

## ANNEX

### to the Commission Implementing Decision amending Commission Implementing Decision C(2020) 424 of 17.2.2020 adopting an Annual Action Programme for Albania for the year 2020

#### 1 IDENTIFICATION

<b>Beneficiary</b>	Albania
<b>Basic Act</b>	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)
<b>CRIS/ABAC Commitment references</b>	2020/042-914
<b>Total cost</b>	EUR 79 421 991
<b>EU Contribution</b>	EUR 77 300 000
<b>Budget line</b>	22.02.01.01
<b>CRIS/ABAC Commitment references</b>	2020/042-915
<b>Total cost</b>	EUR 26 000 000
<b>EU Contribution</b>	EUR 26 000 000
<b>Budget line</b>	22.02.01.02
<b>Methods of Implementation</b>	Direct management by the European Commission; Indirect management with Albania; Indirect management with the entity (ies) to be selected in accordance with the criteria set out in section 2.2(3)(a);
<b>Final date for concluding <u>Financing Agreements</u> with the IPA II beneficiary</b>	At the latest by 31 December 2021
<b>Final date for contracting, including the conclusion of contribution/delegation agreements</b>	3 years following the date of conclusion of the Financing Agreement
<b>Indicative operational implementation period</b>	6 years following the date of conclusion of the Financing Agreement
<b>Final date for implementing the Financing Agreement</b> (date by which this programme should be de-committed and	12 years following the conclusion of the Financing Agreement

closed)	
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## 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 revised Indicative Strategy Paper for Albania (2014-2020)<sup>1</sup> 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 2020 programme has seven actions in the following sectors: i) democracy and governance, ii) rule of law and fundamental rights, and iii) competitiveness, innovation, agriculture and rural development.

The **EU for Good Governance** action aims to contribute to a more capable and responsive public sector towards citizens' needs and businesses as well as to advance and respond to the demands of the EU integration process. It will improve public administration to become more efficient, accountable, transparent, inclusive and effective at national and local level. Key results include improved domestic revenue mobilisation; fiscal capacity of local government units; planning, budgeting and coordination; strengthened commitment controls and reduced arrears; improved human resource management; strengthened public investment management; increased integrity of public institutions; enhanced transparency and access to information for the citizens; and improved quality of services for citizens and businesses.

The **EU Support for Participation in Union Programmes and Agencies** action will facilitate and enable the participation of Albanian institutions in Union Programmes and Agencies. It will promote the further alignment of Albania with European Union policies and working methods and it will increase Albania's active participation in and commitment to the Union Programmes. The Action will contribute to achieve the objectives of the Stabilisation and Association Agreement (SAA), in particular those related to education and training, cooperation in research, and technological development.

The **EU Integration Facility** action will strengthen the capacity and accountability of the Albanian public administration to guarantee a sustainable role of the Government in the preparation for EU membership. The support will be instrumental in enhancing capacities for alignment and implementation of acquis requirements, reforms and strategies.

The **EU for Rule of Law** action seeks to contribute to the strengthening of the rule of law through (1) improving the capacity of the Albanian State Police, the Special Prosecutor for Anticorruption, the National Bureau for Investigation, the General Prosecutor Office, the High Prosecutorial Council and relevant agencies to provide trust, safety and a secure environment to Albanian citizens, and (2) improving the capacity of the independent justice institutions to adequately perform their duties. The Joint Action Plan on Counter-Terrorism for the Western Balkans has been signed in 2018.

The **EU for Property Rights** action will support the land sector reform, which is among the top five priorities of the Government of Albania. The overall objective of the action is to contribute to strengthening the protection of the right to property in Albania and Albania's capacity to guarantee in practice the right of ownership, as one of the fundamental human rights. It will be provided through a regulated system of harmonised real property, which offers clear and safe property titles for everyone, in line with the priorities identified in the National Strategy for

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<sup>1</sup> Commission Implementing Decision C(2018) 5027 of 3 August 2018

Development and Integration 2015-2020. The specific objective of the action is to develop a dynamic land market through the establishment of a clear property rights framework in Albania.

The **International Monitoring Operation (IMO): Support to the process of temporary re-evaluation of Judges and Prosecutors in Albania – Phase II** action is aimed at strengthening the independence, transparency, efficiency, accountability and public trust in the Albanian justice system in line with the European standards and the EU acquis. Activities will be devoted to: increase the professional quality of judges and prosecutors; reduce the impact of organized crime, politics and corruption in the delivery of Justice; and enhance the integrity and accountability of judiciary institutions.

The **EU for Economic Recovery** action will mitigate the impact of the COVID-19 crisis in Albania by reducing the macro-economic effects and disruptions of the economy and ensuring that vulnerable businesses and unemployed people have access to economic relief.

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

The EU has provided substantial support to Albania in the areas of **democracy and governance**, rule of law and fundamental rights. Nearly half of the national IPA II envelope has been allocated to support these sectors in line with the principles of IPA II focusing on fundamentals first. As stated in the Indicative Strategy Paper for Albania 2014-2020, the important lessons learned from IPA I (2007-2013) are: (a) capacity building and investments require a minimum level of human resources in terms of both skill and number; (b) the ownership for EU funded investments is jeopardised if they are not linked to the sector strategies and budgets of the relevant Ministries, as well as the need for a careful assessment of the institutional due diligence. The actions are in line with major strategy documents such as the Public Administration Reform and Public Financial Management Strategies.

For **rule of law** previous IPA assistance focused on key institutional reforms and capacity building of the various judiciary actors, primarily through assistance to the modernisation of the justice system. A number of infrastructure projects have increased the capacity of the judicial and penitentiary system to comply with international standards. The sector budget support programme for the implementation of the Justice Strategy is complementary to this assistance. Support for the international monitoring operation for the reevaluation of judges and prosecutors is in place. On the side of law enforcement, earlier support focused on consolidation and capacity building for law enforcement capacities as well as on the fight against organised crime.

As regards **competitiveness and innovation**, previous assistance has included the IPA 2018 action “EU Economic Development -Tourism-led local economic development, with focus on cultural heritage”, which aims at supporting target territory in exploiting their potential to attract visitors, and at raising the quality of tourism offer. This action in turn builds on the IPA 2017 EU support to a tourism-led model for Local Economic Development Action, which aims to support local economic development in four territories/regions (Shkodra, Fier, Berat and Korca), tapping under-utilised local/regional potential assets to maximize opportunities for growth and competitiveness.

