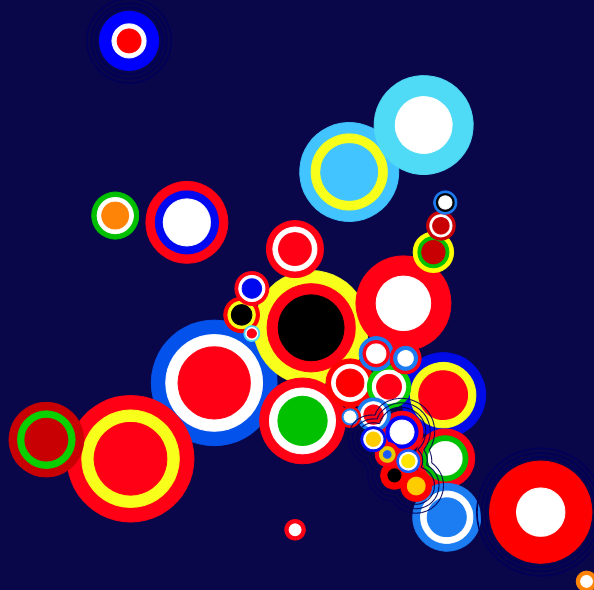




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

ALBANIA

SECTOR REFORM CONTRACT FOR EMPLOYMENT AND SKILLS



Action Summary

The objective of the sector reform contract is to contribute to a more inclusive and effective labour market by supporting the employment and skills development policy of the Albania Government (National Employment and Skills Strategy 2014-2020).

Specific objectives: (i) to increase labour market participation and provide job opportunities for all; (ii) to increase the quality and coverage of vocational education and training; (iii) to improve the quality and effectiveness of labour market institutions and services.

These objectives will be achieved through actions strengthening the education and training system and active labour market measures targeting inter alia women and youth, as well as specific actions focussed on entrepreneurship, social enterprises, self-employment schemes and support to the most disadvantaged groups of the Albanian society.

Action Identification	
Action Programme Title	IPA 2015 Action Programme for Albania
Action Title	Sector Reform Contract for Employment and Skills
Action Reference	IPA2015/038716.01/AL/ Sector Reform Contract for Employment and Skills
Sector Information	
IPA II Sectors	Education, employment and social policies
DAC Sector	16020 - Employment policy and administrative management
Budget	
Total cost (VAT excluded)	EUR 30 million
EU contribution	EUR 30 million (EUR 27 million for budget support and EUR 3M for complementary technical assistance)
Management and Implementation	
Method of implementation	Direct management: budget support + service contracts for monitoring Indirect management: complementary technical assistance service contracts
EU Delegation in charge	EU Delegation to Albania for direct management
National authority or other implementing body	National authority: Ministry of Finance Central Finance and Contracting Unit (CFCU) for indirect management
Implementation responsibilities	Ministry of Social Welfare and Youth (MoSWY) Secretary General: Mr Gjergji Teneqexhi Coordination for all Sector Budget Support (SBS) for Albania: Ministry of Finance (MoF) Deputy Minister of Finance: Mr Erjon Luci
Location	
Zone benefiting from the action	Albania
Specific implementation area(s)	N/A
Timeline	
Deadline for conclusion of the Financing Agreement	At the latest by 31 December 2016
Contracting deadline	3 years following the date of conclusion of the Financing Agreement, with the exception of the cases listed under Article 189(2) Financial Regulation
End of operational implementation period	6 years following the date of conclusion of the Financing Agreement.

LIST OF ACRONYMS:

ALMM – Active Labour Market Measure

BEEPS – Business Environment and Enterprise Performance Survey

CSO – Civil Society Organization

ESSP – Employment, Skills and Social Policy

GoA – Government of Albania

HIDAACI – High Inspectorate for Declaration and Audit of Assessment and Prevention of Conflict of Interest

HSC – High State Control – Supreme Audit Institution

IFI – International Financial Institution

IMF – International Monetary Fund

INSTAT – National Institute of Statistics

IPS – Integrated Planning System of the Albanian Government

IPMG – Integrated Policy Management Group

MoES – Ministry of Education and Sport

MoF – Ministry of Finance

MoSWY – Ministry of Social Welfare and Youth

MTBP – Mid Term Budget Program

NAVETQ – National Agency for Vocational Education and Training and Qualification

NES – National Employment Service

NESS – National Employment and Skills Strategy 2014-2020

NYS – National Youth Service

OBI – Open Budget Index

OSH – Occupational safety and health standards

PFM – Public Financial Management

PIFC – Public Internal Finance Control

SILSS – State Inspectorate for Labour and Social Services

SNA – Skills Needs Analysis

SRC – Sector Reform Contract for Employment and Skills in Albania

SSS – State Social Services

SWG – Sector Working Group

TAR – Territorial Administrative Reform

VET – Vocational Education and Training

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

The economic growth during the second decade of transition in Albania has largely been the result of a shift in labour from low to higher productivity sectors and structural transformations, which have created jobs in manufacturing industries and services while the role of agriculture has decreased. In line with this trend, the Government is devising its growth supporting policies with a wider reaching and better structured approach, which ensures sustainability and creates the conditions for job creation in strategic and knowledge-based sectors of the economy. As a result, knowledge and skills are at the heart of this inclusive economic growth model, as well as the improvement of living conditions standards for the most vulnerable groups of population, as defined in the National Employment and Skills Strategy (NESS) 2014-2020.

Employment

The employment rate and labour market participation remain low and the informal economy is still significant. The Albanian economy, with an employment rate in 2014 of approx. 50%, is rather weak in creating sufficient jobs. From 2009 to 2012 this ratio followed a slightly increasing trend as the economy was growing but in 2013, as economic growth slowed down, this ratio fell too and there was a corresponding increase in the registered unemployment rate to 16.4%. Although in 2013 the informal economy accounted for about 30% of Albania's GDP, having fallen from about 40% in 2002, Albania is still facing a multi-dimensional "job crisis" demonstrated by an increased number of people in their working age who cannot access the labour market and consequently "decent work" conditions. As economic growth has slowed, the unemployment rate has increased further to 17.9% in 2014, registering 32.5% among 15-29 years old. The participation rate of young people aged 15-29 years in 2014 is significantly lower (41.9%) than for the general population aged 15-64 (61.5%).

Significant gender differences exist in the labour market in Albania with women experiencing far lower employment rates (43.4% for 15-64 years) than men across all age (58%, for 2014). The gap is narrower among younger workers aged 15-29 years, for whom it is just 10 percentage points, but much wider for those aged between 30-64 years for whom it reaches almost 20 percentage points. This means that older women are more likely to be excluded from the labour market compared to men (even though the employment rate for older women is higher than for younger women). The gender gap is also narrower between men and women with a higher level of education. This suggests that educated women find it easier to enter or re-enter the labour market than less educated women, as it follows also for the overall population. Especially young females are affected by poor employment conditions, often undertaking jobs stereotypically considered typically female, such as unpaid family jobs.

Informal employment is one of the most crucial problems. Informal sector workers are not covered by labour legislation or social insurance, nor do they contribute to the social insurance system. Therefore, a stronger enforcement of the law is needed as well as incentives schemes on employers to encourage formal hiring through reduced contributions or other monetary incentives.

Cooperation between the National Employment Service (NES), VET providers and the private sector must be improved. The private sector needs to further open to the new system of offering jobs through the NES employment offices; actively participate in curricula/occupational standards development; and offer opportunities for work-based learning practices for young students and adult learners.

Skills

The progress made in the last years to strengthen education institutions needs to be fully matched with increasing quality and relevance of educational outcomes for the labour market. Several surveys have analysed the situation with knowledge and skills in the economy and clearly recognise a number of challenges. Bi-annual Skills Needs Analysis (SNA) surveys are being conducted in Albania since 2008, and complemented also by some regional/sectoral analysis¹. These surveys have shown that skills gaps are present in all sectors of the

¹ Gishiti, E. and Shkreli, A., *Developing the qualifications system: Demand-side analysis*, ETF paper, 2015.

economy. In general, "Work Culture" and "Unsuitable Qualification" are the major concerns for businesses. Unsuitable qualification level of labour force is a particularly stronger concern for the sectors of Mining, Electricity, Gas, as well as for the Real Estate. This is a concern mainly expressed by medium and large size companies. Small size businesses declare lack of skills of their employees in particular within the Tourism sector, as waiters and bartenders². The results of such surveys are being used by the Ministry of Social Welfare to change or update the profiles offered by the vocational education and training providers considering both short and medium-term prospects. The setting-up of Sectoral Skills Committees is a key-element to continuously address the change of skills needed by the labour market and the adaptation of skills being offered by VET providers. Lifelong learning programmes focused on key-competences shall also be developed.

Skills mismatches in Albania take predominantly two forms: i) over-qualification, with individuals working in jobs for which they are over-qualified or in areas unrelated to their field of study; and ii) under-skilling resulting from skills shortages that lead employers to hire workers who are not the best fit for the jobs on offer.

