



REPUBLIC OF ALBANIA  
COUNCIL OF MINISTERS

# External Assistance Orientation Document

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## Abbreviations

ADF	Albania Development Fund
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CEB	Council of Europe Development Bank
CFCU	Central Financial Contracting Unit
CoE	Council of Europe
DAC	Development Assistance Committee
DFID	UK Department for International Development
DTS	Donor Technical Secretariat
EAMIS	External Assistance Management Information System
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
EU	European Union
EURALIUS	European Assistance Mission to the Albanian Justice System
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GoA	Government of Albania
GRECO	Council of Europe Group of States against Corruption
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit - German assistance
HAP	Harmonisation Action Plan
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International Finance Institutions
IOM	International Organization for Migration
IPA	Instrument for Pre-Accession
IPARD	IPA Rural Development
IPS	Integrated Planning System
LCDP	Local Community Development Programme
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals
MIPD	Multi Annual Indicative Planning Document
MTBP	Medium Term Budget Programme
NATO	North Atlantic Treaty Organisation
NSDI	National Strategy for Development and Integration
NSSD	National Strategy for Socio-Economic Development
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
OSCE	Organization for Security and Cooperation in Europe
PAMECA	Police Assistance Mission of the European Community to Albania
PBA	Programme Based Approach
PEFA	Public Expenditure and Financial Accountability
PEIR	Public Expenditure and Institutional Review
PFM	Public Finance Management
PIU	Project Implementation Unit
PPR	Programme Policy Review
SAA	Stabilisation and Association Agreement
SIDA	Swedish International Development and Cooperation Agency SIGMA Support for Improvement in Governance and Management
SMEs	Small and Medium Enterprises
SPPS	Support to Public Procurement Systems

SWAp	Sector Wide Approach
SWGs	Sector Working Groups
TA	Technical Assistance
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations International Children's Emergency Fund
UNIDO	United Nations Industrial and Development Organization
UNIFEM	United Nations Development Fund for Women
USAID	United States Agency for International Development
WB	the World Bank
WTO	World Trade Organisation

**Ministries, departments and other government bodies and agencies**

CoM	Council of Ministers
DoPA	Department of Public Administration
DSDC	Department of Strategy and Donor Coordination
INSTAT	Institute of Statistics
KESH	Albanian Power Corporation
MADA	Mountain Area Development Agency
MAFCSP	Ministry of Agriculture, Food and Consumer Protection
MCTYS	Ministry of Culture, Tourism, Youth and Sport
MEFWA	Ministry of Environment, Forestry and Water Affairs
MES	Ministry of Education and Science
METE	Ministry of Economy, Trade and Energy
MFA	Ministry of Foreign Affairs
MI	Ministry of Integration
MoD	Ministry of Defence
MoF	Ministry of Finance
MoH	Ministry of Health
MoI	Ministry of Interior
MoJ	Ministry of Justice
MOLSAEO	Ministry of Labour, Social Affairs and Equal Opportunities
MPWTT	Ministry of Public Works, Transport and Telecommunications
NAIS	National Agency Information Society
SPC	Strategic Planning Committee
TIPA	Training Institute of Public Administration
TRE	Telecommunications Regulatory Entity

## Executive summary

The external assistance orientation document focuses on the role of external assistance in Albania's development, in all sectors. This document is concentrated in the immediate and mid-term priorities to be financed from the external assistance over the period 2008-2009, based on the National Strategy for Development and Integration (NSDI), which was approved by the Decision of the Council of Ministers no. 342, on 12.3.2008. The document also identifies the ways in which government will take on greater leadership on external assistance management .

Despite the significance of external assistance for Albanian GDP, the level of support per capita is the lowest in the region: at 109 €/person/year, it is 25% below the average for the Western Balkans. Total external assistance has been relatively stable at between € 300m and € 350m per year from 2000 to 2007, equivalent to about 4% of GDP and 11% of total public expenditure.

*External assistance currently provides roughly half of total public investment.* In 2000, grants provided 68% of external assistance, but this share has been falling and loans exceeded grants for the first time in 2006.

DAC figures for 2000 - 2005 show that *multilateral and bilateral donors provided similar amounts* of support: the largest multilateral donors are the EC (with 18%) and the WB (17%); and the largest bilateral donors are the US (13%), Greece (8%), Germany (7%) and Italy (5%). The current trend is for the EC, the WB and the European investment banks to expand their assistance.

*There has been wide variation from year to year in the sectoral allocation of support and few clear trends are discernable.* Most evaluations and analysis suggest that donor support is relevant to the national development strategic documents' priorities. Support for Governance and the Rule of Law has received about 25% of all external assistance. Infrastructure (Energy, Transport and Water) has received 32% of assistance and has also benefited from substantial loans. Social sectors (including Education and Health) have received 19% of external assistance and economic development has received 10%.

*The variability of donors support* makes it difficult for government to plan investment and indicates a need for improved orientation.

Albania is one of the fastest growing countries in Europe, although income levels are relatively low. This success is caused partly by successful policy reform and social and institutional development. The high growth also depends partly on high levels of investment, about half of which is private and half public. *Government is using more commercial loans*, but this is limited by the need to manage public debt. External assistance has a comparative advantage over commercial borrowing, particularly for longer term investment and for supporting institutions and human development that combine investment and technical assistance.

Considering the European integration agenda, in order to achieve the EU standards, *it is necessary a continuous growth of external assistance in the coming years.* Given the experience of recent EU accession, the pace of progress towards reaching EU standards in Albania will also depend on the level of external assistance funding, along with domestic budget.

Based on the National Strategy for Development and Integration 2007-2013, the priority sectors where the continuity of the external assistance is needed are:

**Democratisation and Rule of Law.** Democratic Institutions have a high priority in the NSDI, which emphasises the need to bring them up to the standards that will ensure the implementation of the *acquis communautaire*, along with the commitments to the broader development agenda. The government has made a major effort in recent years to refine and consolidate reforms. The EC, European bilaterals and the US have played a lead role in supporting the reforms in this sector. Priorities for donor support include: *building public*

*administration capacity to implement the SAA; justice infrastructure; fiscal decentralisation; civil registry; and modernisation of the police to strengthen border management and the fight against organised crime.*

With regards to the **economic development** in Albania, in recent years government has been focused in creating a suitable environment to attract private investments. Albania has benefited from a wide variety of external assistance for economic development and this has a particularly high priority in donor programming documents. However, it is important that assistance takes place within a common national approach that reflects EU norms and IPA should play a role in defining these approaches. Priorities for donor support include: *continuity of support for the creation of a fair business environment for private investments; to promote SME development, exports and FDI; and consumer protection.*

**Public infrastructure** in Albania has suffered from a serious backlog of neglected investment and maintenance. Infrastructure has received about 60% of all public investment and 50% of external assistance, from a wide variety of donors. Transport and energy have received the large majority of the funding. Donors' support, especially from the larger multilaterals, is expected to be crucial for the development of this sector over the mid term period. Recent EU accession provides some indications of the future trends of donors assistance, focused in particular to the water supply and sanitation. Priorities for donor support include: *completing national and rural road networks; road safety; energy efficiency; management reform in water and sanitation especially at local levels, along with related investment in physical assets; and building effective environmental institutions.*

**Social development** involves building individual capacities, including health and education, and expanding opportunities for citizens from all social backgrounds. International comparisons suggest that government spending in social development is below the levels in most transition countries. Since the management efficiency is still low, external assistance has a critical role in supporting the sector. *The WB is expected to continue its leadership in this sector and build on the experience of the sector-wide approach that has been started in education.*

**Territorial development** (including regional, rural and local economic and agricultural) is a major theme in reaching European standards. There are still considerable disparities between regions in Albania and rural areas are particularly disadvantaged. EC and other donors with relevant experience, have ensured TA and logistical support to help build implementation capacity. Priorities for donor support include: *modernisation of agriculture farm, agrienvironment and rural markets; and implementation of the National Strategy for Regional Development.*

The NSDI envisions that some shifting in allocation between sectors might be required within the next five years, and as a result *external assistance should be programmed by following these tendencies.* Reforms in the democratisation and law enforcement will continue to be on the focus of the government, programme and the financial support for the economic development reforms will continue to grow. Assistance for public infrastructure will need to remain at current high levels of funding in the medium term, but an increasing share of it will be oriented towards investments in water supply and sanitation, and associated environmental management, in line with the normal trends of EU candidate countries. Funding priority for social sector development will remain at current levels. Regional, rural and local development will receive an increasing share of external assistance, in line with normal patterns of EU accession.

Through implementation of the Integrated Planning System the Government is developing improved procedures for coordination and management of the external assistance by increasing its leadership. *Building institutional sustainability* is one of the most important challenges facing external assistance, and this requires continuous commitment by the government and good collaboration and donor support. *The Government appeals to donors to increasingly support sector wide collaboration and Programme Based Approaches wherever possible, in programming, implementation and evaluation, and to use this as a means for increased use of Government systems and better integration with the Medium Term Budget Programme.*

The importance of this is stressed in evaluation reports and in the Paris Declaration on Aid Effectiveness. These would facilitate the work of the government for a better and efficient programming and orienting of the internal and external resources.

DSDC will produce an annual external assistance report in Dec/Jan each year, which will contribute to the mid-term budget planning and will provide a focus for donor collaboration.

# 1. Introduction

## 1.1 PURPOSE

The main purpose of this document is to strengthen government leadership role in the process of external assistance coordination.

This document aims:

- to assist the process of **orienting external assistance towards government priorities**, as defined in the NSDI and in the related mid term and annual budget processes (this orientation affects both the balance of assistance across sectors and the approach taken by external assistance within sectors);
- to assist donors in **programming their assistance** and in defining and managing projects; and
- to assist in the budget process, to ensure that domestic investment and external assistance are coordinated.
- to clarify the impact of external assistance and, hence, the importance of maintaining the assistance.

By synthesising the available evidence on impact, the document aims to highlight lessons about how to improve the impact, effectiveness and efficiency of external assistance.

The database of external assistance is an essential tool for donors and ministries in avoiding duplication of programmes. The annual document reports on the existing external assistance and thereby provides an annual incentive to update and ensure the quality of information that can be used by all stakeholders.

## 1.2 METHODOLOGY AND REPORT STRUCTURE

This report has been prepared by the Department of Strategy and Donor Coordination (DSDC) in consultation with line ministries and donors. The process started with the preparation by DSDC of Ministry Consultation Sheets which identified four key types of information for each ministry: (i) the NSDI priorities; (ii) existing domestic financing; (iii) existing external assistance; and (iv) indicative orientation for future external assistance. The information on the consultation sheet was classified according to the budget programmes in each ministry. The consultation sheets and instructions has been send to the line ministries. The information provided by line ministries provides the core substance of this document and is summarised in chapter 3. This is followed, in chapter 4, by conclusions about orientation across sectors.

The analysis of past trends in external assistance presented in chapter 2 has been undertaken as a desk study in DSDC, collaborating closely with the DTS. Chapter 5 presents orientation on the future management of external assistance, using information provided by the DAC survey supplemented by information from government bodies and discussions with donors.

## 1.3 INTEGRATED PLANNING SYSTEM AND NATIONAL STRATEGY FOR DEVELOPMENT AND INTEGRATION

One of the main objective of the Integrated Planning System (IPS) is greater alignment of external assistance to the strategic priorities and budgeting process of the Government of Albania. The IPS, adopted in November 2005, is a set of operating principles to ensure that

government policy, planning and implementation take place in a coherent, efficient and integrated manner. Two processes are the cornerstones of the IPS:

- A long-term strategic planning process, the **National Strategy for Development and Integration (NSDI)** (2007-2013), which establishes national strategic priorities and goals. The NSDI offers a long-term vision for national development as well as a medium-term time horizon for policy planning. It synthesises medium- to long-term sector and crosscutting strategies.
- A medium-term budgeting process, the **Medium-Term Budget Programme (MTBP)**, which requires each ministry to develop between March and June a three-year plan within an expenditure ceiling to achieve policy objectives as intermediate steps to the achievement of the NSDI goals. The ceilings for the first year are allocated in further detail during the annual budget process, which takes place between July and October.

Both processes accommodate fully the following parallel planning processes:

- The Government Programme, which was presented to Parliament in September 2005, in agreement with the constitutional obligation.
- Integration into the EU and NATO: in particular, they embody all the measures included in the National Plan for the Implementation of the Stabilisation and Association Agreement (SAA) (which is updated annually) and the NATO Membership Action Plan.
- Public investment management, which – under a new set of procedures implemented for the first time in 2007 – is an integral part of the MTBP.
- External assistance, in particular the government efforts to optimise the use of foreign aid in agreement with the commitments of the March 2005 Paris Declaration.

The NSDI succeeds the National Strategy for Socio-Economic Development (NSSED), which was the main government strategic document until 2006. The NSDI is fully linked into the regular planning process in the respective ministries, including the MTBP process. Sector and cross-cutting strategies are the reference documents of the MTBP and the preparation and updating of sector strategies is the central feature of the NSDI process. While sector strategies are expected to be updated whenever there is a significant shift in policy, the NSDI is not expected to be updated. However, a review of the state of the implementation of the NSDI will take place on an annual basis at the beginning of the MTBP planning cycle to inform the preparation of initial sector ceilings.

## **1.4 PARIS DECLARATION ON AID EFFECTIVENESS**

The effectiveness of external assistance has been a pre-occupation of governments and their donors for many years. The Paris Declaration on Aid Effectiveness of March 2005<sup>1</sup> represents a commitment by all parties to identify the main common issues involved and to provide a permanent resolution to these issues. Albania endorsed the Paris Declaration on Aid Effectiveness together with 107 countries and 26 international organisations. The Paris Declaration contains 56 commitments that are linked to five core principles: 'Ownership', 'Alignment', 'Harmonisation', 'Managing for Results', and 'Mutual Accountability'.

The government is committed to take leadership in effective management of external assistance, which is viewed as essential in order to meet the medium and long term commitments of the government towards integration into the European and Euro-Atlantic structures, including successful fulfilment of standards and criteria as set out in the SAA and the NATO Membership Action Plan.

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<sup>1</sup> [http://www.oecd.org/document/18/0,3343,en\\_2649\\_15577209\\_35401554\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/18/0,3343,en_2649_15577209_35401554_1_1_1_1,00.html)

The 2006 Survey on Monitoring of the Paris Declaration (launched in May 2006 and based on 2005 data)<sup>2</sup> established a baseline against which improvements in aid effectiveness will be monitored. The 2006 Survey identified challenges and priority actions for both the government and donors in order to meet the 2010 targets. The government is committed to take leadership in making progress against the priority actions identified, including taking forward the 2008 Survey on Monitoring the Paris Declaration (which will be launched in the first quarter of 2008 and use 2007 data). The 2008 Survey will identify progress made since 2005. The results of the survey will contribute to the Accra High-Level Forum on Aid Effectiveness in September 2008.

The Paris Declaration is partly driven by the monitoring of comparative indicators of progress. Information on these indicators is collected from the government and donors using an agreed standard methodology. A standard questionnaire provides data on indicators 3 to 10, whilst indicators 1, 2, and 11 are based on World Bank qualitative assessments. Albanian Coordinators for the 2006 Survey are representatives of DSDC and Ministry of Finance. The Donor Technical Secretariat (DTS) served as donor focal point and coordinated donor input. This arrangement will be used again for the 2008 Survey. A Harmonisation Action Plan will be produced in 2008, when the final report of the 2008 Survey is published.

The main results, challenges, and priority actions identified can be summarised as follows:

- 'Ownership' - effective leadership over development policies and strategies, and coordination of development actions: The overall assessment was moderate. Challenges identified were the limited integration of various strategies and plans. Priority actions identified were the completion and implementation of the NSDI 2007-2013.
- 'Alignment' - donors base their overall support on national development strategies, institutions, and procedures: The assessment concluded that alignment is relatively weak. Challenges identified were the uncoordinated system of reporting and recording of external assistance. Priority actions identified were the continued implementation of public finance management and procurement systems reforms.
- 'Harmonisation' - donors' actions and activities are more harmonised, transparent and collectively more effective: The assessment concludes that efforts to improve harmonisation have been limited and there is substantial room for improvement. Challenges identified were the limited use of a Programme Based Approach (PBA) and priority actions for donors - with government leadership - to better coordinate their missions and share country analytical work.
- 'Managing for Results and Mutual Accountability' - donors and partner countries manage resources, improve decision-making, and are accountable for development results: The assessment gave a low scoring on reporting and assessment systems and public awareness of government strategies. Priority actions identified were the establishment of a country level monitoring and evaluation system as part of the NSDI 2007-2013, and the development of a Harmonisation Action Plan, which covers both donor and government commitments and actions.

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<sup>2</sup> 2006 Survey on Monitoring the Paris Declaration - Albania, Volume 2 (Country Chapters), OECD/DAC 2007 ([www.oecd.org/dac/effectiveness/monitoring](http://www.oecd.org/dac/effectiveness/monitoring))

## 2. Recent trends in external assistance

This chapter presents recent trends in external assistance based on the following data.

- Data for grants and concessional loans up to 2005. These are taken from the Organisation for Economic Cooperation and Development (OECD)/Development Assistance Committee (DAC) database for the years up until 2005, which is the last year for which official data is available. This data is therefore classified as Official Development Assurances ODA<sup>3</sup>, and is consistent with data in Paris Declaration documents and other international aid reporting. The data is for disbursements and is based on the official information provided by donors to OECD/DAC each year.
- External assistance after 2005. The second main source of information is the donor database maintained by the Donor Technical Secretariat (DTS), and recently been fully managed by DSDC. Estimates on external assistance for year 2006 and 2007 are based on the donor database assuming that disbursement occurs equally through the life of the project. The database aims to cover all ongoing projects, all those projects that are programmed and some projects that have been recently completed.
- Non-concessional loans. ODA covers only loans with a grant element of over 25%, and does not include loans that are provided on more commercial terms. The main sources of non-concessional external assistance are the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the Council of Europe Development Bank (CEB). Analysis of the MoF debt database shows that several bilateral donors have also provided some of their loans on non-concessional terms. DAC reports the total value of non-concessional assistance<sup>4</sup> and these figures are used up until 2005. While after 2005, the figures of the donor database are used for non-concessional loans. Furthermore Sectoral breakdown of non-concessional loans is also taken from the donor database.

### 2.1 OVERALL TRENDS IN EXTERNAL ASSISTANCE

Total external assistance during the period 1990 - 2007 has amounted to around €5.3 billion, of which 67% has been in grants, 24% in concessional loans and 13% in non-concessional loans. External assistance in Albania started in 1990 and grew rapidly, followed by a decline in the mid 1990s. The sharp increase in external assistance in 1999 was mainly in the form of emergency aid as a response to the Kosovo crisis. Since 2000, external assistance levels have remained steady at between €300 - 350 million per year. In the last four years, an increase in non-concessional loans has compensated for a steady decline in grants and concessional loans.