*List of Actions foreseen under the selected Sectors/Priorities:*

Sector/Priority/Action	Direct management	Indirect management	
		With entrusted entity	With IPA II beneficiary
<b><i>Democracy and Governance</i></b>			
Action 1 - EU for good governance	EUR 45 600 000	EUR 2 500 000	0
Action 2 - EU support for participation in Union Programmes and Agencies	0	0	EUR 1 500 000
Action 3 – EU Integration Facility	EUR 5 850 000	0	EUR 2 450 000
<b><i>Rule of law and fundamental rights</i></b>			
Action 4 - EU for Rule of Law	0	EUR 5 000 000	0
Action 5 - EU for Property Rights	EUR 5 700 000	0	0
Action 6 - International Monitoring Operation (IMO): Support to the process of temporary re-evaluation of Judges and Prosecutors in Albania – Phase II	0	EUR 8 700 000	0
<b><i>Competitiveness, innovation, agriculture and rural development</i></b>			
Action 7 - EU for Economic Recovery	EUR 26 000 000	0	0
<b>TOTAL</b>	<b>EUR 83 150 000</b>	<b>EUR 16 200 000</b>	<b>EUR 3 950 000</b>

## 2.2 DESCRIPTION AND IMPLEMENTATION OF THE ACTIONS

The envisaged assistance is deemed to follow the conditions and procedures set out by the restrictive measures adopted pursuant to Article 215 TFEU<sup>2</sup>.

<b>SECTOR</b>	<b>DEMOCRACY AND GOVERNANCE</b>	<b>EUR 57 900 000</b>
<b>Action 1</b>	<b>EU for Good Governance</b>	<b>EUR 48 100 000</b>

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

- Description of the action and objectives

The overall objective is to contribute to a more capable and responsive public sector towards citizens' needs and businesses as well as to advance and respond to demands of EU integration processes.

The specific objective is to improve public administration to become more efficient, accountable, transparent, inclusive and effective at national and local level.

- Expected results and key performance indicators

The expected results of the action are:

- Improved domestic revenue mobilisation;
- Improved fiscal capacity of local government units;
- Well integrated and efficient planning, budgeting and coordination of policies;
- Strengthened commitment controls
- Improved human resource management;
- Improved public investment management;
- Increased integrity of public institutions;
- Enhanced transparency and access to information for the citizens;
- Improved regulatory framework and capacities at local government;
- Improved service delivery to citizens;

Key performance indicators (for the specific objective):

- Score on fairness and efficiency of administrative procedures;
- Score on transparency;
- Score on public consultation;
- Open budget index score on budget oversight;

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<sup>2</sup> [www.sanctionsmap.eu](http://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.

- Score on citizen-oriented service delivery;
- Score on accessibility of public services;

## **(2) Assumptions and conditions**

The assumptions for the action include i) continued political commitment to the implementation of the good governance reforms and the EU accession agenda and ii) the presence and further build-up of management and technical capacities at the central and local administration.

The conditions of the action include:

The revised extended sector strategies and action plans until 2022/2023 are adopted for public administration reform (PAR), public financial management (PFM), fight against corruption (AC), Digital Albania (DA), Decentralisation and Local Governance (LG) (including costing, medium term budget information, and gender mainstreaming following EU OECD Sigma requirements) in the framework of the Integrated Policy Management Group (IPMG) Thematic group after consultation with development partners and civil society organisations before the signature of the financing agreement..

The adoption of the Action Plan for the implementation of recommendations on the 'matrix of competences of local self-government' including the revision of legislation to address gaps and overlaps with regards to clear assignment of responsibilities between central and local government authorities by end of 2019.

The central government shall provide a co-financing of at least 10% of the amount of each sub-grant included in the EU grant scheme for municipalities (at the time of the grants' signatures).

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**

Good Governance policy is anchored in several interrelated sectoral and cross-sectoral strategies. Their coordination and monitoring is envisaged under the IPMGs and its respective thematic working groups for Good Governance covering policy making and systems, PAR, PFM, Anti-Corruption, Justice, Local Government/Decentralisation, the Digital Agenda, Public Services, and Statistics. The design and implementation of this programme is based on the credibility and relevance as well as satisfactory progress for the implementation of the PAR and PFM strategies. In addition, relevant policy monitoring will be provided for the implementation of "complementary" strategies, i.e. Anti-Corruption, Local Government and the Digital Agenda

The cross-cutting PAR strategy 2015-2020, the PFM reform strategy 2019-2022, as well as the other complementary strategies of the good governance reform framework - the inter-sectoral strategy against corruption 2015-2020, the National Cross Cutting Strategy for Decentralisation and Local Government 2015-2020 and the strategy for a Digital Albania 2015-2020 - together form the wider public administration reform framework – also in line with the strategic framework for PAR. The PAR strategy as the main public policy document - as well as other

complementary strategies for good governance - continues to be relevant and is aligned with other primary national planning documents, namely NSDI, addresses the principal problems in the sector and accords with Albania's EU accession policy commitments. The PAR strategy, coordinated by the PMO and DoPA, addresses key weaknesses: (i) policymaking and the quality of legislation; (ii) organisation and functioning of public administration; (iii) civil service: human resource management; (iv) administrative procedures and oversight. The PAR strategy is also consistent with SIGMA's six core areas of Public Administration and reflects priorities set out under "governance for development" of the South East Europe Strategy 2020. With regards to the other complementary strategies for good governance:

The specific objectives of the PFM strategy 2019-2022, coordinated by the MoFE, address key weaknesses related to (i) sustainable and prudent fiscal framework; (ii) well integrated and efficient planning; (iii) revenue mobilisation; (iv) efficient execution of the budget; (v) transparency of public finances; (vi) effective internal control; and (vii) effective external oversight of public finances (see also Sector Budget Support Readiness PFM above).

The Anti Corruption strategy, coordinated by the MoJ in its role as the National Coordinator Against Corruption, combines 18 complex objectives linked to prevention, repression, and awareness raising with 97 measures in the action plan 2018-2020 in a multi-institutional setting. The strategy directly responds to the key priorities set out in the European Integration agenda. A new action plan for the period 2019-2023 with costing and updated targets for the performance indicators was approved by the Council of Ministers.

The National Cross Cutting Strategy for Decentralisation and Local Government 2015-2020, coordinated by the MoI, addresses identified weaknesses: (i) efficiency of LG structures; (ii) fiscal and financial autonomy; (iii) sustainable economic development; and (iv) good governance. There is a need for clarifying the division of responsibilities, better linking objectives and activities/indicators, and improving links between decentralisation and regional policy.

The cross-cutting strategy "Digital Agenda for Albania 2015-20", coordinated by the PMO, focuses on: (i) development of electronic governance and delivery of interactive public services for citizens and businesses; (ii) development of electronic communications in all sectors; (iii) establishment of the National Geospatial Data Infrastructure. The strategy aims to address some of the main challenges in terms of e-government, public service delivery, and electronic communication infrastructure needs.

The design of these strategies and their mid-term review was informed by consultation processes with relevant stakeholders including state and non-state actors. While the track record in implementing the strategies is overall positive despite a slow-down following the 2017 elections and government restructuring, the original strategies suffered from poor costing and at times inadequate inclusion in the medium term budget. Risks to the sustainability of reforms relate to political commitment and palpable ownership of some pillars, as well as to low human resource capacity by several public administration actors in terms of staff numbers and skills. The opportunity to coordinate the interlinked strategies has been re-vitalised with the re-establishment of the Integrated Policy Management Group (IPMG) mechanism in the end of 2018.