For young people, VET is perceived as a second best path to tertiary education, rather than a route to labour market entry. Adult training is limited with only 1% of adults (25-64 years) in training programmes in 2012 (compared to 9% in EU27). The Albanian VET system is affected by the limited involvement of social partners; a mismatch between employers' demand and VET supply; an inefficient network of too many, small, ill-equipped public VET institutions; modern qualifications and VET curricula; lack of skilled teachers and teacher training programmes;; underfinancing of VET with poor incentives for the participation of employers; and inadequate monitoring and evaluation of performance and outcomes of the VET system. Overall, a new legislation framework is needed to pave the way for reforms to be undertaken in VET.

Social inclusion remains a critical issue in Albania. Minority groups such as Roma and Egyptians, as well as people with disabilities and other vulnerable groups, face frequent social exclusion and discrimination. Policy responses are not adequate. Roma experience extremely high levels of unemployment, estimated at around 71% compared to around 20% for the population as a whole. Most do not have a work contract and do not receive any social benefits. Moreover, the provision of social and health services and infrastructure in support of the most disadvantaged groups are inadequate. The local government is ill-equipped to deal with related tasks. Specific training and coaching for employment programmes have been piloted, but need to be extended.

In the context of EU preparations, Albania needs to align its education, VET, employment and social policies more closely with EU objectives and policies, set priorities and monitor the implementation of the National Economic Reform Programme, the European Employment and Social Reform programme and the mid-term deliverables of the Riga Declaration, and foster participation in EU programmes such as ERASMUS+. Instruments developed at EU level, such as the European Qualification, quality assurance and key competence frameworks, can inspire national reform processes. Monitoring includes the production and use of reliable data.

Governance, Financing and Administration Challenges

In 2014 responsibilities for vocational schools and the National Agency for VET and Qualifications (NAVETQ) have been transferred from the Ministry of Education and Sport (MoES) to the Ministry of Social Welfare and Youth (MoSWY). Potentially, this can improve the efficiency and effectiveness of VET and enhance labour market integration. However, this transfer requires that several challenges are addressed, such as 1) the level of authority that remains with the MoES, which has the ultimate responsibility for ensuring that general education standards are met; 2) professional school diploma recognition; 3) the responsibilities of NAVETQ and National Employment Service (NES) within the MoSWY on the overall administration and regulation of the VET system. The capacity of both NAVETQ and NES needs to be reformed and sufficient human and financial resources deployed.

There is an issue of streamlining responsibilities for the funding and management of public VET institutions (both vocational schools and vocational training centres) and the development of VET. Responsibilities could be brought under one national agency. Capacities of the national agency(ies) would need to be considerably strengthened; the current VET and employment agencies lack both human and financial resources to be able to

² Rama, Lindita et al./ILO-EU IPA 2010 Project on HRD (2015), *Skills Needs Analysis 2014 Survey - Albania*, NES and INSTAT, Tirana (http://www.kerkojpine.gov.al/wp-content/uploads/2015/02/SKILL-NEEDS-ANALYSES-2014-survey_Final-Report.pdf)

cope with their financial, administrative and developmental tasks. The network of public VET providers with many small institutions is inefficient. Neighbouring institutions could be merged and inefficient ones closed. The ultimate aim is to upgrade VET provision in a smaller, affordable number of public VET providers, enabling them to cater to the needs of both young people and adults in line with labour market and social needs. VET providers shall enjoy a high degree of autonomy and be able to generate their own income.

The dialogue with the trade unions, the tripartite relation between the State, the employers and the employees, as well as the National Labour Council will be instrumental in the elaboration of the policies of employment, wages and social benefits. However, the role of social partners and their representative organisations and cooperation between public and private stakeholders in the design of policies need to be strengthened.

RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

This programme is fully in line with the objectives of the IPA II assistance and the Indicative Strategy Paper for Albania 2014-2020 which highlights that education, employment and social policies equally require support, notably for achieving a sustainable and more inclusive growth. The sector support is foreseen to contribute to achieving the results and meet the target indicators set in the IPA II Indicative Strategy Paper to be achieved with EU assistance. These results are:

- Quality and relevance of the education and training system is improved for developing labour force skills in line with Albania's medium-term socio-economic growth and development prospects;
- Labour market participation and employment opportunities are increased, especially for women and youth;
- Marginalized and disadvantaged population are better included in the labour market;
- Partnerships between local governments and civil society are promoted for delivering social services.

The programme reflects the policy priorities highlighted in the National Employment and Skills Strategy (NESS) 2014-2020, as well as the National Strategy for the Development of Business and Investment 2014-2020. The NESS and its Action Plan are aligned to the Europe 2020 and South East Europe 2020 strategies.

SECTOR BUDGET SUPPORT READINESS

MACROECONOMIC STABILITY

Albania managed to avoid recession throughout the global financial and economic crisis that has heavily affected its main EU trading partners and spilled over through trade, remittances and investment links. Nonetheless, annual economic growth slowed from 3.4 % in 2009 to 1.1 % in 2013, before marking an improvement to an estimated 1.9 % growth in 2014.

The 2014 budget performed well in comparison to disappointing revenues and missed deficit targets in recent years. The need to finance the budget deficit and the recognition of accumulated arrears, estimated at 5.3 % of GDP, pushed up the level of public debt to 72.6% at the end of 2014, from 70.5 % a year earlier. As a result of the weakening economy, poverty rates increased while unemployment remains high at around 18%. Per capita GDP in purchasing power standards was €3,600, slightly higher as compared to the estimated €3,500 in 2013. However it still remains below potential.

External imbalances remained large in 2014, reflecting a narrow production base, the overall low competitiveness of the economy and a large fiscal deficit. The current account deficit increased to more than 13 % of GDP in 2014. The modest increase in the exports of goods in 2014 has been affected by still subdued external demand and the sharp fall in the price of oil, one of Albania's main export commodities. A lower level of goods exports as compared to the previous year was observed in the first quarter of 2015, while imports were slightly higher. Remittances have increased by 10.6 % in 2014 as against 2013 although remaining substantially lower compared to 2012.

Monetary policy has been prudent and the stable exchange rate contributed to maintaining a low inflation rate. In February, the new central bank governor Genti Sejko was voted in by Parliament which marked the end of a period of uncertainty for the Bank of Albania, following the discovery of a cash theft from the Bank's treasury by a former employee, which led to the subsequent dismissal of the previous governor. The central bank's independence was maintained and its proper functioning ensured.

Fiscal consolidation remained high on the policy agenda. Fiscal imbalances, in particular revenue shortfalls in past years, have caused public debt to reach 72.6 % of GDP at the end of 2014, constraining the available fiscal space and constituting a key macroeconomic risk. Large accumulated government arrears reveal substantial weaknesses in public finance management and have sapped liquidity and confidence in the economy.

Albania's revenue- and spending-to-GDP ratios (26 % and 31 % respectively in 2014) are low by regional standards, as is tax efficiency. The burden of the necessary budgetary adjustment primarily falls on revenues, including tax policy reforms and the strengthening of tax administration and collection. In 2014, following tax rises and tax collection improvement, revenues increased by 12.1% year-on-year. The IMF approved a 3-year €330.9 million Extended Fund Facility arrangement in February 2014 to support a bold arrears clearance programme that aims to repay accumulated arrears. At end-March 2015, the World Bank approved a USD 220 million Public Finance Policy Based Guarantee for Albania, which has enabled the country to tap international lenders at favourable terms and reduce its reliance on domestic banks for financing the deficit. Furthermore the WB has provided loans for investments and services in the sectors of water supply investment (USD 80 million) and environmental services (USD 10 million) as well as on road safety maintenance (USD 85 million), energy (150 million) and health (40 million). The conditions attached to the IFI loans concern significant improvements in public finance management to avoid the re-emergence of arrears and the resolution of bad loans and the strengthening of financial sector supervision to revive lending.

The IMF agreement is subject to periodical reviews, the latest of which was concluded in May 2015, and found the programme to be on track. It considered that economic recovery is underway in Albania, but growth remains below potential. High non-performing loans make banks risk-averse and credit growth remains sluggish despite monetary easing.

As jointly concluded in the Economic and Financial Dialogue between the EU and the Western Balkans, following the submission of the Economic reform Program 2015-2017, Albania is encouraged to continue with reforms during 2015-2017, focus on fiscal consolidation and ensure that revenue performance remains on track.

According to the latest EU assessments, as well as the recent IMF programme reviews in 2015, the Albanian authorities pursue a credible and relevant stability oriented macroeconomic policies aiming at supporting economic recovery and restoring fiscal stability and sustainability. The high level of public debt remains a key source of macroeconomic risk, but the authorities remain committed to addressing it. At the same time, fiscal consolidation should preserve space for growth-enhancing public investment by enhancing revenue collection. Arrears clearance progressed according to the schedule.

PUBLIC FINANCE MANAGEMENT

The Government adopted the Public Finance Management Strategy 2014-2020 in December 2014 to address the current set of weaknesses, which paved the way for the approval of the IPA 2014 Sector Budget Support Program for PFM. The first High Level steering committee meeting for the implementation of the PFM reforms took place in April 2015, which mandated the relevant coordinating structures for the implementation and presented the Action plan for 2015-2017. Further work on the annual action plan is ongoing. A new organisational structure was approved for the Ministry of Finance reinforcing its capacity by additional 45 staff in order to have sufficient resources to address capacity weaknesses and lead the implementation of the reforms. A further assessment of a functional review of the Ministry of Finance has also been agreed to be conducted in the second half of the year.

