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COUNTRY STRATEGY PAPER
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1 EXECUTIVE SUMMARY

As provided for in the CARDS regulation¹, the Country Strategy Paper (CSP) provides the strategic framework in which EC assistance will be provided in the period 2000-2006. It sets out EU co-operation objectives, policy response, and priority fields of co-operation based on a thorough assessment of the partner country's policy agenda and political and socio-economic situation. The multi-annual indicative programme (MIP) and forming an integral part thereof attached to the strategy sets out the EU response in more detail, highlighting programme objectives, expected results and conditionality in the priority fields of co-operation for the period 2002-2004.

Albania is a full participant in the Stabilisation and Association Process. Albania is a Parliamentary Republic which undertook the road of reform in late 1991. Initial steps were adversely affected by a severe socio-economic crisis in 1997, which led to the collapse of the institutional order and caused a serious setback to the reform process. The difficult regional situation, particularly the Kosovo crisis in 1999, which provoked a huge flow of refugees into Albania (almost 500,000), together with an extremely divisive political scene and rather weak state institutions, has prevented Albania achieving a greater degree of reform and development during the last decade. Notably after the 1999 Kosovo crisis, the reform process resumed. Albania experienced a period of strong economic growth from 1992 to the downturn caused by the 1997 pyramid scheme crisis, before reviving again in early 2000. The main challenges facing the country over the medium-term are: ensuring public order and efficiently combating organised crime, fraud and corruption, enhancing the implementation of the rule of law through an improved judiciary and state administration, improving the socio-economic situation and ensuring progressive approximation towards the EC acquis.

Within that context, and taking into account the objectives of the Stabilisation and Association Process, the EC CARDS programme can most effectively assist the partner country in meeting those challenges by focusing on the priorities of (i) justice and home affairs, (ii) administrative capacity building, (iii) economic and social development, (iv) environment and natural resources and (v) democratic stabilisation.

2 EU CO-OPERATION OBJECTIVES IN ALBANIA

The EU's co-operation objectives with Albania are anchored in the Stabilisation and Association Process, a proximity policy which reflects the political and strategic importance of the Balkans to the EU. The Stabilisation and Association process is a framework in which a new contractual relationship (Stabilisation and Association Agreements) and an assistance programme (CARDS) help each country to progress, at its own pace towards EU membership.

The European Commission set out this ambitious vision for the region's development in May 1999. This is based on:

- (1) a recognition that one of the main motivators for the reforms relating to respect for the rule of law, democratic and stable institutions and development of a market economy

¹ Council Regulation (EC) 2666/2000, OJ L 306/1 07/12/2000

is a relationship with the EU that is based on a credible prospect of membership once the relevant conditions have been met.

- (2) the need for the countries to develop bilateral relationships between themselves as a basis for greater economic and political stability in the region.
- (3) the need for assistance programmes and contractual relations, although anchored to a common set of political and economic conditions, are flexible enough to allow each country to move ahead at its own pace, to accommodate a range of situations from post-conflict reconstruction and stabilisation to technical help with matters such as the approximation of legislation to the core elements of the EU acquis.

Following the Feira Council of June 2000, which confirmed that the EU's goal is the fullest possible integration of these countries into the economic and political mainstream of Europe, the 24 November 2000 **Zagreb Summit** set the seal on the Stabilisation and Association process by gaining the region's agreement to a clear set of objectives and conditions. In return for the EU's offer of a prospect of accession on the basis of the Treaty on European Union (TEU) and the 1993 Copenhagen criteria, and an assistance programme to support that ambition, the countries of the region undertook to abide by the EU's conditionality and participate fully in the Stabilisation and Association process.

They also accepted that the **Stabilisation and Association Agreements**, when signed, would be the principal means to begin to prepare themselves for the demands that the perspective of accession to the EU naturally entails. The SAAs focus on respect for democratic principles and integration of the countries of the region into the EU single market. They foresee the establishment of a free trade area with the EU and set out rights and obligations in areas such as competition and state aid rules, intellectual property and establishment, which will allow the economies of the region to begin to integrate with the EU's. The conclusion of such Agreements represents the signatories' commitment to complete over a transition period a formal association with the EU, tailored to the circumstances of each country but based on the implementation of the same core obligations.

The EU's political strategy towards the region relies on a realistic expectation that the contract it enters into with individual countries will be fulfilled satisfactorily. Careful preparation with each country before the EU offers such a contract has been and remains a vital component of the Stabilisation and Association process. The agreements contribute to the EU's objectives in the following way:

- (1) They are a tool which provides, much as the Europe Agreements did for the candidate countries in Central Europe, the formal mechanisms and agreed benchmarks which allow the EU to work with each country to bring them closer to the standards which apply in the EU.
- (2) They are a means to focus attention on respect for key democratic principles – human and minority rights, stable democratic institutions, standards of political behaviour and the independence of the media.
- (3) They include the core elements which are at the heart of the EU single market. Through free trade with the EU and the associated disciplines (competition and state aid rules, intellectual property etc) and rights (e.g. establishment), this process will allow the economies of the region to begin to integrate with the EU's.

Effective implementation of the Stabilisation and Association Agreements is a prerequisite for any further assessment by the EU of a country's prospects of accession. Each country will need time, help and encouragement to implement such obligations properly.

The Stabilisation and Association process is not simply a bilateral process with each country: the Zagreb Summit placed considerable emphasis on the need for regional co-operation. Similarly the Stabilisation and Association Agreements include a clear commitment to regional co-operation, which is reflected both by the funding of a regional CARDS programme and the shared objectives of national CARDS programmes. .

The CARDS programme underpins the objectives and mechanisms of the Stabilisation and Association process and as each country moves deeper into that process, assistance will focus increasingly on support for the reforms and institution building necessary to implement the obligations in the Stabilisation and Association Agreements. A precondition for receiving assistance under CARDS is compliance with Article 5 of the CARDS Regulation (Council Regulation 2666/2000 of 5 December 2000) covering conditionality issues. The indicative financial allocation for CARDS assistance for Albania for the period 2002-2004 is €145.5 million under the National Programme and €20 million under the Regional Programme for measures which will be implemented in Albania. In addition, Albania will also participate in other measures under the Regional Programme.

Since 1991, successive Albanian governments have placed European integration high on their respective political agendas and, in 1992, a Co-operation and Trade Agreement was signed between the EU and Albania. However, the divisive elections of May 1996, together with the deep socio-economic crisis of 1997 (the so-called "pyramidal schemes crisis") delayed a possible further development of relations between Albania and the Community. Already in the framework of the SAP, the Commission presented in 1999 a Feasibility Report ² which concluded that, despite progress made since the 1997 crisis, Albania was not yet in a position to take on far reaching contractual obligations with the EU.

In November 2000, at the Zagreb Summit the EU decided to set up a EU/Albania High Level Steering Group (HLSG), with the objective of stepping up co-operation between the EU and Albania, and identifying and supporting the reforms to be carried out by Albania in preparation for the negotiation of a Stabilisation and Association Agreement. The EU/Albania HLSG was asked to assess progress, recommend the necessary reform measures, provide advice and guidance in all areas of concern set out in the 1999 Feasibility Report, and to report to the Council by mid-2001. In its report on the work of the EU/Albania High Level Steering Group of June 2001³, the Commission concluded that, taking into account political, economic, regional and SAA-related technical factors, it is appropriate to proceed with a Stabilisation and Association Agreement with Albania. The Gothenburg European Council of June 2001 welcomed the Commission's report and invited the Commission to present draft negotiating directives to the Council for the negotiation of a SAA with Albania, if possible before the end of 2001.

² COM 599 final (1999)

³ COM 300 final (2001)

3 THE POLICY AGENDA OF THE GOVERNMENT OF ALBANIA

The Albanian Government adopted in February 2001 its Policy Agenda for Socio-economic Development. This Agenda is based on recent government policy documents, in particular the 2000-03 Public Investment Program (PIP) and the 2001-03 Medium-Term Expenditure Framework (MTEF). It takes account of IMF and World Bank conditionality requirements, the current dialogue in the context of the Stabilisation and Association process, and on-going work in preparation for the World Bank-sponsored Growth and Poverty Reduction Strategy.

The Policy Agenda covers four main areas: i) governance and institutional development; ii) human resources and social services; iii) private sector development; and iv) public infrastructure.

3.1 GOVERNANCE AND INSTITUTIONAL DEVELOPMENT

In the area of **civil service and public administration reform**, the Policy Agenda stresses Albania's objective of achieving a professional, sustainable, motivated and responsible public administration, mainly through appropriate training, the establishment of adequate recruitment and career development systems, and a motivating pay structure. As far as **public order** is concerned, it aims at further developing the Albanian police in compliance with the principles applied by police forces in the EU, and proposes that activities focus on completing the legislative framework, developing implementation capacity, improving the overall functioning of the police, strengthening internal security and fighting organised crime.

As regards **local government and decentralisation**, the Policy Agenda aims at ensuring real implementation of decentralisation, in particular through further adapting the legislative framework, increasing financial sources for local governments and providing adequate training for staff. In the field of the **fight against corruption**, it recommends to focus on strengthening public internal financial control and external audit institutions, the development and enforcement of an improved regulatory framework for public procurement and ensuring the participation of all components of civil society in the implementation and monitoring of the anti-corruption Programme.

The Policy Agenda stresses that the main priorities for **legal reform** should concern the completion of a strategy for the gradual alignment of Albanian legislation with the EC acquis, enhancing the quality of the legislative process, and ensuring law implementation and enforcement. As far as the **judiciary** is concerned, main priorities relate to enhancing its institutional capacity, fighting abuse by and corruption within the judiciary and legal professions, improving the training of judges and prosecutors, and enhancing court administration.

3.2 HUMAN RESOURCES AND SOCIAL SERVICES

As regards **education**, the Policy Agenda recommends actions aiming at providing the necessary infrastructure for the implementation of enhanced standards at all education levels, improving school attendance in compulsory and pre-primary education, ensuring between supply and demand through consolidation of education in rural areas and optimisation of human and technical resources, and reorganising and streamlining vocational education to meet the labour market demand. In the area of **health**, it recommends increasing financial

means for the sector, reorganising health services, improving infrastructure and equipment, and promoting the participation of the private sector in the provision of health services

Regarding the **labour market and the social safety net**, the Policy Agenda underlines the need to improve existing social assistance schemes for a better orientation of benefits towards the most vulnerable groups, decentralising and promoting community based schemes, and reorganising residential care services.

3.3 PRIVATE SECTOR DEVELOPMENT

The Policy Agenda aims at developing the **private sector** through a competitive and internationally integrated enterprise sector in Albania, able to attract foreign direct investments (FDI). To achieve this goal, it recommends the creation of a more secure business environment, an improved legislative framework, and fiscal regimes in line with EC and WTO requirements, the adoption and implementation of SME and Trade Promotion strategies, and the development of the necessary legal and institutional frameworks in the fields of competition, anti-dumping and consumers protection.

As regards **privatisation**, the focus is put on the main privatisation operations ahead, notably the privatisation of the Savings Bank (main public bank in Albania), INSIG (main national insurance company), Albtelekom (the fixed telephone operator), and the oil company SERVCOM. Regarding the **banking sector**, the Policy Agenda recommends further developing the financial markets, reinforcing banking supervision and supervisory institutions and ensuring there is sufficient availability of credit. A number of key measures are also proposed in the field of **agriculture**, including finalising the land registration process, extending the programme of rehabilitation of irrigation and drainage infrastructure, strengthening regulatory institutions in the field of food security, and formulating a strategy for promoting the export of agricultural products.

In the field of **trade**, the Policy Agenda aims at further facilitation and liberalisation according to the international trade regulations and taking into account the Stabilisation and Association Process. This includes the implementation of the partner country's commitment to WTO as a new member since September 2000, the gradual establishment of a free trade area with the EU, concluding Free Trade Agreements with the countries of the region and establishing the necessary institutional structures. In the **tourism** sector, it recommends to focus on facilitating access and circulation of tourists, promoting Albania's tourism potential, and developing pilot projects for the development of agro-tourism.

3.4 PUBLIC INFRASTRUCTURE

The reform of the **energy sector** and its subsequent strengthening is one of the top priorities in the Policy Agenda, which recommends further action as regards the restructuring of KESH (Albania's national electricity company) and the provision of adequate financing for the completion of rehabilitation programs regarding electricity production, transmission and distribution. As regards **transport**, it reflects the priorities of the Government of Albania as regards the completion of Corridor VIII (Durrës-Varna through Tirana, Skopje and Sofia), the rehabilitation of the North-South axis, as well as the rehabilitation and enlargement of the Port of Durrës, as a main entrance gate to Corridor VIII.

In the area of water supply and sewerage, the Policy Agenda mainly aims at further developing water supply and sewage systems through increased investment and improved management. Regarding **urban and rural infrastructure and housing**, it recommends the introduction of sound urban and regional planning frameworks for land use, to improve the reliability and efficiency of urban infrastructure and services and to promote economic development in poorer rural and urban areas.

3.5 ENVIRONMENT

Finally, the Policy Agenda addresses the issue of **environment**. It identifies the following main priority objectives : strengthening environmental management capacities at national and local levels, developing the necessary legal framework (taking into account the *acquis* requirements), ensuring the integration of environmental considerations into sector policies and programmes, improving the environmental situation in identified “hot” areas, promoting environmental awareness, and integrating the sustainable development principle in the use of natural resources.

4 ANALYSIS OF THE POLITICAL, ECONOMIC AND SOCIAL SITUATION IN ALBANIA

4.1 POLITICAL SITUATION

Albania undertook the road of reform in late 1991. Initial steps were strongly affected by a severe socio-economic crisis in 1997, which led to the collapse of the institutional order and meant a serious setback to the reform process. The difficult regional situation, particularly the Kosovo crisis in 1999, which provoked a huge flow of refugees into Albania (almost 500,000), together with an extremely divisive political scene and rather weak state institutions, has prevented Albania achieving a greater degree of reform and development during the last decade.

Albania is a Parliamentary Republic. Parliamentary elections are held every four years. The President of the Republic is elected directly by the members of the Parliament with a majority of 3/5. The Albanian Constitution of 1998 is in conformity with international democratic standards. It guarantees democratic freedoms, notably political pluralism, and freedom of expression and religion.

Generally, the Parliament functions satisfactorily, helped by the return of the opposition to normal parliamentary life since July 1999 after a long period of boycott. However, political life in Albania continues to be turbulent. In its foreign policy, Albania has played a positive and constructive role on regional issues, notably as regards Kosovo, Southern-Serbia, FYROM and Montenegro. It actively participates in a wide variety of regional co-operation activities.

Respect for human rights is guaranteed by the Albanian Constitution. Albania is party to most international Human Rights Treaties. Human Rights are generally respected and some recent improvements can be noted. An Ombudsman’s office was set up in August 2000 and is gradually becoming fully operational. Also in 2000, Albania abolished the use of the death penalty in peacetime. However, human rights implementation should be improved.

Yet, a number of serious problems remain. In particular, law enforcement agencies, judges and prosecutors need to be better trained in the application of human rights legislation. In addition, the judiciary's ability to perform satisfactorily is hampered by a lack of training, widespread corruption and frequent political pressure. The same applies to the police who are reported to commit human rights abuses.