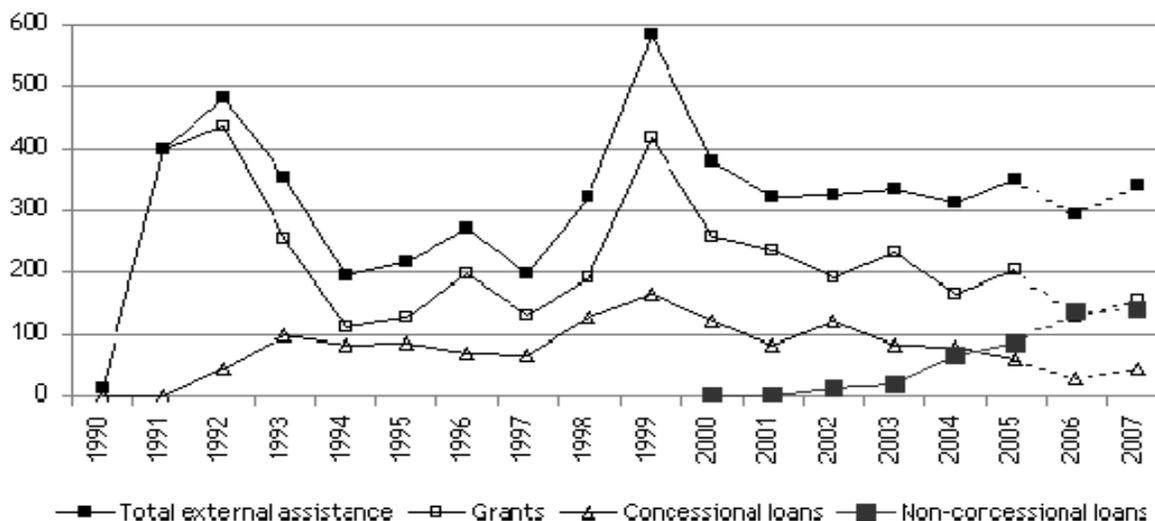
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<sup>3</sup> Figures on external assistance for 1990 - 2005 refer to net ODA disbursements and non-concessional assistance, from the OECD/DAC database on annual ODA aggregates. ODA is defined as grants or loans which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms (if a loan, having a grant element of at least 25%) (OECD/DAC 2007). ODA is reported on annually by all DAC donors. DAC data are reported in US\$ and are converted to Euro using the exchange rate for the year. These figures may differ from those compiled in the donor database and those reported on by donors in the 2006 survey.

<sup>4</sup> The majority of non-concessional assistance reported by DAC is loans, although there are also some other items, including export credits.

Figure 2.1 Total external assistance, grants and loans 1990-2007 (€ million)

Source: OECD/DAC for 2000-05; GoA best estimates from donor database for 2006 and 2007.



Albania has received lower levels of external assistance in per capita terms during the period 2000 - 2005 compared to neighbouring countries with similar income levels<sup>5</sup>.

Table 2.2 External assistance and GDP per capita per year, average 2000-05

	External assistance per capita (€)	Population (million)
Albania	109	3
Bosnia-Herzegovina	171	4
FYRO Macedonia	136	2
Serbia	177	8

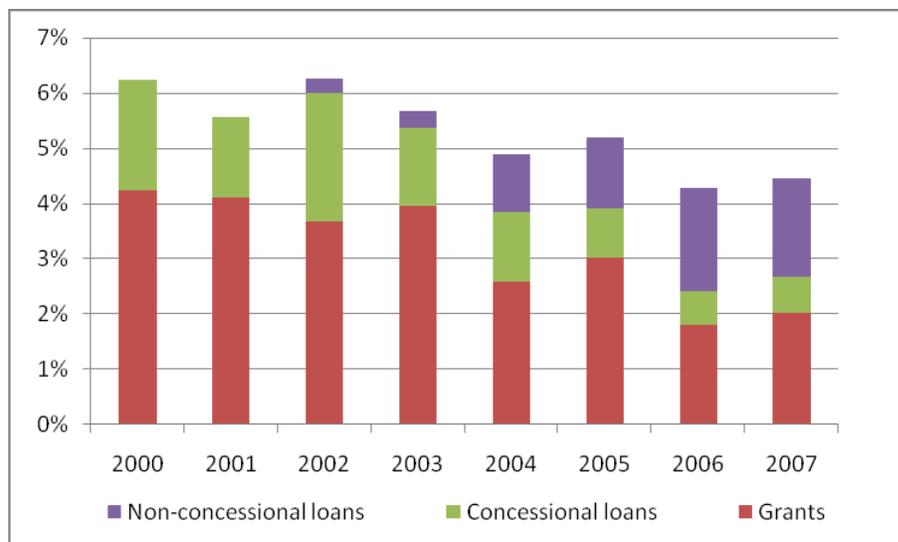
Source: OECD/DAC (2007) and World Development Indicators (WDI) (2007)

## 2.2 EXTERNAL ASSISTANCE AND THE ECONOMY

Since 2000, the ratio of external assistance to gross domestic product (GDP) has declined. This is mainly due to the increase in GDP (which has averaged around 6% since 2000), rather than a decline in external assistance levels. In 2007, the estimated ratio of external assistance to GDP was 4.5 %.

<sup>5</sup> These countries are all classified as lower middle income countries (LMIC) (OECD/DAC, 2007).

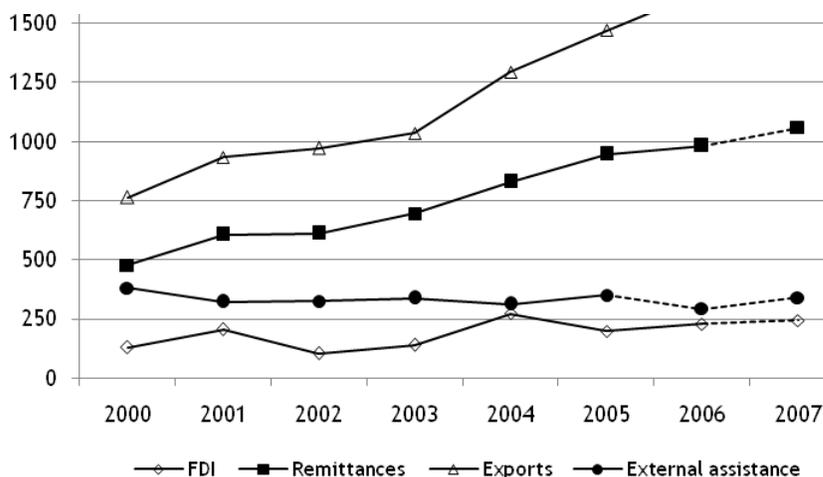
Figure 2.2 External assistance as share of GDP, 2000-07 (%)



Source: OECD/DAC (2007); GoA best estimates from donor database for 2006 and 2007.

External resource flows, such as remittances, export earnings, and foreign direct investments (FDI) are an important source for investment and consumption. Remittances and exports levels have increased significantly since the mid 1990s. Hence, the relative importance of external assistance to other external resources flows has declined. In 2007, the ratio of exports to GDP was 24%, followed by remittances (14%), external assistance (4.5%), and FDI (3%).

Figure 2.3 External assistance, export, remittances and FDI, 1990-2007 (€ million)



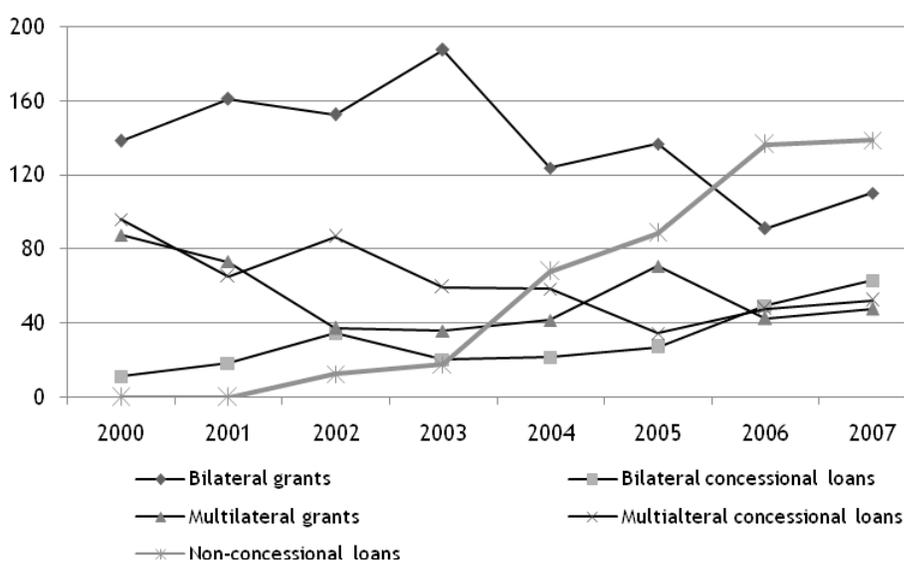
Source: OECD/DAC (2007); GoA best estimates from donor database for 2006 and 2007; Bank of Albania (2007)

## 2.3 COMPOSITION OF EXTERNAL ASSISTANCE

### By type

During the period 2000 - 2007, 48% of total external assistance was in the form of bilateral grants, followed by multilateral loans (22%), multilateral grants (19%), non-concessional loans (19%) and bilateral loans (11%). Bilateral grants have been variable, but have been lower in the last four years. The decline in bilateral grants has been roughly offset by an increase in bilateral concessional loans, resulting in relatively stable overall support from bilateral partners. Multilateral grants and concessional loans have been variable, but are currently below the levels at the beginning of the period. These have been offset by the growth in non-concessional loans, which come mainly from multilateral sources.

Figure 2.4 Bilateral and multilateral grants and loans, 2000-2007 (€ million)



Source: OECD/DAC for 2000-05; GoA best estimates from donor database for 2006 and 2007.

The largest source of non-concessional loans is EBRD which has a portfolio of around € 780 million, mainly in energy and transport. The EIB has total approved projects of about € 270 million, covering energy and transport, though including also water and, more recently, education. The CEB has approved projects worth around € 52 million and supports health, education and social housing. Finally, the IFC, the private sector 'window' of the WB, has facilitated total project costs of around € 260 million, mainly in areas of financial information and manufacturing<sup>6</sup>. Assistance provided by these banks are considered as valuable for the government because of their ability to support longer term investments, and for the cooperation with bilateral and multilateral donors, other commercial banks and the private sector.

According to the DAC statistics, development aid has accounted for 67% of assistance between 2000 and 2005, technical assistance for 28% and emergency and food aid for 5%.

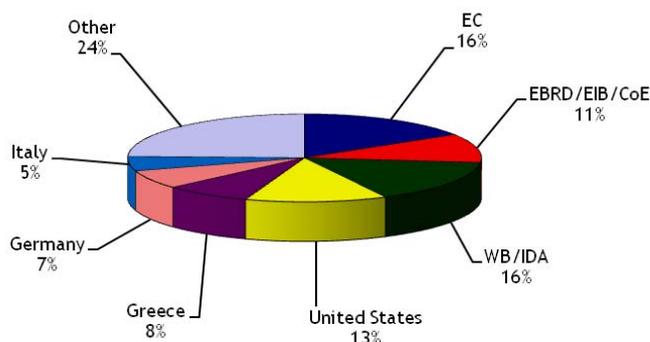
<sup>6</sup> The analysis of IFI operations is based on the donor database, checking with: EBRD full project list; EIB Albania full project list; CEB Annual Report 2006 and projects approved in 2006; IFC report on projects, all available on relevant websites; and the MoF debt database.

## By donor

The four largest bilateral donors have been Germany, Greece, Italy, and the United States, accounting for 33% of external assistance during the period 2000-2005. The two largest multilateral donors have been the EC and the WB/IDA<sup>7</sup> accounting for 32% of external assistance (see also Table A1.1 showing external assistance by all donors during the period 2000-2005).

**Figure 2.5 External assistance by donor, 2000-05 (%)**

Source: OECD/DAC (2007), supplemented by donor database data for EBRD/EIB/CEB and other non-concessional loans



The EC, Germany, and Greece increased their levels of external assistance during the period 2000- 2005. External assistance from the WB/IDA declined up to the graduation from IDA to IBRD status. External assistance from the US has remained at the same level during this period. Among the six main donors, the EC is the largest provider of grants (34%), followed by the US (29%) and Greece (18%). The WB accounts for around 75% of total ODA loans and has been the largest ODA lender, followed by Germany (10%) and Italy (9%).

## By sector focus

There has been wide variation from year to year in the sectoral allocation of support with no clear trends during the period 2000 - 2007.

**Table 2.3 External assistance by sector focus, 2000-2007 (Euro million)**

Total	2000	2001	2002	2003	2004	2005	2006	2007	Total
Democratisation and rule of law	85	61	49	67	64	89	46	63	524
Economic development	40	42	49	22	23	31	66	69	342
Transport	16	16	26	32	21	16	32	42	201
Energy	33	51	83	61	95	90	104	106	623
Water	99	53	22	37	47	54	35	23	370
Social development	67	47	37	102	46	46	34	44	423
Other	38	47	59	15	16	25	14	19	233
Total	378	318	325	336	312	351	331	364	2715

Note (1): in DAC terminology, 'Economic development' includes agriculture, industry, trade, business/banking/finance, and tourism.

Note (2): Figures include non-concessional loans, which for 2006-07 are based on the donor database and for 2000-05 on DAC totals, allocated to sectors according to the donor database.

Note (3): DAC sector data for 2001 is not consistent with DAC data analysed by donor. This has been resolved by using the donor analysis total and allocating it to sectors according to the average share for 2000 and 2002.

Source: OECD/DAC (2007); GoA best estimates from donor database for 2006 and 2007.

<sup>7</sup> WB/IDA refers to lending by the International Development Association (IDA).

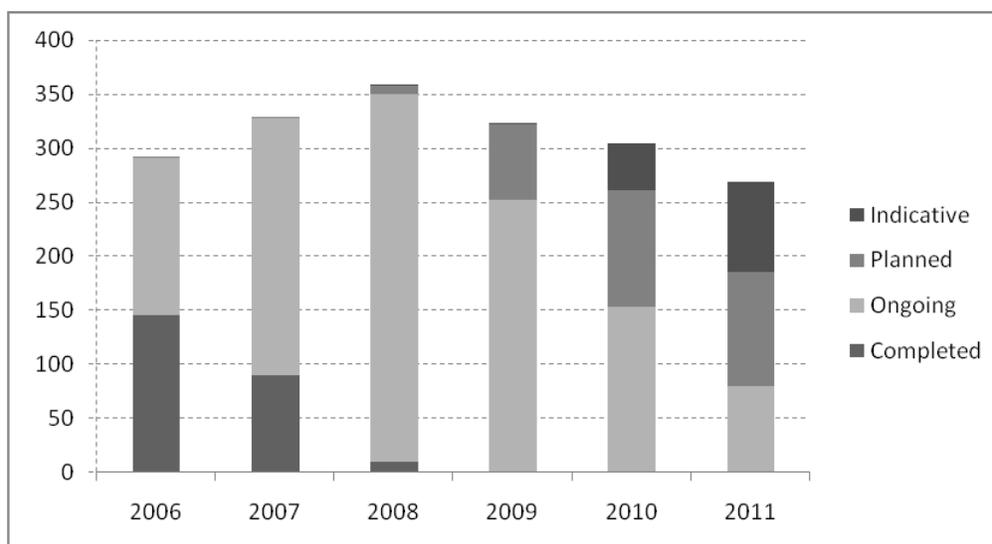
A large share of support has been focused on governance, including democratisation and rule of law. Economic development, including agriculture, industry, trade, business/finance, and tourism, has expanded rapidly in the last two years, which can be explained by the recent focus of several donors in this area. Social sectors have features strongly in the past, but the indications shows that the share of external assistance devoted to social sectors has been declining in recent years.

The support for infrastructure has remained stable in total (except for 2001), but there have been large swings between transport, energy and water. Over 85% of non-concessional loans are used for infrastructure. The recent growth in non-concessional loans means that over 50% of external assistance to infrastructure now comes from concessional loans, with the majority going to the energy sector.

## By Status

The donor database aims to include projects that are ongoing or are planned with firm commitments. In addition, it includes a partial record of completed projects and some notes of indicative programming. The figure below shows an estimate of the expected disbursement of projects, assuming that they disburse equally through the expected life of the project. The graph indicates that the ongoing commitments are expected to decline in roughly equal steps over four years, whilst the planned projects will develop full expenditure by about 2010 and continue in 2011. Indicative projects will increase through to 2011.

Figure 2.6 External assistance by status, 2000-11 (Euro m)



Source: donor database.

## 2.4 PUBLIC INVESTMENT BY DOMESTIC AND EXTERNAL FINANCING

Table 2.4 shows the level of external assistance and domestically funded investments in different sectors. In 2007, domestic funding accounted for 42% of public investments. The sectors with domestic funding share significantly lower than the 42% average for total public investment include the following:

- Public order, where the police are adopting international practices and standards

- Economic development, where domestic experience in institutional reform and in providing public support to the private sector is still at an early stage
- Energy, where there is need for commercial financing (although the figures above do not include the significant domestic commercial borrowing that KESH undertakes for investment)
- Environment, where there is an urgent need to build new institutions and practices
- Employment and social policy, where government funding is concentrated on the recurrent costs and international experience is required for new institutional and physical structures

**Table 2.4 Public investment by sector and source of financing, 2007**

	Domestically funded Lek million	Domestically funded Euro million	Externally funded Euro million	Domestically funded as share of total (%)
Justice	750	6.3	12.5	33%
Public order	445	3.7	16.0	19%
Education	4,850	40.4	21.5	65%
Health	3,929	32.7	20.0	62%
Employment	150	1.3	4.4	22%
Energy	23	0.2	105.6	0%
Water and sanitation	3,122	26.0	22.9	53%
Transport	14,467	120.6	41.7	74%
Economic development	381	3.2	9.3	25%
Agriculture	1,159	9.7	22.6	30%
Environment	421	3.5	20.5	15%
Other	1,996	16.6	67.4	20%
<b>Total</b>	<b>31,693</b>	<b>264.1</b>	<b>364.5</b>	<b>42%</b>

Note (1): Domestically funded investment is taken from the budget 2007 (MoF); external funded investment is estimated from the donor database, assuming that disbursement occurs equally through the life of the projects.

Note (2): The low figure on the domestically funded public investment on energy can be explained by the fact that the budget does not finance the investments of the public electrical energy corporation (KESH).

Source: GoA donor database; budget 2007 (MoF).

The justification of a relatively high concentration of external support in the above sectors will continue for some years. However, there will be a tendency for differences between sectors to decline. Several of the sectors receive high external assistance because they need strong TA, in addition to investment. In addition, some of the larger semi-commercial borrowing, notably for energy, will become fully commercial, following the trends started by graduation from IDA and the use of loans by bilaterals.

### 3. External assistance orientation within sectors

This chapter presents the role of external assistance in each of the main sectors and the way in which this contributes to sector strategies. It uses the same definition of sectors as the NSDI and adopts the five broad themes used in the NSDI, which are also consistent with the support framework currently used in EU countries. Within each sector, NSDI priorities provide the justification for the orientation for external assistance. The text also describes the main features of existing external assistance to the sector, focusing mainly on the larger programmes and the core themes. This review of existing support does not aim to provide details on all donors projects.

For each sector, a box describes a number of specific mid-term priorities for donors to focus their assistance. These priorities have been selected in consultation with line ministries and based on the current gaps and comparative advantage of donors in meeting NSDI priorities. This is further supported by the priority projects presented in chapter 4.

The EAOD takes a similar approach to planning horizons as the NSDI: the immediate focus is on the 'mid-term' period from 2007-2010, which will be affected by funding decisions taken in the next year; however, the EAOD and the NSDI also aim to influence the 'far mid-term' years 2011-13. The orientation of external assistance takes into account the need to provide support to those sectors which will take an increasing share of assistance in the period 2011-13.