At the end of 2014 the medium term budget program (MTBP) 2015-2017 was processed through parliamentary review together with the annual budget 2015 setting out medium term ceilings. Preparations for the amendment of the Organic Budget law to introduce medium term mandatory ceilings are ongoing. Analytical work for the future introduction of a fiscal rule and fiscal council started with the commissioning of an IMF assessment. The clearance of unpaid arrears progressed largely in line with the arrears clearance strategy. Paid arrears, including most of the VAT arrears, totalled € 241 million or 2.4% of GDP out of the total 5.3% of GDP at the end of 2014. The external audit of the arrears clearance process revealed numerous potential weaknesses mainly in the application of public procurement procedures and internal control procedures linked to the management and

monitoring of the investment contracts. The auditors provided a draft list of recommendations in January 2015. As a response, the authorities published a summary of the way forward to address these challenges.³

The system upgrade for recording multiyear commitments in the Treasury system was not completed. The further rollout of online access to the Treasury system from 5 to another 15 budget organisation was not achieved; access for the additional ten institutions may not take place before the end of the year.

In December 2014, amendments to the Public Procurement Law for the use of modern procurement techniques, framework agreements, central purchasing and joint procurement were adopted. A decision was also adopted on conducting the public-private partnership procedures electronically by enabling the current usage of electronic means.

Revenue performance in 2014 increased, also as a result of improvements in the tax administration. The tax administration developed a corporate strategy for 2015 to 2019. Detailed implementation plans remain to be developed over time for all strategic objectives, including the provision and securing of resources. A new IT platform and the roll out of new business processes for e-filing and other services were deployed although users faced difficulties in filing tax declarations online during the first quarter of 2015. A new strategic approach for the roll out of a rules-based tax risk model and the establishment of the Risk Management Directorate has been designed to address compliance weaknesses and target the tax gap. Coordination between the tax and customs administrations has been strengthened by ensuring the inter-operability of their IT systems, as well as the conduct of joint checks and audits. The number of disciplinary measures against tax inspectors also increased. The GDT strengthened its cooperation with the High Inspectorate for Declaration and Audit of Assets and Prevention of Conflict of Interest (HIDAACI). Its internal anti-corruption directorate continued to refer to the Prosecutor's Office cases of tax inspectors suspected of abuse of office and of forging official documents.

Regarding public internal financial control (PIFC), although the legal framework is largely in place and in line with the acquis, amendments to the respective laws on Financial Control, Internal Audit and Financial Inspection have been drafted in consultation with DG Budget and OLAF (for Anti-fraud coordination service). It remains to be confirmed whether the final draft sufficiently take into account the comments provided. The Ministry of Finance is in the process of finalising the annual PIFC report for 2014 by end of May 2015 which notes shortcomings in control environment, application of risk management, asset management, budget planning and human resources control systems, highlighting gaps in procedural and regulatory framework. There is an increase of recommendations to heads of public units, who are highly accepted but lack implementation. Also there is an increase in sending cases of serious violations for penal proceedings. Internal audits tend to rather conduct inspection work and unevenly apply system based approach.

In respect of external audit the Law on High State Control (HSC) was amended in January 2015 strengthening the alignment and the quality of audit with INTOSAI. The High State Control updated its development strategy for 2015-2017 for the implementation and gradual alignment of the standards.

The High State Control published its 2014 report; the Parliamentary review is planned for June 2015. As regards follow up of 2013 audit report the Ministry of Finance in consultation with the HSC prepared a detailed action plan for the implementation of the recommendations at the end of 2014, the implementation of which is ongoing.

With respect to fighting corruption, the relevant Strategy and Action Plan have been adopted in March 2015. Efforts have been intensified to increase referrals to the Public Prosecutor Office. However, efforts to bring cases of high-risk fraud, corruption and misuse of public funds to justice need to be substantially stepped up.

According to the baseline assessment of public administration principles delivered by SIGMA in May 2015, the weakest elements are: the strength of the medium term budget program, the extent to which the annual budget proposal includes full information in the submission to the Parliament, quality of in-year financial information, quality of internal audit, comprehensiveness of the system for monitoring and reporting public procurement

³ http://www.financa.gov.al/files/userfiles/Strategjia_e_parandalimit_te_borxhit/Informacion_per_auditimin.doc

practices, low professionalization of public procurement officials. The Ministry of Finance is taking actions to address these findings.

The Public Finance Management Strategy 2014-2020 remains relevant since it has taken into account inputs of major stakeholders before adoption and latest findings confirm that PFM dis-functional areas are currently addressed. However, some update may be needed to address latest findings and analysis. The related engagement of IMF and World Bank programmes also progressed.

The strategy is credible: its implementation started in most key areas with strong political commitment; the coordination framework and monitoring structures were set up; the approval of the reinforcement of the Ministry of Finance was a right step to strengthen the capacity to lead the reforms. In general terms, there are considerable risks related to fraud and corruption and the enforcement of good financial management practices across the administration will require strong coordination with the public administration reforms. An update of the action plan is necessary to address annual actions and should be appropriately sequenced with a well-developed policy performance assessment framework. Overall, the eligibility criterion to improve public financial management continued to be sufficiently met.

BUDGET TRANSPARENCY AND OVERSIGHT

Information regarding Albania's budget transparency and oversight is generally available. The minimum requirement of publication of the budget is met. The Government transparency roadmap for the medium term gives the right path to undertake improvements. The main challenges regarding full budget transparency are:

- The 2015 Open Budget Index⁴ for Albania shows that the country has scored 38 out of 100, which indicates that the Government provides the public with inadequate budget information. Albania's score is moderately lower than the global average score of 45 and is below the regional average for the Western Balkans countries. The Government of Albania has also fallen in the ranking with respect to the 2012 Open Budget Index, when the country has scored 47 out of 100.
- Many budget documents produced for internal use could be used for improving comprehensiveness of information published.
- A Citizens' Budget Guide, or simplified versions of budget documents using non-technical language and accessible formats, would facilitate citizens' understanding of, and engagement with, government's plans and actions during the budget year.
- While the MTBP provides detailed information on sector programs, there is no strategic overview of policy initiatives and major investments and their impact on public finances. Another deficiency in analytical procedures is the lack of distinction in the budget process between existing commitments and new policy initiatives.
- According to the annual Report Extractive Industries Transparency Initiative in Albania for the year 2012, published in November 2014, Albania stands among 31 countries complying with the Extractive Industry Transparency Initiative. The Albanian Government publishes informative report on the extraction of oil, gas and other minerals, contribution of this industry to the State budget and allocation and spending of these incomes.

The SIGMA baseline assessment of May 2015 has the following findings regarding budget transparency gaps:

- In-year budget information is not available, monthly and quarterly bulletins are published but expenditure trends cannot be analysed against plans and institutions;
- The annual report on the execution of the budget is not in the same format as the budget which makes comparison difficult;

⁴ Drawing on internationally accepted criteria developed by multilateral organizations, the Open Budget Index uses 109 indicators to measure budget transparency. These indicators are used to assess whether the central government makes eight key budget documents available to the public in a timely manner and whether the data contained in these documents are comprehensive and useful: (i) pre-budget statement; (ii) executive's budget proposal and supporting documents; (iii) enacted budget; (iv) citizens budget; (v) in-year reports; (vi) mid-year review; (vii) year-end report and (viii) audit report.

- There is no information on state assets;
- The monitoring and transparency on the financial situation of the state enterprises is limited;
- Public procurement plans are published but relevant search function is missing;
- Public consultation on draft legislations related to the sector are limited;
- The processing and analysis of public procurement market data is weak;
- All procurement review decisions are available on the website but without a user friendly search function;
- The share of negotiated procedures without publication is significant.

The main challenges regarding budget oversight are:

- The Government is expected to work on the recommendations of the Open Budget Survey 2015 to increase budget transparency and, therefore, its score and ranking.⁵
- Year-end audited financial statements should be submitted to the High State Control (HSC) by April 30th of the following fiscal year, i.e. 4 months after year-end. This deadline in the past years has not been met. The most recent audit reports on the execution of the budget for 2013, 2012 and 2011 are on the website of the HSC. The final accounts for 2014 budget were submitted to HSC for audit.
- The existing legislation and procedures do not establish any fixed deadlines for the review of the audit reports by the Parliament. The annual report of the HSC for 2014 was presented to the Parliament in July 2015, but it still pays limited attention to HSC reports. It also has little capacity to do so. The approval process for the HSC's report follows the same procedure as budget approval, but with fewer opportunities for input from the public.
- The impact of the HSC reports is low. There is no dedicated parliamentary committee as the Committee on Economy and Finance handles budget analysis, HSC reports and other topics.
- The HSC has a certain level of operational and functional independence. The legislative framework governing the institution has been revised to make it fully compatible with INTOSAI standards. However, the available resources do not allow the HSC to deal with the high number of entities under its remit.
- The Parliament Committee on Economy and Finance has limited advisory and technical capacity to fully exercise its control powers and scrutiny over the budget and the use of public funds.