The specific situation of Albania on a traditional smuggling route, a rough and uneasily controllable terrain and strong international connections through the Albanian Diaspora make the country highly vulnerable to criminal and other security threats. Estimates say around 36.000 persons transit Albania per year in attempts to migrate to EU. The current weak state of the Albanian border control has made it particularly susceptible to being targeted by the increasing migratory flows through the western Balkan region. According to observers, transit routes lead over-land from all the neighbouring countries as well as the international airport. The main over-land route seems to be via Greece and/or FYROM. Flows have also been detected from Yugoslavia mainly via Kosovo and Southern Serbia. Montenegro is to some extent targeted by out-going transitory movements. Even if the authorities are genuinely committed to change, their efforts need substantial support to avoid legal reforms and the reorganization of the police and judiciary being merely superficial.

Civil society in Albania is still underdeveloped, in part due to a lack of advocacy skills and an overly competitive, often divisive, attitude towards one another. There is little interface between civil society and the government, despite some limited initiatives by the latter to enhance dialogue.

There is freedom of expression in Albania but the media need to become more professional. The independence of radio and television should be reinforced. Currently, none of the print media in Albania is financially viable without outside assistance. The media improved. There were a few cases of harassment of and violence against journalists. Academic freedom can be described restrained.

The right of assembly and demonstration is generally respected and opposition rallies normally take place without major incident. The right to seek redress, a fair trial or protection against arbitrary arrest or detention exist in law, but are often not applied in practice.

The right to property is legally guaranteed but remains ill-defined due, inter-alia, to incomplete land registration. This leads to frequent disputes and constitutes a serious impediment to the creation of a functioning property market -including a land market- which, in turn, discourages investment and holds back the development of agriculture.

The rights of minorities in Albania are guaranteed by the Constitution and are generally well respected, although the Roma population is subject to discrimination and racial prejudice. Albania has two recognised national minorities (Greek and Slav-Macedonian) and three "cultural minorities" (Montenegrin, Vlach and Roma). In September 1999, Albania ratified the Convention on the Protection of National Minorities of the Council of Europe and in general takes a constructive approach regarding minority issues. However, Albania should take the necessary measures to complete its legislative framework on minorities, to abolish the outdated "minority zones"⁴, a concept contrary to international conventions, and to take steps to collect accurate statistical information on the minority populations living in Albania.

⁴ Currently, only the minorities living in its corresponding "minority zone" are granted a minority treatment.

Violence and discrimination against women and children is a serious problem. Albania is one of the major countries for trafficking in women; along with the growing trafficking in children and illegal migrants this is a major human rights problem for the country.

4.2 ECONOMIC AND SOCIAL SITUATION

4.2.1 Economic situation, structure and performance

According to official figures, in 2000 the Albanian GDP grew by 7.8% with respect to the previous year, above the initial forecast of the authorities (7%), but in line with growth rates reported for 1999 (+8%) and 1998 (+7.3%). Construction and services sectors, more particularly transport, mainly contributed to this increase. Despite the drought that affected Albania as well as most of the Western Balkans, agricultural output, which still accounts for more than 50% of GDP, increased by some 5.0% in 2000.

As for economic policy, positive developments were registered in the fiscal area in the year 2000. Owing to a sharp increase in tax revenues (26% increase in 2000 with respect to 1999, essentially due to improvements in the efficiency of the tax and customs administrations), the fiscal deficit is reported to have decreased from 11.5% of GDP in 1999 to 9.2% in 2000. As a consequence, foreign financing of the deficit, which has predominantly taken the form of grants or concessional borrowing, decreased from 6% to 4.3% of GDP. Furthermore, the large amounts of privatisation receipts (1.7% of GDP for the year as a whole) allowed for a sharp reduction in domestic borrowing (3.2% of GDP). On the expenditure side, the implementation of the 2000 budget was satisfactory, although progress is still needed to improve co-operation between ministries. One significant improvement in the reform of public expenditure management was the adoption of the Medium Term Expenditure Framework (MTEF), covering the period 2001-2003.

Monetary policy continued in line with the requirements of the IMF programme. A relatively restrictive monetary policy, coupled by increases in productivity, contributed to keep inflation under control. Due to the pick-up in oil prices and the energy crisis which emerged in the last quarter of the year, inflation in 2000 rose to 4% on an end-of-year basis (compared to 1.0% in 1999).. After having slightly decreased in the first months of 2001, inflation increased again, partly because of the crisis in neighbouring Macedonia which is a net exporter of agricultural products to Albania, to reach 4.1% in August. The central bank has abandoned its direct control over credits, which, together with the recovery of economic activity, has contributed to a significant increase in credits granted by banks to the private sector. Low inflation and a comfortable level of foreign exchange reserves equivalent to some 5 months of imports contributed to the stability of the exchange rate of the Lek. In the course of 2000, the Lek depreciated slightly against the dollar, while remaining substantially stable vis-à-vis the Euro. This trend has been confirmed in the first half of the year 2001.

Reform of tax collection, which contributed to an increase in tax revenues recalled above, has progressed significantly. Concerning customs revenues, main measures taken included changes in key personnel in the major customs houses, better control of goods in transit and regular revision of reference prices. As far as domestic taxes are concerned, improved enforcement led to a significant increase in the number of registered VAT and small business taxpayers. A better co-ordination between tax and customs administration also contributed to a reduction in tax evasion.

A further strengthening of the external position was registered in 2000, reflected in higher official exchange reserves. Increased imports, owing to vigorous demand and electricity imports, as well as reduced exports, mainly due to disruptions in the mining sector, led to a worsening of trade balance, which reached some USD 800 million, equivalent to about 21.5% of GDP (18% in 1999). As it has been customary since the beginning of the transition, strong inflows of remittances from Albanians living abroad – estimated at about USD 440 million in 2000 - partly compensated for the trade deficit, leaving the current account deficit roughly unchanged (USD 260 million or 7% of GDP). The significant increase in foreign direct investment (USD 140 million in 2000, compared to USD 50 million in 1999), which was largely due to revenues from the privatisation in the telecommunications sector, contributed to the sharp increase in foreign exchange reserves (4.4 months of imports by end-March 2001)

Albania is also finalising its Growth and Poverty Reduction Strategy (GPRS) which, once completed, should be a comprehensive economic development strategy for the country, with a specific focus on sustainable growth for Albania and poverty reduction.

4.2.2 Social developments

Albania has a high rate of growth of population due to a high birth rate - the highest in Europe with an average of 3.02 children per woman - as well as a relatively low mortality rate. The proportion of young people is high : currently almost half (46%) of the Albanian population is between the ages of 5 to 29 (the OECD average 35%), placing much pressure on the demand for educational expenditures and employment opportunities.

Even if emigrant remittances, as stated above, substantially contributes to the Albanian economy the “brain drain” that this constitutes seriously cripples Albania in its attempts to recover on such fundamental issues such as by exacerbating the lack of implementing capacity of public administrations and the judiciary. . Emigration of Albanian nationals since 1990 of some 500-600.000 leaving the country amounts to a considerable demographic upset. This corresponds to more than 15% of the population as a whole and more that 40% of the population aged 19-40 years. Still some 20-40.000 Albanians per year leave even if this is on the decrease. Italy and Greece remain the top destinations for Albanian emigration. Italy is hosting between 100 and 150,000 emigrants whereas Greece some 350 - 400,000 emigrants. Also, illegal migration proceeding from Albanian remains a major source of political concern for the EU authorities.

Migration flows from rural areas to the main Albanian cities have substantially increased, specially since the 1997 crisis. Slum-like conditions have been created, lacking urban infrastructure and services (adequate water and power supply, proper sewage, schools, ...). This sudden urbanisation has been accompanied by significant problems of social exclusion. The most vulnerable group seems to be that of children who have dropped out of school and are at risk of entering organised crime circles.

In Albania a family is considered poor when having a monthly income less than 6,500 lek (49 €). On this basis, around 20% of the Albanian population is living under the poverty level, most of them in rural areas. Unemployment levels remain high, both in urban and rural areas.

Enrolment rates in education, especially at the secondary level, have fallen since 1990. This decline reflects a deterioration in the quality of education, the diminishing relevance of traditional forms of vocational and technical training, as well as the increased costs of

attending school. The dropout rate in primary schools is estimated to be around 3% each year, which means that illiteracy could be rising again. Secondary education is divided into general and vocational education. Vocational Educational Training (VET) no longer plays an important role in the context of secondary education in Albania. Only 43 VET schools are remaining (out of 380 in 1989). The percentage of attendants has dropped to 15% of the total number of students of the secondary education (in 1989 this percentage was of 90%). Albania has 11 universities and 7 regional higher education institutions. Enrolment in universities as a percentage of the relevant age group is 7%, which is the lowest in all transition economies.

4.2.3 Assessing the process of reforms

Recent reforms in the economic field have been positive. Trade liberalisation, price liberalisation, privatisation of SMEs, improvement of fiscal sustainability through better customs and tax services, are areas where clear progress has been made. However, more needs to be done in order to ensure economic stability, and to achieve further economic progress.

From the social angle, the picture is quite different. The reforms and achievements carried out over the preceding years have not yet had a widespread effect on Albanian society. Albania remains one of the poorest countries in Europe. One fifth of the population is living on less than € 1.2/day. Poverty in the north and in rural areas is widespread, with 90% of the population living below the poverty line and there are high unemployment levels in both urban and rural areas. Social benefits have, in real terms, constantly decreased over the last 10 years, partly due to the Albanian attempt to keep its budget under control. Furthermore, quality of education has substantially deteriorated over the past years.

Albania will need to accelerate reforms, most notably to achieve further economic progress, fight poverty and social exclusion and to gradually increase social protection. To do so, Albania will also need to pay attention to basic, necessary conditions for socio-economic development, inter alia, to strengthen public order, fight against crime, fraud and corruption and ensure the implementation and enforcement of the rule of law.

4.2.4 Structure of public sector finances

Albanian budgetary expenditure as a percentage of GDP is currently around half of its 1990 level. This decline has resulted from economic and structural reforms, i.e. a more limited role for the government (appropriate to a market economy), a considerable reduction of personnel in many public services and attempts to reduce the budget deficit. Good progress has recently been made in the reform of public expenditure management with the adoption of the Medium Term Expenditure Framework (MTEF). The MTEF will be revised on a regular (yearly) basis. It identifies the following key areas of expenditure: health, education, social protection, transport and public works (other than transport).

The MTEF includes the Albanian Public Investment Programme (PIP) 2000-2003. This programme plans that 18.5% of the funds to be invested be allocated to institutional development, 20.3% to human resources development and social services, 12.9% to the development of the private sector and 48.3% to infrastructure, public services and the environment. This clearly shows that the Albanian Government intends to allocate a very substantial part of the resources available for investment (both national and foreign) to infrastructures.

It is to be noted that the Albanian state budget continues to depend to a very large extent on foreign financing, which is even expected to increase in the coming years according to the MTEF (from 14% of the overall budgetary resources in 2000 to 18% in 2003). The MTEF also foresees that financing of the budget deficit by foreign sources will steadily rise from 4.6% GDP in 2000 to 6.0% GDP in 2003 as a number of major public investment projects for which funds have already been committed enter full-scale implementation. The Albanian Government will need to closely follow this evolution and to gradually limit its dependence on foreign financing.

An important issue to be addressed by the Albanian authorities is the resolution of the dilemma of increasing salaries within the Public Administration (and therefore increasing public expenditure in this area), and prosecuting simultaneously a sound economic policy, in line with IMF requirements. Currently, the low salaries of the public administration are the root cause of high rotation, low quality of personnel and difficulties in recruiting of highly qualified staff. This issue needs to be gradually overcome.

4.2.5 External Environment

Albania has made considerable progress during recent years to introduce a liberal and open trade system. In September 2000, it became a member of the WTO and is therefore committed to trade liberalisation. Albanian exports are normally free of restrictions. Tariff duties on imports are being progressively reduced. The highest rate of customs duty is now 15% (having been reduced to 20% in 1999, to 18% in 2000). Albania has also abolished quantitative restrictions or measures having an equivalent effect.

Albania has an important trade deficit, particularly with the EU, which represents 94% of its exports and 77% of its imports (2000 figures). Main trade partners for Albania are Italy and Greece. As has been customary since the beginning of the transition, remittances from Albanians living abroad partly compensate for this trade deficit.

Albania has established bilateral Agreements on Economic Co-operation and Trade with Bulgaria, Croatia, FYROM, Greece, Italy, Romania, Slovenia and Turkey. It has also concluded agreements for the reciprocal promotion and protection of investments with these countries. With FYROM negotiations are underway on a Free Trade Agreement (FTA) and discussions are entering the final stage. Although, provided that the present trend regarding the improvement of fiscal sustainability continues, Albania could be in a position to meet the obligations resulting from FTAs in the long term (for example, full tariff dismantling in a period of 10 years), Albania will need to take accelerated steps in order that its own exports can really benefit from the advantages resulting from the establishment of FTAs. Today, Albanian export capacity remains extremely limited, mainly due to scarce industrial and agricultural production, insufficient product quality and poor distribution networks.

FDI investment in Albania remains limited mainly due to a relatively insecure investment environment, poor infrastructure, heavy administrative procedures, corruption in the public administration and judiciary, and relatively high taxes. However, for the year 2000, FDI in Albania is estimated at € 153 million, more than 3 times the 1999 figure, notably due to successful privatisation operations. Albanian FDI forecasts for 2001 are set at € 150 million, counting also on a strong contribution from the privatisation process.

According to the Albanian Law on Foreign Investments, all foreigners (either physical or juridical persons) have the right to engage in different economic activities in Albania without needing permission or authorisation. They have the right to transfer all funds in currency and any item related to their investment out of Albania. The law also grants foreign investors legal protection on disputes between them and Albanian parties. However, this legislation is also affected with the current limitations in Albania for proper implementation and enforcement of legislation.

In order for Albania to encourage domestic investment and to successfully attract foreign investment, public order must be ensured, the efficiency of the public administration and judiciary substantially enhanced, and corruption, fraud and the grey economy substantially reduced.

4.3 CAPACITY FOR EUROPEAN INTEGRATION

Current relations between the Community and Albania are based on a non-preferential Agreement on Trade and Economic Co-operation which entered into force in December 1992. Over the past ten years, Albanian attempts to accelerate its gradual integration into European structures have been seriously undermined by a number of factors: a very low socio-economic starting point, a severe socio-economic crises, weak state institutions, a particularly difficult regional situation, a fragile democracy, and a conflict-ridden internal political scene. In 1999, the Commission considered that Albania was not yet ready to undertake enhanced contractual relations with the EU.

The Commission re-examined the situation in 2001, and in its report to the Council considered that Albania is not yet in a position to meet the obligations of a Stabilisation and Association Agreement. However, it indicated that if the current pace of change is sustained and if sufficient priority is given to strengthening administrative capacities during the negotiating and transition periods, considerable improvements can be made in the areas highlighted in its report. The Commission also stressed that the perspective of opening Stabilisation and Association Agreement negotiations is the best way of helping to maintain the momentum of recent political and economic reform, and of encouraging Albania to continue its constructive and moderating influence in the region. It therefore concluded that it was appropriate to proceed with a Stabilisation and Association Agreement with Albania. The Gothenburg European Council shared this view and invited the Commission to present draft negotiating directives for the negotiation of a SAA with Albania, if possible before the end of 2001.

The main difficulties in view of the establishment of enhanced contractual relations between Albania and the EU lie in the lack of a capacity to implement and enforce laws, weak public administration, inadequate functioning of the judiciary, widespread fraud and corruption, the need to further progress as regards all forms of organised crime, and the need to further the process of economic development and the fight against poverty.