Wherever possible, external assistance should be related to budget programmes, to facilitate future integration with the budget. Table 3.1 presents the primary budget institution for the main NSDI sectors and summarises the national funding and donor funding for these sectors. There are some cases where NSDI priorities and public investment cannot easily be associated with single budget programmes. This occurs particularly with crosscutting strategies and projects, but also in some sector strategies and broad sector-wide programmes (see chapter 5). The government uses crosscutting strategies as a means to introduce new initiatives and to improve the activities of existing programmes. For the purposes of this document, a working assumption has been made on which budget programme has lead responsibility for a crosscutting priority or project.

**Table 3.1 National and Donor Investment Funding, by sector (Euro m)**

NSDI Strategy	Primary Budget Institution <sup>1</sup>	Total Public Investment Avg 07-10 <sup>2</sup>	Ongoing External Investment 2008	Known Planned External Investment 2011 <sup>3</sup>
<b>Democratisation and Rule of Law</b>		<b>36.5</b>	<b>24.4</b>	<b>18.5</b>
Public administration	Mol	0.1	0.1	0.0
Decentralisation	Mol - 01660	2.5	2.4	4.2
Statistics	INSTAT	0.0	0.0	0.0
Justice	MoJ - all depts	13.6	6.8	7.5
Property rights		0.0	0.0	0.0
Public order	Mol - mainly 03140	20.4	15.1	6.8
<b>Economic development</b>		<b>38.4</b>	<b>31.8</b>	<b>16.6</b>
Economy and markets	METE - all except 04320	24.8	20.8	14.1
Public finance	MoF - all	13.6	11.0	2.5
<b>Infrastructure</b>		<b>473.0</b>	<b>280.8</b>	<b>69.0</b>
Transport	MPWTT - 04520-60	214.3	51.3	24.4
Energy	METE - 04320	165.7	165.6	8.1
Water	MPWTT - 06370	67.5	41.4	25.8
Environment	MEFWA - all depts	25.5	22.5	10.8

Communication		0.0	0.0	0.0
<b>Social development</b>		<b>111.8</b>	<b>43.7</b>	<b>4.3</b>
Health	MoH - all depts	48.0	24.7	2.3
Education	MES - all depts	49.8	6.5	0.8
Employment	MLSAEO - 10550/04170	3.1	2.2	0.5
Gender	MLSAEO - 10460/10430	0.6	0.6	0.0
Social protection	MLSAEO - 10430	3.0	5.3	0.0
Social Inclusion	MLSAEO - 10430		4.4	0.7
<b>Territorial</b>		<b>51.0</b>	<b>26.9</b>	<b>16.4</b>
Agriculture	MAFCP- all except 04280	16.6	9.6	11.0
Rural	MAFCP - 04280 & ADF	5.2	1.9	0.0
Regional development		0.9	0.8	3.1
Tourism, culture and youth	MCTYS - all depts	7.8	1.2	0.6
Urban and spatial planning	MPWTT - 06180/01310	20.5	13.3	1.7
<b>Other</b>		<b>64.4</b>	<b>1.3</b>	<b>0.1</b>
<b>Total</b>		<b>775.2</b>	<b>408.9</b>	<b>124.8</b>

<sup>1</sup> The lead budget institution includes the budget institution and the code for the department concerned, where this is identifiable.

<sup>2</sup> Total public investment includes all budget investment plus an estimate of ongoing donor disbursement that is not included in the budget, based on the donor database. Ongoing and planned external assistance are from the donor database, assuming the total commitment of each project is spread equally through the project duration.

<sup>3</sup> The planned assistance for 2011 is derived from the donor database and includes all ongoing and programmed projects that are expected to finish on or after 2011, assuming an equal disbursement of project spending through the lifetime of the project. It is therefore an indication of known plans, not an estimate of future support.

Sources: budget figures are from the budget, excluding foreign financing; total ongoing and planned donor commitments are from the donor database.

Many donors provide support for civil society and NGOs. This document covers some support that is funded and reported by official donors, but implemented by NGOs. However, there are also a large number of projects, usually quite small, that provide support directly to NGOs (international or local) and to local administrative units, that are not reported to Government or included in the donor database.

### 3.1 DEMOCRATISATION AND RULE OF LAW

Establishing a modern democracy, supported by the effective rule of law, is one of five broad strategic priorities of the NSDI. Good progress has been made since 1990, and government is committed to accelerating this. Further progress is required in election system, public administration, decentralisation, statistics, anti-corruption, justice, property rights and public order, with particular attention on the fight against organised crime and border management. Domestic funding for investment is highest in justice, with some investment also in public order. External assistance currently accounts for about 80% of total funding and more than 85% of funding for investment in public administration, local governance and public order. Some external assistance has been provided for some elements of elections and parliament, notably from OSCE and Netherlands. The share of currently planned external assistance devoted to democratisation and the rule of law is in line with government priorities. Programming into the longer term will need to increase support to justice and public order, with a major temporary requirement to support the civil registry.

## Public administration and decentralisation

### Public administration

Public administration reform has been a high priority for the Government and has received significant and continuous donors support over the past decade. The NSDI puts emphasis on the requirement that Albania's preparation for accession to the European Union must bring its institutions' management capacity and administrative systems up to the standards. This will ensure the effective implementation of the *acquis communautaire*, along with the commitments to the broader development agenda. It identifies that further strengthening of institutional capacity for SAA implementation, coordination and strategic planning, introduction of results-oriented management, remain key challenges for the Government.

A full public administration reform strategy is still being developed. Government's coordination is provided through the Department of Public Administration (DoPA) under Ministry of Interior, while the Training Institute of Public Administration provides large-scale training to Albanian civil servants.

Support to public administration reform features as an objective across a very large number of donors' projects with commitments around €30 million in a total of 22 completed and ongoing projects. Key actors supporting public administration reform over the last years have been the EC/CARDS supporting the DoPA and implementation of Civil Service Law (together with the WB); the Civil Service Commission and the Training Institute of Public Administration (TIPA). The World Bank has supported policy coordination at Council of Ministers, while the UK/DFID, the UNDP, the Netherlands, Switzerland and Spain supporting strategic planning, strengthening of expenditures management and aid coordination.

A Trust Fund of US\$7 million with contribution from six donors, to be managed by the WB, will provide support to CoM, central and line ministries to strengthen government capacities to implement different components of the Integrated Planning System, with main focus on strengthening capacities on strategy coordination, implementation and monitoring, expenditures management, aid coordination. IPA has also made provisions over the next three years to support good governance and strengthening capacities to deal with European integration and approximation of legislation.

Donor support to improving governance and public administration over the mid term period should focus especially on:

- improving government-wide coordination of EU integration and strengthen administrative capacity for implementing SAA and Interim Agreement commitments
- strengthening of DoPA and TIPA
- enforcement of the Civil Service Law implementation and related procedures
- implementation of different components of the IPS
- effective implementation and monitoring of the NSDI
- establishment of a modern human resource management system
- results-oriented management and performance management system

### Decentralisation

Albania is implementing the national strategy of decentralisation and local autonomy, making significant progress in decentralisation while aiming to achieve consistency with the principles of the European Charter of Local Self-Government of the Council of Europe (CoE). Key challenges of

the decentralisation process identified in the NSDI include: improvement of the legal and regulatory framework in order to increase authority and autonomy of local government; fiscal decentralisation; strengthening capacities of local government staff and the Regional Councils; transfer public utilities and public property to local government. Successful decentralisation will enable Albania to implement the territorial development programme which will receive a substantial share of external assistance.

The WB and US have supported regulatory framework, local government finance, the law on spatial planning and local economic development. CARDS will support fiscal decentralisation (project yet to start). Sweden is supporting development of the legal framework for the local government staff to become part of the civil service. Italy is funding the 'ARTGOLD' local development project, implemented by UNDP, and many Italian regions provide support to Albanian local authorities. The Netherlands have several projects supporting governance in particular localities. The decentralisation of social services has been supported by the WB/DFID Social Services Delivery Project. School autonomy is supported by the Education Excellence and Equity Sector Wide Approach (SWAp) jointly funded by the WB, EIB, CEB, while the US is supporting decentralisation of primary health care. The UNDP local governance programme and other bilateral donors have supported aspects of the operation of regional councils and strengthening strategic planning capacities. Parts of the public property transfer process have been supported in the recent past by WB. The WB Land Administration and Management project also supports capacity building in selective municipalities to take on the new transferred functions. The decentralisation of water and sanitation has been supported by a series of TA projects but further progress awaits the finalisation of the water sector strategy.

Many donors provide support for sectors, directly to local government. These are considered under the relevant sectors below and are not considered as support for decentralisation.

Additional donor support for decentralisation over the short and mid term period should focus on:

- strengthening of fiscal decentralisation
- capacity development and training of local government staff and regional councils
- decentralised service management
- establishment of information systems for local government
- management of transferred public utilities, especially water and sanitation
- spatial planning

### **Civil registry and identity cards**

The development of a fully comprehensive and reliable system for civil registration is amongst the highest priorities of the Government, as an essential tool for government planning in health, taxation, social security, free movement of people, education, the postal service, the military service etc.

The first phase of establishing the electronic registry and ID cards should be completed during 2008. This phase has been supported by the EC/CARDS programme, Norway and OSCE. The second phase is envisaged to be completed over the next three to four years and will require donor support with further investments in the system as well as technical expertise.

Future donor support to civil registry should focus on:

- support to improve the existing legal framework

- support the agency (to be established) with overall responsibility for the addresses system
- define procedures for the establishment of the new address system
- establish central mapping coordination authority
- fully computerise the civil registry and its link with the new address system
- link the civil registry and identity cards in an overall system design
- improve the legal framework on personal data protection

## Statistics

Key challenge for the government in the area of statistics is the implementation of the national five-year programme to improve the National Statistical System. By implementing the program the National Institute of Statistics (INSTAT) will enhance transparency of national statistics and bring it closer to EUROSTAT standards and requirements.

Government funding to INSTAT operations has so far been limited compared to the needs at the national level. However, INSTAT has benefited from continuous donor support dominated by the EC, starting with Phare in the late 1990s, and carrying on with subsequent annual allocations from CARDS. IPA has also allocated funds (to start implementation as of 2008) to support production of regional statistics. Over the past years, Sweden has also provided significant support to INSTAT. WB dhe DfID have supported surveys such as LSMS, survey on the family income, etc. The UN agencies have also supported these areas.

As Albania attains greater capacity to meet EU norms in routine statistics, the government will take over responsibility for funding the full cycle of activities. However, this will take at least ten years to achieve, and continued donor support is very important while capacity is being further attained.

To avoid the necessity of appealing to donors separately for each new activity, INSTAT is requesting that their international partners coordinate support to Statistics in Albania to meet the European statistical standards - through a rolling Trust Fund. INSTAT activities that need to be supported by the Trust Fund include:

- building capacity and TA on conducting annual surveys on products, fixed capital, and industrial waste
- compilation of full sequence of non financial national account by institutional sector
- geo-coding small area statistical data
- establishing new web page and data dissemination
- purchasing licensed statistical software's
- living Standard Measurement Survey (LSMS 2008)
- labour Cost Survey in non farm enterprises
- census of 2011

## Justice and anti-corruption

### Justice

Key challenges identified in the NSDI with regard to the reform in the justice system include measures that aim to improve the means and the efficiency of the justice system to guarantee

the independence of the judiciary and increasing its responsiveness to the society; structural and legislative improvements to enable implementation of the *acquis communautaire*; and building capacities and judiciary structures to reflect the European standards.

The Ministry of Justice has, over the recent years, concentrated a large share of domestic investments on the rehabilitation of prisons, which has also been matched by significant donors' support (mainly by CARDS). However, the judicial infrastructure remains poor, and there is need for substantial investment over the next few years in particular to the renovation of district courts, prisons, and the pre-trial detention system. Modest local investments are provided for the independent institutions of the judiciary.

Donor support to justice includes around 30 ongoing or recently completed projects related to judicial reform. CARDS has been the largest donor providing TA support within a wide range of areas through the European Assistance Mission to the Albanian Justice System (EURALIUS) project. Sweden has supported the juvenile system. The OSCE and the CoE have supported human rights issues in the justice system. The US has started project interventions focusing on the rule of law. Germany has supported training of judges, while Spain (jointly with CARDS) is supporting the High Council of Justice. The bailiff service has been also supported with limited investments from donors.

With regard to future commitments, the EU financed EURALIUS project, next phase which is expected to start during 2008, will continue to provide institutional support and TA within various areas of the justice sector. IPA, implementation to start as of 2008, will focus support on the pre-detention centres and justice archives.

Future donor support over the mid term period should focus on:

- rehabilitation of prison premises; prison capacities and services for detainees; training for prison administrator; capacity building on human rights and European standards; implementation of the pre-trial detention master plan; and management information system for prisons
- improvement of the judiciary and courts infrastructure, in particular, district courts and serious crimes court witness protection
- strengthening of the juvenile system, and access to legal aid and information
- improvement of coordination between prosecutors and police, in particular by improving infrastructure of the case management system
- investigative capacities through training and contemporary investigative equipments
- infrastructure of the bailiff service offices, and intranet for communications between all bailiff service offices
- Support to the Magistrates' School in the medium term, while further support should be provided to the School in order to deliver training for judiciary administrators and judges on human rights; ethics; commercial and corporate matters; SAA-related issues and respective laws.

## Property rights

Addressing property rights will remain an important priority of the Government. The NSDI identifies a number of priorities concerning property rights including; property compensation; property valuation and registration; legalization process; the transfer of public land property rights to local government; and the transfer of forests and pastures to local communities.

There has been substantial donor support for the improvement of the property rights situation, often as part of wider programmes to support economic and urban development. Norway,

Finland, US Government, WB, EC, UNDP, Czech Republic and OSCE have financed projects aiming at establishing clear ownership of immovable property and in completing the process of First Registration of immovable property. A CARDS project is planned to start during 2008 supporting the extension of immovable property registration service to coastal areas. Property rights is a priority also under IPA, which identifies the comprehensive development of the immovable property system. The World Bank is also planning support for property rights under their DPO2 related support.

Future donor support should focus on:

- support to computerisation of Immovable Property Registration Offices and strengthen staff capacities
- improve the legal framework

## Anti-corruption

The Albanian institutions have made progress in implementing the Council of Europe Group of States against Corruption (GRECO) 2002 recommendations. This includes new public procurement legislation; measures to strengthen the independence and transparency of the Public Procurement Agency; the appointment of a public procurement ombudsman; establishing of 'one stop shop' business registration centre; and adoption of specific legislation on bribery.

The US, EC and WB have been the main donors supporting continuously anti-corruption initiatives. The EC and US have focused their support on the new public procurement law and anti-money laundering. The US is also providing support (US\$13.8 million) through the 'Millennium Challenge Account', which is supporting modernisation of the tax system; liberalisation of licensing and business registration; and the procurement ombudsman. The WB has also supported the government in amending the anti-corruption related legislation, and to build capacity for its implementation.

Future donor support to anti-corruption should focus on:

- institutional capacity to investigate and prosecute corruption
- support to legal framework for the transparency of political system and ethics of public functionaries, including the financing of political parties and election campaign
- e-government at the level of central government
- further reform of licensing regulations and public services
- regulation of lobbying activities
- technological and legal support to anti-money laundering institutions

## Police and organised crime

### Police

State police has several strategic priorities which involve overall sector improvement with a particular focus on organisational infrastructure development and operational improvement of police forces. This includes: intelligence and community-based policing; decentralisation of competencies; management training, human resources, capacity building in the Police Academy;

improvement of logistical management; development of police infrastructure; standardisation of buildings and equipment; and improvement of road safety related measures.

The largest share of the domestic investments of the Ministry of the Interior is allocated to the State Police Programme, which is concentrated on equipment and renovation of some police headquarters. The present level of domestic funding is insufficient to achieve the wide range of targets for the overall sector reform.

Donor support has been concentrated in particular on the strengthening of capacities of police institutions and the fight against organised crime. The largest share of donor support has been provided by CARDS, primarily through the Police Assistance Mission of the European Community to Albania (PAMECA). A complementary project from US and EC, which is coming to an end, has focused on security sector reform, information systems and community policing. IPA has committed future support for the third phase of PAMECA, starting in 2008.

### **Organised crime**

Strategic priorities related to organised crime, terrorism, and trafficking focus specifically on the improvement of the operational capacity of Organised Crime Department; improvement of the infrastructure for special operations (TIMS, RMIS, Datacom, Memex); improvement of witness protection services; and fight against all forms of illegal trafficking.

The fight against organised crime, terrorism, and trafficking received support from around 20 ongoing projects with a combined commitment of almost €30 million. Three new projects are in the pipeline to start in 2008. The EC is the main donor supporting the fight against organised crime and anti-terrorism, which through the CARDS and IPA has committed €6.5 million. The US is the main bilateral donor. Significant support has also been provided by Sweden, Austria, Italy and Greece, with a particular focus on the fight against human trafficking.

### **Integrated border management**

The government has adopted a national strategy for Integrated Border Management (IBM) and an action plan which comply with EU standards and requirements. Priorities and challenges in this area will focus on improvement of legislation as well as organisational and management changes.

Border management receives important donor support from four ongoing and seven planned donor projects, with a total commitment of almost €20 million, including support from CARDS, US, Greece, Italy and OSCE. This support is expected to increase as future projects are planned from the IPA and US.

Short and medium term donor support to the police; the fight against organised crime; and support to anti-trafficking and integrated border management should focus on:

- improving the management capacity of the Albanian State Police
- implementing the strategy on community policing
- strengthening the operative capacities for the traffic police and road safety and improving the police logistics
- improving operational assets and the management information system, as well as additional support for enhancement and maintenance of the DATACOM communication system
- enhancing cooperation between the various state bodies involved in the fight against organised crime and terrorism and, in particular, between the judicial authorities and the police

- establishing coherent and coordinated intelligence gathering and processing systems, including the use of special investigative means, interception of telecommunications, and use of intelligence information
- enhancing capacities to provide counter-terrorist analysts and investigators with better equipment and training
- improving human and technical capacities for border management

## 3.2 ECONOMIC DEVELOPMENT

Albania has the fastest growing economy in Europe. Government is committed to ensuring that future growth takes place increasingly in the formal economy, so that Albanian business can compete in European markets. Developing effective economic institutions and incentives is therefore the second broad strategic priority in the NSDI. This area covers the promotion of national economic development and the establishment of effective customs, tax and public finance system. There is some domestically funded public investment but a high proportion of investment is funded by external assistance. The share of currently planned external assistance devoted to economic development is consistent with government priorities. Donor programming documents give an indication of donor priorities beyond the mid-term and these documents place a high priority on economic development, which is consistent with the longer term priority of NSDI to increase support for economic development.

### Economy and consumer protection

#### Economy

The strategic priorities of the sector Strategy for Business and Investment Development include: the completion of a regulatory reform to increase competitiveness; elimination of anti-competitive practices; encouragement of the formal economy; promotion of Small Medium Enterprises (SMEs), exports and foreign direct investment; the adherence of trade policy to the World Trade Organisation (WTO) principles and the Interim Agreement with EU commitments; and the completion of privatisation. Investment funded by domestic sources is directed towards restructuring programmes in industrial enterprises, as required by the SAA, and development activities in the mining sector.

Donor support to the economic development program will reach €13 million in 2008. There are around 16 donor projects, among which a large project for the development of SMEs supported by Italy and Germany (ongoing project for promotion of micro, SMEs in urban and rural areas) and the Business Environment Reform and Institutional Strengthening project (WB). There are substantial projects on enterprise development, funded primarily by the US (such as the Albanian American Enterprise Fund), as well as on privatisation. Planned projects in economic development include the creation of an industrial park (Italy), SME development (Germany), and support for SME's access to credits (Italy). IPA has allocated €3 million (project to start in late 2008) in support of SMEs growth and increase of entrepreneurship and innovation.