Considering the design, implementation track record and sustainability, the PAR strategy can be considered credible. The PAR action plan 2018-2020 is practically fully-costed (90%). 96% of the identified costs are included in the MTBP. The revised PFM strategy includes an action plan for 2019-2023 and costing for the period 2019-2022. Within the framework of the decentralisation strategy, new laws on local self-governance and on the territorial and administrative division of Albania lay the foundation of the system of local self-governance,

aiming to increase the direct contact with the municipalities and the citizens. The 2017 law on local finance determines clear rules, principles and procedures of local government finance. According to the 2018 annual monitoring report on the implementation of the Decentralisation and Local Governance Strategy, implementation is satisfactory with 36% of the actions completed, 49% in progress, 13% delayed, and 2% to start beyond 2017. There is progress in the implementation of the Digital Agenda (DA) strategy in the area of e-services. The responsibility for DA was transferred to AKSHI in 2017. The absence of a strong coordination mechanism hinders progress and sustainability.

Monitoring and evaluation have continuously improved since the adoption of the PAR and other strategies related to good governance, now featuring action plans and indicators with targets; except for DA for which the recently appointed coordinating institution, the National Agency for Information Society, has produced a new action plan until 2022, to be adopted shortly. Monitoring reports are becoming more substantiated with analysis of indicator target achievements and increasingly written by the GoA. All available progress reports have been published. Moving forward, the operationalisation of the IPSIS, the Albanian Financial Management Information System (AFMIS) are expected to improve data available for monitoring.

The strategies discussed in this chapter are all coherent with the national policy priorities. However, the capacity of the PMO requires strengthening to ensure the quality of policies. Templates exist for drafting policies and strategies, but these are reportedly rarely used. Consequently, policies/strategies, without Action Plans or with un-costed Action Plans, have been adopted by the CoM. The introduction of RIA is expected to further contribute to harmonisation and improvements of standards.

On the basis of the assessment carried out, the PAR strategy as main public policy is considered relevant and credible as underlying sector strategy for this Sector Reform Performance Contract.

### Macroeconomic policy

Albania's economic growth has slowed down in 2019 to 2.2% after moderate growth of 4.1% in 2018. Domestic demand expansion led growth in 2019. Stagnant growth among trade partners limited traditional exports, while energy exports declined. Exports continued recovery from weak performance in Q1 2019 and grew 10% year-on-year, driven in particular by services (tourism) and manufacturing services. The growth of imports softened to 3.6% year-on-year, due to lower electricity imports. Growth of gross fixed capital formation continued to shrink, most likely due to the conclusion of works related to the Trans-Adriatic Pipeline, a large construction project.

Following subdued growth and a devastating earthquake in 2019, Albania was hit by the COVID-19 pandemic in March 2020. The economy is projected to contract by 4¾% in 2020 due to domestic and international restrictions depressing private consumption and tourism, on which Albania strongly relies. The recession in the EU will also affect remittances and FDI inflows and put pressure on the current account and the exchange rate. The fiscal deficit is expected to rise above 5% of GDP and public debt is set to rise temporarily to about 75% of GDP. For 2021, GDP growth is expected to rebound to 4¼%, but this is subject to uncertainty about the length of travel restrictions and the resilience of enterprises during the crisis. Since March 2020, domestic and international restrictions to contain the pandemic have begun to depress private consumption, investment and exports. Private consumption and investment are projected to drop by 4¼% and 7% respectively. Total exports are set to drop by about 25%, mainly because tourism services are set to lose an entire season in 2020. Merchandise exports are expected to contract because of falling manufacturing and commodity exports, whereas electricity exports are not expected to be affected. The expected strong fall in imports, in particular for travel

services, will not be able to fully offset the drop of exports; overall net exports are likely to subtract about ¼ percentage points from growth. The large share of family based agriculture and hydro-electricity production will not be affected by the crisis and could slightly limit the contraction of GDP. Manufacturing, construction and services industries are expected to recover gradually after the end of the lock-down assumed for May.

On the supply side, the 2019 recovery reflects an increased output of mining, manufacturing and of services, including those related to hotels and trade. Electricity production recovered but remained far below its exceptional 2018 levels. Job creation, higher wages, and consumer credit continued to drive private consumption, which contributed around 2.1 percentage points to GDP growth. Meanwhile, investment increased thanks to better credit conditions and government infrastructure spending. Employment continued to grow, while unemployment reached a record low of 11.4% in Q3 2019. Job creation (for the population aged 15 years and above) was with 6% strongest in industry (mainly manufacturing and construction), followed by services, in particular in hotels and in communication services. The youth unemployment rate increased to 21.4% in Q3 2019 but remained below its 2018 level. The labour force participation rate was at 69.8% in Q3 2019 with the female participation rate increasing to 62%; which narrowed the gap between male and female labour force participation to 15.7 percentage points.

The contraction in 2020 is likely to increase the unemployment rate by more than 3 percentage points to close to 15%. The rise in unemployment and weak social safety nets will dampen the recovery of private consumption in 2021. The depletion of many small and medium-sized enterprises' (SMEs) financial resources is expected to continue depressing private investment in 2021. Nonetheless, economic growth is estimated to rebound to 4¼% mainly due to the recovery of tourism. Moreover, already lined-up public reconstruction projects could stimulate the construction sector. This projection is subject to substantial uncertainty about how enterprises will survive the crisis period. Continuing travel restrictions, which would dampen the recovery of tourism, are the downside risk.

Inflation declined compared to end-2018, on the back of low imported inflation from Albania's trade partners and an appreciation of the Albanian LEK. In 2019 fiscal revenue growth was limited by lower GDP growth and, especially, by increased repayment of VAT-refund-arrears. The revenues-to-GDP ratio declined from 27.6% of GDP in 2018 to an estimated 27.4% in 2019. Personal income tax revenue and social security contributions rose slightly, supported by higher wages and efforts to reduce informality.

Government efforts in formalising the economy during the last years have yielded some positive results in the number of registered employees in the social insurance scheme. The labour market policies envisaged under the national employment and skills strategy for 2014-2020 are expected to generate positive effects in the reduction of unemployment, youth unemployment and informal economy. However Albania has a relatively narrow production base, resulting in a large structural deficit on the trade balance for goods. This is partially offset by revenues from foreign tourism and the export of manufacturing services for foreign-owned products. The current account also benefits from a large volume of remittances sent home by Albanians abroad. However, in light of fiscal consolidation efforts there may be pressure on the expenditure side in case of revenue shortfall to achieve deficit targets.

Despite the difficult situation due to November 2019 earthquake, the government managed to reduce the public debt to 66.2% vis-à-vis previously estimated 66%. Because of the high financing needs, the new sovereign guarantees for the private sector and the fall in GDP, the public debt ratio is set to increase temporarily to about 75% of GDP in 2020 and to decline mildly in 2021.

