

Evaluation of EC Country Strategy: Albania 1996-2001

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September 2001

The authors accept sole responsibility for this report. The report does not necessarily reflect the views of the European Commission, which commissioned this report.

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Preface

The Albania Country Strategy Evaluation (CSE) has been carried out as one of a series of CSE exercises on EC assistance programmes worldwide, undertaken on behalf of the Evaluation Unit of EuropeAid office of the European Commission.

The analysis and recommendations are built on assessments of both the preparation and the implementation of the EC's strategy in Albania. The report is based on a mission to Albania by Messrs. Jonathan Portes, Carlos Montes (joint team managers), Simon Groom, and Daniel Tommasi that took place from 29 April to 11 May 2001. The findings of the draft report were presented in Brussels on 12 June 2001, and the draft report was submitted on July 2 2001. This final report takes into account the comments made on that draft by Commission officials in Brussels and Tirana.

The evaluators carried out an extensive review of Delegation files, available audits, reviews and evaluations, and interviews with Commission staff, other donors, Government officials, and private sector and civil society organisations (80 interviews in total, Annex 2). The programme of evaluation activities followed the standard methodology applied in all previous country strategy evaluations. The report does not necessarily reflect the views of the European Commission.

This report benefited from the collaboration of the Commission Delegation in Albania and that of Albanian Government officials, as well as the assistance of members of civil society and the private sector, to all of whom we are grateful.

Evaluation Director EC Country Strategy Evaluations:

Carlos Montes

The following Country Strategy Evaluations have been carried out by the Development Strategies/IDC team: South Africa, Senegal, Azerbaijan, Papua New Guinea, Dominican Republic, Turkmenistan, Mozambique, Uganda, Namibia, and Burkina Faso. Copies are available on the evaluation unit website (currently at <http://europa.eu.int/comm/europeaid/evaluation/program>) and from the evaluation unit, EuropeAid, European Commission.

Abbreviations

ADF	Albanian Development Fund
CARDS	Community Assistance for Reconstruction, Development and Stability
CBC	Cross Border Cooperation
CFCU	Central Financing and Contracting Unit
CS	Commission Services
CSP	Country Strategy Paper
DG Relex	Directorate-General for External Relations
DIS	Decentralised Implementation System
DoPA	Department of Public Administration
EC	European Commission
ECHO	European Community Humanitarian Organisation
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
FYR	Former Yugoslav Republic
GDP	Gross Domestic Product
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPRS	Immovable Property Registration System
MAF	Ministry of Agriculture and Fisheries
MoECT	Ministry of Economic Cooperation and Trade
MIP	Multi-Annual Indicative Programme
MoPW	Ministry of Public Works
MS	Member State
MTEF	Medium Term Expenditure Framework
MoW	Ministry of Works
NGO	Non Governmental Organisation
OECD	Organisation for Economic Cooperation and Development
OMAS	Organisation for Monitoring and Assessment Services
OSCE	Organisation for Security and Cooperation in Europe
PAO	Programme Authorising Officer
PAR	Public Administration Reform
PIP	Public Investment Programme
PIU	Project Implementation Unit
PMU	Project Management Unit
PRSP	Poverty Reduction Strategy Paper
SAA	Stabilisation and Association Agreement
SAP	Stabilisation and Association Process
SIGMA	Support for Improvement in Government and Management
SOP	Sector Operational Programme
TA	Technical Assistance
USAID	United States Agency for International Development
WEU	Western European Union

Executive summary

This is the executive summary of the Evaluation of the EC's Country Strategy in Albania for the years 1996-2001. It is a part of a series of Country Strategy Evaluations of EC aid.

The report is based on a mission to Albania that took place from 29 April to 11 May 2001. The mission involved an extensive review of Delegation files, monitoring reports and evaluations, and interviews with Delegation staff, other donors, Government officials and civil society organisations (80 interviews in total, see Annex2, p []).

Ch. 1 focuses on the relevance of the EC's country strategy in Albania. Ch. 2 looks at the performance of the EC's programme in Albania, focusing principally on its impact on the EC's stated objectives in Albania. Ch 3. looks at key factors which explain this performance. Ch 4. presents recommendations.

1. Relevance of the strategy (p.1)

Country analysis

1. Political and economic situation.

Immediately after the fall of Communism, Albania experienced a period of rapid growth. However, the foundations of this growth were extremely weak. Institutions necessary to a market economy – a functioning public administration, a reasonably efficient and impartial justice system, and so on – were not present. Civil society – dominated by local and extended family loyalties - was neither capable of nor interested in influencing the state. These weaknesses were revealed in the social unrest that followed the collapse of the pyramid schemes in 1997, which caught donors – in particular, the EC – entirely by surprise.

2. While economic growth has been restored, its underpinnings – both economic and social – remain fragile, since growth is largely dependent on illegal and informal activities, as well as a level of migration that may not be sustainable or desirable. Albanian public administration remains extremely weak. Moreover, while the forms of democracy are in place, political competition is essentially “winner takes all”, with parties seeking to gain control of state institutions for the sake of the economic rents they provide.

3. Sustainable growth will require wide-ranging improvements in governance, institutional capacity, and infrastructure; this in turn will require dealing with some social issues, including the dependence of the economy on informal/illegal activity, migration, and the continued possibility of political instability.

4. Albania is one of the poorest countries in Europe. However, the relative prosperity of Tirana and the coast contrasts strongly with high levels of absolute poverty in rural areas. Poverty and lack of opportunity in rural areas leads to migration, which in turn leads to some social problems, particularly affecting women. Environmental degradation, which the government currently lacks the capacity to address, is a serious concern.

5. **Regional issues.** Albania is generally recognised to have played a constructive and responsible role in the region. Albania's relationship with the EU and the international community is based on the Stability Pact, which gives the EU a special role, and offers Albania and other countries in the region the prospect of EU integration and perhaps eventual membership.

6. **Donors in Albania.** The level of official development assistance is relatively high, at about 5% of GDP. Both fiscal and external balance therefore depends to a considerable extent on donor aid. The EC is the largest single donor. Albania is currently in the process of agreeing a Poverty Reduction Strategy Paper with the World Bank and IMF. The role of the EC in the PRSP exercise has been limited.

Relevance of EC strategy to country needs (p. 12)

7. **Strategy documents.** In 1995 the Commission produced a Country Strategy Paper (CSP) for Albania, followed in 1996 by a Multi-Annual Indicative Programme (MIP). The MIP proposed a programme focused in three areas: “development of the domestic productive base”, “human and natural resource management”, and the “European Dimension”.

8. The country analysis contained in both papers was comprehensive, but superficial. There was no reference to the danger to financial sector stability arising from the pyramid schemes. While there was some recognition of the institutional weakness of the Albanian administration, the implications of this for the implementation of the proposed programme were not seriously considered. The result was that the programme was unrealistic. Even if the 1997 events had not occurred, the programme was overambitious, unfocused, and could not have been successfully implemented.

9. The events of 1997 led, correctly, to a reassessment on the part of donors of their role in Albania. The EC produced a Phare “Concept Paper” – effectively a new strategy and MIP. The Concept Paper shows that the Commission had reflected on some of the failures of previous EC assistance. Its focus on governance was appropriate, and included a relatively frank assessment of previous Phare assistance.

10. However, the paper lacked analysis of issues such as poverty, gender, and the environment for the EC’s strategy. Nor was there any analysis of the causes, consequences and implications of migration, or any serious assessment of the state of

Albanian civil society, or the implications of this for the Commission’s overall objectives. While the problems with Phare’s previous assistance were recognised, this was not translated into an assessment of the Commission’s own structural limitations, or into recommendations for future programming.

11. The Concept Paper sets out three areas of concentration: “democratisation process, institution building and administrative reform., “Employment generation and private sector development”, and “infrastructure development”, focusing on the transport and water sectors. Phare would withdraw from other sectors.

12. The strategy had two key flaws. On public administration reform, the programmes were overambitious, fragmented and were not part of an overall reform strategy or framework. On infrastructure, the key weakness was a failure to recognise how deep-seated was the Commission’s inability to implement infrastructure projects in a timely and efficient manner in the Albanian context.

13. **Shift in priorities resulting from SAP process.** Since 1999, there has been a re-alignment in EC programmes away from broad-based economic development and towards prioritisation of EU integration. However, there was no formal analysis of the rationale and significance of this very important shift. Moreover, a country strategy which was due in the year 2000 was not prepared.

14. The consequence of this shift was an increasing number of relatively small public administration and institution-building projects focused on formal EU harmonisation and integration requirements.. The result is a set of interventions that are uncoordinated and are directed not at supporting the construction of a professional Albanian administration, but rather at “checking off” different areas in which action is regarded as a precondition in the context of the SAA.

15. In view of the Evaluators, this sequencing is incorrect. Without sustainable economic development, built on functioning public institutions, and founded on a strong

civil society, concentration on the formal requirements for EU harmonisation and integration will be counterproductive.

The EC's programme (p. 21)

16. Over the period 1991-2000, EU assistance to Albania totalled more than 1 billion Euro, of which 635 Meuro was provided through Phare programme. Other modes of assistance included substantial food and humanitarian aid, balance of payments support during the Kosovo crisis, support to elections, and the TEMPUS programme in the higher education sector.

2. Performance of the EC's programme (p. 23)

Institutional reform (p.23)

17. **Public administration reform.** Continuous Phare programmes in support of broad public administration reform have had very little impact. The most recent programme consists of numerous isolated activities that are not consistent with a coherent reform strategy and are poorly coordinated with other donors. Even if successfully implemented, the programme would have little impact: in practice. In practice, poor implementation and weak Government ownership have ensured that the programme has been unable to achieve even its own limited objectives. Sustainability for the programme is very low.

18. **Justice and home affairs.** In this sector, where the EC has concentrated much of its recent support, Phare programmes concentrated on physical inputs. However, implementation has been very poor. . As a result of these factors, the impact of these projects has been low.

19. The joint programme with the Council of Europe has improved the training of new magistrates, but as yet its impact has been marginal. The WEU-led Multinational Advisory Police Element has had some success in reorganising the police force, but the programme is not part of an overall sector strategy and does not include links

with civil society. Phare support to Customs, managed by DG TAXUD, has been more effective.

20. In other sectors, Phare interventions did not focus on institutional reform. Insofar as there were relevant components, they were small, disconnected and poorly designed. Such improvements as have occurred do not appear to be sustainable.

Economic Development (p.27)

21. **Transport and water,** Phare funding was directed principally at large infrastructure projects. Given the extremely poor state of both systems, and their crucial importance for sustainable economic development, substantial investment was justified. Potential impact was therefore large. However, in both sectors, impact to date has been severely reduced both by poor strategy and extremely slow and poorly managed implementation.

22. In the road sector, project planning and design has been extremely weak. . In the water sector, implementation has been even slower, largely due to the weakness of the PMU in the Ministry of Public Works, frequent changes of staff at the Delegation, and extremely slow actions on the part of Commission Services

23. **Agriculture.** Phare project support was unfocused and spread thinly, lacking an overall strategy. Project implementation, again, has been almost without exception slow and inefficient, and this has resulted in low effectiveness and impact. One partial exception has been assistance to land registration.

24. **Local community development.** Support has been provided through the Albanian Development Fund. The programme has produced relatively quick results, which are likely to contribute to development and poverty reduction at a local level, although – given a lack of monitoring and assessment – assessing sustainability is difficult, and the efficiency of the ADF is hindered by Phare procedures and regulations.

Democracy and the rule of law (p.31)

25. In the immediate aftermath of the 1997 civil disorder, the EU and a number of Member States took actions that had a positive impact on the restoration of order and the rule of law. However, since then Phare support to democracy, the rule of law and anti-corruption has remained quite limited, and there has been very little interaction with civil society. In the absence of a coherent sector strategy, support to the

justice sector and the police have not produced a significant impact.

EU integration (p.32)

Impact in this area has been hindered by poor implementation, both in infrastructure and institutional reform. This has affected the public image of the EU in Albania. The EC has not considered analytically the potential conflict between EU formal integration requirements and development objectives.

3. Explaining the EC's performance (p. 37)

Strengthening institutions (p.37)

26. EC programmes have had very ambitious objectives, but the means of achieving them were absent; programmes concentrated on narrow technical issues and the supply of inputs. Results will be very difficult to obtain without a more strategic approach.

27. The EC's support to civil service reform largely lacked strategic focus and often focused on legal issues while neglecting implementation and key issues such as pay reform and the need for depoliticisation.

28. Similarly, in the justice and home affairs the EC support focused on narrow technical issues and concentrated on the provision of infrastructure rather than addressing the key strategic and political reasons why the judiciary and the police remained corrupt and inefficient. By contrast, the Customs programmes appears to have been successful by addressing the issues of pay reform.

29. In other sectors (including infrastructure), institutional support was implemented according to a project approach which did not encourage links with the overall public administration reform programme.

30. The use of PMU and PIU structures (and similar units established by other donors) has also weakened institutional support programmes.. These units have

focused on issues related to implementation of EC programmes at the expense of a more strategic approach, links with sector programmes and with other donors. . All this undermined budget planning, transparency and accountability.

Strengthening civil society (p.42)

31. The EC did not formulate a strategy for developing civil society in Albania. Not only was direct support limited, but the EU - in contrast with other donors - does not appear to involve civil society in strategy formulation, project selection or planning, or the political dimension of EU actions. Civil society was not involved in institutional reform programmes in Justice and Home affairs where its role should have been central. The Delegation has not played an active role as yet in supporting the development of a national dialogue on development issues and on ways to achieve a more stable political environment.

Donor coordination (p.44)

32. Coordination was good in the context of the 1997 crisis, but otherwise has generally been poor. There is very little focus on the need to work on sector wide programmes supported jointly by donors. Competition between the EC and the World Bank is a significant problem. In part this reflects different strategic priorities, with the World Bank focusing on poverty while the EC

prioritises EU integration. While these objectives are not necessarily incompatible, in practice they have led to conflict. This reflects the desire to gain influence on key areas (e.g. agriculture, justice, budgeting process). Moreover, initially strong coordination on public administration reform has now weakened.

Commission resources and procedures (p. 47)

33. As in other countries, the EC's ability to engage in policy dialogue and donor coordination is constrained by the Commission's limited capacity and time-consuming administrative procedures. However, in Albania these constraints have been exacerbated by extremely poor aid management and by poor communication and cooperation between EC Headquarters, the Delegation in Albania, and the Albanian authorities.

34. **Project Management Units and Project Implementation Units.** For the most part, PMUs and PIUs in Albania have not fulfilled their functions adequately.

Delegation. The impact of the EC programme has been severely constrained by extremely poor Commission aid management. This has been identified in monitoring reports and interviews with Delegation staff. Moreover, recent reviews commissioned by the current Delegation, indicate that these failings led not only to strategic problems but also to serious and widespread financial and contractual irregularities.

35. The Delegation has begun to improve its systems. However – perhaps in an understandable reaction to previous problems – current management is still too hierarchical, centralised and lacks transparency. In addition, it lacks the capacity – either in organisational terms, or in human resources - to develop a strategic approach.

36. **Headquarters.** The performance of Commission Headquarters (EuropeAid and DG RELEX) has been poor. Delays in commenting on and approving documentation have been very long. With the creation of EuropeAid (previously SCR)

delays and problems of communication have increased further.

37. Cooperation with the Delegation is particularly poor. While the Delegation is concerned with the need to address past poor aid management and financial control failings which affect current performance, Headquarters do not share this assessment and do not see this as a priority. Despite the serious weaknesses in programming and implementation identified by the Delegation in interviews with the Evaluators, monitoring reports and Albanian authorities; Headquarters is generally positive about the performance and implementation of the EC programme.

38. **Learning systems.** Monitoring and Assessment Reports by the OMAS consortium provide detailed information on project/programme implementation. However, as per design, these reports tend to be repetitive and narrowly focused. While the system is potentially useful, it has not been used as an early warning system for implementation problems, and as noted above the Delegation has found it necessary to commission independent reviews to cover key gaps in the monitoring (particularly regarding the reliability of financial control systems).

39. No evaluations have been carried out on the Phare programme or on other interventions (including budget support). An independent evaluation of the apparently successful Customs programme is particularly needed. The capacity of the EC to learn from previous lessons of implementation is therefore poor.

40. The EC programme is very administrative intensive, but reliable systems of financial management and control are not yet in place. In particular, systematic audits of the EC programme have not been carried out. This is essential to improve the efficiency and effectiveness of the programme.

Key Findings

Ch. 1 finds that the initial Country Strategy was very weak and was quickly overtaken by events; a subsequent Concept Paper

presented a greater recognition of country constraints, but failed to draw appropriate conclusions for Phare programming. Subsequently, there has been a major shift in emphasis of the EU strategy towards European integration. This has not been translated into a realistic and transparent strategy, instead, it has led to inappropriate sequencing, and overemphasis on the formal requirements for an SAA rather than the implementation of urgently needed institutional reforms. Country programming is not based on the realities in the ground or consultation with the Delegation.

Ch. 2 finds that Phare programmes had a very low impact on all EC stated objectives. This is often a direct consequence of very poor implementation management. Project design was unrealistic and lacked a basic strategic framework and, on the institutional side, it was too focused on physical inputs.

Ch 3. finds that EC programmes, despite having very ambitious objectives for institutional reform, ignored key institutional issues, both cross-cutting and within sectors. The EC lacked a strategy for strengthening civil society. Donor coordination was weak, and hindered by fundamental differences of approach with the World Bank. Even more importantly, programme impact was severely limited by extremely poor aid management by Commission Services. At present, fundamental disagreements between the Delegation and Headquarters prevent cooperation between the parties and directly affect programme performance.

Key Recommendations (p.52)

41. **Strategy.** EC strategy should focus on the objectives of public administration reform, the support of civil society and sustainable economic development. There should be less emphasis on formal requirements for EU harmonisation and integration. EC strategy preparation should include systematic and transparent consultations with other donors and different elements of civil society.

42. **Increasing the focus of EC aid.** The EC should considerably reduce number of

small-scale interventions, and should develop a more strategic sector wide approach. Use of budget support in this context should be also considered.

43. **Roads and water.** There is a case for continued EC funding of large infrastructure projects, but this needs to take place within the context of well-developed sectoral strategies, agreed with the government and other donors, which currently do not exist.

44. **Public administration reform.** A joint donor strategy for public administration reform across all Ministries, not just isolated projects, is required, and EC support should only be provided within such a framework.

45. **Justice and home affairs.** The focus should move towards implementation of institutional change in a sector wide context. The EC should cease funding individual infrastructure projects in these sectors. Other donors (particularly Member States) should lead in these sectors.

46. **Agriculture.** In the absence of a joint strategy, further EC support is inappropriate. As regards approximation to EU standards, a gradual approach that gives priority to wider institutional development and poverty issues is required.

47. **Local community development.** The EC should continue to channel its support via the Albanian Development Fund, but should work much more closely with other donors (especially the World Bank).

48. **Governance and civil society.** The EC should increase its contacts with and analysis of civil society, with a view to integrating civil society both into the formulation and implementation of the overall country strategy, The EC should provide greater financial support to relevant civil society organisations through appropriate intermediary organisations, and should support an expansion of the role of civil society in monitoring the provision of government services and public expenditure.