Further multilateral and bilateral support for economic development is a high priority. However, given Albania's progress toward adopting EU standards, it is important that this takes place within a common national approach that reflects EU norms and directives and IPA should play a key role in defining these approaches.

Future donor support could focus on:

- implementing the European Charter for SMEs
- technical support on FDI, trade and export promotion
- establishing an export guarantee agency
- business innovation and technology transfer
- industrial parks

## Consumer protection and market surveillance

The strategic priorities according to the corresponding crosscutting strategy are to empower consumers through an information and advisory system; to protect the economic interests of consumers through the development of a network of associations and an appropriate legal and institutional framework; and to protect consumers in an effective way from risks (food safety, veterinary and disease and pest control, vigilance structure for pharmaceuticals etc).

About €0.3 million of 2008 domestic investment funds in the Ministry of Economy Trade and Energy (METE) programme on market surveillance will mainly be channelled to the Central Technical Inspectorate. External assistance has been dominated by a series of CARDS projects on standardisation, certification, accreditation, and metrology. There is in pipeline a CARDS project in related areas estimated at €1.5 million, to start in 2008.

About €0.8 million of domestic investment funds of the Ministry of Agriculture, Food and Consumer Protection (MAFCP) "programme on food safety and consumer protection" are allocated in 2008 to support mainly the facilities and equipment of food safety laboratories. External assistance has focused on the establishment of the food authority (CARDS), veterinary and phytosanitary inspections (CARDS), and protective measures against avian influenza (Japan and WB). A project to strengthen food safety capacities is planned with Italian support. IPA/MIPD identifies food safety and veterinary services as a programme, but this will probably not be started until 2009.

Future donor support on this area could focus on:

- strengthening the legal framework and institutional structures for consumer protection and market surveillance
- establishing a consumer support centre to promote consumers awareness and education as well as consumer support associations
- further supporting food safety and veterinary services and phytosanitary inspection

## Public finance

The strategic priorities according to the public finance sector strategy are: to improve the quality of expenditure; to broaden the tax base and align tax policies with national priorities; to modernise the management of public debt; and to strengthen performance and credibility of the customs and tax agencies.

The largest share of the €4.3 million of public investment funded by domestic sources in 2008 will be allocated to the purchase of customs equipment for fuel controls. Donors' assistance has been spread more widely across programmes as follows:

- under the public expenditure management programme, the 'Strengthening of Public Expenditure Management' project is financed by DFID, Netherlands, and Sweden, while the

Treasury system has been supported by WB and CARDS and public investment management support has been funded by the WB Development Policy Operation.

- tax revenue management has been supported by DFID and Sweden
- customs revenue management is being supported by a long-term EC assistance mission to Albanian customs.
- the fight against illegal financial transaction programme is supported by long-term resident technical assistance (US) and a CARDS project
- the internal audit and public finance control have been supported by CARDS and SIGMA

The IPS Trust Fund, to be managed by the WB, will also play an important role in the next few years, particularly in the areas of macroeconomic analysis, expenditure and debt management.

With respect to independent institutions:

- the Public Procurement Agency is being supported by a project of the Millennium Challenge Corporation (MCC) (US) and CARDS
- the Supreme State Audit is being supported by a CARDS project
- the Financial Supervision Authority is being supported by the Regional Balkan Facility for FSAP Follow-up of the WB

Future donors support on this area should focus on:

- improving capacities on macroeconomic and fiscal forecasting
- public expenditures management
- approximating Albanian customs and taxation legislation to the EU *acquis* and further enhance administrative capacity to implement customs and tax legislation
- implementing the computerised system for customs declaration and customs data processing in all customs offices
- reinforcing the capacity of the tax administration, in particular in the fields of tax controls and audit, and completing the process of computerising tax offices
- strengthening the administrative capacity of the Public Procurement Agency, public procurement entities in line ministries, local government, and courts dealing with public procurement
- further support to auditing and public financial control

### 3.3 INFRASTRUCTURE

Albania suffered from decades of neglected investment in major national infrastructure, including transport, energy, water, sanitation and environment. In order to recover from this neglect, government has devoted more than half of domestic investment and external assistance in recent years to improving national infrastructure. Investment in energy has been funded almost entirely by external assistance and commercial borrowing. For transport, water and sanitation and environment, a mix of domestic and external financing has been provided for investment, with external sources being particularly important in environment and in water and sanitation. The share of planned external assistance devoted to infrastructure is consistent with NSDI in total and the importance of transport in planned assistance reflects the medium term priorities of government. Higher support is needed water and sanitation and environment, especially in future donor programming.

## Transport

The transport sector has been the main focus of public and foreign investment initiatives over the last decade. The government funds the largest share of investment in the national roads network.

Transport planning. A limited amount of domestically funded public investment in this programme is allocated to the Institute of Transport Studies. The main source of support to overall transport planning is provided by a series of EC projects, past, ongoing and planned, one of which led to the preparation of the National Transport Master Plan, which is the basis of the transport sector strategy.

National road network. Under this programme, in 2008 domestic sources are expected to be €103 million worth of public investment. Almost 60% of this amount is allocated to road construction, including the main remaining parts of the north-south axis, different components of the Durres-Morine corridor, the road along the Ionian coast, and ring roads around various cities. While the amount of domestic funding remains the same, the total foreign financing is planned to triple in 2008 to €383 million. This includes also commercial borrowing (in the case of the Rreshen-Kalimash segment of the Durres- Morine corridor with around €230 million. Donor projects are supporting all the segments of the north-south axis that are currently under construction: Lushnje-Fier and Shkodra-Han i Hotit (Italy) and Fier-Tepelene-Gjirokaster (EBRD, EIB). Donors also fund two of the three segments of the Durres-Morine corridor (Milot-Rreshen and Kalimash-Morine) (World Bank, EBRD, IDB). A road linking Saranda to the Konispol border crossing point will be funded by Greece and the road linking Fier with Vlora will be funded by the EIB. Existing donor and government commitments to the national and local road network is now adequate and future projects will need to be oriented to interventions whose overall aim would be to improve road safe and reduce accidents.

Secondary road network. As part of the Government's objective to rehabilitate 6,000 km of feeder, rural, and local roads, a major project, to be partly supported by WB, is at an advanced stage of preparation. Financial responsibility for these roads has been delegated to local government units. Project preparation therefore includes the establishment of joint central-local structures to coordinate the prioritisation process as well as the mechanisms for maintaining these improvements in the future.

Ports. The 2008 budget under the relevant programme is committing €2.9 million from domestic sources to the development of the port of Saranda and to provide counterpart funding to the Durres port passenger and ferry terminal (EIB with supplementary support from CARDS). Further support to the development of the port of Durres is scheduled by EIB and EBRD. WB are supporting the passenger terminal in Saranda, and IFC support the concessioning of Durres Container port. Italy will support the development of the port of Vlora. Additional support is being requested by EC/IPA for the development of the port of Shengjin. The sequencing of all future interventions needs to follow the relevant master plans.

Railways. The 2008 budget allocations for the railway programme from domestic sources will reach €3 million and will be roughly equally split between improvements in infrastructure conditions and purchases of rolling stock. There has been no funding from foreign donors during the last five years, aside from Czech Republic that has done Feasibility Study of the remove control and telecommunication system on the whole network of Albanian Railways with particular focus on the signalling system in Durres and Shkozet station in 2007-2008 (the first stage was 2003-2004) and Interreg funding for a study on a Durres-Macedonia rail-line. There is little support anticipated. EC has planned under CARDS a small project for Digitalisation of railway design drawings, while the restructuring of the company is pending.

Civil aviation. The government budget includes modest commitments under this programme, primarily directed to Kukes airport. Following the completion of works for Tirana International Airport, the main priority is the improvement of legal framework and reform in this area.

Further support from donors is needed in the following areas:

- support to reorganisation of the General Roads Directorate
- support to improve the road asset management system
- promote road safety standards and measures to implement them
- support to completion of reconstruction of all axis of national roads network
- addition of second road lanes to the two main axes, notably in the Tirana-Shkodra and Durres-Rrogozhine sections
- support to undertake a major investment programme on the local and rural road network, especially tourism roads
- complement resources already committed for the secondary road network programme
- rails: rehabilitate the Durres-Rrogozhine and Vore-Milot lines, install the signal system and interlocking for the Durres-Tirana and Milot-Rrogozhine lines, and improve the passenger service
- capacity building for air traffic control and the improve regulatory system
- capacity building for maritime administration according to international standards

## Energy

The priorities of the energy sector strategy focus on establishment of an effective institutional and regulatory framework, full restructuring of the public energy companies, the increase of energy supply (through investments in electricity production, distribution, and transmission; oil and gas terminals and pipelines; and renewable sources), the efficient use of energy with the minimum possible impact on the environment and the active participation of the domestic market in the regional energy market of electrical energy according to EU requirements .

The domestic budget is not a sufficient instrument for covering with financing energy sector investment needs and KESH a public energy company, cannot rely on the state budget to finance their investment.

The energy sector has received about 24% of the entire donor support to Albania since 2000. This has come largely in the form of concessional loans, which is appropriate for a sector that is in a process of commercialisation. The five largest donors in energy (EBRD, EIB, WB, Italy and Germany) have each contributed between 15% and 20% of total funds. Support has included the rehabilitation of the Drin and Bistrica river hydroelectric power stations (Austria, EBRD, Italy, Japan, KfW, and Switzerland), rehabilitation of power transmission and distribution lines (EBRD, Italy, Japan, KfW, Switzerland, and WB), equipment for particular substations (Norway, Spain), funding of electricity imports (Italy), loss reductions (Switzerland and WB), integration into the regional electricity network (EBRD, Italy, and WB), and support to institutional reforms (Italy, US, and WB) and management assistance to KESH (Italy).

Future donor support for energy is shifting also to electricity generation, including the financing of the thermal power station in Vlora by EIB, EBRD and WB. It is important that concessional finance is maintained through this period. At the same time, the government has encouraged the construction of hydroelectric plants on concessional terms in some cases with donor support for credit guarantees (KfW).

Specific future opportunities for donors include support for:

- further improvement of the transmission and distribution system
- energy supply and production capacities

- maintenance of dams
- energy efficiency and utilisation of renewable energy resources

## Water and sanitation

Albania has one the lowest level of access to water supply compared to other European countries, especially in the rural areas. The financing of water and sanitation infrastructure by the budget is shared between MPWTT and local government units, which as of 2007 are taking over gradually the responsibility for the management of the respective water utilities. Domestic sources for public investment under this programme will exceed €26.1 million in 2008, split almost equally between specific investments in water and sanitation, a competitive grant to local government units, and counterpart financing to external assistance projects.

In terms of institutional and management reforms: the Development Policy Operation (WB) advises on the progressive elimination of the water subsidies to water utilities. GTZ has been supporting the commercialization of water utilities; the Municipal Water and Wastewater Project (EIB, WB) has been supporting management contracts and the benchmarking unit of the General Directorate of Water and Sanitation; Italy has been supporting the project unit at MPWTT and the Tirana utility; while Austria has advised the Shkodra utility.

Donor presence is strongest in the implementation of investments in the rehabilitation and construction of water and sanitation networks. Both multilateral and bilateral donors have been active: Switzerland (Shkodra, Pogradec); Norway (Burrel); Luxembourg (Dibra); Italy (Tirana and Vlore); Greece (Saranda district); Austria (Shkodra region); KfW (Pogradec, Korce, Kavaje, Berat, Kucove, Lushnje, Elbasan); WB and EIB (Saranda, Lezha, Fier, Durres). Planned projects will target Shkodra (jointly between Austria, Switzerland and Germany), Vlora (Netherlands, EC) and rural areas (KfW). The three largest donors in the water sector (Germany, Italy and EIB) have provided 62% of total funding. IPA has provided 10% from the 2007 programme and is likely to play an increasingly important role in funding investment in water supply.

Reliance on donors financing over the mid and long term period will be higher in the water and sanitation sector than in the other sectors. This is consistent with the pattern in most EU candidate and member countries, where a large share of foreign and particular EU funding is devoted to water and sanitation.

Specific future opportunities for donors include support for:

- central capacity in monitoring the impact from the implementation of reforms across utilities: metering, collection rates, business plans
- training staff of water utilities on the use of new technology
- laboratories for periodical monitoring of water quality
- establish a computer-based billing and collection system in water utilities
- establish an incentive-based supervision scheme for meter reading and collection
- complete the transformation of the water enterprises into commercial companies
- establish the Rural Water and Sanitation Agency
- introduce performance-based subsidy policy to encourage utilities to recover costs
- merging water utilities to reach an optimal number that would encourage private sector investment
- investment in urban and rural areas, where access indicators are very low or there is substantial need for renovation of the existing networks

## Environment

The environment crosscutting strategy affects concerns not only MEFWA but also MPWTT (water and sanitation, wastewater treatment, solid waste management, vehicle technical controls etc), MoH (monitoring on public health), MAFCP (prevention of erosion) and METE (energy efficiency and renewable sources).

Environmental protection. key challenges in this sector are the sustainable development of the country while protecting as much as possible the natural resources from pollution and degradation and promoting environmental values. Donors intervention in this area include: the Prespa lakes (GEF and UNDP), monitoring of ozone emissions (UNEP and UNIDO), and use of solar panels (GEF and UNDP); rehabilitation of hot spots (Netherlands, GEF and UNDP, CARDS); awareness raising (Netherlands, Sida); a series of CARDS projects supporting environmental legislation and monitoring, and pollution abatement at industrial sites. One of the largest projects is the Natural Resources Management project (GEF, Sweden, and WB) that includes integrated natural resources management, biodiversity conservation and public awareness raising. Environmental protection will become a key element in the European integration process and there will be growing need for donor support. Currently major planned projects include support to the implementation of the environmental *acquis* (CARDS), watershed management along the Drin river (GEF), and environmental education at primary school level (Netherlands).

Fisheries. In the 2008 budget public investment worth €0.9 million will be allocated to deepen the Butrint canal and provide counterpart funding to the IDB project of the Durres fishing port. The Fisheries Development Project (WB and Italy) has supported, among others, fishery management organisations, restocking plans, and aquaculture.

Forestry. In the 2008 domestic budget of Ministry of Environment, Forestry and Water Management (MEFWA) has planned €2.6 million for the forestry programme, primarily allocated to reforestation. Donors support to the component of the Natural Resources Management (GEF, Sweden, and WB) is dedicated to institutional reforms in the forestry sector. Other donors include Sweden (support to the national forestry association) and KfW (forestry management in the Prespa national park).

Wastewater treatment. Only about €0.9 million of the water and sanitation programme of MPWTT is allocated to wastewater treatment. Waste water treatments plants have been supported by KfW (Kavaja) and CARDS (Vlora). One of the components of the Integrated Coastal Zone Management project supports wastewater treatment plants. EBRD is exploring the use of credit facilities to finance a range of environmental projects, including the reduction of seawater pollution.

Solid waste management. Public investment is split between the environmental protection programme of MEFWA and the public services programme of MPWTT. The latter receives the highest allocations of domestic resources €1.5 million. Current donor support includes the construction of a hazardous waste landfill (CARDS) and institutional support (Sweden). The largest planned project is the improvement of the main solid waste disposal site in Tirana (Italy) and further support to hazardous waste disposal (CARDS).

Specific future opportunities for donors include support for:

- further adoption of EU legal standards and enforcement of environmental legislation
- Investment in environmental protection with the view to ensure that European Community standards can be achieved within the next 20 years
- Investment on wastewater treatment (particularly in tourism zones), collection, recycling and disposal (landfill and incineration) of solid waste, rehabilitation of contaminated land

and sources of pollution, technological improvement of state owned industries

- Improved environmental monitoring system, in particular air quality monitoring
- support Albanian fisheries policy moves closer to EU standards, in particular in the areas of resource management, surveillance, inspection and control and in market and structural policies.
- forest inventory and forest fire control projects
- feasibility studies on water resources in remaining 5 of 6 national water basins, in water waste and sewerage management and monitoring underground water quality.

## Information and communication technology

The ICT crosscutting strategy covers two wide areas: (i) development of the ICT market which is conducted by the policy-maker (MPWTT) and implemented by the regulator (TRE); (ii) The modernization/digitalization of GoA to offer 'online' services to citizens, which is led by NAIS in cooperation with other government agencies. Regarding the digitalization of public institutions the main recent donor projects have been in the education system (UNDP), business registration, e-Taxes and e-Procurement (US/Millennium Challenge Account), treasury system (WB) and public administration (Italy, EC and UNDP).

Future donors` support could concentrate on:

- Revision of core infrastructure for 25 GoA institutions (LAN, Servers, PCs, etc.)
- Adaptation by INSTAT of EUROSTAT methodology regarding annual ICT statistics.
- Centralized Information Systems that offer '*online*' services to citizens regarding: employment, customs, education, libraries, licenses and permits, courts, property registration and personal registration.

## 3.5 SOCIAL DEVELOPMENT

Despite Albania's economic success, income levels in the 1990s were the lowest in Europe. Sustained economic growth has led to marked reduction in poverty in Albania. The fourth strategic priority of the NSDI aims to consolidate this progress by improving access to health services and modernising education to provide the skills to allow progress to be sustained in the longer term. Investment in the social sectors has been funded in roughly equal proportions from domestic and external sources. Planned external assistance has a relatively low level of support for social development and will need to be increased in future programming.

### Health

In overall, the sector is guided primarily by the Health Strategy; while in addition to that the budget programmes of MoH are guided also by a number of crosscutting strategies, including environment and consumer protection.

International comparisons suggest that overall government spending on health is well below what similar countries spend. This is being addressed by the latest strategic budget directions defined in the NSDI and the ongoing MTBP process, where health sector spendign is expected to grow at a rate that is faster than average. Government investments to health sector over the past years are divided roughly equally between primary and secondary health, with small contributions to public health and planning. Donors are providing additional support to the

sector (at levels of roughly 50% of government investment). About half of donor support goes to hospital reconstruction, with a quarter going to planning and management, and the final quarter divided between primary health and public health. Future donor plans are focused more on primary health, which is consistent with the NSDI priorities.

Health planning. Even though health barely appears explicitly as a part of the *acquis communautaire* requirements for the EU, there are a number of chapters that include issues with an impact on the health system like employment, institutional frameworks, service delivery in child protection, education services etc. Therefore, the health sector will profit through operations of IPA in the above areas. Policy reforms in the areas of health finance and governance will continue to be supported under the ongoing programmes of WB, Italy, Switzerland, UNAIDS and US, most of which still have several years to run. Planned projects for the future include new projects from the US and Sweden and from the UN, but these are relatively modest, compared to ongoing commitments.

Primary health. The government is giving a special attention to the improvement of primary health care aiming to reach a basic health service that is easily accessible, of acceptable quality and efficient in their delivery services. Government investment to primary health care amounted €6.7m investment in 2008 including a strong component for local government. The WB has been the main donor supporting this area. In addition, other donors provide an additional €2.9 million of investment specifically for primary health care. Italy, Austria, Norway and Sweden have been funding rehabilitation work for many clinics in the country.

Secondary health. Government investment in secondary health care, and in the hospital system, amounts to €14.5 million in 2008. The NSDI aims to move towards greater financial self-sufficiency in hospitals. However, the current state of hospitals is well behind that required and support from donors in this programming area is crucial. Donors are estimated to be providing a total support of €8.6 million in 2007, focusing mainly on rehabilitation and construction of the Hospitals and trainings for staff (IDB, OPEC, CEB, Greece, and Switzerland).

