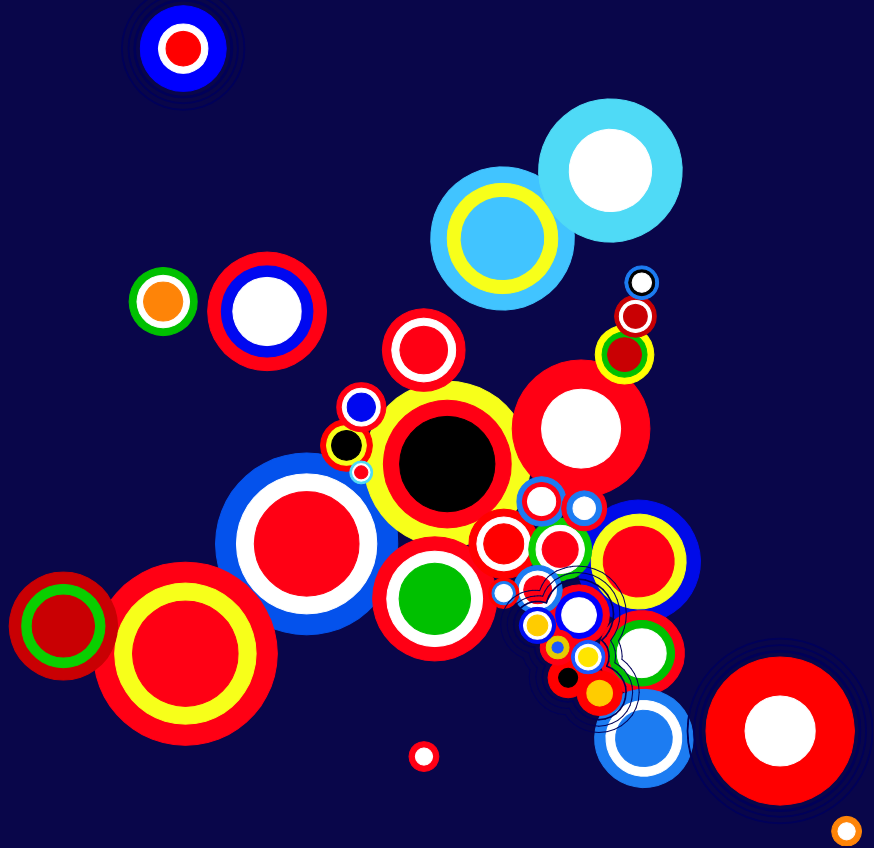




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



INDICATIVE STRATEGY PAPER FOR **ALBANIA** (2014-2020)

ADOPTED ON 18/08/2014

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PART I: INTRODUCTION

1. Purpose

This Indicative Strategy Paper (the Strategy Paper) sets out the priorities for EU financial assistance for the period 2014-2020 to support Albania on its path to accession. It translates the political priorities set out in the enlargement policy framework into key areas where financial assistance is most useful to meet the accession criteria

The Instrument for Pre-accession Assistance (IPA II)¹ is the main financial instrument to provide EU support to the beneficiaries in implementing reforms with a view to Union Membership. Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries listed in Annex I to fulfil the obligations stemming from Union membership by supporting progressive alignment with, implementation and adoption of, the Union *acquis*, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for Union membership and related institution-and capacity-building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

In order to increase its impact, EU financial assistance shall be concentrated on the areas where reforms or investments are most needed to meet accession criteria, and tailored to take into account the capacities of Albania to meet these needs. Assistance shall be planned in a coherent and comprehensive way with a view to best meeting the four specific objectives and address as appropriate the thematic priorities for assistance listed in Annex II of the IPA II Regulation, as well as the thematic priorities for assistance for territorial cooperation listed in Annex III of the same Regulation.

Moreover, EU assistance is only one of the means to achieve the necessary progress. When deciding on priorities for action, due account is taken of the beneficiary's own means as well as of the support provided through other EU instruments and by other stakeholders, in particular bilateral donors or International Financial Institutions. In view of the above aspects, preference shall be given to providing financial assistance under a sector approach, to ensure a more long-term, coherent and sustainable approach, allow for increased ownership, facilitate cooperation among donors, eliminate duplication of efforts and bring greater efficiency and effectiveness.

With a view to delivering on the priorities set for EU financial assistance for Albania for the coming seven years, this Strategy Paper sets meaningful and realistic objectives, identifies the key actions and actors, describes the expected results, indicates how progress will be measured and monitored, and sets out indicative financial allocations. The priorities defined for financial assistance will serve as a basis for the (multi-) annual programming of IPA II funds from 2014 to 2020. The indicative financial allocations allow for an appropriate amount of assistance to remain available as a "reward" on the basis of an assessment of performance and progress over a period of several years but not later than in 2017 and 2020 respectively, as defined in the IPA II Regulation.

¹ OJ L 77, 15.03.2014, p. 11.

This Strategy Paper shall be reviewed at mid-term and revised as appropriate. It may also be revised at any time upon the initiative of the European Commission.

2. Consultation on this Strategy Paper

The Strategy Paper has been developed in close cooperation and partnership with the Albanian government. Furthermore, consultations took place with relevant institutions such as the judiciary, local government, civil society, international financial institutions, international organisations and other donors.

The consultation process included a self-assessment by the Albanian authorities using the sector approach assessment criteria, i.e. the state of play of sector policies and strategies, medium term budgeting, coordination, monitoring and performance assessments. Priorities relevant for the EU integration process were identified on the basis of the progress reports and the EU enlargement strategy. A strategic dialogue with the European parliament has also been conducted. Following the national elections in June 2013, additional consultations took place with the newly elected government.

PART II: ANALYSIS OF THE NEEDS AND CAPACITIES

1. Political and economic context

Albania has a population of 2.8 million inhabitants² with a surface area of 28.750 km² and a coast line of 362 km. It borders Greece, the former Yugoslav Republic of Macedonia, Montenegro, Italy and Kosovo*³.

Albania is a parliamentary democracy. Since the fall of communist rule in 1991 the country has developed gradually its constitutional and legislative framework which is largely in line with European core principles and standards. Local government is founded on the principle of decentralisation and exercises its powers in accordance with the principle of local autonomy.

Albania has a unicameral parliament which is the highest body of state power. The Parliament elects the President of the Republic. Its 140 members are elected by direct, universal suffrage in a regional proportional system every four years. Multi-party elections were held for the first time in 1991. The Democratic Party (DP), the Socialist Party (SP) as well as the Socialist Movement for Integration (SMI) have formed successive government coalitions. There are also smaller parties with significant influence which have been part of these coalitions. Following the June 2013 elections which were won by the Alliance for a European Albania (a coalition composed of the SP, the SMI and a number of other parties) a coalition government was appointed led by the SP with Mr Edi Rama as Prime Minister, and with the participation of the SMI. The President of the Republic, Mr Bujar Nishani, was elected in June 2012 for a five-year period.

Polarisation of the political life and weaknesses in public sector management affect the country's democracy and economy. Public administration is characterised by high

² 2011 population census.

³ * This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

politicisation and risks of corruption, which hamper its professionalism, continuity and effectiveness. The judiciary is equally affected by politicisation and corruption.

The economy of Albania has maintained limited but positive growth during the recent global financial and economic crisis. Gross Domestic Product (GDP) growth decelerated from 3.3% in 2009 to 1.6% in 2012, compared with an average annual growth of over 6% in the period 2003-2008. The current GDP per capita is about 30% of the EU-28 average (in purchase parity standards – PPS). The public debt/GDP ratio was 64% in 2012 and exceeded 70% at the end of 2013, which is among the highest in the region.³ The main contributors to GDP are: agriculture (22.5%), industry (11.4%), construction (10.5%) and services (56%).

Albania's main exports are minerals, fuel and electricity (40.4%), textiles and footwear (28.2%) and construction materials and metals (14.7%). The main trading partner is the EU with a traditional surplus in favour of the EU (EUR 2.5 billion imports against EUR 1.0 billion exports in 2012). Albania's long-standing current account deficit has narrowed from 15% in 2008 to 10.9% of GDP in the context of the 2012 growth slowdown but could rise again to up to 15% in 2016 according to IMF forecasts. The large structural deficit on the balance for goods and services has traditionally been coupled with a substantial net inflow of transfers, particularly of remittances by Albanians working abroad, but the latter have been on a downward trend in recent years. In the past years, Albania has managed to attract relatively high levels of FDI that financed a significant part of the current account deficit.

The overall industrial and trade performance is characterised a lack of competitiveness of the economy. Competitiveness is hampered by deficiencies in the rule of law, including enforcement of contracts, unclear property titles, lack of specialised and skilled labour force, and a large informal economy. According to the Global Competitiveness Report 2012-2013, Albania is ranked in 89th position of 144 countries and in the 123rd position regarding innovation.

In terms of the general socio-economic development, as measured by the Human Development Index (HDI)⁴, the country figures in the 'high human development' category, ranking 70 out of 187 countries and territories in 2012. The unemployment rate is high and on an increasing trend (14 % in 2012 and approximately 17 % at the end of 2013). There is a high prevalence of long-term unemployment and large gender differences in labour force participation. Worryingly, more than 30 % of youths are neither in employment nor education nor training.

About 14% of the population is estimated to be vulnerable to poverty.⁵ The labour market is distorted by a large informal sector. A substantial labour force potential exist with more than 40% of the working age population⁶, essentially women being inactive. The share of youth not in education, training and employment (NEET) is twice as high as in the EU-27⁷. More than three quarters of the unemployed are long-term unemployed.⁸

While Albania remains committed to anti-discrimination policies and gender equality, there are concerns as regards the implementation of equal treatment of Roma and Egyptians; the lesbian, gay, bi-sexual, trans-sexual and inter-sexual population (LGBTI); and women.

³ Source: Eurostat (2013).

⁴ Source: UNDP (2013)

⁵ Source: Albanian Institute of Statistics (INSTAT)

⁶ Source: INSTAT Labour Force Survey, q4 2013

⁷ Source: Albania draft Jobs and Skills Strategy

⁸ Source: European Commission Progress Report 2013

Women are overall under-represented in public life and are discriminated in terms of access to employment, education and property. Domestic violence, despite recent progress, remains a concern.

Albania has considerable investment needs, for instance in transport, environment or energy infrastructure. To illustrate: Albania had in 2011 113 km of roads and 14 km of rail per 100 000 inhabitants which represent 13.8 % and 32% of the EU-27 average of 821 km and 43 km per 100 000 inhabitants of roads and rail respectively. A similar picture exists in other sectors requiring infrastructure investments. In particular, water treatment and waste management are at early stages of their development.

The country is susceptible to effects of climate change, in particular flooding and drought, as well as possible electricity shortages due to a high dependence on hydro-power which requires seasonal energy imports.

2. Context for the planning of assistance

2.1. EU Enlargement Strategy

In 2003, the Thessaloniki European Council confirmed that the future of the Western Balkans, including Albania, is within the European Union. Since 2004 Albania participates in the Western Balkans Stabilisation and Association Process and concluded a Stabilisation and Association Agreement with the EU in 2006. Albania applied for EU membership in 2009. Following a request by the Council the Commission submitted its Opinion on Albania's application in November 2010.

