

## **Policy Department External Policies**

# **ANALYSIS OF THE 2007 ANNUAL ACTION PROGRAMME FOR ALBANIA UNDER THE PRE-ACCESSION INSTRUMENT IN PREPARATION OF THE REVIEW OF THE RELEVANT MULTI-ANNUAL INDICATIVE PROGRAMME**

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## Executive summary

**Scope of the briefing:** This Briefing, prepared for the Foreign Affairs Committee of the European Parliament, analyses the coherence between the IPA annual programme 2007 for Albania, the European Union's (EU) pre-accession objectives and the specific needs of the country as identified by the European Commission's (EC) Progress Report (Commission 2007g). The 2007 National Programme foresees EU assistance to Albania under IPA Component I only. Therefore, this analysis exclusively focuses on the *Transition Assistance and Institution Building* Component in 2007.

The paper is divided into three sections focusing successively on the political criteria, the economic criteria and European standards, following the structure of the Progress Report and the priority axes within the Multi-Annual Indicative Planning Document (MIPD). Each section provides an analysis of the current situation, the projects identified by the Annual Action Programme (AAP), and an assessment referring to the above mentioned subjects. The briefing ends with conclusions and recommendations.

**Main findings and conclusions:** As a potential candidate country, Albania has access to two of the five IPA components: the Transition Assistance and Institution Building Component, and the Cross Border Cooperation Component. The 2007 Annual Action Programme covers solely IPA Component I, "Transition Assistance and Institution Building". The allocation for this component in 2007 was 49.3 mil EUR. It has been distributed to improving political requirements (33.5%), socio-economic requirements (6.9%) and European standards (59.6%).

The objectives envisaged in the AAP are largely in line with the tasks identified in the Commission's Progress Report for Albania and the Enlargement Strategy, although in some policy areas additional project lines would need to be included.

Political Criteria: The priorities set in the Annual Action Programme 2007 focus on security issues at the executive level, namely police reform and reform of the penitentiary infrastructure. More emphasis should be given to the preventive dimension of criminality and the fight against corruption as well as to legal reform and the development of human resources in the parliamentary and judiciary system.

Economic Criteria: The priorities set in the Annual Action Programme 2007 focus on the development of a better entrepreneurial environment and the establishment of a new management culture, but the importance of enhancing the socio-economic infrastructure is widely ignored. More attention needs to be given to the issues of improving corporate governance to support growth and developing active labour market measures in order to combat unemployment.

European Standards: Key priorities of the AAP rightly address the alignment of the national statistical system, environmental standards as well as the fiscal system with European Union standards. The MIPD's priorities to develop an approximation strategy and adequate policies are not sufficiently covered by the AAP 2007. Areas to be introduced as priorities are the energy sector and rural development.

The *acquis*-related infrastructure projects that are prioritised in the Annual Action Programme 2007 run the risk of contributing to the negligence of issues such as capacity building, development of human resources and local expertise in other areas, e.g. the decentralisation of

Albania that is mentioned in the 2007 Progress Report, especially for the areas of taxation, water supply and sanitation.