49. **Improving aid coordination practices.** The EC should support a joint approach to sector wide strategies and consider a greater use of budget support jointly with other donors.

50. The EC should participate in the consultations for the Growth and Poverty Reduction Strategy and support the Medium Term Expenditure Framework process and the centralisation of budget planning in the Ministry of Finance
51. PIU and PMUs working exclusively for individual donors inside government departments should be phased out as part of a wider reform of government structures. EC should only provide institutional support to Government departments as part of joint pools for technical assistance.
52. **Improving EC resources and procedures.** Both Headquarters and the Delegation should adopt a clear, written and binding statement of service standards applicable to the processing of project documentation.
53. Reform of Phare implementation should be carefully and transparently discussed with other donors and the Government. Lessons from the failure of the Central Financing and Contracting Unit in the FYR of Macedonia should be studied.
54. The Delegation should make greater use of teamwork and cross-cutting working practices. Individual advisors should be given substantially greater autonomy and decision-making powers, and be held accountable for the results. The Delegation should strengthen its resources for strategic and economic analysis.
55. The irregularities in financial and contract management identified in the reviews commissioned by the Delegation should be thoroughly investigated. Formal audits should be performed in these areas, either by the Commission's internal audit services or by the Court of Auditors.
56. Management actions are required to secure improved cooperation between the Delegation and Headquarters.
57. **Monitoring, evaluation and audits.** Monitoring reports should continue, but should be shorter and more focused on strategic issues. Management should respond with a plan to implement recommendations. To increase transparency, both reports and responses should be made public.
58. Independent evaluations of the Phare programme and other interventions (especially budget support) should be carried out in a systematic manner. Similarly, EC programmes should be systematically audited (when necessary by internationally recognised auditors). Sanctions should be applied in cases of maladministration.

Table of Evaluators' Recommendations

A) Strategy.

EC strategy should focus on the *objectives* of public administration reform, the support of civil society and sustainable economic development. Strategy should specify clear key governance *conditionalities*.

EC should de-emphasise formal requirements for *EU harmonisation and integration*.

EC strategy preparation should include *systematic and transparent consultations* with other donors and civil society. Delegation should play a greater role in strategy preparation.

B) Increasing the focus of EC aid.

EC should reduce number of small-scale interventions, focus its interventions in a few sectors, develop a *strategic sector wide approach*, and consider gradual switch from project to *budget support*.

EC funding of *roads and water* needs to take place within the context of well-developed sectoral strategies, agreed with the government and other donors, which currently do not exist.

A joint donor strategy for *public administration reform* across all Ministries is required. EC support should only be provided within such a framework.

The EC should cease funding individual infrastructure projects in the *justice and home affairs* sectors and focus on the implementation of institutional change in a sector wide context (with other donors).

In the absence of a joint strategy, further EC support to *agriculture* is inappropriate. Approximation to EU standards requires a gradual approach that gives priority to wider issues.

The EC should continue to channel its support to *local community development* via the Albanian Development Fund, but should work much more closely with other donors.

The EC should increase its contacts with and analysis of *civil society*, with a view to integrating civil society both into the formulation and implementation (and monitoring) of the overall country strategy. *Greater financial support* to civil society organisations should be provided

C) Donor coordination:

The EC should support a *joint approach* to sector wide strategies and consider a greater use of budget support jointly with other donors.

The EC should support the Medium Term Expenditure Framework process and the *centralisation of budget planning* in the Ministry of Finance

EC should only provide *institutional support* to Government departments as part of joint pools for technical assistance. Donor-specific PIU and PMUs should be phased out.

D) Improving EC resources and procedures:

Headquarters and the Delegation should adopt a clear, written and binding statement of *service standards*.

Reform of Phare implementation (possibly with a CFCU) should be carefully and transparently discussed with other donors and the Government. PAO role should be given to a senior civil servant.

Delegation should make greater use of *teamwork and cross-cutting working practices* and strengthen its resources for strategic and economic analysis.

Irregularities identified by the reviews commissioned by the Delegation should be formally and transparently investigated.

Management should take action to improve *cooperation* between the Delegation and Headquarters.

Independent *evaluations and audits* should be carried out systematically.

1

Relevance of the strategy

The first part of this chapter reviews key aspects of the political, economic and social context in Albania, including the general role of all donors. The second part is an assessment of the relevance of (and constraints on) the EC's strategy in this context before implementation. Key characteristics of Albania are reviewed to identify factors that should underlie the EC's strategy choices. The analysis includes both factors that were present when the strategy papers were prepared, as well as more recent developments.

A. Country Analysis

Albania's initial successful steps towards economic transition were undermined by political and social instability, revealed by the events of 1997. While economic growth has been restored. Albanian public administration and civil society remain extremely weak. While economic growth has been restored, its underpinnings – both economic and social – remain fragile, since growth is largely dependent on illegal and informal activities, as well as a level of migration that may not be sustainable or desirable. Sustainable growth requires wide-ranging improvements in governance, institutional capacity, and infrastructure; this in turn will require dealing with some difficult social issues.

Political Situation and Governance

Albanian Society After Communism

Albania's existence as a modern nation state began in 1912 with independence from the Ottoman Empire. The period between the World Wars was marked by political instability, culminating in the autocratic regime of the self-declared King Zog from 1928 to 1939. During WWII Albania was occupied first by Italy, and then by Germany. Resistance to occupation was led by the Communists, who assumed power under Enver Hoxha when the Germans withdrew. The Hoxha regime was one of the most repressive and centralised Communist regimes, comparable perhaps only to North Korea. Hoxha quarreled successively with other Communist regimes and eventually withdrew Albania into complete isolationism.

The fall of the regime in 1991 was chaotic and violent, leading to a large exodus of refugees to Italy and Greece. Eventually, with international assistance, civil order was restored and multi-party elections in 1992 brought the Democratic Party to power under Sali Berisha.

In order to better understand events since the fall of communism, and the current state of the country, it is necessary to understand some of the paradoxes of Albanian society. Some social ties, notably those of extended families or local communities, are extremely strong. These social groups can mobilise social capital. Sometimes this can have positive results, as when during the 1997 violence (see below) some local communities mobilised to protect local institutions such as schools.

However, there is also a significant negative aspect. Rather than forming building blocks to construct a more general sense of community and citizenship, such ties have served to legitimise suspicion and hostility – and often violence – to those outside the immediate social group. A study concluded: “It is not very useful to look for generalised trust outside the clearly defined limits of social groups based on long standing ties among kin, friends and neighbours.”¹ This has immediate negative consequences, as in the blood feuds that are endemic to the North-East of Albania. It also has more general and subtle social consequences:

- It inhibits efforts to build social capital more generally across society. So, for example, while there are many NGOs in Albania (particularly in Tirana), most operate in a top-down manner, many are affiliated more or less openly with one party or another, and they tend to lack accountability.
- It is a serious impediment to efforts to improve government capacity. Expectations of state employees are low: they are expected to act either in self-interest or in the interest of their own social group.
- It severely distorts political life. Political parties in Albania, in particular the two main parties, are defined primarily by regional and clan loyalties rather than ideology. The result is that elections are not primarily about presenting the electorate with a choice between two different programs, but about creating viable coalitions that can gain a majority and hence power. It is therefore not surprising that once in power, politicians concentrate on rewarding those constituencies and sustaining their coalitions rather than on policy implementation. While this phenomenon is prevalent in transition countries (e.g. Russia), it is particularly notable in Albania.²

The 1997 Crisis

Between 1993 and the collapse of the pyramid schemes Albania grew by an average of 9 percent per year. Inflation, public finance and the balance of payments were brought under control. Key structural reforms progressed rapidly, with the disappearance of state farms, privatisation of state-owned SMEs, and comprehensive liberalisation of trade and investment. The private sector now accounts for 75% of GDP.

However, the foundations of this growth were extremely weak. Institutions necessary to a market economy – a functioning public administration, a reasonably efficient and impartial justice system, and so on – were not present. Moreover, while the forms of democracy were in place, political competition was essentially “winner takes all”, with parties seeking to gain control of state institutions for the sake of the economic rents they provided. There was no accountability, and for the reasons described above, civil society was neither capable of nor interested in influencing the state.

The initial period of apparent political stability and economic development began to falter in 1996. Elections in May 1996, which returned the Democratic Party to power, were widely regarded as tainted, and political tensions rose steadily. In the run up to the elections, the

¹ See “Social Assessment of the Albanian Education Sector”, World Bank, April 2000. This contains an excellent discussion of social capital in Albanian society. See also Public Administration Reform Project, appraisal document, World Bank, March 2000: “After the fall of communism, the Albanians reverted back to their pre-communist allegiances, which remains more important to them than trust, and participation in public systems and public institutions”.

² A review of the Albanian press in the run-up to the June 2001 Parliamentary elections shows that discussion is almost entirely confined to disputes over questions of process: election rules and procedures, coalition formation, and implications for internal party and government dynamics, rather than programmes or policies.

economy deteriorated sharply. Meanwhile, a number of investment funds based on fraudulent pyramid schemes succeeded in attracting a substantial portion of Albanian savings, by offering interest rates of 1.5% to 4% a month. The rise of these pyramid schemes was endorsed by the government party and was a reflection of the poor governance then prevailing in the country³. By late 1996 it was estimated that 60 percent of Albanians placed funds in these companies and eight out of ten families had at least one depositor.

By November 1996 these pyramid schemes had begun to collapse, and this led, by March 1997, to a complete breakdown in civil order and state control, with widespread looting, including that of government armouries. This not only led to a fall in GDP of 7% in 1997 but to widespread destruction of infrastructure and other public assets. In April 1997, an Italian-led multinational protection force was deployed, and the OSCE was mandated to restore order and political stability. The OSCE organised new elections, which returned the Socialist Party to power.

Following a political crisis in September 1998 – involving the murder of an opposition politician – the government was reorganised, and a somewhat more “reformist” team took office. The current government is led by Prime Minister Ilir Meta. Local elections in October 2000, were judged by the OSCE to have shown “significant progress” towards international standards, although complaints of irregularities by the opposition raised political tensions again.

New Parliamentary elections took place in June 2001. These elections were generally agreed to be free and largely fair, although the Democratic Party once again rejected the results. The Socialists won a clear majority. However, there are significant political tensions within the party, which may manifest themselves over the election of a new President in 2002.⁴

Governance and public administration

The quality of governance and public administration in Albania is generally agreed to be extremely low. Government departments have very few qualified or trained staff. Turnover is high and morale is low. Corruption is endemic.⁵ The low quality of public administration has two broad implications:

1. *On policy formulation.* As will be described below, in a number of sectors – particularly those in which the EC and other donors are heavily involved - Albania needs strategic planning at a sectoral level. However, line Ministries, while aware of these needs, typically do not have the requisite capacity. Donors therefore tend to concentrate first on implementing their own projects, by setting up a large number of relatively self-contained project units within Ministries. This in turn inhibits the long-term improvement of government capacity.

2. *On service delivery.* Following a long period of under-investment dating from the 1970s, the quality of public service provision in Albania is extremely low across the board:

- police and judiciary. The police are ill-trained and abuses are common. Moreover, the judiciary is widely regarded as politicised and corrupt⁶. Although security has improved considerably in most of the country, organised crime has if anything worsened.⁷ Despite the very high level of criminal activity, in particular smuggling of drugs, tobacco and human beings, arrests of major – as opposed to petty – criminals are rare, and convictions

³ See Albania country reports, Economist Intelligence Unit, various issues. A discussion of the Albanian pyramid schemes can be found in a wider review of financial market irrationality: see *Irrational Exuberance*, Robert Shiller, 2000.

⁴ See Albania Country Report, Economist Intelligence Unit.

⁵ The 1999 Transparency International Corruption Perception Index places Albania 84th out of 99 countries. See also Albania Country Report, Economist Intelligence Unit

⁶ See also Albania, Country Strategy, Department for International Development, 2001.

⁷ “Albania: The State of the Nation 2001”, International Crisis Group, May 2001.

and imprisonment even rarer. This in turn breeds public cynicism. The civil legal system is little better, and even if judgments can be obtained, they are often unenforceable.

- electricity and water. Although Albania has abundant hydroelectric potential, the winter of 2000-2001 saw frequent power cuts. Problems in the electricity sector are due to “the extremely weak management of the electricity company, the unacceptably low efficiency in collecting bills, and the exceptionally high level of electricity theft.”⁸ In urban areas, water is typically available only 2-4 hours per day.
- health and education. Despite substantial infusions of donor funds, the fundamental structural problems of the health sector remain: lack of resources, a mismatch between services provided and population needs, poor incentives for employees, poor facilities and an almost complete lack of maintenance. The same is true of education. As a result, the quality of services provided in both sectors has worsened considerably. Health expenditures are only 1.8% of GDP, comparable with low-income African countries, and health indicators have deteriorated, with infant mortality rising significantly in the early years of transition.⁹ A similar deterioration both of inputs (the state of education infrastructure) and outputs (the quality of teaching) has occurred in the education system.¹⁰

As set out above, these failures lead to a vicious circle: public expectations in government are reduced, which in turn reduces the pressures and incentives for government to delivery. These failures are not simply the result of the destruction caused during the 1997 civil disorder, or of a lack of resources, but rather of more deep-rooted structural problems.:

- low pay and lack of performance incentives¹. Public sector salaries are extremely low – perhaps \$80-100/month for a middle manager. While a comprehensive pay survey to measure differentials with the private sector is not yet available, this is clearly very low relative to salaries for skilled workers in the private sector, or even more so abroad.
- Politicisation of the public service. It has been common practice, both at national and municipal level, for a change in party control (or even a change in Minister) to lead to large scale firings and hirings of civil servants. Not surprisingly, this reduced staff quality and motivation, and made it more difficult to recruit technically qualified staff. There are some signs of improvement on this front, following the introduction of a new legal framework for the civil service and a Civil Service Commission, but events following the current round of elections will be the real test.
- lack of institutional controls and enforcement. Government capacity for monitoring and auditing is extremely weak. Enforcement is almost entirely absent – there are no recorded cases of prosecution of large-scale corruption.
- The relative weakness of civil society, as described above, which reduces pressure from outside for quality public services.

The polarisation of politics along geographic and ethnic lines, which means that voting patterns are not determined primarily by which party can offer to provide the best public services

The structural defects of the political system are at the root of most of these problems. As a recent report put it: “The growth and consolidation of democratic institutions have been hampered by the inability to make a clear distinction between the state and the government of the day and confusion over their respective powers, by efforts to control the justice system, and by the populism

⁸ “Albania: First Review under the Third Annual Arrangement under the Poverty Reduction and Growth Facility”, Staff Report, International Monetary Fund, February 2001.

⁹ “Albania: Country Assistance Evaluation”, World Bank, November 16, 2000.

¹⁰ “Social Assessment of the Albanian Education Sector”, World Bank, April 2000.

that often characterises Albanian politics. Despite efforts, there is still no modern or well-functioning public administration. In large part this is due to a mentality which politicises everything and places party interests ahead of the state. Effective governance depends on popular respect for government and its mechanisms. Instead, distrust for the state and its institutions is increasing.”¹¹

Finally, donors themselves must take some of the blame. Before 1997, donors paid very little attention to governance and corruption issues; assessments of development in Albania focused on the high growth rates and were generally extremely positive. Donors – particularly the EC - did little to try to prevent the crisis, and were very poorly prepared when it occurred.

Moreover, recent research shows that “higher aid levels erode the quality of governance, as measured by indexes of bureaucratic quality, corruption, and the rule of law”.¹² This effect may operate through a number of channels in Albania, notably the large amounts of aid that is not integrated into the government budget (which both makes budget management more complex and may tend to encourage and/or facilitate corruption) and the large number of semi-independent Project Management and Project Implementation Units, which may undermine the development of more sustainable mainstream line Ministry capacity. At the same time, public administration reform does not focus sufficiently on pay reform issues.

Economic and Social Situation

Macroeconomic situation and constraints

Albania has a population of about 3.4 million, with population growth estimated at about 1% per year (although estimates of migration are very uncertain). At about 28,500 square kilometres, it is comparable in size to Belgium. GDP per capita is about \$1,100. The economy is dominated by agriculture, which represents more than 50% of GDP. The heavy manufacturing sector largely disappeared after the fall of Communism; this has to some extent been replaced by light export-oriented manufacturing, taking advantage of Albania’s low labour costs to subcontract for foreign manufacturers (principally Italian), especially in the textile industry. Services are dominated by the construction industry.

Since 1998, high growth has resumed, averaging about 7% per year. Even the influx of nearly half a million refugees during the Kosovo crisis did not derail economic stability, thanks in large part to substantial external assistance. Growth has been driven by private investment, especially in the construction industry, fuelled by a sharp rise in remittances. Remittances, as well as foreign aid, also help to finance the very large trade deficit, about 20% of GDP. Over 90% of Albania’s imports are from EU countries, dominated by Italy and Greece. The fiscal deficit, which is financed partly by foreign aid and partly by domestic borrowing, is regarded by the IMF as sustainable.

The macroeconomic picture therefore looks relatively good: the World Bank and IMF believe that Albania can continue to grow at 7-8% per year. However, there are a number of potential roadblocks that could stand in the way of sustained growth:

- the quality of governance and corruption. The poor quality of public administration, and in particular the dysfunctional nature of the legal and judicial system, is a severe deterrent to private investment, both domestic and foreign. Corruption is widely perceived as pervasive. The 1999 Transparency International Corruption Perception Index places Albania (84th out of 99 countries), only slightly ahead of Uganda and Kenya.

¹¹ “Albania: The State of the Nation 2001”, International Crisis Group, May 2001.

¹² World Bank Policy Research Working Paper no 2396, “Aid Dependence and the Quality of Governance: A Cross-Country Empirical Analysis”, Stephen Knack, July 2000.

- infrastructure bottlenecks. The problems in the electricity sector, in particular, are also likely to both reduce growth and economic activity in the short term, and inhibit investment in the longer term. It will be very difficult to develop new, export-oriented sources of growth – for example, in the tourist sector, which has considerable potential – without radical improvements in the transport, water and sewerage systems.
- financial system. The Albanian financial system at present operates largely as an intermediary by which the population finances the government deficit: private investment is almost entirely crowded out. 90% of the assets of the banking system is government debt.¹³ Lending to the private sector is very small, at about 4% of GDP. Again, the development of the financial sector is inhibited by the non-enforceability of claims resulting from the problems in the legal system. The IMF and World Bank are pressing strongly for the privatisation of the Savings Bank, which holds the vast majority of deposits: however, it is not clear why a change of ownership will in itself improve matters much.¹⁴
- The dependence of the country on remittance income, which amounts to about 12-15% of GDP (estimates are uncertain, particularly given the questionable legal status of some of these funds). Remittance income is potentially quite volatile, and will be affected by the economic fortunes, and immigration policies, of Western European countries. Moreover, it appears that most remittance income in Albania is invested in construction, which may have a distortionary impact on the economy.

¹³ “Albania: First Review under the Third Annual Arrangement under the Poverty Reduction and Growth Facility”, Staff Report, International Monetary Fund, February 2001.

¹⁴ The National Commercial Bank, which has already been privatised, makes very few loans to the private sector.

