

PROGRAMME
CARDS 2002 FINANCING PROPOSAL FOR ALBANIA

1. Identification

<i>Form of programme:</i>	National Programme
<i>Beneficiary Country</i>	Albania
<i>Budget year:</i>	2002
<i>Financial allocation</i>	€ 44.9 million
<i>Budget Line:</i>	B7-541
<i>Legal basis:</i>	CARDS Council Regulation (EC) No.2666/2000
<i>Duration:</i>	Contracts financed under this programme shall enter into force no earlier than the signature of the Financing Memorandum in due form by the competent signatories, and no later than 31.12.2005
<i>Expiry dates:</i>	All contracts must be concluded by 31.12.2005 All disbursements must be made by 31.12.2006
<i>Sector:</i>	Justice and Home Affairs, Administrative Capacity Building, Economic and Social Development, Environment and Natural Resources, Democratic Stabilisation
<i>Programming:</i>	2002
<i>Implementation:</i>	European Commission
<i>Remarks:</i>	No administrative expenditure will be financed under this programme

2. Summary of the programme

The overall objective of EC assistance is set within the framework of the Stabilisation and Association process (SAP), and includes the establishment of rule of law and democratic stabilisation, economic and social development and the support for the environment.

The specific objectives of the programme is to:

- Justice and home affairs: to contribute to the establishment of rule of law, democratic stability and economic development, with a focus on institution building, training and supporting investments
- Administrative capacity building: to enhance the functioning of the state structures and support the establishment of a functioning democratic market economy within the framework of the Stabilisation and Association process

- Economic and social development: to promote private sector growth and job creation, to promote local community development and to improve secondary and tertiary education and training, both in urban and rural areas
- Support the protection of the environment; enhance the environmental legislative framework and complement this with two pilot schemes specifically aimed at improving the local environment through community participation
- Democratic stabilisation: strengthen civil society through small scale projects

3. Country update

Since the adoption of the Country Strategy Paper and the Multi-annual Indicative Programme for Albania on 12 December 2001, the following developments should be borne in mind whilst analysing the political, social and economic situation in the country:

The political scene

A new government led by Mr Pandeli Majko was sworn in February 2002. Political attention was focussed on the election of the new president of the republic. On 24 June 2002 Mr Alfred Moisiu was elected by parliament to replace president Rexhep Meidani on the expiration of his term of office on 24 July 2002. It remains to be seen how the government proceeds in the reform process.

Civil service and civil society

Civil society, certainly outside the capital, is at an early stage of development and does not provide a significant counterweight to the behaviour of elected politicians and officials. Indeed, public administration remains weak both at central and local levels. There is a strong tendency to political nominations and nepotism, as well as financial corruption; the new Civil Service Commission remains toothless, and the new Civil Service Law remains to be properly implemented.

Justice

The judiciary remains a major problem, as not only is it not clear that the judiciary functions independently of political forces, but it is still ill-prepared to enforce legislation, legal reasoning is often weak and corruption is pervasive. Court hearings are subject to long delays, while rulings more often than not go unenforced. A School of Magistrates has been established, but the number of trained judges is still inadequate. Although Albania is in the process of adopting laws and regulations designed to improve the functioning of its legal system, implementation of this legislation is lacking, due in part to a lack of political will, but also to a lack of basic judicial infrastructure. Albania's prisons remain in a poor state with overcrowding now becoming a problem.

Organised crime and corruption

Under the circumstances, widespread corruption and organised crime, particularly illegal trafficking of all types, remain a serious problem, undermining respect for the rule of law and indeed state and government. The passing of anti-corruption legislation and the establishment of a government-sponsored anti-corruption body will have little effect without vigorous political will and more effective cooperation between law enforcement bodies. Border management and control in Albania remain insufficient and need

substantial improvement, while a convincing integrated border management strategy for the coordination of the various security forces operating at the borders remains to be prepared. In general the police and security forces remain bloated and inefficient, and the strategy for their modernisation and reform fails to convince.

Economic developments

On the economic front there is continuing improvement in macro-economic and fiscal sustainability with a substantial strengthening of customs and tax administrations. Privatisation is progressing, however, not at the expected pace, as privatisation of both the Savings Bank and Albtelekom has been delayed. The rate of growth is presently estimated at 6.5%, and forecast at 7% for 2003 and 2004. In spite of pressure in early 2002, inflation is expected to stand within a 2-4% target for the full year. Yet GDP per capita stands at only 1,400 euros (among the lowest figures for Europe), with growth failing to impact on the poorest segments of the population. Official figures estimate unemployment at 15%. Moreover, the current severe energy crisis threatens to seriously undermine the economy. A perceived drift in the restructuring of the state energy company and in the adoption and implementation of a clear energy strategy by the government poses a longer-term threat.