**Recommendations:**

- IPA assistance should be gradually transformed, allowing Albania as a potential candidate country to have access to all 5 components of IPA, as candidate countries already do.
- Albania should be given the opportunity to make better use of the IPA flexibility principle. This means that a potential candidate country, which has not been assessed as able to manage funds in a decentralised manner, should be eligible to use the IPA-I Component for measures and actions of a similar nature to those which would be available under the three remaining IPA components.
- Regarding the political criteria, more emphasis should be given to the preventive dimension of criminality and the fight against corruption as well as to legal reform and the development of human resources in the parliamentary and the judiciary system.
- Regarding the economic criteria the improvement of corporate governance to support growth and the development of active labour market measures in order to combat unemployment should be given more attention.
- The institutional capacities of the ministries and other Albanian institutions to manage EU funds should be increased through an intensive training for the staff on Project Cycle Management, management of the funds, and on policy formulation of strategic documents. The awareness of the institutional requirements for the European integration process represents a precondition for the successful implementation of projects and the responsible management of funds.
- The parliamentary decision-making process should be supported through enhanced capacity building in the Parliament itself. Decision-making also needs to become more transparent.
- More efforts should be undertaken to increase and enhance capacities of the institutions and organisations implementing projects, and to strengthen local ownership in the implementation phase.
- Preparations for the decentralized management of EU assistance through capacity building, human resources development and through establishing internal control and audits should be speeded up. Decentralised management should be introduced within the shortest possible time. IPA should help in preparing the country for it. It might be useful to envisage a target date for introducing the decentralisation of EC assistance in order to stimulate and speed up preparations in the Albanian public administration.

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# 1. Introduction

Albania signed the Stabilisation and Association Agreement in 2006 and has the status of a potential candidate country for EU membership. Guidance to the Albanian Government for necessary reform priorities is provided by the EU through the European Partnership.

The instrument for Pre-Accession Assistance (IPA) provides financial assistance to Albania during the budget period 2007-2013. The IPA aims at helping Albania to implement the reforms needed in order to fulfil the SAP's requirements and to make the ground for fulfilling the Copenhagen criteria. Being a potential candidate, Albania receives assistance from the IPA I (Transition Assistance and Institution Building) and II (Cross-Border Cooperation) components, which seek to assist the country in the process of transition and approximation to the EU, and to encourage regional cooperation<sup>1</sup>. The decentralised management of IPA is a medium-term objective for the Albanian Government, but a long-term objective of IPA with the goal to prepare the country for membership and the management of Structural Funds.

The remaining components of IPA<sup>2</sup> are expected to become accessible after the country has been assessed to manage funds in a decentralised manner. Until this is the case Albania *„should be eligible, under the Transition Assistance and Institution Building Component, for measures and actions of a similar nature to those which will be available under the Regional Development Component, the Human Resources Development Component and the Rural Development Component“* (Council of the European Union, 2006: 83, par. 20).

The total of IPA assistance for 2007 is 61 million EUR, increasing until 2009 to 81.2 mil EUR. The National Programme for Albania concerning the Transition Assistance and Institution Building Component for 2007 (IPA-I) has been adopted with a maximum contribution of 49.268.790 EUR for seven projects, which have been selected among all priorities identified by the 2007-2009 Multi-annual Indicative Planning Document (MIPD). 16.5 mil EUR are distributed to tackle political requirements (33.5%), 3.4 mil EUR are foreseen for addressing socio-economic requirements (6.9%). With 59.6% the largest part of funding, amounting to 29.35 mil EUR, is allocated to the approximation of European standards, but the future amount foreseen for this item is envisaged to be lower (45-55% of the overall available amount for IPA-I). In 2007, an additional 4mil EUR have been earmarked for projects supporting civil society.

Albania benefits from the experience of implementing the CARDS and Phare programmes, previous macro-financial assistance, and its participation in ECHO, EIDHR and the TEMPUS programme<sup>3</sup>.

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<sup>1</sup> The IPA envelope 2007-2009 for the two components available for Albania includes 186 million EUR for Institution Building and Transition Assistance (54.3 million Euros in 2007) and 26.6 million euro for Cross-Border Cooperation (6.7 million Euro in 2007).

<sup>2</sup> The remaining three IPA components are the Regional Development Component, the Human Resources Development Component, and the Rural Development Component.

<sup>3</sup> The CARDS programme amounted to 330 mil EUR between 2000-2006. Reform priorities were: Justice and Home Affairs (about 40% of funding), administrative capacity building (20%), economic and social development (35%), and democratic stabilisation (5%), while between 2005-2006 CARDS was targeted stronger towards political and economic issues. The allocation for the Phare programme is 635 mil EUR. Based on Memorandum of Understanding signed by the EC, Albania received in 2005 a grant for macro-financial assistance (up to 25 mil EUR). The country took part in TEMPUS since 1992; in 2003 the Community Programmes were opened for all the SAP countries, including Albania.