Public health. Donors investments in public health have dominated the limited Government financing. Donor support to public health is estimated around € 0.55 million in 2008. The main donor is the US supporting family planning activities, with Italy, Germany and Norway also providing support in health promotion and working with youth. A significant regional Swedish project in fighting HIV/AIDS was due to start in 2007. Technical assistance support is also planned by UNICEF and UNFPA.

Key challenge is to create a health system that is capable of offering a basic health service that is easily accessible, of acceptable quality and efficient in their delivery. This requires changing the basic mechanism of organisation, management and financing to achieve the overarching vision, which is to preserve and improve the health of the population continuously. In addition, there is some donor support for initiatives to improve the access of vulnerable groups (including notably women, children and the disabled) to health services (UN, Norway, Italy and US). The Ministry of Health (MoH) is working on a SWAP for primary health, to ensure that external assistance helps to build sustainable future management.

Key strategic priorities of the health sector to be supported by donors in the short and mid term will include the following:

- strengthening the capacity of the MoH to develop policies, strategies and planning at national level
- introducing a new public-private mix and innovative organisational schemes
- improving health system financing through reorganisation of the health insurance system (policy and capacity building) to transform direct out-of-pocket payment into regular pre-payments entitling people to receive health care when necessary, moving towards the payment of health contributions by all

- establishing a health information system
- improving facility and clinical management at all levels
- supporting hospital management with capacity building as well as medical equipment and managements systems
- improve the regulatory framework to guarantee that the rights of all stakeholders are respected when addressing issues such as responsiveness to citizens, entitlement to specific services, privatisation, the role of professional organisations, labour legislation for health professionals

## Education

The overall trend in public education spending was negative during the transition period and reached 3.1% of GDP in 2004, when the average among EU countries is 4.9%, a fact that had a negative impact on the development of education. The basic education sector strategy aims to guarantee a modern national education system, which will stimulate sustainable economic growth, the consolidation of democracy, and success in both dialogue and competition with the countries in the region and further. Key challenges for the sector is improvement the quality of teaching through decentralisation and strengthening of school autonomy, the improvement of governance in service provision and the introduction of accountability in the system, the participation of the community and all groups of interest, and an increase in transparency.

Restructuring of Ministry of Education and Science (MES) and the entire educational system through a clear scheme of responsibility and accountability is being supported through the implementation of the ongoing 'Education Excellence and Equity Project' funded by WB, EIB and, CEB. The programme targets NSDI priorities like building capacities of school directors and education specialists at the regional level, and inclusion of the community to take active part in the management of the educational service. The process should be accompanied by the establishment of a functional Education Management Information System at all levels.

Pre-school education. Pre-school education has been neglected compared to other educational levels. Based on the preschool situation trying to build a new early childhood development national program, contextual models of Reggio-Emilia and "Step by Step" have been introduced with the support of the Soros Foundation and UNICEF. Spain has been active supporting improvements of pre-school education and child care at the periphery of Tirana.

Basic education. Ensure a good quality, inclusive, flexible education system that responds to the demands of the market economy; ensure access to basic education for all children and raise secondary education enrolment rate to 75% by 2012 are the main NSDI priorities for basic education. Raising enrolment in secondary education and to improve its quality will require redesigning education service provision according to demographic changes in both rural and urban areas and paying attention to vulnerable groups, currently supported by Sweden, Spain, Italy, CARDS. Introducing curriculum reforms in order to improve education quality, and other efforts aimed at improving the monitoring of performance of the education sector, are in their nascent stage and yet to yield substantial results. Reforms in basic education will also need to be complemented with the implementation of a financing formula clarifying funding responsibilities of all government levels by 2009. This is also being supported by the Education Excellence and Equity Project. Investment in basic education is dominated by government. Donors like Spain and Italy have supported basic education with project focused on teacher training, health, school reconstruction, new teaching laboratories. Their support is expected to continue with new projects.

Secondary education. The government budget has provided significant funding to general secondary education. Apart from the 'Education Excellence and Equity Project', other ongoing donor projects include: school reconstruction, funded by Italy, Austria (North), Spain (North) and Greece (South); informatics laboratories (especially the UNDP e-schools project); and training

teachers in human rights issues (Greece). Key challenges that would require a combined government and donor financing in the future focus on the quality of the teaching and learning process with emphasis on comprehensive curriculum, training teachers, strengthening of the Institute of Curricula and Training (ICT) and the Centre for Students Evaluation and Achievement (AVA) the development of a national plan for evaluation in education, and improvements in the transparency and integrity of the national Matura examination system.

Vocational education. Both the government budget and the donors have provided significant funding over the last years to improve vocational education. Main donors have been CARDS (totalling around €6 million over the last three years), Switzerland, Italy and Austria (specific vocational training on tourism and agriculture). Further donor support will be needed for building infrastructure in vocational schools, increasing teacher capacity and helping the reform in professional education, curricula, studies on market needs, exchange of experiences etc.

University education. Key challenges in university education include the improvement of the institutional and legal framework for higher education; the establishment of an effective system of accreditation; institutional autonomy of universities; integration of teaching and research; and improvement of the financing system of higher education. The government funding allocates around 30% of its investment budget in education to universities. Donor funding to university education has included major commitments under the Tempus program, along with a large Italian project supporting the creation of a post university centre and a telematic network among Albanian universities. Major projects including cultural exchange, building libraries, teacher training and higher education management are supported by Greece, Germany and Switzerland, along with support from Austria and Spain. Scholarships are funded by many donors, including Japan, the US, Germany, Italy, Netherlands and Austria.

Future donor support should focus on the reform in all levels of education, as one of the highest priorities of the government. The continuation of the current SWAp in education sector will be appropriate. Any future plans to support the sector beyond the end of the current arrangements are encouraged to use a similar format, which is efficient for the national education authorities.

Key priority areas to be supported by donors over the medium term period would include support on:

- management capacity to improve governance focusing on the restructuring of the Ministry of Education and Science and the entire educational system through a clear scheme of responsibility and accountability across institutions, down to the level of individual jobs
- monitoring the implementation of the decentralization strategy at primary and secondary schools
- construction and reconstruction of schools with a special focus at pre-university education levels
- establishment of a functional Education Management Information System at all levels
- improve the quality of the teaching and learning process, by strengthening of the Institute of Curricula and Training
- improving the efficiency of education financing schemes aiming an increased share of financial support by the local government
- expanding the provision of pre-school education based on the preschool and contextual models (under application) of Reggio-Emilia and Step by Step, through national model programmes; delivery of early childhood services to vulnerable groups, especially but not exclusively in North-eastern Albania, building new kindergarten
- continuous support to open vocational training centres in other regions of Albania
- international standards to meet the requirements of the Bologna process
- strengthening the capacity of the universities on science and research domain

## Employment, migration and gender

### Employment

The vision of the employment and vocational training strategy, which is based on the Lisbon Strategy, is improved quality of services provided to job-seeking and job-offering clients through the improvement of the employment service, the more effective implementation of active and passive labour market programmes, vocational education and training and the achievement of acceptable levels for rapid regional and European Integration.

The most significant challenges ahead are; the strengthening capacities of employment offices and strengthening their capacities to play an effective intermediary role between the labour market and the labour force; improvement and unification of working methods; improvement of contacts with enterprises and development of partnerships; use of information technology to improve the quality of employment service.

Improving the vocational education and training system, in collaboration with MES are NSDI priorities for the coming years. Develop legislation on labour inspection, health and safety at the workplace in line with European Union policy and to reduce the informal labour market including increased cooperation between the State Inspectorate of Labour, tax and customs administration, the police, and the National Employment Service and extension of the control zones beyond urban areas are the NSDI priorities for the inspection at work.

Government investment to the sector has been limited and concentrated mainly for reconstruction of labour market offices. Government investment in health and safety or in the work of the State Inspectorate of Labour has been very limited.

Switzerland provides project to help with health and safety. Several other donor projects involved in broader economic development matters as Italy, USA, Germany, Sweden are active in supporting efforts to reduce the informal labour market. Italy and Sweden are supporting the National Employment Service, committing a total of €1.8 million. The majority of this support finishes in 2007. CARDS is planning to start a €1 million project to support Regional Labour Offices and labour inspection activities as of early 2008. International Organization for Migration (IOM) and Italy has been involved in the consolidation of regional employment services programmes (trainings on migration services, set up office at these centres, equipments etc).

Key areas where future external assistance could be targeted include:

- regional employment offices
- capacity building at Ministry of Labour, Social Affairs and Equal Opportunities (MOLSAEO) for design of employment promotion programmes
- support to employment programmes for vulnerable groups, notably the disabled, women, and the Roma
- institutional support to the State Inspectorate of Labour to develop legislation on health and safety at the workplace in line with European Union directives and increase its cooperation with the tax and customs administration and other state agencies to fight against informality
- vocational training system reform, including opening of new vocational schools and centres, curriculum modernisation, and Institutional development (e.g. the National Council of Vocational Education and Training, the National Agency of Vocational Education and Training, a national mechanism for career counselling etc)

## Migration

Albania is one of the countries with the highest migration flows in the world with 20% of its population being out of the country. The Crosscutting Strategy for Migration includes apart from MOLSAE various ministries like: Mol, Ministry of Foreign Affairs (MFA), MES, MoF and METE. Migration constitutes an important aspect of Albania's relations with the EU member states which are the destination of the majority of Albanian migrants. Being considered in many cases by the EU as a third country in relation to migration, fight against illegal migration is a top priority for Albania.

Key challenges for the future would include: fight against illegal migration through measures such as the implementation of the Readmission Agreement with EU; improvement of the image of Albanian immigrants abroad; improvement of Albanian consular and diplomatic services in host countries; protection of the rights of Albanian immigrants; mobilisation of the Albanian community abroad; direction of migrant remittances toward investment; fight the brain drain phenomenon through cooperation with international institutions to develop programmes that will attract students in order to utilise their skills in the country.

There are ongoing and planned projects focusing on migration issues. Three of these programmes are funded by CARDS and the other by UNHCR. One of the CARDS projects is implemented by IOM and assists the migration strategy (led by MOLSAEO) by providing capacity building, equipments, support, monitoring. Italy funded a project enhancing the impact of migrant remittances in Albania and creating an integrated migrant remittances system, implemented by IOM. The UNDP in collaboration with GoA supports the 'Brain Gain' project.

Donors support is needed for:

- reintegration of immigrants
- national management systems for migration, including the institutional structure and a system to record the flow of third country citizens who return to Albania
- quality education and raising youth awareness in migration issues
- attracting students graduated abroad in order to utilise their skills in the country

## Gender

There are various Ministries besides MOLSAE involved in the implementation of the NSDI priorities for gender equity and eradication of domestic violence. The recurrent domestic budget supports the Department of Equal Opportunity by €0.2 million. Six donor projects, UN, Austria, Italy, and UNDP provide €0.9 million of support in 2007. Two projects from UNDP and Austria (in total €0.2 million, support women in decision-making processes. Three projects of €0.36 million led by UNFPA support the department of Public Health in 2007 putting emphasis on issues related to women health and equality. Four projects, Italy, Netherlands, Norway, and Spain, provide support to the Department of Labour of €0.3 million in 2007, with a focus on women's employment and emancipation. The 2007 figures include support from WB, CEB and EIB of €10 million from Education Excellence and Equity Project (investment, operational expenses and maintenance). IPA will offer socio-economic support in this area. In addition, many donors provide other support for different aspects of gender equality, either as part of broader programmes or through NGOs, eg Sweden (through Kvina till Kvina), Austria, UNIFEM, Italy, Netherlands.

Key challenge ahead is that women will be able to take part in an equal way in decision making, will have equal rights in schooling, employment, free and equal access to all public services, and will enjoy the results of their labour. It is essential that whoever is affected by domestic violence has access to information for means of protection through criminal and civil legislation, health counselling and social support, that early signs of violence are treated and prevented, and that perpetrators of violence are answerable to the law for their actions. Existing donor

support for the prevention of domestic violence is provided by Netherlands, Canada, OSCE and UNDP.

Donor support will be important in:

- introducing global educational health awareness programs, mostly in rural areas, provide assistance to women in rural areas to obtain supportive health services, improve information technology
- improving the legal and institutional framework that guarantees gender equality through amendments to the gender equality and social security legislation, the improvement of the domestic violence statistics by the State Police, and the establishment of an appeals board for cases of gender discrimination
- supporting vulnerable women through the strengthening of public structures that treat victims of violence and trafficking, particularly in rural areas, and of programmes aimed to reintegrate them
- offering social support to the victims through shelter, police actions, social services, special health services at the local level, and other opportunities for rebuilding their lives

## Culture and Youth

Culture. Key challenges in NSDI focus on improvement of standards of management and treatment of cultural heritage and to approximate these standards of European countries based in the community policy of 'united in diversity'. The government provides limited support for national cultural activities. The majority of government investment to the sector go to heritage (mainly for restorations work of heritage buildings/sites and museums) and arts and culture (mainly for the reconstruction of the National Theatre and National Cultural Centre). There is donor support focusing on the management and restoration of archaeological heritage, cultural heritage buildings/sites and archaeological studies, totalling €2.8 million. This includes projects from various bilateral donors: a large program of Italy, others from Austria, Sweden, Netherlands, France, Switzerland as well as a project of the CoE. WB is committed to conservation of the National Park of Butrint.

Youth. The NSDI puts emphasis on establishing an enabling environment that will encourage the participation of young people in the formulation of policies and the decision making process at the national level. It is aimed to raise awareness of the role of youth in the building of society, in the area of culture, and in the socio-economic field. Youth needs to be seen as a real partner in governance, given its direct responsibility in today's developments in the country. There is a range of donor support for youth, both in general (Italy, Austria, Canada) and with a sectoral focus, particularly in health (UNFPA, Italy, Norway) and justice (Sweden, Netherlands, Norway).

Future bilateral and multilateral donor support for this sector could be focused on:

- further rehabilitation and restoration of cultural heritage infrastructure
- international cultural exchange
- electronic cataloguing of cultural heritage and increase public access
- infrastructure related to development of culture and art including rehabilitation and construction of theatres and culture centre
- improvement of the legislature on the intellectual property rights
- capacity building of youth organisations and support the establishment of National Youth Agency
- promoting health and social protection for the youth
- promotion of human rights and of the volunteer culture and practice among young people

## Social protection, inclusion and insurance

### Social protection

Social protection as direct payments to people in need absorbs considerable funding from the government budget from 0.8% to 0.4% of GDP between 2000 and 2005. The local governments units distribute economic assistance to deserving families according to a complex set of criteria, which often appear designed to exclude applicants rather than to assess their need. However, the overall targeting inefficiency is not substantially greater than in comparable countries. Other vulnerable groups are being assisted by the social care system, which provides residential and day care services. These institutions serve orphans, the disabled, victims of trafficking and persons with social problems, including psychiatric problems and drug abuse. The social assistance policy has been supported almost exclusively through the WB and DFID funded Social Services Delivery Project, which is coming to an end. Related priorities are supported by 4 ongoing projects from the WB and CARDS, in cooperation with CoE. These ongoing projects have a total commitment of € 16 million, spread over four to seven years. Most of the major bilateral have programmes in social protection, many of which are implemented by NGOs. All the ongoing projects will finish in by mid 2008.

Key challenges in this sector remain: revision of social assistance scheme; improvement in the targeting of the main cash benefits especially to benefit from any breakthrough after the completion of the civil registry reform; improvement of the targeting of the social assistance scheme; improved assessment of applicant households; improvement of the administration of the electricity subsidy.

The policy on social care will encourage the provision of services to persons in need within their families and communities instead of admitting them into residential centres. The strategic priorities of the reform include: decentralisation of social services; transfer of residential service centres to the competence of local government units; establishment of new social services in the community; institutionalising the relationship with non-government organisations as providers of social services and as defenders of the rights and interests of groups in need; and gradually transforming residential services into mobile and community based services.

Particular donor support will be needed for:

- preparation of the new poverty map to be based on the results of the 2011 Census, as well as the continuation of the Living Standards Measurement Survey, which in the past were also funded through a component of the Social Services Delivery Project
- capacity building and training for local government on the revised social assistance scheme
- improvement of the monitoring system

### Social inclusion

The crosscutting strategy of social inclusion focuses on poverty risks that remain even after the onset of economic growth. It summarises the underlying sector strategies that aim to assist vulnerable individuals, families and groups in the community, Roma, and people with disabilities so that they are able to operate on their own, to be self-sustaining and to have the same rights as other members of society. Implementation of the above priorities involves various ministries.

There are about 25 ongoing projects in this area, with a total commitment of €13 million. Ten projects are focused on children, accounting for about 70% of total commitments (US, Germany, Italy, Spain, Austria, Switzerland and UN). A further six projects are planned by the same donors, with commitments of €2 million. All of these will finish within the next 12 months.

Donor assistance is needed to support the government to:

- improve the status of the Roma community through the institutionalisation of policies and programmes to reduce poverty, overcome discrimination and achieve integration
- registration of the Roma community, vocational training and other education programmes, public order and police, health services in Roma communities and promotion of family planning, immunisation coverage, ante- and post-natal care
- support the progress that is being made to bring the situation of disabled people in Albania closer to EU norms. This could include introducing programmes of early identification or prevention of disability, coordinate health and social services in line with the policy to decentralise social care, and integrate education curricula and teaching processes

## Social insurance

A recent review of the social insurance system voiced concerns about the long-term sustainability of the system in view of the proportion of the population that will not be covered in the future and the fact that the replacement rate, in other words the value of the pension in comparison to the average wage, will continue to decline. Key challenges is the replacement of the existing single tier pay-as-you-go system with a multi-pillar social insurance system while protecting the fiscal interests of the state, the needs of the pensioner and the entitlements of the contributor. The lead donor in social insurance is the WB, who is leading the Social Services Delivery Project, with total commitments of €9 million, and have supported pension policy reform under the DPO. The sector has also received support from CARDS, which is supporting the reforms in social insurance, including unemployment benefits, with a recent project worth €0.7 million.

Future donor support will be useful in:

- modernising the social insurance system

## 3.6 TERRITORIAL DEVELOPMENT: REGIONAL, RURAL AND LOCAL

Territorial development is a category that is used in the NSDI and in EU planning frameworks. It groups together a number of sectors that are concerned with the development of areas of the country, including: regional, rural and local development; agriculture and tourism, which promote economic development in some areas of the country; and urban planning. The other activities of MCTYS are also included, because of the close links of some major programmes with tourism. Territorial development covers some economic development and infrastructure, but only when planned and managed at a local level. External assistance accounts for about 60% of total investment in this category and is particularly important in rural development. The share of territorial development in total external assistance is steady in the medium term, but the low levels of support for rural development and for urban and spatial planning are a concern for government and need to be addressed in future donor programming.

## Agriculture and rural development

The agriculture sector strategy identifies the following strategic priorities: increase of financial support (transfer payments or credit) to farms and agro-industrial businesses with special attention on particular types of agricultural production; improve the management, irrigation and drainage of land; improve the marketing of agricultural and agro-processing products; improve the level and quality of technologies, information and knowledge applied by farmers and agro-industrial businesses. Key challenges in the sector relate to increase the productivity and

competitiveness of the agricultural and agro-processing sectors both domestically and abroad, supported by a functional market economy and a legal framework according to European standards.