In view of the progress made since then by Albania, the Commission recommended in October 2013 that the Council should grant Albania the status of a candidate country on the understanding that Albania would continue to take action in the fight against organised crime and corruption. For the opening of accession negotiations the Commission found Albania would need to meet key priorities related to public administration and judicial reform (with a focus on professionalism and de-politicisation), fight against corruption and organised crime and reinforcement of protection of human rights, including property rights.⁹ The European Parliament also urged these priorities to be addressed and to consolidate the progress made so far.¹⁰

In June 2014, the European Council granted candidate status to Albania.

Visa liberalisation for citizens of Albania travelling to the Schengen area is in force since December 2010. A readmission agreement between the European Union and Albania is in force since 2005.

The rule of law will remain at the heart of the enlargement process. The full and timely implementation of the relevant strategies and the action plans in the area of rule of law and fundamental rights will be essential in this regard.

The present strategy assumes that Albania will remain committed to its EU integration ambitions, that it will continue implementing relevant reforms and that the process will continue in the period 2014-2020, including the starting of accession negotiations once the country has achieved the necessary degree of compliance with the membership criteria.

⁹ EU Enlargement Strategy and Main Challenges 2013-2014

¹⁰ European Parliament (2013) Resolution on the Albania 2013 progress report, 2013/2879(RSP)

Albania's economic situation requires strengthening of economic governance to progress towards gradually becoming a functioning market economy. In line with the Commission's Enlargement Strategy of October 2013, enlargement countries including Albania are invited to enhance economic policy and its governance through the preparation of annual National Economic Reform Programmes and a Competitiveness and Growth Programme which will be submitted every second year. The National Economic Reform Programmes will lead to country-specific policy guidance on reforms needed for achieving further progress in gradually meeting the economic accession criteria. An integral part of the EU enlargement strategy regarding Albania is public financial management (see further below in part IV, section 1).

2.2. Relevant national/regional strategies

The Government of Albania is preparing a draft National Strategy for Development and Integration (NSDI) for the period 2014-2020. The NSDI provides the strategic framework for all sector and cross-sector strategies and is the backbone of the Integrated Planning System (IPS) – a set of operating principles to ensure that government policy planning, budgeting and monitoring are linked and operate efficiently. The NSDI guides the Medium-Term Budget Programme (MTBP), as well as annual budget allocations, by providing policy objectives which are included in the Ministry of Finance's instructions for the budget preparation by all Ministries and agencies.

Following the establishment of the new government in 2013, a new and comprehensive process for developing the Government's policy priorities was established. This process included identifying priority objectives, carrying out assessments through well-defined indicators, and preparing roadmaps and concrete action plans to be implemented by the line ministries concerned. A “Delivery Unit” at the Prime Minister’s Office implements and monitors the process. The NSDI and sector strategies, as well as a national strategy for EU integration, will subsequently be drafted and are expected to be finalised before the end of 2014. An integrated planning system (IPS) ensures strategic coordination.

Albania's national plans are envisaged to be aligned with several regional integration initiatives. This includes the commitment to the regional South East Europe (SEE) 2020 growth targets. Moreover, Albania participates in the new EU Strategy for the Adriatic and Ionian Region (EUSAIR) which aims at promoting economic and social prosperity and growth in the region by supporting blue growth, improved connectivity of transport/energy networks, better environmental quality and sustainable tourism actions. The strategy also includes, as cross-cutting aspects: capacity-building, communication, research and innovation and SMEs.

Furthermore, Albania also cooperates in the development of a regional transport network in line with the multi-annual plan of the South East Europe Transport Observatory (SEETO). Albania is a signatory of the Energy Community Treaty. Albania has signed the Central European Free Trade Agreement (CEFTA) which prepares the trade policy of the country to meet the standards of EU membership. Finally, Albania participates in the Environment and Climate Regional Accession Network (ECRAN) and the Rural Development Standing Working Group which enhance regional cooperation in the implementation of environmental and agricultural policies.

2.3 Conditions for managing pre-accession assistance

The following elements need to be considered, when looking at Albania's general ability to manage funds in line with EU legislation and best practice:

Sector approach

A functioning sector approach requires the existence of government policies and strategies, medium term budget frameworks, coordination, and monitoring of results and performance assessments. Albania is well positioned to meet these criteria, as it is developing the NSDI 2014-2020 and related sector strategies. The strategies will be complemented by a Medium-Term Budget Plan (MTBP) which outlines the financial framework for the implementation of the sector strategies. Donor coordination is in place through sector working groups coordinated directly by the Deputy Prime Minister's office (see also section 2.4. below). Monitoring and performance assessments are being improved by efforts to strengthening monitoring and the activities of sector working groups which will also consider the dialogue on performance and achievements in the respective sectors.

Indirect management of funds

The conditions are in principle in place for *indirect management* (formerly *decentralised* implementation system): in 2014, the Commission adopted a decision regarding the conferral of management of EU funds to the Albanian authorities for component 1 of IPA I. This accreditation for IPA I is expected to be the basis for *indirect* management of respective programmes funded from IPA II.

Sector reform contracts (sector budget support)

Albania will be eligible for sector budget support, provided that the following four pre-conditions are met: a stable macro-economic framework; a credible programme and relevant to improve public financial management; transparency and oversight of budget; and credible and relevant sector strategies that are consistent with the EU accession strategy.

Albania is well placed to meet these conditions for the following reasons:

1. The macro-economic situation is overall stable and has improved in recent years;
2. With respect to public financial management, the preparation of a credible reform programme is expected to be completed by end-2014;
3. In terms of the transparency of the budget, the medium term budget plan is part of the documentation tabled to Parliament which ensures oversight of the budget, updates to the legislation regarding the functioning of a state audit institution are expected to be in place by mid-2014;
4. Policies and strategies are either in place or are being developed in line with the development of the NSDI mentioned above in section 2.2.

Despite the progress made so far, there is a need for further consolidation and improvements. In particular, there is a need to further strengthen economic growth and reduce public debt. In terms of public financial management, there is a need to further improve revenue forecasts, internal controls, and expenditure management. Albania is committed and has started to address outstanding issues in the context of respective IMF and World Bank agreements in early 2014. IPA II will reinforce these efforts by further supporting public financial management reforms directly, possibly through a sector reform contract (sector budget support), once the eligibility criteria are met. This can provide the basis for reform contracts in other sectors which will be defined later at the time of programming.

2.4. Donor coordination and complementarity with other EU assistance

Albania will ensure that IPA II assistance is integrated in the national development plans and medium term budget framework and is coordinated well with the assistance provided by others. Albania's development and EU integration efforts are supported by over 40 bilateral and multilateral donors¹¹.

This overall donor coordination is under the responsibility of the Deputy Prime Minister with support from the Department of Development Programming, Financing and Foreign Aid (DDPFFA) of the Prime Minister's office. As mentioned above in section 2.2, the strategic framework is provided through the NSDI. The implementation of strategic plans is intended through the medium-term budget programmes which include projections for domestic and donor funded resources to implement the strategies. The coordination of donor funds is therefore embedded in the systems of strategic planning and related budget programmes.

The overall coordination within the Albanian government includes a Strategic Planning Committee as an inter-ministerial committee chaired by the Prime Minister that reviews and endorses the government's policy and fiscal priorities. This involves: (i) setting the policy priorities and strategic directions within a sound fiscal framework at the beginning of the annual planning process; (ii) deciding on the inter-sectoral resource allocation (MTBP preparation ceilings) over the medium term, i.e. 3 years; (iii) reviewing the draft MTBP prior to the preparation of the state budget; and (iv) receiving regular reports on progress against key IPS commitments.

In order to ensure coordination and cooperation among line ministries within specific sectors, a number of inter-ministerial working groups (IMWG) were established. The coordination of activities by the DDPFFA include the maintenance of a project database, the coordination of the meetings of the international donor community, Sector Working Groups (SWGs) and issuing a monthly donor dialogue newsletter. A high-level donor-government dialogue is taking place once per year as 'round table' to focus on aid harmonisation, followed by regular operational meetings. This work is supported by a Donor Technical Secretariat (DTS), composed of four multilateral donor organisations, including the EU and a rotating participation of two bilateral donors. The SWGs are supporting the coordination at sector level and include government, donor representatives and other stakeholders as required. The envisaged 33 groups exchange information focusing on policy coordination, prioritisation of assistance and monitoring of implementation.

In addition to the coordination by the government of Albania, the EU is regularly consulting with other donors, civil society and others (e.g. judiciary), both at the time of preparing the overall strategic approach, as well as for the preparation of annual programmes.

2.5 Consistency with EU policies

Financial assistance to the sectors identified in this Strategy Paper will be granted in line with and in support of the EU enlargement strategy for Albania. It will be shaped to be consistent with EU policies relevant for the respective sectors, in particular with the Europe 2020, the EUSAIR, and the SEE 2020 strategies as EU flagship initiatives to boost growth and jobs and promote smart, inclusive and sustainable growth initiatives as well as the climate policy objectives of the EU. The objectives set until 2020 reflect the level of economic development and Albania's level of preparedness in the accession process.

¹¹ See: http://dsc.al/dsc/Donor_Database_33_2.php

PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY

Albania has policies and strategies in place for reforms and investments which will facilitate its EU accession process. The EU's financial assistance will help to drive these reforms forward, facilitate investments relevant for the accession process and contribute to Albania's socio-economic development.

Clearly, institutional and legislative reforms, as well as investments in the development of infrastructure, require much bigger resources than Albania's national budget, IPA or support from other donors can provide. Prioritisation of efforts is therefore essential and in this respect, the recent EU enlargement strategy for 2013-2014 recognizes the need to address "fundamentals first". Taking into account Albania's own needs assessment as well as the Commission's findings, pre-accession assistance for the period 2014-2020 will focus on governance and the rule of law and competitiveness and growth.

Governance and the rule of law

Governance and the rule of law have been identified in the Commission's progress reports on Albania as well as in Council conclusions as key challenges Albania will have to address on its way to accession. Concerning **democracy and governance**, there is a need to further strengthen democratic institutions in particular the role of the parliament for national consensus building. A key issue to be addressed concerns Albania's public administration, including **Public Administration Reform (PAR)** process and its coordination, policy-making, and civil service and public administration organisation and functioning both at central and local level. Further efforts are needed to depoliticise the public service, ensure continuity, promote ethical standards in the administration, strengthen meritocracy in appointments, promotions and dismissals, and increase its efficiency and financial sustainability. A sound and functioning public administration both at central and local level is a prerequisite for progress in many other sectors, and essential for an increase in investments, both foreign and domestic. Specific measures relating to the judiciary are necessary to improve the business environment and to promote economic growth.

