Executive's budget proposal and the enacted budget) in a timely manner for the general public on the MoFE website¹⁵ and in printed form in the Official Gazette¹⁶. Therefore, *the entry level requirements are considered to be met, as both the Executive's budget proposal and the enacted budget were published within the legal time limit.* Overall, budget transparency has improved in recent years in terms of quantity and relevance of information at both central and local level with the implementation of the PFM reform and the transparency road map. Government now publishes all key budget documents¹⁷ in a timeframe consistent with international standards. However, the mid-year report, first published in 2017¹⁸, covers five instead of six months; in line with the Albanian Organic Budget Law. The BOOST initiative improved public access to budget data¹⁹ and MoFE established in collaboration with Co-Plan a transparency portal on Local Finances²⁰. A key issue is the varying level of transparency across government, which needs to be systematically addressed. The 2018 budget implementation report was published²¹, with room for improvement as regards reporting on state assets and possibility of comparison with the original budget.

The most recent Open Budget Index score available is 55 (2019) compared to 50 (2017) and 38 (2015)²², demonstrating a continuous improvement. According to the PEFA 2017 most

¹³ EN language: <https://financa.gov.al/wp-content/uploads/2018/08/2017-PFM-Strategy-Monitoring-Report.pdf>
AL language: <https://financa.gov.al/wp-content/uploads/2018/08/2017-Raporti-i-Monitorimit-t%C3%AB-Strategjis%C3%AB-s%C3%AB-MFP-s%C3%AB.pdf>

¹⁴ PEFA reference: <https://pefa.org/assessments/albania-2017>

¹⁵ <http://www.financa.gov.al/buxheti-2020/>

¹⁶ <http://www.qbz.gov.al/>

¹⁷ Including Citizen budget <https://financa.gov.al/buxheti-i-qytetarit-2/>

¹⁸ <http://financa.gov.al/buxheti-2017/>

¹⁹ <https://financa.gov.al/boost/>

²⁰ <http://www.financatvendore.al/>

²¹ <https://financa.gov.al/buxheti-faktik-2018/>

²² <https://www.internationalbudget.org/open-budget-survey/country-results/2019/albania>

indicators did not change in terms of performance vis-à-vis overoptimistic PEFA 2011 scores, with the exception of budget documentation (PI-5). Monthly budget execution reports are issued timely but data coverage and classification does not allow direct comparison to original budget, and expenditure is captured at payment stage (PI-28). Annual financial reports are submitted for external audit in a timely manner but do not present a comparison between original budget and actual execution, and differences between national and international standards are not disclosed (PI-29).

Gaps exist with regard to adequate attention by Parliament and follow-up of audit recommendations (PI-30 and PI-31). The legislature issues recommendations on actions to be implemented, but does not monitor them. Hearings are conducted in public with a few exceptions. External audit coverage is extensive but the implementation of recommendations needs to be improved. ALSAI developed a system to track the implementation of recommendations which is expected to become fully operational in 2020. In 2018 ALSAI issued for the first time an opinion on the 2017 budget execution report. The Open Budget Survey (OBS) 2019 scored oversight at 65 points slightly lower than in 2017 (69 out of 100 points); whereby audit oversight was considered adequate with 72 points and legislative oversight just about adequate with 61 points (*N.B. 41-60 points is "limited"*). An OBS recommendation in this regards is that a legislative committee should examine in-year budget implementation and publish reports with their findings online.

The 2019 Open Budget Survey concluded with 7 out of 100 points (up from 2 points in 2017) that Albania provides few opportunities for the public to engage in the budget process. However, the global average for this indicator is only 14 points, the OECD average 23 points; in the region Croatia (22 points) and Slovenia (11) are at the top of the league. The revision of the Organic Budget Law in 2016 included consultation with civil society as a legal requirement to formalise previously voluntary initiatives. The low score for Albania is mainly due to the limitation of public consultation during the budget approval process, rather than also during formulation, implementation and audit of the budget.

A New Financial Planning Tool for local units for the MTBP and related Manual for Financial Planning Toolkit were approved in 2018 and rolled-out as part of staff training and capacity building measures. The new standard MTBP preparation instruction will strengthen its role as an instrument for the budget (preparation) process and strategic resource allocation purposes. MoFE publishes LG budget monitoring reports quarterly.²³ Over the medium-term perspective a significant challenge - particularly for LGs – will be to adhere to the two-step approach of costing and budgeting resources.

The IMF Fiscal Transparency Code assessment²⁴, published in 2016, noted that ten of the Code's 36 principles are rated as either "good" or "advanced," and 14 principles rated as "basic". However, in eight areas the basic requirements of the Code are "not met." The IMF Transparency assessment from 2016 has not been updated and hence it does not reflect any of the progress in the last two years.

Albania was found to have made meaningful progresses against the Extractive Industry Transparency Initiative (EITI) Standards as confirmed by the Board on 17 June 2019. The second validation in 2019 showed that all requirements show improving performance compared to the first validation, with the exception of revenue collection comprehensiveness (#4.1) which worsened. The long term objective is to reach at "Beneficial Ownership Disclosure" by 2020.