Irrigation and drainage infrastructure management. Domestic resources will fund €5.25 million of the 2008 public investment under this programme. Half of that amount will be allocated to flood protection interventions and drainage equipment. The other half will be co-financing the Water Resources Management Project (WB, OPEC, and Kuwait). No other donors are supporting rural infrastructure, although Italy and Greece have recently completed irrigation projects.

Production and marketing. Domestic resources will fund €1.9 million of 2008 public investment under this programme, of which €0.8 million are a competitive grant to local government units for the construction of slaughter houses and markets. The remainder is mainly counterpart funding to donor projects, such as the Sustainable Development in Rural Mountain Areas project that supports the Mountain Area Development Agency (MADA) by the International Fund for Agricultural Development (IFAD); the 2KR project (Japan), and the Agricultural Services Project (WB). In addition, other bilateral donors support production and marketing activities, including Italy (partly implemented through FAO), Spain, Switzerland, and Germany. Other support includes the US Farm Competitiveness Project. IPA is also likely to provide grants for rural enterprises, after Albania achieves candidate status. In the meantime, there is an opportunity for bilateral donor support to help develop the capacity for feasibility studies, environmental assessments, market analysis, and to assist government in developing a common approach to public support for production and marketing.

Extension and agricultural information. Domestic resources will fund €0.5 million of public investment under this programme, which will be used primarily for the constructing and equipping technology transfer centres. One of the components of the Agricultural Services Project (WB) and three bilateral donor projects (Italy, France, and Austria) support the extension service. Donors could support extension and research through broader sector-wide projects that cover policy reform.

Sustainable land management and farm registration. The establishment of information systems is closely associated with international integration commitments and the need to manage future EU support programmes. Support from donors includes components of the WB projects in Agricultural Services and Land Management and Urban Planning. The IPA /MIPD includes future commitments to support development of information systems.

Rural development. In view of the expected progress in the road to European integration and the fact that IPA Rural Development (IPARD) is expected soon to become the dominant source of funds for rural development, the rural development crosscutting strategy has been developed to prepare the country to establish the necessary mechanisms for absorbing future support. It sets priorities over the period 2007-2013 across the four axes of IPARD, namely farm competitiveness, environment, quality of life and capacities of local institutions. Domestic support through the budget is provided mainly through MAFCP (under the production and marketing programme), and conditional or unconditional grants to local government units. Donor support has focused on specific institutions, such as MADA (IFAD) and the Albanian Development Fund (ADF) (WB, CARDS, Germany, Italy, IDB), particular rural areas (CARDS, UNDP, Germany, Greece, Austria, Switzerland, Spain) or particular growth enabling mechanisms, such as credit unions or sustainable agriculture. IPARD will become the dominant source of funds for rural development, after Albania becomes a candidate country. A new USAID project (2007-20012) aims to Improve Private Sector Competitiveness in agricultural sectors and build an Information System for agriculture (MIS) helping the rural development in the country. IPA 2008 is likely to support rural development initially through existing institutions and subsequently through supporting the development of a Rural Payment Agency.

Areas that will need donor support over the short and mid term period are:

- support to develop strategies for land use, the land market, rural development,

diversification of farm activities and enhancing agricultural competitiveness

- assess the compliance of agri-food establishments with EU requirements, prepare a programme for their upgrading and start its implementation
- support to ensure efficient control of domestic plant production, in particular for products with specific EU requirements, and set up analytical capacity in the phytosanitary sector
- support to build the agricultural marketing infrastructure with emphasis on increasing the efficiency of existing wholesale markets
- support with credit schemes with light term, rural banks and credit guarantees, with the aim to modernise farms and businesses and increase product competitiveness
- support to agricultural and agro-processing industrial production
- improve irrigation and drainage management
- support to Agricultural Information Centres and Agricultural Technology Transfer Centres
- strengthening of new extension methods, such as Farmer Schools and Technology Development with Participation, and restructuring of research to fit better farmer needs
- improve the system of identification of bovines and registration of their movements, and improve the system of identification and registration of movements for animals
- institutional support to farmer associations

## Regional development

The regional development crosscutting strategy key challenges over the period 2007-2013 will be:

- a single policy framework for the socio-economic development of counties ('National Programme for the Development of Counties'), a single socio-economic development programming document for the county ('County Development Strategy'), and a single local agency to coordinate its implementation
- a government plan for the development of the Disadvantaged Areas and the allocation of a special budget line in order to operate special support schemes for both disadvantaged qarks and disadvantaged communes and municipalities

This will build on a new partnership between national, county, municipal and commune stakeholders, and the County Partnership Council.

Domestic public investments supporting regional development have so far been distributed across different ministry and agency programmes. The regional development crosscutting strategy is offering a vision for coordinating the overall policy. There has been considerable donor support for regional development in the past, including a programme supported by UNDP in the framework of the Millennium Development Goals and different projects funding local infrastructure, such as Local Community Development Programme (CARDS), Social Investment Fund (Germany), and Community Works (Italy and WB). The coordination of regional development projects will become increasingly important, especially once EU practices are introduced with IPA support for regional development. A key challenge ahead as Albania approaches the EU is to develop the capacity to manage EU style regional development programmes. This will ultimately be supported by IPA and subsequent EU programmes.

Future donors support on this area should focus on:

- establishment of a single regional development planning and management system in the country
- institutional support to the existing Regional Development Agencies and support for

establishing new ones

## Tourism

### Tourism

The tourism sector strategy identifies priorities related to awareness raising, marketing, investments in nature areas and cultural sites, human resource development, improvement of the business climate, product development, and information management. The 2008 budget of Ministry of Culture, Tourism, Youth and Sports (MTCYS) allocates domestic sources to public investment through two programmes:

The tourism development programme for 2008 will allocate €0.3 million as development fund to the National Agency of Tourism. €1.3 million will be allocated to the restoration of sites that also have tourism interest.

On the donors side, the UNDP has supported the ecotourism aspects of tourism development. The multi-donor (Austria, EC, Global Environment Facility (GEF), Japan, Netherlands) have supported the Integrated Coastal Zone Management Project together with WB, which, through capacity building and infrastructure investment, is primarily intended to ensure a sustainable development prospect for areas of potential tourism development. Austria has supported professional education in the field of tourism. WB, GEF and Sweden have supported Shkodra Lake Integrated Ecosystem Management, and Germany has supported the Biodiversity of Prespa and Ohrid Lakes together with Greece and Italy.

Italy is supporting the Karavasta National Park and the World Bank have scheduled further support through a GEF grant on the Butrint National Park. Entrepreneurs in the tourism sector are expected to benefit from the private sector development activities coordinated by METE.

Specific future opportunities for donors include support for:

- awareness and marketing
- programs and studies that support tourism development, such as professional trainings programs and professional institutions for tourism management
- financial support for rural and alternative forms of tourism
- expertise and technical support for the implementation of pilot projects for tourist resorts
- standardised studies for the development of a tourism market compatible with WTO and World Tourism and Travel Council standards

## Spatial planning and housing

Spatial planning. A new spatial planning law, expected to be approved soon by Parliament, will clarify the legal and policy framework. Domestic resources under the urban planning and housing programme of MPWTT cover public investments worth €0.6 million for urban studies, €0.25 million for activities of the property legalisation agency, and €1.1 million as counterpart funding for the Integrated Coastal Zone Management project (WB), which includes development plans for the southern coast and support to urban management structures. USAID and WB have provided TA to formulate the new spatial planning policy framework. The implementation of the framework is expected to be supported in the future by the Land Administration and Management Project (WB), which will support regulatory plans and infrastructure investment

plans for 8 selected cities. The CARDS project on the sustainable development of the Tirana-Durres region prepared a master plan that should be adopted in the new structures.

Housing. The priorities in the field of housing are to increase the access of poorer groups to housing, support the rental sector, and improve the stock of buildings. Domestic resources under the urban planning and housing programme of MPWTT fund public investments worth €3.6 million, including purchases of buildings, improvement of conditions of buildings of the Roma community, and - mainly - counterpart funding to the CEB project on social housing. The main forthcoming project in the housing sector will be supported by the EBRD and will aim to make available low-cost housing for families in need.

There is a need to ensure that ongoing projects in the spatial planning sector fit into the new policy framework.

Specific future opportunities for donors include support for:

- capacity building especially at Local Government to increase spatial planning capacities, once the policy framework has been put in place
- engaging the public, including the main professional associations, in planning decisions

## **4. Orientation of future external assistance**

This chapter examines the likely future trends in external assistance and provides orientation on which sectors need to receive the highest priority, based on the needs defined by the NSDI and the comparative advantage of external assistance, compared with domestic financing. It also presents a list of priority projects to help guide donors to specific opportunities.

### **4.1 SOURCES OF FUTURE EXTERNAL ASSISTANCE**

The relative levels of grants and loans from bilateral and multilateral donors is compatible with Albania's needs. Continued support in the form of grants is important for the current emphasis on reforms and institution building, and larger loans are essential for the major programme of rehabilitation and construction in infrastructure.

NSDI foresees that the current patterns of public investment will continue for the medium term and this is reflected in the relatively stable pattern of resource allocation in the MTBP. However, within the next five years, the national strategy foresees some shifting in allocation, partly because some of the new and reformed institutions will have the capacity to manage new programmes and partly because the urgent emphasis currently placed on road infrastructure will begin to shift towards water and sanitation infrastructure.

Bilateral grants are critical over the medium term. They are especially valuable as an efficient source of technical assistance (TA) for the institutional strengthening that is required for the provision of efficient public services. They are also an important source of funding for physical investment, especially where this requires complementary TA, such as the establishment of EU style support for economic activity. Bilateral grants tend to be relatively small projects which increases the importance of coordination, to ensure efficiency and avoid duplication and gaps.

The government believes that EU grants should play an increasingly important role, both because of the resources they provide and because they are part of the process of developing the capacity to meet potential EU Candidate status. If Albania receives the same pattern of funding during accession as recent new EU Member States, then EU grants would more than treble in the years leading to membership.

Bilateral loans have played an important role in recent years and promote the transition towards commercial funding and foreign direct investment. They will be even more important as the pre-accession period unfolds. They are particularly important when they facilitate large investments that can be coordinated with the provision of bilateral grants for TA.

Loans from the EBRD, EIB and CEB have been very important in the recent past. Most of the loans are provided on commercial terms and their value to government lies partly in the willingness of the banks to fund longer term investment in public infrastructure and partly in their ability to cooperate with related technical support. The government will request European multilateral loans to continue to be important in the pre-accession period and beyond.

Multilateral loans are currently playing a very important role in Albania. This is especially the case in the areas that do not traditionally receive EU support, such as health, education and social reform, but also in infrastructure and natural resources. The graduation from IDA status means that the subsidy element of the loans is now less than 20%. However, multilateral loans are extremely important for Albania as the WB and other multilaterals are able to provide important expertise to complement their funding and because many of these investments provide social returns only in the long term.

## 4.2 SECTOR FOCUS

**Government identified needs.** In the medium term, future shifts in spending allocations are reflected in the MTBP, which includes specific commitments from line ministries. The NSDI will also provide some orientation for shifts in period from 2011 to 2013. The levels of spending involved in these shifts are still not finalised in the current draft of the NSDI. However, it seems likely that particular additional emphasis will be given to water and sanitation, regional and rural development and the environment, reflecting the patterns in spending that are typical in countries attempting to meet EU standards as part of a policy of seeking EU accession. Table 4.1 presents the sectoral allocation of expenditure in the MTBP and in the NSDI, along with the current allocation of external assistance and some indication of donor programming.

**Table 4.1 Average annual capital expenditure (Euro m)**

	Budget MTBP 2007-10	NSDI Added Priority 2011-13	Annual External Assistance 2007-10	Priority in donor programming documents
<b>Democratisation &amp; Rule of Law</b>	<b>73</b>		<b>33</b>	
Defence	48		5	Mid
Justice	12		13	Mid
Interior	14		15	Mid
<b>Infrastructure</b>	<b>424</b>		<b>86</b>	
Transport	354		40	Low
Water	62	High	27	High
Environment	8	High	18	High
<b>Economy</b>	<b>19</b>		<b>24</b>	
Public finance	9		10	Mid
Economy	10		14	High
<b>Social</b>	<b>109</b>		<b>40</b>	
Labour	3		5	Low
Health	41	High	17	Mid
Education	65		18	Mid
<b>Territorial</b>	<b>54</b>	<b>High</b>	<b>34</b>	<b>High</b>
Other	15		21	
<b>Total</b>	<b>694</b>		<b>239</b>	
Note: Energy sector	0		89	Low

Sources: Budget/MTBP figures are from MoF; the NSDI costing figures are from the NSDI; the current pattern of external assistance is from the donor database, taking the average of the estimated expenditure between 2006 and 2008; future priority summarises the analysis of donor programming documents.

The table suggests that external assistance is at a level of about 35% of investment in the budget (although not all external assistance is included in the budget figures). Sectors can be grouped into several categories.

External assistance is less than 20% of current budget and, given current donor programming, will not change in the medium term: defence and transport.

External assistance is more than 20% of current budget, and will stay at similar levels: labour, health and education

External assistance is more than 75% of budget, and will stay at similar levels: justice, interior and public finance.

External assistance is more than about 50% and will fund a large proportion of growing investment requirements: economy, water, environment and territorial.

**Gaps in current programming.** Donor programming documents generally cover three year periods. The current set of programming priorities are well matched to the mid term priorities of donors suggested above. The following table summarises the alignment of external assistance programming with government's assessment of Albania's needs and provide some general orientation for donors that are revising their priorities.

**Table 4.2 Needs and orientation for external assistance, by sector**

	Needs	Gaps in donor programming
Democratisation and rule of law	Will continue to require a significant share of public investment, with a critical role for external assistance	The strong emphasis on public administration is welcome, but justice and public order should feature more strongly in donor programming.
Economic development	Urgent need to establish the institutions and mechanisms, to be followed by major funding for private sector development, including rural and regional development	Gets the highest emphasis of all sectors in donor programmes, suggesting that donors are preparing for increased support, in line with NSDI priorities.
Transport	Continued top priority for the next four years at least, after which focus will shift from major to minor roads and road safety	Good support in donor programmes. Needs to be sustained for several more years, although domestic finance will dominate.
Water	Urgent need to improvement management capacity followed by high investment needs	Attention in donor programming is relevant for the short term but will need to increase in the longer term.
Social development	Immediate focus on reforms and institutions, to be followed by investment	The interest in donor programming documents is wider than the current support, suggesting that the support of more donors for social sectors may be realised.
Territorial development	Expanding support for local, rural and regional development will be a very significant feature of EU integration	Regional and rural development, agriculture and urban planning do not feature strongly in donor programming documents and need to be given more emphasis.

**Short term priorities.** Shifts in the sector shares of external assistance will take place partly through acceleration of existing programmes. Some immediate shifts will also be achieved through new programmes. *Ministries have identified a small number of high priority projects that donors should consider for new funding in the short term.* These are selected to reflect the immediate concerns and capabilities of line ministries, bearing in mind the NSDI priorities and the mid-term priorities identified in the boxes in chapter 3. The table below lists these projects and gives some indication of the level of resources that should be devoted to each type if project. For rough costing purposes, the projects are classified into four types:

- A. Major infrastructure projects, covering large roads, power, water and ports (€ 20m plus)
- B. Smaller physical assets, such as buildings, offices and equipment (€ 5-15m)
- C. Broader sector programmes, such as sector wide approaches and programmes of integrated development involving a variety of related activities designed to support development of a sector as a whole (€ 5-10m)
- D. Strengthening the capacity of institutions to perform functions, including training, systems, studies and TA (€ 1-3m)

Table 4.3 Projects for external assistance

Strategy		Project Title	Type
Governance/Law			
Justice	1	Rehabilitation and Construction of Courts	B
Public Admin.	2	Building capacity at DoPA & strengthening civil service procedures	D
Decentralisation	3	TA & capacity building for local government administrators	D
	4	TA & capacity building for the prefecture/district administrators	D
Public Order	5	Police coordination for emergencies and territorial control	D
	6	Equipment to support for police security and mobility	B
	7	Police station rehabilitation to EU standards	B
	8	Civil emergency (fires, floods ...) phone system '112'	D
	9	Police DATACOM radio communication system	D
Org. Crime, T&T	10	Strengthening anti-trafficking capacity: training & reintegration	D
Statistics	11	Transitional Trust Fund for delivering statistics work programme	D
Economic Devt			
Economy	12	E-market development in Albania	D
	13	Innovation and incubation for new SMEs	D*
	14	Free zone and industrial parks in Durres, Skoder & Vlore	B
	15	Export processing centre in Durres	D
	16	Project to promote foreign direct investment	D
Consumer Prot.	17	Legislation harmonisation, implementation & institution building	D
Infrastructure			
Transport	18	Rreshen-Kalimash Road	A
	19	Plloce-Korce Road	A
	20	Fushe Kruje-Milot Road - second lane	A
	21	Establishing air transport accident/incident investigation board	D
	22	Design & implementation of Saranda airport	D
	23	Rail: partial reconstruction of Durres-Rrogozhine & Vlore-Milot line	A
	24	Rail: signal system for Durres-Tirana and Milot-Rrogozhine	A
	25	Rail: new locomotives & electronic timetables for passenger service	A
	26	Ports: phase 2B, 4 and 5 of Vlora Port Masterplan	A
	27	Centre for traffic information	D
	Energy	28	Korce-Permet power transmission system
29		Vlore-Saranda power transmission and supply for tourism industry	A
Water & Sanit.	30	Water metering: purchasing and installing 300,000 meters	B
	31	Computerised water billing and collection system	D
	32	National standards, decentralisation & reconstruction programme	A*
Environment	33	Air quality monitoring	D*
	34	Waste management programme	C
	35	National Park development with Kosovo and Montenegro	D
	36	Second phase Fisheries Development Project, building on WB/IsDB	C*
	37	Inventory of water resources in 5 remaining national water basins	D
	38	Forest fire control: satellite detection & management planning	D*
Social			
Education	39	Early childhood devpmt: reconstruct 350 kindergart, build 10 new	B
	40	Professional Education Project	C
	41	Support for adaptation into Bologna process in higher education	C
	42	Science & research: a) link to employment; b) linking to education	D
Health	43	Sector wide approach for support to primary health	C
	44	Clinical training and medical training for new techniques	D
	45	Institute of Health Insurance	D
	46	Institute of Public Health	D
Employment	47	Implementing the Albania Framework for Qualifications (NAVt)	D
	48	Life-long Learning Project, jointly with MES	D
	49	Efficiency of employment services: offices, training, IT system	C
Social Prot.	50	Integration of marginalized groups: register, plans, pilots, grants	C
	51	Reinforce the child protection structures	D
	52	Database for the disabled, including diagnosis and needs	D
Gender Equil.	53	Credits and grants for women entrepreneurs	D
Migration	54	Building national management systems for migration	D

	55	Preparing strategy and action plan for reintegration of immigrants	D
Social Inclusion	56	Modernization of social insurance system (ISI)	C
	57	Capacity building & TA for ratification of EU social insurance code	D
<b>Territorial devt</b>			
Agriculture	58	Brucellosis control project	D
	59	Support for fruit and horticulture production and marketing	C
	60	Development of collection points and markets	B
Rural Devt.	61	Establishment of Rural Payment Agency	D*
Regional Devt.	62	Institutional strengthening for regional development	C*
Tourism, Culture, Youth and Sport	63	40 rural heritage inns	B
	64	Reconstructing national monuments and cultural heritage	B
	65	Reconstruction National Theatre Kolonadat	B
	66	National Youth Agency	B
	67	Reconstruction of Tirana National Sports Stadium	B
Spatial Planning	68	Integrated support for low rent housing and legal framework	C

Note: An asterisk signifies projects that are in addition to related requests for funding from IPA 2008.