The government launched consultation with business community for the draft 2016 fiscal package in April 2015. Consultation with businesses through the National Economic Council took place but needs to be further intensified in terms of relevant draft legislations. The Government started preparations for the application of the World Bank's BOOST initiative to facilitate access to budget data and promote effective use for improved decision-making processes, transparency and accountability. The launch of a Fiscal Transparency assessment by the IMF is foreseen during the next year.

The eligibility criterion on budget transparency is met. The Government transparency roadmap for the medium term gives the right path to proceed further but it will be readjusted in light of the IMF Fiscal Transparency assessment, taking also into consideration the recommendations of the Open Budget Survey 2015. The role of the Parliament in oversight remains to be strengthened. Enhanced consultation with civil society, media, and public business community is also an angle to address and is supported by a complementary technical assistance in preparation.

PUBLIC POLICY

The priorities for assistance are defined in the National Employment and Skills Strategy 2014-2020 and its Action Plan (NESS). The content of the Strategy was discussed widely in regional round tables, thematic workshops and stakeholders' meetings (from October 2012 to November 2014), involving more than 500 participants. In addition, consultation took place with the relevant Ministries that have clear linkages with the governmental job creation agenda and the employment and skills policies. Technical assistance by international development partners was provided to finalise the Action Plan 2014-2020. The NESS and its Action Plan were

⁵ The recommendations of the Open Budget Survey 2015 are published at the following link: <http://internationalbudget.org/wp-content/uploads/OBS2015-CS-Albania-English.pdf>

adopted by the Council of Ministers in November 2014 (Decision of Council of Ministers No. 818, dated 26.11.2014). This represents an unprecedented step forward on policy definition and strategic planning for the sector and the strategy is now being considered as the main document for any further technical assistance to the sector, current and future interventions. The Employment and Skills Strategy centres on four strategic priorities, as follows:

- A. Foster decent job opportunities through effective labour market policies
- B. Offer quality vocational education and training to youth and adults
- C. Promote social inclusion and territorial cohesion
- D. Strengthen the governance of the labour market and qualification systems

Below is a brief description of each strategic priority and its policy objectives.

A. Foster decent job opportunities through effective labour market policies

A new employment promotion framework is being designed to ensure the delivery of more effective and better resourced labour market policies, including programmes targeted to those who are more disadvantaged in the labour market. Such a framework centres on: i) modernisation of the NES delivery; ii) enhancement of compliance with ratified international labour standards; iii) reform of the design of active labour market policies, and iv) improvement of monitoring and evaluation of employment programmes.

B. Offer quality vocational education and training for youth and adults

The focus of medium term reforms is on increasing the quality of educational outcomes, developing qualifications, improving the attractiveness and relevance of the vocational education system and anticipating skills needs to redress mismatches, and improving skills recognition. Educational gaps across regions and population groups are identified and being addressed.

C. Promote social inclusion and territorial cohesion

Educational attainment, labour market status and geographical location are strong determinants of poverty. Targeted education and training policy actions are being used to reduce gaps in educational and training outcomes between rural and urban areas and between poor and non-poor students. Specific interventions need to be deployed to address the needs of individuals at risk of poverty and social exclusion through better access to education, employment and social services as well as employment and income opportunities. The coordination between social assistance programmes and active labour market measures allows activation strategies grounded on a mutual obligation system.

D. Strengthen the governance of the labour market and qualification systems

Improving labour market and qualification systems requires building the capacity of relevant institutions, in particular the Departments of MoSWY responsible for employment, migration, VET and social policies, the National Employment Service (NES), the National Agency for VET and Qualifications (NAVETQ) – or the future Agency for Employment and Skills - the State Inspectorate for Labour and Social Services (SILSS), the State Social Services and the National Youth Service (NYS). The strategy to improve the governance is based on a multi-pronged approach, which is grounded in social dialogue mechanisms and includes: i) further strengthening the capacity of the MoSWY and social partners to manage the employment policy cycle (i.e. analysis, planning, formulation, implementation, monitoring and evaluation of employment policy); ii) establishing an autonomous structure for the administration and development of VET; iii) improving the quality, relevance and coverage of VET by implementing the Albanian Qualification Framework (AQF) and upgrading VET provision; iv) modernising the legal framework; v) putting in place a monitoring system, including quality data and information. The MoSWY is making efforts to improve the governance aspects (legislation, financing, institutional arrangements) and establish proper coordination and monitoring mechanisms, while focusing at the same time on implementing the NESS 2014-2020.

The NESS is currently under implementation. Many donors' interventions have already taken the Action Plan as reference for designing and contracting with the Government of Albania the current/future cycles of technical assistance. This has been the cases of Switzerland, Germany, Austria, Italy, to mention just a few. Multilateral and bilateral international agencies are also contributing to its implementation, through direct technical assistance to the MoSWY or towards its related institutions. The MoSWY is making efforts to improve the

governance aspects (legislation, financing, institutional arrangements) and establish proper coordination and monitoring mechanisms, while focusing at the same time on implementing the NESS 2014-2020.

Institutional capacities and coordination mechanisms

The main institution dealing with sector is the Ministry of Social Welfare and Youth (MoSWY). Many of the functions previously distributed across a number of Ministries are under the leadership of the MoSWY, and its related six public institutions:

1. Social Insurance Institute – pensions, social insurance schemes, including disability, unemployment benefits and other social measures;
2. State Social Services – social assistance, disability, and social care services;
3. State Agency for the Protection of Children's Rights – child protection and advocacy;
4. National Employment Service (NES) - public employment services/offices, passive and active labour market programmes and vocational training programmes;
5. State Inspectorate for Labour and Social Services (SILSS) – labour regulations, occupational health and safety, labour inspection;
6. National Agency for Vocational Education and Training and Qualifications (NAVETQ) - Albanian Qualification Framework, qualification and occupational standards, VET teachers training, VET curricula and assessment;
7. National Youth Service (NYS) – youth programmes and policies.

Despite the recent concentration of a number of programmes under the MoSWY, fragmentation still persists in the sector. The main stakeholders also include a range of line Ministries, local government units and civil society actors, including private businesses. There is a need to increase the integration of policy, planning and budgeting across programmes and sub-programmes.

Insufficient human and financial resources across different tiers of government may hamper the implementation and monitoring of VET, employment and social policies at central and local levels. A detailed review of institutional arrangements and capacity assessment⁶ was carried out by the European Training Foundation "Frame" project in 2014, with the aim of identifying capacity building needs in support of the implementation of the NESS strategy, the Medium Term Budget Programme and the EU Sector Reform Contract. The review specified the need for extended capacity building/training actions across institutions and at different levels. Recommendations included, for example, the need for increased expertise at MoSWY and related public institutions: (i) on evidence-based policy making in the area of employment and skills development policies, and (ii) in areas such as procurement, planning, management including financial management, monitoring and evaluation of programmes and projects.

The re-configuration of financial and administrative responsibilities for employment, skills and social policies still requires consolidation and changes to the legal, institutional and procedural frameworks. Continuous cooperation and coordination between ministries, departments and agencies, including for planning and budgeting purposes is crucial. Horizontal sector coordination of MoSWY with other line ministries shall be improved, in particular with the Ministry of Economic Development, Trade, Tourism and Entrepreneurship (MoEDTTE), the MoES, specific sector ministries and the Ministry of Finance. The aim is to ensure the coordination of priorities and actions resulting from different national strategies.

With a view to monitoring the implementation of the NESS 2014-2020, coordination mechanisms and reporting systems need to be considerably improved. A dedicated team needs to be established within MoSWY and a Monitoring Plan agreed which assigns responsibilities for data collection and analysis to different institutions. Policy design and implementation must be based on robust data, for example, on the groups of people to which ALMMs should be targeted.

Over the years the sector has attracted the attention of many donors and international partners. The main formal coordination mechanism of the Government of Albania (GoA) and donors has been the Sector Working Group

⁶ EFT, 2014, *ETF Frame Project: Supporting the Strengthening of Comprehensive HRD Strategies in the Enlargement Countries – Review of Institutional Arrangements* (Albania Report), Torino.

on Vocational Skills Development and Employment (SWG), which was co-chaired by MoSWY and Swiss Development Cooperation. Its goal has been to address current and emerging challenges in VET and employment reforms and ensure effective coordination, collaboration and networking of all partners. However, the group met rather infrequently and tended to focus on VET issues.

Due to the need for an integrated, comprehensive and streamlined system to manage the overall policy cycle in key sectors, the GoA is now introducing the Integrated Policy Management Groups (IPMG). On 25th of March 2015 the GoA has adopted the establishment of the IPMG as a new approach to guide and monitor policy development, strategy implementation and evaluation and strengthen sector and donors coordination. The IPMG system aims to provide the Strategic Planning Committee (SPC) and other high-level government committees, e.g. the Inter Ministerial Committee on European Integration Coordination, with the necessary recommendations for key policy decisions affecting those sectors deemed as priority and which require cross-ministerial cooperation. In this context, an IPMG will be set up during 2015 for the Employment and Skills sector, which will be supported by a Technical Secretariat under the leadership of the MoSWY.