In view of its high public debt (over 70% of GDP at the end of 2013), Albania needs continued support in reforming its **public financial management (PFM)** system. Support will be provided for a phased implementation of a multi-annual PFM programme (incl. a strategy and action plan), covering revenue collection and administration, budget preparation, budget execution with cash management, debt management, public procurement, accounting and reporting, public internal financial control and external audit. The PFM support will be addressed in a joint effort with other international institutions such as the International Monetary Fund (IMF) and the World Bank, who have already launched support measures in early 2014. Improvements in the PFM system will also provide a sustainable basis for economic governance programmes. Furthermore, the statistics systems need further support in order to increasingly perform in line with EU standards.

Civil society needs further strengthening, including capacity building and encouraging of the creation of an enabling environment for its development and greater involvement of stakeholders in reforms, including through greater transparency of government action and spending.

The 2013 Council conclusions underline in particular the need to intensify efforts in the rule of law area. Furthermore, the EU enlargement strategy identifies rule of law as being at the "heart of the enlargement process". For this reason, the EU will support reform efforts in the field of **rule of law and fundamental rights**. Within this area, the recommendations by the Council of Europe's Venice Commission will provide the framework for future support to the justice system. The fight against corruption, especially within judiciary institutions, is a key priority in this regard. **Fundamental rights** of minorities and vulnerable social groups including Roma and Egyptians as well as children require EU support for their improvement. The Albanian government's efforts to establish a clear framework for **property rights** deserves IPA II assistance in consideration of the wide impact that property rights have on issues such as land and credit markets, infrastructure development, and other. Efforts to strengthen the **enforcement of the legislation** need substantial and sustained support, especially regarding the fight against corruption, organised crime, money laundering, trafficking in human beings and of drugs.

Competitiveness and growth

The global economic crisis has underlined the need for Albania to strengthen its economic governance in particular the policies towards competitiveness and growth. In this regard, several related sectors need to be supported:

In the **environment and climate action, transport, and energy** sectors, Albania needs to build further capacities to manage these sectors in order to prepare and enforce policies in line with EU legislation and best practice. In addition, the funding needs for investments are substantial: related to the **environment** sector for example, it is estimated that to comply with the relevant EU directives in the water sector alone, Albania would need investments for over EUR 2 billion; additional infrastructure needs are also estimated to cost over several hundred million euros. Because of the limited availability of financial resources and since the sustainability of investments in these sectors has so far not been fully satisfactory, IPA II assistance will foresee the development of Albanian administration's capacities to operate and sustain such investments, before considering new ones. Concerning **transport**, priorities are to ensure the completion and maintenance of existing infrastructure of the South East Europe Transport Observatory (SEETO) comprehensive network (such as the Corridor VIII), the connectivity to the trans-European transport network, and to address safety issues in all modes of transport.

With regard to the **energy sector**, there is a need for reforms in order to ensure the smooth functioning of the overall system and the good governance of the sector. Funding for energy generation is usually bankable and could be funded by financial institutions. Support to strengthening administrative capacities, alignment with the EU legislation and special efforts needed to resolve problems related to the accumulated debts in the sector, losses and theft, as well as the low bill collections rates will be considered for support.

Climate action represents a cross-sector element that applies to most sectors in the Strategy Paper, notably transport, energy, agriculture and rural development, as well as disaster management. Climate action relevant expenditure will be tracked across the range of IPA II interventions in Albania, in line with the OECD-DAC's statistical markers on climate change mitigation and adaptation.

The low levels of productivity and competitiveness as well as of the living conditions in the rural areas require support within the **agriculture and rural development** sector. A preparation of administrative structures able to provide services and manage funds in line with the EU agricultural policy is required. IPA II support is needed for creating an efficient, sustainable and innovative agro-food sector which is competitive in the EU market and offers

employment, social inclusion and better living standards for farmers and the rural population. Sound implementation of agricultural support measures strengthening business approaches and access to information and markets; food safety, veterinary and phytosanitary services, and controls functioning in line with EU directives, require IPA II assistance with special attention to potential export markets. Additionally, IPA II funding is needed to assist in improving the fisheries sub-sector.

Economic growth needs strengthening in order to foster the **competitiveness and innovation**, through strengthening the innovation capacity in general and in particular through the development of small and medium sized enterprises. Albania's integration in regional and EU markets needs to be enhanced, as well as the contribution of exports to the country's growth. IPA II funding is required to address these needs by supporting the accessibility and demand for business development services, access to finance for SMEs, market integration, and by further developing export markets, including niche markets and tourism. In this context, IPA II might also foresee assistance to the preservation of cultural heritage.

The sector **education, employment and social policies** equally require support, notably for achieving inclusive growth. Beyond informal employment and low participation, there is a need to clearly establish the challenges of the labour market and design relevant capacity building accordingly. Albania needs to improve the quality and relevance of all levels of education and develop its skill base in line with labour market needs. The chances of entering the labour market for women and disadvantaged groups have to be improved. Good governance of this sector needs strengthening. Finally, further consolidation of the regional cooperation and of the good neighbourly relations requires assistance in the area of **territorial cooperation and regional cooperation**.

In addition, IPA support may also be given to unforeseen priority needs relevant to the course of accession negotiations, which do not fall under these sectors. In particular, this may include, but will not be limited to, ad hoc and short-term technical assistance to be supported under the TAIEX instrument and through Twinning. Furthermore, IPA II may continue to co-finance Albania's financial contribution for its participation in Union Programmes and Agencies in the context of the on-going policy dialogue under the relevant sector and accession negotiations chapters.

Finally, while programming IPA II assistance, specific attention will be paid to a number of cross-cutting issues that impact more than one sector and therefore require action across a number of sectors. These include the prevention of and fight against corruption, environmental sustainability and climate action, gender equality, strengthening of democracy, human rights and civil society participation as well as protection of cultural heritage as appropriate.

An indicative financial allocation per policy area and sector resulting from the priorities defined in this strategy paper are set out in Annex 1.

1. Democracy and governance

1.1. Needs and capacities in the sector

In order to clarify the scope of this sector, it should be noted that the sector covers democratic institutions and overall public sector management, including Public Administration Reform (PAR) coordination, policy-making, civil service and public administration both at central and local level; and public financial management (PFM), including revenue collection and administration, budget preparation, budget execution with cash management, public procurement, accounting and reporting, debt management, public internal financial control and external audit. In addition, support will be provided for improving IT interconnectivity and interoperability of customs and tax administrations with EU systems. Furthermore, the sector covers support to statistics and evidence-based policy development and the capacities for progressively adopting relevant EU legislation. Finally, civil society development is part of this sector. The fight against corruption is an important element of public sector performance and is further covered below by the ‘Justice and fundamental rights’ sector.

Previous IPA assistance in the sector was provided for PAR, notably strengthening the capacities in a number of crucial areas such as PFM, including taxation and customs administration, public procurement, external audit, and statistics via tailored interventions of technical expertise. EU support over the period 2007-13 stands at more than EUR 75 million. In terms of activities of other donors, Sweden supports public finance reforms and statistics; Austria supports public finance management reforms incl. taxation policy issues and gender budgeting; and Austria and Switzerland support decentralisation issues; Germany supports public service reform. An Integrated Planning System is being applied with the assistance of the World Bank and with funding from the EU, as well as from Austria, Sweden and Switzerland. Both IMF and World Bank are supporting PFM reforms, focusing on the long-term reduction of public debt.

This sector is still characterised by needs for improvement in democratic consensus building, a low degree of available human resources, a high degree of politicisation and, in general, by an insufficient implementation of the legal framework. Performance based monitoring mechanisms need to be strengthened, while impact assessment mechanisms need to be established, in order to ensure sound implementation of policies, as well as evidence based policy making. These issues are expected to be addressed in an overall PAR strategy which is being developed.

Economic governance and PFM needs further improvements particularly in view of the high level of **public debt**. The need for a PFM reform is recognised, and a comprehensive PFM programme is being developed (see also part II, section 2.3). Structural obstacles to growth, including the judicial and legal environment, need to be also addressed. Specific areas, such as **statistics**, are vital for policy-based decision making. The management of specific sectors such as the **energy** sector needs strengthening. **Civil Society** organisations and media are not sufficiently supporting the democratic political culture and allow citizens to participate in democratic decision making processes in an informed way. In addition, civil society organisations are overly dependent on funding by foreign donors. Civil Society actors and organisations could make a more substantial contribution to addressing many of these challenges through their lobbying, advocacy and oversight activities at national, regional and local level in every sector. They could create demand for enhanced transparency,

accountability and effectiveness from public institutions and facilitate greater focus on the needs of citizens in policy-making.

1.2. Objectives, results, actions and indicators

In order to address the above mentioned challenges, the **objective** of future IPA II assistance in this sector is to strengthen democratic institutions, support the public administration reform process and improve public service delivery for preparation and implementation of national legislation in line with the European standards and best practice. A further objective is to enhance economic governance and support implementation of a comprehensive public financial management reform. Support to civil society aims at further deepening the democratic culture in the country, by developing an enabling environment and strengthening the capacities of the various actors.

The achievement of the following **results** will receive EU support:

- Democratic institutions conform to legal framework and allowing for consensus building to support EU-related reforms;
- A de-politicised, merit-based civil service system with integrity systems and ethical standards is in place;
- Civil service and public administration organisation, coordination, and functioning is fully defined, including competency and responsibility of local governments, for increased capacities in the delivery of services to citizens and businesses;
- Legal predictability and enforcement of laws and court decisions is improved in the interest of businesses and citizens;
- Fiscal stability is improved, including sustainability of public debt;
- Public finances are managed efficiently and sustainably, following implementation of a sequenced public financial management reform programme covering revenue collection and administration, budget preparation, budget execution with cash management, public procurement, accounting and reporting, debt management, public internal financial control and external audit;
- IT interconnectivity and interoperability of tax and customs administrations with EU systems are improved;
- Tax and customs administrations are working in line with the EU rules and have an efficient system in place to fight corruption;
- Market surveillance, focussing especially on product safety and aimed at consumer protection, is improved;
- Decision making processes follow performance based monitoring and quality statistical data collected and analysed in line with the standards of EUROSTAT;
- Sufficient capacities are in place for managing the EU accession process, including for policy development, and preparing and implementing adequate legislation;
- Strengthened role of civil society in democratic processes and increased independence of civil society from foreign donor funds.

The **indicators** to measure the achievement of the objectives will include (see full list of indicators in Annex 2):

- Progress made towards meeting accession criteria (EC);
- Composite indicator (Government Effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB));
- Stock of budget arrears (Deloitte survey);
- Statistical compliance (Eurostat).

Regarding the **action** to be supported, EU assistance will include technical assistance and capacity building for **public administration reform** and for **democratic institutions**, including the parliament the various independent institutions.

As concerns **economic governance**, challenges related to macroeconomic stability and the progress necessary to gradually become a functioning market economy will be dealt with through the existing bilateral surveillance and the resulting country specific **policy guidance**. Implementation of this policy guidance will be subject to an annual cycle of stock-taking, which will clearly identify the gaps that will have to be addressed in order to make further progress towards meeting the economic accession criteria. Based on this policy guidance, annual follow up actions will be prepared in cooperation with providers of technical assistance, in particular through the IMF. Implementation of a sequenced public financial management reform programme will be supported in close cooperation with the IMF and the World Bank in line with their already ongoing lending operations and will include technical assistance to manage the reform efforts.