Line ministries' projects proposals include estimates of the full costs of the priority projects. DSDC have analysed these and believe that the total project cost would be about € 400m. This compares with an average annual commitments of external assistance in recent years of about € 300m<sup>8</sup>. Therefore, if donors were to devote a majority of new commitments to the new priority projects, it would take about 2 years to obtain commitments for all projects.

The table below summarises the value of the priority projects by sector and compares this with the current external assistance pattern and the MTBP. The first column shows the current government priorities over the short term period and the final two columns indicate how external assistance would change if the new priority projects were funded over the next two years.

**Table 4.4 Sector orientation (average annual investment in million Euro)**

Period	MTBP	Kostimi i SKZHI	Current External Assistance	New Priority Projects
	2007-10	2011-13	2007-10	
Democratisation/Law	73	107	33	51
Economy	19	63	24	29
Energy			89	30
Transport	354	548	40	119
Water and environment	70	146	46	73
Social	109	173	42	60
Territorial	54	186	34	42
Other	15	25	23	
<b>Total</b>	<b>694</b>	<b>1248</b>	<b>330</b>	<b>404</b>

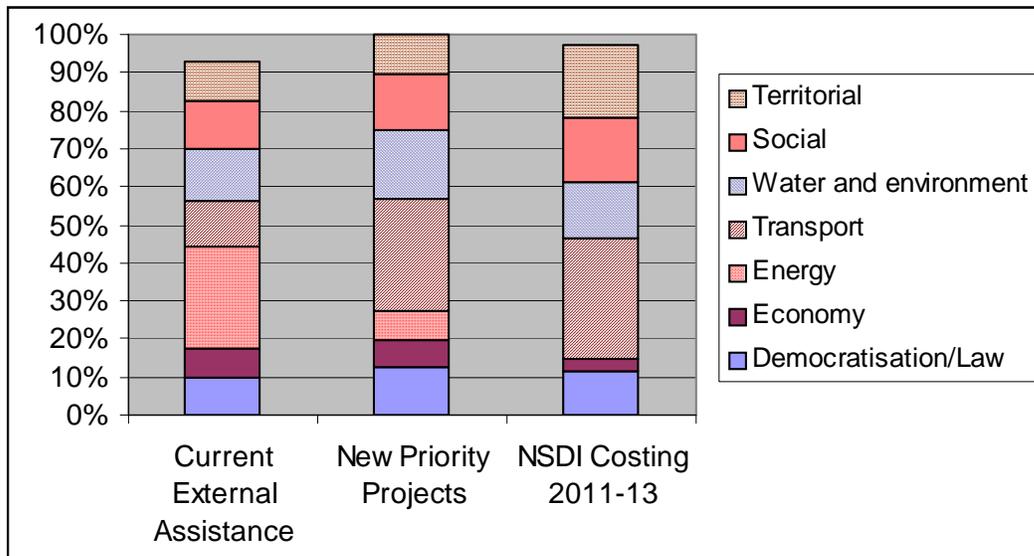
Sources: see table 5.1 for current external assistance, MTBP and NSDI costing; the new proposed projects are based on the DSDC revised costs

In general, the table above shows that the new priority projects are consistent with the shifts that will be required to move external assistance towards the MTBP. This is presented

<sup>8</sup> According to DAC data, the average annual commitment of new assistance has been roughly similar to the average annual disbursement since 2000, because commitments are only recorded in DAC at the point when they are irreversible. According to the donor database, average project duration has been 3.0 years, with one third of each year's disbursement comprising the first third of disbursement of new commitments.

graphically in the figure below, with energy excluded because the main sources of investment are not included in the MTBP.

Figure 4.1 Priority projects shifting assistance for current to NSDI patterns



Sources: see table 5.1 for current external assistance, MTBP and NSDI costing; the new proposed projects are based on the DSDC revised costs

In particular, the table shows that:

The share of external assistance provided to democratisation and the rule of law in the NSDI costing is slightly higher than the share in the MTBP costing and the new projects are in line with this.

The new projects for economy have a similar share of total spending to current external assistance, despite a decline in this share in the NSDI costing. This reflects the comparative advantage of donors in the sector.

In transport, the new projects will give a major boost to funding share, in line with the NSDI costings. The new project share is slightly lower than the NSDI costing, reflecting the importance of domestic funding for roads.

The share of water and environment in new project funding reflects the prioritisation of this sector that will be seen within the next five years and the important role for donors in water and environment.

The share of funding for new project for social sectors is slightly higher than for existing external assistance, reflecting the NSDI costings. A similar pattern applies to territorial development.

## 5. Improving management of external assistance

This chapter describes the existing management of external assistance and the government's plans for improving this. The main focus is on improved cooperation in planning, management and evaluation, both amongst donors and with government.

The chapter refers to the DAC survey of ODA (see section 1.4), which offers valuable support for the changes that are required. The 2005 baseline results of the 2006 DAC Survey are presented in Table 5.1 along with the 2010 targets, which provide a guide for where governments and donors need to focus their efforts in improving EA management.

**Table 5.1 Paris Declaration Indicators: 2005 baseline and 2010 targets for Albania**

	Indicators	2005 Baseline	2010 Target
	<b>Ownership</b>		
1	Ownership - Operational National Strategies	C	B or A
	<b>Alignment</b>		
2a	Quality of PFM systems	4.0	4.5
2b	Quality procurement systems	Not available	Not applicable
3	Aid reported on budget	32%	85%
4	Co-ordinated capacity development	28%	50%
5a	Use of country PFM systems (aid flows)	14%	43%
5b	Use of country procurement systems (aid flows)	6%	Not applicable
6	Parallel PIUs	57	19
7	In-year predictability	49%	74%
8	Untied aid	59%	More than 59%
	<b>Harmonisation</b>		
9	Use of programme-based approaches	5%	66%
10a	Co-ordinated missions	9%	40%
10b	Co-ordinated country analytical work	22%	66%
	<b>Managing for Results</b>		
11	Sound performance assessment framework	D	B or A
	<b>Mutual Accountability</b>		
12	Reviews of mutual accountability	No	Yes

### 5.1 REPORTING AND RECORDING EXTERNAL ASSISTANCE

The DSDC has overall responsibility for the management of external assistance, in close cooperation with the MoF. The government will adopt the existing donor database, which has recently been maintained by the Donor Technical Secretariat (DTS). DSDC and MoF will define sound identification procedures that allow both institutions to work with the database whilst maintaining consistency. Procedures will also be developed to ensure that the database is available to the government and donors in a transparent and up-to-date manner. It will continue to be necessary to obtain information on external assistance both directly from donors, and from government agencies. During 2008, the government will continue to work on improving procedures for integrating external assistance into government recording and reporting, and on the associated EAMIS that supports these procedures. Support for EAMIS is foreseen under the IPS, but is not included in the first year priority. Thus, in the immediate future, progress will be made in a pragmatic fashion, placing particular attention on good coordination between DSDC and MoF. The main areas where immediate further work is required are:

- Refining the classification of projects in order to be aligned with the appropriate budget programme, wherever possible.
- Monitoring of disbursement information, along with increased collaboration with budget monitoring.

Donors are requested to continue providing regular updating of information to the donor database and to make sure that the information they provide to the database is classified and reported consistently with the information that is in the budget.

### **Ownership: effective leadership over development policies and strategies, and coordination of development actions**

**Results from the 2006 survey:** The 2006 survey concluded that the overall picture of ownership (Indicator 1) in Albania was moderate. Challenges identified were the limited integration of various strategies and plans. Priority actions identified were the completion and implementation of the National Strategy for Development and Integration (NSDI) 2007 - 2013.

**Achievements and progress made:** The DSDC has expanded its role in managing external assistance and coordinating with the MoF and the Ministry of European Integration (MEI). Progress has been made in linking national priorities and strategies to the budget. The IPS sets out a set of operating principles to ensure that policy and budget planning and implementation take place in a coherent, efficient, and integrated manner. Joint donor efforts and pooled funding have ensured that necessary resources are available and technical assistance is effectively coordinated. A single unified strategic framework has been developed through the NSDI 2007 - 2013. Progress is being made in linking the MTBP and the NSDI 2007 - 2013, where MTBP ceilings and expenditure plans will properly reflect the NSDI and SAA commitments. The Department of Public Investment is responsible for the development of new public investment management procedures. Progress has been made in developing a process for identifying, approving, and monitoring domestic and foreign-financed public investments, which will facilitate improved links with external assistance.

**Priority actions for 2008 to make progress against 2010 targets:** Implementation of the NSDI and IPS. Approve new Law on Management of Budget System, including regulation on Foreign Assistance.

## **5.2 ALIGNMENT WITH THE BUDGET**

### ***Programming and the budget***

The 2006 survey noted that 32% of Official Development Assistance (ODA) was registered on budget, which is well below the 2010 target of 85% (Indicator 3). Latest estimates from the donor database suggest that nearly 75% of all external assistance is registered in the budget, including all loans and about half the grants. This is supported by preliminary results from the ongoing 2008 DAC survey, which indicate 76% of EA is registered in the budget. *Donors are requested to place a high emphasis on ensuring that assistance is registered in the budget. This may be achieved by working closely with the relevant line ministries, as well with MoF. During programming they need to make sure that the management structure of larger and broader projects can be effectively aligned with budget institutions.*

The greater use of the donor database within the DSDC and MoF, along with the production of an annual EAOD progress report, will ensure that information on external assistance is included in budget discussions. The government has already used tables which present domestic investment and external assistance to check that sector allocations are consistent with national strategy priorities and goals. This will be built into the budget cycle for the preparation of the 2009 budget, as follows:

Table 5.2 External Assistance in the Budget Cycle

Date	Key budget process actions
November-December	DSDC consults ministries on whether there are any major policy commitments that require substantial budget allocation, beyond normal annual increments
Mid-January	MoF presents the macro-framework and overall spending ceilings, including an estimate of funding for new policy acceleration
End-January	DSDC prepares the Policy Priority Note (PPN) for SPC, based on ministry consultation, to alert them to the large unfunded policy commitments
Mid February	SPC decides initial ceilings for ministries, based on PPN.
February-March	Ministries consulted through the Programme Policy Review (PPR), coordinated by MoF, to update programmes
End February	MTBP instruction issued
July	First Round MTBP submitted to SPC

Throughout the cycle, ministries will be expected to report on additional funding priorities in the context of all ongoing and planned external assistance, and DSDC will ensure that all external assistance is properly taken into account. In order to maintain this connection, DSDC in coordination with the MoF, will need to continue with the effort to classify all external assistance against one or more budget programmes. *Donors are encouraged to take these processes into account when programming and reporting on external assistance.*

The donor database includes a column identifying the ministry responsible for the project. This has been filled in partly by donors, when sending responses to DTS, and partly by DTS and DSDC. The table below shows that 86% of funding has a clear lead ministry. However, there are a number of NSDI sectors which have a variety of local implementing institutions, including: public administration (which is spread across many institutions); the justice sector (which includes a number of independent institutions and also includes human rights projects that are not necessarily associated directly with MoJ); environment (which includes work implemented by MPWTT); and local and regional development (which include many projects implemented directly with local government).

If projects were to be managed through the budget, they would need not only to be attached to a ministry, but also to a department within the ministry. The final column of the table below presents the proportion of external assistance in the sector that can also be associated with a clear lead department in the ministry. In total, 85% of external assistance can be associated with a clear government department. Some sectors (notably Public Administration) have a higher proportion of assistance with identifiable lead sectors than support going through the lead ministry.

Table 5.3 Proportion of external assistance with a clear lead ministry

NSDI Sector	Lead Ministry	Projects under lead ministry	Projects with clear lead Department <sup>1</sup>
Defense	MoD	100%	35%
Public Administration	Mol	33%	62%
Justice	MoJ	88%	56%
Interior	Mol	97%	97%
Economy	METE	100%	100%
Public Finance	MoF	92%	92%
Energy	METE	100%	100%
Transport/Water	MPWTT	100%	100%

Environment	MEFWA	68%	100%
Education	MES	98%	64%
Health	MoH	99%	86%
Social, Gender	MLSAEO	100%	89%
Agriculture/Rural	MAFCP/ADF	91%	100%
Local/Regional	Mol	37%	100%
Local/Regional	Local Govt	63%	-
Urban	MPWTT	75%	100%
Other	-	23%	13%
Total		86%	85%

Source: donor database

<sup>1</sup> The final column presents the proportion of external assistance that has been associated with a government department. This does not imply that the assistance is in the budget of that department or that the department is actively involved in managing the project.

There are two main challenges for associating external assistance with budget programmes:

- Four sectors - defense, justice, health and education - are characterised by several large broad projects that cut across several different institutions. *Donors are requested to formalise these projects as sector wide approaches.*
- Support for local, rural and regional development is implemented in a variety of different ways and government is working to provide greater clarity on the appropriate level and methods of coordination. The database has 11 ongoing or planned projects of more than Euro 1 million that provide support to local communities<sup>9</sup>. Government initiatives are underway to improve national coordination of these programmes through the development EU style rural and regional agencies. There are also several programmes to improve local government finance and planning which will also help to make it possible for external assistance to be provided to local governments. *Donors are requested to support government initiatives to coordinate local development.*

**Alignment: donors base their overall support on national development strategies, institutions, and procedures**

**Results from the 2006 survey:** The 2006 survey suggests that alignment of external assistance to national development strategies is relatively weak. Challenges identified were the uncoordinated system of reporting and recording external assistance. Priority actions identified were the continued implementation of PFM and procurement systems reforms. The WB Country Policy and Institutional Assessment (CPIA) for 2006 gives Albania a score of 4.0 out of 6.0 (Indicator 2), compared with an average of 3.2 for all IDA countries. Albania also scores relatively low on PEFA indicators.

**Achievements and progress made:** The government is committed to take the lead in managing external assistance, through the DSDC, in coordination with the MoF. This will help to improve reporting and recording assistance, including linking external assistance to the national strategy and budget. The WB has started to phase out parallel PIUs, for instance, the Education Excellence and Equity Project, which now relies entirely on existing ministerial structures for implementation. Another example is the IPS Trust Fund (financed by UK, the Netherlands, Sweden, the EC, Italy, Austria and Switzerland, which is managed by the WB), which will seek to rely on existing government structures for implementation. Other donors have expressed interest in phasing out PIUs, and the 2008 survey will measure progress made in this respect.

**Priority actions for 2008 to make progress against 2010 targets:** Priority actions include the continued improvement of PFM and procurement systems; DSDC, in coordination with MoF, will effectively manage the donor database; donors are encouraged to improve reporting of external assistance in a timely and coherent manner.

<sup>9</sup> These are: CWP (WB/Italy); LCDP (CARDS); LGDP (US); Diber EDP (NL); ICZMCP (CARDS/Austria); Shkodra DLDP (Swiss); SIF (Germany); DRD (Sweden); Kukës RDI (CARDS); Kelmend IRRD (Austria); and Pilot RDPs (CARDS).

## *Programme-based approaches*

The Paris Declaration emphasises the importance of alignment and harmonisation in order to ensure more efficient use of external assistance. This can be achieved by, for instance, an increased division of labour amongst donors which can reduce transaction costs. One way of improving alignment and harmonisation of external assistance is through the use of a programme-based approach (PBA)/SWAp<sup>10</sup>.

The 2006 survey showed that only 5% of external assistance was channelled through PBAs, which is well below the 2010 target of 66% (Indicator 9). It was also noted that only 14% and 6% of external assistance makes use of Albania's PFM and procurement systems, respectively (Indicator 5a and 5b). Furthermore, it was noted that 57 parallel project implementation units (PIU) existed in Albania<sup>11</sup>, which is also below the 2010 target of 19 parallel PIU (Indicator 6). Two thirds of these were linked to three donors: Germany (17 parallel PIU), EC (11 parallel PIU), and the WB (10 parallel PIU). This situation is being addressed: the WB is phasing out its PIUs and the EC will be supporting the establishment of the Central Financial Contracting Unit (CFCU) that follows EU-style practices and is fully linked with government systems.

The Government is committed to improve PFM and procurement systems in order to make it possible for donors to work more efficiently through the budget. Confidence in these systems will increase over the next five years, both from the results of ongoing initiatives and reforms (e.g. public procurement, revenue administration, debt management, tax administration, civil service and public administration), and because of the intensive support that will be provided for managing development finance, especially as part of IPA. The strategies for anti-corruption and public administration reform will also help in this respect.

It will however take several years before improvements can be made across the whole of government and challenges will remain, especially for donors, working with smaller projects that may be dependent on fast and flexible response. In these circumstances, the government is committed to working with donors to find transitional solutions that provide for greater cooperation with the budget, without full integration. The proposals to create a rolling Trust Fund for INSTAT support could provide a pilot for one such transitional solution. The increased role of clear MTBP multi-year programming will also help to facilitate transition to programme approaches. *Donors are requested to dedicate resources during programming to ensuring that all options are explored for transitional solutions and that pilot moves towards programme based approaches.*

In particular, the government will work to strengthen the role of Sector Working Groups (SWGs). 17 SWGs were established in 2003 and these have been coordinated, until recently, by the DTS. The number and focus of SWGs is being revised to reduce the number and to improve alignment of SWGs with government strategy, as defined in the NSDI. Some participation of NGOs on SWGs may also be useful. SWGs will take on greater responsibilities as coordinators for loosely connected PBA/SWAp, which provide general coordination of activities, without requiring the full financial integration of a formal SWAp. This could require all component projects to report to a standard schedule, providing financial disbursement figures and, where appropriate, include monitoring indicators. *Donors are requested to support this process.*

Increased leadership from line ministries in sector working groups is needed in order to facilitate the increased use of PBA/SWAp. The consultation of sector and crosscutting strategies is serving

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<sup>10</sup> Various definitions and descriptions of what constitutes a PBA/SWAp have been elaborated by different donors and authorities. A PBA/SWAp can take different approaches and aid modalities ranging from 'basket funding' to full budget support. See for instance, *Harmonising Donor Practices for Effective Aid Delivery* (Vol. 2) (OECD/DAC, 2006).

<sup>11</sup> Parallel Project Implementation Units (PIUs) refer to project units where appointment decisions and accounting relationships involve the donor alone.

as an entry point in this respect. The structure of the working groups will be reviewed with the purpose of increasing the role of government representatives. In order to facilitate this process, donors are encouraged to nominate a 'focal point/lead donor' for each sector. *Donors are encouraged to use their participation in SWG discussions to promote moves towards PBA/SWAp.*

One example of an existing PBA/SWAp in Albania is within the education sector (under implementation since June 2006) funded by WB, EIB, and CEB. The SWAp is established within the framework of the Education Excellence and Equity Project, which is the instrument for the application of the national strategy. The education SWAp can act as a model that other sectors can follow.

### **Harmonisation: donor actions and activities are more harmonised, transparent and collectively more effective**

**Results from the 2006 survey:** The 2006 survey noted that harmonisation efforts have so far been limited, and there is substantial room for improvement. Challenges identified were the limited use PBA/SWAp. Priority action identified is that donors - with government leadership - do more to coordinate their missions and share country analytical work. In 2005 only 36 out of 257 (9%) donor missions were coordinated (Indicator 10a) (well below the 2010 target of 40%), while almost one quarter of donor country analytical work is shared (Indicator 10b), which is also well below the target of 60%.