The lack of an effective implementing capacity for the existing legal framework is mainly due to a weak public administration, with insufficient and inadequate human resources, poor infrastructure, limited technical means and inappropriate structures and working methods. This is a serious handicap for further integration of Albania in the Community structures, and needs to be addressed.

The judiciary remains a major problem. Judges are ill prepared to administer the huge volume of new laws which have been adopted recently –including those relating to central areas of a future SAA. There is still interference with the work of the Courts and corruption within the judiciary is a matter of concern. This situation retards economic development and inward investment, since the law is not uniformly applied and the enforcement of contracts is difficult. It also has an adverse effect on the way Albanians view their state and impedes the full exercise of human and civil rights.

Fraud, corruption and organised crime are still major problems.. Even taking account of Albania's budgetary constraints there are not enough people engaged in the fight against organised crime and corruption. Albania is both a source and a transit centre for trafficking in human beings. Greater determination is needed to tackle this problem if Albania is to demonstrate that it shares the political and human values of the EU and is able to manage its borders effectively. Illegal migration and trade in arms are also areas of concern to the EU which require greater attention.

Although the economy is now picking up Albania is starting from a very low base and continues to face structural weaknesses. The size of the grey economy is still too important and is threatening the viability of officially registered businesses, preventing fair competition and discouraging investment. The 2000 energy crisis has underlined the need for a better management of the electricity sector, as well as for its modernisation through new investments. Despite efforts to improve transport infrastructure, this remains poor and should be upgraded in order to contribute to the overall economic development of the country.

4.4 SUSTAINABILITY OF CURRENT POLICIES

The positive growth performance which has characterised Albania during the past three years could have been jeopardised by the energy crisis, mainly due to mismanagement of the electricity company KESH, which erupted in the last quarter of 2000. A deepening of the crisis was averted, thanks to the warmer weather and increased rainfalls. But a strict implementation of the action plan agreed in December 2000 between the Albanian authorities and the donors community will be necessary to minimise the risks of a serious crisis. This action plan aims, in the short term, at fighting against electricity thefts and non-payment of electricity bills, and, in the longer term, at modernising the largely outdated electricity production and distribution networks. A donors meeting in April 2001 led to the unfreezing of a total amount of assistance of a total amount of assistance of US\$ 85 million from Western donors. However, the performance of the electricity sector will remain a major threat for the development of Albania.

Despite significant progress in economic stabilisation and structural reforms, the country's economy is still facing structural weaknesses. Although GDP reached its pre-transition level already in 1998, GDP per capita is still one of the lowest in Europe. The informal sector, whose activity is partly taken into account in the calculation of GDP figures, remains important and is threatening the viability of officially registered businesses. The state budget continues to depend to a very large extent on concessional foreign financing, whose part in the financing sources is even expected to increase in the coming years. The financial sector remains weak and does not fulfil its role of financial intermediation and contributor to the development of the private sector.

The major challenge facing Albania in the coming years consists of achieving a process of self-sustained economic development, from which the poorest layers of the society would also benefit. Although it is expected that foreign assistance will continue to flow into the country, mainly to finance projects, thereby providing important source of economic growth and improving infrastructure, there is an urgent need for reforms to tackle important and difficult issues. Strengthening of public order, further progress in tax reform, public expenditure management reform, continued financial sector reform, including privatisation of the remaining state-owned bank, restructuring and privatisation of strategic sectors enterprises, (including the electricity company KESH) and land reform are the areas where reforms are mostly needed.

Implementation of these reforms should contribute in the medium-term to ensuring fiscal sustainability, to creating an environment conducive to economic growth led by a performing private sector, and more generally to maintaining a stable macroeconomic environment.

4.5 MEDIUM TERM CHALLENGES

Taking the above into account, further integration of Albania in the EC structures remains challenging. Further integration will be possible only if the current pace of change is sustained and if sufficient priority is given by Albania to:

- Ensuring public order and efficiently combating organised crime, fraud and corruption
- Enhancing the implementation and enforcement of the rule of law, notably through an improved public administration and judiciary
- Improving the physical and institutional environment to encourage investment
- Ensuring progressive approximation towards the EC acquis, in order to be in a position for the proper implementation of a SAA and to continue its gradual integration in EC structures.
- Enhancing democratic stabilisation, notably through support for the improvement of the electoral system and the strengthening of civil-society.
- Sustainable development can only be achieved provided that environmental issues are addressed adequately. Albania needs to pay the necessary attention to environment-related issues before the situation worsens.
- Solid democracies count on civil society. Albanian civil society is at an early stage of development and has a very limited influence on the political, economic and social life of the country. This needs to change in order that civil society organisations can usefully contribute to democratic stability and the overall progress of the country.

5 OVERVIEW OF EC COOPERATION, INFORMATION ON MEMBER STATES AND OTHER DONOR PROGRAMMES

5.1 EC COOPERATION PAST AND PRESENT

Since 1991, Albania has benefited from a total Community assistance of € 1 020 million, of which € 85 million are loans from European Investment Bank. From 1991 to 1993, a total of € 318 millions was provided as emergency and food aid (€ 198 million through PHARE and € 120 million through FEOGA). From 1994 to 1996, PHARE provided € 190 million in grants to support Albanian economic reform. After the crisis in 1997, EC support concentrated on fewer priorities and focused on the re-establishment of the rule of law (police, customs, justice, public administration, ...) and the development of basic infrastructures (transport, water supply, Local Community Development). Albania received Community macro-financial assistance in the form of grants totalling EUR 105 million in two operations (EUR 70 million decided in 1992 and EUR 35 million decided in 1994) disbursed between 1992 and 1996.

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

In the context of the IMF 3-year programme approved in May 1998 and supported by a Poverty Reduction and Growth Facility (PRGF), the Council decided on 22 April 1999 to provide to Albania a macro-financial assistance facility of up to EUR 20 million. Unlike the previous two macro-financial assistance operations, this assistance was to take the form of a loan, in view of other grant assistance provided by the Community. However, the implementation of the EC macro-financial assistance was not initiated because the Albanian authorities indicated they were not interested in borrowing money at Community market terms.

The 2001 CARDS programme (€ 37.5 million) focuses on SAP priorities : JHA issues (43% of the budget), local Community development (27%) and institution building (24%).

5.2 ASSESSMENT OF PAST EC CO-OPERATION

An independent evaluation of all past EC support to Albania was undertaken in 2001. Along with monitoring and assessment reports on on-going programmes, this evaluation has been a key input in developing and focusing the CARDS Country Strategy Paper for Albania 2002-2006.

The evaluation has identified valuable lessons from past programmes and presents clear recommendations on ways that EC support can be improved in the future. The majority of its recommendations are being acted upon through the programming strategy and also through reforms to the approach on implementation of programmes in Albania. Among the key findings relevant for the response strategy are the following:

- Need for concentration on implementation issues in government reform;
- Link project support to overall public administration reform (sequencing), and with –in a joint donor strategy;
- Strengthen development of civil society, and integrate civil society into the development of the CSP;
- Improve donor co-ordination, especially with World Bank;
- Consider use of budget support;
- Agree with national authorities proper sectoral strategies for road and water infrastructure;
- Commission should cease funding individual infrastructure projects in the field of JHA;
- Abandon support to agriculture.

For the period 1991-2000, , on € 633 million committed, 79% have been contracted but only 70% disbursed. On sectoral programs these rates fall to respectively to 58.5% and 41%. The reasons for these delays include both the lack of resources from the Commission side and the Albanian authorities as well as the difficult socio-economic environment of the country, the civil unrest in 1997 and 1998 and the Kosovo crisis. In the context of the decentralised implementation system, the complex administrative and financial procedures to implement the programmes combined with a weak local public administration increased the delays of implementation. The EC is seeking to undertaken a complete reform of its management by given the main responsibility of implementation to its Delegation through the system of deconcentration.

The contracting backlog amounts to € 118 million and the disbursement backlog to € 170 million on open sectoral programmes.

5.3 EU MEMBER STATES AND OTHER DONOR'S PROGRAMMES

5.3.1 Member States programmes

Since 1992, the EU Members States have provided grant and/or loans amounting to several hundred millions EUR for humanitarian aid, rehabilitation of the transport, communications and utilities infrastructure, the protection of human rights and civil liberties, institutional capacity building, judicial and police reform, private sector development, health, education and social welfare reform, modernisation of the agriculture and environment sectors, and micro-projects to strengthen civil society.

Two Member States, the United Kingdom and Sweden , have elaborated a Country Assistance Strategy for the period 2001 – 2004.

Greece

Greece's assistance to Albania totalled 81 million EUR through its bilateral assistance co-operation plan 1997- 2000. The assisted sectors included food aid and emergency assistance, financial assistance, investments, technical co-operation, development projects etc. For the period 2001 - 2006 Greece's assistance to Albania is expected to total 50 million EUR and will be directed at the following sectors: a) social infrastructure (health, education, housing, social equipment, studies and training), b) economic infrastructure (transport,

telecommunications, energy, economic equipment studies and training, and c) the production sector (manufacturing, trade, tourism, etc).

Sweden

Sweden's development co-operation with Albania aims at the eradication of poverty through promoting sustainable peace, democratisation and the transition to a socially and ecologically sustainable market economy. The current Country Strategy Paper governs the development co-operation during the period February 2001 to July 2003, which is the initial phase of a long-term co-operation between Sweden and Albania. The Swedish support focuses on public administration, democracy and human rights, business and finance, rural development, health and environment on the central and local level. On the local level, Sweden has chosen to focus geographically on the Korça region.

United Kingdom

The overall *goal* of the Department for International Development, British Government, programme is to contribute to the elimination of poverty in Albania. The immediate *purpose* is to strengthen the capacity of the state, in partnership with civil society, to improve the quality of life of all Albanians.

DFID in Albania is working to achieve these aims with the Albanian Government and with both local and international partners, including through:

- continued support to the development and refinement of the government's Poverty Reduction Strategy and Medium Term Expenditure Framework;
- support for reforms directly related to Albania's objective of concluding a Stabilisation and Association Agreement with the EC, and using the British position as a member state to promote EC policies and programmes supporting Albania's reform agenda;
- support for key activities of the Stability Pact with potential benefits to Albania, including the Anti-Corruption Initiative, the Investment Compact and measures for regional trade liberalisation;
- close co-operation with the World Bank, the EC, the World Health Organisation, the International Monetary Fund (IMF), the United Nations and other international organisations in programme design and provision of assistance in support of economic and social reform;
- providing bilateral technical assistance to complement other donor programmes.

Apart from the British contribution to the financing of the programmes of the EC, World Bank and other multilateral agencies, DFID will commit 9.5 million pound sterling to a bilateral programme over the next three financial years, 2001 - 2004.

5.3.2 Other donor's programmes

Much of the funding allocated to Albania in support of the transition to democracy and market economy has been in the form of grants and concessional loans for infrastructure development mobilised by the International Financial Institutions (IFIs), principally the IMF, the World Bank (WB), EBRD and EIB. Other bilateral donors such as US Aid, Swiss Co-operation, Norway and Kuwait are also active in the country.

International Monetary Fund

In May 1998, the IMF Board approved a 3-year programme supported by a Poverty Reduction and Growth Facility (PRGF) in favour of Albania for a global amount of some USD 60 million. In July 2001 1999, the final review under the third annual arrangement under the PRGF, covering the period July 2000-July 2001, was completed. Negotiations for a new programme are expected to take place before the end of 2001 and will be largely based on the analysis contained in the Growth and Poverty Reduction Strategy which should have been adopted by the Albanian authorities before negotiations start.

World Bank

Since Albania became a member in 1991, the World Bank has supported Albania's development in IDA lending which totals around € 630 million in 41 projects covering agriculture, transport, health, public administration, the judiciary, the financial sector, SME development and energy. Specific additional support was provided during the Kosovo crisis in 1999. In partnership with the European Commission, it has led donor co-ordination efforts and helped to catalyse additional resources in support of Albania. International Finance Corporation (IFC), the private sector "window" of the World Bank, is also active in Albania in support of the private sector up to a total of around € 76 million.

The World Bank 's assistance will focus in the medium term on poverty reduction through investment in key sectors, support for improved governance and anti-corruption programmes, deepening key structural and sector reforms, and improved management of infrastructure.

European Investment Bank

The European Investment Bank (EIB) has to date allocated €85 million to the Transport Sector for road rehabilitation projects and SME. During 2001 EIB is expecting to allocate €45 million to the rehabilitation of the electricity and ports infrastructure sectors. For 2002 and 2003, the EIB financing will include the continuing investments in the rehabilitation of the roads network, as well as wastewater treatment and airport infrastructure and equipment..

European Bank for Reconstruction and Development

The EBRD has to date approved 14 loans to Albania, totalling €120.9 million for projects with a total value of €372.7 million. The portfolio consists of eleven investments in the private sector in the fields of banking, tourism, SMEs, construction, and three in the public sector (Albanian Telecom, Power Sector Reconstruction and Emergency Road Rehabilitation).

Council of Europe

The Council of Europe has been offering assistance to Albania since 1990, mainly through training programmes. Albania became a member of the Council of Europe in 1995, and undertook a number of commitments and obligations (such as the abolition of the death penalty). The main fields of support have been legal system reform (including police and penitentiary systems) and Human Rights. Since 1993 the Council of Europe and the European Commission have been implementing joint programmes in Albania in these two fields. On 3 April 2001 a new covenant (programme 3 Bis) became operational for a two-year period. The Council of Europe is also active in Albania in the fields of anti-corruption and the fight against organised crime, local government development, minorities, constitutional law, higher education and social legislation.

6 THE EC RESPONSE STRATEGY

6.1 PRINCIPLES AND OBJECTIVES FOR CO-OPERATION

Analysis of the political, economic and social situation shows that Albania faces enormous challenges if it wants to achieve significant socio-economic progress and gradual integration into EU structures through the Stabilisation and Association process. The reform process has to be continued, and whenever possible accelerated, over the years to come.

The EC is prepared to assist Albania in meeting these challenges. EC support will, on the one hand, aim at supporting those areas which are deemed essential in order to aim for any sound socio-economic development, i.e:

- Public order and public freedoms need to be ensured. Albania needs to develop modern law enforcement bodies able to adequately deal with very critical issues : trafficking, organised crime, illegal migration, border management.
- In order to be in the position to assert that the rule of law is prevailing in the country, and to provide the necessary level of legal security both for Albanian citizens and for foreigners dealing with Albania, laws need to be actually implemented and enforced. To do so, it is necessary to substantially enhance the Albanian public administration and judiciary.
- Economic and social development should accompany the institutional reforms necessary to achieve the above objectives. Education is one of the basic pre-requisites if sustained progress is to be aimed for and is central to socio-economic development because of its direct link with the labour market. The declining trend that has been observed in Albania over recent years, notably regarding Vocational Educational Training, needs to be reversed. Socio-economic development can also be fostered through enhancing Albania's trade possibilities and ability to benefit fully from both the trade agreements it has negotiated/will negotiate, and from the trade concessions it has obtained. Equal rights, opportunities and obligations for women and men. This is a question of fundamental human rights and a precondition for fair, democratic and sustainable development. Development co-operation should focus on the structural reasons for inequality and promote the participation of both men and women in the process of increasing gender equality. Focus should be on the relation between men and women rather than on women exclusively. The gender perspective should be an integral part of all development co-operation with Albania.
- Reducing the poverty, especially in the northern parts of the country.