²³ <https://financa.gov.al/buxheti-i-pushtetit-vendor/>

²⁴ <http://www.imf.org/external/np/sec/pr/2016/pr1611.htm>

Albania is part of MONEYVAL, the permanent regional monitoring mechanism assessing compliance with and implementation of international standards to counter money laundering and financing of terrorism (FATF standards). Strategic deficiencies of the Albanian system highlighted in the 5th round Mutual Evaluation Report triggered the FATF listing process, resulting in Albania being subject to a one-year observation period. On 17 June 2019, Parliament adopted a "MONEYVAL package" to address the technical part of the recommendations including amendments to four existing laws (tax procedures, business registration, terrorism financing, prevention of anti-money laundering/terrorist financing), and the adoption of a new law on the administration of seized and confiscated assets. Among the main changes introduced are the obligations for businesses and NGOs to open a bank account, an improved transparency on the beneficial ownership of companies, a faster transposition of UNSCR sanctions on the freezing of terrorist assets, and the broadened competence of the agency in charge of confiscated assets. Despite progress in some areas the MONEYVAL plenary assessed overall progress in implementing recommendations as insufficient, and Albania has been grey-listed by the FATF in February 2020.

Albania signed the Convention on Mutual Administrative Assistance in Tax Matters; is member to the inclusive framework on BEPS; and member of the global forum for the exchange of information on request, largely compliant in the first rating round. The next rating round is scheduled for 2020. *Overall, the eligibility requirement for budget transparency and oversight is considered to be met.*

b) Objectives

The overall objective is to expand coverage, inclusiveness and effectiveness and emergency responsiveness of social care services, pre-university education and employment opportunities for youth and adults in Albania, including populations at risk of exclusion.

The specific objectives are to: i) Improve accessibility and quality of integrated social care services at the local level; ii) Promote social inclusion in employment and employability for youth, men and women; iii) Enhance inclusive quality learning and promote educational attainment in pre-university education for all girls and boys - with a special focus Roma and Egyptians, disability and other disadvantaged backgrounds;

c) Expected results

The expected results are:

- Integrated system of social and community care services at local level is established and functional;
- Financial and regulatory framework for modern social care practice and standards established;
- Improved child well-being in schools;
- Increased inclusion and well-being of children with special needs;
- Increased labour market participation, including youth, women, men and other populations at-risk of exclusion;
- Extended vocational education and training offers tailored to needs of youth, women and men and populations at-risk of exclusion in municipalities.
- Increased outreach and targeted cash assistance support to families responding to COVID-19 crisis;
- Extended support to the most vulnerable families through the relief operation responding to COVID-19 crisis;
- Increased outreach and targeted measures to the unemployed responding to COVID-19 crisis.

d) Main budget support activities

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

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

The detailed activities are:

- Engagement in policy dialogue around conditions and government reform priorities, the verification of conditions, targets and the payment of budget support;
- Transfer of EUR 50.65 million to the beneficiary country over fiscal years 2020, 2021, 2022, 2023 and 2024 with disbursements of fixed and variable tranches.
- Continued support to reinforce Government's institutional capacities to implement the National Strategy on Social Protection (**NSSP**), National Strategy on Employment and Skills (**NESS**), and supplementary measures to expand the scope and provision of inclusive education.
- Enhancing workforce skills and capacities at local and central level to ensure good quality of provision of social services, skills for inclusive education for teachers, psychologists, social workers and other personnel in schools, in VET institutions and National Employment Service, skills development to case management and other contemporary practices in working with specific needs of various groups through technical assistance
- Enhancing donor coordination through regular dialogue and capacity building for the Social Protection and Employment and Skills strategy, and inclusive education by related technical assistance and grant schemes.
- Enhanced coordination and support to respond to COVID-19 crisis in the area of social protection, employment, VET and pre-university education.
- Strengthening monitoring and evaluation systems for tracking implementation of the Social Protection and Employment and Skills Strategy, and the inclusive education and social inclusion dimensions in Pre-university Education (**PEUS**);
- Enhancing policy coordination and implementation at local level and partnerships between municipalities and civil society in service provision, monitoring and evaluation of existing and new standards of service provision;
- Regular monitoring of budget support eligibility criteria.
- Communication and visibility of budget support linked as well to local level grants support.
- Enhanced transparency and public consultations with civil society actors and other key stakeholders in the sector such as, private business, social partners.
- Grants aimed at supporting municipal partnerships and expanding service delivery; improving labour market and inclusive education for Roma and Egyptian populations, and expanding inclusive education measures to 320 schools - including the school for deaf children and the school for blind children

e) Complementary actions

The action is partially a continuation of the Sector Reform Programme under IPA 2015, supporting the implementation of the National Strategy on Employment and Skills (2015- 2020). It aims at advancing the social inclusion agenda in areas of employment and skills, social care and inclusive education in Albania.

There are two elements in the complementary assistance of this budget support programme: one under indirect management with Albania, and one under direct management (procurements and grants - please see corresponding implementation methods below.