The trade gap is further widening and must now be a source of long-term concern. The present trend is in part at least due to the need for energy imports, especially electricity imports subsidised by the Albanian government and, recently by the Italian government, and is for the time being at least cushioned both by strong flows of remittances from Albanian emigrants, and by foreign direct investment which recent figures show as still on an upward trend.

The overall fiscal deficit reached 9% of GDP, in line with the corresponding figure for 2000. The Albanian authorities managed to keep the deficit under control, thanks to continued improvements in tax and customs administration as well as a strict control on expenditures, including a progressive reduction in the support provided to state-owned enterprises. Despite the need for subsidised energy imports, the 2002 budget deficit was recently revised downwards and is projected to reach 8% of GDP.

Transport, infrastructure and the environment

Transport and in particular water supply infrastructure remain seriously inadequate. In urban areas around 80% of the population has access to piped water, but for limited periods only. Only about 40% of the urban population has a sewage connection at all, while sewage treatment remains virtually non-existent. Solid waste collection is similarly inadequate. Even more seriously, Albania lacks a clear water/waste water infrastructure development policy. Albania has serious environmental problems, and has inherited a legacy of environmental hotspots from the former communist regime. These have still not been dealt with. CO₂ emissions are already ten to twelve times higher than the average for industrialised countries. While a new Ministry of Environment was created in August 2001, environmental competencies remain institutionally scattered, with environmental policy on the whole poorly coordinated and implemented. Compliance, monitoring and enforcement of environmental law remain limited.

The context of international donor developments

CARDS assistance for 2002 has been designed to the extent possible in cooperation with the Ministry for European Integration and with the line ministries, to tackle the problems noted above, in light of priorities under the SAP.

The EU Country Strategy and the Multi-annual Indicative Programme for Albania, agreed last year, both took account of the recommendations of the Evaluation of the EC Strategy Albania 1996-2001. Chapter 5 of this Action Programme for 2002, Lessons learnt, focuses on the follow up given to the recommendations at programme level and at overall implementation level. Where relevant, at a later stage, the individual project designs will refer to specific follow-up given to the recommendations of the report.

The Growth and Poverty Reduction Strategy (GPRS) of the IMF and the Albanian government has as its prime goal poverty reduction through the Ministry of Finance. Although with a different focus from the EU stabilisation and association process, the GPRS strategy is not necessarily incompatible with the focus of the EU. The substantial allocation for local community development (€ 7.4 million) in the Action Programme, contributes directly to the objectives of the GPRS of poverty reduction in rural areas. The Commission will ensure adequate coordination with the IMF and World Bank for a coherent implementation of the Action Programme 2002.

The Commission supports the Medium Term Expenditure Framework. The Country Strategy Paper for Albania took the framework development process into account.

Most Member States are active in Albania. Italy and Greece make a particular effort in several sectors, including justice and home affairs and economic and social development. The Commission will ensure coordination with these bilateral activities.

4. Past EC assistance and co-ordination with other donors

Since 1991, over € 1 billion of Community funds have been committed for Albania, of which € 85 million through the European Investment Bank. From 1991 to 1993, a total of € 318 million were provided as emergency and food aid (€ 198 million through PHARE and € 120 million through FEOGA). From 1994 to 1996, PHARE provided € 190 million in grants to support the Albanian economic reform. After the crisis in 1997, EC support concentrated on fewer priorities and focused on the re-establishment of the rule of law (police, customs, justice, and public administration) and on the development of basic infrastructures (transport, water supply, local community development). In 1999, PHARE provided specific budgetary support to alleviate the cost for hosting refugees from Kosovo.

Albania received Community macro-financial assistance in the form of grants totalling € 105 million in two operations (€ 70 million decided in 1992 and € 35 million decided in 1994) disbursed between 1992 and 1996.

More recently, the Community supported Albania's short and medium-term adjustment and reform programme with targeted support to the budget: € 14.5 million through the PHARE Special Assistance for Public Administration reform (disbursed in 1999 and 2000), and € 5 million through a Food Security/Food Aid facility decided in 1999. To help the country coping with the costs linked to the presence of refugees during the 1999 Kosovo crisis, the Commission also provided to Albania exceptional grant budgetary support of some € 33 million.