Agriculture: ready for Europe?

On paper, Albania is the most agriculture dependent country in the world, with agriculture accounting for 63% of total value added, similar to Myanmar, Laos, D.R. Congo, and Cambodia, and compared to an average of 21% for low-income countries as a whole.¹⁵ This compares to about 12% for FYR of Macedonia and Croatia, fellow participants in CARDS and the SAP. While partly this reflects underreporting of income in other sectors (see below), it is nevertheless revealing. Rather than representing an economic strength to be exploited (as is suggested in some Phare strategy/programming documents), the heavy weight of - largely subsistence - agriculture can be seen as a symptom of the weaknesses of the Albanian economy. It is perhaps no accident that the countries mentioned above are also suffering or emerging from deep political, social and economic trauma.

Albanian agriculture has witnessed a remarkable transformation, with close to half a million very small farms replacing 550 state farms. At the same time, all producer and consumer prices have been liberalised, and subsidies to the agricultural sector are at a very low level. However, strong growth in the sector has been driven by a massive increase in forage-based livestock production, whilst crop and fruit production has declined significantly.

Albanian agriculture remains very poorly developed – “Production systems remain primitive, yields are low, many farms are too small and fragmented to be viable, physical infrastructure is poor, and private sector activity has yet to fill the vacuum left by defunct state processing and marketing agencies.” Few farms are processing for the market, and exports are very small, with market access constrained by “the inadequate and poorly maintained road system, the small marketed surplus available for trade, weakly developed market infrastructure and the limited access of marketing agencies to credit.”¹⁶

With an agriculture system that looks much more African than European, are harmonisation of legislation and integration with Europe the pressing priorities compared to more fundamental development efforts?

Looking beyond these roadblocks, there are three more general political and social question marks that remain over Albania:

- *the possibility of political instability.* The 1997 crisis illustrated the ease with which what appeared to donors to be a benign political and economic situation could rapidly turn to disaster. As noted above, public trust in government and politicians is very low. Consequently, there is very little institutional resilience: the self-correcting checks and balances – not merely formal and legal, but social and institutional – that exist in other democracies are largely absent in Albania. It would not take much in the way of an external or internal shock to disrupt the system, with catastrophic consequences.
- *The dependence of economic growth on informal and/or criminal activity.* Much of the recent economic growth in Albania comes from the informal sector; rough estimates (no reliable estimates exist) suggest that it may account for 30-50% of economic activity.¹⁷

¹⁵ World Development Report 2000, World Bank.

¹⁶ Reforms in Albanian Agriculture: Assessing a Sector in Transition; World Bank Technical Paper No. 431

¹⁷ See for example “Informal Sector in Albania: Empirical Report”, Albanian Center for Economic Research, March 1999, which gives an estimate of 32%, although the methodology is unclear and must be subject to a large margin of error. The survey found that

This ranges from the relatively “benign” - construction work performed “off the books”, to the clearly criminal. Smuggling – of tobacco, drugs, and human beings – is rife, particularly in the south of the country, centred on Vlora. Albanian women are trafficked to Northern European countries to work, often against their will, in the sex industry. Marijuana is grown for sale in Italy and Greece, while heroin is smuggled into Italy. Moreover, reports suggest that criminal activity is becoming not only more widespread, but also more sophisticated and better organised, often by multinational gangs with bases outside Albania.¹⁸ Much of the subsequent income is invested in construction. This is not a sound base on which to found a development strategy; quite apart from the moral and legal implications, it is volatile and unsustainable; it aggravates governance problems by worsening corruption; and it will ultimately lead to actions from European countries.

- *Migration.* Albania is, per capita, one of the largest countries of migration in the world. Estimates of the numbers of Albanians who have emigrated since the fall of Communism range from 400,000 to a million, from a population of only 3.4 million. The implications of this for economic and social development are discussed in the next section.

Ultimately, all of these constraints are related closely to the institutional problems described above. A recent report on the relationship between institutional change and economic performance in South-East Europe concluded that conditions where the legal and policy frameworks are weak “overwhelmingly favour activities that promote redistributive rather than productive activity, that create monopolies rather than competitive conditions, and that restrict opportunities rather than expand them. They seldom induce investment in education that increases productivity. The organisations that develop in this institutional framework will become more efficient — but more efficient at making the society even more unproductive and the basic institutional structure even less conducive to productive activity.”¹⁹ This continues to describe Albania, despite the relatively high level of current growth.

Poverty

Albania’s per capita GDP of about \$1,100 makes it one of the poorest countries in Europe. However, as noted above, the size of the informal/illegal economy is very large. Tirana, and other southern cities such as Vlora and Durres, are significantly more prosperous than official numbers would suggest. By contrast, some rural areas, especially in the northern interior of the country, are far poorer. A 1999 study (but based on 1996 data) found that the incidence of absolute poverty – defined as consumption of less than \$1/day - was about 20% outside Tirana.²⁰ As well as being primarily rural in character (the rural poverty rate was about 25%), poverty was strongly correlated with lack of education, lack of remittance income, and household size. It is estimated that 25-35% of children between the ages of 0 and 3 are malnourished, with the incidence in the Northeast considerably higher.²¹ As part of the GPRS process, a more complete and up-to-date poverty profile is being prepared.

Poverty and lack of opportunity in rural areas has in turn led to migration. It is estimated that perhaps one third of the population of Albania has migrated, either internally or externally, in recent years, although estimates are highly uncertain. The most common destination of

underreporting of income and tax evasion was almost universal even among legitimate businesses.

¹⁸ See “Albania: The State of the Nation 2001”, International Crisis Group, May 2001, for a more detailed discussion.

¹⁹ “Institutions, Institutional Change and Economic Performance: the Stability Pact, South East Europe Compact for Reform, Investment, Integrity and Growth”, Douglass North, July 2000, “Household welfare, the labour market and public programs in Albania”, World Bank, 1999.

²¹ State Committee on Women and the Family. Again, this figure is more comparable with low-income developing countries than with Albania’s middle-income neighbours.

migrants is the agricultural and light industry sector in Italy and Greece, but there are Albanian communities throughout Northern Europe as well.²²

Migration

The social and economic effects of migration are very difficult to assess. Work done for the GPRS by the Center for Economic and Social Studies suggested that the immediately quantifiable economic effects of migration were broadly neutral, but the long-run effects must be extremely uncertain. Overall, while migration may have some positive short-term economic effects, it is unlikely to be beneficial to Albanian society, to have such a large proportion of young people leaving the country. Of course, this is even more the case when their status in the destination countries is illegal or worse (as often in the case of prostitution) and they are thus vulnerable to involuntary deportation and /or social exclusion.

The CESS work also highlights the importance of distinguishing short-term, or seasonal, migration (predominant for those working in the Greek agriculture sector) from long-term or permanent migration. It is clear that migration has led to the depopulation of some rural areas in the north – with the associated problems for the provision of social services. Migration of heads of household may also lead to the breakdown of family structures and to an increase in social exclusion.

Migration is clearly a difficult political issue both for the Albanian government and the EU. On the one hand, more thoughtful members of the government and intellectuals recognise that in the long run migration, at least of the current scale and unsupported by policies to maximise its positive impact, is neither a sustainable development strategy nor well calculated to foster good relations with the EU. On the other hand, migration clearly provides a useful political and economic safety valve, particularly in the case of young men who otherwise would be highly likely to be unemployed.

This is a serious medium-term concern. What is needed is an analysis and strategy that addresses the economic and social causes and consequences of migration, and aims to manage migration to maximise the benefits and minimise the costs to both Albania and to receiving countries in the EU. However, there is little evidence of this at present, as opposed to strategies that aim to improve immigration and emigration control (although these too are likely to be necessary). It is important that the EU should not overemphasise policies which are primarily directed at meeting the perceived needs of EU Member States, rather than those of Albania.

Gender

Perhaps surprisingly, the poverty study found that *gender* was not correlated with poverty. Nevertheless, there are a number of gender issues of concern. Although legal protections for women's rights are good, Albania remains a conservative society, especially in rural areas. As noted above, human trafficking is common, and it is often assumed that a woman who returns from abroad was working as a prostitute, whether or not this was actually the case. And although households where the male head is working abroad may not be poorer than others, there are likely to be additional strains on women who are effectively functioning as single parents.

Environmental degradation

Albania, like other Balkan countries, is endowed with considerable natural resources (for example, very large hydroelectric potential), and exceptionally beautiful coastline. However,

²² For example, about 1,500 Albanians applied for political asylum in the United Kingdom in 2000.

substantial environmental degradation has occurred, particularly in the last decade. Significant environmental problems include:

- Deforestation. It is estimated that 20% of Albania's forest – or some 10% of the country's area – has been deforested, primarily for use as firewood.
- Solid waste and wastewater. There are no facilities either for the treatment of solid waste or of wastewater. Virtually all solid waste is deposited in unmanaged dump sites (rather than managed landfills). About 40% of the urban population have a sewerage connection but sewage is simply dumped in the sea, lakes or rivers.
- Chemical and industrial wastes. A recent UNEP report identified 9 environmental "hotspots" relating to chemical and industrial wastes; for example, the dumping of chemical wastes in Durres. These threaten both the health of those living in the immediate area, and future development in Albania, particularly in the tourist industry.
- Illegal or irregular construction, particularly in urban area, which aggravates problems relating to waste disposal and sewerage.

Earthquake risk in Albania

A further concern relating to the recent construction boom is that of earthquakes. Parts of Albania are seismologically active, although there has not been a major earthquake since the 1970s. Much new construction is of extremely low quality. It observes no building codes, and uses poor quality domestic or Ukrainian steel, and domestically produced concrete with a high sand content. This is particularly true of large apartment buildings near the coast. Government regulation and planning is virtually nonexistent.

The situation appears quite similar to that prevailing in Turkey before the recent earthquake. The potential for loss of life and property in the event of a significant earthquake is therefore extremely worrying. Earthquake awareness is very limited, and there is little government action directed at this problem.

There is a National Environmental Agency, but its budget is extremely small and capacity remains relatively weak, although it has recently been strengthened. Its powers and responsibilities with respect to other government departments and municipalities are not well defined.

Human rights situation

Formal protections of human rights exist, and the Government has ratified most of the relevant international and European conventions. There appear to be few systematic and centrally directed abuses of human rights. However, police officers are generally untrained, and there are serious problems of corruption and abuse, including widespread beating of suspects and prisoners. There are credible accusations of political arrests and beatings leading to serious injury and even death. The judiciary, while legally independent, also suffers from corruption and politicisation.²³

The press and media are nominally free. However, press reporting is highly politicised, with most papers having strong (financial or other) links with one of the main parties. It therefore enjoys little public confidence and does not appear to contribute much to the quality of public debate.

²³ See "Country Report on Human Rights Practices – 2000", US Department of State, February 2001.

Albania is relatively ethnically homogeneous and largely free of ethnic tensions. There is a small Greek minority in the south. After some initial tensions, relations with the majority are generally very good. The Roma minority, as elsewhere in Eastern Europe, suffers from discrimination and social exclusion.

Albania is very mixed religiously, with a slight majority of Muslims, and with large contingents of both Orthodox and Catholic Christians. However – in sharp contrast to some other Balkan countries – the country is notable for an almost complete absence of religious conflict or tensions. This is despite the numerous other social cleavages – family/clans and geographic – that run through Albanian society, as described above. This is a positive aspect of Albanian society and could serve as a model for the region.

Regional context and relations with the EU

Principal Milestones in Relations between the EU and Albania

- 1992: Democratic Party wins elections.
Trade and Cooperation Agreement between EU and Albania. Albania eligible for Phare funding.
- 1997: EU “Regional Approach” to South-East Europe sets out political and economic conditionality for development of bilateral relations.
Collapse of pyramid schemes in Albania leads to violent civil disorder
Socialist Party wins elections
EC and World Bank elaborate “Directions for Recovery and Growth” for Albania
- 1999: Kosovo crisis.
Stability Pact and Stabilisation and Association Process
Commission Report on the Feasibility of a Stabilisation and Association Agreement
- 2001: First meeting of High Level Working Group on the SAP
Commission concludes that it is appropriate to open negotiations with Albania on SAA.
European Council invites the Commission to present draft negotiating directives.

While Albania was one of the most isolated countries in the world during the communist period, since 1991 it is generally recognised to have played a constructive and responsible role in the region. Albania has successfully avoided either internal strife or external conflict resulting from the tragedy of the disintegration of the former Yugoslavia. In particular, Albania’s policy towards both Kosovo and FYR of Macedonia, with their large ethnic Albanian populations, has been responsible and non-provocative. This attitude has continued during the present crisis in FYR of Macedonia. Relations with Albania’s EU neighbours are also good. Albania and Italy have a particularly close and important relationship, and bilateral relations with Greece, which were initially tense, have improved considerably. These two countries are also Albania’s principal trading partners.

Albania’s relationship with the EU and the international community has developed in parallel with that of other countries in the region (see Box). The current framework is based on the

Stability Pact, established in 1999 after the Kosovo crisis to promote peace in South-East Europe. The EU has a special role under the Stability Pact to “draw the countries of this region closer to the prospect of full integration into its structures ...through a new kind of contractual relationship, taking into account the individual situations of each country...and with the prospect of European Union membership.”

It is worth noting that the Stability Pact therefore has a dual objective: first, to promote regional peace and cooperation in South-Eastern Europe; and second – partly offered as a carrot to give regional governments an incentive to deliver the first – EU integration and perhaps eventual membership for the countries of the region. The implications of this for EU strategy are discussed in section 1B below.

Donors in Albania

The level of official development assistance is fairly high, at about 5% of GDP. Both fiscal and external balance therefore depends to a considerable extent on donor aid. Except for a period of interruption resulting from the 1997 crisis, the country has had more or less continuous structural adjustment programmes with the IMF and World Bank since 1992. Albania has a Poverty Reduction and Growth Facility with the IMF, which is likely to be further extended, and is currently in the process of completing the necessary Poverty Reduction Strategy Paper (known in the Albanian context as the Growth and Poverty Reduction Strategy, GPRS).²⁴

The EC is the largest single donor. Other important donors, as well as the World Bank, include Italy, Germany and USAID.

B. Was the EC’s strategy relevant to the country’s needs?

The 1996 EC Country Strategy was very weak and was quickly overtaken by events. The 1997 Concept Paper included a stronger good country analysis, as well as a greater recognition of the constraints, but failed to go far enough in drawing conclusions for Phare programming; in particular, the public administration reform programme lacked an overall strategy, while the infrastructure programme did not take sufficient account of the weaknesses of the Commission in the Albanian context.

Subsequently, in the annual programmes of 2000 and 2001, there has been a major shift in the focus of the EU strategy towards European integration and harmonisation. However, this shift was not based on a new strategy document and has not been either transparent or coherent. This has led to inappropriate sequencing, and overemphasis on the formal requirements for an SAA rather than the implementation of urgently needed institutional reforms. Moreover, annual programming has not benefited from adequate consultations with the Delegation. As a result, programmes are over ambitious and unrealistic-- not based on the realities on the ground.

²⁴

An “interim” PRSP has already been produced.

Country Strategy 1996-1999

In August 1995, the Commission produced a Country Strategy Paper (CSP) for Albania, which in turn led to a Multi-Annual Indicative Programme (MIP) for Albania in May 1996.

The CSP describes Albania's "remarkable progress" but states that stabilisation remains fragile; the main obstacles to progress are identified as the poor state of infrastructure, the financial sector, and the legal and regulatory framework. The MIP repeats the country analysis of the CSP, and proposes a programme focused in three areas:

- "development of the domestic productive base" (including agriculture, SME development, transport, banking and finance, tourism, etc.)'
- "human and natural resource management", including labour market, education, health, local community development, water infrastructure and the environment; and
- the "European Dimension", including public administration, local government, approximation of legislation, public agencies, public awareness, aid coordination, judiciary, and civil society.

The indicative allocations were of 140 Mecu was divided 45 percent, 43 percent and 12 percent respectively. There is general discussion about the need to develop closer links with the EU, and to harmonise Albanian structures and laws, although there is very little about how this is actually to be achieved in practice.

The country analysis contained in both papers is reasonably comprehensive, but superficial. The most notable point is the lack of any reference to the danger to financial sector stability arising from the pyramid schemes. This is particularly surprising given that by the time of the MIP this danger was becoming clearly evident: interest rates were rising sharply, the nature of the schemes was being reported in the international press, the World Bank had suspended financial sector lending, and the IMF and World Bank were making urgent representations to the government.²⁵ Even more importantly – although more understandable, given that other observers also largely failed to appreciate this – the documents have very little to say about the social and political context that allowed the collapse of the pyramid schemes to translate into a much more generalised political crisis and breakdown of civil order.

While there is some recognition of the institutional weakness of the Albanian administration, the implications of this for the implementation of the proposed programme are not seriously considered; nor is the weakness of the Commission itself. In addition, the serious lack of realism implied by proposing a major programme of EU harmonisation of structures, laws and standards in a country virtually without a functioning public administration is astonishing.

In any case, the result is that the programme – which, as the list above shows, would have been extremely ambitious even if the Commission had been very efficient, and Albania had possessed a relatively benign implementation environment – was not realistic at all.

After 1997 – the Phare Concept Paper

The events of 1997 led to a radical reassessment on the part of donors of their role in Albania. This reassessment, quite rightly, involved considerable soul-searching. As the World Bank put it: "What had gone wrong? Were IDA and the other donors blinded by the very good traditional macro-

²⁵ See "Albania: Country Assistance Evaluation", World Bank, November 16, 2000, for a description of donor actions in the months preceding the 1997 crisis.

economic indicators? What lessons relevant to development assistance in transition economies can be drawn? What are the implications for the Bank's future country assistance strategy to Albania?"²⁶

The EC's response to this was the production, in October 1997, of a Phare "Concept Paper" – effectively a new strategy and MIP.²⁷ This paper was prepared in conjunction with a strategy document "Albania – Directions for Recovery and Growth" that was produced in conjunction with the World Bank, IMF and EBRD.²⁸ For the purposes of this evaluation, we therefore consider this paper – rather than the 1995 CSP and 1996 MIP, to be the key strategy document for the Phare programme. The Concept Paper underlies the preparation of the annual Phare programmes, which are described in the annual Country Operational Programme and Financial Proposal documents.²⁹

The Concept Paper shows that the Commission had reflected on the failures of previous EU and other assistance to Albania to generate sustainable political and economic development. This readiness to adjust the analysis and strategy in the light of the 1997 events is positive. The country analysis contained in the Concept Paper – based in turn on the joint World Bank/EBRD/EC/IMF document - largely stands up to retrospective scrutiny.

The Concept Paper describes three broad areas where action is required to achieve the objective of recovery and growth:

- (i) restoring and developing governance and promoting civil society;
- (ii) designing and implementing sound economic and social policies;
- (iii) reviving economic activity.