## 2. Political criteria: Democracy and the rule of law, good governance

Albanian political institutions are now much more stable than in the past. Institutional shortcomings still exist and have their repercussions on Albania's European accession prospects. **Parliamentary** work is hampered by the narrow party interests and the inability to forge national consensus on European integration matters, on necessary legal reforms and insufficient monitoring of the SAA implementation. The parliamentary process should be supported by enhancing capacity building and transparency; it should decrease interferences in the work of political parties, and their role in the political process should be strengthened.

The **government** has improved its capabilities to lead and oversee the implementation of the SAA. Consistent communication with and regular consultation of ministries, stakeholders and EU experts are missing. Those processes would only be possible through enhanced institutional planning, capacity building and adequate training of human resources. Politicized and non-merit orientated recruitment practices lead to a lack of expertise, staff changes, staff shortages and de-motivation of the civil service.

The **judiciary** is still one of the most endangered parts of the Albanian political system. Its dependence as well as its own proneness to corruption is putting at risk the rule of law and Albania's ability to encourage reform. Besides, the juridical infrastructure is poor and slow. The formation of judges and judicial administrators has been insufficient; consequently the judiciary is not trusted to be one of the pillars of the Albanian political system. The implementation of anti-corruption measures, a key priority of the European Partnership, is still hindered by structural inadequacies, defensive reactions of the parties involved and poor training of the executive staff. There is a need for a stronger focus on these issues in IPA programming.

Three projects are envisaged within the political criteria, amounting to almost one third of funds available under IPA-I for 2007 (16.5 million EUR). Project 1 under the IPA is given the highest importance. It addresses the key priorities of the European Partnership (European Commission 2007f:13, 14, 21) and is dedicated to the ongoing **police reform**. PAMCEA III aims at bringing the Albanian state police closer to European standards. It is supposed to enhance the structures fighting organised crime and terrorism, the functioning of the Police Academy and IT systems, the implementation of the mid-term priorities of the Integrated Border Management (IBM) Strategy and Action Plan, the Community Policing model and the seven-year strategy of the state police. It will be closely co-ordinated with the related CARDS projects, including those on money-laundering and covert policing.

However, the interrelations between political, judicial and police reforms are missing both in the MIPD and the IPA Annual Action Plan 2007. It is not made clear to what extent the police reform might contribute to a more responsible political climate. A more functional judiciary, including a better coordination with the police, is a precondition to fight crime and corruption efficiently. The question is moreover how IPA will address corruption in the police sector, and to what extent the lack of professionalism and the shortage of staff will be overcome by the first project.

**Administrative capacities** have to be built up to achieve the goal of the Albanian government to manage IPA 2008 through a decentralised system. In order to support the development of a public internal and external financial control strategy, Project 2 is concerned with the preparation of the Albanian authorities for the **Decentralisation of Management of EU Assistance**. The aim is to prepare the Albanian authorities for the Decentralised

Implementation System (DIS) through capacity building measures in relevant administrative departments and institutions, and through the establishment of adequate management and control systems. This is an extremely important goal in the context of the overall future of IPA assistance, but the funds allocated are small (some 0.02% of total funds available for 2007) and should be given much higher priority in future. This discrepancy also reflects the different weighting of priorities between the Albanian Government, for whom reaching decentralised management in the medium-term is of highest importance, and the European Commission, for whom it is only a longer-term objective.

Project 3 under the IPA Transition Assistance and Institution Building Component 2007 concerns the support to the **penitentiary infrastructure**. The objective of the project is to strengthen the capacity of the Albanian judicial and penitentiary system, in accordance with EU standards and taking into account the recommendations presented by the Europe Assistance Mission to the Albanian Justice System (EURALIUS). As the prisons and pre-detention centres are overcrowded and the detainee population is continuously growing, the issue of constructing two pre-trial detention centres in Fier and Elbasan is at the same time addressing an important human rights issue.