The 2001 CARDS programme (€ 37.5 million) focuses on Stabilisation and Association process priorities: justice and home affairs issues (43% of the budget), local community development (27%) and institution building (24%). The Financial Agreement of this programme was signed on 5 March 2002.

EC humanitarian aid to Albanian has been provided through ECHO since 1992 reaching a global amount of € 142 million in 2002. The biggest allocation received through ECHO (€ 91 million), was decided during the Kosovo refugee crisis of 1999. After the refugees returned to Kosovo, half of the € 91 million was redirected to rehabilitation projects.

The humanitarian aid through ECHO was directed mainly to the sectors of food/shelter (49%), health (26%), water (14%) and education (11%). The latest EC humanitarian projects will be finalised at the end of 2002 and the ECHO office will then be closed.

5. Lessons learnt

Justice and home affairs: Justice and police constitute a major part of this programme. The design of this component will be done together by the Member States, the beneficiary state and the Commission, through a so-called expert assessment mission later this year. This should ensure project profiles that are complementary to what is already going on and that are more based on the absorption capacity of the institutions.

Infrastructure: the Multi-annual Indicative Programme does not foresee any major infrastructure work. In the sectors where infrastructure investment is proposed as a component of the mix of assistance offered, such as in justice and home affairs, the infrastructure component will gradually be phased out. This programme still contains some infrastructure investments in the justice area.

Public administration reform coordination with donors: although prime responsibility for donor coordination lies with the Albanian government, the Commission will ensure a better coordination, especially in the field of public administration reform, on the ground. The deconcentrated delegation will be particularly suited to do this.

Link between programme and MIP: The present programme addresses in each project fiche the link with the objectives set out in the Country Strategy Paper and the Multi-annual Indicative Programme.

Reviews of backlogs: following internal reviews of progress made in the implementation of previous programmes, the Commission proposes to cancel a number of 'old' projects. These all concern projects which had not yet started.

Devolved management: from the 2001 programme onwards, the Commission will be managing the project directly (tendering, contracting, implementation and payments) through its deconcentrated delegation. Together with a continued support to the project counterparts through Project Management Units and Project Implementation Units, deconcentration should lead to better and quicker programme delivery.

Mid-term planning: programme 2002 has been planned with programme 2003 in mind. This should lead to better planned programmes and better tuned programmes in relation to the Country Strategy Paper and the Multi-annual Indicative Programme.

Duration of projects: the projects within the 2002 programme will have, on average, a longer project duration than the previous programmes. This should ensure more continuity in the provision of assistance, as less contract extensions, which cause disruptions, are needed.

Conditionality aspects: The Multi-annual Indicative Programme contains specific conditions per priority area. These conditions will be further developed during the project detailing. The Albanian government will be asked to report on these conditions regularly before and during project implementation. Where relevant, the individual project fiches contain a section on 'conditions attached to the project'.

6. Programme Components

Within the Action Programme 2002, the Multi-annual Indicative Programme for Albania is translated in the following project objectives:

1. Justice and Home Affairs

Activities funded in the area of justice and home affairs (JHA) will take account of the findings of the JHA assessment mission of the European Commission and Member States' experts this summer. The fiches in the JHA field have been drafted as frameworks, which will be able to accommodate the conclusions and recommendations of the JHA mission.

For more detail on the JHA component and the public procurement project of this programme, please see annex 1.

Justice

To contribute to the establishment of rule of law and to the establishment of democratic stability in Albania, through:

- Strengthen the capacity of the judiciary system to ensure that it becomes efficient, independent and reliable, based on the rule of law
- Strengthen the legislative framework for (pre-trial) detention, and improve the physical conditions of detainees through improved housing and better trained detention staff

The project will be executed through the establishment of an EC Justice Assistance Mission (ECJA), training and related investment support

Police and public order

To contribute to the establishment of rule of law and to the establishment of a functioning police force able to contribute to democratic stability, through:

- Contributing to public order throughout the country
- Strengthening the Albanian authorities' capacity to fight against organised crime, in particular against illegal trafficking (human beings, drugs, weapons and money laundering)
- Establishing working relationships with civil society

The project will be executed through supporting the EC Police Assistance Mission (ECPA), training and related investment support.