It is worth noting the priority attached to governance: while emphasising the importance of governance has become commonplace for donors in recent years, such a strong emphasis was less common in 1997, and is clearly positive. The Concept Paper also includes a relatively frank assessment of previous Phare assistance (very much still applicable today): "A major shortcoming in the past, which applies to external assistance in general (including the EU as well as other donors or financial institutions), has been insufficient attention given to: (i) the time needed to achieve some fundamental reforms and changes in attitudes; and (ii) the follow-up of actual progress achieved in overall implementation of structural reforms, with a frequent confusion between the adoption of a new measure or law and its effective enforcement. The priorities identified and addressed by EU/ Phare and other external aid were basically right and still remain valid, but deficiencies in implementation were overlooked as a result of insufficient coordination and monitoring of actual developments in related sectors."

There are, however, a number of elements lacking in the analysis:

- there is virtually no analysis of the implications of issues such as poverty, gender, and the environment for the EU's strategy. Subsequent programming documents had even less about the poverty impact of Phare programmes, as the focus shifted to EU integration. Environment programmes focused principally on water projects, with little attention to the broader environmental issues discussed above. There was no mention of gender issues;
- nor is there any analysis of the causes, consequences and implications of migration, despite its crucial importance to the Albanian economy and society, as described in the previous sections;

²⁶ World Bank, Country Assistance Strategy, November 16, 2000.

²⁷ "Albania, Orientations of Phare Assistance, Support to state and economic recovery, Concept Paper", October 1, 1997.

²⁸ "Albania: Directions for Recovery and Growth, An Initial Assessment", EC, World Bank, EBRD and IMF, July 1997.

²⁹ Country Operational Programme, 1998; Country Operational Programme, 1999; Financial Proposal, 2000; and Order for Services: Albania, 2001.

- there is no serious assessment of the state of Albanian civil society, or the implications of this for the Commission's overall objectives (despite the fact that the importance of civil society is highlighted in "Directions for Recovery and Growth") ;
- while the problems with Phare's previous assistance are recognised, that is not translated into an assessment of the Commission's own structural limitations, and hence into recommendations for future programming.

These lacunae translate into weaknesses in the sectoral strategy, as discussed below.

Choice of priority sectors

The Concept Paper sets out a number of criteria for the choice of priority sectors, including the need to support the EU's regional strategy, to coordinate with other donors, to focus on a relatively small number of sectors, and to learn from past experience. All these appear sensible. The need for a proper regulatory and legal framework and the capacity of the government to enforce it through appropriate control institutions was recognised. However, there was little discussion on how to achieve this. The paper sets out three areas of concentration:

- Democratisation process, institution building and administrative reform. There were a large number of different programs and projects under this heading, including programs in the areas of Customs, Police, Justice, public administration reform, statistics, aid coordination, and "public awareness";
- Employment generation and private sector development. There were relatively few programs directly target at this area, apart from in the agriculture sector;
- Infrastructure development, focusing on the transport and water sectors. Funds would also be allocated via the Albanian Development Fund for local community development, comprising mainly small-scale infrastructure projects.

Phare would withdraw from other sectors, including health, education, the financial sector and SME support. This principally reflected an agreed allocation of responsibilities with the World Bank, which would take the lead in the social sectors, and the particularly poor performance of previous Phare programmes for SMEs and in the financial sector.

Overall, the proposed areas of concentration are sensible: in theory, they targeted key areas and improved somewhat the focus of Phare. The fairly explicit division of labour with the World Bank is also positive. However, despite this, there were two key flaws in the strategy:

- on public administration reform, the programmes were overambitious, fragmented and were not part of an overall reform strategy or framework. It proposed dispersed, and relatively unrelated projects to deal with it. Given the limited resources of the Delegation, and the time-consuming procedures necessary for each intervention, it was thus almost inevitable that the program would lack coherence.
- On infrastructure, the key defect was a failure to recognise just how deep-seated was the Commission's inability to implement infrastructure projects in a timely and efficient manner in the Albanian context. The paper states the need to address these problems, saying for example: "This requires a strengthening of the Project Management Units (PMUs) established for the implementation of Phare programmes, with adequate staffing and continuity in their personnel as well as improved linkages with line ministries. As far as possible, ways to simplify and streamline Phare procedures should also be sought, particularly for large infrastructure projects in the transport sector." However, without concrete proposals for how to do this – which were lacking both here and in other EC documents - such statements could not be put into practice.

Lack of 2000 strategy

No subsequent formal strategy document was prepared. This lack is particularly important given that the Stabilisation and Association Process, which began in 1999, marked a major reorientation in the Commission-Albania relationship, by introducing the prospect of an SAA for Albania (and in the much longer term, raising the possibility of EU accession). The purpose of the SAP was both stabilisation of the region, and “to underline that all countries...have the prospect of increasing rapprochement with the EU, in the perspective of full integration with European structures.”³⁰

The Commission produced a report in late 1999 “On the feasibility of negotiating a Stabilisation and Association Agreement with Albania”.³¹ This report set out what Albania needed to do – with the support of the international community – for an SAA to be feasible. This led to a readjustment of the EC’s assistance strategy to Albania, but no formal new strategy document was prepared to take account of the new situation. The rationale for this was that Albania was to become part of the CARDS programme in 2001. However, this created a number of problems in the annual programming in both year 2000 and 2001 (see below).

The SAP process is progressing and in June 2001, the Commission concluded that it is appropriate to open negotiations with Albania on the negotiation of a SAA.

Weak Annual Programmes

The programming process is carried out by DG Relex, which since 1998 has progressively transferred programme implementation to a separate office (now called EuropeAid). However, DG Relex carries out programming activities with little consultation with key stakeholders (particularly the Delegation). Some consultation with the Albanian authorities takes place on missions from Brussels- that is, missions arrive from Brussels, have discussions with the Albanian authorities (at a relatively senior, political, level), return to Brussels and then prepare programming documentation. The Delegation feels excluded from this process, which lacks transparency. There is no consultation with civil society or systematic consultation with other donors

As a result, programming decisions often appear, from the perspective of the Delegation and some Albanian officials, to be superficial, ill thought-out, and insufficiently grounded in an understanding of the Albanian context. The pesticides removal project described in section 3A (and more recently the proposed arsenic removal project) are examples. Other projects that similarly appear to have been decided on in Headquarters with insufficient consultation include support to the fishery sector (see box) and, in the 2001 Order for Services, Asylum and Migration Management. Nor does programming appear to build on lessons from past experience – the 2001 Order for Services allocates considerable funds for the computerisation of tax administration, despite the failure of an IT project in the justice sector, and despite the fact that the relative success of the Customs reform programme owed little to computerisation.

Another effect of this process is the progressive disconnection of programmes and projects from the underlying analysis and strategy. Recent annual programmes are not based on any explicit formal strategy. This contributes to a programme that looks like a collection of

³⁰ “The Stabilisation and Association Process for the countries of South-Eastern Europe”, Commission Communication COM (99) 235, 26 May 1999.

³¹ Commission Communication COM 599 final, 24 November 1999.

unrelated projects, with no coherent strategy and little focus on key institutional issues. As discussed below, this was a particular problem in public administration reform, justice and home affairs, and agriculture.

Poor programming and project selection – support to the Fishery sector

On the basis of a fishery sector survey, it was decided to support construction of fish markets and spillways. However, there was no economic and financial analysis of the viability of these works; nor was there attention to institutional, managerial and operational arrangements.

A review commissioned by the Delegation found that the project “has been incredibly botched up by the unexplainable direct passage from a general fishery sector survey to the contracting with foreign consultants of the detailed engineering of infrastructures...without knowing anything about the markets, the functions to be fulfilled by a fish market, the institutional, managerial and operational arrangements, the financial analysis, and the financial and economic returns to the prospective owners and to the users.”³² The project was doomed before it began.

Not surprisingly, the result was continual changes in project scope, design, definition and location, leading in turn to continual delays. As yet – four years after the financial memorandum - no construction has been taken place. According to MAF, tender dossiers have now been approved and the tender process will begin soon. The review concluded: “One wonders as to whom has been behind such project programming.”

The programming process has produced too many individual programmes and projects. Currently, there are at least 50 open programmes.³³ Each programme may include a number of separate projects, each of which may require contracting procedures, tender documentation, etc. Few of these programmes are very large: only a few infrastructure programmes, and support to Kosovo refugees, exceed 10 Meuro total. This has two negative effects.

- It exacerbates the administrative burden on the Delegation (and on the Albanian authorities).
- It means that EC programmes in individual sectors, rather than consisting of a well-constructed strategy for the entire sector, developed in conjunction with the Albanian authorities (and other donors), consist of a long list of disconnected projects with isolated components, and a PMU.

Shift in objectives of EC assistance in the annual programme 2000

In the absence of an explicit strategy, annual programming since 2000 has introduced objectives linked to the SAP and EU integration. The 2000 programme puts the SAP process on an equal footing with economic development, while the 2001 Order for Services for CARDS directly states that “the main purpose of the assistance is to support the participation of Albania in the Stabilisation and Association Process (SAP).” Meanwhile, the current public version of the Commission’s objectives mentions administrative and institutional reform, support to democracy and the rule of law, economic development, the transition to a market economy, and integration and harmonisation with the EU in the context of the SAP.³⁴ There is some lack of clarity in these two sets of objectives.

Economic development and participation in the SAP are not necessarily incompatible and they may be complementary. However, there has been a shift in emphasis since the 1997

³² Audit of Agriculture Projects, Draft Final Report, April 2001, ADE S.A.

³³ Phare Monthly Report, end-March 2001

³⁴ European Union Assistance, 2nd edition, November 2000.

Concept Paper, which has not been properly set out in a public strategy document. This practice contrasts with that of other donors, which have a clearer statement of and focus on objectives (for example the World Bank's primary focus on poverty reduction). Whether this shift is appropriate for Albania is discussed in the Box below.

While the strategy documents do not focus on regional integration and cooperation, such integration is clearly an objective of the EU in South-Eastern Europe – not least because it is felt that greater regional integration will reduce the likelihood of armed conflict, the prevention of which is the EU's overarching political objective in the region.

The shift in objectives – combined with the problems in disbursing Phare assistance, especially in the infrastructure sectors – led to a further shift in focus towards public administration reform, especially in the Justice and Home Affairs sector, perceived to be particularly important in the SAP. These programmes, again prepared with a limited input from the Delegation³⁵, are even more ambitious than previous EC activities in Albania and further increase the gap between programming and the realities on the ground.

This tendency was particularly marked in the 2001 CARDS Order for Services, which included 16 Meuro for justice and home affairs programs, and 10 Meuro for “institution building”.³⁶ Given the delays experienced in commitments and disbursements for infrastructure projects, there were no additional funds for projects in the major infrastructure sectors (transport and water).

Future programming

Future assistance to Albania will be in the framework of the CARDS programme, which commenced operations in 2001. The 2001 programme described above covers only that year – a country strategy covering 2002-06 will be prepared in the course of 2001. This evaluation report is intended to contribute to the 2002-2006 country strategy.

It is clear from the evaluation mission's discussions that the 2002-2006 CARDS programme will focus even more on the objective of supporting the SAP and assisting Albania to conclude an SAA with the EU. It is not clear how the Commission intends to involve the Albanian government or civil society in the preparation of the programme. Nor is it clear (given the difficult relations between Headquarters and the Delegation- see section 3D) that the Delegation will be allowed to contribute significantly to this exercise.

³⁵ In one meeting with the Delegation, the Evaluators were asked to provide any information they had about Headquarters' approach to programming.

³⁶ DG RELEX Order For Services 2001, 29 March 2001.

EU integration or domestic development: A strategic choice?

The EU in Albania is struggling with the dilemma of what has been described by “a tension between the EU’s dual roles of aid donor and gatekeeper for club membership”. Since 1999, there has been a realignment in EC programmes away from broad-based economic development and towards prioritisation of EU integration. As one analysis puts it: “[EU policies] comprise not policies designed to achieve macroeconomic stabilisation or development goals, but rather a set of structural requirements aimed at ensuring convergence towards key economic and socio-political characteristics of the EU, and compatibility with its legal base.”³⁷ This has not been explicitly stated in strategy documents but has been reflected in recent annual programmes.

However, there was no formal analysis of the rationale and significance of this shift. This is particularly noteworthy since Albania – unlike the 10 candidate countries that also benefited from Phare – is not currently a candidate for accession. A refocusing in priorities, which was primarily designed for the benefit of the candidate countries, appears to have spilled over into Albania.

The practical consequence of this shift was a reduction in the emphasis on large infrastructure projects, and an increasing number of relatively small public administration and institution-building projects. Furthermore, there was a shift in the focus of the public administration reform projects to those directly related to EU integration priorities (support to the SAP process, approximation of legislation, standards) rather than more general institution-building efforts.

However, there was no assessment of the prioritisation of different sectors for public administration reform. The result is a set of interventions that are uncoordinated and are not directly targeted at supporting the construction of a professional Albanian administration, but rather at “checking off” different areas in which action is necessary in the context of a future SAA (and eventual accession). For example, the EU is funding – under the heading of “public administration reform” the Directorate of Approximation to EU Legislation in the Ministry of Justice, but not essential improvements to the institutional framework in key sectors. Similar problems arise in other recent proposed interventions in the Justice and Home Affairs sector.

Without questioning the objectives, shared by both the Albanian authorities and the EU, of the SAP, the Evaluators concluded that the current sequencing is inappropriate.³⁸

³⁷ “Fostering social inclusion through institutional transformation in central and eastern Europe: the role of EU accession conditionality”, Heather Grabbe and Kalypso Nicolaidis, December 2000

³⁸ This analysis is shared by contemporary academic researchers in this field, including those generally sympathetic to the long-run goal of European integration. See Grabbe and Nicolaidis, *op. cit.*; also “Stability, Institutions, and European Integration”, Brussels Discussion Paper, European Stability Initiative, 31 October 2000; and Douglass North, *Institutions, Institutional Change and Economic Performance: Stability Pact, South East Europe Compact for Reform, Investment, Integrity and Growth*, July 2000. For a more general treatment of sequencing issues relating to globalisation and domestic governance, and the dangers of an undue focus on the former at the expense of the latter, see “Has Globalisation Gone Too Far”, Dani Rodrik, Institute for International Economics, 1997.

The Commission's preferred sequencing appears to be:

- 1) "public administration reform" in the sectors required for an SAA, notably Justice and Home affairs, and approximation to EU legal and other standards;
- 2) the conclusion of an SAA;
- 3) in the hope that this will set the stage for Albania's economic and social development.

In other words, "the EU assumes that adaptation to EU norms will in itself achieve goals such as strengthening institutions and building organisational capacity". The Evaluators, in common with other analysts, believe that this is unlikely to be the case. Without sustainable economic development, built on functioning public institutions and services, and founded on a working civil society, an SAA will merely be a legal framework superimposed on a dysfunctional society and economy.³⁹ It will not be sustainable. Indeed, the way the current process works tends to undermine Albanian ownership of institutional reform. As one recent analysis puts it "The country waits patiently for associate EU membership 'in order to be integrated into European structures'. Whatever this actually means and whenever it is supposed to occur have become almost irrelevant."⁴⁰

Instead, a more sustainable sequencing would be:

- 1) comprehensive public administration reform, particularly in the key social sectors of health and education, and the creation and implementation of a functioning legal framework; and the development of civil society;
- 2) domestically driven economic and social development;
- 3) leading in turn to a better governed and economically dynamic Albania that will be in a position to put into place the preconditions for a successful SAA and eventual accession.

It should be noted that while this strategy is conceptually quite different from the current EU approach, in terms of the sectors on which the EU should focus there is considerable commonality, particularly in the needed focus on justice and home affairs and the legal framework. This shift in approach does not therefore imply a wholesale reevaluation of the EC's current sectors of concentration, nor any reduction in the importance of EU integration as an overarching objective. The point is to reorient EC support towards a more strategic approach (together with other donors) to Albania's own economic and social development, which will in turn lead logically to EU integration, rather than to focus narrowly on the formal requirements for an SAA.

³⁹ The example of FYR Macedonia – which signed an SAA in April 2001 – is extreme, but instructive, in this regard.

⁴⁰ "Albania: State of the Nation 2001", International Crisis Group, May 2001.

C. EC programme in Albania

Over the period 1991-2000, total EU assistance to Albania totalled more than 1 billion Euro. Of this about 635 Meuro was in the framework of the Phare programme. Other significant modes of assistance included:

- substantial food and other urgent humanitarian aid, provided through FEOGA and ECHO, first in the immediate aftermath of the collapse of the regime in 1992, again after the civil disorder of 1997, and then again during the Kosovo refugee crisis in 1999;
- balance of payments support, again during the Kosovo crisis;
- support to elections (via the OSCE), democracy and human reports, relatively small in financial terms;
- the TEMPUS programme of assistance to small projects in the higher education sector, administered by DG Education;
- loans from the EIB.

Table 1 shows Phare commitments by sector. It shows the recent shift in emphasis from transport and other infrastructure projects, further developed in the 2001 allocation, which included no funds at all for transport, agriculture or water

The table, showing allocations rather than disbursements, is of course not necessarily reflective of the spending of Phare assistance, given the substantial delays in actual commitments and disbursements. One measure of the pace of implementation is that, as of March 2001, only 54% of the amounts allocated over the entire period 1991-2000 to currently open programmes (292 Meuro) had been contracted, and only 34% disbursed. In other words, at current allocation rates of about Meuro annually, the backlog was about 4 years for contracting and 6 years for disbursements.⁴¹ This issue is discussed in greater detail in section 3D below.

⁴¹ Phare Monthly Report, end-March 2001.

Overall Phare Assistance in ALBANIA 1991-2000 By Sectors (MEUR)⁴²

Situation on 15 March 2001

Phare ASSISTANCE BY SECTORS	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL 1991-00
Agriculture		15.0	10.0	5.0		1.7	6.0	6.3	5.2		49.2
Transport (1)		4.4		21.7	34.0	37.0	23.6	8.0	11.9	18.7	159.3
Private Sector Development (2)		2.8	7.0	3.0	2.0						14.8
Health		10.0	6.0	7.0							23.0
Environment			3.3			0.2	0.7				4.2
Water						1.3	6.0	14.5	17.9		39.7
Education (incl. TEMPUS)		1.2	2.5	2.4	4.2	2.5	2.5	0.7	1.6	2.5	20.1
Local Community Development					8.5		5.0	3.0	9.7		26.2
Public Administration Reform (3)		1.6	1.2	2.6	4.3	8.6	9.7	8.9	11.3	12.2	60.4
Aid Coordination (4)				0.5		1.7		1.1	2.0		5.3
Financial Sector and Audit							0.5				0.5
Balance of Payments Support		35.0	35.0		35.0						105.0
Special Budgetary Assistance							14.9				14.9
Budgetary Assistance to Kosovo refugees									42.0		42.0
Phare Humanitarian Assistance	10.0	40.0	10.0	7.0							67.0
ATA										1.6	1.6
OVERALL Phare ASSISTANCE	10.0	110.0	75.0	49.2	88.0	53.0	68.9	42.5	101.5	35.0	633.1

(1) includes Transport, Energy, Telecommunications

(2) includes Privatisation, SMEs, Banking, Tourism

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

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

⁴² Source: OMAS monitoring reports; PHARE monthly reports.