On the other hand, EC support will take due account of the perspective of the negotiation of a Stabilisation and Association Agreement with Albania, and the need for the latter to ensure adequate implementation of the Agreement once in force.

EC support to Albania will be provided mainly through the CARDS programme. EC assistance to Albania must not be seen as a one way process. It is intended that Albania

gradually increases its level of responsibility and commitment, notably by aiming at being more proactive in finding solutions to its own problems (increasing its “ownership” of the process). It is equally important that Albania takes the necessary steps to improve its capacity to absorb financial support provided by the EC and other international donors.

In this regard, known methods such as “Twinning programmes” and “National contact point” as utilised under Phare in the Enlargement process could increase timely human resource support by Member States national administration, and possibly certain Accession countries’. It should be however emphasised that the availability of sufficient and appropriate Member State expertise could be a limiting factor.

The EC Response Strategy serves not only the direct policy goals of the SAP as required by the CARDS regulation but also two critical objectives underpinning all EC support, namely conflict prevention and poverty reduction. The Stabilisation and Association Process is a regional conflict prevention strategy and the EC Response Strategy will address fundamental weaknesses and tensions which may contribute to or trigger conflict within the country and the region. In addition, the SAP is designed to contribute to the stabilisation of the countries of the region and their economies. Sustainable economic development is central to the SAP. All of the measures supported will contribute directly or indirectly to this goal. It is only through sustainable development that poverty reduction can be effectively addressed. This is an approach which is shared with the World Bank.

6.2 PRIORITIES FOR CO-OPERATION

The important financial needs of Albania require a clear prioritisation. The concentration of support on a limited number of area also aims at ensuring a better impact and at facilitating rapid and efficient implementation. In accordance with the comments above, five key areas have been identified as central for EC assistance. They are, in order:

- 1. Justice and Home Affairs**, notably through the strengthening of the judiciary, ensuring public order, fighting organised crime, fraud and corruption
- 2. Administrative Capacity Building**, notably through enhancing the overall implementing and enforcement capacity of the Albanian public administration, including as regards specific areas of a future SAA and commitments to WTO.
- 3. Economic and social development**, notably through providing support to certain key areas such as trade, education and transport.
- 4. Environment and Natural resources**, notably through institutional strengthening (with particular emphasis on implementation and enforcement issues), improved monitoring of pollution indicators and better urban and regional planning.
- 5. Democratic Stabilisation**, notably through the improvement of the electoral system and the strengthening of civil society.

The priorities of the Country Strategy Paper have been discussed with the Albanian Authorities and are in line with the strategic approaches of the Albanian Government in its way for further EU integration in future.

6.2.1 Justice and Home Affairs

As indicated above, no sound development can be expected in Albania, including in the framework of the Stabilisation and Association process, if public order, the rule of law and justice cannot be guaranteed.

6.2.1.1 Judiciary

The Albania judiciary is in the process of reform, but it remains weak. The number of duly trained judges remain very limited. Basic infrastructures and services are generally inadequate (dilapidated buildings, deficient postal and telephonic services, power cuts). Courts do not have proper equipment or filing systems and the recording of Court proceedings is poor. Trials are often carried out under inadequate conditions. Training and working conditions for administrative staff (auxiliaries, secretaries, archivists etc) is limited. Corruption within the Albanian judiciary constitutes a serious problem and Courts judgements are not always enforced. The State Prosecution service has been strengthened as an independent body. It is now involved in investigative operations of its own. This raises questions regarding overall cooperation within, and therefore of the effectiveness and efficiency of, the crime fighting process.

A sound improvement of the Albanian judiciary is essential. Overall legal security in the country needs to be improved through the adequate enforcement of legal obligations. This would bring substantial benefits, both social and economic, and would support proper implementation of the legal framework, including international agreements such as a future SAA. Continued assistance for the judiciary in Albania is seen as a central element of the EC Response Strategy. The focus must be on improving the capacity of the prosecution and judiciary so that they may effectively tackle organised crime in co-operation with the police, and so that they can solve civil and economic disputes in a fair and effective way.

6.2.1.2 Police and Organised Crime

Albania has to continue its efforts in preventing and combating organised crime as a basic element of public order. The recently created structures need to be made genuinely operational through the provision of sufficient human and technical resources. More attention should be paid to the critical issue of trafficking in human beings: emphasis must be placed on making a clear differentiation between victims and traffickers, increasing efforts to prosecute traffickers and organised crime, re-directing resources to assist victims, securing protection for victims and potential witnesses, taking radical measures against members of the police involved in trafficking, and strengthening border management (border-crossing points and blue/green borders), notably in “hot” areas. Strategic assistance to integrate all JHA bodies in an effective crime fighting system and technical assistance to increase the operational capacity of investigative services and courts have to be highlighted. At the same time the establishment of fair relations between the police and society has to be supported.

Progress in this field will contribute to reducing crime, will support stability and will therefore increase Albania’s possibilities of achieving sound socio-economic development. It will also have a direct beneficial impact on the EU as a whole, as it will help to tackle in Albania or with Albanian co-operation sensitive issues such as illegal migration, illegal trafficking, money laundering, etc.

6.2.1.3 Integrated Border Management

Albanian border management and control still needs substantial improvement, particularly in the northern part of the country. In addition to continued efforts to improve land border-crossing points, action is necessary to develop strategies to control the Albanian maritime and green borders. Risk analysis and intelligence remain insufficient to efficiently fight illegal trafficking and smuggling. An integrated border management strategy, taking into account the need to better co-ordinate the activities of the various law enforcement bodies operating at the borders and to find the right balance between efficient controls and border crossing facilitation, should be prepared and implemented by a professional border control body.

Support in this field remains crucial to address in parallel two major challenges : i) to efficiently contribute to the fight against organised crime and illicit trafficking (human beings, weapons, drugs, pirated and counterfeited goods, ...), ii) to favour legitimate trade, which will be most relevant in the framework of a SAA and of regional FTAs encouraged by this instrument and particular needs of border regions will be addressed through regional development programmes, notably by support to supervision studies and technical assistance in the transport sector to secure further investments in order to link the border regions with Greece and Italy.

The Regional Strategy Paper, which complements the national strategic papers, sets out priorities which will be addressed in a regional context. Although included in the Regional Strategy and funded from the regional envelope, measures to address the Integrated Border Management priority will, for reasons of efficiency, be implemented as part of the national programmes and for that reason are described in this paper.

The EC will support an integrated approach to border management in Albania and the other countries covered by the SAP. The interlinkage of border management problems justifies this approach. In fact, only a comprehensive approach addressing all the various problems will be effective. The specific problems which this approach is designed to address are the low levels of regional and international trade and the threat posed by increasing levels of organised crime and corruption, including trafficking and illegal migration to the EU transiting through Albania. The objective is to strengthen controls at the border and to facilitate cross-border trade.

6.2.1.4 Asylum and Migration

The Albanian legislative framework in the fields of asylum and migration is rather comprehensive and, overall, can be considered in line with internationally recognised standards. However, as in other areas, the relevant provisions of these laws remain unimplemented. The development of adequate asylum and migration structures in accordance with European standards - and taking due consideration to the connections to interventions in relation to Integrated Border Management programme - is necessary, taking into account that Albania is an important transit country for refugees, asylum seekers and migrants in their way towards Europe. This action will be co-ordinated with other initiatives in this field and in particular with the work of the High Level Working Group on Asylum & Migration.

6.2.2 Administrative Capacity Building

Over the preceding years, Albania has been developing a quite comprehensive and relatively modern legal framework. However, in most cases, laws are not properly implemented and enforced. The lack of an implementation capacity is a serious handicap for the development of

the Albanian society and economy, and constitutes one of the major EU concerns as regards the future progress of Albania in the framework of the Stabilisation and Association Process. EC support in this area is considered as essential and should address in parallel two complementary issues:

I) EC support should continue to enhance the overall administrative capacity of Albania through a) the development, improvement and implementation of tools/systems to be used by the Albanian public administration at large, and b) the strengthening of key bodies of the Albanian public administration, such as the Civil Service Commission, the General Secretariat for Public Administration, the Department of Public Administration and the Public Administration School.

II) EC support should also be focussed on increasing the administrative capacity in specific areas which are central for the implementation of a future Stabilisation and Association Agreement. These specific areas are : i) management of public finances, including the sectors of customs, taxation and financial control, with the objective of increasing revenue collection, fighting against fraud and corruption. These actions will be co-ordinated and integrated in the framework of the Medium Term Expenditure Framework , ii) public procurement, with the objective of ensuring optimal and fair use of public monies through the implementation of EC public procurement standards both at local and national level, in accordance with the provisions of a future SAA), iii) competition & state aid, with the objective of developing the necessary competition culture, legislation and structures to implement the relevant provisions of an SAA, iv) statistics, with the objective of ensuring the availability of sufficient, accurate data for the use of the public sector (policy development) and private sector and the harmonisation of statistical methods to European standards and v) strengthen the aid programming and co-ordination capacities to the relevant parts of Albanian Government in order to develop competence in prioritisation and co-ordination of and between different donors' activities.

After 2005, possible focus could also be given to support the process of decentralisation to local governments with respect to progress made in this sector so far.

6.2.3 Economic and Social Development

6.2.3.1 Trade

Albania has started the gradual liberalisation of its markets. This liberalisation will be further accelerated.

Albania will have to face three main trade challenges in the medium term : implement WTO rules, negotiate FTAs with the Balkan countries in the framework of the SP-MoU and prepare for an FTA with the EU. This involves building up capacity in a number of regulatory areas that are closely connected with the WTO agenda, such as standards (harmonisation to EU and International practice, identify, monitor and eliminate TBT), antidumping measures, GATS/services regulations. Moreover the possible commitment in a SAA to move to an FTA regarding rules of origin, border management, judicial system performance and enforcement of property rights. Intellectual and industrial property rights is another key area where Albania will have to develop its legal, administrative and judicial capacity in order to implement the WTO commitments and to be prepared for the obligations within a future SAA.

In order for Albania to take full advantage of this liberalisation process, EC support should be provided, mainly in three areas:

I) Capacity building in a number of regulatory areas closely related to the WTO agenda and FTA prospect : standards regulation, TBT elimination, intellectual and industrial property rights, rules of origin, and services regulation.

II) the adoption and implementation by Albania of EC standards and conformity assessment procedures, aimed at i) increasing the quality of its products and, therefore, its export capacity, and ii) achieving gradual alignment to the *acquis* in this area.

II) to enhance the capacity of the Albanian phytosanitary and veterinary services, aiming at boosting Albania's export capacity, adequately controlling imports of plant and animal products, and to ensure the development and implementation of quality control and food safety regulations.

6.2.3.2 Local Community Development

Strong regional inequalities persist in Albania. Public services and infrastructure are generally scarce and of low quality. Much of the infrastructure has been damaged during the various periods of social unrest which have taken place over the past decade. Consequently, living conditions have worsened and most of the population of Albanian small cities and villages have no access to basic public services, such as safe drinking water, primary education, health care and electricity. In addition, access to many villages and remote urban districts is critical due to a continuous deterioration of the secondary and tertiary road network. This situation increases the risk of further crises and massive migrations to large cities and abroad. EC support in this area would contribute to improving the overall infrastructure and living conditions, to supporting the decentralisation process and to creating employment in often poor and remote areas.

6.2.3.3 Education

Albania entered the transition process with high literacy rates, but the overall quality of education was low and the situation has since deteriorated. Expenditure on education as a share of GDP has decreased. The salaries and motivation of teachers are both low. Infrastructure and teaching facilities are poor and the drop-out rate of pupils is increasing. Vocational and teacher training have also deteriorated. RTD activities in Albania are very limited, mainly due to the lack of adequate research infrastructures and insufficient financial resources.

Deterioration in the Vocational Educational Training area has been particularly dramatic. Nowadays, the few VET schools that remain operational are often in a poor state of repair and lacking infrastructure and resources. This contributes to the lack of skilled workers, which risks hampering economic development in the future. Moreover, non-qualified workers represent one half of the unemployed.

EC assistance to the education sector will be mainly provided through the Tempus III programme for the reform of higher education. Support for the development of adequate Vocational Educational Training is also a priority.

6.2.4 Environment and Natural Resources

Albania needs to make serious efforts to prevent further environmental deterioration. Its National Environment Action Plan (NEAP) should develop targets aimed at gradual alignment with Community acquis. Albania lacks the capacity to monitor and effectively act on environmental data, which is essential for sound decision-making. Monitoring and inspections systems should be streamlined and enforcement of environment laws strengthened.

The lack of adequate urban and regional planning prevents the optimal implementation by Albania of the necessary physical investments. The large amount of new illegal construction also hampers future development plans and provokes environmental problems. Lack of land planning has also had a perverse social impact.

Support will be directed to the re-enforcement of the Ministry of Environment, the successor of the National Environment Agency which was the central body for environmental issues. Legal approximation to the Community 'acquis' and the capacity to ensure enforcement of environmental rules and regulations will also be targeted. Extension of the monitoring networks of the European Environment Agency to Albania will be supported. In order to increase health protection levels support will be given to water quality, air pollution and waste management programmes. Measures will be taken to encourage public access to environmental information and decision making. Regional co-operation on environmental issues will be encouraged through Albanian participation in the Regional Environmental Reconstruction Programme and encouragement of cross border co-operation. The development of appropriate legislation on urban and regional planning as well as a strategic plan will also be supported.

6.2.5 Democratic stabilisation

Civil society plays a crucial role in democratic societies. NGOs and NPOs have a key role in articulating the demands and concerns of citizens. A thriving civil society generates a more participatory citizenry and a more accountable society.

In Albania, however, civil society is clearly underdeveloped, suffering from insufficient financial resources and a lack of expertise. Co-operation between the limited number of existing NGOs is limited and contacts between NGOs and government bodies insufficient. This clearly hampers the potential contribution of NGOs and other civil society bodies to democracy and social development. Support in this area appears to be necessary in order to help Albanian civil society representatives play a greater role in Albania's social, political and economic life.

Support in this area is therefore required. It will take the form of capacity building for the non profit sector and support for NGOs active in the promotion of political and civil, as well as economic, social and cultural, rights. Particular attention will be paid to the support of marginalised groups in society including those involved in tackling discrimination against women and Roma communities, and the promotion of children's rights and protection. In addition to fostering human rights and democracy at grass root level, particular attention will be paid to strengthening partnerships between NGOs and local authorities.

6.3 COHERENCE WITH OTHER EC POLICIES

EC assistance will focus on supporting Albania's progress within the Stabilisation and Association process. EC support should contribute to Albania's political stability and public order, to the strengthening of rule of law implementation and enforcement and to a continued socio-economic development. EC assistance will also be specifically aimed at helping Albania to be in the position to meet the obligations of a future Stabilisation and Association Agreement with the EU. Such an agreement aims at establishing a very close co-operation framework and favouring gradual integration of Albania into the EU structures. In this respect, a future SAA will set forward a series of specific objectives to be achieved within precise deadlines with the aim of making the partner country's policies and legal framework fully compatible with the EU's.

In all cases, EC policies will be invariably taken as the reference against which the EC assistance objectives are defined, and achievements measured.

Coherence with CARDS regional programmes: The bulk of CARDS support to the countries is being financed through national CARDS support programmes. Experience from PHARE and other Community programmes has shown that this subsidiarity ensures greater levels of national commitment and ownership, better targeting and impact of projects and greater efficiency in implementation.