(3)(b) Indirect Management by Albania

A part of this action will be implemented under indirect management by Albania, which shall be responsible for carrying out all the tasks relating to the implementation of the action. The action contributes directly to the specific objective 3 - To enhance inclusive quality learning and promote educational attainment in pre-university education for all girls and boys and to achieve the following expected result: Enhanced capacities for Competence-Based Learning and Improved Inclusive Education across the country based on EU standards. Key performance indicator is the number of teachers trained on pre-university curriculum grades 1 – 5 based on key competences learning.

The Operating Structure(s) responsible for the execution of the actions are a) the Central Finance and Contracting Unit (CFCU), b) the Ministry for Europe and Foreign Affairs as the National IPA Coordinator and c) the Ministry of Education, which will be the main beneficiary of the activity.

The beneficiary country shall be responsible for the contracting, implementation, information and visibility, monitoring and reporting of IPA II activities, and the evaluation thereof whenever relevant, in accordance with the principle of sound financial management, and for ensuring the legality and regularity of the expenditure incurred in the implementation of the programme.

(3)(c) Direct management (project approach)

Procurement

The expected results of the complementary technical assistance support are:

- Sound monitoring of budget support implementation;
- Increased awareness of the NESS and NSSP strategies and policies;
- Enhanced technical and organisational capacities at the MoHSP, MoESY, MoFE and municipalities to coordinate and implement social inclusion and employment measures through the Integrated Policy Management (IPMG) and Thematic Groups and a new Policy and Practice Development and Learning Group that focuses on coordination with municipalities.

The global budgetary envelope reserved for procurement: EUR 8,700,000

Grants

a) Purposes of the Grant(s):

The grant will contribute to achieving the following expected results:

- Expanded range of integrated social care services, employment measures and inclusive education at the local level in line with the municipal social plans, including measures to protect the most vulnerable groups from the recent COVID-19 crisis.
- Enhanced social inclusion of both young and adult Roma and Egyptians benefiting from an expanded range of employment and inclusive education services in each municipality, including impact of COVID-19 crisis on this group in the area of employment and education.

b) Type of applicants targeted: In order to be eligible for a grant, the applicant must be a) a public body, or relevant mandated body of a Government Department of a European Union Member State; or b) a competent local authority in Albania; or c) International Organisation (intergovernmental) as defined in Article 62 (c) of the EU Financial Regulations; or d) Non-profit organisation, civil society organisation.

c) Direct grant award: N/A

d) Exception to the non-retroactivity of costs: N/A

The global budgetary envelope reserved for grants: EUR 9,300,000

(4) Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

In accordance with Article 10(2) of Regulation (EU) No 236/2014, the Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

3 BUDGET

3.1 INDICATIVE BUDGET TABLE - ANNUAL ACTION PROGRAMME FOR ALBANIA FOR 2019

		Indirect management		Direct management	Total EU contribution (EUR)	IPA-II beneficiary or other third party contribution (EUR)	Total (EUR)
		with IPA-II beneficiary	with entrusted entity				
		EU contribution (EUR)	EU contribution (EUR)	EU contribution (EUR)			
Objective 2	07. Education Employment and social policies	2,000,000	0	68,650,000	70,650,000	1,255,555	71,905,555
	Action 2 EU for Social Inclusion	2,000,000	0	68,650,000	70,650,000	1,255,555	71,905,555
	TOTAL	2,000,000	0	68,650,000	70,650,000	1,255,555	71,905,555

4 PERFORMANCE MONITORING ARRANGEMENTS

As part of its performance measurement framework, the Commission shall monitor and assess progress towards achievement of the specific objectives set out in the IPA II Regulation based on pre-defined, clear, transparent measurable indicators. The progress reports referred to in Article 4 of the IPA II Regulation shall be taken as a point of reference in the assessment of the results of IPA II assistance.

The Commission will collect performance data (process, output and outcome indicators) from all sources, which will be aggregated and analysed in terms of tracking the progress versus the targets and milestones established for each of the actions of this programme, as well as the Indicative Strategy Paper.

In the specific context of indirect management by IPA II beneficiaries, National IPA Coordinators (NIPACs) will collect information on the performance of the actions and programmes (process, output and outcome indicators) and coordinate the collection and production of indicators coming from national sources.

The overall progress will be monitored through the following means: a) Result Orientated Monitoring (ROM) system; b) IPA II Beneficiaries' own monitoring; c) self-monitoring performed by the EU Delegations; d) joint monitoring by the European Commission (DG NEAR) and the IPA II Beneficiaries, whereby the compliance, coherence, effectiveness, efficiency and coordination in implementation of financial assistance will be regularly monitored by an IPA II Monitoring committee, supported by Sectoral Monitoring committees, which will ensure a monitoring process at sector level.

5. EVALUATION

Having regard to the importance and the nature of the action, final and/or ex-post evaluations will be carried out for this action or its components via independent consultants contracted by the Commission.

A final and/or ex post evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the implementation of the budget support for social inclusion as well as the implementation of the support to circular economy.

The Commission shall inform the implementing partner at least 1 month in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

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