2

Impact of the Phare programme

This Chapter examines the impact of the Phare programme, with respect to its overall objectives although these have changed over time (see section 1B), we focus on institutional reform, economic development, democracy and the rule of law and EU integration. The Evaluation finds that impact was very low. Programmes lacked a coherent strategic or sector framework and, on the institutional side, were too focused on physical inputs. Many programmes focused on isolated activities, and were not able to meet even immediate objectives. Implementation has been extremely poor and in a significant number of cases was prejudiced by very poor aid management.⁴³ Only the support to Customs seems to have had a positive impact and is likely to be sustainable. Recent institutional programmes (Justice and Home Affairs) are even more complex and are unlikely to have a positive impact.

A. Impact on Institutional Reform

Albanian public administration remains extremely weak. Phare assistance to institutional reform in general public administration and in Justice and Home Affairs was not successful (except in Customs). The programmes was too dispersed and focused excessively on disconnected activities and physical inputs rather than on an overall sector strategy, implementation and key cross-cutting issues..

Phare assistance aimed at institutional reform included both support to public administration reform at the central level (including support to the aid coordination function) and also support in the Justice and Home Affairs sector.

Public Administration Reform

The EC identified the need for institutional reform in Albanian public administration at an early stage. As a result, its interventions in support of public administration through Phare and SIGMA (an OECD/Phare initiative) – initiated as early as 1994 - were relevant, and had a high potential impact.

SIGMA support to Public Administration Support.

Despite limited financial resources and limited management from the EC, SIGMA support was able to achieve some institutional impact. SIGMA appears to have been influential in the policy dialogue with the Government and, coordinating well with other donors, instrumental in the adoption of an overall reform strategy in 1997 (the “State Institutions and Public Administration Reform” matrix).

There has been considerable progress in the adoption of a broad framework (e.g. an organic budget law, a supreme audit institution, a law on civil servants’ legal status, the establishment

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A detailed discussion of these issues is included in section 3D.

of a civil service commission, etc), in large part because influential donors (the EC and World Bank) have made financial assistance conditional on these reforms. However, beyond broad legislative changes there is still little progress in real implementation. The small department responsible for implementation - DoPA - remains weak and Government commitment to implement the reforms is as yet unproven. As the Albanian government itself describes matters: “concrete results as regards the reform in key areas of public administration – notably drafting and adapting laws, restructuring of Ministries and human resources development – have been minor.”⁴⁴ Moreover, the sustainability of progress in this area appears low, given that the EC has gradually discontinued the role of SIGMA in Albania.

Other Phare programmes of support to public administration

Meanwhile, since 1994 there have been continuous Phare programmes in support of broad public administration. These programmes have received consistently poor ratings in monitoring reports, and have had very little impact. In particular, the most recent programme consists of numerous isolated activities that are not consistent with a coherent reform strategy and are poorly coordinated with other donors. Even if successfully implemented, the programme would therefore have been unlikely to have had a significant positive impact on the EC’s wider objectives. In practice, poor design and implementation and weak Government ownership have ensured that the programme has been unable to achieve even its own limited objectives (largely technical assistance, the supply of equipment, and training). Sustainability for the programme is very low unless a substantial restructuring is carried out.

There is a clear perception among donors and the Albanian Government that the role of the EC in supporting institutional reform in public administration has been seriously eroded. The World Bank has stepped into the vacuum, and is undertaking a major project in the area of public administration. There are considerable overlaps between this project and the Phare assistance. There is little evidence that the EC or the World Bank have a strategy to ensure that its future efforts coordinate with and complement the actions of other donors.

Phare support to aid coordination and to Phare implementation

The EC correctly identified the importance of improving Albanian Government capacity in aid coordination. This objective was to be achieved by supporting the Government (more recently through the MoECT) on its work on the multi-year PIP, on aid monitoring and evaluation, and supporting the implementation of Phare. Initially some progress was made in the adoption of the PIP; however, there was much less success in the other two activities.

In any case, the impact of these activities on institutional reform was very low, partly due to low capacity and very high staff turnover in the MoECT, even by the standards of other Albanian ministries. Increasingly the MoECT is perceived as primarily a Ministry responsible for relations with the EC and for the implementation of Phare programmes. Coordination and networking between Government ministries and departments remained very weak. Moreover, bracketing support for the European Dimension unit in MoECT, which works exclusively on Phare programmes, with general support to aid coordination, hindered the overall objective.

Even the PIP, while it contributed to a more strategic approach and prioritisation by line ministries, was never sufficiently “owned” by line ministries and the Ministry of Finance. Recent developments appear to suggest that even this limited impact will not be sustainable⁴⁵.

⁴⁴ “Phare National and Cross-Border Cooperation Programmes in Albania, Brief Overview”, Ministry of Economic Cooperation and Trade, June 2000.

⁴⁵ A March 2001 OMAS monitoring report rates the component as satisfactory because (despite problems) “the main objectives of the Programme could still be reached and completed during the lifetime of the Programme”. This conclusion was disputed by a number of Commission staff. The report also noted that collaboration between MoECT and MoF is “not yet optimal” and this might compromise future sustainability.

The Ministry of Finance has given priority (with the support of the World Bank and other donors) to the MTEF and it would appear that the PIP exercise will be discontinued for lack of internal capacity in this area. Overall, this is likely to be positive, in that it will reduce fragmentation in the budget process, and will avoid confusing programming with programme implementation. Of course, this will drastically reduce the role of the MoECT in programming, and, unless the EC radically adjusts its strategy, it is likely to further marginalize the EC assistance programme.

Justice and Home Affairs

In the justice and home affairs sector, where the EC has concentrated much of its recent support, Phare programmes concentrated on physical inputs – the provision of infrastructure, broadly defined, including the rehabilitation and refurbishing of courts and prisons, the provision of office equipment and furniture, and the supply of IT equipment. Programmes were not part of an overall sector strategy and linkages with civil society were absent.

Some of these projects – especially those relating to the construction and rehabilitation of buildings – were necessary. However, implementation has been very slow, and in some cases irregularities in tender procedures were identified by reviews commissioned by the Delegation (see section 3D) This in turn appears to have led to slow, sub-standard work (or no work at all).

Poor planning in the use of equipment has also limited impact (e.g. supply of IT equipment to the judiciary).⁴⁶ Similar considerations apply to the supply of vehicles to the police, where it is not clear that the systems exist to ensure that vehicles are used for their intended purpose.

As a result of these factors, the impact of most projects in these sectors have been low. However, where a more comprehensive strategy was adopted (Customs) institutional impact appears to have been greater.

Justice

In the judiciary sector, the main project which was institutional, as opposed to infrastructure-oriented, was the joint programme with the Council of Europe, largely focused on the provision of training and other technical assistance at the School of Magistrates. The Council of Europe managed this programme. This project had some success in improving the training of new magistrates but given the small capacity of the School relative to the size of the judiciary – and to the problem of incompetent and/or corrupt judges – any future institutional impact is likely to be rather slow in emerge. Coordination between the Delegation and the Council of Europe appears to have been poor in the past, and the Delegation itself is sceptical of the wider impact of this programme.⁴⁷

Police

The key institutional element has been the WEU-led Multinational Advisory Police Element (MAPE), which has been operating in Albania since May 1997. In 1999 MAPE became a more comprehensive mission and since June 1999 it has been supported by an EU Joint Action. This has had some success in reorganising the police force, especially in Tirana, but the programme is not part of an overall sector strategy and does not include links with civil society. The police remain by and large poorly managed, underpaid, and ill-equipped; in consequence they are

⁴⁶ See “Rapport sur le Reseau Informatique de la Justice en Albanie”, Bernard Magrez and Jean-Noel Louis, April 2001.

⁴⁷ See “Fiche Factualle Justice”, EC Delegation, April 2001.

often brutal and corrupt.⁴⁸ In 2001, an EC police assistance programme will replace MAPE; this programme – the structure of which as yet is far from clear - will have an over-ambitious remit (see discussion and box in section 3A).

Customs

Phare support appears to have been more effective in this area. Impact and sustainability would also appear to be high. Following the civil unrest in 1997, the customs service lost effective control of ports and border crossings, and consequently of its potential for revenue collection. Upon request of the Albanian government, the EC deployed a Customs Assistance Mission in Albania (CAM-A) in June 1997. DG TAXUD directly supervises the programme with little input from the Delegation or DG Relex Headquarters.

CAM-A has begun a wide-ranging reform of the Albanian customs service, ranging from the provision of equipment and training, to anti-corruption and anti-smuggling strategies, to new personnel management systems. The institutional impact appears to have been significant, although smuggling remains a serious problem, and more thorough external evaluation and transparency in the programme is required. Customs revenues have improved substantially (albeit from a very low base), despite falls in tariff rates. Customs debt recovery has been significantly improved. Sustainability appears high given the success of the personnel management and remuneration policy (some of which is serving as a model for the public administration reform programme). While there have been logistical problems relating to the computerisation of the service, these do not appear to be fundamental.

Institutional reform in other sectors

The focus of most other Phare interventions was not institutional reform. In the water, transport and agriculture sectors, Phare projects have included some components designed to support policy formulation and strategic planning capacity in line Ministries. However, these components have generally been small, disconnected and poorly designed. As a consequence, these capacities remain very weak, and such improvements as have occurred do not appear to be sustainable.

Future programmes

The Commission is expanding institutional programmes. The 2001 Order of Services increases significantly support to police and public order (which is to be managed by the Commission) and continues support to the judicial system and prisons, while expanding activities to integrated border management and asylum and migration management. Given the weaknesses of past EC programmes in institutional reform (both in design and implementation, these programmes are too ambitious and are unlikely to have a positive impact.

⁴⁸ See “Country Report on Human Rights Practices – 2000”, US Department of State, February 2001.

B. Economic Development

Phare assistance in transport, water and agriculture were not based on a sector strategy and implementation was often extremely poor, especially in infrastructure projects. The impact on economic development has therefore been very low, although the Delegation is beginning to improve its systems. Local community development (through the Albanian Development Fund) appears to have been more successful.

Transport and water

In both the transport and water sectors, Phare funding was directed principally at large infrastructure projects.⁴⁹ Given the extremely poor state of both systems, and their crucial importance for sustainable economic development, substantial investment was justified. Potential impact was large. However, in both sectors, impact to date has been severely reduced both by poor strategy and implementation.

Sector strategy in Transport

There was no coherent strategy in the Transport sector. Although development of an overall transport policy was an objective of the transport programme, there were no specific actions designed to achieve it. Later, under the 1999 COP, the EC made support to transport conditional on establishment of a high-level policy advisory unit in the MoPW responsible for co-ordinating and directing strategy; but the unit was not established. The EC is now, belatedly, providing assistance for the completion of a long-term National Transport Master Plan.⁵⁰

Since there was no national transport masterplan, nor any serious analysis of how an improved transport network could contribute to the objective of economic development, it is not clear on what criteria projects have been selected. The implicit assumptions seem to have been that: (i) the priorities were so obvious that such a process was not essential; and (ii) Albania's economic development depended on integration with the regional transport network at the earliest opportunity. Whilst some of the early priorities were "obvious" at the conceptual level (the critical links between Albania's major centres of population and economic activity, for example), their implementation in a planning vacuum has led to some serious errors.⁵¹

Choices were also driven by the funding instrument. Road projects were funded through the "cross-border cooperation" (CBC) programme; this naturally drove the emphasis on the North-South and East-West Corridors, and by definition precluded smaller roads to the less accessible parts of the country. Not surprisingly, given the lack of an overall strategy or analytic capacity, there was no analysis of the poverty or gender impact of roads. There is

⁴⁹ Initially, as well as large road projects, the transport programme included a range of unfocused interventions in other areas: e.g. road safety, urban transport management, railways. These have now largely been concluded (or were never implemented at all) with relatively little impact.

⁵⁰ Work on the scoping study was underway at the time of the evaluation mission and the expected completion date for the plan is May 2003.

⁵¹ For example, the over-design of the Rrogozhine-Lushnje road, the failure to plan for the Durres coastal area bypass and severance problems resulting from the design of the Vora-Sukth road. These mistakes have proved difficult (and costly) to put right

likely to have been some impact on local employment, although international contractors were used for large projects.

Relatively little thought was given to the organisation and financing of maintenance. The result is that now that there is the prospect of some Phare financed investments coming on stream, the capacity of the responsible Albanian institutions to maintain the assets is very poor.⁵² Rapid deterioration of infrastructure is therefore a real possibility.

Poor Implementation in Transport

Impact has also been limited by extremely slow implementation. In the road sector, project planning and design has been extremely weak, and yet decisions were taken to proceed with works contracts in the full knowledge of these shortcomings. Projects have been severely delayed by – entirely foreseeable, and indeed foreseen – difficulties with land expropriation (see box). A combination of poor design and programming of works with inadequate information on costs has meant that most budgets have proved inadequate to implement project concepts in full, and have had to be supplemented ex post in a variety of ways (or projects curtailed).

Economic development impact was particularly limited by poor aid management by the EC. As identified in a review of implementation⁵³ commissioned by the Delegation, problems included extremely weak contract management, and a number of financial and control irregularities. See Section 3D.

The Delegation has used this study to improve some of the financial control systems. It has also strengthened its own capacity, better technical assistance is being provided to the PMU, and land expropriation difficulties are being addressed. Greater support from Headquarters could also contribute to an improvement in impact in this sector.

⁵² A World Bank project to strengthen maintenance capacity will commence at the end of 2001, but this will only be a beginning.

⁵³ Examination of the Procedures in the Civil Works Sector for the Implementation of Phare Transport Projects; Final Report; 9/9/1999. Review requested by the EC Delegation.

Land Expropriation and Implementation Delays

The slow pace of land expropriation has proved a major cause of delay in implementing infrastructure projects. The principal causes have been:

- Inadequate legislation giving insufficient powers to central government;
- Insufficient resources budgeted by the GoA for compensation⁵⁴;
- Problems of unresolved land titles;
- Non-respect by local authorities of land reservations in granting building permission;
- Physical resistance by landowners, legitimate or otherwise, in the face of expropriation decisions;
- Incapacity/unwillingness of the judiciary to enforce expropriations;
- Poor design studies making it difficult to confirm expropriation requirements; and
- No requirement for planning/design studies to plan for expropriation.

Although this is a problem that was foreseen well in advance⁵⁵, the analysis of the causes was weak and, as a result, it became a point of considerable friction between the EC and the GoA. However, many of the causes listed above are symptomatic of the historical context for property ownership, the weakness of civil society and the weak judiciary, and should have been taken into account during design.

Certainly, inadequate legislation and the insufficient budget allocations for land expropriation were key problems. Here the GoA could have acted sooner, but the Commission Services made a major tactical error by agreeing to four works contracts⁵⁶ at the end of 1998 in the full knowledge that the GoA was not in a position to respect the schedules for handing over land to the contractors. This position was largely driven by the need to commit funds before impending internal deadlines and severely reduced the Commission's leverage. This was a costly decision in terms of increased delays and more expensive project outputs.

In certain cases, the GoA has begun expropriating land only to find that poor designs had to be revised leading to significant changes in the land requirements.

The land expropriation constraint has now begun to ease: a new law on land expropriation giving the central government the necessary powers was passed at the beginning of 2000; and adequate provision is now being made in the budget for compensation of owners. The (Phare assisted) Immovable Property Registration System is addressing the issue of land titles, although it will be some time before the registration process is complete.

This issue would have benefited from a more sophisticated level of co-operation and understanding on the part of the Commission Services in its relations with the GoA (combined with a firmer stand on contracting works). It seems likely that this would have brought an earlier resolution to the problem. The EC could also have acted earlier to provide appropriate institutional support for the GoA. Rather late, technical assistance for the formation of an expropriation department in the Ministry of Transport has now been programmed in the COP 2000.

⁵⁴ 0.2 billion Lek was budgeted in 1998 against a likely requirement of 1.5 billion lek.

⁵⁵ It is mentioned as a risk in financing memoranda for road projects funded from the Phare national programme from 1995 onwards, although surprisingly not in the design of Phare CBC programmes. The need for the GoA to make land available before tendering and contracting began was mentioned as a special condition in all road projects funded from the Phare national programmes (except AL-9405). The risk of slow land expropriation was highlighted in the 1997 Concept Paper.

⁵⁶ Rrogozhine-Lusnje, Kaavija-Gjirokaster, Vora-Sukth, and Pogradec-Kapshtice

Water

Similarly, in water, there was no national hydrological survey available, nor is there any significant urban planning capacity. Indeed, the design contractor for the Vlora water project – the furthest advanced of the major projects - has already cautioned that the lack of a municipal development plan is a significant constraint on the formulation of a detailed design contract. Again, there was little focus on issues of operational management and control systems or of maintenance⁵⁷. So far, since most Phare water projects have not been completed as yet, this issue has not arisen, but it is a key issue for future sustainability.

Likely impact of interventions in the water sector is limited not only by the absence of a coherent sector strategy but also by very slow implementation, largely due to the weakness of the PMU in the Ministry of Public Works, frequent changes of staff at the Delegation, and extremely slow actions on the part of Commission Services. Only one significant project – emergency water supply works in the Kombinat area of Tirana – is currently in progress. Other projects - Vlora Wastewater System, Vlora Water Supply, Gjirokastra Water Supply, Fier Emergency Intervention and Lezha Wastewater System – have yet to commence construction, having been delayed due to a dispute with Commission services in Brussels over the precise mode of financing. Again, there is some evidence of recent improvements in the Delegation.

Agriculture

Phare support to the “Policy Advisory Unit” in the Ministry of Agriculture has had mixed results. Albania does not yet have an operational strategy for agriculture, and sustainability appears very low. However, other donors have been more successful in the sector and the MAF is taking an active role in the GPRS exercise and the development of the MTEF, and is beginning to formulate a rural development strategy.

Phare project support, meanwhile, has been largely unfocused and spread too thinly (e.g. fisheries, veterinary services, pesticides, land registration, etc). It also lacked an overall strategy. Activities have been dispersed in too many sub-sectors. In a number of areas, objectives were proposed - to ensure the best use of existing pesticide stocks, to develop organic farming, and to establish an effective food control organisation – but no activities have yet been designed. A number of activities are also over-focused on EU harmonisation objectives.

However, Phare has given significant support (together with USAID) to the registration of land and property. This was identified as a key issue by the MF, and its successful implementation would facilitate the creation of a land market and reduce the fragmentation of the farming sector. However, improvements in the judicial system and the financial sector would also be needed. The scale of the registration exercise has proved far greater than originally estimated (partly due to the addition of new categories of property, and partly due to new construction) and will not be completed within the original timeframe and without additional resources. The Albanian authorities are seeking substantial additional assistance from donors to complete the registration process, raising some questions about sustainability and national ownership. Sustainability will also depend crucially on a functioning legal system. The programme of support to veterinary services also appears to have been reasonably successful.

⁵⁷

Note that these issues derailed a major World Bank water sector project in Durres.

As in other sectors, impact has been further limited by slow and inefficient implementation.⁵⁸ Even the relatively successful IPRS has experienced implementation problems.

Local Community Development

Support for local community development has been provided through the Albanian Development Fund, an organisation that grew out of the World Bank's Poverty Alleviation Programme, and has for the most part been directed towards the provision of rural infrastructure (with roads and bridges representing over 50%). The programme has produced relatively quick outputs – extremely quick relative to Phare implementation. They are likely to contribute to development and poverty reduction at a local level, although – given a lack of monitoring and assessment – assessing the sustainability is difficult. The project has also had a positive impact on the development and performance of the local construction industry and on employment.⁵⁹ Local commitment to the projects is ensured by requiring a small financial contribution to the project costs.