The IPMG dedicated secretariat, with adequate capacity, is an important feature of the IPMG system and, alongside to the appointment of the IPMG chair, is critical to its success. The IPMG's function is to advise, guide and coordinate the institutions involved in the sector, to develop and implement the NESS and action plan (including this Sector Reform Contract), secure agreement on key issues affecting the sector, endorse the outputs of work undertaken by the different actors and make recommendations for high level decision makers.

Budget

The budget for the employment, skills and social policy sector reached 147 Million 000/ALL in 2014 (approximately 1 billion Euro), marking an increase of 17% as compared with the sector budget for 2012. The share of the sector budget in GDP has increased from 9.4% in 2012, to 10.3% in 2014. The relative weight of the sector is expected to remain at steady levels (10.3% of GDP by 2017). The weight of the sector in overall public spending declined slightly between 2012 and 2014, as sector expenditures grew at a slower pace than the overall budget. According to the MTBP 2015-2017, sector expenditures will account for about 36.5% of the total state budget in 2017⁷.

The sector budget is dominated by social insurance outlays, which accounted for about 70% of the overall budget in the period 2012-2014 and have been projected to remain at similar levels in the medium term. The second largest budget programme is social protection, with a relative weight of 17% in the overall budget in 2012, 2013 (outturn) and 2014 (revised budget). The size of activities related to employment and skill development policies is very small at about 1.3% of total spending in 2014 budget.

In the last years, the budget for the sector has increased across almost all programmes. The increase is mainly driven by the pension fund (biggest relative weight), cash programmes in social assistance, and labour market and vocational education programmes. The social protection programme is heavily focused on cash assistance. "Ndihma Ekonomike" sub-programme has shrunk considerably to the favour of the People with Disabilities sub-programme, despite the recent increase in poverty rates. The social care service sub-programme is heavily focused on residential care, with limited support for expansion of community based services. Expenditures in the labour market programmes have increased considerably in line with the stated policy goals in particular with regard to the active labour market measures (ALMMs). The labour market programme is dominated by passive labour market measures (unemployment benefits) at 55% in 2014; however the weight of ALMMs will be more than 50% in the programme budget by 2017. Additional requests have been made to the Ministry of Finance to increase the ceilings for the sector budget for the period 2016-2018 as shown in Table 1.

Programme budgets under the review of MoSWY are often not fully consistent with their outputs/activities. In many cases, policy objectives are overambitious, and as such require continuous adjustments. A better coordination and consolidation of the budget planning process is needed, including with other ministries in charge of human resources development-related measures.

⁷ The figures here refer to the whole sector and include various means of social assistance, social inclusion, healthcare, education, social housing, etc. These figures do not refer only to the MoSWY annual budget.

Based on the allocations used for the Mid-Term Budget Programme, the total budget projected to be at the disposal of MoSWY for the 7-year period of the Employment and Skills Strategy is around EUR 3.75 billion. The majority of it is allocated to Social Insurance and Social Protection measures as shown in the following table.

The overall cost estimated for the implementation of the NESS and its Action Plan is about EUR 70 million and the allocated resources of the MoSWY for skills development and employment policies can cover 25-30% of the estimated cost. As part of the funding sources, the Government has established a cooperation mechanism with different international donors and development partners, which have already allocated about 15 Million EUR (including loans) for this sector for the period of 2014-2016. A significant amount for funding will also come from this Sector Reform Contract.

Against this background, the eligibility criterion on relevance, credibility and costing of the public policy of the sector is considered to be met.

Table 1. Mid-Term Budget Programme 2015–2018, MoSWY - Ceilings and additional requests in percentage, by Operational and Capital expenditures (*)

Sub-sector	Budget (EUR)		Budget (EUR)			Budget (EUR)			Budget (EUR)			Budget (EUR)		
	2014		2015			2016			2017			2018		
			Budget (Ceilings)		% of Increase comp to 2014	Budget (Ceilings)		% of Increase from additional requir	Budget (Ceilings)		% of Increase from additional requir	Budget (Ceilings)		% of Increase from additional requir
	Operational Exp.	Capital Exp.	Operational Exp.	Capital Exp.	Total budget increase	Operational Exp. (*)	Capital Exp.	Total budget increase	Operational Exp.	Capital Exp.	Total budget increase	Operational Exp.	Capital Exp.	Total budget increase
Planning & management	997,872	411,348	1,036,170	226,950	-10.37%	1,008,865	205,674	10.80%	1,012,411	231,206	0.61%	1,012,411	156,028	11.17%
Social Insurance	332,418,440	0	333,758,865	0	0.40%	344,722,340	0	0.00%	361,424,468	0	0.00%	378,942,199	0	0.00%
Social protection	160,960,993	5,313,475	158,017,730	1,199,454	-4.24%	158,726,950	1,858,156	8.80%	159,453,901	2,148,936	7.65%	160,925,532	2,645,390	7.58%
Labour market	12,818,794	230,851	14,163,121	425,610	11.79%	14,156,028	850,355	14.95%	14,184,397	896,454	14.69%	14,258,865	1,368,794	12.91%
Labour inspection	1,145,390	14,184	1,202,128	213,645	22.09%	1,202,128	106,383	55.88%	1,202,128	106,383	13.36%	1,237,589	212,766	10.09%
Social Inclusion	187,943	841,489	379,433	352,128	-28.94%	400,709	214,894	98.33%	400,709	141,844	123.40%	478,723	70,922	135.29%
Support to religions	897,943	7,092	910,638	3,546	1.01%	910,638	7,092	1.55%	910,638	7,092	3.86%	910,638	7,092	0.77%
Persecuted people	212,766	709	14,411,348	30,496	6665.12%	14,411,348	26,950	6.09%	16,539,007	7,092	1.08%	16,553,191	7,092	1.04%
VET	0	0	9,387,021	4,451,716		9,390,071	4,524,823	34.51%	9,390,071	4,397,163	18.80%	9,489,362	4,964,539	15.05%
State budget Total	509,640,142	6,819,149	533,266,454	6,903,546	4.59%	544,929,078	7,794,326	4.26%	564,517,730	7,936,170	3.19%	583,808,511	9,432,624	3.00%

(*) The figures included in these tables have been provided by the Ministry of Social Welfare and Youth as per the Mid-Term Budget Planning.

(**) Rate euro/all is 141

(***) The additional requests are being discussed with the Ministry of Finance. Final version of these requests is to be submitted by end of August 2015. Final decision by the Ministry of Finance to be made by mid October 2015.

(****) Operational expenses include salaries, transfers (disability, unemployment benefits, membership quotas, etc.) and subsidies (employment promotion programmes).

LESSONS LEARNED, LINK TO PREVIOUS FINANCIAL ASSISTANCE AND INTERVENTIONS BY OTHER COOPERATION PARTNERS

Over the past 15 years the sector has received substantial EU and other donor (bilateral and multilateral) assistance, particularly aiming at the development of the VET system, improvement of the public employment programmes and services and building social inclusion and social protection mechanisms. Past and on-going EU and other donor assistance details may be found in Annex 5.

Previous EU assistance has included the reform of the VET system, both in terms of the definition of the employment and skills policy and the construction and supply of the infrastructure (VET schools). Support was also given to the modernization of employment services and labour inspectorate. Under IPA I EU also supported social inclusion of vulnerable groups and minorities, in particular Roma and Egyptians, through tailored interventions under the national programme or through actions financed under the civil society facility and in the frame of the European Instrument for Democracy and Human Rights. The overall IPA support over the period 2007-13 amounted to over EUR 24 million.

The wide consultation process undertaken for the development of the NESS 2014-2020 generated a number of lessons learnt, namely: (i) the capacity of the social partners in the design, monitoring and evaluation of VET and employment policies and programmes should be further strengthened; (ii) policy coherence and coordination across ministries needs to be improved; and (iii) the awareness of the implications of the European approach to employment and VET reform is still limited among policy-makers.

Others lessons learned from a more generic analysis of donor interventions in the sector can be summarized in the following paragraphs:

- Significant donor support has been provided. However, while interventions proved successful within the project environment, a more comprehensive system reform was only partially achieved. Rather than adding more options or piloting activities, it is now time to integrate existing good practices into the system.
- Reforming VET is a complex task that calls for the collaboration of various stakeholders across the public and private sector, and different line ministries. Reform plans that build on the technical expertise of local stakeholders have an increased probability of being firmly integrated into generally accepted policies.
- Coordination mechanisms at all levels are needed to implement systemic reforms of the ESSP sector, thus avoiding a lack of strategic planning / guidance and overlapping interventions.
- Sustainability of interventions needs to be addressed from the design phase and throughout the implementation cycle of technical assistance project. This would ensure that a maximum use of the capacities built.
- Employment and VET challenges can only be systematically addressed through the development of a market-oriented skills development system: Private sector participation in VET provision is still low in Albania. The reasons for this range from the structure of Albania's private sector with its prevalence of micro- and small-sized companies, but also the weak private sector representation and lack of efficient cooperation models between the public and private sectors. It is therefore paramount to involve the private sector in the design and governance of the system and to create an environment that is conducive to private sector participation.
- Changes in political priorities and related staff turnover have in the past hampered both the impact and the sustainability of interventions.
- Efforts have been made to fight corruption. Further efforts are needed in this respect, and transparency aspects at all levels need to be reinforced.