The support to the penitentiary infrastructure is primarily intended to be a contribution to strengthening human rights and observing international human rights law (European Commission 2007f:14). On the other hand, it is also a part of the security infrastructure, putting the emphasis on policing. However, compared to other structural shortages, the penitentiary system seems to be a minor problem for the Albanian society. More energy should rather be put on crime prevention and fighting corruption in the highest political and economic circles than on building and equipping new prisons. In addition, improving the situation of prisons might be more in the EU interest than in the Albanian interest, as in Europe the return of Albanian nationals having committed crimes abroad has been lately discussed.

The **horizontal issues** are not equally reflected in all activities and projects implemented under IPA (European Commission 2007c:10). Whereas the area of **good governance** with particular attention to **fighting corruption** is incorporated, any reference to **minority and vulnerable groups, equal opportunities** and **non-discrimination** is lacking or at least not made visible enough.

### 3. Economic criteria: competitiveness of SME sector

Albania has achieved macroeconomic stability, contributing to its progress towards being a functioning market economy, but further reforms are needed. Economic growth continued to be relatively strong (5% in 2006). However, the business environment remains very weak and calls for further significant improvement. There are outstanding deficiencies in the fiscal framework. External deficits widened mainly due to deficits in the energy sector. Inadequate infrastructure and unreliable energy supply continue to hinder the economic development and investments. Additionally, although the unemployment rate continued to decline and monetary policy remained credible, both administrative and risk management capacities of the public debt management need to be strengthened. In spite of the acceleration of the privatisation process, state ownership remains significant, particularly in electricity utilities. Efforts have been made to reduce administrative barriers, but remaining administrative inefficiencies continue to hamper market entry and exit, while the export base remains weak (Commission of the European Communities, 2007g: 18-22).

The socio-economic strategic choices for the IPA-I are to assist the economic development by supporting the establishment of regulatory capacity and the enhancement of entrepreneurial know-how; to support development of the SME sector and facilitate trade flows; to support education aiming at promoting the development of the economy; to provide active labour measures aiming at contributing to reducing unemployment as well as to strengthen the capacity of bodies offering social services (Commission of the EC, 2007g: 11).

Out of seven projects designed within the National Programme for Albania under the IPA-Transition Assistance and Institution Building Component for 2007 (Commission of the EC, 2007d: 6), only one targets the key socio-economic priority issues covered by the MIPD. It is Project 4, focussing on “supporting SMEs to become more competitive in the EU Market, with high quality services in modern management, innovation and technology transfer”. This addresses the objective of providing "**assistance to foster SME**", identified in the socio-economic requirements of the MIPD.

As a consequence, the MIPD's main socio-economic priorities (Commission of the EC, 2007b: 17) are in 2007 only partially covered by the IPA programmes (both those envisaged by the socio-economic requirements and European standards, as it is elaborated in the next section of this paper). The development of improved and **coordinated economic and fiscal policies**, one of the key priorities, envisages the stabilisation of the macro-economic environment to streamline public expenditure, to improve the business climate and to reduce unemployment. It is partially addressed by the allocation of funds aiming at harmonizing the fiscal system with European standards (see next section) and to increase growth competitiveness in SMEs.

**Improving corporate governance** to support growth in Albania, envisaged as another priority, is a further area that needs to be addressed by the IPA. Another priority issue, the **improvement of trade policy**, is addressed by the CARDS programme, but is not continued through the IPA. **Support of the improvement of the social welfare services** needs also to be addressed by the IPA; in particular the capacities of bodies offering social services (both at central and local level) need to be strengthened.