**Achievements and progress made:** Experiences with PBA/SWAp and collaborative programmes in Albania is still relatively limited. Joint country analytical work is limited, but the recent PEIR prepared jointly by the WB and DFID does provide one example. There are few examples of delegated cooperation, joint evaluations, and joint country assistance strategies. One example is the 'One UN Initiative' which the government and UN launched in May 2007; and the EC, which consulted extensively with EU Member States when preparing the IPA 2007 and 2008.

**Priority actions for 2008 to make progress against 2010 targets:** Sector level working groups revitalised and formalised under government leadership as a basis for further development of PBA/SWAp. Donors are encouraged to nominate a 'focal point/lead donor' for each sector. Donors are encouraged - with government leadership - to increase the use of joint donor missions, joint country analytical work, joint evaluations, and possible development of joint country assistance strategies.

## **5.3 EXTERNAL ASSISTANCE DISBURSEMENT AND ABSORPTIVE CAPACITY**

The 2006 survey measures in year predictability of external assistance (Indicator 7) as the proportion of planned disbursements (as reported by donors) that are recorded as disbursed in government accounting systems. In 2005, Albania achieved a high level of disbursement compared with donor commitments (in fact, disbursements were higher than commitments in 2005). According to DAC figures, disbursements have averaged 98% over the period 2000-2005<sup>12</sup>. However, many disbursements are not being recorded in government accounting systems. The increased use programme-based and sector-wide approaches will help to improve this situation. *However, donors are requested to design the management of all projects so that they are integrated with government PFM as possible and so that disbursement is reported to the treasury.*

The donor database shows that the fastest disbursing assistance is multilateral loans, followed closely by bilateral grants. Substantially slower disbursement is achieved with bilateral loans and with multilateral grants. In both cases, this can largely be explained by the relatively slow disbursement performance of several major donors.

The very rapid pace of reform and growth in Albania means that there are major challenges in managing investments in many parts of government. These challenges are directly addressed by the government's approach to public administration reform and by the strong emphasis on capacity building placed by government and donors.

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<sup>12</sup> This high level of disbursement reflects the fact that commitments are only registered in DAC when agreements are signed and implementation is almost guaranteed. The figures do not imply that disbursements take place on time, since some of the disbursement will be coming from earlier commitments.

The disbursement data in the donor database gives some indication of those sectors in which absorptive capacity will be given the most urgent attention. The conclusions are as follows:

- Rapid disbursing sectors (>70%) include defence, economy, education, water, interior, civil society and local governance
- Averagely disbursing sectors (50%-70%) include rural development, energy, environment, public finance, health, social protection and public administration
- Slow disbursing sectors (<50%) include transport and justice

Donors are encouraged to incorporate into their support measures to improve absorption capacity, especially in those sectors that have relatively slow disbursement.

## **5.4 MONITORING AND EVALUATION**

### **Monitoring**

Both the NSDI and MTBP include comprehensive monitoring programmes. The NSDI concentrates on a small number of high level indicators that will be reported on an annual basis as part of the NSDI Progress Report. These indicators are consistent with Albania's MDG commitments. MTBP indicators are in more detail and aim to provide the most important information on the progress of each individual budget programme.

The monitoring of the implementation of sector and crosscutting strategies is based on a short list of indicators defined for each strategy. These focus on the achievement of strategic goals and are developed at the level of impacts and outcomes.

The MTBP ensures that budget allocations over the three-year period reflect the policy priorities defined in sector strategies by making an explicit link between budget allocations and budget programme policy objectives. Monitoring the implementation of each sector and crosscutting strategy at the level of inputs and outputs is therefore part of the overall budget reporting system. Under the IPS, each ministry is required to produce every year a Ministry Integrated Plan, which includes a Ministry Monitoring Plan and is envisaged to be:

- a planning tool, containing the major commitments of each ministry for the current year outlined in key documents (notably the MTBP) to assist the government in assessing performance;
- a monitoring tool, where ministries will report against them quarterly on progress achieved towards their key commitments; and
- a communication tool, in the sense that the document repackages the main commitments of each ministry in a compact and integrated manner to facilitate scrutiny from the public.

Ministry Integrated Plans were prepared for the first time in 2007. A short Ministry Annual Report on the achievements relative to the commitments made in the Ministry Integrated Plan and the Ministry Monitoring Plan will be published in 2008.

Donors are requested to ensure that the monitoring procedures built into their projects and programmes are consistent with the NSDI/MDGs and MTBP indicators, and are reported through the same mechanisms as these indicators.

## Evaluation

Evaluations are an important source of information in order to better understand the impact of external assistance and provide feedback to improve the consequent programming exercise. A number of evaluations have been undertaken by donors, and some highlights are summarised below.

World Bank Country Assistance Evaluation (2005). The WB programme had reasonably good outcomes, but low sustainability and institutional impact, particularly in health, education, governance and investment climate. Programmes were most successful when: a) associated with sectoral reforms that were agreed and supported by government; b) supported by sectoral analysis and strategy; c) composed of a series of related and carefully phased projects; d) designed to build local institutions; and e) part of related donor efforts coordinated by clear aims. Future WB programming should have clearer objectives and be more selective, concentrating on infrastructure, health and education. It should also work more closely with government institutions.

Mid-Term Evaluation of PAMECA, EURALIUS, SPPS and LDCP (2007). All projects were relevant. Results were satisfactory, but challenges included: high staff turnover and problems engaging with local staff/institutions (mainly PAMECA, EURALIUS); lack of logical framework and clear indicators and dispersed effort (PAMECA); an overly complex design (EURALIUS); policy uncertainty (EURALIUS, SPPS); and limited consistency in designing local investments and lack of attention to sustainable maintenance (LDCP). Financial disbursement was rated as good. The evaluation recommended more decentralisation to Albanian management.

Austrian Country Programme Evaluation (2005). The Austrian support was well managed and successful in achieving expected results. In general, the range of activities was relevant to Albania's needs. However, projects were fragmentary and there was limited strategic coordination and engagement with government on programming and on policy reform connected with the projects. More thematic concentration was recommended, along with better alignment with local institutions and policy.

SIDA Outcome Assessment (2007). The projects supported by SIDA were relevant to government and SIDA objectives. Most projects will achieve their outputs, although many have initial delays, often associated with matching institutional reform. Capacity building was a very strong focus but the sustainability of institution-building is fragile. The attempt to pursue a sector approach has been mixed: some sub-sectors have a good mix of related projects and this is a successful approach; however, there is no regular sector programming and the link between overall sector strategy and project identification is still poor and many projects are still isolated. Project efficiency and management is variable.

There are a number of common themes from these evaluations. First, external assistance has been relevant and the intended outputs from projects are normally achieved. Second, the importance of establishing consistency between strategies, programmes and projects. Third, the value of concentrating donor programmes into a limited number of sectors and sub-sectors. Fourth, the importance of focusing on institution-building and the difficulty of achieving this. Fifth, the benefits from local management.

*The government encourages donors to undertake more joint evaluations with government partnership.* Evaluations will be part of a broader government initiative to improve impact assessment for all public intervention policy. DSDC is planning to build capacity for regular synthesis of evaluation work, as a routine feature of the annual External Assistance Orientation Document, prepared in November/December each year, prior to the budget process. This will cover both evaluation of efficiency (including absorptive capacity) and impact. *Donors are invited to support this.* Over the medium term, this will involve broader cooperation across government to ensure that evaluation activities in different ministries are fully utilised in national strategy reviews and revisions.

## Managing for results and mutual accountability: donors and partner countries manage resources, improve decision-making, and are accountable for development results

**Results from the 2006 survey:** The 2006 survey uses a qualitative assessment to measure to what extent resources are managed on the basis of desired results and use information to improve decision making (Indicator 11<sup>13</sup> and 12). The assessment gave a low scoring on reporting and assessment systems and public awareness of government strategies. Challenges identified were that data is of insufficient quality and untimely. Priority actions identified were the establishment of a country level monitoring and evaluation system as part of the NSDI 2007 - 2013. It was also noted that there is no mechanism for joint assessment of progress in implementing agreed commitments between donors and the government. Priority action identified was the development of a Harmonisation Action Plan, which covers both donor and government commitments and actions.

**Achievements and progress made:** While further progress is needed, the NSDI 2007 - 2013 includes clear high level indicators for sectors, and the SAA reporting systems offers a regular performance monitoring and reporting system. Progress has been made in developing a report on monitoring the NSDI 2007 - 2013. The NSDI has been through an extensive public consultation process, including a set of carefully structured working and advisory groups including donors and civil society organisation. 22 out of 29 strategies were consulted with the donor community. Each strategy is submitted to the respective parliamentary commission. Three thematic public consultations have been carried out: Integration to EU and NATO, Socio Economic Development, Rule of Law, as well as regional workshops, TV debates, and parliamentary involvement. About 700 people are invited to these events. These consultation structures demonstrate the government commitment to continuity and sustainability.

**Priority actions for 2008 to make progress against 2010 targets:** Develop a Harmonisation Action Plan. Donors are encouraged to jointly support evaluations of external assistance - with government leadership.

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<sup>13</sup> This qualitative assessment follows the WB Comprehensive Development Framework (CDF) methodology and focuses on the establishment of a cost effective results-oriented reporting and assessment system. The rating is based on three criteria: the quality of development information; the degree to which stakeholders have access to it; and the extent to which there is a coordinated monitoring and evaluation of development efforts (OECD, 2007).

## Annex 1 External assistance by donor

Table A1.1 External assistance disbursement by donor, 2000-2005 (€ million)

	2000	2001	2002	2003	2004	2005	Total 2000-05
EC	59.5	44.1	20.9	23.2	30.2	53.1	231.1
IDA	44.0	23.4	53.9	40.6	43.9	20.2	226.1
United States	30.6	28.9	42.2	27.3	27.6	29.1	185.7
Greece	8.4	8.5	10.1	57.0	13.1	16.5	113.6
Germany	13.3	16.8	16.9	14.4	16.1	20.8	98.3
Italy	12.5	14.8	16.5	14.2	12.5	5.9	76.4
Netherlands	2.6	7.8	7.9	8.7	7.5	6.2	40.8
Japan	4.8	4.6	2.8	7.3	6.7	12.0	38.2
Switzerland	4.8	4.0	6.4	7.2	5.0	6.5	34.0
Norway	2.4	2.1	4.0	4.1	5.5	4.4	22.5
Other bilateral							
United Kingdom	6.6	3.6	3.3	3.1	2.8	2.6	21.9
France	1.2	1.4	2.0	2.4	4.5	8.6	20.1
Sweden	0.3	2.6	2.7	3.7	3.9	5.9	19.0
Austria	3.3	1.6	1.2	2.5	3.4	2.9	14.8
Spain	1.0	1.0	0.9	1.2	1.1	5.4	10.6
Turkey	0.3	0.4	1.1	0.3	3.2	4.8	10.1
Arab countries	-0.3	1.1	4.3	4.8	-0.5	-0.5	9.0
Denmark	2.3	2.7	2.3	1.4	0.0	0.2	9.0
Canada	0.9	1.7	0.9	1.1	0.8	0.4	5.8
Korea	0.0	0.0	0.0	0.1	4.9	0.1	5.1
Finland	0.2	0.3	0.6	0.9	1.0	0.5	3.6
Luxembourg	0.7	..	0.2	0.5	0.6	1.0	3.0
Ireland	0.4	0.0	0.2	0.3	0.4	0.5	1.8
Czech Republic	..	0.0	0.1	0.5	0.4	0.3	1.3
Belgium	0.6	..	..	0.0	0.3	0.3	1.2
Slovak Republic	..	..	0.0	0.1	0.1	0.9	1.1
Poland	0.3	0.1	0.0	0.1	0.1	0.1	0.8
Hungary	..	..	..	0.1	0.0	..	0.1
Other multilateral							
SAF+ESAF+PRGF(IMF)	12.1	7.9	3.5	-2.0	1.1	1.6	24.4
IFAD	3.6	1.1	1.6	2.7	4.0	1.8	14.8
Arab agencies	1.4	0.7	2.7	3.9	1.0	1.4	11.1
UNDP	1.8	1.6	1.1	0.9	1.1	1.4	7.8
UNHCR	0.2	3.4	1.7	1.1	0.8	0.4	7.6
UNICEF	0.3	0.8	0.4	0.5	0.5	0.5	2.9
UNTA	0.7	0.3	0.3	0.3	0.3	0.6	2.5
WFP	..	..	0.1	0.3	1.5	0.3	2.2
EBRD	-0.9	0.1	0.8	0.5	0.4	0.7	1.6
UNFPA	0.4	0.2	0.3	0.3	0.2	0.2	1.6
GEF	0.0	0.0	0.3	0.5	0.2	0.2	1.2

Source: OECD/DAC (2007). Donors are ranked based on total ODA provided during the period 2000 - 2005.

## Annex 2 Donor programming

Government orientation to the donor community starts with donor programming and discussions to ensure that government priorities are understood by donors. The current status and main areas of focus in donor country programmes are presented below. The purpose is not to give a complete detailed picture of current donor priority and sector focus areas, but rather to highlight the current division of labour between donors.

As can be noted, all sectors are well supported by several donors. The EC and the WB, as well as Germany, being the largest donors, cover more or less all sector areas. The IFIs are becoming an increasingly important source of support and funding, both in terms of large infrastructure projects, but also private sector development, including support to SMEs and access to finance. Economic development, including private sector development, and access to finance, and trade facilitation, is now supported by more or less all bilateral donors. While governance and civil society is a broad area, it is support by more or less all bilateral and multilateral donors.

**Table A2.1 Current donor programming and sector focus areas**

	Country strategy program /	Period	Democratisation Civil society	Education Health Social protection	Economic development	Energy	Transport	Water Sanitation/ Environment
Bilateral								
Austria	Country Programme	2007-09						
Denmark	Neighbourhood Program	2008-12						
Germany	Protocol	2006-07						
Greece	N/A	N/A						
Italy	N/A	N/A						
Netherlands	Regional & National Docs	N/A						
Spain	Action Plan	2006-08						
Sweden	Country Strategy	2004-07						
Switzerland	Country Strategy	2006-09						
UK	Regional Assistance Plan	2004-09						
US	Program Areas/ MCC	2006-08						
Multilateral								
EC	IPA/MIPD	2007-09						
WB/IDA	Country Assistance Strategy	2006-09						
IFI								
CEB	N/A	N/A						
EBRD	Country Strategy	2006-08						
EIB	N/A	N/A						
IFC	N/A	N/A						

Note: The table is compiled based on a review of current donor country strategies and programmes, and in particular statements made in those with regard to priority areas and/or sector focus. The table does not include 'implementing agencies', such as UN agencies, OSCE, and CoE.

A number of new donors, including the Czech Republic, Kuwait, South Korea, and Turkey, have begun to increase their support to Albania in recent years. Turkey has mainly focused on educational, social, and cultural cooperation projects. Kuwait is supporting areas such as agriculture, and water and sanitation. South Korea is active within the energy sector, and the Czech Republic has supported sectors such as health and transport.

## **Bilateral donors**

**Austria:** Support under the Austrian county programme for the period 2007 - 2009 concentrates on water, wastewater, environment, and tourism education. Good governance and gender are cross-cutting issues.

**Denmark:** The Danish Neighbourhood Programme 2004 - 2008 has focused on strengthening civil society, and free and independent media. A new strategy for the second phase of the Neighbourhood Programme (2008-2012) has been approved. Subject to approval of the Danish Parliament, potential future focus areas are agriculture and rural development.

**Germany:** Priority areas of support include drinking water supply, sanitation and waste management; power generation, transmission and distribution; and economic development, in particular private sector development, support to SMEs, as well as agricultural modernisation and promotion of tourism. Considerable support is also provided to anti-corruption initiatives.

**Greece:** Support has been concentrated on infrastructure investments, most notably within education and health, and road and transport. Other areas include support to anti-trafficking initiatives.

**Italy:** Priority areas of support have focused on infrastructure investments in particular within the areas of water and sanitation, transport and roads, and power and energy. Other areas of support include agriculture, local government, health, private sector development and migration.

**The Netherlands:** Regional support is concentrated on regional economic cooperation, including business environment, regional environment, support to SMEs, access to financing, and facilitation of exports. Other areas of support include cross border municipal cooperation; public administration reform; civil society participation and human rights issues; and capacity support to environment ministry and local environmental initiatives. The national programme also focuses on good governance and the environment.

**Spain:** Support concentrates on governance, including strengthening public administration; economic development, in particular private sector development and support to SMEs within the agriculture sector; as well as support to social sectors (education and health).

**Sweden:** Support has focused on democracy and good governance, including public administration reform, civil society, and rule of law and human rights issues; gender equality; water and sanitation; agriculture and forestry; economic development, including support to SMEs; as well as social development, with a particular focus social protection and health.

**Switzerland:** Priority areas for support are decentralisation and strengthening of local government; private sector development, with a particular focus on SMEs, business environment, strengthening of financial institutions, foreign investment facilitation, and access to international markets; as well as support to social services and basic infrastructures, through energy production and distribution, water supply, health care system reform and social integration of most vulnerable groups including disabled children and Roma.

**United Kingdom:** Support concentrates on the development of a nationally owned development strategy, including strengthening capacity for implementation and monitoring development priorities at central and sector level; support to the MTBP and tax and public administration reform; and improving aid effectiveness.

**United States:** Development cooperation support concentrates on promotion of economic growth, in particular business environment, private sector development, in both agricultural and non-agricultural sectors, and strengthening of financial services and access to finance. A second area of support focuses on governance and civil society, including improving public sector accountability and transparency, support to anti-corruption initiatives, strengthening civic society and NGOs; media and media ethics, public opinion polls, electoral process, and performance of judiciary and government institutions. Other areas of support include strengthening of health reform and health care delivery; and support to anti-trafficking NGOs. Significant support is also provided under the MCC threshold agreement, in particular within areas such as tax policy and administration, public procurement, and business registration.

## **Multilateral donors**

**European Commission:** Support under IPA / MIPD 2007 - 2009 focuses on four broad areas: political and socio-economic requirements, European standards, and cross-border co-operation. Support will also focus on acquis related infrastructure projects. Another area of support is governance, including the rule of law, public administration, judiciary and police. Economic development and social welfare services, education and VET, and labour market are also priority areas of support.

**World Bank/IDA/IBRD:** The CAS 2006 - 2009 is focused on improving economic growth, in particular through private sector development; financial intermediation; and improved business environment. Other priority areas include land management and infrastructure investments, in particular water supply, wastewater, roads and transport, tourist infrastructure, and power and electricity generation, transmission, and distribution; agricultural productivity, rural development, and natural resource management. The second main area of support concentrates on improving public service delivery, with a particular focus on education, health, and social insurance system.

## **International financial institutions**

**CEB:** Support focuses on commercial lending (also in collaboration with bilateral and multilateral donors) within social sectors, in particular education and social housing.

**EBRD:** In the past, support has mainly been focused on power and energy, transport (including airport, port, and road). Future areas of support will also focus on private sector, including lending to SMEs through local banks. Infrastructure support will continue, in particular for the restructuring of the transport and energy sectors.

**EIB:** Reconstruction and rehabilitation of basic infrastructure has been the main area of support, with a particular emphasis on fostering regional integration and removing bottlenecks in the road, rail, and energy systems. In recent years, support has focused on health and education, as well as improving the environment and water and sanitation.

**IFC:** Support focuses, in particular on the infrastructure sectors, including promotion of private sector investments through public-private partnership (PPP) in power, transport, and water and sanitation sectors. Other areas of support focus on regional integration, and facilitation of private sector involvement in port and pipeline projects, as well as facilitation of foreign investment.