The ADF is an autonomous non-governmental body answering to a board (which includes ministerial representation). It is also generally regarded as an Albanian rather than a donor organisation. Many donors are using the ADF, because of its capacity to channel funding to small infrastructure projects aimed at assisting local community development.

The efficiency of the ADF is hindered by Phare procedures and regulations, which are often not compatible with those of other donors (most of whom adopt World Bank procedures). Phare funded projects also lack monitoring and assessment (particularly beneficiary assessment). This makes it difficult to form a judgement on the relative importance of “bottom-up” community participation, as well as other aspects of project development.

The programme has experienced a number of serious hiatuses. One related to the submission of a weak work programme by the PMU, followed by an exceedingly protracted revision and approval process emanating from delays in Brussels. The programme was further halted for a long period for audit, because of some procedural and accounting problems. However, it would appear that these issues are being addressed.

Sustainability of many projects is likely to be low because of the absence of a maintenance policy on the part of local governments (who ultimately assume responsibility for the infrastructure). Phare support has not targeted poverty, which was not regarded as a priority PHARE objective. Instead, ADF stated in interviews with the Evaluators that EC policy has been to distribute resources evenly across the country, for political reasons.

C. Democracy and the Rule of Law

Phare has had little impact on democracy and the rule of law, despite significant –but weakly designed– programmes in the justice and police sectors. Phare has offered very limited support to civil society and NGOs. However, the EC and a number of Member States provided important support in the immediate aftermath of the 1997 crisis.

In the immediate aftermath of the 1997 civil disorder, the EU and a number of Member States took actions that had a positive impact on the restoration of order and the rule of law. Partly

⁵⁸ See “Audit of Agriculture Projects”, Draft Final Report, April 2001, ADE S.A.

⁵⁹ Only local contractors are used and they have to abide by rigorous tender procedures.

thanks to EU assistance to the police force (MAPE), security in most of the country has improved. Pressure and support from the EU and the rest of the international community has also helped to keep the democratic process more or less on track – although democracy is far from entrenched in Albania.

However, Phare support to democracy, the rule of law and anti-corruption has remained very limited:

- As described above, the judicial and police system in Albania remains essentially non-functional. Phare assistance in this area – focused as it was on infrastructure, and lacking links with civil society – was not adequate to improve matters. Moreover, recent complex and large programmes in the Justice and Home affairs (including police but also integrated border management and asylum and migration management) are unlikely to have a positive impact on democracy and the rule of law.
- The government, with support from donors, has formulated an anti-corruption strategy, but it is widely regarded as unfocused and lacking in prioritisation. Corruption remains widespread and organised crime is expanding. The very poor implementation of Phare programmes has not contributed to a greater accountability and transparency of Government actions.
- Phare has not consulted with civil society on its programmes (e.g. police and justice) and has not targeted civil society for support (except from some indirect support through the LCD programme). The Tempus programme has provided some support to universities but this has not been sufficient to compensate the weaknesses of the sector. Civil society remains fragmented and incapable of playing a strategic role (e.g. in putting pressure on government to deliver services, in promoting public debate, and in detecting and publicising government incompetence and malfeasance)
- Phare has not provided support to political reconciliation between democratic parties, or supported legislative capacity or the dialogue on national development between government, other political parties and civil society.

Democracy and the rule of law are central to the Stability Pact and the Stability and Association Process. It will therefore be important that future EC assistance targets these areas effectively and promotes a deeper democratic culture and more effective civil society.

D. EU Integration

Impact of the Phare programme on EU integration has been limited by poor implementation, which has affected the public image of the EU in Albania. Infrastructure programmes have been poorly implemented, while institutional reform programmes have suffered from insufficient realism and the overall weakness of public administration. In the short term there is some risk of conflict between EU integration and economic development objectives.

Physical infrastructure

In line with broader EU policy on transport, a number of projects were directed at improving links with EU countries, particularly those funded under the CBC programme. The CBC programme concentrated on the improvement of transport links with Italy and Greece through upgrading the major transport infrastructure (East-West and North-South road corridors, and ports of Durrës and Vlora).

As set out above, implementation has been extremely slow. Since the roads have yet to be rehabilitated all the way to the relevant borders (this reflects also action, or the lack of it, on

the part of other donors), they have yet to have a significant impact in promoting integration. The same applies to construction work at the ports, where, in addition to slow implementation, budgetary shortfalls will result in projects that are only partially complete.

Funds were also allocated for the construction of border crossings with Greece. Here implementation has been also extremely poor. Financial and contractual irregularities were identified by a recent review commissioned by the Delegation (see section 3D).

In the aftermath of the Kosovo crisis, the emphasis being given to regional integration of transport networks has intensified⁶⁰. In this context, the Albanian government, whilst evidently committed to the Stability Pact and SAP, will also be aware that investments that fit this agenda will have the best chance of securing external funding. In this environment, there is a risk that investment priorities could become distorted. At the same time, the analytical basis for the heavy emphasis on the rehabilitation of international transport corridors in Albania is not well developed. Albania, although predominantly agricultural, has become dependent on agricultural imports. Investment in major transport corridors, without corresponding investment in secondary and tertiary networks, could therefore further erode the competitiveness of local agriculture. Except in a limited and ad hoc fashion, this complementary investment is not occurring.

Institutional reform

Improvements in Justice and Police (and more generally on public administration reform) are essential for eventual integration of Albania with the EU. However, as discussed earlier, Phare programmes have had a limited impact in these areas. The 2001 programme expands this support to even more complex areas such as asylum and migration management; and integrated border controls (including IT components). Unfortunately, success in these areas will be even more difficult to achieve than in previous activities.

There have also been a number of interventions directed specifically at harmonisation and approximation of Albanian law and policy with EU norms. For example, the policy advisory function to the Ministry of Agriculture was in principle directed at the creation of a "Towards Europe Policy Unit". However, in practice, it did not serve this function, and had no significant output related to EU integration.⁶¹ In the Ministry of Justice, Phare has recently supported the establishment of a Directorate of Approximation to EU legislation.

In general, it is unlikely that these complex and very specific programmes will achieve any significant impact given the overall quality of Albanian public administration. Indeed, the focus on EU harmonisation and integration issues may distract resources and staff from the more basic and strategic objective of improving public administration in Albania.

The goal of European integration remains popular in Albania. However, interviews with the Evaluators indicated that the EU's image has been affected by the slow pace of implementation and poor project management of Phare interventions.

EU integration and development objectives

There is also, as noted in Chapter 1, a question of the strategic choices implied by a focus on EU integration: does it imply an EU focus on transport infrastructure connecting Albania with Italy and Greece at the expense of the transport network within Albania (one "unintended consequence" of EU integration so far has been that many staple foods, such as tomatoes,

⁶⁰ For example, the EC publication 'Albania – a future with Europe' states, "...Direct roads between main cities are crucial. Albania also needs to be connected with its neighbouring countries, and become an integral part of the Trans-European road network. Both the Phare Cross Border Programme and overall Phare funds focus on the development of efficient transport systems in strategic locations...."

⁶¹ Audit of Agriculture Projects, Draft Final Report, April 2001, ADE S.A.

which used to be produced domestically, are now imported), or on meeting EU phytosanitary standards even if it raises domestic food prices?⁶² Again, the EC has produced little in the way of analysis of these important issues, nor has it promoted a public debate.

E. Other objectives

Regional peace and stability

The promotion of regional stability is a clear political objective of the EU and Member States. However, relatively few Phare programmes had a direct relation to this objective. The exception was the balance of payments support, both during the early 1990s and during the Kosovo crisis (1999). These interventions have not been evaluated and the Evaluators did not have access to relevant information. Some implementation problems have been noted in internal documents. However, during the Kosovo crisis, financial support is likely to have been an important factor contributing to stability.

As such, the impact of this assistance – as well as the more general political stance of the EU and international community towards Albania – has largely been positive, in that Albania has played, and is likely to continue to play, a broadly constructive role towards regional conflicts (in particular those in Kosovo and FYR of Macedonia).

However, the EC has done less to promote regional links “from the bottom up”. As described above, transport programmes have largely been focused on improving connections with the EU, rather than between Albania and non-EU neighbouring countries (although the East-West corridor will improve links with FYR of Macedonia). The EC has not promoted as yet significant local cross-border projects (in contrast to the World Bank, which is partially funding an environmental project in Lake Ohrid, on the border between FYR of Macedonia and Albania, which is involving local communities on both sides of the border).

Poverty, gender and the environment

There is clearly a need to assess the impact of the Phare programmes on poverty, gender issues and the environment, which are overarching objectives of the Commission’s development programmes and are mentioned in the new CARDS regulation. However, these objectives are not mentioned in the key EC strategy documents and have not been targeted by Phare. No analytic or quantitative assessment of impact is available.

The poor effectiveness of Phare programmes has resulted in low poverty impact. Some poverty impact is likely to have been achieved through the local community development programme implemented by ADF (but less than for other donors which specifically targeted poverty). Gender issues were generally neglected in the programming of EC assistance. Some environmental issues were addressed ex-ante by EC programmes in water and agriculture but impact as yet has been minimal.

⁶²

This issue is discussed in the World Bank Agricultural Sector Review.

F. Monitoring and Assessment Reports

The OMAS consortium was contracted by the Commission to produce monitoring and assessment reports on the Phare programme on a sector-by-sector-basis. Over the period November 1997 to March 2001, OMAS produced 25 Monitoring and Assessment Reports and one Country Assessment Review (2001). Each report reviewed the achievements of one programme in a particular sector over a period of time, with respect to the stated objectives of that programme. Each programme was rated highly satisfactory, satisfactory, unsatisfactory, or highly unsatisfactory. The results of the reviews are summarised in the table below.

Overall, 13 assessments are satisfactory, and 12 unsatisfactory. This is somewhat, but not substantially, worse than the average for all Phare assessments. There does not appear to be any consistent trend over time. Points worth noting include:

- the unsatisfactory ratings in the key institutional sectors of justice and home affairs, and public administration reform. In both cases, the essential reason for the rating was that relevant activities had not yet been undertaken, and were unlikely to yield significant results in the immediate future. This is consistent with our assessment, although our Evaluation identifies a number of additional issues;
- the unsatisfactory ratings with respect to a number of key infrastructure programmes, including CBC programmes and water/environment programmes.⁶³ Again, consistent with our analysis, this reflects very slow and inefficient implementation, and a lack of attention to institutional issues and capacity constraints within line Ministries. However, the satisfactory rating for the most recent transport assessment may reflect recent implementation improvements.
- The monitoring reports did not identify most of the serious implementation problems revealed by the Delegation commissioned reviews of different sectors (see above, and section 3D).

One difference between our analysis and that of the monitoring reports is in the areas of Aid Coordination, with two “satisfactory” ratings from the monitoring reports. This difference may reflect two factors: our view that, despite the relative success in preparing the PIP, the EC programme in this area is becoming increasingly marginal to the government’s strategy; and the optimism of the monitoring and assessment report, at the time of preparation of the report, that continuing difficulties resulting from the low capacity of MoECT and the PMU-European Dimension could be overcome. However, when the programme is looked at in a broader perspective, it is clear that events are unlikely to justify this optimism⁶⁴.

⁶³ Some major transport projects are financed by a mix of CBC and Phare national funding.
⁶⁴ See also discussion in Chapter 3.

Table 3: Monitoring Ratings of Achievement of Programme Objectives by Year and Sector⁶⁵

	Sector/Cluster	1997	1998	1999	2000	2001	Total No of Reports
AGR	Agriculture & Cadastre	-	S	-	U	-	2
AIC	Aid Co-ordination	-	-	S	-	S	2
CBC	Cross Border Co-operation	-	U	-	U, U ⁶⁶		3
CUS	Customs	-	-	-	S	-	1
EDU	Education and Training	-	-	S	-	-	1
ENV	Environment	S	-	U	U	-	3
GTA	General Technical Assistance	S	-	S	-	-	2
HEA	Health and Veterinary	-	S	-	-	-	1
JHA	Justice and Home Affairs	-	-	-	U	-	1
PAD	Public Administration Reform	-	U	-	-	U	2
PRI	Private Sector Development and Restructuring	U					1
REG	Regional Development	-	-	U	S	-	2
STA	Statistics	-	-	-	S	-	1
TRA	Transport	-	U	-	S	S	3
	TOTAL						25

Key:

HS = 'Highly Satisfactory': the Programme is expected to achieve or exceed all its major original/revised objectives and to yield substantial benefits.

S = 'Satisfactory': the Programme is expected to achieve most of its major original/revised objectives and to yield satisfactory benefits without major shortcomings.

U = 'Unsatisfactory': the Programme is expected neither to achieve most of its major original/revised objectives nor to yield substantial results.

HU = 'Highly Unsatisfactory': the Programme is neither expected to achieve any of its major original/revised objectives nor to yield worthwhile results.

⁶⁵This is an edited version of the table appearing in OMAS Report No. S/AL/CAR/00008

⁶⁶ Albania-Italy and Albania-Greece were assessed separately (both 'Unsatisfactory').

3

Explaining the performance of the Phare programme

This chapter examines the key determinants of the performance of Phare in Albania: the role of EC aid in strengthening institutions, donor coordination, and the Commission's own resources and procedures. EC programmes, despite having very ambitious objectives for institutional reform, ignored key institutional issues, both cross-cutting and within sectors, and were overly focused on narrow technical inputs. The EC lacked a strategy for strengthening civil society. Donor coordination was generally poor, and hindered by fundamental differences of approach with the World Bank. All these difficulties were compounded by extremely poor Commission management of the programme. Moreover, recent reviews commissioned by the Delegation identified a number of serious irregularities in the programme. This has contributed to a breakdown in relations between Headquarters and the Delegation.

A. Strengthening state institutions

EC programmes had very ambitious objectives, but the means of achieving them were absent; programmes concentrated largely on narrow technical issues and the supply of physical inputs. Public administration reform largely ignored the key issue of pay reform. The structure of project support not only ignored but exacerbated institutional problems in line Ministries.

Overly ambitious objectives relative to resources

One element common to much of the institutional reform programme is the disjuncture between the stated objectives and the proposed means of achieving them. This reflects, on the one hand, the deep-seated problems in Albanian public administration – and the perceived need for the EC, as the largest donor and an important political actor, to be addressing them – and on the other, the weak capacity of the EC to design and implement relevant projects. Moreover, EC programmes have become increasingly complex and over-focused on EU harmonisation and integration, while public administration is becoming increasingly unable to perform its basic functions. As an informal Delegation document puts it: “Does this mean that two worlds coexist, without communicating: that of the donors, busy building a sort of theoretical Tower of Babel, and that of concrete Albanian realities, which the Albanians prefer to deal with themselves, or which the international community is not interested in?”⁶⁷

In the justice sector, the stated objectives of the programme were to make “justice efficient and effective, to pursue legal and institutional reform, to support the modernisation of the judicial system, to strengthen the authority and effectiveness of the police, and to rebuild confidence in the internal security of the country.” However, the actual outputs of this programme so far are that six courthouses have been rehabilitated, office furniture has been supplied, new minibuses and uniforms purchased, and training and expertise has been provided to the School of Magistrates. This disconnect reflects not only the limited financial resources of the programme, but also, more importantly, the lack of strategic thinking in the Delegation and at

⁶⁷ Fiche Fattuale Justice, EC Delegation, April 2001. [Evaluators' translation.] Similar statements were expressed by Delegation staff in interviews.

Headquarters, and the way that the programming process resulted in largely disconnected individual projects.

Nor does the EC appear to have learned the lessons of the past in this respect, as evidenced in the remit of the new EC police assistance mission, which will replace MAPE (which, as noted in section 2A above, has had limited impact):

Proposed Activities of the EC Police Assistance Mission to Albania⁶⁸

Setting up of an EC Police Assistance Mission (ECPAM-A) for advice to the top management of the police (organisation, structure, human resources and police strategy); police issues and training on specialised police forces (e.g. borders police, special forces, commercial frauds) under the responsibility of a team leader in charge of the management of the operational, logistic and financial aspects of the programme.

- help the Albanian authorities to implement enhanced co-operation between law enforcement bodies, including border police, customs, public prosecutor and judiciary
- advise on the implementation of the Police Reform Strategy
- provide support with the implementation of main legal acts regulating police work, including issues related to organisation, selection, staff management, disciplinary measures and anti-corruption
- continue training of high level police officials and curricula development according to the Police Reform Strategy
- finalising and implementing an IT strategy
- assist the Albanian authorities in developing an efficient border police. In this regards, due consideration will be given to the strategy for integrated border management to be developed under the "Border Management" component of this programme.
- develop strategies to fight against organised crime
- ensure proper co-ordination with other on-going international activities in the field of police
- implement an auditing and internal control function within the Albanian police
- deliver training on special police techniques (such as to fight organised crime, illegal trafficking in human beings, drugs, migration-related issues, ...)
- implementing risk analysis
- follow up of renovation works in selected police commissariats
- assist the Albanian authorities in developing adequate support services (logistics, maintenance of material, ...)
- assist the Albanian authorities in establishing a proper system of detention for remand prisoners before trial. This system needs to be integrated in the jail system of Albania.

It seems very unlikely that the Police Assistance Mission will be able to achieve many of these objectives.⁶⁹ A greater degree of prioritisation, taking account of the strategic, implementation and monitoring resources available, the experience of MAPE, and the implementation constraints prevailing in Albania, is essential.

⁶⁸ DG RELEX Order For Services 2001, 29 March 2001

⁶⁹ Because of delays in finalising the project, assistance is currently being supplied by a "bridging mission."

Civil service reform ignored key issues

The EC's support to civil service reform focused on support to the creation of an ambitious legal and institutional framework for a modern, technocratic Western-style civil service. Some of this work, especially that by SIGMA (OECD/Phare), was useful, and over the longer term it may play a significant role in improving the quality of Albanian public administration. However, the focus of Phare programmes on the legal framework, and on the creation and/or strengthening of self-contained central institutions such as the Department of Public Administration and the Civil Service Commission, which did not have enough political support to influence policy decisions, means that key issues have been neglected. As a recent study designed at improving EU efforts to strengthen institutions in South-Eastern Europe concluded: "the focus on niche institutions has come at the expense of horizontal aspects of public administration, such as political interference in the civil service, low salaries, poor working conditions, job insecurity, and an unwillingness to delegate authority downwards."⁷⁰

In particular, Phare assistance largely ignored what many Albanians and donors described as the key issue for civil service reform, the low pay of Albanian civil servants. Low pay contributes directly to high turnover of skilled staff, lack of professionalism, low morale and corruption. At present, neither donors nor the government appear to have a clear strategy directed at improving matters⁷¹. Nor did the EC focus early enough on the need to depoliticise appointments in the civil service, where forceful intervention with the authorities at a political level was required.

Looking forward, it is unclear how continued EC support to public administration reform will be coordinated with the World Bank project. This issue is discussed in section 3C below.