Further reforms in the education, training and employment sectors to support the development of economy and society are needed. Low skill levels hamper investment and the development

of higher, value-added industries (Commission of the EC: 34). The enrolment rates continue to be low in Albania, whereas the drop-out rates in the final years of basic education are high. Therefore the creation of strong links between the education system and the labour market remains a challenge. The mentioned problems should be approached by the education reform, being one of the socio-economic requirements of the MIPD. Still, this priority is not encompassed in the National Programme for Albania under the IPA-I for 2007. Support for some activities is envisaged through the TEMPUS programme, but its means are insufficient to cover the needs of the country.

Consequently the priority areas that are not covered by the National Programme for IPA 2007 represent a challenge for the coming years. This is the case with the **development of active labour market measures** in order to combat **unemployment**, in particular long-term, and youth unemployment. The labour market continues to face significant challenges in Albania, such as relatively slow job creation and high youth and long-term unemployment. The efficiency of labour market policy design and planning remains significantly constrained by the limited statistical capacity and unreliable key labour market indicators. (Commission of the EC: 24).

## 5. European standards

The emphasis of IPA is placed on supporting the development of sectoral strategies and policies, as well as of a regulatory framework compatible with European standards. It also stresses the need to establish institutions which are required for the implementation and enforcement of sectoral policies.

There are three projects envisaged within priority axis 3, "European standards". Within Project 5, which aims at providing support for the alignment of Albanian **statistics** with EU standards, assistance is provided to INSTAT, the national statistical agency. The project aims at building up institutional capacity to produce and publish basic statistical data harmonised with European standards. Also capacity building for the tax system and the strengthening of the fiscal system are envisaged to meet the requirements for European standards of the MIPD (funded as continuation of ongoing activities, alike the area of police in the Political criteria)<sup>4</sup>.

Most funds of the total allocation (around 50%) are directed towards the **improvement of water supply and sewerage systems**, focusing on environmental standards and supporting the implementation of existing strategies with regard to water and sanitation systems.<sup>5</sup> The prioritization of this project seems to be the positive result of the principle of "flexibility of the IPA to incorporate certain sectors from other components into Component I"(Commission of the EC, 2007b: 10).

The objective of Project 7 is to assist the government in strengthening the **fiscal system** and to align it with EU standards by supporting the General Directorate of Tax of Albania. This project will be implemented by twinning and harmonising legislation, procedures and practices in the field of VAT, income tax, excise tax, internal audit and IT training. It addresses European standard's requirements of the MIPD in the respective areas (by continuation of ongoing activities<sup>6</sup>).

The main priorities for European standards within MIPD (Commission of the EC, 2007b: 20) focus on (i) development of strategies and policies, (ii) establishment and capacity building of agencies and institutions and (iii) reform, fight against organised crime and migration policies. The MIPD prepares the ground for introducing other areas that are not covered by the IPA, particularly the development of strategies and policies missing in the 2007 programme.

The **energy** sector should be urgently incorporated into the IPA-I component. Albania is facing negative effects, resulting from the energy crisis of 2005/06. Insufficient interconnection capacity for importing required quantities led to power cuts which have had

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<sup>4</sup> CARDS and the World Bank have already helped to improve Albanian statistics before. A Multi-beneficiary Statistical Cooperation Programme led by Eurostat will be implemented under IPA 2007 to cover all Western Balkan countries. Ongoing funding through CARDS 2001, 2002, 2004 and 2005, the IPA 2007 projects has been allocated to maximise the potential to catalyse the assistance projects mentioned above and to allow a sustainable rhythm for the implementation of all the project countries, except for Croatia.

<sup>5</sup> Ongoing funding through CARDS 2001- 2005, the IPA 2007 projects has also in this area been granted to maximise the potential to catalyse the assistance projects mentioned above and to allow a sustainable rhythm for the implementation of all the projects.