The general government deficit fell from 4.1% in 2015 to 1.5% of GDP in 2018 on account of lower expenditure and higher revenues. In 2019 it increased up to 1.9% of GDP mainly due to increased expenditures in the last quarter of 2019 due to earthquake. The energy shock and lower foreign demand exposed country's external vulnerabilities. In response to the earthquake, the government planned a 0.6 percentage points increase in the fiscal deficit, to 2.2% of GDP in 2020. The government's financial support measures in the context of the pandemic, combined with the expected fall in revenue are forecast to increase the fiscal deficit temporarily above 5% of GDP. The current-account deficit is highly sensitive to commodity prices and rainfall conditions, as the latter largely determine energy production. Current Account deficit expanded from -6.8% of GDP in 2018 to -8% of GDP in 2019 mainly due to reduced exports while imports maintained similar level to 2018.

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. Remittances inflows remained strong but recorded a slightly decreasing share in GDP from 5.8% in 2015 to 5.2% of GDP in 2018. FDI inflows softened from 8.6% to 7.9%, as the construction of two large energy projects is nearing completion, but remained high and still financed most of the current account deficit. At the end of December 2019, gross international reserves were at EUR 3 360 million, or about 24.5% of GDP. Reserve adequacy indicators were above critical levels, enough to cover 6.6 months of imports of goods and services and 155% of short-term external debt. FDI inflows softened from 8.6% to 7.9%, as the construction of two large energy projects is nearing completion, but remained high and still financed most of the current account deficit. At the end of December 2019, gross international reserves were at EUR 3 360 million, or about 24.5% of GDP. Reserve adequacy indicators were above critical levels, enough to cover 6.6 months of imports of goods and services and 155% of short-term external debt.

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, 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 further deteriorate due to COVID-19 pandemic in 2020, the government austerity measures which blocked activities of the majority of enterprises during March-May 2020, and risks associated with a potential second wave of COVID-19 later in 2020. 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 cut 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, however, the government is committed to maintaining the fiscal consolidation. After the March amendment to the state budget, a second budget revision was approved in April 2020.

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

#### Public financial management

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 language. 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 have been delayed.

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. These include: public investment management, appraisal, selection, and monitoring processes for public investment projects, PPPs and concessions; analysis of monitoring, reporting and mitigating fiscal risks; re-accumulation of arrears 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 revised strategy demonstrates shift from action-orientation to results and outputs, including performance indicators and costing.

The Council of Ministers approved the revised and extended PFM strategy for 2019-2022 in December 2019.

The latest 2017 Public Expenditure and Financial Accountability (PEFA) assessment indicates mixed performance with 15 out of 31 indicators reflecting strong performance and 16 indicators 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 for 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 website and in printed form in the Official Gazette. Therefore, the entry level requirements are considered to be met. 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. Government now publishes all key budget documents in a timeframe consistent with international standards. However, the mid-year report, first published in 2017, covers five instead of six months; in line with the Albanian Organic Budget Law. The BOOST initiative improved public access to budget data and MoFE established in collaboration with Co-Plan a transparency portal on Local Finances. A key issue is the varying level of transparency across government, which needs to be systematically addressed. The 2018 budget implementation report was published 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), demonstrating a continuous improvement. According to the PEFA 2017 most 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 is low. 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.

The IMF Fiscal Transparency Code assessment, 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, hence not reflecting the progress in the last two years.

Albania was found to have made meaningful progresses against the Extractive Industries 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.

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 (Financial Action Task Force -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 contribute to a more capable and responsive public sector towards citizens' needs and businesses as well as to advance and respond to demands of EU integration processes.

The specific objective is to improve public administration to become more efficient, accountable, transparent, inclusive and effective at national and local level.

#### c) Expected results

The expected results are:

- Improved domestic revenue mobilisation;

- Improved fiscal capacity of local government units;
- Strengthened commitment controls
- Improved human resource management;
- Improved public investment management;
- Increased integrity of public institutions;
- Enhanced transparency and access to information for the citizens;
- Improved regulatory framework and capacities at local government;
- Improved service delivery to citizens.

#### 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 policy dialogue around conditions and government reform priorities, the verification of conditions, targets and the payment of budget support;
- Transfer of EUR 36 million to the beneficiary country over the fiscal years 2020, 2021, 2022 and 2023 with disbursements of fixed and variable tranches;
- Support to reinforce Government's institutional capacities to implement the Public Administration reform and related strategies;
- Enhancing donor and policy coordination through capacity building for the good governance and public administration on central and local level by budget support as well as technical assistance;
- Monitoring and evaluation for tracking implementation of the public administration reform and other related reforms;
- Regular monitoring of budget support eligibility criteria.

#### e) Complementary actions

This part of the action is partially a continuation of the Sector Reform Programme under IPA 2014 to support Public Financial Management reform, IPA 2015 for Public Administration Reform and IPA 2016 support to the fight against corruption. It aims at further advancing the reforms in the areas of public administration reform, public financial management as well as related reforms under the scope of good governance to fight against corruption and decentralisation as well as Digital Albania.

#### ***Indirect management with entrusted entity***

A part of this action may be implemented in indirect management with the United Nation Development Programme (UNDP). This implementation entails further support to the decentralisation agenda, which will contribute to achieving the following expected result: strengthened municipalities and improved services with standardised delivery of public services.

This part of the action is a continuation of the IPA 2015 intervention called Support to Territorial and Administrative Reform. UNDP has been selected using the following criteria: (i) experience, and function of the entity for supporting the decentralisation reform ii) continuity; (ii) technical expertise, logistical & management capacities especially at local level; (iii) comparative advantage due to synergies with other activities in Albania in which the entity is involved; (iv) impact, results, leverage effects of cooperation with other donors (as the entity has been managing this multi-donor partnership mechanism in support of the decentralisation process since 2013).

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same criteria.

If negotiations with the above-mentioned entrusted entity(ies) fail, that part of this action may be implemented in direct management in accordance with the implementation modalities identified in the section below under direct management grants.

### ***Direct management (project approach)***

#### **Procurement**

The procurement will contribute to the following results:<sup>3</sup>

- Enhanced good governance policy making and implementation including integrated and efficient planning, budgeting and coordination of policies;
- Improved capacity of budget institutions to implement public internal financial control policy;
- Improved capacity of municipalities on EU related governance and delivery of public services;
- Improved public participation and public consultation coverage and mechanisms at national and local level;
- Improved transparency and accountability for reform implementation through independent institutions;
- Independent monitoring of the budget support eligibility criteria;
- Enhanced visibility, awareness raising and acceptance of good governance reforms;
- Enhanced provision of standardised public services at local level.

The global budgetary envelope reserved for procurement: EUR 7,100,000.

#### **Grants**

##### a) Purposes of the Grant:

The grant will contribute to achieving the following expected results: strengthened municipalities and improved services with standardised delivery of public services. The grantee will manage support to municipalities in the form of sub-grants.