In the area of **statistics**, a close cooperation with Eurostat is envisaged in order to ensure compliance with EU methodology, as well as assistance for capacity building and surveys. Further strengthening of the **taxation and customs** administrations, in particular on implementation and enforcement of legislation, will be supported in particular on implementation and enforcement of legislation, together with the IT interconnectivity and interoperability with EU systems. Additional specific needs for capacity building and other technical assistance in the administration of other sectors (e.g. energy) will be considered for support.

The development of sustainable **civil society organisations** (CSO) and media freedom will be supported through technical assistance. The support to the enabling environment and the building of capacities of civil society will be provided in line with specific ‘EU guidelines’ for Civil Society development in the enlargement region. The civil society facility will combine both multi-country and national IPA II funds in order to respond to different types of CSOs, needs and sector contexts with a flexible, transparent, cost-effective and results-oriented approach.

In terms of the conditions for **sector support**, as mentioned in Part II, section 2.2, several sector strategies are currently under development which include e.g. the overall public administration reform (PAR strategy), but also more specifically public financial management, statistics, and others. A Strategy for the Integrated Planning System for 2005-2015 has been approved and it covers the modernisation of the policy making and budget planning processes and capacities at central level. Also, the 5-year National Statistics Plan for 2012-2016 has been approved by the Albanian Parliament. In general, there is lack of impact assessment mechanisms, as well as of continuous monitoring and performance assessments. The specific needs in the area of public financial management will be supported through a sector approach in close cooperation with the IMF and the World Bank under the leadership of the Ministry of Finance.

1.3 Type of financing

Assistance will be provided primarily through twinning, technical assistance, supplies of equipment and possibly also through calls for proposals and direct grants to relevant national authorities. **Sector budget support** will be considered to support the PFM and possibly other elements of PAR reforms, provided that Albania meets the conditions for sector budget support. Complementary support to the PAR reform area will be provided from the IPA II multi-country programme through cooperation with SIGMA (OECD) and the Regional School of Public Administration. Economic governance will also be supported under the multi-country programme through cooperation with IMF. In the area of statistics, Eurostat will also continue to provide support to the National Statistical Offices under the IPA II multi-country programme. In the area of customs administration and regional trade, cooperation with the Secretariat of the Central European Free Trade Agreement (CEFTA) will be supported through multi-beneficiary programmes. IPA II may co-finance Albania's contribution for its participation in the relevant Union Programmes; the details will be decided at the time of programming.

1.4 Risks

The **risks** which could affect the achievement of the intended objectives and results are:

- a) The macroeconomic situation could limit the scope for improvements in remuneration, employment, and PFM reform efforts;
- b) A politicisation of civil society and media mitigate their potential role for strengthening the culture of democracy.

Regarding possible risk mitigating measures, it is therefore important to strengthen both (i) the capacities of the Albanian authorities to monitor reform progress and take corrective action, and (ii) the involvement of independent monitoring for recommending corrective action to be taken. With respect to the risks identified above, both the National Economic Reform Programmes (see above in part 2) and the political dialogue on the public administration (see key priorities for the accession process, above section 2.1) are playing important roles. In the area of PFM, EU budget support will directly address the risk related to public debt and thus the PFM reforms.

2. Rule of law and fundamental rights

2.1 Justice and fundamental rights

2.1.1. Needs and capacities in the sector

This sector includes the functioning of the **justice system** in Albania, i.e. the relevant activities of the Ministry of Justice, the judiciary and penitentiary institutions. It includes broader issues such as the protection of **human rights** and the reform process concerning the **property rights**, as well as **media freedom**. It will also address the **fight against corruption** across the public institutions.

Previous IPA assistance focused on key institutional reforms and capacity building of the various judiciary actors, primarily through assistance to the modernisation of the justice system (EURALIUS projects). In addition, a number of infrastructure projects have considerably increased the capacity of the penitentiary system to comply with international standards. The EU stands as a leading donor also in relation to the promotion of human rights as a result of several projects financed under the civil society facility and in the frame of the European Instrument for Democracy and Human Rights. IPA I assistance in the sector amounts to more than EUR 86.5 million. Various donors are providing support in the area of

justice and fundamental rights, e.g. Sweden, Italy, Netherlands, as well as the United States and the United Nations. The World Bank is leading the reform process on property rights. In addition, human rights and anti-discrimination measures receive support from the Council of Europe and the OSCE.

An issue to be highlighted in the sector is a lack of solid analysis of its challenges and, moreover, of possible solutions for its development. Challenges include the clear lack of efficiency and performance of the **judicial system** as a whole, and an uncompleted legislative framework to strengthen the accountability, independence, and efficiency of the judiciary. In this respect, the recommendations of the Council of Europe's Venice Commission will provide the framework for effective actions to strengthen the judiciary power in the Albanian constitutional architecture. Furthermore, the judiciary infrastructure is inadequate and needs upgrading and the education and training systems for the judiciary are insufficient. **Corruption** is prevalent in many areas of public life and constitutes one of the major challenges Albania is facing. The high level of corruption results in a low level of public trust in the judiciary. Deficiencies in the legal and normative framework are conducive to corruption. The track record shows that convictions and proactive investigations in the area of corruption remain low. A holistic approach requires establishing a robust institutional framework that prevents corruption, by improving the inter-agency co-operation and co-ordination, strengthening internal control mechanisms, verification of asset declarations, and control over political party financing. Particular attention needs to be put to tackle corruption in vulnerable areas, such as public procurement, health, taxation, education, police, customs and the local administration. The institutional setup needs to be substantially strengthened, both in terms of staff and in terms of respecting the full independence of law enforcement and judicial bodies dealing with investigations into corruption cases.

The management of **property rights** is a particular concern because of the importance for land and credit markets and their impact on the performance of the economy. Legislation to protect fundamental **human rights** including the rights of women, the disabled, children and minorities such as Roma and LGBTI is not sufficiently in place. Concerns remain over **media freedom** in Albania, and the appointment procedure of the members of the media regulatory authority, the Audio-visual Media Authority, which does not fully guarantee their independence. Finally, Albania risks not meeting the deadline of 2015 for the **digital switch over**.

2.1.2. Objectives, results, actions and indicators

The EU will support Albania with the objective of creating an accountable, independent and efficient justice system which is aligned to EU legislation and best practice.

The specific **results** to be achieved with EU support include the following:

- The overall set-up of the justice system is reviewed, gaps analysed, and areas for improvement are identified in regular intervals;
- Legislation is further enhanced in order to ensure the independence of the judiciary;
- Professionalism is strengthened through merit-based and transparent criteria for appointments of judges, prosecutors and court administrators as well as through evaluations of performance, merit based promotions and court inspections;
- The independence, efficiency, integrity and accountability of the judiciary are strengthened in practice at all levels of the judicial system;
- The duration of proceedings is substantially reduced;

- Full enforcement of judicial rulings is ensured and the system of bailiffs is strengthened and fair;
- The penitentiary system complies with international standards, including specific treatment for different categories of detainees;
- The approach to the fight against corruption has been reviewed and adjusted to increase its effectiveness, including through necessary legislative changes, and fully functioning capacities of the prosecution and law enforcement agencies, as well as through a robust institutional framework to prevent corruption;
- A solid track record regarding successful investigations, prosecutions and final convictions in corruption cases;
- Property rights management is further advanced and in line with the relevant jurisprudence of the European Court of Human Rights;
- A legal framework regarding the protection of human rights in line with EU legislation and international obligations is in place;
- The implementation of anti-discrimination and legislation related to the protection of human rights is enhanced;
- The national strategy for full social and economic integration of the Roma is implemented, including through the Roma facility.

The **indicators** to measure the achievement of the objectives/results will include (see full list of indicators and targets in Annex 2):

- Progress made towards meeting accession criteria (EC);
- Composite indicator Access to Justice (WJP) and Judicial Independence (WEF);
- Composite indicator (Government Effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB);
- Composite indicator Global Corruption (TI) and Control of Corruption (WB);
- Composite indicator Freedom of Press (FH) and Press Freedom (RWB).

In terms of **action**, EU support to the sector will include technical assistance and capacity building for all judicial institutions. On the protection of human rights there might be cooperation with other organisations active in this field in order to strengthen synergies and allow economies of scale of the assistance. In terms of sequencing, it is envisaged to review both the judiciary and the anti-corruption set up before designing further support.

With respect to the conditions for **sector support**, there is an approved justice sector strategy for 2010-2015, which will be revised, while an action plan for the period after 2014 still needs to be drafted. The crosscutting strategy on land property rights has been adopted for 2011-2015 and should be updated. The updated strategies are going to be part of the NSDI 2014-2020. Similarly, it is expected there will be a strategy for the prevention and the fight against corruption. The lead Ministry in the justice sector is the Ministry of Justice. Coordination with the judiciary institutions is essential for planning resources and ultimately achieving results. The budget allocations to the sector have historically been low and it is necessary to substantially increase them.

The area of property rights deserves special attention due to the enormous impact it has on economic development, agricultural development, credit markets, and other. A strategy is in

place, as well as some donor funding from the EU and the World Bank. A separate programme with the World Bank is envisaged to address the needs.

The protection of human rights will be supported through targeted measures, notably stand-alone actions, at least in the first years of IPA II, to better align the country's institutional framework with the EU and other international standards and further improve the protection mechanism of existing bodies (Ombudsman and Commissioner for the protection from discrimination). The promotion of human rights will also be enhanced through ad hoc support to civil society, particularly in relation to access to justice, treatment of detainees and actions such as access to health in favour of vulnerable groups and minorities such as Roma and Egyptians, as well as LGBTI.

As regards Roma inclusion, in accordance with the Enlargement Strategy Paper for 2013-14, IPA II will support and encourage periodic seminars and follow-up activities with rigorous monitoring of implementation of operational conclusions through country monitoring committees. Furthermore, IPA II funding through a Roma 'facility' will finance support measures agreed in the national seminars, with improved cooperation with other international organisations.

In conclusion, there is a prospect to assist the sector, possibly sub-sectors, through a sector approach and possibly sector reform contracts (sector budget support) provided the conditions are met.

2.1.3. Types of financing

The assistance to justice reforms will preferably be through sector budget support if the conditions are met. Before the eligibility is established, service contracts, twinings and other¹² will be used to deliver the assistance. On property rights, there will be close cooperation with the World Bank which is already actively engaged in this area.

Assistance to improve the judicial and penitentiary infrastructure in terms of buildings and equipment will be delivered through works and supply contracts or through sector budget support if possible, provided there is clear commitment to and progress in implementing reforms in the sector and the infrastructure can be operated and maintained. The participation in relevant Union Programmes will be supported and details decided later at the time of programming.

2.1.4 Risks

One **risk** that could affect the achievement of the intended objectives and results are delays due to the limited financial and human resources available to carry out the reform processes. It is therefore important to strengthen both (i) the capacities of the Albanian authorities to monitor reform progress and take corrective action, and (ii) the involvement of independent monitoring for recommending corrective action such as additional capacity building or additional financial support to be taken. In addition, these risks will be monitored through a policy dialogue on the respective key priorities related to corruption and organised crime (see above section 2.1).