<sup>6</sup> In 2001 the EU started to support fiscal reform. Experience has shown that the effectiveness of tax collection has a bearing on foreign direct investment in Albania; economic crime and tax evasion have been among the most important concerns that need to be combated in order to ensure an attractive economic environment for both foreign and national companies.

negative impacts on private sector productivity and investment capacity. The unreliable energy supply “*remains one of the major risks to macroeconomic stability and the budgets hindering economic development and investment. Vigorous measures to address the key inefficiencies are essential*” (Commission of the EC, 2007g: 25). State ownership remains significant with regard to energy utilities. Approving and implementing the revised national energy strategy lies among the short term priorities for the country (Commission of the EC, 2007f: 12), together with the need to complete the unbundling of the state electricity company KESH, privatise its distribution arm, and stabilise its financial position (ibidem: 6). The energy sector should be understood also as one of the priorities for the economic development of Albania and should be strengthened through IPA projects, referring to the MIPD’s emphasis on supporting the development of sectoral strategies and policies. The reform of the energy sector and support to the implementation of the national energy strategy as well as the Energy Community Treaty are envisaged in the MIPD (Commission of the EC, 2007b: 11, 21), but not encompassed in the 2007 programme.

**Rural development**, which is not mentioned among the priorities of the MIPD, should be given a priority in IPA funding in the future. The medium-term priorities of the European Partnership stress the need to “*develop strategies for land use, the land market, rural development, diversification of farm activities and enhancing agricultural competitiveness*” (Commission of the EC, 2007f: 19). Agriculture accounts for nearly a third of the country’s GDP and is wrestling with problems that arise in part out of the fragmentation of land holdings. The process of restitution of state-owned property has not yet been completed. Moreover, “*driven by rising prices for agricultural products the average annual inflation reached 2.4% in 2006 but accelerated to 4.4% in September 2007*” (Commission of the EC, 2007g: 20). The strategic document for rural development has not yet been adopted.

Albania should structure its assistance to the agricultural sector by designing a rural development strategy, which could be a precursor for an EU pre-accession programme when Albania should become candidate country. The agricultural *acquis* is the most difficult and expensive part of harmonisation and it is extremely important to make an early start and take a strategic approach in line with the country’s needs and capacities. It is important to create a rural development programme that can form the basis of a future IPARD programme (World Bank, 2007)<sup>7</sup>. Although the main objective of IPA-I component is to help potential candidate countries to develop administrative, programming and management capacities, it also allows for investment in rural development, infrastructure, regional development, labour and social measures by using the flexibility approach. Albania benefits from a small amount of CARDS assistance for the sector<sup>8</sup>, but is not eligible for SAPARD as it is not a candidate country. It will also need more time before reaching the level of decentralised implementation of the IPA which is demanded for getting access to Component V. The principle of flexibility could thus prepare the ground for introducing into IPA-I some *acquis*-related policy issues from the agricultural sector as a preparation for the implementation of Component V.

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<sup>7</sup> IPARD is the Component V of IPA, focused on rural development.

<sup>8</sup> The CARDS 2005-2006 for Albania was mainly targeted at strengthening the food safety and quality control system to improve the quality of export potential of agricultural products.

## 6. Conclusions and recommendations

### Conclusions

Albanian political institutions are much more stable now than they were in the past, but institutional shortcomings still exist and have repercussions on Albania's European accession prospects. The judiciary system remains weak while fight against corruption represents a serious problem for the country. Albania has achieved macroeconomic stability which contributed to its progress towards becoming a functioning market economy, but further reforms are urgently needed. The business environment calls for significant improvements and there still exist deficiencies in the fiscal framework. Inadequate infrastructure and unreliable energy supply continue to hinder economic development and investment. There is a special need for supporting the development of strategies and policies to strengthen economic development.