The call for proposals was launched on 13 September 2019 under a suspensive clause prior to the adoption of this decision. The launch of the call for proposals prior to the adoption of the decision ensures that the technical assistance for the local communities is in place before, or at the latest when the budget support is made available. Thus, the capacity building for the absorption of the EU funds can start without further delay.

b) Type of Applicants targeted: In order to be eligible for a grant, the applicant must be a non-governmental organisation and/or a competent association of sub-national (regional or local) authorities, public body, or relevant mandated body of a Government Department of a European Union Member State.

c) Direct grant award: N/A

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

The global budgetary envelope reserved for grants: EUR 2,500 000

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<sup>3</sup> These results are linked to the specific objective of improving public administration for it to become more efficient, accountable, transparent, inclusive and effective at national and local level.

#### **(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. Furthermore, 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.

<b>Action 2</b>	<b>EU support for participation in Union Programmes</b>	<b>EUR 1 500 000</b>
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#### **(1) Description of the action, objective, expected results and key performance indicators**

- Description of the action and objectives

The overall objective is i) to enhance the ability of Albania to effectively participate in the EU as a full member in the future and ii) to closely associate actors of Albanian society, economy and institutions with the implementation of EU policies in such a way as to facilitate the country's accession process.

The specific objectives are i) to increase the number of Union Programmes and Agencies in which Albania effectively participates and ii) to enhance Albania's capacity to successfully participate in Union Programmes and Agencies as a means to promote exchanges with EU Member States, the dissemination within the country of relevant know-how and good practices, and further alignment of Albania with European Union policies and working methods.

- Expected results and key performance indicators

The expected results of the action are:

- Reduced cost to the Albanian budget, and thereby support, the participation of interested actors of Albanian society, economy and institutions in Union Programmes and Agencies;
- Increased exposure of the Albanian beneficiaries to, and experience with, Union Programmes.

Key performance indicators:

- Number of Programmes for which an International Agreement has been concluded;
- Number of applications received for participation in the different Union Programmes;
- Number of successful applications for participation in the different Union Programmes.

#### **(2) Assumptions and conditions**

The conditions of the action include:

Albania must not only provide the co-financing but also the funds necessary for the payment of the total entry ticket, prior to receiving the partial reimbursement from IPA II. The reimbursement will be paid as a grant to the Albanian National Fund.

The implementation by the National IPA Coordinator (NIPAC) of an action plan for Albania's future participation in Union programmes continues to be the basis for a policy to make full use of the various Union programmes. This policy should notably ensure proper coordination between all the Albanian institutional actors involved. The publicity necessary to attract academics, ministry representatives and municipalities, and the private sector (particularly SMEs) also needs to be ensured. The line ministries and agencies need to earmark adequate budgetary resources to ensure that National Contact Points can participate in Programme Meetings/Information Days outside of Albania.

The NIPAC shall regularly monitor the participation rates and report on them in the context of IPA monitoring committees, as well as on co-financing trends and on how programme implementation was made responsive to the gender and social inclusion dimensions (minorities, persons with disabilities, etc.). The NIPAC will ensure that gender-disaggregated data are collected on a regular basis by the final beneficiaries with respect to participation in each individual Union programme.

The relevant programme managing entity shall be responsible for monitoring of the visibility activities. The NIPAC office shall make sure that the national institution participant of the respective Union programme establishes direct contacts with the EU Delegation in order to plan and implement together visibility actions linked to the implementation of the respective Union programme.

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) *Indirect management with Albania***

This action will be implemented under indirect management with Albania, which shall be responsible for carrying out all the tasks relating to the implementation of the action. This solution, already used in the IPA 2014, 2015, 2016 and 2018 country action programmes, presents the advantage of streamlining the EU contribution and the national contribution. It is based on previous experience in ensuring the payment of the entry tickets.

The Operating Structures responsible for the execution of the actions are the Ministry for Europe and Foreign Affairs (Office of the National IPA Coordinator) and the Ministries (including relevant agencies) benefiting from participation in Union Programmes and Agencies (Ministry of Justice, Ministry of Finance and Economy, Ministry of Education, Sports and Youth; and Ministry of Culture).

Implementation will consist of the payment of the IPA part of the financial contribution to the programmes by the National Fund.

The participation of Albania in Union programmes, including payment by the country of the entry ticket/participation fees, shall follow the specific terms and conditions set out for each Programme in the relevant International Agreement. Co-financing rates from previous participation shall be taken into account, and in line with the principle of increasing Albania's ownership and responsibility IPA funding rates shall decrease over the years in real or relative terms.

#### **(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.

<b>Action 3</b>	<b>EU Integration Facility</b>	<b>EUR 8 300 000</b>
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**(1) Description of the Action, objective, expected results and key performance indicators**

- Description of the action and objectives

The overall objective of this action is to enhance Albania's ability to meet the Copenhagen criteria and to start EU membership talks, with specific reference to PAR and Governance aspects (intermediate overall objective), and to enhance the level of preparedness of Albania for full membership of the EU (long-term overall objective).

The specific objectives are, first, to make the implementation of Albania's EU accession-related reforms more effective, including in the areas of judicial training and practices, human rights, public health, energy efficiency, and science and research, and, second, to improve the programming and implementation of IPA actions, in particular via the adoption of performance measurement practices.

More specifically the EU integration facility will provide:

1. Institution-building for alignment with the EU acquis and enhanced ability to meet political and economic criteria:

- **People's Advocate:** support to the Office of the People's Advocate and promotion of human rights in Albania;
- **Albanian Institute of Public Health (under the Ministry of Health and Social Protection):** support to enhance the organisation and governance of the Institute, strengthen its capacity for data collection, epidemiological analysis and monitoring, and improve its emergency response for communicable diseases and cross-national threats;
- **Ministry of Education, Sports and Youth and National Agency for Science Research and Innovation (NASRI, under the same Ministry):** support to the capacity of the Ministry and NASRI to reform the Albanian Science Research ecosystem in line with requirements of the acquis on science and research;
- **Energy Efficiency Agency under the Ministry of Infrastructure and Energy** in relation to energy efficiency.

2. Capacity building for civil servants of the **Public Administration** (of which at least 30% and preferably 50% women), including trainings/internships in EU Members State administrations and scholarship scheme ("young cells").

3. Support to the **State Advocate** to bring judicial practices in line with best EU practices and human rights standards, application of the ECHR and EU Charter provisions and training on case preparation and arbitration (including peer-to-peer exchange, trainings and justified study visits as appropriate);

4. Support to the **Albanian School of Magistrates** via exchanges of academic staff and students.

5. **Facility** to support, as needs emerge, (a) the programming / preparation and the implementation, monitoring and evaluation of IPA actions under direct and indirect management, including communication and visibility aspects, with particular attention to the

promotion of performance measurement practices<sup>4</sup>; support to actions needed to develop and implement reforms, strategies and action plans including areas supported by sector reform performance contracts (SRPCs); the elaboration of preparatory studies; the provision of supplies to address material needs identified in relevant EU accession-related reports and documents; (b) preparation of EU accession-related documents and studies, to address needs identified in EU accession-related reports including annual country reports, SAA Committee conclusions, the Enlargement Strategy, and related texts.