2.2. Home affairs

¹² For instance from multi-beneficiary assistance or TAIEX

2.2.1. Needs and capacities in the sector

The focus of this sector is on police cooperation and the fight against organised crime, terrorism and drugs, trafficking in human beings, money laundering, migration and asylum policy, and integrated border management.

IPA support has so far focused on the enhancement of the capacities of the Albanian State Police and other law-enforcement agencies. Assistance has been mostly provided through advisory missions, which have played an important role in the support to the fight against organized crime, corruption and illegal trafficking, as well as the development of the integrated border management. IPA I support also focused on the enforcement of the regulatory framework on anti-corruption and anti-money laundering in order to devise effective tools to fight crime (e.g. seizure of assets). A number of infrastructure projects have also created or upgraded the Police facilities, including the border crossing points. IPA support for home affairs has so far reached the amount of approximately EUR 26.5 million. The US Government is a complementary donor in this area.

Concerning home affairs, the main challenges related to EU integration which need to be addressed by future assistance include the need for more proactive law enforcement and a credible track record of investigations, prosecutions and final convictions, especially in corruption and in organised crime cases. There is a general need for better enforcement of legislation, in particular regarding anti-money laundering, seizure of assets, irregular migration and trafficking in human beings and of drugs.

2.2.2. Objectives, results, actions and indicators

The EU will assist Albania to create an effective and efficient law enforcement system which is able to produce a credible track record in fighting organised crime.

Expected **results** to be achieved with IPA II support include the following:

- A solid track record of continued investigations, prosecutions and final convictions in cases of organised crime;
- Enforcement of anti-mafia and anti-money laundering legislation improved and their effective implementation ensured;
- Integrated Border Management improved including (as regards irregular migration) through enhanced capacities of the border police, improved cross-border and inter-agency co-operation and investments in infrastructure;
- Addressing trafficking in human beings improved;
- More effective action against drug production and trafficking, as well as sustained impact of drug prevention, as well as demand and supply reduction achieved.

The **indicator** to measure the achievement of the expected results include (see Annex 2):

- Progress made towards meeting accession criteria (EC);

The **types of action** will include technical assistance for capacity building and policy reforms regarding law enforcement incl. integrated border management. Assistance will be provided to improve the police and prosecutor offices infrastructure in terms of buildings and equipment, provided that there is a clear commitment and progress in implementing the reforms in the sector and that the infrastructure can be operated and maintained.

With respect to the conditions for **sector support**, the National Cross-cutting Strategy on Fight against Organised Crime, Trafficking and Terrorism for 2013-2020 and the related action plan for 2013-2016 are in place since July 2013. These strategies will be part of the NSDI 2014-2020 as well as a forthcoming National Strategy on Integrated Border Management and the National Strategy on Public Order. The lead Ministry in the home affairs sector is the Ministry of Interior which is responsible for the expenditure programmes of the Albanian State Police. The coordination of the police and other law enforcement agencies, such as the prosecutor's office, the courts, and joint investigation units, needs improvement. Similarly, monitoring and coordination of donors through sector working groups need to be strengthened. Overall, sector approach might be foreseen in the second half of IPA II, provided that the conditions are in place, especially concerning existing strategies as well as coordination and performance monitoring.

2.1.4. Type of financing

The assistance to home affairs related reforms and investment will preferably be through sector budget support if the conditions are met. Before the eligibility is established, service contracts, twinnings and other¹³ will be used to deliver the assistance. The participation in relevant Union Programmes will be supported and details decided later at the time of programming.

2.1.5 Risks

One **risk** which could affect the achievement of the intended objectives and results are the financial and human resources available to carry out the reforms. It is therefore important to strengthen both (i) the capacities of the Albanian authorities to monitor reform progress and take corrective action, and (ii) the involvement of independent monitoring for recommending corrective action to be taken. The political dialogue on the key priorities related to corruption and organised crime (see above section 2.1) will play a role in monitoring the risks and suggesting corrective action.

3. Environment and Climate Action

3.1. Needs and capacities in the sector

This sector covers capacity building, support for the adoption of EU-aligned legislation and infrastructure investments, notably in water, floods and waste management as well as climate change actions.

Previous assistance included different operations (technical assistance, equipment and investments) in order to align the country with the extensive and complex EU regulatory framework and to better shape the policy development. The support first of all focused on the capacity of central and local institutions to enforce the relevant sector legislation and to monitor the level of pollution (air and water). The assistance also included a series of infrastructure projects to build wastewater collection and treatment facilities along the Adriatic coast with the purpose of safeguarding the sea water. Other complementary areas, such as nature protection and climate change, have also received IPA support. Overall, EU assistance over the period 2007-13 amounts to more than EUR 126 million. Various donors provide assistance to the sector; among them IFIs with loans from the World Bank, the EIB,

¹³ For instance from multi-beneficiary assistance or TAIEX

the EBRD, and other donors such as Germany, Italy, Japan, Austria, Sweden, Switzerland and the United Nations.

Important lessons learned from IPA I are that (a) capacity building and investments require a minimum level of human resources in terms of both skill and number; (b) the ownership for EU funded investments is jeopardised if they are not linked to the sector strategies and budgets of the relevant Ministries; (c) that infrastructure development requires strong and efficient coordination between Ministries at central level and with local government institutions; and (d) that land availability for infrastructure construction is a serious constraint in Albania. Moreover, basic conditions in terms of construction permits, land titles and operating and maintaining resources must be met in order to ensure sustainability of the assistance. Finally, future feasibility studies should carefully assess institutional due diligence.

Albania is at a very early stage of alignment with the *acquis* in this sector and the challenges in this sector are still manifold. Priority needs include further development of capacities at both central and local level government for developing and implementing policies. Further alignment with the EU environment and climate policies and legislation is needed, with effective implementation ensured. This includes in particular climate legislation, monitoring, reporting and verification of greenhouse gases emissions; effort sharing decision; fluorinated gases; ozone-depleting substances; vehicle efficiency and fuel quality standards; carbon capture and storage and other relevant legislation.

Investment needs in the water sub-sector are substantial,¹⁴ whilst management capacity constraints exist. Similarly, waste management is underdeveloped with frequent illegal dumps and informal landfills, poor waste collection systems and minimal waste recycling. The operation of several investments, notably in the water sector, which have been supported by IPA I, is not at a satisfactory level yet. Albania is susceptible to climate change, notably flooding and land erosion, at certain times. Since Albania relies heavily on hydropower, erratic rainfall is occasionally causing disruptions in the electricity production. Overall, climate change mitigation and adaptation measures are necessary in these areas.

3.2. Objectives, results, actions and indicators

The assistance in the first period of IPA II (2014-2017) will support Albania with the objective to (a) build capacities for managing the sector in line with EU policies and consolidate earlier efforts and (b) operate and maintain existing and new public infrastructure investments in a sustainable and efficient way. An additional objective is to prepare a pipeline of feasible, mature, and implementable environmental infrastructure investments. In the second period of IPA II (2017-2020), it is envisaged to provide additional support for actual investments in priority areas.

The **results** to be achieved with EU support include the following:

- Environment and climate change policies and legislation are further aligned with EU legislation and best practice and effectively implemented;
- Sustainability of investments through better coordination of relevant stakeholders is improved;
- Sound funding for operating and maintenance expenditures is ensured;
- Pipeline of investment projects in line with the existing master plans established;

¹⁴ At least € 2.4 bn are estimated to be needed to comply with the waste water directive as well as annually € 52 m in operating costs.

- Waste water collection and treatment has increased; In line with the EU legislation the largest agglomerations and environmentally sensitive areas are prioritised;
- A master plan for waste management investments, especially recycling, and a project pipeline for the implementation are available;
- Number of functioning waste management, especially recycling, facilities have increased;
- A single selection mechanism for identifying priority investments in water, flood protection, waste management and climate change, considered for blending IPA II grants with IFI loans, is functioning;
- Climate change mitigation and adaptation strategies and action plans at local, regional and national level developed and implemented.

The **indicators** to measure the achievement of the results will include (see also Annex 2)

- Progress made towards meeting accession criteria (EC);
- Population connected to waste water collection systems (national statistics).

In terms of the **action** to be supported, a differentiation is needed between: (a) development of *policies, legislation, planning and preparation of investments* and (b) the support to implementation of policies and *actual investments*, incl. ensuring their operation and maintenance.

The development and implementation of the environment and climate action policies, as well as the approximation of the regulatory framework with the EU legislation, will be supported through technical assistance, provided via twinning, service contracts, TAIEX and international specialised agencies. The technical expertise will also strengthen the capacities of the central and local institutions to enforce the relevant regulatory measures for the protection of the environment. If needed, the support will also include specific equipment to monitor sector policy benchmarks. Support will also be provided for public awareness raising and meaningful integration of environment into other policy areas such as energy, transport, agriculture.

The preparation of feasible, mature and implementable infrastructure investment projects will be supported through technical assistance for feasibility, appraisal, impact assessment, designs and other studies. It is envisaged that all EU and other donor funding will be included in one single prioritisation and selection process. IPA II funds will primarily be invested for feasibility studies, impact assessments or design studies in order to prepare bankable investments which meet eligibility criteria for funding from IFI or other donors.

In order to ensure that loans are able to address the priority development needs and to speed up investments, considering the limited public resources available, IPA II funds could be provided to co-fund actual investments and combine loans with a limited amount of grant funding. The precise nature of co-funding investments depends on the available resources, the quality and maturity of the proposed projects, the cooperation with other donors, the completion of on-going appraisals and feasibility studies, and on the availability of sufficient funding for adequately operating and maintaining the investments (see above). The preferred modality for delivering assistance is the management of EU funds by the same donor that provides the loan for the investment, in order to maximise the efficiency of the implementation in respect of timing and economies of scale in contracting.

With regards to the conditions for **sector support**, it has to be noted that there are different Ministries, strategies and budgets covering water and waste management. In addition, local

government institutions are responsible for infrastructure at the local level. Water and waste issues should therefore be treated separately in order to reduce the complexity and allow effective management of sector support. Regarding strategies, a National Water Strategy 2011-2017, the Water Investments Master Plan 2011-2026, and the National Waste Management Strategy Action Plan 2012-2025 will be integrated in the new NSDI. In this regard, it is essential to ensure that the sector strategies and action plans are fully in line with the relevant EU policies and requirements of the *acquis*. As mentioned above, the experience from past assistance has shown that the currently allocated resources are not sufficient to cover adequately the operating and maintenance expenses. These shortcomings must be addressed as a matter of priority, before further assistance to actual investments is justified. It is therefore envisaged to support the various Ministries in the first half of IPA II (2014-2020) with a focus on developing the basic elements of a sector approach such as strategy and implementation plan development, budget planning, institutional and organisational development and coordination amongst others. Once the basic elements are in place, it is envisaged to continue the assistance with a more clearly defined sector approach which might include sector reform contracts (sector budget support) as preferred delivery mechanism for the EU assistance.