To summarize, one can conclude on the following findings:

- Out of five IPA Components, only two are available for Albania, namely the Transition Assistance and Institution Building Component and the Cross Border Cooperation Component.
- In 2007, under the IPA-I Component, priority is given to the issues covered by European standards (59.6 of funds), and political requirements (33.5%), while the focus on structures for economic and social cohesion policies is missing (6.9%). The EU financial assistance through IPA is not adequate for preparing the country for membership in terms of focusing on social and economic problems.
- The objectives envisaged in the AAP 2007 are largely in line with the tasks identified in the Commission's Progress Report for Albania and the Enlargement Strategy, although some policy areas are facing challenges so that IPA funding would be needed.
- The political priorities set in the AAP 2007 are concerned with security issues at the executive level, namely police reform and reform of the penitentiary infrastructure. In the area related to the fight against corruption, a key European Partnership priority, the implementation of measures taken is still hindered by structural inadequacies, "self-defence" of parties involved and poor training of the executive staff.
- The economic priorities set in the AAP 2007 are concentrated on enabling a better entrepreneurial environment and establishing a new management culture, but the remaining socio-economic requirements are not focused upon.
- Key priorities of the AAP in European Standards rightly address aligning the national statistical system, environmental issues and harmonising the fiscal system with European Union standards.
- The problem of the reform of the public administration is not addressed sufficiently, although it is one of the most serious political problems in the present situation. This issue should in the review process of the MIPD be given a higher priority as it will make Albania more immune against corruption, being a serious problem of Albania's transformation at the current stage.
- The MIPD priorities to "develop strategy and policies" are not sufficiently covered by the AAP 2007. Too much emphasis in the AAP 2007 has been put on issues related to the implementation of the *acquis*, while the development of strategic approaches and policy issues is less covered.
- Areas to be introduced (or more integrated within the MIPD) include the development of an active labour market policy, the implementation of a revised national energy

strategy, and the development of a rural development programme that will prepare the ground for the future IPARD programme.

- Despite the fact that the legal framework for implementing the IPA is in force and institutions have been set-up, the country is not yet ready for the decentralised management of EU assistance.
- The administrative capacities for managing the pre-accession assistance are limited in Albania. There is a lack of administration capacity and knowledge in ministries dealing with programming and management of programmes, a lack of “ownership” in preparing the project fiches, etc. Increasing local ownership is a key for the efficient and sustainable use of the support provided.
- Horizontal issues that should be reflected in all the components and projects implemented under IPA are not sufficiently present and visible in the projects. This relates to the areas of environmental impact assessment, good governance, civil society involvement, minority and vulnerable groups’ concern, equal opportunities and non-discrimination.
- The current IPA regime will in the short-term and long-term not sufficiently contribute to the structural development of Albania. As local and national institutions and structures will mostly address EU-related issues instead of firstly focussing on solving individual, country-specific problems, the country will eventually remain much more dependent on European assistance in the long run. Thus Albania will stay on the margins of Europe and not be an integrated part of it. This will pose a problem that goes way beyond the membership issue.

### **Recommendations:**

- IPA assistance should be gradually transformed into a forward looking strategy to support the reforms and prepare the country for future membership through participation in all five components. A demand-oriented and more consistent IPA regime should allow Albania as a potential candidate country to have access to all 5 components of IPA, as candidate countries already do.
- Albania should be given the opportunity to make stronger use of the IPA flexibility principle, meaning that a potential candidate country which has not been deemed to manage funds in a decentralised manner, should be eligible to use the IPA-I Component for measures and actions of a similar nature to those which will be available under the three remaining IPA components. The examples of Justice and Home Affairs and Environment projects in 2007 are encouraging.
- Regarding the political criteria, more emphasis should be given to the preventive dimension of criminality and the fight against corruption as well as to legal reform and the development of human resources in the parliamentary and the judiciary systems.
- Regarding the economic criteria, improving corporate governance to support growth and developing active labour market measures in order to combat unemployment should be given more attention.
- Institutional capacities in the line ministries and other Albanian institutions for managing and programming EU funds should be increased through intensive training for the staff on Project Cycle Management, management of the funds, and on policy formulation of strategic documents.