Integrated Border Management

To contribute to the establishment of rule of law and regional and national economic development by exercising effective border control and facilitate trade, through:

- Improving the regulatory framework, training and equipping border posts in relation to border control
- Enhancing administrative capacity and upgrading of selected border posts in relation to trade and traffic facilitation

- Supporting the improvement of identified infrastructure works in relation to the particular needs of border regions

2. Administrative capacity building

Support to public procurement

To strengthen the existing institutional structures and legislative framework for a fairer and more open public procurement system in Albania, through:

- Strengthening the system of public procurement regulation
- Researching the feasibility and desirability of a separate procurement certification body and formulation of a mid-term strategy for such a body
- Training of staff and the setting up of a training unit in the Albanian Institute of Public Administration
- Improving the quality data collection and the quality and timeliness of public tendering documents

Competition and state aids

To strengthen and reinforce the administrative capacity in Albania in the areas of competition and state aid through:

- Developing and strengthening fair competition rules and regulations
- Establishing an independent competition office and training its staff
- Formulation of a mid-term strategy and raising awareness both in the areas of competition and state aid

Statistics

To strengthen the statistical system in line with the needs of a democratic and market-oriented society whilst ensuring a level of harmonisation with European statistical methods and EU requirements. All of this through:

- Enabling national accounts calculations consistent with ESA95 standards
- Increasing reliability of official statistics
- Approximation to EU statistical methods

3. Economic and Social Development

Trade regulation and promotion

To support trade facilitation and liberalisation through:

- Assisting with the implementation of WTO requirements
- Assisting with implementing Free Trade Agreements with the countries in the region
- Harmonising the legal framework with EU *acquis*, standards and practices
- Supporting trade through attracting foreign investments and developing key service sectors.

Local community development programme VII

To improve the quality of life in rural areas of Albania and to develop a community awareness in these areas, through:

- Construction or rehabilitation of local infrastructure
- Involvement of local communities in the decision making process on these projects
- Involvement of local contractors to carry out the works

Tempus III

To promote the reform of higher education institutions in Albania, in view of improving the quality of academic teaching and learning in line with changing political, social and economic needs, through:

- Supporting higher education policies
- Strengthening links with the local and regional economy
- Curriculum development in priority areas for economic and social transition
- Contributing to the mobility of students and staff
- Strengthening regional cooperation

Support to vocational education and training reform

To contribute to the development of a vocational education and training (VET) system that responds to the changing needs of the labour market and social developments, through:

- Contributing to a VET strategy and the implementation of a new VET law
- Modernising VET learning processes according to market requirements on a pilot basis at regional and school level

4. Environment and Natural Resources

Environment legislation and awareness raising

To enhance the management of the environment in Albania, through better legislation and better enforcement of legislation and through a better informed population. The project will work through:

- Preparing laws, by-laws and regulations
- Developing a pilot project on environmental urban planning in a tourist city
- Raising awareness on environmental issues with government, parliament, the general public, school children, NGOs and business associations
- Establishing local level mechanisms for the population to participate more actively in environmental planning

Pollution abatement and control at the Ballshi Refinery

To rehabilitate one of the Albanian refineries, Ballshi, identified by many leading organisation as an environment degrading 'hot spot', to modern standards of discharge treatment and oil residue storage, through:

- Designing, procuring and installing a desalination unit for the separation of oil from water in waste water
- Designing and constructing a waste landfill area for oil residues based on EU norms
- Training and awareness raising on environment issues of staff

Design of a secure landfill site for hazardous waste

To contribute to the solution of environmentally degrading 'hot spots' of hazardous waste sites, through:

- Based on studies already carried out, the selection of an area and the design of a secure landfill site
- Carrying out an environment impact assessment
- Ensuring that the required legislation is in place for construction of the site and the future management of the site
- Identifying ownership and management structures and potential international lenders for the construction of the landfill site

5. Democratic Stabilisation

Democratic stabilisation

To strengthen and develop civil society and NGO capacity in Albania, to contribute to an enhanced social, political and community based life, through

- Strengthening local associations and institutions
- Providing assistance to disadvantaged groups of population
- Fostering the development of services provided by NGOs

The democratic stabilisation project will provide grants to small projects. It will complement the Local Community Development Programme and will ensure close coordination with other grass-root based activities from the EU and other donors.

7. Complementary EC Assistance

The activities covered by this Financing Proposal will be complemented through the CARDS Regional Programme 2002 in the following sectors:

- Police, judicial cooperation
- Integrated border management
- European networks
- trade
- Institution building
- Democratic stabilisation
- Regional infrastructure

Furthermore, the activities covered by this Financing Proposal will be complemented by support from the European Initiative for Democracy and Human Rights (chapter B 7/7, EIDHR). This financial support will be channelled mainly through civil society and will aim at helping consolidate democracy and the rule of law in Albania, as well as enhancing the respect and protection of human rights.