2. DESCRIPTION OF MAIN ACTIVITIES AND EXPECTED RESULTS

The overall objective of the sector reform contract is to contribute to a more inclusive and effective labour market by supporting the employment and skills development policy of the Albania Government as defined in the National Employment and Skills Strategy 2014-2020.

The budget support methodology reflects the overall logic to improve the financial capability of the Government to achieve the following employment and skills-related specific policy objectives:

1. *increase labour market participation and provide job opportunities for all;*
2. *improve quality and increase coverage of vocational education and training;*
3. *improve the quality and effectiveness of labour market institutions and services.*

At input level, this intervention mode strengthens the governance structures for the employment and skills policy, while expanding its financial space and improving the corresponding financial management. In this respect, provision of targeted complementary support will ensure that the institutional capacity of the Ministry of Social Welfare and Sports is sufficiently advanced to run a wider spectrum of labour market measures with increased budget. At output level, as a result of policy dialogue and better sector stakeholders' coordination, the programme is expected to achieve a range of results with respect to each specific objective by facilitating and accelerating Government's activities foreseen under the NESS Strategy 2014-2020, as described below. This will turn at outcome level in more efficient and more accessible public employment services and more advanced VET schools and providers, which will contribute to a more inclusive society and will spur sustainable economic growth.

Specific objective 1: to increase labour market participation and provide job opportunities for all

Expected results:

1.1 Employment of women and youth is increased

Foreseen activities of the Government:

Design of adequate active labour market policies targeting women and youth¹; registration, profiling and gender-sensitive counselling of jobseekers; training of NES and INSTAT staff on gender; tailor-made entrepreneurship programmes, specifically targeting women, including in rural areas; leadership and management programmes developed and conducted specifically targeting women.

1.2. Labour market participation of vulnerable and marginalized people is increased

Foreseen activities of the Government:

Outreach of labour market measures to excluded and vulnerable groups, with particular attention to people with disabilities; internships and employment opportunities to marginalized and disadvantaged women and men, including Roma citizens; design and implementation of measures in relation to social entrepreneurship; creation of conditions for fostering employment in the third sector (social business).

Specific objective 2: to improve quality and increase coverage of vocational education and training

Expected results:

2.1. Competences of VET teachers and teacher trainers are improved

Foreseen activities of the Government:

Definition of a new policy for VET teachers and instructors recruitment and professional development; assessment of competences of teachers in public VET institutions; demand analysis of VET teachers and instructors; organisation and delivering of training for all VET teachers (in-service training programme), including obligatory capacity development on gender equality and social inclusion/diversity issues.

¹ A full comprehensive assessment of the current Employment Promotion Programmes was already carried out in the scope of the IPA 2010 Project on human resources development in Albania and accessible at <http://www.ipa-hrd.al/Komponenti2/10-EPP/EPP-FINAL-REPORT.pdf>.

2.2. VET offer is extended to the rural areas and to the most marginalized groups

Foreseen activities of the Government:

Increase of VET offers (including VET infrastructure) in rural areas and outreach to vulnerable people in these areas, with particular attention to access for people with disabilities; training and employment of marginalized and disadvantaged women and men, including Roma and people with disabilities; analysis and upgrading of buildings, workshops and equipment available in VET providers, including facilities for girls/women amenities and according to the needs of people with disabilities; awareness-raising campaigns about the importance of, and opportunities in VET and lifelong learning; design of a web portal/database on qualifications, curricula and training offers by VET providers.

2.3. VET offers and employment opportunities are better matched

Foreseen activities of the Government:

Dissemination of good practices to VET institutions to organise links with businesses; regular update of labour market analysis to assess the demanded qualifications and how the courses could be adapted; establishment of agreements with companies and/or business associations for offering training/apprenticeship schemes; organisation of internships of VET students as part of the VET curriculum; promotion of entrepreneurial learning and entrepreneurship as a key-competence.

2.4 The Albanian Qualifications Framework (AQF) is developed and implemented

Foreseen activities of the Government:

Establishment and implementation of sector skills committees; revision and linking of curricula to the AQF; development of occupational and qualification standards; adaptation of curricula to specific requirements of people with disabilities; selecting bodies and putting in place procedures for the validation/recognition of prior learning at the system level; revision of the AQF legal framework; development of quality assurance mechanisms.

Specific objective 3: to improve the quality and effectiveness of labour market institutions and services, and of the bodies responsible for the implementation of NESS 2014-2020

Expected results:

3.1. The National Employment Service at central, regional and local level is modernised and its functioning is more efficient

Foreseen activities of the Government:

Reorganisation of NES offices according to the New Service Model at regional and local level, accessible to all jobseekers; definition and implementation of a NES staff recruitment and development plan; regulation and accreditation system of private employment agencies and strengthening of the cooperation with the public employment services; registration, profiling and gender-sensitive counselling of jobseekers, with particular attention to the most vulnerable (older women, low skilled youngsters, people with disabilities, social beneficiaries and Roma); training to NES staff; development of quality assurance and performance management systems for NES.

3.2. The compliance of labour market legal and institutional framework with ratified international conventions is ensured

Foreseen activities of the Government:

Adoption of new and review of existing relevant legislation to improve approximation with EU Directives, namely those related to working conditions and occupational safety and health standards; strengthening of the role of the National Labour Council and its specialized Commissions; expansion, recognition and improvement of inspection services to reduce the number of Labour Law violations, especially on workers' safety and health at work.

3.3. Technical capacities, human resources and coordination mechanisms for implementing effectively the NESS 2014-2020 are in place

Foreseen activities of the Government:

Consolidation and reinforcement of an administration unit for managing, monitoring and coordinating the implementation of NESS within the MoSWY; delivery of training on project development, implementation, monitoring and evaluation, financial and contractual procedures; adequate staffing of the public institutions dealing with the ESSP sector.

The intervention mode of the budget support methodology implies the following main activities over the period 2015-2019:

- Transfer of EUR 27 million as budget support on the basis of the achievement of the targets as defined in annex 1 and 2;
- Strengthened political and policy dialogue with the Government on the areas reflected in the objectives of the Sector Reform Contract;
- A continued effort to reinforce the Government's capacities in the area of Employment and Skills in the context of existing complementary support projects;
- Strengthened dialogue between the EU Delegation and other donors active in the sector to coordinate and further align activities;
- Efficient reporting on reforms related to Employment and Skills by relieving the Government from multiple reporting duties and relying on the Government's structure for monitoring the implementation of the reforms, notably the Integrated Policy Management Group on Employment and Skills;
- Regular monitoring of budget support eligibility criteria.

SECTOR BUDGET SUPPORT POLICY DIALOGUE

The sector policy dialogue was launched in early 2014 when the Government of Albania presented to the public the NESS 2014-2020. The contents of the Strategy had been discussed widely in regional round tables, thematic workshops and stakeholders' meetings, including donors, partners, civil society organisations, trade unions, employer's organisations, etc. Technical assistance was provided to finalise the Action Plan 2014-2020 as part of the preparations of the NESS for its implementation. Both documents were officially adopted by the Council of Ministers in November 2014.

Since then a dialogue has been going on between DG NEAR / EU Delegation and the Ministry of Social Welfare and Youth, Ministry of Finance, Ministry of European Integration, as well as with donors and civil society representatives, to discuss the current SRC, including policy analyses, budgeting, monitoring of the strategy, visibility, etc.

RISK MANAGEMENT FRAMEWORK

Risk	Level	Mitigation measures
Political		
Lack of commitment from the Government for undertaking targeted reforms in the area of public administration reform, rule of law, anti-corruption and respect of fundamental rights. Shortfalls in cross-party cooperation on key EU-related reform issues, political cooperation and the effective functioning of independent institutions. Lack of political support and ownership for strengthening decision and policy making processes and for enforcing the civil service law at central and local level.	Moderate	Continuous policy dialogue in the context of the High Level Dialogue and the EU support for the implementation of the Roadmap concerning the key priorities in view of the opening of accession negotiations. Guidance from EU through political dialogue on cross-party work on EU integration. EU support to the Parliament to fulfil its oversight role and to independent institutions to strengthen their monitoring role. Implementation of targeted and well-planned communication and visibility activities. A communication plan is being developed.
Macroeconomic		
Further increase of public debt; increase of fiscal risks, non-completion of arrears clearance strategy and accumulation of new arrears; unbalances in the account	Moderate	The Government maintains a stability oriented macro-economic policy, which is being monitored under the PFM sector reform