- The parliamentary decision-making process should be supported through enhancing capacity building and transparency of the process, decreasing interference in the work of political parties and strengthening their role in the political process.
- More efforts should be undertaken to increase and enhance capacity and strengthen local ownership of the projects.
- The preparation for the decentralised management of EU assistance through capacity building, human resources development and through establishing internal control mechanisms and audits should be speeded up. Decentralised management should be introduced within the shortest possible time. IPA should help in preparing the country for it. It might be useful to envisage a target date for introducing the decentralisation of EC assistance in order to stimulate and speed up preparations in the Albanian public administration.

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**ANNEX - Tables**  
**“Analysis of the 2007 Annual Action Programme for Albania under the Pre-Accession Instrument in preparation of the review of the relevant Multi-annual Indicative Programme”**

**Table 1. Selected economic indicators for Albania, 2000-2006**

Indicator	2000	2001	2002	2003	2004	2005	2006*
Real GDP grow (in %)	7.7	6.5	4.7	6.0	6.0	5.5	5.0
GDP (with current prices, in million USD)	3,694	4,102	4,459.0	5,600.5	7,452.3	8,382.8	9,136.6
GDP (per capita in USD) <sup>3</sup>	1086	1329	1,438.4	1,806.6	2,328.9	2,619.6	2,855.2
Number of employees (in thousands)	1068	1065	921	928	917	932	934
Percentage of unemployment	16.9	14.6	15.8	15.0	14.6	14.2	13.8
Inflation Rate (v/v)	4.2	3.5	1.7	3.3	2.2	2.0	2.5
Budget Deficit (with grants, in % of GDP)	-8.2	-7.9	-6.6	-4.5	-5.1	-3.6	-3.1
Public Debt (in % of GDP)	71.3	66.8	65.3	61.7	56.6	56.7	55.9
Foreign debt (in % of GDP) <sup>4</sup>	29.4	25.8	23.5	20.6	18	17.5	17.2
Domestic debt (in % of GDP)	41.9	41.0	41.8	41.1	38.6	39.2	38.7
Current account (in % of GDP)	-7.0	-6.1	-10.0	-7.9	-4.8	-7.3	-7.6
Average exchange rate, LEK/EURO	132.6	128.5	132.4	137.5	127.7	124.2	123.1

Source: INSTAT, Ministry of Finance, IMF and Bank of Albania Estimates.

\* Preliminary assessment.

**Table 2: Main macroeconomic indicators, aimed to reach for the years 2007-2010 (forecast)**

INDICATORS	2007	2008	2009	2010
GDP (real increase with constant prices) in %	6.0	6.0	6.0	6.0
GDP per capita, in \$	3153.0	3426.0	3724.0	4055.0
Average Annual Inflation	3.0	3.0	3.0	3.0
Trade Balance in % of the GDP	-20.6	-20.1	-19.7	-19.4
Balance of the current account, in % of the GDP	-7.3	-7.4	-6.9	-6.2

Source: INSTAT, Ministry of Finance, IMF and Bank of Albania Estimates.

**Table 3: Multi-Annual Indicative Financial Framework: Breakdown of the Instrument for Pre-Accession Assistance Envelope for 2009-2011 into allocations by country and component**

Country	Component	2007	2008	2009	2010	2011
ALBANIA	Transition Assistance and Institution Building	54,318,790	61,111,756	70,917,079	82,711,421	84,301,650
	Cross-border Cooperation	6,681,210	9,588,244	10,282,921	10,488,579	10,698,350
	<b>Total</b>	<b>61,000,000</b>	<b>70,700,000</b>	<b>81,200,000</b>	<b>93,200,000</b>	<b>95,000,000</b>

**Source:** Communication from the Commission to the Council and the European Parliament Instrument for Pre-accession Assistance (IPA) Multi-annual Indicative Financial Framework for 2009-2011