3.3. Type of financing

Sector budget support is the preferred type of financing in the environment sector, or respective sub-sectors such as water or waste management, if the conditions are met. Before the eligibility is established, service contracts, twinnings and other¹⁵ will be used to deliver the assistance. Regarding investments, a coordinated approach to blending of IFI loans with IPA grants is foreseen through the Western Balkan Investment Framework. The participation in relevant Union Programmes will be supported and details decided later at the time of programming.

3.4. Risks

There is a **risk** that the resources available both in terms of funds and human resources are not sufficient. Therefore the mitigating strategy is to focus on the affordability of new investments and make sure that existing investments as well as new ones are operated and maintained adequately. New investments will only be supported once the basic requirements for adequate management are in place. A close cooperation with IFIs is necessary in order to maximise efficiencies.

4. Transport

4.1. Needs and capacities in the sector

This sector covers capacity building, policy development, legislation approximation, and investments in transport, incl. regional and EU integration of the road, and rail networks, aviation and ports.

Substantial IPA I funds have been mobilised for this sector, with investments on small and medium-scale road infrastructures in cooperation with IFIs, amounting to over EUR 91 million. Significant technical assistance is still provided for preparation of the national legislation in line with the EU regulatory framework, capacity building, and preparation of strategic documents. In addition, IPA I assistance was provided to establish a unified road

¹⁵ For instance from multi-beneficiary assistance or TAIEX

network connecting peripheral communities to the main national and regional transport lines, notably the South East Europe Transport Observatory (SEETO) Corridor VIII (east-west axis from Durres to Pogradec) and the SEETO Route 2 (north-south axis from Shkoder to Tepelene-Gjirokastra). The EU has also financed intersections along these two axes, e.g. the Vlora and Rrogozhina bypasses and supported the construction and upgrading of rural roads. In terms of donor coordination, funds for transport infrastructure development are provided primarily in the form of loans from IFI such as the World Bank, the EIB, the EBRD and also from the bilateral cooperation with Germany and Italy. Some transport projects are funded by the Kuwait fund for Arab Economic Development, the Saudi Fund for Development, the Organisation of the Petroleum Exporting Countries (OPEC) fund for International Development and the Abu Dhabi fund.

In addition to the constraints mentioned above for the environment sector as regards large infrastructure, the transport sector (which has absorbed important investments in the last period) suffers from the limited availability of funds for maintenance. This is a reason of serious concern. It is therefore important that both resources and tools for public financial management, needed for ensuring long term commitments, should be a pre-condition for successful infrastructure investments. Institutional assessments, such as due diligence assessments, of implementing institutions should be included in future feasibility studies. It is essential that planning of transport infrastructure investments is done in line with the priorities identified in the government's strategic plans and the South East Europe Transport Observatory (SEETO) comprehensive network development plans¹⁶. In addition, infrastructure maintenance should be carried out in line with already existing asset management tools and manuals.

The challenges in the transport sector include the already mentioned inadequate allocation of resources for infrastructure maintenance (25% of what is needed). Moreover, Albania has considerable needs for additional investments in line with the SEETO work plans. There is also the need for a definition of clear national priorities for investments. These should include a relatively small manageable number of projects in order to allow a timely completion rather than spreading investments over a big number of projects where a timely completion cannot be ensured. Furthermore, there are specific challenges to further develop transport policies, for instance regarding multimodality, security and safety standards for all modes of transport, urban mobility, the aviation market, and others in line with EU, in particular climate action policies.

4.2. Objectives, results, actions and indicators

Due to the issues of insufficient maintenance of transport infrastructure assistance in the first part of IPA II (2014-2017) will support Albania with the primary objective to further develop transport policies and to maintain and operate existing public infrastructure investments in sustainable and efficient way. In addition, the objective is to create a pipeline of feasible, mature, and implementable infrastructure projects. In the second part of IPA II (2017-2020), it is envisaged to provide additional support for actual investments.

The **results** which are expected to be achieved with EU support include:

- Transport polices and legislation further aligned with EU legislation and best practice;
- Administrative capacity for managing transport policies improved;

¹⁶ See <http://www.seetoint.org/library/multi-annual-plans/>

- Sustainability of investment projects improved through support to realistic maintenance programmes and to the coordination of relevant stakeholders for funding operating expenditures;
- Transport safety is significantly improved, especially regarding roads and aviation;
- Investments in transport infrastructure advanced in line with SEETO network development plan priorities;
- A single selection mechanism established and functioning for identifying priority investments considered for blending IPA II grants with IFI loans in line with the existing transport strategies and plans.

The **indicators** to measure the achievement of the objectives will include (see table 2 in annex 2):

- Progress made towards meeting accession criteria (EC);
- Logistics performance indicator – score (WB).

Regarding the action to be supported, there is a need to differentiate: (a) policy and legislation development and implementation as well as the planning and preparation of investments and (b) the support to maintenance of investments and (c) actual investment.

The development and implementation of the **transport policy**, as well as the approximation of the **regulatory** framework with the EU legislation, will be supported through technical assistance. Technical expertise will also help prepare mature and implementable infrastructure investment projects. It is envisaged that all EU and other donor funding will be included in one **single prioritisation and selection process** for investment projects. IPA II funds will primarily be used for feasibility studies, impact assessments or design studies or other related services in order to prepare bankable investments which meet eligibility criteria for loan funding from IFIs or other donors.

IPA II funds will as well contribute to the setup of programmes for the **maintenance** of investments. However, IPA II funds cannot substitute the obligation of the beneficiary to provide the resources for operating and maintaining the investments. EU assistance might be used to set up the mechanisms and provide co-funding for a limited time with a reduction of the part co-funded by IPA II over time.

In order to ensure that loans are able to address the priority development needs and in order to speed up investments considering the limited public resources available, the provision of IPA II funds will be coordinated in line with the Western Balkan Investment Framework (WBIF) in order to co-fund certain investments and combine the IFI loans with a limited amount of grant funding. In these cases, the preferred modality for delivering the assistance is the management of EU funds by the same donor that delivers the loans, in order to maximise the efficiency of the implementation regarding timing and the use of economies of scale.

In terms of the conditions for **sector support**, it has to be noted that there are different Ministries, strategies and budgets engaged in the transport sector: the Ministry of Transport and Infrastructure is leading in the sector, whilst local government institutions are responsible for infrastructure at the local level. The priority for the first half of IPA II (2014-2020) is to support the various Ministries to develop the basic elements of a sector approach such as, policy and strategy development, budget planning, institutional and organisational development, and coordination, amongst others. Once the basic conditions are met, it is envisaged to continue the assistance with more clearly defined sector approaches which might

include sector reform contracts (sector budget support) as preferred delivery mechanism for the EU assistance.

4.3 Type of financing

Sector budget support is the preferred type of financing in the transport sector, or respective sub-sectors such as rail or road transport, if the conditions are met. Before the eligibility is established, service contracts, twinnings and other¹⁷ will be used to deliver the assistance. Regarding investments, a coordinated approach to blending of IFI loans with IPA II grants is foreseen through the Western Balkan Investment Framework. Road maintenance might be supported through cooperation with other donors, e.g. the World Bank. The participation in relevant Union Programmes will be supported and details decided later at the time of programming.

4.4 Risks

There is a **risk** that the resources available both in terms of funds and human resources may not be sufficient. Therefore the mitigating strategy is to focus on the affordability of new investments and make sure that existing investments as well as new ones are operated and maintained adequately. New investments will only be supported once the basic requirements for adequate management are in place. A close cooperation with IFIs is necessary in order to maximise efficiencies. Due-diligence assessments will be applied thoroughly in project preparation activities.

5. Competitiveness and innovation

5.1. Needs and capacities in the sector

The scope of this sector includes the competitiveness of the economy with a particular focus on SME development and the promotion of tourism, which have a particular potential for growth. This sector is an important element of the EU support to strengthening Albania's **economic governance**, in addition to public administration reform and public financial management mentioned above in section 1.

Support from the IPA I national programme has so far focused on regulatory and competitiveness aspects and advice to develop the SME policy, including technical support to businesses for access to credit. The dedicated amount of IPA I has been EUR 13.4 million. In addition, through multi-beneficiary programmes a range of regional credit facilities have been set up in order to increase investments. With respect to the support of other donors, Italy has created a credit line for SMEs while Germany, Switzerland, the UN and the US are supporting different aspects of SME policy development, capacity building and business support services. Regarding tourism, the EU has so far covered this area through the promotion of cultural heritage and urban requalification in various locations (e.g. in Korca, Elbasan, Shkodra and Berat). In the area of tourism Albania is also receiving technical assistance from Germany, the UN, and from Italy through NGOs.

The main **challenges** with respect to the competitiveness of the Albanian economy are linked with the respect of the rule of law (weak law enforcement especially regarding contracts, concerns with the judiciary and corruption, including in the tax, customs and local administration). There are concerns regarding the security of land titles and land ownership

¹⁷ For instance from multi-beneficiary assistance or TAIEX

and constraints for businesses in getting reliable power supply connections. Limited access to business services and credit is an additional limitation. A poor education and vocational training system with a mismatch between available and needed skills results in a limited human resource capacity. The integration of the Albanian economy into regional and EU networks and markets is limited. The potential of SMEs notably in the tourism industry is underdeveloped. The link between tourism and preservation of natural and cultural heritage and urban requalification could represent an important source for economic growth and development. Further on, Albania needs to improve the business environment by developing access to information via availability of broadband to reduce both the digital divide within the country and the digital gap with the EU. Similarly, Albania needs to increase its efforts to develop research and innovation capacities in order to strengthen competitiveness and growth. With respect to the credit facilities, Albania implements several different 'funds', e.g. a credit line and SME credit guarantee fund¹⁸, an 'export guarantee fund', a 'creative economy fund', an 'innovation fund', a 'competitiveness fund'. The Albania Investment Development Agency (AIDA) manages most of them but a better coordination of these funds is needed.

Finally, Albania needs to further exploit possibilities regarding access to the international gas market to be provided by the Trans Adriatic Pipeline (TAP) which will be constructed to deliver gas from Azerbaijan to Europe passing through Albania.

5.2. Objectives, results, actions and indicators

The EU will assist Albania with the **objective** to enhance the competitiveness of the Albanian economy in particular by developing competitive SMEs, enhancing market integration and the contribution of exports to growth and preparing the country for exploiting possibilities originating from the forthcoming access to the above mentioned gas market.

The following **results** are expected to be achieved with EU support:

- Accessibility and demand for business development services improved;
- Access to finance for SMEs improved;
- Integration of Albania's economy in regional markets enhanced and export markets further developed, incl. tourism;
- Good governance and fight against informality is improved in key sectors such as energy, tourism, culture, etc.;
- Economic possibilities for accessing new gas market are better exploited;
- Albania participates in the EU competitiveness reform programme.

The **indicators** to measure the achievement of the expected results will include (see in Annex 2):

- Progress made towards meeting accession criteria (EC);
- Doing business - distance to frontier (WB).