However, the European Commission has concluded that complementing this basic national approach with a small regional CARDS programme will ensure its objectives are achieved, and complement the activities of the CARDS national programmes because, either: (i) the problem addressed is truly cross-border and requires active regional co-operation between the SAP governments if it is to be corrected; or, (ii) there are significant gains to be obtained in terms of efficiency or enhanced impact by implementing through one regional programme instead of five national ones.

To this end, some 10% of available funds will be allocated through the CARDS regional programme to help countries achieve the regional co-operation objectives of the SAP. These will be focused on three priorities: (a) supporting democratic stabilisation, including minority rights, media and good governance; (b) building the capacities of state institutions; and, (c) reinforcing regional infrastructure and environmental development. These priorities are outlined in greater detail in the CARDS Regional Strategy Paper.

Coherence with INTERREG programme with Greece and Italy: The CARDS programme will ensure as far as possible complementarity with the INTERREG programme III A when priorities of the CARDS programme contain a cross border co-operation character. This is particularly the case in the Integrated Border Management, environment and Local Community Development programmes. To this end, close cooperation will be developed between the country concerned, the CARDS and Interreg programmes and the concerned EU member states and candidate countries, including as appropriate the identification of relevant projects in the priority areas of the Multi-annual Indicative Programme and regular reporting of progress.

6.4 COMPLEMENTARITY WITH EU MEMBER STATES AND OTHER DONORS

Complementarity between EC and Member States' assistance and others donors is paramount in order to avoid duplications of efforts and ensure the best possible results are achieved through their respective co-operation programmes.

The EC does not seek to address all the challenge facing Albania in its response strategy. The country strategy results in a clear **focus** of CARDS' limited resources on a limited number of priorities where the European Community's funds will have a clear impact. When coupled with the Community's other support, notably in macro-financial assistance and emergency support, the programme provides an effective tool to support Albania's implementation of the SAP and to promote stability. However, the focus of CARDS resources requires there to be a clear **complementarity** not only with the governments' actions but also with the actions of other donors. In this way, the CARDS strategies will be part of a **coherent international community response** to help Albania meet its substantial development and SAP challenges.

The mechanisms for this **co-ordination** effort – on the overall strategy, on annual programming and on implementation of specific programmes and projects - are already in place. And the Commission gives its full commitment to working through these mechanisms not only to co-ordinate its support and share information but also to ensure complementarity by promoting other donor support in areas where budget constraints and comparative advantages preclude Community action.

First, the Commission co-chairs and is guided by the High Level Steering Group for South East Europe that provides overall guidance on donor co-ordination. Second, the Commission maintains a Joint Office with the World Bank to help co-ordinate and develop support to the region (eg. the Regional Conference in October 2001). Third, the Commission plays an active and leading role with the countries and international community in the three tables of the Stability Pact for South East Europe.

Fourth, the Commission maintains relations with governments to ensure its actions complement and build on national efforts, organised directly by headquarters or through its Delegations in each country. These discussions range from detailed trade negotiations through to implementing CARDS support alongside national authorities.

Fifth, the Commission delegations organise regular meetings in-country through the year with Member states, national authorities and other involved organisations (such as International Financial Institutions) to ensure monitoring and co-ordination on an on-going basis throughout the programme cycle. An annual meeting reviews progress over the year and identifies any substantive issues on co-ordination. The Commission is fully aware of the extreme importance of effective co-ordination with the Member States and makes a priority of reinforcing and improving existing co-ordination mechanisms so that possible overlaps/discrepancies are avoided and resources are effectively pooled or managed

The European Commission considers it enjoys a comparative advantage in helping the partner country in the institution-building process and the creation of the appropriate legal framework underpinning the whole process of reforms. Since well focused technical assistance will be needed most at this stage, co-ordination with Member States and others donors has to ensure that key reform measures, especially in the fields of private sector promotion and support to the reform of the judiciary, benefit from EU-wide synergies.

Close co-operation should be sought in particular in those areas where the EC does not enjoy any comparative advantage and substantial scope is left for Member States and others donors involvement. This is particularly true for sectors like education, health-care, media,

communications networks, major infrastructure development, culture and civil-society development.

EIB's growing involvement in Albania and the significant amounts which may be allocated in the co-financing priority projects, included in the eligible sectors, requires improved co-ordination and co-operation in the proper preparation and implementation of projects.

USAID's growing involvement in Albania and the significant amount of its assistance require improved co-ordination and co-operation, in particular with reference to support for local government, political, economic, financial and legislative reforms.

6.5 RISKS AND ASSUMPTIONS.

The underlying assumption of the CSP is that both Albania and the wider region will be increasingly stable in the coming years. The election of democratic governments in the region in 2000 and 2001 should help to reinforce democracy and reduce separatist tendencies within the region. Conversely, a regression in any of these countries could have a negative impact on Albania, which is particularly susceptible to regional influences and trends. Albania's bilateral relations with its neighbours should continue to improve and develop.

This CSP assumes that there will be an increasing commitment to reform the EU integration process, including a willingness to develop the institutions of the State and to make available the necessary human and material resources to key agencies and services. While there may be a risk due to the unstable public order, weak economic base and corruption, (in particular in the judiciary), it is assumed that this will not seriously jeopardise the workings of government.

It is assumed that the judicial reform efforts will be successful and that there will be a gradual increase in public confidence in the legal system.

Although Albania will remain heavily dependent on external financing it is assumed that the level of international assistance for Albania will diminish appreciably in the next years and this will affect growth rates. There is a risk that even if certain key reforms are completed Albania will continue to have difficulty in attracting foreign investment. Unemployment levels are unlikely to fall significantly in the medium term. It is assumed that Albania will conclude further free trade agreements and benefit from its accession to the WTO in September 2000. There is a risk that Albania industry may not be able to take full advantage of the opportunities which these developments will offer. The management of public finances should improve and revenue collection should yield higher receipts.

In implementing EC assistance careful attention will be paid to changes in the assumptions underlying the CSP, and project identification will take account of the new circumstances. In some cases the situation may require that a particular programme be postponed or not undertaken. The MIP takes account of this possibility by setting out programmes with a total value of 15 percent more than the indicative allocation for Albania. Where appropriate a revision of the CSP may be undertaken in accordance with the CARDS Regulation.

ANNEX to the Country Strategy Paper for Albania

7 MULTI-ANNUAL INDICATIVE PROGRAMME 2002-2004

This National Indicative Programme describes the sectors and the planned interventions to which Community assistance for Albania in the period 2002-2004 will be directed, as well as the expected results and indicators of achievement. The assistance will be delivered through a number of sectoral interventions in support of the five areas identified in Section 5 of the Country Strategy Paper, i.e.:

- Justice and Home Affairs;
- Administrative Capacity Building;
- Economic and Social Development;
- Environment & Natural Resources;
- Democratic Stabilisation.

The MIP takes into account the CARDS Regional Programme, and ensures consistency with the activities planned/financed at a regional level.

The **overall objective** of the National Indicative Programme is to support the participation of Albania in the Stabilisation and Association Process (SAP), including by contributing to the overall socio-economic development.

The **immediate objectives** of the assistance are:

- Ensuring public order and the rule of law, notably through strengthening the judiciary and fighting organised crime, fraud and corruption;
- Enhancing the functioning of the state and ensuring adequate implementation of the legal framework, in view of increasing legal security for individuals, and public and private bodies in Albania;
- Supporting the establishment of a functioning market economy and promoting private sector growth and job creation in order to facilitate sustainable economic growth, trade and employment, and to ensure the integration of the Albanian economy into EU structures and those of the wider international community;
- Ensuring adequate implementation by Albania of a future Stabilisation and Association Agreement with the EU, as well as the gradual approximation of Albanian legislation and structures to those operating in the EU.
- Supporting the protection of the environment;
- Strengthening civil society and further improving the Albanian electoral system/process.

Overall conditionality:

In addition to the sector-specific conditionality, the EC Assistance covered by this Multi-annual indicative programme is subject to the respect of the rule of law, human and minority rights and fundamental freedoms, the conditions defined by the Council in its conclusions of 29 April 1997 and the provision of the CARDS regulation.

Moreover, in accordance with the Framework Agreement signed between the European Commission and the Government of Albania on 1st September 1992, the Government must ensure that any assistance provided under this programme will be exempted from VAT, custom duties and equivalent taxes or charges.

The Government of Albania will provide the necessary financial and human resources to ensure the proper implementation of the programmes described in the present Multi-annual indicative programme and commits itself to adopt, finance and implement its Growth and Poverty Reduction Strategy. (GPRS).

As the final beneficiary, the Albanian Government will develop the necessary tools and take the necessary steps to ensure adequate co-ordination and complementarity amongst 1) financial resources provided by the various donors and 2) the said resources and its own budgetary resources, notably regarding the topics covered by this Multi-annual indicative programme.

In the event that the general and/or specific conditions mentioned in the present Multi-annual indicative programme are not fulfilled, the Commission may suspend or cancel all or part of the programmes.

7.1 JUSTICE AND HOME AFFAIRS

7.1.1 Judiciary

Background: See item 6.2.1.1 of the Country Strategy Paper for Albania

Objectives: strengthening the capacity of the Albanian judiciary and the Prosecutor's Office to ensure the enforcement of the rule of law and respect for human rights.

Expected Results: improved efficiency and increased work quality of the Albanian Courts of Justice and the Prosecutor's office; better trained judges, including on specific Stabilisation and Association Agreement-related issues and human rights; better trained court administrative staff; a reduced number of non-implemented court rulings; improved professional conduct of judges and reduced corruption; enhanced co-operation between the judiciary and other law enforcement bodies.

Programmes to be implemented:

The above-mentioned results should be achieved, notably, through:

i) continued **institution building support** for enhancing the organisation and working methods of the Albanian judicial system in general –including the prosecutor's office-, and the courts in particular. Due attention will be paid to the reforms necessary to increase the efficiency of the judiciary (rapid and professional treatment of the files), adequate co-operation with law enforcement bodies and the substantial reduction of non-implemented court rulings. Institution building support should also be given to curb corruption within the judiciary.

ii) continued **training** of judges and prosecutors, with specific emphasis on ethics, human rights protection and SAA-related issues;

iii) continued **training** of court's administrative staff, to increase the overall efficiency of the courts;

The above actions will be implemented through twinning-like projects, close co-operation with competent international institutions (i.e. Council of Europe) and/or technical assistance, as appropriate.

iv) **investment support**, to upgrade infrastructures and ensure the availability of technical means (in particular information systems) will also be provided (the situation of the Courts in Albania justifies continued investment support accompanying the implementation of institution building measures).

Indicators of achievement

- Number of cases brought before the Courts and the number of rulings issued by them
- Average time of treatment of cases and issuing of a final ruling
- Number of rulings executed/non-executed
- Number of judges trained on ethics/specific SAA issues/human rights related issues
- Number of administrative staff trained
- Number of cases of corruption within the judiciary
- Acceptable delays before trials

Conditionality:

- Implementation of the laws on the Supreme Council of Justice, on the organisation of the Ministry of Justice and the General Prosecutor's Office adopted in May 2001.
- Office in charge of the execution of rulings duly staffed and fully operational

7.1.2 Police and Organised Crime

Background: See item 6.2.1.2 of the Country Strategy paper for Albania

Objectives: ensuring public order throughout the whole country; strengthening the Albanian authorities' capacity to fight against organised crime, in particular against illegal trafficking of human beings, drugs, and money laundering; establishing an effective relationship with civil society.

Expected Results: implementation of the Police Reform Strategy; implementation of the existing strategies to fight organised crime, fraud and corruption with specific emphasis on ethics and human rights respect and protection; substantial progress as regards trafficking of human beings; continued training of police officials (management, surveillance and forensic techniques, human rights and professional behaviour); gradual implementation of criminal intelligence and related system with the support of adequate IT and risk analysis techniques; enhancing co-operation between law enforcement bodies, notably with the customs and taxation authorities; development of adequate support services for the police (logistics,

maintenance of material, ...), continued improvement of police infrastructure and technical means.

Programmes to be implemented:

The above-mentioned results should be achieved through, notably:

i) **Institution Building support**, particularly as regards the completion and implementation of the legal framework for the proper operation of the Albanian Police, the implementation of the Police Strategy reform, ensuring adequate structures and their co-ordination, and developing working methods to improve efficiency. These operations will need to be implemented through “twinning-like” operations, with the heavy involvement of Member States’ police experts.

ii) **Training**: continued training remains necessary in Albania. Main targets for training should be the police structures involved in fighting organised crime. Due attention should also be paid to continued training on professional behaviour and the respect of human rights by the police. Training will be implemented through “twinning-like” operations.

iii) **Investment support**, in particular to complement the above-mentioned institution building activities. Investment support will be provided on the basis of a sound analysis of the police needs in terms of equipment and infrastructure (including IT). This analysis is to be carried out in the framework of the CARDS 2001 programme.

Indicators of achievement

- Completion of the legal framework for the operation of the police, notably the necessary secondary legislation
- Police structures duly staffed and equipped
- Number of police officials trained on the various specific issues
- Existence of an IT strategy and start of its implementation
- Levels of crime reporting and detection
- Public confidence in the policing service
- New structures to address logistic-related issues
- Number of criminal cases detected and resolved
- Number of corruption cases within the police

Conditionality:

- With the implementation of the reform strategy and via basic, and later specific, training, Albania should have a police service which obeys the law and respects human rights, condemns corruption and is not subject itself to corruption. The Ministry will introduce and monitor control measures and safeguards to sustain this process in a transparent manner;
- The Ministry of Public Order will continue in its efforts to work out a scheme for incentive remuneration of its police service in the framework of the Government’s Public Administration Reform Programme. The Ministry should continue its efforts to reduce the turnover of personnel once the police numbers are down to the level set out in the Police Strategy Reform (12.000);

- The Ministry of Public Order and the General Prosecutor's Office must co-operate and facilitate the work of the police experts in their advice to the Prosecutor's Office;
- A proper maintenance and servicing of the equipment already provided or to be provided needs to be carried out and demonstrated;
- In parallel with international assistance programmes the Government will gradually allocate more money from the national budget to sustain progress using its own resources.
- Needs assessment in terms of equipment/technical needs to be completed.

7.1.3 Integrated Border Management

Background: See item 6.2.1.3 of the Country Strategy Paper for Albania

7.1.3.1 Integrated Border Management – Border Control

Objectives : to establish greater security at international borders that will diminish cross border crime and illegal migration. This includes land border crossing points, and green and blue borders.

Expected Results: implementation of the Albanian law on border police; establishment of a duly equipped and trained border police; implementation of effective border security systems integrated with national police systems; wide implementation of risk analysis techniques; adequate management of green and blue borders; gradual alignment to the visa regime to the best international practices and to the EU standards; enhanced co-operation at a regional level and with the EU; gradual installation of technical means at border crossing points allowing for a rapid and effective control.

Programmes to be implemented:

The above-mentioned results should be achieved most notably through:

- i) **Institution building support**, in particular for the implementation of the law on border police and customs, proper organisation and operation of the border police, the development of adequate working methods and co-ordination of all law enforcement bodies operating at the borders, the development of risk analysis techniques and strategic approaches to enhance border control, the gradual alignment of the visa system to EU standards.
- ii) **Training:** Support in this area will focus on training border services in the use of modern techniques and material, and in the implementation of risk analysis
- iii) **Investment Support**, notably to gradually equip border crossing points and blue border control centres with the equipment and technical means necessary to efficiently carry out their duties. Investment support will be conditional on the needs assessment operation that will be carried out in the framework of the CARDS 2001 programme. It will also need to underpin/complement institution building/training activities foreseen under this MIP.