Justice and Home Affairs support focused on narrow technical issues

In the *Justice and Home Affairs* sector, support was mostly focused on narrow technical issues and concentrated on the provision of infrastructure rather than addressing the key strategic and political reasons why the judiciary and the police remained corrupt and inefficient. Recent research on assistance to democratisation and institutional reform has found that assistance structured in this way is highly unlikely to attain its objectives: "training courses often fail to change underlying configurations of interests, transfers of equipment and technical expertise frequently are put to no use by entrenched elites with other plans, and planned modifications of institutions end up producing little change in their actual functioning."⁷² This is a concise and accurate description of the Phare programme in Albania. Looking forward, the joint Council of Europe/EC programme remains heavily focused on short training courses and programmes, and the provision of facilities and technical assistance to the School of Magistrates. Similarly, the MAPE programme of assistance to the police, while not without impact, appears concentrated on primarily narrow technical matters, without addressing the deeper underlying causes of poor performance and low public confidence.

Customs. The principal apparent success in the area of Justice and Home Affairs was the EC support to Customs. This support was based on a comprehensive strategy— including important elements on pay, personnel and human resources policy - in a reasonably limited and self-contained segment of the administration, with constant supervision from management (which was delegated to DG TAXUD). Such programmes are, of course, very resource-intensive (both in financial and human terms). This programme is of considerable interest and would benefit from an independent evaluation.

⁷⁰ European Stability Initiative, Brussels Discussion Paper, Stability, Institutions and European Integration, 31 October 2000

⁷¹ Note that the apparent institutional success in Customs was based on a coherent human resources policy (including remuneration and working conditions).

⁷² "Democracy Assistance: the Question of Strategy", Thomas Carothers, *Democratization*, Vol. 4, 1997.

Project support and PMU/PIU structure ignored institutional issues in sectors

While EC strategy papers identified institutional reform as an essential part of the overall strategy, and a precondition to economic development, this was not translated into project implementation at a sectoral level. Public administration reform was managed as a collection of projects in the MoECT and DoPA, to be dealt with by one task manager in the Delegation who interacted solely with those departments, not as a cross-cutting issue that applied just as much to – for example, - the Ministry of Public Works and the Ministry of Agriculture.

Projects in the key infrastructure sectors therefore largely ignored the need to strengthen the capacity of line Ministries for strategic planning and broad policy formulation. Where there was institutional support, it was often fragmented and based on poor understanding of the context, such as support to urban transport management.

This in turn accounts in large part for the poor implementation record of many infrastructure projects. In particular, the lack of strategic plans for the transport and water sectors, and the difficulties and delays associated with problems relating to the acquisition and expropriation of land, are directly attributable to the EC's focus on individual projects rather than capacity building and institutional reform in line Ministries. In the agriculture sector, the programme as set out in the sector operational programmes was only weakly linked with the basic sector analysis of the MIP, whilst the projects within them bore even less resemblance to components of a consistent sector strategy. In the end, the overall programme came to resemble an ad hoc collection of largely unrelated projects, rather than a coherent programme of support to agricultural development.

These problems were exacerbated by the way that the PMU and PIU structure functions in Albania. Typically, the EC established PMUs in each relevant department (with the PMU-European Dimension in the MoECT overseeing several projects related to institutional reform) and PIUs for each project. Since these units focused exclusively on EC projects – with other donors, especially the World Bank, having their own PMUs and PIUs – this led to a profusion of such units scattered around Ministries. This had a number of severe negative effects⁷³:

- Individual PMUs and PIUs inevitably focus on “their own” donors’ projects at the expense of a strategic approach, and undermining the work of line ministries;
- Capacity within Albanian Ministries is drawn into these units at the expense of wider policy formulation;
- This entirely project-based, and individual donor-focused approach tends to undermine budget planning, transparency and accountability. Often the Ministry of Finance knows little about the flow of EC funds. The problem is compounded by the fact that the government regards Phare funds, which are grants, as essentially “free money”, and therefore sees no great need to coordinate or prioritise programmes: this contrast with World Bank and other loans, which required individual approval by Parliament;
- The special role of the PIUs in the awarding of tenders, combined with their relatively low capacity, led, according to reviews commissioned by the Delegation to a number of financial irregularities (see section 3D);

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See a similar analysis in the OMAS Report No. S/AL/CAR/00008, March 2001. “Frequent changes in government structures caused delays in the implementation of almost all the assessed Programmes and uncertainties over the future course of Programme management, both at the level of central government and of line Ministries. Important changes in personnel took place, resulting in the loss of considerable training and programme experience and delays in decision making on strategic issues”

- Frequent changes in the PMU/PIU structures, and extremely high turnover of staff within the units, made it very difficult to maintain administrative continuity.

Insufficient attention to institutional issues: the Pesticide Removal Project

The purpose of this project was the removal of some 200 tonnes of deteriorated or unusable pesticides from some 18 locations around the country. The project illustrates how the low capacity of the Albanian government, combined with the functioning of the PMU system and the inability of Phare systems to cope with the resulting problems, led to extremely poor implementation.

A recent review commissioned by the Delegation concluded: "This project has been marked by a succession of wrong decisions. The first one is to have vested the project in the PMU of a Ministry that had no mandate and no competence to handle that sort of problem. Once that initial decision was made for circumstantial reasons, neither the Phare system or the MAF have taken any corrective measure to compensate for the Ministry and PMU deficiencies in the domain, Instead of finding a way to back up technically the PMU and the Ministry, the Phare system, having assigned the task to the PMU in the MAF, largely against its will, has simply pursued somewhat blindly its administrative procedures as if the PMU and its Ministry had the technical competence to master the problem."⁷⁴

As a consequence, as of February 2001, 6 years after the Financing Memorandum, a consulting firm had still not been recruited to supervise the works, which were yet to be contracted. As of the Evaluators' mission, MAF reported that the works were just about to be contracted.

Nor do the Commission services appear to have learnt from these mistakes. It is currently proposing an arsenic removal project, again to be sited in the MAF, without consulting with the National Environment Agency, which would – given its role in preparing the National Environmental Plan, and given the lack of mandate or competence of the MAF, as described above - appear to be the appropriate location.

Insufficient supervision of "external" contractors interfered with need for strategic approach

The Phare programme in Albania has used a number of "external" actors (outside DG Relex and EuropeAid) to manage and implement its institutional programmes. For example, the Council of Europe for the Justice reform programme, SIGMA (OECD/Phare) in the area of public administration reform and delegated management to DG TAXUD for the Customs programme.

This is an appropriate response by DG Relex and EuropeAid, given its lack of management and technical expertise and resources in these difficult institutional areas. However, it is important that, given their ultimate responsibility for the performance of these programmes, that EuropeAid and DGRelex maintain a clear supervisory role in order to ensure quality, the maintenance of a country-wide and sector strategy and adequate coordination with other donors. This has often not been the case in the past. For example, the "stop-start" approach to the use of SIGMA did not appear to have been well thought out; the Council of Europe programmes proceeded with little supervision from the EC; and MAPE had only recently, at the request of the Delegation, begun coordinating and sharing information with the Ministry of Public Order. The Customs project appears to have been successful, but even here it is unclear where it fits within a strategic framework for improving tax administration.

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The difficulty of institutional reform

It is important to note that the above analysis also reflects the great difficulties of implementing institutional reform, which are common to all donors. For example, a recent World Bank evaluation found little success in most of their civil service reform interventions⁷⁵. Similarly, a recent analysis of the Stability Pact noted: “While institution-building is now recognised as a critical component of international aid, it is becoming increasingly apparent how difficult it is to accomplish lasting and effective reform of domestic institutions through program aid. Among evaluations of international programs across a range of sectors, a common theme is the disappointing results of institution-building. There is ample evidence to suggest that most current modes of international assistance are not targeting the problem effectively.”⁷⁶

B. Strengthening Civil Society

Despite the importance of strengthening civil society to the EU's overall objectives, the EC did not have a strategy on how to involve and support civil society in its programmes, and its public profile remained low.

Importance of civil society in Albania

The development of civil society is of central importance in Albania. Indeed, it is an indispensable complement to – and component of - the institutional and public administration reform efforts described above. As the World Bank put it in its recent strategy document: “Social cohesion...is an important underpinning of economic development and poverty alleviation. Building social cohesion in Albania requires complementary efforts to improve the effectiveness and accountability of Government and to build on existing social capital at the community level.”⁷⁷ Developing civil society could make a substantial contribution to improving the limited impact of EU programmes:

- pressure from NGOs and independent media to reduce human rights abuses by police and the politicisation of the judiciary could make a substantial contribution to the success of the EC strategy in the justice and home affairs sector – where a major constraint is the lack of political will. At present, EC strategy in this sector has ignored the essential contribution of public awareness and participation to reform;
- greater public outrage at corruption would provide a major spur to public administration reform, as well as improving the likelihood of success in implementing infrastructure projects;

⁷⁵ Civil Service Reform: A Review of World Bank Assistance, Operations Evaluation Department. World Bank. 1999. See also, Caruthers, T (1999). Aid Democracy Abroad, Carnegie Endowment, Washington DC.

⁷⁶ European Stability Initiative, Brussels Discussion Paper, Stability, Institutions and European Integration, 31 October 2000.

⁷⁷ World Bank, Country Assistance Strategy.

- Higher public expectations and greater public trust in government, public administration and politicians would in time generate political support for higher civil service salaries, a necessary component of improving the capacity of the civil service.

Lack of EC strategy

Although the importance of civil society was noted in the 1997 joint EC/World Bank/IMF/EBRD strategy – and the EC would appear to have been the best placed of these institutions to take concrete actions, the EC did not formulate a strategy for developing civil society in Albania. The EC does not provide significant financial support to civil society. Moreover, at present, the EC does not involve civil society in strategy formulation, project selection or planning (with the partial exception of some local community development projects funded through the ADF), or the political dimension of EU actions. While the Delegation has some informal contacts, these are at a relatively low level, and the EC has not engaged in systematic consultations with civil society.

There was virtually no effort to involve civil society in the institutional reform programmes, even though promoting accountability and transparency could potentially have made a significant contribution to the success of those programmes (e.g. justice and police). While public awareness elements seem to have been added to the plans for some programmes as an afterthought, nothing significant materialised. The monitoring report on the justice sector noted: “The immediate objective...to make the public aware of the reform programme [was] not achieved because there were no planned activities related to these objectives.”

Support to civil society, and involvement of civil society in strategy formulation, will not be easy, given the current weaknesses of civil society in Albania, as noted in Chapter 1. However, it is essential for sustainable development. The EC approach contrasts with the approach followed by the World Bank in their assistance to the development of the Growth and Poverty Reduction Strategy, which has involved a substantial degree of formal consultation with civil society (as well as the direct involvement of a number of independent Albanian research institutions in the preparation of background research). This consultation, while far from unproblematic, appears to have made a useful contribution both to the preparation of the GPRS and to the development of the capacity of civil society organisations.

Low profile of the Commission in Albania

The EC has maintained a low profile in Albania in promoting democracy, the rule of law and the fight against corruption, as noted in section 2E above. Despite its key role, both political and as the largest donor, the EC Delegation does not take a high-profile position on important political issues: the promotion of dialogue with opposition parties, regional stability, or corruption. For example, in relation to the conduct of elections, the press gives far greater prominence to the views of the US Ambassador than to those of the Head of Delegation.

The Delegation takes the view that it is not responsible for coordinating the positions of Member States on key political issues. While recognising that this is ultimately a matter for Member States', the Evaluators note that in some other countries Delegations play a more active and constructive role in this area.

C. Donor coordination

Donor coordination at strategic level was patchy, and fundamental differences in approach remain between the EC and the World Bank. In most sectors coordination is poor and in some important sectors, competition between the EC and the World Bank appear to be intensifying.

Coordination at strategic level

The 1991 and 1997 crises were particularly worrisome for Albania's immediate EU neighbours (Italy and Greece). However, the 1999 Kosovo crisis led to a more widespread interest in the role of Albania in maintaining stability in the Balkans. More recently, EU Member States have become increasingly concerned by smuggling and illegal trafficking from Albania and the region (people, women, arms and drugs).

Partly as a result, the quality of international coordination has fluctuated considerably. In the immediate aftermath of the 1997 crisis, one of the objectives of the Joint Recovery Programme, led by the EC, the World Bank and the EBRD, was to devise a common strategy between donors to avoid a recurrence of the crisis. In practice the results were modest; the EC withdrew from a few sectors (e.g. financial sector and most health and education programmes) in order to avoid obvious overlaps between donor programmes. The 1997 crisis also resulted in interventions in support of the police and customs with a strong lead from Italy and Greece. These interventions evolved into MAPE and CAM-A, which have had the support of the EC and other donors. As a result, coordination in these areas is better than in other sectors.

In October 1998, another effort to promote strategic coordination was initiated, led by the OSCE, in the form of the "Friends of Albania". This group, which was intended to have an overarching coordination and information-sharing role, was supposed to meet monthly. However, the Kosovo crisis appears to have disrupted this initiative. Key donors are in the process of reviving the Friends of Albania process but as with the Consultative Group Meetings (chaired by the World Bank and the EC), it is likely to be more successful in contributing to modest information sharing than in promoting coordination.

Even between the EC and the Member States in Tirana, exchange of information has been very limited and has only begun to improve recently. At the initiative of the Commission some meetings with MS have taken place to exchange some information on their aid programmes. The immediate motivation for this initiative appears to have been the EU Council request for an evaluation of coordination initiatives in Albania. The MS with largest aid programmes in Albania do not seem focused on the need to coordinate programmes with other donors or to move towards more strategic sector approaches. International actors and the Government of Albania often prefer to concentrate on bilateral relations.

World Bank-EU relations

In the past, the overall IMF/World Bank reform programme had the support of key EC interventions (e.g. including cross-conditionality on the Organic Budget Law for the EC's special budgetary assistance). The SIGMA (OECD/Phare) support for public administration reform was very well coordinated with the World Bank and IMF, while CAM-A (customs) was also well integrated into the IMF reform programme.

However, more recently, in public administration, the initial good collaboration between SIGMA and the World Bank has been replaced by competition between the Phare public administration support programme and the World Bank programme. The potential for

overlap between these interventions is very high. This is an area where in practice the EC has now ceded strategic influence to the World Bank.

Similarly, at present the World Bank is supporting the Ministry of Finance in reshaping the Albanian public expenditure process around the Growth and Poverty Reduction Strategy (currently being drawn up, with the involvement of civil society) and the new Medium-Term Expenditure Framework. As set out above, this has already largely sidelined the EC-supported PIP. The EC has had little input into this process. There is considerable potential for conflict : for example, the government has set up a high-level Ministerial committee to steer this process, potentially cutting across the remit of the high-level Ministerial committee which is supposed to work on the Stabilisation and Association Process.

The EC has worked mostly through the MoECT, while the World Bank work through the Ministry of Finance. This has undermined the coherence of budget planning. Interaction between the two Ministries is poor. The EC appears to be in a relative weak position, since the influence of the MoECT – which currently is mostly a vehicle for implementing EC aid - in the budget process is likely to continue to diminish. Overall, this is a positive development, since it is important that budget planning and aid coordination be centralised in the MoF, but it will require a reappraisal of strategy on the part of the EC.

The poor quality of coordination (and significant donor competition) between the EC (and some MS) on the one hand, and the World Bank (and the IMF and to some extent the US) on the other is partly explained by the different objectives of these organisations in the Albanian context:

- The primary objective of the EC programme is the promotion of the progressive integration of Albania into the EU (“approximation of EU standards and principles”) and wider political stability objectives. This means giving priority to the aspects of institutional reform that are most relevant to integration (e.g. approximation of legislation and standards). By contrast, poverty criteria are very rarely mentioned in EC documents. More generally, the quality of economic analysis in the Phare programme is very low;
- the primary objective of the World Bank is poverty reduction. This means treating Albania like any other developing country in which the Bank operates, and trying to shape government operations around a poverty reduction strategy;
- the primary objective both of Member States and the US is to avoid armed conflict in the region, and for Albania to contribute to regional stability; however, there are considerable differences as to how that is best to be achieved.

These objectives do not need to be incompatible. The Delegation has proposed that the international community should adopt a coherent approach using the framework provided by the SAA and PRSP to reduce the number of priorities. However, in practice these different approaches have led to conflicts between the EC and the World Bank, the fragmentation and lack of coordination of a number of Government supported initiatives and donor competition to win influence over the Government. In implementation, this has contributed to the proliferation of donor PIUs or PMUs, which tend to distort governmental structures and salary scales (for example, when salaries are paid above normal Government structures, as is the practice of the World Bank).

Coordination at sectoral level

In most sectors coordination is poor. This is explained by the Government weakness in formulating sector strategies, in budgetary planning and donor coordination; but also because of donor competition described above. The degree of conflict among donors varies from sector to sector. In sectors such as water and environment, donors simply try to stay out of

each other's way by pursuing projects in different parts of the country, with a minimal degree of information sharing to ensure that there is some degree of coherence (as with the road network). But there is little effort to ensure that such infrastructure projects form part of an overall strategic plan. This is particularly unfortunate, given that the government – lacking both funds and capacity – is in no position either to prioritise between projects or to engage in strategic planning on its own behalf.

In some important sectors, competition between the World Bank and the EC appears to be intensifying:

- *Road sector*: the EU focuses on the trans-European road network while the World Bank is beginning to focus more on maintenance and the poverty impact of roads.
- *Agriculture*: although there has been good coordination between USAID and the EC on land registration, looking forward the EC seems to be more focused on issues related to the approximation to EU farm policy and EU health and export standards, while the World Bank focuses on freer trade and the poverty impact of approximation to EU standards.
- *Justice*: there has been some recent tension between the EC programme and a new World Bank initiative in the sector. As in public administration, some of this tension relates to the EC objective of EU approximation, but some simply appears to be competition for influence.

D. Resources and procedures

As in other countries, the EC's ability to engage in policy dialogue and donor coordination is constrained by the Commission's limited capacity and time-consuming administrative procedures. However, in Albania, these constraints have been exacerbated by extremely poor management and financial controls and by poor cooperation between EC Headquarters, the Delegation in Albania, and the Albanian authorities. A number of recent reviews commissioned by the Delegation identified widespread weaknesses in financial controls, allowing for serious irregularities, while transparency and accountability have been poor. In the considered view of the Evaluators, these factors have limited the impact of the EC programme (see Chapter 2). Commission Headquarters, (EuropeAid and DG RELEX) do not accept the validity of these studies; partly as a consequence, the relationship between Headquarters and the Delegation has broken down. Urgent management action is required.

The Decentralised Implementation System

Phare assistance to Albania was initially managed by the Commission under the Centralised Implementation System. In 1994, the Commission began the introduction of the Decentralised Implementation System (DIS) in Albania. Under the DIS, implementation is mostly managed by the Albanian government: tendering, contracting and payment procedures are the responsibility of the relevant PMU with supervision from the Delegation or Commission Headquarters. Currently there are PMUs in the Ministries of Transport, Agriculture and Public Works; the PMU (European Dimension) is responsible for projects in other ministries and departments, including most importantly justice, home affairs and public administration. However, some programmes are still managed directly by Headquarters (e.g. TA of the PIU in the Ministry of Justice).