Regarding the **action** to be supported, business services and access to capital for loans and loan guarantees, will be delivered through the already established **European Fund for South East Europe**¹⁹ and the **Western Balkans Enterprise Development and Innovation Facility**²⁰. With respect to overall policy development, market integration and export development, technical assistance will support Albania to manage the various regional and national funds in support of SMEs, to optimise their impact and to coordinate the funding

¹⁸ Funded by Italy.

¹⁹ With support from the EU

²⁰ With support from the EU

provided by donors. The authorities' capacities will be strengthened to develop and monitor their respective policies and their implementation. The development of the **gas market** will take place in close cooperation with the Energy Community Secretariat.

Furthermore, Albania will prepare a **competitiveness and growth programme**, which will be submitted to the Commission in addition to the macroeconomic and fiscal programme mentioned above in part 2. The Commission will evaluate this programme and issue country specific policy guidance. Such comprehensive approach to competitiveness, in particular coordination of the multiple sectors important for competitiveness (transport, energy, employment, education, etc.) will result in better impact of concrete actions.

With respect to the conditions for **sector support**, a new Business and Investment Development Strategy will be part of the NSDI 2014-2020. The Ministry of Economic Development, Trade and Entrepreneurship (MEDTE) is leading the sector. Some responsibilities in service delivery are allocated to the local government institutions, i.e. municipalities and communes. The coordination of activities and budgets between State level and local government institutions is however not always clear.

Overall, the elements are in place for a sector approach to support the economic development. The financial commitment by Albania is manifested in budget programmes in various Ministries to implement the BIDS and related strategies.

5.3. Type of Financing

Assistance will be provided through twinning, technical assistance, supplies of equipment and investments, including through financial instruments, possibly also through calls for proposals and direct grants to relevant national authorities. Indirect management with other organisations may be suitable. Specific infrastructure projects in this sector may be also funded in coordination with the through WBIF. Sector budget support will be considered, especially to support the ongoing structural reform process, provided that Albania meets the relevant pre-conditions for sector budget support. IPA II may also co-finance Albania's contribution for its participation in the relevant Union Programs for instance Horizon 2020 (research and innovation), and COSME (competitiveness of enterprises and SMEs) once the benefit in Albania's participation has been established in view of the costs.

5.4 Risks

The **risk** to economic development including tourism originates not only from the macro-economic situation in the country but also in the region and major trading partners. For that reason, the EU assistance will consider the diversification of economic activity as an important element of strategic SME development. The assistance to the development of tourism will equally consider the need to adjust to market developments.

6. Education, employment and social policies

6.1. Needs and capacities in the sector

The scope of this sector is are education systems which improve the skill base of the labour force, better social inclusion of the vulnerable population and the development of human resources that are necessary to support growth and development.

Previous assistance has included the development of the vocational education and training system, both in terms of the definition of the policy and the construction and supply of the infrastructure (VET schools). IPA I also supported social inclusion of vulnerable groups and

minorities, in particular Roma and Egyptians, through tailored interventions under the national programme or through actions financed under the civil society facility and in the frame of the European Instrument for Democracy and Human Rights. The overall IPA support over the period 2007-13 amounts to over EUR 24 million. Other donors assisting the sector include Germany, Austria, Italy and Switzerland, which are complementing the government's budget programmes in the area of VET, labour and social policies. Social inclusion is also addressed by several organisations such as the World Bank and the UN.

Despite the progress made, Albania still faces **challenges** in this sector. One key challenge is the further development of the country's human resources, in terms of skills, competences, and qualifications in line with the labour market needs. Improved access to and quality of education and training for young people and adults will need to be linked with economic and regional development goals and eventually increase employment and social inclusion. Enhancing labour market participation notably of women is a further challenge. Albania need to approximate education policies more closely with EU policies, for instance regarding statistics, participating in relevant union programmes such as ERASMUS +, and the implementation of the Bologna reforms to ensure comparability in the standards and quality of higher education qualifications.

Furthermore, the provision of social and health services and infrastructure in support of the disadvantaged population, with particular reference to minority and other groups (e.g. disabled persons), are inadequate. Good governance of this sector is essential. The local government is currently ill-equipped to deal with related tasks. The coordination between State Ministries and local government is insufficient.

6.2. Objectives, results, actions and indicators

The EU will assist Albania with the **objective** to increase the impact of the employment and social inclusion policies in terms of the participation in the labour market and the opportunities for the socially and economically disadvantaged and vulnerable members of society.

The **results** expected to be achieved with EU assistance include:

- Quality and relevance of the education and training system is improved for developing labour force skills in line with Albania's medium-term growth and development prospects;
- Labour market participation and employment is increased, especially for women and youth;
- Marginalised and disadvantaged population are better included in the labour market;
- Adequacy and efficiency of social and health services and their accessibility are improved for the population in need on the basis of objective and transparent criteria, eliminating risks for corruption and other abuses;
- Partnerships between local government institutions and civil society are promoted for delivery of social services.

The **indicators** to be used to measure the accomplishment of the expected results of EU assistance in this area will include (see table 2 in annex 2):

- Progress made towards meeting accession criteria (EC);
- Employment rate of population of 15 to 64 years, total % (Eurostat);
- Employment rate of population of 15 to 64 years, females % (Eurostat);

Regarding the **action** to be supported, EU assistance will address the capacity building and policy reform needs related to the quality and inclusiveness of the human resource development of the country. The EU might further support the consolidation of infrastructure development in the education system, once the conditions for adequately operating and maintaining equipment and infrastructure are in place.

The area of social inclusion requires, in addition to technical assistance, more substantial support in order to improve the living conditions of marginalised and disadvantaged population in line with European standards, in particular for the Roma and Egyptian communities. In that respect, the EU might support reforms needed for improved social services and social housing. Such assistance will be based on the 'Jobs and Skills' sector strategy, and has to be feasible and affordable.

With respect to the conditions for **sector support**, the relevant sector strategies, i.e. the Strategy on Jobs and Skills and the Strategy on Social Inclusion and Protection are expected to be in place in the context of the NSDI 2014-2020. The conditions are in place to develop sector programmes for human resource development and social inclusion respectively. If possible, assistance will be delivered through sector reform contracts (sector budget support).

6.3. Type of financing

Sector budget support will be the preferred type of financing if the conditions are met. Until the eligibility is established, EU assistance will include technical assistance through service contracts, TAIEX or other. Assistance may be implemented in combination with other donors' funding, in particular from IFIs, and might include the cooperation with civil society organisations. Regarding social inclusion and protection, and with an active policy of integration into the labour markets, the EU envisages close cooperation with other donors in the area in order to ensure efficient support for those in need and promote employability, productivity and opportunity. The participation in relevant Union Programmes will be supported and details will be decided at the time of programming.

6.4. Risks

The **risks** related to achieving the intended objectives relate to the available financial and human resources. Close monitoring and reporting should help to mitigate these risks. In addition, there are external factors affecting the employment situation especially for migrant workers who are affected by the economic situation in neighbouring countries. The possibilities to mitigate these risks are limited.

7. Agriculture and rural development

7.1. Needs and capacities in the sector

The scope of this sector includes (a) the ability of the agri-food sector to cope with competitive pressure and market forces and to progressively align with the EU rules and standards, (b) increased resilience to adverse effects of climate change, and (c) food safety, veterinary and phytosanitary policies.

Previous assistance under IPA I included support for the definition of the sector policy, with particular reference to capacity building activities to set up the administrative structures for the future management of the IPA II rural development (IPARD) programmes. Capacities have been consolidated in a learning-by-doing exercise, where the national structures in conjunction with external expertise provided funding for co-financing IPARD-like measures,

i.e. small and medium scale investments in the agro-food sector. IPA I support also focused on capacity building in the area of food safety and veterinary services, incl. improving national and local laboratory infrastructure. Overall, the IPA I support to the sector included close to EUR 90 million. Other donors supporting agriculture and rural development include the World Bank, UN agencies, Germany, Sweden and Italy.

Despite the progress made so far, Albania is still **challenged** by low productivity of agriculture and underdeveloped rural areas. Farmers and agri-business operators are not yet sufficiently prepared to manage the opportunities and challenges originating from the integration in EU agricultural markets and policies. Currently, agriculture is mainly subsistence-oriented and average farm sizes are small due to fragmentation.²¹ The notion of 'farmer' is not sufficiently developed in the legislation. Farming is labour intensive with low levels of labour productivity and efficiency as a result of low level of technological advancement and insufficient adoption of know-how. The overall investment in agro-food sector is limited. Advisory and extension services are weak, and agriculture-related information systems are not well developed (land register, functional farm and animal registers). Further harmonisation with EU legislation in order to optimise the access to EU market opportunities is not yet ensured with respect to food safety, veterinary, and other related areas. The country lags behind in having in place functioning quality policy legislation (organic farming, protection of geographical indications).

Agricultural funding remains limited, compared to the needs of the sector and to other countries in the region. Furthermore, national support measures provide subsidies for actual production rather than promoting competitiveness and facilitating access to credit. The administrative capacity of the country remains low. Albania will need to expand the administrative capacity in order to be able to approximate its legislation and policy instruments to the EU *acquis*.

Neither the public nor producers have adequate knowledge of the environmental and food safety standards in farming and primary food processing. Adherence to environmental standards, e.g. for applying agricultural chemicals, and food safety standards, e.g. regarding facilities to treat animal by-products, remain low. Relevant and functional infrastructure is missing. Additionally, the increased vulnerability of the ecosystems, water supply and infrastructure to climate change affects directly the agricultural production.

Regarding fisheries, there is currently no clear and structured policy to ensure that resources are well managed, illegal and unregulated fishing is controlled and the sustainable production and processing of fish is supported. Food safety standards need to be improved.

7.2. Objectives, results, actions and indicators

EU assistance will support Albania in developing an efficient, sustainable and innovative agro-food sector which is competitive on the EU market and offers employment, social inclusion and quality of life for the rural population.

The **results** expected to be achieved with EU assistance include:

- National structures prepared and entrusted for budget implementation tasks for agriculture and rural development assistance (implementing IPA rural development programmes - IPARD);
- Digital agriculture-related information systems in place, which are well-functioning and dynamic (i.e. continuously updated digital land, farm, and animal registers);

²¹ The average holding size is 1.26 ha, average parcel size is 0.27 ha.

- Quality of agricultural advisory services improved;
- Income generated by women and young entrepreneurs in rural areas increased;
- Resilience to adverse effects of climate change improved;
- Application of environmental and food safety standards in the entire agro-food chain improved especially regarding meat and dairy production as well as products for export;
- Management and protection of fishery resources improved in line with the EU Common Fishery Policy.

The **indicators** which will be used to measure the accomplishment of the expected results will include (see table 2 in annex 2):

- Progress made towards meeting accession criteria (EC);
- Total investment generated via IPA II in the agri-food sector and rural development (DG AGRI).

In terms of **action**, EU support will include technical assistance to continue capacity building of relevant bodies related to agricultural and rural development incl. fisheries. This includes to assisting the country in preparation for implementation of IPARD, extension and advisory services, technical bodies in charge of food safety and quality, agricultural policy formulation, agricultural statistics, information management systems, sustainable production and processing of fish and to improve the food safety standards, as well as fishery sector management.