Given the international nature of the SAp countries' border management policies and their impact on EU member states and candidate countries, the bodies involved in programming

the EU Structural Fund's INTERREG shall be fully associated with the development of the national integrated border management strategies so as to ensure maximum coherence and complementarity with EU INTERREG programmes for cross border cooperation (eg. Italy and Greece)

This coordination with INTERREG will be key not only in ensuring that Border Region Cooperation programmes and projects complement activities on other sides of the borders but also in seeking similar synergies with programmes developed for the border control and border crossings areas or other CARDS support in border regions in which cooperation with INTERREG could represent an advantage.

8. Programme Implementation

The Action Programme will be implemented as follows:

8.1 Implementation and management

Contracts financed under this programme shall enter into force no earlier than the signature of the Financing Memorandum in due form by the competent signatories, and no later than 31.12.2005, being the expiry date of the associated Financing Memorandum. Therefore:

- Any relevant contract or grant must have entered into force, having been signed by all the relevant parties, by this expiry date.
- Any contracts or grants that have not been entered force, having been signed by the signature of all the relevant parties by this expiry date will be not be finalised but will be cancelled and considered null and void.
- Any balance of funds under this programme that has not been used to fund contracts or grants that are in force by this expiry date will be de-committed as soon as possible thereafter.
- No addenda adding funds from this programme to any contract or grant may be entered into after this expiry date.

The deadline by which all contractual activities under this programme must cease is no later than one calendar year after the expiry date of the relevant Financing Memorandum. Therefore:

- No addenda to any contract or grant funded by this programme shall be entered into after the implementation deadline¹.

The programme will be implemented by the Commission Services on behalf of and in close collaboration with the relevant national and/or local authorities. Project implementation will be undertaken by the relevant Commission Services. A Financing Agreement corresponding to this Financing Proposal will be concluded with the counterpart authorities.

8.2 Monitoring, Evaluation and Audit

This programme will be monitored and supervised by the European Commission services, who shall:

- a) monitor the implementation of the programme on the basis of regular reports, contacts with stakeholders and site visits
- b) carry out regular monitoring and evaluations to follow the progress of the programme and its components as well as ex-post evaluations after its completion

¹ Note that the end date for contractual activities refers to project implementation activities, and not the date for submission of final report or final invoice.

The accounts and operations of the programme components will be checked at intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities of the European Commission, including the European Antifraud Office (OLAF)₂ and the European Union's Court of Auditors.

8.3 Tendering Procedures

The contracts for services, works and supplies shall be concluded in accordance with the tendering and contract award procedures laid down in the Financial Regulation, Council Regulation 2666/2000 and the "Manual of instructions for contracts concluded for the purpose of Community co-operation with third countries" (adopted by the Commission on 10 November 1999).

9. Cost and financing

The Programme will be financed through a Community grant of **€ 44,9 million**, allocated as follows among the different sectors:

1. JUSTICE AND HOME AFFAIRS	21.0
1.1. Judicial reform	8.0
1.2. Police and organised crime	8.0
1.3. Integrated border management	5.0
2. ADMINISTRATIVE CAPACITY BUILDING	6.0
2.1. Public procurement	3.0
2.2. Competition and state aids	2.0
2.3. Statistics	1.0
3. ECONOMIC AND SOCIAL DEVELOPMENT	12.9
3.1. Trade	2.0
3.2. Local community development	7.4
3.3. Education	3.5
4. ENVIRONMENT AND NATURAL RESOURCES	4.0
4.1. Environment and natural resources	4.0
5. DEMOCRATIC STABILISATION	1.0
5.1 Democratic stabilisation	1.0
TOTAL	€ 44.9 million

10. Government Commitment and Conditionalities

Assistance is provided on the basis of the existence of the necessary elements for the continuation of co-operation through assistance, in particular respect of democratic principles and human rights.

ANNEX:

- Annex 1: Comments on the JHA component and the public procurement project
- Annex 2: project fiche justice
- Annex 3: project fiche police and public order
- Annex 4: project fiche integrated border management
- Annex 5: project fiche support to public procurement
- Annex 6: project fiche competition and state aids
- Annex 7: project fiche statistics
- Annex 8: project fiche trade regulation and promotion
- Annex 9: project fiche local community development programme VII
- Annex 10: project fiche Tempus III
- Annex 11: project fiche support to vocational education and training reform
- Annex 12: project fiche environment legislation and awareness raising
- Annex 13: project fiche pollution abatement and control at the Ballshi Refinery
- Annex 14: project fiche design of a secure landfill site for hazardous waste
- Annex 15: project fiche democratic stabilisation