- Expected results and key performance indicators

The expected results (outputs) of the action are that:

1. Staff of relevant institutions is fully trained on how to discharge their duties (output corresponding to Activity 1)
2. Trainings and internships carried out, scholarship scheme implemented (output corresponding to Activity 2)
3. Staff of the State Advocate is fully trained on how to discharge their duties (output corresponding to Activity 3)
4. Exchanges of academic staff and students carried out (output corresponding to Activity 4)
5. Target groups trained, documents and studies produced, and supplies provided (output corresponding to Activity 5)

Key performance indicators:

- Percentage of implementation of the National Plan for European Integration
- Submission of an IPA II annual implementation report making systematic use of indicators, with all relevant data being available (including for actions other than Sector Reform Contracts)

## **(2) Assumptions and conditions**

Although no major risk is foreseen as regards the implementation of this Action, a number of assumptions should be considered:

- Continuous commitment of the Albanian authorities to the EU accession process;
- Implementation of the cross-cutting PAR and PFM reform programmes; and
- Development and drafting of policy and programme documents related to the EU accession reform process.

The following conditions apply. The NIPAC Office is required to be in possession of adequate human and financial resources to perform their duties at the required standard and with a high degree of proactivity. This will be verified in the context of the regular monitoring of project activities. As regards actions under indirect management with Albania, the NAO Support Office and the Central Finance and Contracting Unit must also be sufficiently resourced to carry out their duties as laid out in the IPA II Framework Agreement.

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

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<sup>4</sup> As recommended in the DG NEAR Guidelines on linking Planning/Programming, Monitoring and Evaluation.

### **(3) Implementation modalities**

#### ***(3)(a) Indirect management with Albania***

A part of this action will be implemented under indirect management with Albania (Indirect Management with the Beneficiary Country, IMBC), which shall be responsible for carrying out all the tasks relating to the implementation of the action.

The Operating Structures 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 People's Advocate, the Albanian Institute of Public Health (under the Ministry of Health and Social Protection), the Ministry of Education, Sports and Youth and National Agency for Science Research and Innovation (NASRI, under the same Ministry), the Energy Efficiency Agency (under the Ministry of Infrastructure and Energy), the administrations concerned by the activity "Capacity building for civil servants", and the State Advocate, which will be the main beneficiaries of, respectively, activities 1, 2 and 3. These activities will respectively contribute to outputs 1, 2 and 3.

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. This implementation entails the launch of indicatively four or more twinning or twinning light contracts procedures by the Central Finance and Contracting Unit (CFCU) of the Ministry of Finance and Economy.

#### ***(3)(b) Direct management (project approach)***

##### **Procurement**

The procurement will contribute to output 5.

The global budgetary envelope reserved for procurement is: EUR 4 850 000.

##### **Grant (twinning)**

- a) Purpose of the grant: To make the implementation of Albania's EU accession-related reforms more effective, in particular in the area of judicial training, thus contributing to output 4;
- b) Type of applicants targeted: EU Member State administrations or their mandated bodies.

The global budgetary envelope reserved for grants is: EUR 1 000 000.

##### **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.

<b>SECTOR</b>	<b>RULE OF LAW AND FUNDAMENTAL RIGHTS</b>	<b>EUR 19 400 000</b>
<b>Action 4</b>	<b>EU for Rule of Law</b>	<b>EUR 5 000 000</b>

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

- Description of the action and objectives

The overall objective is to contribute to the strengthening of the rule of law

The specific objectives are i) to enhance the capacity of the Albanian State Police (ASP), the General Prosecutor Office (GPO), Special Prosecutor for Anticorruption (SPAK) and the National Bureau for Investigation (NBI), High Prosecutorial Council and relevant agencies to provide trust, safety and a secure environment to the Albanian citizens and ii) to improve the capacity of the independent justice institutions.

- Expected results and key performance indicators

The expected results (outputs) of the action are:

1. Improved performance, investigation, prosecution and final judgment capacity of SPAK, NBI, ASP and GPO and courts, as well as all other law relevant enforcement bodies, supervisory authorities and reporting entities;
2. Improved capacity of the High Judicial Council (HJC) and High Justice Inspector (HJI) for applying standard rules and practices, in compliance with EU standards and best practice, for career development, efficiency, court management, independence of judges and inspection.

Key performance indicators:

- Number of investigations, indictments and final convictions based on the use of the tools for the proactive intelligence led investigations on organised crime, drugs trafficking and corruption, prosecutions and final convictions;
- Number of appointments, promotions, and evaluations conducted, in line with EU best practices and standards;
- Number of investigations processed with final decisions.

### **(2) Assumptions and conditions**

The assumptions for the action include: i) political and economic stability of Albania and the region remains at the same level, ii) sufficient national funding for law enforcement, prosecutors and for justice reform is in place, iii) Special Prosecutor for Anticorruption and the National Bureau for Investigation are established, iv) effective cooperation and coordination between all relevant institutions in Albania is in place, and v) the number of inspectors is increased on the basis of new recruitment procedure.

The conditions of the action include:

The Justice Sector Steering Committee and the Home Affairs Sector Steering Committee have concluded at least two meetings on the implementation of sector reforms and key challenges and finalised the relevant operational conclusions in 2020.

The vacancies of the IPA Coordination Units of the Ministry of Interior are filled by the start of the project.

The High Judicial Council, the High Prosecutorial Council, the General Prosecution Office and the Albanian State Police shall increase their IT capacities by filling in all vacancies before the start of the project.

Each beneficiary institution appoints a responsible person for the design and implementation of the actions by the signature of the Financing Agreement and provide sufficient working space for the implementation of the action.

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.) Indirect management with a Member State organisation, third donor country agency, or international organisation.***

This action may be implemented in indirect management with an entity which will be selected by the Commission services using the following criteria: (i) mandate of the entrusted entity covering the nature of the action; (ii) experience of the potential entity in particular in the context of the European Union and in Albania or in the Western Balkans; (iii) operational capacity/technical expertise, as well as logistical & management capacities; (iv) impact, results, leverage effect of cooperation with other entities/donors, also covering effectiveness of the delegation of tasks, included in Albania or in the Western Balkans; (v) reduced transaction costs (vi) transparency and absence of conflict of interest and (viii) as an asset (not a compulsory criterion): the capacity of the entity for possible co-financing.

The implementation by the entity/ies will contribute to achieving output 1 and output 2.

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same criteria.

If negotiations with the above-mentioned entity(ies) fail, that part of this action may be implemented in direct management in accordance with the implementation modalities identified in section (3)(b).