Indicators of achievement

- Levels of cross border crime as measured by seizures and arrests
- Adequate risk analysis: number of successful operations against illegal trafficking and illegal migration (land border crossing points, green border, blue border)
- Number of traffickers arrested and prosecuted
- Efficient co-ordination between law enforcement bodies
- Improved facilitation of legitimate commercial and passenger movements resulting in a reduction in clearance and waiting times
- Working procedures and technical means effectively and efficiently used

Conditionality :

- The successful implementation of this programme is conditional on the co-operation of the different services involved in border control, in particular border police, customs services and phytosanitary/veterinary inspection.
- Needs assessment in terms of equipment/technical needs completed.

7.1.3.2 Integrated Border Management – Trade/traffic facilitation

Objectives: To facilitate trade/traffic between Albania and third countries (in particular neighbouring countries, and with other EU and Candidate Countries) notably through i) adequate co-operation/working methods between Albanian law enforcement bodies operating at the borders/entry-outgoing points in Albania; ii) adequate co-operation/working methods between Albanian law enforcement bodies and corresponding bodies in neighbouring countries operating the other side of the border.

Expected Results:

- i) increased levels of regional trade;
- ii) reduced waiting times at border-crossing posts;
- iii) completion of integrated facilities at the major border crossings by 2006.
- iv) enhanced institutional capacities of key agencies involved (border police, customs, phytosanitary/veterinary controls), including co-operation with counterpart agencies in neighbouring countries.

Programmes to be implemented:

EC support has already been provided to improve both the Albanian customs service and specific border-crossings. The Albanian Government has recently signed an agreement with the World Bank to benefit from “Transport and Trade Facilitation” loans.

Proposed activities under this component will include technical assistance, institution building, works and supplies for the development of optimal working procedures, and an upgrading of border crossings. In terms of specific border-crossings, the following may be addressed under the MIP:

- Konispolis border crossing with Greece located on the Saranda-Igouminista road;
- Debar border crossing with FYROM located on the Dibar-Debar road

In addition to the work on specific border crossings, the CARDS Regional Programme will also finance the following interventions (to be implemented nationally): to strengthen the national institutions (primarily customs and veterinary and phytosanitary agencies) involved in processing and handling trade; to address problems which affect trade/traffic (waiting time at the borders) and which require technical/institution building rather than infrastructure-related solutions (eg. co-ordination of closure times at border posts or simultaneous processing by involved agencies); and to improve infrastructure that may, if necessary and most efficient, be located within the country but far from actual borders.

Co-ordination with the World Bank's Transport and Trade Facilitation Programme for South East Europe will be particularly important in the area of trade facilitation and shall be conducted through regular review mechanisms and direct co-operation.

Indicators of Achievement

- Reduced waiting times at the borders
- Increased exchanges of goods
- Increased task-sharing between various law enforcement bodies at the borders
- Increased co-operation between border services of neighbouring countries

Conditionality:

- The successful implementation of this programme is conditional on the co-operation of the different services involved in border control, in particular the border police, customs services and phytosanitary/veterinary inspection.
- Needs assessment in terms of equipment/technical needs completed.

7.1.3.3 Integrated Border Management – particular needs of border regions

Objective: to facilitate regional trade relations through improved sections of the Pan-European-Corridor n°VIII (Durrës-Varna, through Tirana, Skopje and Sofia) or the North-South axis in Albania; ii) to establish the basis for long-term development in Albania; iii) to create better conditions for investment.

Expected Results: i) to contribute to upgrade the standard of roads in Albania up to a level which allow a speed of 80 km per hour and progressively to facilitate the traffic of vehicles meeting technical community standards; ii) to ensure better links between Tirana and other countries in the region; iii) increased trade relations in the region; iv) increased foreign investment.

Programmes to be implemented and type of assistance:

Programmes will include the supervision studies and technical assistance of important transport projects located on the Pan-European Corridor n°VIII (e.g. between Qaf-e-Thanes

and Korce), on the North-South axis (e.g. between Fier and Tepelene), and Ferry Terminal of the Port of Durres. These investments are carried out by other donors (in particular by IEB). All projects detailed designs are already supported by EC Programme 2000.

Indicators of achievement

- number of kilometres of roads supervised
- completion of the Ferry Terminal at Durres Port

Conditionality: It is of paramount importance that the Albanian Authority ensure coherence of the projects within the Albanian National Transport Plan, that strict discipline in expropriation procedures are respected and an urban development plan is in place to protect the road from uncontrolled housing

7.1.3.4 Integrated Border Management – Complementarity and Co-ordination

The funds for integrated border management have been transferred from the regional CARDS envelope, reflecting the key role played by border management in promoting regional co-operation as required under the SAP (see Regional CARDS Strategy).

National implementation permits more effective co-ordination with other linked national CARDS programmes, a greater degree of ownership by the national governments involved and greater efficiency in implementation. While originating from the regional CARDS envelope, these funds will be committed on the basis of annual national Orders for Service and implemented via the national programme's implementation systems in the normal manner as for any other national Cards programme.

With the need for intensive national discussion and strategy development in 2002/2003, it has been decided to backload the financing of integrated border management programmes to 2004. Additional funds have been allocated in 2001, mainly to draft a comprehensive strategy for integrated border management in Albania

7.1.4 Asylum and migration

Background : See item 6.2.1.3 of the Country Strategy Paper for Albania

Objectives: to strengthen the capacity of Albania to develop and implement an asylum and migration policy according to international standards.

Expected results: full alignment of Albania's asylum and migration legislation to international conventions; development of adequate screening and information systems to differentiate economic migrants on their way towards Europe, trafficked persons and asylum seekers; development of procedures for the treatment of asylum seekers according to international rules and best practices; proper implementation of readmission agreements; upgrading of infrastructures to adequately deal with asylum seekers/migrants.

Programmes to be implemented:

The above-mentioned results should be achieved, taking due consideration to activities with regard to Integrated border management, notably, through:

- i) **Institution building support**, notably for the development of systems and working methods according to international standards, including the implementation of readmission agreements.
- ii) **Training** of the relevant Albanian bodies and police on asylum/refugees/migration issues.
- iii) **Investment support**, notably to ensure proper infrastructures for the adequate treatment of asylum seekers/migrants identified within Albanian territory.

Indicators of Achievement:

- Reduction of irregular migratory flows
- Asylum system completed and operational, in accordance with European standards
- Centres for asylum seekers/migrants upgraded and operational
- Readmission agreements being implemented

Conditionality:

Implementation of this programme is conditional on Albanian progress with regard to the gap analysis formulated by UNHCR, in particular the establishment, in co-operation with UNHCR, of the so-called “country teams” within the framework of the Stability Pact initiative on Asylum and Migration.

7.1.5 CROSS-CUTTING THEMES

The assistance provided in the field of Justice and Home Affairs clearly supports efforts made in other areas, notably as regards administrative capacity building, democratic stabilisation and economic and social development. A strengthened judiciary, efficient police, well controlled/efficient borders contribute to the stability and the development of democracy, to the correct implementation of laws by the relevant administrations and law enforcement bodies, to ensure a climate of legal security -which is so necessary for any socio-economic development.

Co-operation standards and procedures in the fields of border control, asylum and migration, as well as international criminal investigation, will be defined and supported at a regional level through the CARDS regional programme.

7.2 ADMINISTRATIVE BUILDING CAPACITY

Introduction

According to the Country Strategy Paper, support for Albania in the area of administrative capacity building should be provided from two perspectives :

1) assistance essentially directed to 1) the development, improvement and implementation of tools/systems necessary to enhance the capacity of the Albanian public administration at large, and to 2) the strengthening of the central public administration institutions in the country;

2) assistance directed at increasing the administrative capacity of specific areas which are particularly relevant for the gradual approximation of Albania to the acquis and essential for the adequate implementation of a future Stabilisation and Association Agreement.

Taking into account the considerable backlog in this area (see table under 4.2 of the Country Strategy Paper for Albania), which mainly concerns public administration issues of horizontal nature under 1) above, this MIP will deliberately focus on assistance to support administrative capacity building in key SAA-related areas, i.e public procurement, competition and state aids, customs, taxation and statistics.

7.2.1 Public Procurement

Background: Implementation and enforcement of public procurement in Albania remains problematic, and a potential source of fraud and corruption. A considerable number of mistakes and irregularities have been identified by the Albanian State Audit Institution in this area. The number of complaints relating to irregularities made during public procurement operations is high, and are not being addressed in time due to a lack of resources. There is a pressing need in Albania to strengthen the Public Procurement Agency, to promote a “public procurement culture”, to improve public procurement-related legislation and to further clarify Albanian procurement rules. Albania will need to address this issue rapidly in order to implement the obligations that would normally derive from a future SAA in terms of alignment of legislation and to ensure fair access of EU firms to public procurement markets in Albania.

Objectives: ensuring alignment of Albanian legislation to the acquis in the field of public procurement; strengthening the Albanian structures in charge of public procurement operations; developing the public procurement culture in Albania; ensuring a significant improvement of public procurement operations and substantially reducing the number of irregularities.

Expected Results:

- i) Albanian legislation in the field of public procurement aligned with the acquis;
- ii) Albanian Public Procurement Agency duly staffed, trained and with sufficient technical means;

- iii) Albanian structures frequently involved in public procurement fully familiarised with public procurement procedures;
- iv) implementation of public procurement according to the law, with a limited number of derogations
- v) substantial reduction of irregularities.

Programmes to be implemented:

The relevant Albanian institutions, and in particular the Albanian Public Procurement Agency, will benefit from institution building support, training and the associated investment support in order that they can carry out the tasks necessary to achieve the expected results outlined above. Institution building & training activities could be implemented through “twinning-like” projects. A major effort will be made to ensure that procedures are well known by institutions & individuals involved in public procurement procedures. To do so, an awareness campaign and continued training provided by the Albanian Public Procurement Agency (once it is itself sufficiently trained) could be envisaged.

Indicators of achievement

- Legislation on public procurement in line with EU standards
- Staff of the Public Procurement Agency substantially increased
- Public Procurement Agency sufficiently trained
- Method to ensure transfer of know-how from the Public Procurement Agency to other bodies involved in public procurement (mainly beneficiary institutions) developed and operating
- Derogations and cases of direct agreement substantially reduced
- Number of irregularities identified substantially reduced
- Complaints rapidly, duly addressed by the relevant bodies.

Cross-cutting themes :

Progress in the area of public procurement will have a direct impact on Justice and Home Affairs-related areas (reduction of fraud and corruption) and the economic area (better use of financial resources; increased confidence in proper implementation of the law)

Conditionality :

- The new law on public procurement, currently under debate in Albania, and further laws aligning public procurement rules to EC standards should be adopted.
- The staff numbers of the Public Procurement Agency should be increased
- Identified cases of corruption and fraud in this area effectively prosecuted

7.2.2 Competition & State Aids

Background: In the framework of a future SAA, Albania will need to take into account the Community requirements in terms of competition and state aids and to refrain from any measures which could adversely affect fair competition. In particular, it should prohibit: all agreements between undertakings and concerted practices which prevent, restrict or distort

competition; abuse by one or more undertakings of a dominant position in Albania; any public aid which distorts or threatens to distort competition by favouring certain undertakings or certain products. Albania should commit itself to ensure transparency in the area of public aid, inter alia, by reporting annually to the EC on the total amount and the distribution of the aid given and by providing, upon request, information on possible aid schemes. Taking into account the lack of tradition, adequate institutions, know-how, and human and technical resources to implement the above-requirements, support in this area is essential.

Objectives: ensuring alignment of Albanian competition legislation with the acquis; establishment of an independent competition office and implementation of the competition legislation; increasing awareness on state aids and developing tools for ensuring adequate monitoring & reporting under a future Stabilisation and Association Agreement and WTO commitments.

Expected Results:

- i) Albanian competition legislation in line with the acquis;
- ii) an independent competition office established;
- iii) competition-related legislation duly implemented
- iv) identification of possible state aids schemes; adequate monitoring & reporting under a Stabilisation and Association Agreement.

Programmes to be implemented:

Programmes in the field of competition should focus on ensuring gradual legislative alignment of the Albanian legal basis to the acquis and setting up the necessary, duly staffed, institutions to implement this legislation. Overall awareness of EC competition policy should be ensured. This is particularly necessary as regards state aids where, in addition to the establishment of the legal basis and the institutional framework, it will be necessary to screen the current Albanian practices in order to identify possible state aid granted by the Albanian authorities. Due attention should be paid to the development of a monitoring & reporting system which would be able to meet the requirements in this area under a future Stabilisation & Association Agreement.

These programmes will combine institution building support and training with associated, limited investment support, in order to ensure the adequate functioning of the competition-related institutions.

Indicators of achievement

- Albanian competition legislation aligned and implemented
- Independent Competition Office established and sufficiently/properly staffed
- List of state aid schemes operational in Albania if any
- Adequate monitoring & reporting systems for state aids operational

Cross-cutting themes :

The development of a competition culture will have a direct impact on future socio-economic development, i.e. increasing the confidence of potential investors.

Conditionality:

- Clear definition by Albania of the future institutional framework for competition & state aid;
- Adequate staff planning for the institutions involved in this area.

7.2.3 CUSTOMS

Background: Although past EC support in this area has proven relatively effective, more can be done in order to achieve further alignment of the Albanian customs legislation to the acquis, to ensure better implementation of legislation, to improve border procedures and to modernise the customs administration in order to be able to better implement its tasks, notably as regards: revenue collection, the fight against trafficking in illicit goods (notably drugs and arms), the fight against counterfeit and pirated goods, implementation of trade-related measures, and supporting the efficient operation of future FTAs. Progressive human resource development and computerisation are key elements in this respect. The provision of a modern computerised system for the management of customs data, documentation and accounting is now a priority. This will enable the Albanian Customs Service to maximise the benefits of the changes already made in operational areas and to target the use of resources more effectively both to detect fraud and to facilitate the legitimate trade.

Objectives: increasing the capacity of the Albanian administration to generate revenue in view of enhancing fiscal sustainability in Albania; enabling trade development; enhancing the customs administration's capacity to fight illegal trafficking including drugs, arms, counterfeit and pirated goods; improving the ability to control the green and blue borders; increasing the ability of the Albanian custom administration to facilitate trade and to ensure adequate implementation of FTAs established by Albania; gradual approximation of the Albanian customs administration to EC practices; improvement in the level of co-operation and co-ordination with other law enforcement bodies, notably police (inc. border police) and taxation authorities; improvement in the level of co-operation with the customs authorities of the neighbouring states and other trade partners.

Expected Results: increased revenue collection through the implementation of adequate customs procedures and gradual establishment of appropriate technical tools (IT); more efficient fight against fraud, illegal trafficking, pirated and counterfeit goods, notably through adequate use of risk analysis techniques; reduction of waiting time at the borders to perform the necessary controls; increased ability to monitor trade flows in order to ensure compliance with trade agreements established by Albania; customs procedures and structures progressively aligned with EC practices (i.e. in line with the Commission-sponsored "Customs Blueprints"); development of effective operational procedures to enhance co-operation nationally with all police services and internationally with customs and tax services.