deficit (import-export); fiscal buffers exhausted.		contract and also through the annual ECOFIN monitoring of implementation of the Economic Reform Programme 2015-2017. The IMF and the World Bank programmes are expected to act as an anchor for enhancing macroeconomic stability and implementing growth-boosting reforms, including liquidation and prevention of new arrears.
Public Financial Management		
Lack of commitment from the Government to ensure transparency of the budget; to enforce controls in revenue collection and budget execution; to review the public procurement system and respect the mandate of and cooperate with the High State Control (HSC).	Moderate	<p>Continuous dialogue with the Government on public finance policy issues and PFM reforms, use of the PFM budget support and complementary capacity building to facilitate and embed the reforms for budget transparency, tax administration reforms and budget planning and execution and public procurement system.</p> <p>Continuous dialogue with the Government, the Parliament and the HSC on public finance reforms and enhanced oversight and transparency. The EU to support HSC with twinning project in order to ensure compliance with international standards of external audit. Ongoing technical assistance.</p>
Developmental risks /		
<p>Lack of commitment from the Government to implement Public financial management and Public administration reform. Lack of institutional cooperation, weak co-ordination of the strategies. Insufficient budget to implement reform strategies, coupled with growing constraints on public finances.</p> <p>Institution-building of NES and NAVETQ – or future Agency for Employment and Skills – is still ongoing; currently limited human and financial resources to cope with all their (new) tasks; weak coordination with Ministry of Economic Development, Tourism, Trade and Entrepreneurship and the Ministry of Education and Sports.</p> <p>Weak capacities for prioritisation and detailed planning to implement the NESS 2014-2020;</p> <p>Currently weak cooperation with all partners represented in the National Labour Council (or the future IPMG); limited capacities to guide and coordinate donor interventions.</p> <p>Lack of robust data e.g. on vulnerable groups and their needs for training and support;</p> <p>Lack of development plans, including infrastructure and staff development plans, for each public VET provider (bigger centres) within national/sectoral and regional skills development perspectives;</p> <p>Weak mechanisms for cooperation with the private sector including those who would be willing to set up and run training centres on their own or cooperate with public VET centres;</p> <p>Lack of a monitoring plan and system incl. data gathering and analysis that could help monitor progress during the lifetime of the current budget support programme.</p>	Moderate	<p>Continuous monitoring and dialogue with the Government through economic dialogue, High level dialogue, budget support dialogue forums and the monitoring of conditionality and eligibility requirements. Support through ongoing or proposed complementary capacity building to facilitate the reforms.</p> <p>Engagement of all stakeholders (incl. non-state actors), to create a participatory policy framework with more demand and pressure for ongoing projects (by us, by other donors) that help address the risks, communication plans, policy dialogue. Ongoing technical assistance.</p>
Corruption and fraud		
<p>Political resistance to implementing anti-corruption measures and increasing public sector transparency.</p> <p>Political will to: adopt of a new status for NES as National</p>	Substantial	Rigorous follow up with the Government to apply the anti-corruption legislation and rules, as well as monitoring of track records related to

<p>Employment Agency and its incorporation in the civil service; recognise and improve inspection services in order to reduce corruption and the number of labour violations, especially the ones related to worker`s safety at work</p>	<p>corruption cases and their legal consequences, including fight against corruption in this SRC programme through indicators for variable tranches.</p> <p>Better engagement of all stakeholders (non-state actors, High State Control, Parliament) to create more demand and pressure for change.</p> <p>Implement roadmap for key priority on anti-corruption and monitoring the implementation of Anticorruption Strategy and Action Plan. Government to enhance efficiency of investigations through legal changes in the Criminal Procedure Code.</p> <p>Follow up of the process for:</p> <ul style="list-style-type: none"> - the establishment of the Committee for Integrity and Corruption prevention for the State Labour Inspectorate - the adoption of the Program for Integrity and Corruption prevention for the State Labour Inspectorate -regulation of the legal framework for inspection of private employment agencies
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COMPLEMENTARY SUPPORT

There is a complexity of actors intervening in the sector, including a number of line Ministries, local government units, social and economic partners, including private sector businesses, universities, international agencies/organizations and civil society actors. As such, there is a need to increase the coordination of policy, planning and budgeting across programmes and sub-programmes. A detailed review of institutional arrangements and capacity assessment was recently carried out by the European Training Foundation with the aim of identifying capacity building needs in support of the implementation of the Action Plan of the NESS 2014-2020, considering also the articulation needed with the Medium Term Budget Programme and the current Sector Reform Contract².

Against this background a complementary support indicatively would include:

1) Technical Assistance to develop Human Resources capacities within MoSWY, NES, NAVETQ, and SILSS (as a follow-up to the IPA 2010 project on human resources development, implemented by ILO) and carry out the following activities:

- Strengthening the current structure of the Procurement unit within the MoSWY;
- Developing the capacities of a new structure for the administration and management of human resources in Vocational Education and Training field;
- Implementation of new service model on how out-reaching and guiding the most vulnerable. Models/procedures still to be consolidated at regional level and to be introduced at local level;
- Producing Labour Market indicators (NES, MoSWY and INSTAT), especially the ones needed for the monitoring and steering of the NESS implementation;
- Establishment of sound information and management systems (IT based) for integral data collection on students, trainees, providers, certificated and qualifications granted;
- Carrying out regular assessments of the ALMM implementation and impact (every three years);
- Development of Skills Needs Analysis (every two years) at national and regional levels according to latest EU standards and using/improving the methodology adopted for the SNA 2014 survey;

²EFT (2014), *ETF Frame Project: Supporting the Strengthening of Comprehensive HRD Strategies in the Enlargement Countries – Review of Institutional Arrangements* (Albania Report), Torino.

- Preparing Skills Competitions; raising awareness campaigns on VET, Job Fairs at regional, local and provider levels;
- Finalisation of the transfer of VE schools under the MoSWY;
- Up-scaling Recognition of Prior Learning mechanisms in different economic sectors;
- Applying systematically tracer system methodologies in all public VET providers and graduates;
- Developing relevant studies and analysis related to the sector, including impact analysis of previous and on-going interventions, as well as assessments of the implementation of the NESS.

2) Technical assistance to support and increase the effectiveness of social assistance services in accordance with EU standards:

- raising capacities in view to better service delivery;
- reduce leakage, provide transparency so that benefits will go to those that have validated need;
- better quality of data available to policy makers, which they can use for making further improvements in the social assistance schemes in the future;
- simplified and standardized procedures will facilitate applications and case review;
- reductions in delays from sourcing supportive evidence electronically (i.e. from the business registry, land registry, social insurance registry etc.) and the automated determination of eligibility and entitlement will enable awards to be made sooner and at the appropriate level, reducing the risks of subjectivity bias, fraud, human error among others.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

The Integrated Policy Management Group (IPMG) for Employment, Skills and Social Policies (ESSP) – as part of the Government’s Integrated Planning System (IPS) - will be the policy dialogue structure bringing together relevant local actors and donors active in the sector. Through this government-donors dialogue structure, the EU will be in a position to pass common and streamlined messages in terms of policy guidelines. The IPMG aims to strengthen the working relations between the main donors involved in budget support, among others by carrying out joint monitoring missions and progress analyses.

This IPMG will be supported by a Technical Secretariat (hereafter referred as the Secretariat) for the preparation of work plans and annual reports on actions, deliverables and outcomes, in cooperation with relevant Directorates and Departments at the MoSWY or other Ministries. Reforms under each area will be supervised by the Thematic Groups. The EU and other partners will provide support in the form of advice, assistance and funding for capacity building to establish such structures within the organizational structure of MoSWY. The Secretariat shall ensure the timely preparation of the annual report and additional supporting documents, collection of reports, statistics, related to the implementation of the different policies and for the disbursement requests related to the fixed and variable tranches under this Sector Reform Contract.

The following institutions and actors will take part in the IPMG:

1. Relevant departments of the Ministry of Social Welfare and Youth
2. Social Insurance Institute
3. State Social Services
4. Children’s Rights Agency
5. National Employment Service (NES)
6. State Inspectorate for Labour and Social Services (SILSS)
7. National Agency for Vocational Education and Training and Qualifications (NAVETQ)
8. National Youth Service (NYS)
9. National Institute of Statistics (INSTAT)
10. Ministry of Economic Development, Tourism, Trade and Entrepreneurship
11. Ministry of Education and Sports
12. Ministry of Rural Development
13. Ministry of Health

14. Ministry of European Integration
15. Ministry of Finance
16. Employers' organizations and Worker's organizations
17. EU Delegation and other relevant donors active in the sector

Thematic groups will be established as prioritized by the IPMG, such as on employment and skills, social inclusion etc. The main purpose of the thematic groups will be to facilitate dialogue and discuss specific issues of programme implementation under the broader Employment, Skills and Social Policy (ESSP) perspective as defined in the Generic IPMG Operational Guidelines. Thematic groups could be set up on a temporary or permanent basis.

The Thematic Group on Employment and Skills will be chaired by the Deputy-Minister of SWY and be the main decision-making body for the implementation and oversight of the NESS 2014-2020 and its Action Plan. This Thematic Group will meet on a regular basis but at least every six months. Other participants, e.g. representatives responsible for the implementation of the NESS, as well as representatives of the ILO, World Bank, ETF and others, may also be invited to take part. The dialogue will be accompanied by written conclusions shared between the parties.