#### ***(3) (b) Direct management (project approach)***

##### **Procurement:**

As mentioned above, if under the indirect management negotiations with the above-mentioned entity (ies) fail, the action may be implemented in direct management, and procurement may be potentially used for a budgetary envelope of up to EUR 5 000 000.

### **(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.

Furthermore, 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 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.

<b>Action 5</b>	<b>EU for Property Rights</b>	<b>EUR 5 700 000</b>
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**(1) Description of the action, objective, expected results and key performance indicators**

- Description of the action and objectives

The overall objective is to contribute to strengthening the protection of the right to property in Albania and Albania’s capacity to guarantee in practice the right to ownership, as one of the fundamental human rights, provided through a regulated system of harmonised real property, which offers clear and safe property titles for everyone.

The specific objective is to develop a dynamic land market through the establishment of a clear property rights framework in Albania.

- Expected results and key performance indicators

The expected results of the action are:

1. Central Integrated Land Management system is designed and developed enabling the re-engineered business procedures
2. Improved Data Quality: the spatial and legal property rights and land management data is corrected, up to date, and publicly accessible
3. The reformed institutional framework is operational
4. Property rights and land management data digitalised (spatial and legal), and only digitally updated

Key performance indicators:

- Number of land and property related databases harmonised and integrated into a central system;
- Number of government units accessing central integrated Land Information System;
- Percentage of parcels with incorrect property rights data
- Corrected data is available through the national Geoportal
- The State Cadastre Agency transition from the 3-predecessor institutes is completed;
- Number of officials are trained/ coached at State Cadastre Agency;
- Number of days property registration processed;
- A specific unit for finalising first registrations according to the project methodologies is operational and its capacities built;
- Number of cadastral zones where data fully digitised (scanned and georeferenced);

**(2) Assumptions and conditions**

The assumptions for the action include: i) continued commitment of the Government of Albania to the property rights reform agenda; ii) the Government implements the planned institutional changes; iii) the participating institutes fully engage in change management processes; iv) the relevant institutes are available for processing/ implementing the changes and for trainings; v) all relevant government units endorse the system unification process and support the systems’ integration steps; vi) all relevant government units endorse the digitisation/scanning process and

support the integration steps; vii) the legal enforcement for exclusively digital maintenance is in force; viii) The methodologies and technologies are accepted and adopted by the participating institutes; and ix) data correction process is fully endorsed by the central and local level.

The conditions of the action are that the Government of Albania:

- maintains its commitment to fulfil its obligations under the international agreements and conventions during the entire project implementation;
- by the start of the project implementation commits to provide the necessary infrastructure, environment and participating staff for the project implementation;
- throughout the entire implementation ensures a permanent, clear communication channel, and decision-making structure for the project issues; and ensures that the communication and decision-making response will be in timely manner, without delays;
- ensures that the necessary amendments to the relevant legislation (including secondary legislation, if relevant) will be drafted and, when appropriate, revised to enable the implementation of the technical side of the reform, e.g.: enforcement for central database usage, for only digital updates for legal and spatial data maintenance, taking into account, when applicable, the opinions and recommendations provided by competent international organisations;
- fully engages to develop methodologies and procedures according to international standards and ensures the required implementation;
- develops a plan to fight corruption in the property right field during the first two years of implementation;
- confirms a mechanism for consultation and assessment of legislation (by-laws included) in the field of property (plus all the legal recruitment for it) before the program implementation starts;
- finalises the core necessary setup of the State Cadastre Agency (staff, legal basis, premises, contact points etc.) before the program implementation starts; and the State Cadastre Agency appoints a permanent Programme Manager, with decision making mandate, for the implementation of the support and to cooperate with the EU Delegation and Property rights support team.

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 (project approach)***

##### **Procurement:**

The procurement will contribute to achieving all the expected results of the action as described above.

The global budgetary envelope reserved for procurement: EUR 5 700 000.

The GoA shall provide the following as part of the implementation conditions: i) the technical environment, including the central server and end user's IT infrastructure (including HW and operation SW), the communication network (sufficient speed of intranet, internet) ii) office equipment as necessary, iii) office space for the project needs (e.g.: for scanning and digitalisation project teams and equipment) iv) long term maintenance for the Integrated land Information system and database after the closure of the assistance.

#### **(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.

Furthermore, 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 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.

<b>Action 6</b>	<b>International Monitoring Operation (IMO): Support to the process of temporary re-evaluation of Judges and Prosecutors in Albania – Phase II</b>	<b>EUR 8 700 000</b>
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#### **(1) Description of the Action, objectives, expected results and key performance indicators**

- Description of the action and objectives

The general objective is to align the Albanian justice system with the EU acquis and best international practices. The specific objective of the action (outcome) is threefold: to increase the professional quality of judges and prosecutors, to reduce the impact of organized crime, politics and corruption in the delivery of justice, and to enhance the integrity and accountability of judiciary institutions.

- Expected results and key performance indicators

The expected result of the action is:

- Vetting organs are properly and timely monitored by the International Monitoring Operation (IMO) to implement the re-assessment process

Key performance indicator:

- Albanian judges and prosecutors have been vetted by the Independent Qualification Commission.

#### **(2) Assumptions and conditions**

The assumptions for the action include:

- The project is not disrupted by external developments (e.g. economic or societal crises) Albania is financially supporting the Vetting Institutions.
- The auxiliary bodies willingly cooperate with the vetting organs and IMO and provide factual and true information, and in due time.
- International and local staff is fully available (incl. team leader) and operational (i.e. sufficiently secured premises are in place) during the entire lifetime of the project.

The condition of the action is that stakeholders continue to provide to IMO phase II full cooperation on disclosing information and sufficient working space for the implementation of the action.

### **(3) Implementation modalities**

#### ***(3) (a) Indirect management with a Member State organisation, third donor country agency, or international organisation.***

This action may be implemented in indirect management with the Austrian Development Agency (ADA) to continue the implementation of the IMO project funded under the AAP 2018 for Albania, without causing a major disruption of the operation. Through its numerous activities in Albania and the Western Balkans, experience in delegated cooperation with the EU and current implementation of the IMO support, ADA has acquired very strong expertise for this specific operation. Nature of the action, strengthening of the vetting function, justifies the need for guaranteeing the ownership by an EU Member state body, an important aspect for this specific mission. This implementation entails providing support to the independent International Monitoring Operation (IMO). The expected result is that the re-evaluation of judges and prosecutors is enhanced by the IMO. The key performance indicator will measure the number of assessment cases re-viewed and monitored by the IMO.