Programmes to be implemented:

The above-mentioned results should be achieved through an adequate combination of institution building/technical assistance, continued training and investment support. Institution building should support progressive alignment of the Albanian customs procedures to the

acquis, the improvement of working methods so as to increase efficiency and to meet the expected results mentioned above. Institution building activities will be supported by associated equipment, but only if this equipment is essential to perform a given priority task or where benefits from the use of this equipment are evident. Continued training will be necessary to ensure adequate implementation of new, aligned procedures and working methods, and the adequate use of technical means.

Indicators of achievement

- Customs procedures and structures progressively aligned to the acquis
- Increased revenue, taking into account reductions in duty rates, collected by Customs Offices
- Gradual installation and adequate operation by trained staff of IT systems
- Reduction of waiting times at the border for the necessary controls
- Improved trade facilitation
- Increased number of counterfeit and pirated goods identified
- Number of illicit activities and corruption within the Albanian customs administration
- Adequate monitoring and implementation of the provisions of the trade agreements established by Albania.

Cross cutting themes:

Progress in the field of customs will have a direct impact mainly in the area of Justice and Home Affairs (particularly as regards integrated border management and the fight against illegal trafficking) and socio-economic development (ensuring public revenue and building confidence amongst operators/ investors). Coherence with the work done in the context of Integrated Border Management must be ensured, as well as a coherent linkage with the programmes of other donors.

Conditionality:

- No Institution nor Enterprise with a director or manager who has a criminal record or who has been indicted for any felony will be selected to participate in or benefit from this programme.
- All participants in the programme will apply appropriate communication procedures and respect the principle of transparency.
- Coherent linkage with the programmes of other donors will be continuously co-ordinated and monitored.
- All institutions involved will provide the required documentation and access to information necessary for the efficient implementation of the programme.
- Coherence with the work done in the context of Integrated Border Management must be ensured

7.2.4 TAXATION

Background: Despite progress in this area, there is still considerable room for further improvement. Albania needs to sustain its efforts to combat the country's huge grey economy, which constitutes a serious threat to its sustainable development. Moreover, tax evasion remains very high. Control of registered businesses should also be strengthened as tax fraud

practices are still generalised. The upgrading of the tax administration (including local tax offices) should continue. Better training of tax inspectors and further development of IT systems remain important. Progress in this area is crucial as it would contribute to consolidating the fiscal situation of the country, which in turn would help Albania to meet a number of contractual obligations under a future SAA (e.g. establishment of FTAs).

Objectives: to continue to increase revenue collection; to continue fiscal consolidation and fiscal management reform; to enhance the fight against tax evasion and tax avoidance; to improve administration services to tax payers and simplify tax payment and compliance; to improve the level of co-operation with the customs authorities.

These objectives are expected to be achieved mainly through continued training of the tax administration and further computerisation, principally of the Direct Tax Administration

Expected Results: i) increased revenue collection from direct taxation; ii) improved control of tax payers; iii) overall better administration and simplified procedures.

Programmes to be implemented:

Programmes will focus on technical assistance including training for the tax administration. They will also support the gradual implementation of computerisation regarding direct taxation. The programme will therefore include institution building and technical assistance including for IT development and training. Investment support could also be foreseen for the purchase of essential hardware.

Indicators of achievement

- Clear and simple procedures for direct taxation
- Number of tax inspectors trained
- Strategy for computerisation to support direct taxation completed
- Gradual implementation of the direct taxation IT strategy

Cross-cutting themes:

Strengthening of the tax administration will contribute to increased revenue collection, with the subsequent positive impact for the Albanian economic sustainability. It will certainly support trade liberalisation and therefore the adequate implementation of a future SAA.

Conditionality:

- Implementation of the programme is conditional on an action plan being adopted by the Albanian authorities. This action plan will clearly describe on-going international assistance in the field of taxation, in particular as regards means and objectives. It will identify links and synergies between on-going actions and programme(s) covered by this MIP.

7.2.5 Statistics

Background: Starting from scratch, Albania has been aiming at developing, over the last 10 years, a relatively modern statistical system. However, this system still needs to be further strengthened. In particular, the government needs more reliable and timely statistics for broad policy formulation. Private sector development can also be supported through the availability of accurate statistical data. Data collection modes and methods have been improved over the last 5 years but still do not adequately capture economic and social development.

The progress already achieved regarding the macro-economic statistics, the National Accounts System and the population census (a new census supported by the EC has been successfully carried out in 2001) now needs to be consolidated, in particular as far as labour statistics, regular household budget surveys and the development of sample survey systems are concerned. Data collection by means of sampling will require change to the procedures for processing and aggregation. This in turn may require changes in the organisational structure of the National Statistical System. The relationship between the Statistical Office and the Line Ministries and/or governmental institutions needs to be clarified, streamlined, and brought into line with the new reformed data collection protocols and dissemination needs.

Objectives: to produce quality statistics in line with EU and international standards and providing decision makers (private and public, national and international customers) with reliable and accurate figures on the economic and social sphere, including a system of national accounts in line with ESA 95, an agriculture structural survey and labour force statistics; to improve and update data sources (registers, surveys) for statistical production reinforcing data protection, according to new protocols between data producers; to implement the necessary structural changes in the Albanian Statistics Office (INSTAT) in order that it is able to properly implement its tasks; to align Albanian statistics with international standards and particularly with EU ones and conform as much as possible to the European Statistical System.

Expected Results: production by INSTAT of reliable employment and labour market-related statistics; establishment of a system of national accounts in line with ESA 95 standards and production of the main macro-economic indicators in close co-ordination between INSTAT, Central Bank and Ministry of Finance; an agriculture structural survey in line with EU recommendations; continued improvement in the production of statistics and their availability to potential users by launching new sustainable surveys, extending the comprehensiveness and quality of registers (mainly business register); continued institution building applying modern organisational methods in order for INSTAT to better implement its tasks and to ensure an adequate contribution to policy-making and broad dissemination to customers.

Programmes to be implemented:

These programmes will mainly consist of institution building and training. Marginally, limited investment support could be provided where essential for the success of the programmes mainly related to ensuring appropriate data protection, and to set up a modern geographic system for statistical purposes.

Indicators of achievement

- Production of accurate labour-market related statistics on a yearly basis
- Compiling a system of national accounts in line with ESA95
- Presenting new macro-economic indicators
- New procedures for data collection in place, including surveys (agriculture structural survey) and registers (business register)
- Revised structure of INSTAT with enhanced ICT system.

Cross-cutting themes:

Progress regarding the institutional capacity of the statistical office will be an important factor supporting private sector/economic development.

Conditionality:

- Preparation of an action plan for the implementation of each of the specific issues to be covered by this programme.
- Adequate co-ordination with the statistical regional programme must be ensured.

7.3 ECONOMIC DEVELOPMENT

7.3.1 Trade

7.3.1.1 Trade legal and regulatory framework

Background: See item 6.2.3.1 of the Country Strategy Paper for Albania

Objectives: Strengthening the rule of law in the business area through a stable and non discriminatory legal framework in the trade area; Strengthening the ability of the administration to administer a Free Trade Agreement, notably regarding rules of origin, intellectual property and services regulation.

Expected Results: Trade development; Increase liberalisation of commerce and free movement of goods; Better protection and promotion of investment; Increase compliance with high WTO commitments.

Programmes to be implemented:

- Institution building & training support for the main bodies involved in Trade regulatory areas;
- Support the establishment of the Agency of promotion of Foreign Investment as a “one – stop shop service”;
- Support the strategy of promotion of Exports currently under preparation.;

Indicators of achievement

- Number of service regulation conformant with community “acquis”
- Level of Direct Investment in Albania

- Security level for economic activities and trade regulations both in relation with EU and regional partner

7.3.1.2 Norms, technical standards and certification

Background: See item 6.2.3.1 of the Country Strategy Paper for Albania

Objectives: Enhance product quality and export capacity of Albania, and ensure progressive approximation to the *acquis* in this area –as would be required by a Stabilisation & Association Agreement, notably through: gradual adoption and implementation of EC standards; implementation of accreditation and certification procedures in accordance with EC practices; adequate operation of an independent accreditation body; gradual upgrading of institutions involved in the conformity assessment process, including laboratories; gradual development of a market surveillance system in Albania; continued development of quality systems in Albania; increasing public awareness on conformity assessment

Expected Results: substantial increase in the number of EC standards adopted; establishment of structures with the capacity to perform conformity assessment procedures; gradual implementation of a market surveillance system; gradual implementation of EC directives in the field of conformity assessment, including New Approach Directives.

Programmes to be implemented:

The programmes to be developed under the MIP will aim at meeting the above-mentioned expected results. All programmes will comprise institution building & training support for the main bodies involved in the process (National Standards Body, future accreditation bodies, certification bodies, metrology institute, most relevant associated laboratories). Investment support will also be provided, in order to contribute to ensuring that structures involved in the accreditation/certification/market surveillance process (including the most relevant laboratories and the metrology institute) gradually attain the necessary technical means to properly carry out their tasks.

Indicators of achievement

- Increased number of EC standards adopted
- Conformity Assessment structures established and operational
- Conformity Assessment structures better equipped in terms of staff and technical means
- Increased number of producers applying conformity assessment procedures
- Increased exports
- Gradual implementation of EC directives in this area
- Market surveillance system developed and starting its operation

Cross-cutting themes:

Progress in this area will have a direct impact on the overall strengthening of the Albanian administration implementing capacity.

Conditionality

- The implementation of this programme is conditional on the necessary legislative steps to formally separate regulatory, standardisation, accreditation and certification functions. The transposition of Directive 98/34 EC (procedures for the provision of information on technical standards & regulations) is also a condition.

7.3.1.3 Veterinary and Phyto-sanitary control

Background: See item 6.2.3.1 of the Country Strategy Paper for Albania

Objectives: i) to improve export capacity and to ensure necessary control on plant and animal-related imports; ii) gradual approximation of Albanian food safety legislation with the *acquis*.

Expected Results: i) strengthened administrations and laboratories in charge of phytosanitary control; ii) increased export capacity; iii) increased food safety controls; iv) gradual alignment to EC standards in this area.

Programmes to be implemented:

Programmes in this area will combine institution building & training support with the necessary investments at the main border crossing points and clearance points in Albania (i.e. upgrading of installations and laboratories).

Indicators of achievement

- Main entry points to Albania for plant and animal-origin products with adequate installations
- Gradual alignment of food-related legislation
- Tests and controls for export products carried out according to EC norms
- Increased export capacity

Cross cutting themes :

Support in this area is directly related to integrated border management issues and to the overall strengthening of Albania's administrative capacity.

Conditionality:

- Presentation by the Albanian authorities of an Action Plan in this area, including the description of the current situation, main planned steps, timetable, the present and planned Border Inspection Posts (BIPs), the current and planned staff to be allocated to the BIPs

7.3.2 Local Community Development

Background: See item 6.2.3.2 of the Country Strategy Paper for Albania

Objectives: to support local employment through the rehabilitation or construction of public local investments, to increase the level of local basic infrastructure, to improve the living conditions of the population in rural areas and therefore preventing people leaving for Tirana or other major cities. To ensure the sustainability of the public local investments realised. Municipalities in the south will be targeted giving populations there income sources as alternative to the lucrative business of trafficking and smuggling in human beings.

The priorities under the MIP will be: further extension of rural road network and links to the national and regional networks (80% of needs still to be addressed); rehabilitation or construction of reliable water distribution and sewage networks (80% of needs still to be addressed); construction of local retail covered markets (20% of needs still to be addressed) and strengthening of the regional integrated development approach allowing the optimisation in the identification, selection and implementation of the local community development projects.

Expected results: roads (bridges, footbridges, streets, local roads, street lighting) constructed; buildings (markets, schools, health centres, other local community buildings) constructed; rehabilitation of local water network (water distribution network, pumping stations, sewers, water treatment, reservoirs); protection of the environment (dumping areas, flood protection). The relevant feasibility studies should be implemented wherever they are necessary.

Programmes to be implemented:

This programme is essentially investment oriented. Technical assistance will be provided for the preparation of the technical specifications and the follow up during the execution of the various works.

Indicators of achievement

- Km of roads constructed
- Number of new covered markets
- Number of improved water networks
- Number of local infrastructure constructed

Conditionality:

- Presentation by the Albanian authorities of a strategic action plan, which would be the basis for further supporting local community development.
- Local Community Development projects selection shall be co-ordinated in view of favouring synergies among the past and future infrastructure projects (urban and regional development plans, road corridors, water projects) funded by the European Community budget
- Setting up of an urban and region Master Plan must be ensured before launching the programme

7.3.3 Education

7.3.3.1 Support for Vocational Educational Training (VET) reform.

Background: See item 6.2.3.3 of the Country Strategy Paper for Albania

Specific Objectives: to assist the Ministries of Education and Labour in the elaboration and adoption of a medium/long term strategy for the reform of secondary vocational education and continuing vocational education, and to implement subsequent pilot actions.

Expected Results: i) adoption of the medium and long term strategy for secondary vocational education; ii) start implementing this strategy through pilot actions.

Programmes to be implemented:

The assistance will include the development of a VET system reform programme (through consultation with national and regional stakeholders) and lead to the revision of the education and training systems in line with modern European approaches. School mapping should be a critical action in order to reallocate and renew resources, equipment, buildings, and human resources. An institution building programme for relevant public institutions and social partners, will lead to the preparation and adoption of a white paper on strategy for secondary Vocational Education Training (VET) and Continuing Vocational Training (CVT). Study visits to EU countries and training will be organised for key stakeholders in order to become acquainted with the experience and best practice related to training policy implementation. A relevant institution in one of the EU MS will be identified as “twinning partner” and will provide assistance in the transfer of know-how to Albanian authorities. Investment support will be provided for a limited upgrade of school facilities.

The implementation of the above systemic reform will need to address the following problems:

VET schools should concentrate on developing employability. This can be done through an in-depth local Labour Market analysis aimed at providing relevant and reliable data on present and future educational and training needs from the labour market, including a mechanism for ensuring regular updating of collected data.

The above analysis will feed into curricula development, setting occupational standards, and the qualification and certification processes. In particular, the current emphasis on knowledge should be substituted by an emphasis on transferable skills and conceptual understanding. Core skills, including elements of entrepreneurship, learning to learn, foreign languages and IT should be present in all curricula.

An intensive programme of focused actions (seminars, conferences, coaching) to upgrade the training of current teachers and principals should be launched. In-service training should be organised for selected teachers in each pilot school to take a leading role in the introduction of new curricula and new methodology and to support an interdisciplinary approach to the curricula among their school colleagues.

A guidance service should be created in each of the pilot schools in order to help students to choose jobs for which they have aptitudes and interest and in reference to the demand from the productive sector.

In parallel with the upgrading of teacher skills, support should be provided for upgrading teaching equipment in schools. Each VET school should have at least basic minimum access to the Internet, computer facilities, a photocopier etc.

The results will be to have a defined VET policy with full support of key institutions in its implementation.

Indicators of achievement:

- White paper on reform strategy of secondary VET and CVT produced and agreed by stakeholders and ready for implementation.
- Labour market needs assessed
- 12 pilot VET schools selected and schools co-ordinators appointed
- A number of high quality VET curricula developed and implemented
- Teachers and principals trained
- New didactical material produced
- Equipment bought
- Internet access available

Conditionality:

- Presentation by the Albanian authorities of a basic action plan for the development of Continuing Vocational Training in Albania.

7.3.3.2 TEMPUS III

Background: See item 6.2.3.3 of the Country Strategy Paper for Albania

Objectives: to contribute to socio-economic development and the strengthening of the civic society in Albania through the promotion of higher education institutions, in view of the need to improve the quality of academic teaching and learning in line with changing political, economic and social needs.