Of particular relevance for EU support is the administrative capacity for implementing rural development programmes in line with EU policies, incl. sound financial management and to receive accreditation of its management structures. Before the accreditation is achieved, IPA II assistance will be provided to farmers and other agri-business operators as potential end-beneficiaries in order to achieve both viable farming systems and successful participation in a future IPA II rural development programme. The choice of specific actions will be defined at the time of programming.

In terms of the conditions for a **sector approach**, a strategy for agriculture and rural development has been drafted which should be implemented by a programme for rural development in line with EU policies. The administrative structures need further strengthening to ensure successful accreditation. It is envisaged that a fully-fledged Rural Development Programme will be in place during the first part of IPA II (2014-2017).

An operating structure for implementation of pre-accession assistance in the field of rural development has been set up and strengthened over the past years. Staff has undergone substantial training, mainly through technical assistance projects and the use of TAIEX. The institutional and legal framework of the food safety system has been updated. Two mass vaccination campaigns against brucellosis in small ruminants have reduced the prevalence of the disease, while vaccination against rabies has reduced the risks of further spreading the disease not only in Albania but also to neighbouring countries.

Food safety, veterinary and phytosanitary issues will be addressed through stand-alone actions for the first period under IPA II (2014-2017). A full sector approach will be applied subsequently, if conditions will allow.

7.3. Type of financing

The reform and administrative capacity building process will be supported through: twinning, services, and possibly supplies. Grant contracts can be used to support other services. Support might as well be delivered in indirect management by other organisations.

IPA II multi-annual support in the area of rural development shall be provided through measures financed under the Rural Development Programme (IPARD) once the programme is operational. The management of IPARD is done through indirect management by Albania.

7.4. Risks

The **risks** related to political sensitivities and available resources as well as mitigating measures through improved monitoring and reporting also apply to this sector. In addition, there are risks that delays in the reforms of property rights will affect the development of land markets which in turn will limit the access to credit and ultimately the development of agriculture and rural areas.

Furthermore, the continued low awareness in society at large and among economic operators of agro-food related environmental and food safety standards, jeopardises the acceptance of reforms. Raising awareness, whilst being sensitive to the cultural and economic context, will be a possible response to address this risk.

8. Territorial cooperation and regional cooperation

8.1. Needs and capacities in the sector

In the period 2014-2020, the European Union will finance a number of programmes for cross-border territorial cooperation (CBC). The cooperation aims at promoting reconciliation and good neighbouring relations and fostering sustainable local development through increasing chances for improving prosperity in remote and rural border areas which are most often lagging behind economically. Therefore, cross-border programmes seek to address common challenges in the fields of economic competitiveness, social inclusion, protection of environment and cultural heritage and promotion of tourism.

Key lessons learned about territorial cooperation were identified in two interim evaluations in 2010 and 2011 and will be taken on board under IPA II for programmes involving Albania and its neighbours. The institutional framework governing IPA II cross-border programmes will be simplified with a single contracting authority per programme, a single financial envelope per programme, as well as fewer thematic priorities to ensure greater focus and more impact.

Albania will also take part in cross-border programmes with EU Member States and transnational and regional programmes, which will be funded with contributions from both the European Regional Development Fund and IPA II. This is an opportunity for the Albanian applicants (e.g. regional and local institutions, civil society organisations, universities, etc.) to practise with rules and procedures of territorial cooperation initiatives and extend the network of potential partners for regional cooperation activities.

8.2. Objectives, results, actions and indicators

Albania will participate in three IPA II cross-border programmes with other IPA II beneficiaries, notably Montenegro, Kosovo and the former Yugoslav Republic of Macedonia. Each programme focuses on three thematic priorities. Environmental protection, climate change and risk prevention and tourism and cultural and natural heritage are common thematic priorities for the three programmes. The programme with Montenegro and the programme with the former Yugoslav Republic of Macedonia will also focus on competitiveness, business, trade and investment as third thematic priority while the programme with Kosovo will focus on youth and education.

As regards their scope, the specific objectives per thematic priority of each cross-border programme are laid down in a dedicated seven years multi-annual programming document, which has been drafted on the basis of extensive consultation of local stakeholders. The multi-annual programming document foresees indicative budget allocations per thematic priority, defines a set of indicators to measure the impact of the programme, identifies the specific bordering areas, which are eligible for funding, and gives information on the implementation modalities (e.g. calls for proposals).

As regards programmes with Member States, Albania will participate in a trilateral cross-border programme with Italy and Montenegro and in a bilateral programme with Greece. Each of the IPA CBC programmes with Member States will focus on a maximum of four thematic priorities as listed in Annex III to the IPA II Regulation²² to be selected jointly by the countries involved in the programme according to the specific situation of the border region.

During the period 2014-20, Albania will continue to participate in the Mediterranean transnational programme and will also join the new Adriatic-Ionian programme. Both programmes have a rather broad geographical outreach, including several countries, and cover the entire territory of Albania as eligible area for funding.

The Mediterranean programme is based on different thematic areas, notably i) dissemination of innovative technologies and know-how; ii) protection of natural resources and cultural heritage, as well as energy efficiency and renewable energies; iii) maritime safety and accessibility; iv) improvement of territorial governance systems. The Albanian applicants have started to build contacts and networks with international partners under the previous programme. Under the 2014-2020 programmes, the share of participation of Albanian applicants in successful initiatives is expected to increase.

The European Union is in the process to adopt a Strategy for the Adriatic and Ionian region (EUSAIR)²³. Therefore, during the period 2014-2020 the Commission has planned to launch a dedicated transnational programme for this macro region, which will feed the implementation of the strategy. Transnational co-operation projects will focus on the four thematic pillars of the EUSAIR action plan: i) innovative maritime and marine growth; ii) connection across the region; iii) preservation of the environment; iv) increase of regional attractiveness.

²² : (1) promoting employment, labour mobility and social and cultural inclusion; (2) protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management; (3) promoting sustainable transport and improving public infrastructures; (4) encouraging tourism and cultural and natural heritage; (5) investing in youth, education and skills; (6) promoting local and regional governance, planning and administrative capacity building; (7) enhancing competitiveness, business and SME development, trade and investment; (8) strengthening research, technological development, innovation and ICT.

²³ See above, part 2, section 2.2 'Relevant national/regional strategies'

ANNEX 1: INDICATIVE ALLOCATIONS (million EUR)²³ per policy areas and sectors

Albania	2014	2015	2016	2017	2018-2020	Total 2014-2020 (*)	Of which climate change relevant (%) (**)
a. Reforms in preparation for Union membership	78.7	59.9	12.7	74.9	94.3	320.5	
Democracy and governance	157.2				66.3	223.5	
Rule of law and fundamental rights	69.0				28.0	97.0	
b. Socio-economic and Regional development	0	18.0	50.0	0	100.0	168.0	
Environment	34.0				34.0	68.0	66%
Transport	18.0				38.0	56.0	27%
Energy	0.0				0.0	0.0	
Competitiveness and innovation	16.0				28.0	44.0	9%
c. Employment, social policies, education, promotion of gender equality, and human resources development	5.0	0	14.0	0	50.0	69.0	
Education, employment and social policies	19.0				50.0	69.0	
d. Agriculture and rural development	0	9.0	13.0	18.0	52.0	92.0	
Agriculture and rural development	40.0				52.0	92.0	26%
TOTAL	83.7	86.9	89.7	92.9	296.3	649.4	

²³ Any possible differences in figures displayed in policy areas and sectors compared to the annual totals are the effect of rounding to one decimal.

ANNEX 2: INDICATORS AND TARGETS

Table 1a: Context indicators

Indicator	Source	Baseline	Last value	
		2010	year	value
Public debt (% of GDP)	Eurostat	58.52	2012	63.54
Real GDP growth rate (average last three years - %)	Eurostat	3.7 (p)	2012	1.64 (ep)
Unemployment Rate (%)	Eurostat	14,04 (e)	2012	13.92 (e)
GDP per capita at current prices (EUR)	Eurostat	3,106.00 (p)	2012	3,344.00 (ep)
FDI per capita €	Eurostat	276.4	2012	264.5

(e) estimated

(p) provisional

Table 1b: Outcome and impact indicators

Indicator	Source	Baseline	Last value		Milestone*	Target*
		2010	year	value	2017	2020
Composite indicator (average ranking provided by eight external sources: Corruption Barometer, Control of Corruption, Freedom of Press, Press Freedom, Rule of Law, Government Effectiveness, Voice and Accountability, and Regulatory Quality)	DG ELARG	49	2012	44.9		
Progress made in reaching the political criteria provided	ELARG – Progress report					
Progress made on implementation of <i>acquis</i>	ELARG – Progress report					
Progress made in meeting economic criteria	ELARG – Progress report					

* milestones and targets will be provided at a later stage

Table 2: Sector Indicators

Sector	Sub sector	Indicator	Source	Baseline	Last value		Milestone*	Target*
				2010	year	value	2017	2020
Governance and Democracy	Governance and PAR	Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Composite indicator (average of Government Effectiveness, Burden of Government Regulation and Regulatory Quality) – 1 (Worst) - 100 (Best)	World Bank, World Economic Forum	53.20	2012	53.23		
	PFM and public procurement	Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Stock of budget arrears	Deloitte survey commissioned by the Ministry of Finance in Q4 2013	N/A	2013	72.57 billion Lek		
	Statistics	Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Statistical compliance - % 0 (Worst) - 100 (Best)	Eurostat	12% / 18% (2013)				
Rule of law and fundamental rights	Judicial reform	Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Composite indicator (average of Access to Justice and Judicial independence)	World Justice Project, World Economic Forum	53.79	N/A	N/A		
	Fight against corruption and organised crime	Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Composite indicator (average of Global Corruption and Control of Corruption) 1 (Worst) - 100 (Best)	Transparency International, World Bank	33.83	2012	29.90		
	Fundamental Rights	Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Composite indicator (average of Freedom of Press and Press Freedom) 1 (Best) - 100 (Worst)	Freedom House, Reporters Without Borders	35.75	2012	41.72		
	Refugees and	Progress made towards meeting accession	DG ELARG – Progress report					

Sector	Sub sector	Indicator	Source	Baseline	Last value		Milestone*	Target*
				2010	year	value	2017	2020
	Border management	criteria						
Environment		Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Population connected to waste water collection systems	National statistics					
Transport		Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Logistics performance indicator (score) 1 (Worst) - 5 (Best)	World Bank	N/A	2012	2.43		
Competitiveness and Innovation		Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Doing Business - Distance to frontier (score) 1 (Best) - 100 (Worst)	World Bank - Doing Business	63.79	2012	59.46		
Education, employment and social policies		Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Employment rate (15 to 64 years), females (%)	Eurostat	44.4 (e)	2012	49.58 (e)		
		Employment rate (15 to 64 years) total %	Eurostat	53.49 (e)	2012	56.40 (e)		
Agriculture		Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Total investment generated via IPA II in the agri-food sector and rural development (EUR)	DG AGRI					
Territorial Cooperation and Regional Cooperation		Number of involved municipalities	European Commission Management Information System					

*: milestones and targets will be provided at a later stage

(e) estimated