The envisaged entity has been selected using the following criteria:

(i) ADA's solid experience and expertise worldwide in the sector of good governance, human rights and migration (one of the 7 sectors ADA is engaged in), ii) strong management and financial capacity (including commitment of substantial co-financing for this project), iii) strong expertise in management of big contracts including EU-funded contracts, iv) strong experience in human right-based approach and policy dialogue, v) long experience in Albania (where ADA has been present since 27 years), vi) strong experience in Albania in the general sector of government affairs and civil society, vii) capacity to generate strong potential impact, results, leverage effect of cooperation with other entities/donors/implementing partners including EU member States and (viii) reduced transaction costs level, as selecting ADA allows for the retention of the staff that is currently employed under the grant contract with the Austrian Ministry of Justice under Action 4 of the IPA 2016 Annual Action Programme (International Monitoring Operation in support of re-evaluation of judges and prosecutors; IPA/2016/038-717), thus guaranteeing continuity and hence ownership of EU Members States in the International Monitoring Operation.

If negotiations with the above-mentioned entrusted entity fail, that part of this action may be implemented under direct management, in accordance with the implementation modalities identified in section (3)(b).

#### ***(3) (b) Direct management (project approach)***

##### **Procurement:**

As mentioned above, if under the indirect management negotiations with the above-mentioned entity (ies) fail, the action may be implemented in direct management, and procurement may be potentially used for a budgetary envelope of up to EUR 8 700 000.

<b>SECTOR</b>	<b>COMPETITIVENESS, INNOVATION, AGRICULTURE AND RURAL DEVELOPMENT</b>	<b>EUR 26 000 000</b>
<b>Action 7</b>	<b>EU for Economic Recovery</b>	<b>EUR 26 000 000</b>

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

- Description of the action and objectives

The overall objective is to mitigate the economic and social impact of the COVID-19 pandemic in Albania.

The specific objective is to ensure that (1) macro-economic effects and disruptions of the economy are reduced, and (2) businesses' resilience and safety net for unemployed people are strengthened in the short to long term.

- Expected results and key performance indicators

The expected results of the action are:

1. Macro-economic effects and disruptions of the economy are reduced
  - 1.1 Informal/cash economy is reduced
  - 1.2 Domestic revenue mobilisation increased
2. Businesses' resilience and safety net for unemployed people are strengthened in the short to long term
  - 2.1 Active Labour Market Programme approved to support self-employed and unemployed people
  - 2.2 Businesses are supported with liquidity / access to financing

Key performance indicators:

- Revenue as % of GDP
- Private consumption as % of GDP
- Private / public investment as % of GDP
- Unemployment rate
- Number of active businesses

**(2) Assumptions and conditions**

The assumptions for the action include:

- No further reform packages during 2020.
- Finalisation of the medium term revenue strategy (MTRS) with a view to predictability of tax policies.
- Publication of existing, newly occurred and cleared spending arrears at central and local government in a timely manner within the following quarter.

There are no conditions for this action (apart from general conditions for disbursement of all tranches).

### **(3) Implementation modalities**

#### ***(3)(a) Direct management through Budget Support***

##### a) Eligibility for budget support

###### *Public Policy*

The policies underpinning this budget support programme are both the Government of Albania's COVID-19 response package and the corresponding normative acts, and the Economic Reform Programme policy guidance recommendations. Under the structural reform "Business environment and reduction of the informal economy" the Government is committed to improving MSME financing (Reform measure n. 9), which will in turn increase their contribution to economic growth and to promote the intensive use of modern cash-less payments instruments to reduce informal economy (Reform measure n. 10). Policy analysis and dialogue will include actions and reforms to enable business environment beyond the short-term COVID-19 response in support of achieving the specific objectives. Another relevant part of the policy framework is the EUR 3 billion macro-financial assistance (MFA) package<sup>5</sup> from the EU to ten enlargement and neighbourhood countries to help limit the economic fallout of the Covid-19 pandemic. The approved loan allocation for Albania is EUR 180 million. The EU for economic recovery budget support is linked with the MFA as it reinforces selected policy areas through complementary indicators and also targets beyond the time frame of the MFA.

Albania has demonstrated commitments to fundamental values. Nonetheless, the following issues call for regular dialogue and monitoring: justice system reform, electoral reform, and public administration reform.

###### *Macroeconomic policy*

See the section on eligibility of budget support for action 1;

###### *Public financial management*

*Idem.*

###### *Budget transparency and oversight of the budget*

*Idem.*

##### b) Objectives

The specific objectives are as follows: (1) macro-economic effects and disruptions of the economy are reduced, and (2) businesses' resilience and safety net for unemployed people are strengthened in the short to long term.

##### c) Expected results

The expected results are:

- Informal / cash economy is reduced
- Domestic revenue mobilisation increased

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<sup>5</sup> Decision (EU) 2020/701 of the European Parliament and of the Council of 25 May 2020 on providing macro-financial assistance to enlargement and neighbourhood partners in the context of the COVID-19 pandemic

- Active Labour Market Programme approved to support self-employed and unemployed people
- Businesses are supported with liquidity / access to financing

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;
- Transfer of EUR 26 million to the beneficiary country over the fiscal years 2020 and 2021 with disbursements of fixed and variable tranches;
- Regular monitoring of budget support eligibility criteria.

### 3 BUDGET

#### 3.1 INDICATIVE BUDGET TABLE – ANNUAL ACTION PROGRAMME FOR ALBANIA FOR 2020

		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)			
<b>Objective 1</b>	<b>01. Democracy and governance</b>	<b>3 950 000</b>	<b>2 500 000</b>	<b>51 450 000</b>	<b>57 900 000</b>	<b>1 121 991</b>	<b>59 021 991</b>
	Action 1 EU for Good Governance	0	2 500 000	45 600 000	48 100 000	194 444	48 294 444
	Action 2 EU support for participation in Union Programmes and Agencies	1 500 000	0	0	1 500 000	927 547	2 427 547
	Action 3 EU Integration Facility	2 450 000	0	5 850 000	8 300 000	0	8 300 000
	<b>02. Rule of law and fundamental rights</b>	<b>0</b>	<b>13 700 000</b>	<b>5 700 000</b>	<b>19 400 000</b>	<b>1 000 000</b>	<b>20 400 000</b>
	Action 4 EU for Rule of Law	0	5 000 000	0	5 000 000	0	5 000 000
	Action 5 EU for Property Rights	0	0	5 700 000	5 700 000	0	5 700 000
	Action 6 International Monitoring Operation (IMO): Support to the process of temporary re-evaluation of Judges and Prosecutors in Albania – Phase II	0	8 700 000	0	8 700 000	1 000 000	9 700 000
<b>Objective 2</b>	<b>06. Competitiveness and innovation</b>	<b>0</b>	<b>0</b>	<b>26 000 000</b>	<b>26 000 000</b>	<b>0</b>	<b>26 000 000</b>
	Action 7 EU for Economic Recovery	0	0	26 000 000	26 000 000	0	26 000 000
	<b>TOTAL</b>	<b>3 950 000</b>	<b>16 200 000</b>	<b>83 150 000</b>	<b>103 300 000</b>	<b>2 121 991</b>	<b>105 421 991</b>

#### **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 on the basis of 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 Co-ordinators (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 one 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.