Expected Results: increased synergy between higher education legislation and policy and reforms at the institutional level; strengthened strategic management capacities of higher education institutions; modernisation of management and administration of the participating higher education institutions; teaching and learning according to revised curricula and study courses in line with changing social and economic needs; improved skills of non-academic staff relevant for public administration reform and civic society development; increased mobility of students and academic staff; closer co-operation and sharing of resources and experience between higher education institutions at a regional level.

Programmes to be implemented:

Programmes will be implemented according to usual Tempus procedures. They will support the so-called “Joint European Programmes”, whose aim is to contribute to the long term development and renewal of the partner countries higher education through co-operative activities between the European Union and partner country higher education institutions. Joint European Programmes (JEP) can focus on one of the following areas: university management, curricula development, institution building, mobility, networking programmes, and regional programmes.

Indicators of achievement :

- Number of JEPs successfully implemented
- Number of short cycle training courses on institution building
- Individual Mobility Grants granted

Conditionality:

- Actions covered by Tempus must be in line with the general framework conditions established by the Tempus guide and the specific country priorities.

7.4 ENVIRONMENT & NATURAL RESOURCES

Background: See item 6.2.4 of the Country Strategy Paper for Albania

Objectives:

- i) continued harmonisation of laws to EU norms and standards with improved enforcement of environmental legislation. In this area, implementation by the Albanian authorities of environment impact assessment procedures is central;
- ii) strengthening of the main Albanian environment-related institutions, particularly of the newly established Ministry of Environment at both policy formulation and logistic level
- iii) extending the monitoring networks of the European Environment Agency to Albania;
- iv) reducing the environmental health risks in the waste and water sectors along with those arising from air pollution. In this context, particular attention should be paid to risks posing a trans-boundary threat. Co-operation with neighbouring states on environmental issues is of paramount importance;
- iv) ensuring adequate urbanisation, in order to prevent Albanian villages and cities sprawling without control and without planning. In this context, the enforcement of the law on urban planning is essential;
- v) increasing overall awareness on environmental-related issues, particularly through supporting NGOs active in this area.

Expected results:

- i) strengthened Albanian environmental institutions, with an increased capacity to implement and enforce environmental law;
- ii) increased public access to credible environmental data; generalised implementation of EIA;

- iii) reduced health risks through improved water quality, waste management and reduced air pollution;
- iv) enhanced regional co-operation on environmental issues; participation in various EU regional initiatives and activities
- v) improved urban planning, taking into account the environmental implications; urban planning law duly implemented.

Programmes to be implemented:

Albanian expertise in environmental issues has been developed through Community assistance to the relevant Government departments and other environmental organisations. Community support has also been provided to extend the monitoring networks of the European Environment Agency to Albania.

Future Community support will focus on:

i) providing continued support to the above-mentioned initiatives, given their importance in supporting the progressive alignment to EC legislation. In approximating to the EU acquis, particular attention should be given to assisting Albania in effectively implementing Environmental Impact Assessment (EIA).

ii) addressing sector-specific issues in the fields of water, waste, soil erosion and air pollution. The specific aim should be to tackle those issues which pose a direct threat to human health or which risk having a trans-boundary impact. Particular attention will be paid to the “hot spots” identified by a recent UNEP assessment⁵ In doing so, sufficient attention will be put on ensuring gradual approximation of the Albanian legislation and structures to the acquis.

iii) supporting overall public awareness and environmental NGOs: in a democratic Albania the pressure for environmental protection will only arise from a general public that is well informed about environmental issues and has access to the decision-making processes that affect their quality of life. Given the current state of environmental civil society in Albania this is one of the main reasons why environmental protection is given a low priority within the national administration. Community support to environmental NGOs should be provided in order to develop this pressure for sustainable development. Particular emphasis should be given to measures that provide for the communication of environmental information and environmental awareness raising.

iv) supporting the environmental cross border co-operation projects that are being developed in the context of the various bilateral agreements with Greece, FYROM and FRY. This could focus on the natural parks and lakes that straddle the borders of the country, as well as the Specially Protected Areas.. Actions to support implementation of the Government's Biodiversity Strategy and Action Plan (BSAP) could be undertaken.

v) ensuring adequate implementation of the urban planning law and improving the design of urban development plans and land use plans, in order to take into account future development and environmental concerns, and to prevent uncontrolled urbanisation.

⁵ Reference to be included

Assistance for each of the above areas would include institution building, training and associated investment support.

Indicators of achievement:

- More effective implementation of environmental laws
- Increased number of infringement cases for breaches of environmental law
- Increased number of sanctions
- Increased penalties for environmental related faults
- Implementation of environmental impact assessments
- Improvement in the monitoring and reporting of environmental data to the standards of the Ministry of Environment.
- Measurable reductions in water and air pollution with improvements in waste management systems.
- Genuine dialogue and co-operation with neighbouring states on environmental protection (particularly biodiversity) and first steps to implement the BSAP
- Implementation of the Urban planning law. Reduction of illegal constructions.
- Increased number of properly approved urban and regional plans, taking due account of environmental and future development concerns.

Cross cutting themes:

Environmental issues have a clear socio-economic impact. Albania should not delay action on this critical issue and should address future development from the “sustainable development” angle and the related principles such as the Polluter Pays Principle, User Pays Principle, Precautionary Principle. Albania should begin to integrate environmental concern into other sectors with Environmental Impact Assessment being a key component in such an approach.

Conditionality:

- The law on environmental protection should be extended to state-owned companies
- New draft Environmental Impact Assessment legislation in line with EC requirements adopted

7.5 DEMOCRATIC STABILISATION

Background: See item 6.2.5 of the Country Strategy Paper for Albania

Objectives: developing and strengthening civil society in order to ensure an enhanced contribution in Albania’s social and political life.

Expected Results: NGOs and other civil society bodies more proactive in Albanian civil and political life; increased co-operation amongst NGOs, and between NGOs and governmental bodies.

Programmes to be implemented:

Support to NGOs might be provided under a micro-projects-type operation, mainly in the areas of: i) democracy, human and civil rights, minorities, non-discrimination; ii) reinsertion of victims of the illegal trafficking of human beings; iii) support to local rural development in remote rural areas; iv) health.

Indicators of achievement:

- Increased number of NGOs active in the country
- Increased co-operation amongst NGOs
- Regular dialogue between governmental and non-governmental bodies available.

Cross cutting themes:

Progress in terms of democracy and civil society will positively affect all other priority areas, as it constitutes the basis for the development of modern societies.

Conditionality:

- Implementation of the new law (adopted in May 2001) governing NGOs
- Establishment by the Albanian Government of a platform aimed at encouraging the development of civil society.

**ANNEXE 1 : MULTI-ANNUAL INDICATIVE PROGRAMME
ALBANIA – 2002-2004**

M€	2002	2003	2004	Total	%
1. JUSTICE & HOME AFFAIRS	21.0	20.0	30.0	71.0	49.4
1.1. Judicial Reform	8.0	6.0	7.0	21.0	14.6
1.2. Police and organised crime	8.0	7.0	10.0	25.0	17.4
1.3. Integrated Border Management	5.0	5.0	13.0	23.0	16.0
1.4. Asylum & Migration		2.0		2.0	1.4
2. ADMINISTRATIVE CAPACITY BUILDING	6.0	7.0	3.0	16.0	11.1
2.1. Public Procurement	3.0			3.0	2.1
2.2. Competition and State Aids	2.0		3.0	5.0	3.4
2.3. Customs		4.0		4.0	2.8
2.4. Taxation		3.0		3.0	2.1
2.5. Statistics	1.0			1.0	0.7
3. ECONOMIC & SOCIAL DEVELOPMENT	12.9	18.5	11.5	42.9	29.8
3.1 Trade	2.0	8.0		10.0	6.9
3.2. Local Community Development	7.4	8.0	7.5	22.9	16.0
3.3. Education (TEMPUS & VET)	3.5	2.5	4.0	10.0	6.9
4. ENVIRONMENT, NATURAL RESOURCES	4.0	0.0	7.0	11.0	7.6
5. DEMOCRATIC STABILISATION	1.0	1.0	1.0	3.0	2.1
<i>Pm – TOTAL ALLOCATION, including € 20 million from Integrated Border Management Regional envelope</i>	<i>44.9</i>	<i>46.5</i>	<i>52.5</i>	<i>143.9</i>	<i>100</i>

ANNEX 2 : Overall EU Assistance in ALBANIA 1991-2000 (MEUR)

(Commitments)

Situation on 12 September 2001

TYPE OF EC ASSISTANCE	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL 1991-00	2001*	TOTAL 1991-00*
OVERALL PHARE ASSISTANCE	10,0	110,0	75,0	49,2	88,0	53,0	68,9	42,5	101,5	33,4	631,5		631,5
CARDS ASSISTANCE												37,5	37,5
 FEOGA													
 (DG Agriculture)		120,0									120,0		120,0
HUMANITARIAN AID													
 (ECHO)		2,0	0,5	1,7	1,2	1,7	16,3	12,0	97,0	3,4	135,6		135,6
 FOOD SECURITY													
 (DG Development)							10,8		5,7		16,5		16,5
MACRO-FINANCIAL ASSISTANCE													
 (DG Economic and Financial Affairs)									20,0		20,0		20,0
DEMOCRACY & HUMAN RIGHTS					1,0	0,6	0,4	0,8	0,2	0,5	3,5		3,5
 OTHER ACTIONS		0,3	0,6	1,1	0,4	n.a.	n.a.	n.a.	2,6	1,9	6,9		6,9
 OSCE ELECTION SUPPORT							1,5				1,5		1,5
 EIB LOANS(1)					29,0			22,0		34,0	85,0	40,0	125,0
TOTAL EU ASSISTANCE	10,0	232,3	76,1	52,0	119,6	55,3	97,9	77,3	227,0	73,2	1020,6	77,5	1098,1

n.a. = not available

* forecast

(1) authorised amount less cancellation Administrative Technical Assistance is not included

ANNEX 3 : OVERALL EC ASSISTANCE BY SECTOR 1991-2000 (MEURO)

PHARE and CARDS by SECTORS	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL 1991-00	2001*	TOTAL 1991-01*
Agriculture		15,0	10,0	5,0		1,7	6,0	6,3	5,2		49,2		49,2
Transport (1)		4,4		21,7	34,0	37,0	23,6	8,0	11,9	18,7	159,3		159,3
Private Sector Development (2)		2,8	7,0	3,0	2,0						14,8		14,8
Health		10,0	6,0	7,0							23,0		23,0
Environment			3,3			0,2	0,7				4,2		4,2
Water						1,3	6,0	14,5	17,9		39,7		39,7
Education (incl. TEMPUS)		1,2	2,5	2,4	4,2	2,5	2,5	0,7	1,6	2,5	20,1	2,5	22,6
Local Community Development					8,5		5,0	3,0	9,7		26,2	10,0	36,2
Public Administration Reform (3)		1,6	1,2	2,6	4,3	8,6	9,7	8,9	11,3	12,2	60,4	24,5	84,9
Aid Coordination (4)				0,5		1,7		1,1	2,0		5,3	0,5	5,8
Financial Sector and Audit							0,5				0,5		0,5
Balance of Payments Support		35,0	35,0		35,0						105,0		105,0
Special Budgetary Assistance							14,9				14,9		14,9
Budgetary Assistance to Kosovo refugees									42,0		42,0		42,0
Phare Humanitarian Assistance	10,0	40,0	10,0	7,0							67,0		67,0
OVERALL ASSISTANCE	10,0	110,0	75,0	49,2	88,0	53,0	68,9	42,5	101,5	33,4	631,5	37,5	669,0

(1) includes Transport, Energy, Telecommunications

(2) includes Privatisation, SMEs, Banking, Tourism

(3) includes Civil Service Reform, Supreme Audit Institution, Police, Statistics, Customs, Judiciary, Approximation of legislation and SAA Preparation,

Asylum & Migration Management, Standards & Certification, Integrated Border Management and Taxation

(4) includes feasibility studies in the 1996 COP and the establishment of a Central Contracting and Financial Unit in the 1999 COP

ANNEX 4 : ACRONYMS

CARDS	Community Assistance for Reconstruction Development and Stabilisation
CBC	Cross Border Co-operation
COP	Country Operational Programme
CSP	Country Strategy Paper
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
EC	European Community
EIB	European Investment Bank
EU	European Union
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GNP	Gross National Product
IFIs	International Financial Institutions
IMF	International Monetary Fund
MIP	Multi-annual indicative Programme
NGOs	Non-Governmental Organisations
PHARE	Assistance Programme for central Europe
SAA	Stabilisation and Association Agreement
SAP	Stabilisation and Association Process
SME	Small and Medium Enterprise
TTFSE	World Bank Transport and Trade Facilitation Programme for South East Europe
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees
US	United States
USAID	United States Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organisation

ANNEX 5: ALBANIA - MAIN ECONOMIC TRENDS

		1997	1998	1999	2000	2001
Real GDP Growth	<i>Percent</i>	-7,0	8,0	7,3	7,8	n.a.
Inflation rate	<i>Average</i>	32,1	20,9	0,4	0,0	n.a.
	<i>End-of-period</i>	42,1	8,7	-1,0	4,2	4.1 ¹
Unemployment rate	<i>Percent of labour force</i>	14,9	17,8	18,0	17,1	13.6 ²
General government budget balance	<i>Percent of GDP</i>	-12,6	-10,4	-11,4	-9,1	n.a.
Current account balance	<i>Percent of GDP</i>	-12,1	-6,1	-7,2	-7,0	n.a.
Foreign debt	<i>Percent of GDP</i>	33,2	28,9	26,5	27,6	n.a.
Debt–export ratio	<i>Percent</i>	312,5	313,3	164,3	146,2	n.a.
Gross foreign debt	<i>Million €</i>	668	780	912	1120	n.a.
Foreign direct investment	<i>Percent of GDP</i>	0,02	0,02	0,01	0,04	n.a.
	<i>Million €</i>	37	40	48	153	n.a.

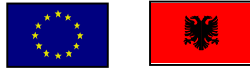
Sources: IMF, National authorities

1 August 2001

2 July 2001

ANNEX 6 : INTEGRATED BORDER MANAGEMENT PARTICULAR NEEDS OF BORDER REGIONS

Action	Location	Co-financing	Cost in MIP 02-04
Qaf-e-Thanes – Podgradec – Korce road	East - West corridor branch of the Pan- European Corridor VIII that leads to Greece	EIB	€ 2.5 M for overall project supervision
Fier – Tepelene road	North – South corridor that leads to Greece	EIB (possible co- financing of EBRD or others)	€ 3.5 M for overall project supervision
Port of Durres Ferry Terminal Building and Yard Infrastructure	This port is the main entry of the Pan- European Corridor VIII (East-West corridor) into Albania. The Ferry terminal is the main source of revenues of the Port of Durres	Ongoing EIB co- financing	€ 1 M for overall project supervision
Technical Assistance and institutional strengthening	TA to improve the legislative framework and TA to support implementation of projects.	No co-financing	€ 3 M for TA
TOTAL			€ 10 M



ALBANIA ROAD MAP - SITUATION OF THE MAIN ROAD CONSTRUCTION PROJECTS BY 06/2001

- █ European Union
- █ WB
- █ Kuwaiti fund
- █ Gov. of Albania
- █ EIB
- █ Italian Cooperation
- █ EBRD (co-funding)
- ◇ Border cros., port