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

Disbursement of sector budget support

The amount allocated for the budget support component is EUR 27 million under direct management by the EU Delegation. The general conditions for disbursement of all tranches are as follows:

- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of the PFM reform programme;
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.
- Satisfactory progress in the implementation of the NESS 2014-2020 and related Action Plan(s) and continued credibility and relevance thereof;

The list of performance indicators used for disbursement of the variable tranches are described in Annexes 1 and 2. The chosen triggers for disbursement will apply for the entire duration of this Sector Reform Contract and will be specified in the IPA 2015 Financing Agreement. However, in duly justified circumstances, the MoSWY may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators can only come into force after the signature of the amended Financing Agreement.

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

Details on complementary support

The amount allocated for complementary support is EUR 3 million. Three service contracts shall be implemented under direct management by the Commission for a) monitoring b) audit/evaluation c) communication and visibility. Service contracts to build the capacities of the MoSWY to coordinate and implement the national reforms (NESS) shall be implemented under indirect management by the Albanian Authorities (CFCU within the Ministry of Finance).

4. MONITORING AND EVALUATION

MONITORING AND REPORTING

Progress in the sector shall be measured and monitored through different indicators of achievements (input, process, output/ outcome and impact indicators). An interim evaluation of the NESS to analyse the results achieved, the management of resources and the quality of its implementation is planned. It will assess the

success of the measures undertaken, the resources invested and the extent to which the expected effects have been achieved. Data from various sources, including the findings of performance monitoring and impact evaluation of active labour market programmes shall be used for this purpose, among others.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the responsibilities of the implementing partner - the MoSWY. To this aim, the latter shall establish a permanent internal technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs/ outcomes) as measured by corresponding indicators, using as reference the list of result indicators. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The eligibility criteria related to the ESSP, as well as the triggers for the disbursement of the variable tranches, will be monitored by the EU Delegation to Albania. It will do so in collaboration with the relevant IPMG thematic group and based on the monitoring reports of the implementing partner. Performance reports will capture progress against the policy performance assessment framework developed in the annual action plan. Regular reviews from relevant sub-committee meetings and from line DGs will also provide information to assess the overall situation and progress made in the implementation of the strategy.

Annual reports will be produced on the implementation of the NESS 2020 Action Plan, and progress will be presented at annual conferences (November). A mid-term review is foreseen at the end of 2017. A final evaluation is planned to be carried at the end of 2020. Annual reports shall be presented to the IPMG and discussed there together with the changes proposed to the Action Plan, if any, ensuring that both the NESS and the SRC are monitored by the same structure. Reports shall be prepared by technical departments together with the Statistics, Monitoring and Planning Unit of MoSWY and submitted to the Secretariat for the annual approval.

The eligibility criterion related to macro-economic stability will continue to be monitored by the Commission Directorate General for Economic and Financial Affairs (DG ECFIN), in particular through the annual assessments of Albania's macroeconomic and fiscal programmes. The joint ECOFIN Ministerial Meeting will also issue annually country-specific policy guidance for Albania. Fiscal discipline and budget execution will be observed in order to ensure they do not deviate from agreed targets or do not threaten overall macroeconomic stability. Policy dialogue in the context of the relevant stabilisation and association agreement sub-committees with the Government of Albania will also assess overall macro-economic and fiscal performance. Finally, third party assessments will be also taken into consideration, such as the reports from IMF Article IV consultations.

The Commission will undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews, taking place twice a year.

EVALUATION AND AUDIT

Evaluations of the budget support component should be aligned with similar exercises of other budget support providers for accountability and learning purposes at various levels (including for policy revision) and carried out via independent consultants. The implementation of the budget support program will be supervised by two annual monitoring missions, managed by the European Commission. A final evaluation managed by the European Commission will be launched at the end of the implementation of the program.

The part of complementary support technical assistance will be subject to:

- Regular monitoring of performance, which will be an ongoing process as part of the Ministry of Finance responsibilities.
- Optionally an external monitoring (Results Oriented Monitoring System - ROM) by independent consultants hired by the European Commission on the basis of corresponding terms of references. If applicable, this monitoring begins at the sixth month of implementation of activities under the project and ends no later than six months before the end of the operational implementation phase.

For complementary support, the Commission may also carry out external evaluations as follows:

- (a) possibly a mid-term evaluation mission;
- (b) a final evaluation, at the beginning of the closing phase;
- (c) possibly an ex-post evaluation.

The Commission shall inform the implementing partner at least 2 months 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 partner country 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 partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

5. CROSS-CUTTING ISSUES

EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING

Equal participation of women and men will be secured through appropriate information and publicity material in the design of interventions and access to the opportunities they offer. An appropriate men/women balance will be sought on all the managing bodies and activities of the programme and its Actions. The NESS strategy includes equal opportunities and gender analysis and incorporates indicators which are disaggregated for gender.

Some of the Activities under the interventions will increase the capacities for gender mainstreaming as per EU quality assurance, and particularly pursuant to CoM Decision no. 465 (2012) on gender mainstreaming in the medium-term budgetary programme. Special attention will be paid to the linkages between gender-responsive sector priorities and the MTBP. Moreover, some expected results directly target increase of women and youth participation in the labour market and in VET programmes (e.g. trigger proposed on narrowing the gender gap in employment).

It will contribute to ensuring equality and access for and to all the students in schools in the rural areas, and target mainly females. This will increase enrolment rate especially in the outskirts poor areas and reduce disparity of attendance between rural and urban areas as a major social issue in education. Moreover, the education-labour market integration through the VET schools will contribute also to improvement their employment opportunities.

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

This intervention will put forward the cross-cutting theme of environment and climate change to catalyse progress in order to help decouple economic growth from the use of resources, support the shift towards a low carbon economy, increase the use of renewable energy sources, modernise the transport sector and promote energy efficiency. Environmental impact due to economic activity is discussed on a general level within the context of VET programs. Specific VET curricula should be much more developed for environmental sector occupations, for instance water /wastewater technicians' profiles, as well as energy efficiency and renewable energies specialist, or business start-up in waste recycling industry. Modern environmental and energy efficiency standards will be introduced in the construction of new buildings and infrastructures.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

Civil Society Organizations (CSOs) are involved in implementing several actions supported by this intervention as part of NESS. NGOs, foundations and philanthropic institutions are emerging as chosen partners by the Government in contributing towards informal education and training also as facilitators of formal education and training. Some of the best practices of civil society include providing VET for youth, technological support to classrooms so that children of a small school in a village may have access to the tools and technologies of today. Representatives of civil society will be involved in the Steering Committee/IMPG as well as to become active members of workings groups within the various projects.

MINORITIES AND VULNERABLE GROUPS

The NESS includes disaggregated data as per minorities and vulnerable groups which gives the base for policy development and implementation. The interventions will support the rights of any individuals, including minorities and vulnerable groups; such as Roma and Egyptians. It will facilitate minorities and vulnerable groups in their access to VET and active employment measures. The creation of VET schools as multifunctional centres will serve also for the purpose of connecting these groups with their local community by fostering their education and employment possibilities.

6. SUSTAINABILITY

Sustainability of the interventions will be ensured through the involvement of all actors, local and central and clarify structures and roles for the implementation and monitoring of NESS and the Sector Reform Contract. These structures will benefit from specific support to their capacities, both within the technical assistance package of the Sector Reform Contract, and from other donors: this will contribute to ensure that knowledge and good practices for the implementation of the National Strategy and action plan are ensured internally and on a permanent basis.

The Sector Reform Contract formulation has moreover resulted into an improved costing and budgeting of the strategy and requests for additional budget for the sector are being discussed and introduced in order to improve financial sustainability. Contributions of other donors will converge in a more coherent way to facilitate the achievement of the expected results of the reform.

Progress in the sector shall be measured and monitored through different indicators of achievements (impact, result and output). During the implementation there are several studies, cost benefit analysis, feasibility studies foreseen to assess the sustainability.

7. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the SRC and shall be the responsibility of the beneficiary. All necessary measures will be taken to publicise the fact that the Sector Reform is being supported by funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the Commission (DG NEAR) will have to be followed.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the impact of the aspects of the NESS supported by the EU Sector Reform Contract and will promote transparency and accountability on the use of funds and the results achieved. It is the responsibility of the beneficiary to keep the EU Delegation fully informed of the planning and implementation of the specific visibility and communication activities.

A contractual obligation in the IPA 2015 Financing Agreement between Albania and the EU will stipulate that a strategy for visibility and a visibility and communication plan will be developed between the parties. This strategy will set out the measures to be taken by the Albanian authorities to publicise (i) the assistance activities of the EU, (ii) the various milestones of the budget support program, such as the disbursement of tranches, (iii) the technical assistance provided. The following publicity events provide an example of a platform for visibility: (i) policy dialogue, (ii) the launch of Albania's reform programme, (iii) steering committee sessions. A continued, vigilant and pro-active press work will be foreseen by the Albanian MoSWY and the EU Delegation.

To promote transparency and visibility of its support, the EU on its side will regularly publish relevant information on budget support actions, such as press releases on budget support payments and results achieved. Joint press activities between the EU and Albania may enhance the impact of individual publicity events.