The Albanian authorities are responsible for the preparation of strategic plans, work programs and tender documents. The Delegation can approve the awarding of contracts up to certain limits, and also should provide advice, supervision and assistance to the authorities. Commission Headquarters approve tender documentation and the awarding of contracts above those limits, and are primarily responsible for programming.

The Decentralised Implementation System is excessively complex but it could work if all parties were to act cooperatively. In practice, the opposite occurred, with the result that aid implementation in Albania has been extremely poor. Not only did each of the three key actors fail in their assigned role, the relationship between the three positively reinforced, rather than mitigated, their different failings. The poor performance of these actors has been described in Chapter 2 (Impact of the Phare programme) and is a key factor in explaining the very low impact of the EC programme.

Project Management and Implementing Units

For the most part, PMUs and PIUs in Albania have not properly fulfilled their assigned functions (as described in monitoring reports and interviews with Delegation staff). Moreover, they have provided very little input into the management and monitoring of the programmes. This weakness has a number of causes:

- most importantly, the low pay of PMU/PIU staff, with salaries typically in the range of \$80-100/month, coupled with the demands made on them and poor working conditions. This is scarcely a living wage in Tirana, and certainly not sufficient to attract skilled and competent staff;¹

- the resulting high turnover and frequent understaffing – those competent staff who do join often do so simply to acquire some training, and then leave for more lucrative jobs in the private sector or with other donors. For example, the PMU in the MoPW currently has two staff, instead of the planned 5, and no programme officers;
- the poor integration of PMUs and PIUs into departmental structures. The fact that PMUs and PIUs work exclusively on one donor's projects means that they are viewed as that donor's "property" by Ministers and the rest of the Department. They therefore tend to function in a rather self-contained, non-strategic way, absorbed more in the task of producing the documentation required by the EC rather than engaging in policy development;
- the Programme Authorising Officer (PAO) function remains a political one (usually a Minister or Vice-Minister); as a consequence supervision of Phare programmes is irregular, lacking in technical expertise, and prone to political interference. Partly as a result, the position of PMU director is also often seen as a quasi-political one (as well as offering opportunities for patronage).

For some time there have been proposals to replace the PMUs with a Central Finance and Contracting Unit. It is important to note that a similar system has recently failed in FYR of Macedonia. There is very little transparency in the discussions surrounding this proposal. It is essential that the proposals for reform of Phare implementation are developed within the context of the wider public administration reform programme and are discussed with all major donors in Albania.

Role of the EC Delegation

Past programme management

Recent reviews commissioned by the Delegation, as well as interviews with the Delegation conducted by the Evaluators, and monitoring and assessment reports indicate that in the past the quality of programme management on the part of the Commission was extremely poor.⁷⁸ In particular the reviews indicate that these failings led directly to severe and widespread implementation problems that affected programme impact (see Chapter 2), (particularly in infrastructure projects, accounting for a significant share of the overall EC programme).

In addition to the institutional and strategic problems described in Chapter 2, examples of poor aid management presented in the reviews included:

- With few exceptions, consultants in EC projects performed extremely poorly. This in turn was largely due to poor management and supervision on the part of PMUs and the Delegation: there was very little willingness or capacity to control the quality of consultants' work; terms of reference were poorly defined; and budgets were often under-resourced.⁷⁹

⁷⁸ "Internal Audit on the Police Training Academy", 28 February 2001, Frank Sutcliffe (one of a series of internal audits of infrastructure projects in the justice sector); "Internal Audit on the Completion Works for Border Crossings at Tri-Urat and Konispoli", Interim Report, February 5, 2001, Frederick W Sutcliffe; Examination of the Procedures in the Civil Works Sector for the Implementation of Phare Transport Projects; Final Report; 9 September, 1999, Paul Riembault; "Audit of Agriculture Projects", Draft Final Report, April 2001, ADE S.A; "Rapport sur le Reseau Informatique de la Justice en Albanie", Bernard Magrez and Jean-Noel Louis, April 2001. This list is not exhaustive..

⁷⁹ Design studies budgets for roads represented a relatively small part of the amount of the works contracts (0.4-1.7%). Examination of the Procedures in the Civil Works Sector for the Implementation of Phare Transport Projects; Final Report; 9 September, 1999, P. Riembault.

- For infrastructure contracts, the terms of the framework contracts under which many of the design consultants were retained generally gave little or no leverage over their performance⁸⁰.

Some of these reviews also found that in the past the Delegation directly contributed to financial and contractual irregularities, combined with lack of transparency, which in turn resulted in serious deficiencies in the quality, timeliness and cost of work performed under these contracts. For example:

- In the road sector, out of seven works contracts analysed, six were awarded to contractors whose bids were not the lowest. In a number of cases, the subsequent performance of the contractors was seriously deficient.⁸¹
- Analysis of the tender evaluations highlighted a number of irregular practices and inconsistent applications of procedures.⁸²
- Relationships between PMU staff and supervising consultants; and between supervising consultants and contractors have been unhealthily close in a number of cases. Supervising consultants in some instances supported excessive claims.⁸³
- With respect to the contract for construction of border crossing with Greece, a review found interference on the part of the Delegation in the process by which supervising consultants were appointed; which led to extremely poor implementation of the contract (see section 2D) and to serious irregularities in the payment of claims; the review recommended legal action against the contractors.⁸⁴

Delegation response

The commissioning of the studies described above on the part of the current Head of Delegation was intended to be a first step in improving the effectiveness and impact of the programme. The Delegation has begun to improve its systems for financial management and supervision and has recently improved the efficiency with which it processes project documentation.

However, the Delegation has not received support from Headquarters on this work. The Delegation has provided copies of the reviews described above to EuropeAid and DG Relex, but as yet no response has been received. Discussions with Headquarters staff shows that they do not share the analysis of the Delegation either with respect to the seriousness of past problems, or to the actions required.

This disagreement has contributed to a total breakdown of team work between Delegation and Headquarters staff (demonstrated in interviews for this Evaluation) which in turn seriously hinders programming and implementation. This is one of the most important findings in this Evaluation. Management action to address these issues is essential.

⁸⁰ The contracts were fee-based, rather than lump sum, and offered 80% advance payments with no requirement for bank guarantees.

⁸¹ Examination of transport projects (see footnote above).

⁸² Including decisions on evaluation criteria after opening of financial envelopes. Source footnote above.

⁸³ "Internal Audit on the Police Training Academy", 28 February 2001, Frank Sutcliffe, and other reports in this series; "Internal Audit on the Completion Works for Border Crossings at Tri-Urat and Konispoli", Interim Report, February 5, 2001, Frederick W Sutcliffe; Examination of the Procedures in the Civil Works Sector for the Implementation of Phare Transport Projects; Final Report; 9 September, 1999. P. Riembault.

⁸⁴ "Internal Audit on the Completion Works for Border Crossings at Tri-Urat and Konispoli", Interim Report, February 5, 2001, Frederick W Sutcliffe.

Organisation of the Delegation

As noted above, management procedures have improved somewhat. However, perhaps in an understandable reaction to previous problems, current management is still too hierarchical, centralised and lacks transparency. A relatively simple approval letter to the PAO – drafted by a programme manager – must be signed by the HoD, and approved by at least two levels above the programme manager. This leads to substantial delays and a heavy burden of paperwork at all levels. It also leads to demoralisation among mid-level and junior staff, and contributes to a serious lack of strategic thinking.

The Delegation is currently focused primarily on administrative issues and is seriously constrained in its strategic capacities. It has also suffered from high staff turnover, particularly among task managers. All this in turn leads to frustration among the Albanian counterparts. It also means that although the Delegation is quite large, with about 15 professional staff, it remains considerably overstretched. Economist skills (both in the Delegation and in Headquarters) are also seriously lacking.

A related problem is excessive *compartmentalisation*. While strategy documents correctly identify institutional reform as a key cross-cutting issue, in practice “public administration reform” in the Delegation means a collection of small projects in MoECT and DoPA. One task manager, who has no wider remit for institutional reform, manages those projects. Meanwhile, transport, water and agriculture projects in the major line Ministries are managed by task managers with primarily an engineering or agronomic background, who have limited skills to focus on the institutional issues in those sectors. Overall, the Delegation still lacks the capacity – either in organisational terms, or in human resources - to develop a strategic approach.

Role of Commission Services in Headquarters (DG Relex and EuropeAid)

Another key factor limiting effectiveness and impact has been the poor performance of Commission Headquarters (EuropeAid and DG RELEX). This is set out in monitoring and assessment report, and was noted by the Delegation and the Albanian authorities. Delays in commenting on and approving documentation have often been excessive. The creation of EuropeAid (previously SCR) has not as yet improved matters: indeed, delays and problems of poor communication have increased.⁸⁵ As noted in Chapter 1, the lack of consultation with the Delegation on the part of DG Relex on annual programmes has contributed to the increasing lack of realism in programming.

Headquarters has not supported Delegation efforts to improve financial management and controls as yet. Unlike other stakeholders, and against the evidence presented by monitoring and assessment reports, as well as the reviews commissioned by the Delegation, Headquarters has a generally positive assessment of the programme.

It should also be noted that Phare programming and implementation for Albania has been complicated by the fact Albanian conditions are very different from that in most other Phare countries. Support (and supervision) for the Albanian team has therefore been limited⁸⁶. Moreover, exchange of information with and support from other relevant DGs (e.g. DG Development) has been very limited. The Commission Services working with Albania (now under CARDS) programme) do not appear to understand how they could benefit from the DG Development experiences in budget support, sector wide approaches and donor coordination.

⁸⁵ Commission staff noted that EuropeAid, was only established in January 2001. However, it should also be noted that EuropeAid is mostly continuing the work of its short-lived predecessor the SCR (Relex Common Service created in July 1998).

⁸⁶ It is hoped that the CARDS programme will introduce a number of improvements to programme management.

Extremely poor cooperation between all the parties

The current working relationship between the Delegation, EC Headquarters and the Albanian authorities is dysfunctional. Communication between Delegation and Headquarters is very poor and frequently negative in tone - for example, with Headquarters simply stating what was wrong with the documentation produced by the Albanian authorities (or not replying for long periods). Similarly, the Delegation has not been given a proper role in the programming process.⁸⁷ The result was that the weaknesses of the parties compounded each other. Interviews conducted by the Evaluators made it clear that rather than cooperating, the different parties tend to find faults with each other:

- the Albanian authorities blame both Brussels (for slowness) and the Delegation⁸⁸ (for slowness and lack of support);
- the Delegation blames Headquarters (for slowness in respond, for lack of consultation on programming, for the inexperience of Headquarters' staff, and for a lack of understanding of the implementation difficulties in the country) and the Albanian counterpart (for extremely poor capacity);
- In discussions with Commission staff in Brussels, it was made clear that Headquarters does not think that the Delegation has the capacity to correctly evaluate past programme management or to work strategically.

Meanwhile, the monitoring and assessment reports generally assign responsibility for poor performance to all three actors.⁸⁹ The overall result of this situation, combined with the complexity and lack of transparency of the programme as a whole, results in very weak accountability for the failings in programme management described in Chapter 2 and above

The Evaluators' considered view is that the Delegation has taken some important first steps to improve the effectiveness and impact of the EC programme. It is learning from the poor performance of the past by commissioning independent reviews⁹⁰. It is also relatively open and transparent about past problems as evidenced in Delegation internal documents and mission interviews. Similarly, a number of Albanian government officials also recognise the weaknesses of the programme.⁹¹ However, Headquarters does not share the assessment of the Delegation, and is not taking actions to improve implementation.

⁸⁷ In a meeting with the Delegation, the Evaluators were asked about general information on how programming was carried out by Headquarters

⁸⁸ See for example, "Phare National and Cross-Border Cooperation Programmes in Albania, Brief Overview", Ministry of Economic Cooperation and Trade, June 2000

⁸⁹ For example, executive summary page II of the Country Assessment Review of Phare Assistance up to the year 2000, Albania. OMAS Consortium, 2001: "The performance of both the Commission Services and the counterpart has been variable... The limited delegated power of the Delegation led to delays waiting for a second level of approval from Headquarters. Implementation was adversely affected by frequent changes of staff at all levels, both in Albania and within the Commission Services, and by the instability of government structures. There were often delays in the establishment of the Programme Management Units, a lack of appropriately qualified staff, and low staff motivation. Programmes documentation was often of poor quality and submission and approval were slow. There was inadequate technical control of the quality of detailed designs or the work done by contractors, and the approval of many contract addenda were often not based on technical criteria. There were significant delays in land expropriation. The contractors' performance was variable, from very good to poor. The poor contractors had often performed badly in other areas or in other countries, but had nevertheless been selected. Collaboration between various ministries, other government bodies, and contractors was often weak, with some notable exceptions."

⁹⁰ As noted above, these documents range rather wider than simply financial propriety, and also cover programming and evaluation: they are thus a mixture of audits and evaluations.

⁹¹ "Phare National and Cross-Border Cooperation Programmes in Albania, Brief Overview", Ministry of Economic Cooperation and Trade, June 2000, contains a frank assessment of the problems of implementation from the government perspective.

In the considered view of the Evaluators, prerequisites for improved performance in the future will be senior management action to improve cooperation between the Delegation and Headquarters and to independently investigate the findings of the reviews commissioned by the Delegation.

Monitoring, audit and evaluation

Monitoring and Assessment Reports by the OMAS consortium (see Section 2F) on different sectoral Phare programmes have produced detailed information on project/programme implementation. This information is often not available for EC aid programmes in other regions. However, as per design, these reports tend to be repetitive and narrowly focused while their rating system can be confusing⁹². This significantly reduces their usefulness to both the Delegation and Headquarters. Nevertheless, in view of the Evaluators this is a system which is more comprehensive and potentially useful than that used by other regions (e.g. Tacis model). As a way to increase transparency in the Phare programme it is important that all monitoring reports are made public.

Another weakness of these reports, as tools to enhance the efficiency and impact of the programme, is that they seem not to have reviewed financial management and control systems adequately, as set out above. The Delegation noted that the weakness of some of these monitoring reports may be attributed to “conflict of interest” of some of the individual consultants. Given these weaknesses, the Delegation found it necessary to carry out its independent reviews and “audits”,

No evaluations have been carried out on the Phare programme or the balance of payments interventions. The capacity of the EC to learn from previous lessons of implementation is therefore very poor. Even the widely praised Customs programme – a rare apparent success in the institutional reform field- is not very transparent and has not been evaluated externally.

The new improved systems for financial control put in place by the Delegation need to be complemented by a systematic programme of independent audits of the EC programme. To improve cooperation within the Commission, it is also important that the Delegation and Headquarters reach a common assessment on the quality of past financial management and controls.

⁹²

A number of the reports are on projects and programmes that have not yet been completed. This problem has been exacerbated by the serious delays experienced in many of the Phare projects in Albania. It is of course difficult to come to an assessment about a programme when it is still in progress. For example, the recent OMAS assessment of transport programmes – which rated these programmes as “satisfactory” stated: “The wider objective...was only partially achieved...There are indications that the results of the on-going activities will be in line with the expected outputs, but additional budget and considerably more time will be required.”

4

Recommendations

These recommendations are intended to assist in the preparation of future programming, particularly the 2002-2006 CARDS programme. It should also be noted that some of these recommendations are already being implemented, while others require action on the part of other parties as well as that of Commission Headquarters and the Delegation itself.

The EC programme should be more focused, realistic, and should incorporate lessons learned from past experience. It should concentrate on the objectives of public administration reform, the development of civil society, and sustainable economic development. These are preconditions to greater integration with the EU, and should have a higher priority at this stage than the formal requirements for the conclusion of a Stability and Association Agreement.

The EC should abandon its current approach of a patchwork of interventions, poorly coordinated with other donors. Instead, it should implement sector approaches and budget support in collaboration with other donors.

The quality of service currently provided by the Commission Services is extremely poor. Radical changes to programme management are required. Individuals should be held directly accountable for the quality and timeliness of their work. Irregularities identified in recent reviews commissioned by the Delegation require a formal investigation

Ensuring relevance of the strategy

1. **Objectives: institutional reform, civil society, and sustainable economic development.** Our country analysis suggests that the EC strategy should focus on the following objectives:
 - comprehensive public administration reform, directed at improving the government's ability to deliver basic services, including basic social services as well as law and order;
 - the development of a functioning civil society that can hold government to account and help to entrench democracy and the rule of law;
 - Sustainable economic development, meaning balanced growth within the normal legal and regulatory framework of a market-oriented democracy, that is sufficiently widely distributed to reduce poverty, and that protects the environment.
2. *Less emphasis on formal prerequisites for an SAA.* These objectives should be seen as leading naturally to greater integration with the EU, and in due course to the conclusion of an SAA. Considerably less emphasis should be given at this stage to the formal and legal prerequisites for an SAA, or to immediate harmonisation and EU integration objectives. This should contribute to reduce the gap between EC programmes and country needs.

3. *Annual programmes should be part of an explicit country strategy and should be based on consultations with the Delegation and reviews of past interventions.* In the past the annual programming process has not observed these basic principles.
4. *More thorough analysis of social and political environment.* The Delegation should dedicate more resources to analysis and the use of analysis in strategy formulation..
5. *EC Strategy preparation should include systematic and transparent consultations with different elements of civil society.* This should be part of a wider effort to support political dialogue and conflict-resolution. Delegation should play an important public role in these activities. Civil society (including opposition parties) and the private sector should not only contribute to the preparation of the strategy (particularly on public administration and governance issues) but support and monitor implementation.
6. *Strategy should specify clear conditionalities on EC support.* These should be linked to governance and the fight of corruption at all levels (e.g. actions to improve implementation of judicial and police reform), democracy, and the Albanian government's contribution to regional stability. These conditionalities should be developed together with other donors⁹³.

Increasing the focus of EC aid

7. *Increase focus of EC interventions in a small number of tightly defined areas, while reducing the number of small-scale interventions.* The EC Delegation does not have the capacity to manage an unfocused programme.
8. *Develop a more strategic sector wide approach.* The EC should develop – in conjunction with the government, and with other major donors – a much more strategic approach to its interventions, on a sector-by-sector basis. Sector programmes should be seen as supporting a sector strategy, rather than as a collection of individual projects. In a number of sectors, the EC should withdraw support unless a joint donor strategy can be agreed. This is elaborated below.
9. *Consider switch from project support to budget support⁹⁴.* Given the serious weaknesses of EC programmes in Albania, the EC should consider making a substantial reduction in the amount of funds provided through EC projects, and instead providing the funds direct to the government through budget support, subject to the conditionalities described above (as well as macroeconomic conditionalities contained in the IMF programme).

Suggested approach to different sectors:

10. **Roads and water.** If the recent improvements in implementation can be sustained and extended, there is a case for continued EC funding of large infrastructure projects, taking proper account of a realistic assessment of the implementation capacity of the relevant institutions. However, this needs to take place within the context of well-developed sectoral strategies, agreed with the government and other donors, which currently do not exist. Greater attention needs to be given to assessing the social and economic impact of projects; and to address management and maintenance issues. The EC should work with other donors to help capacity-building and strategy formulation in the relevant line Ministries.

The transport sector strategy needs to take account of the particularities of the Albanian situation, notably the very poorly developed state of existing infrastructure. The regional

⁹³ Some general conditionalities exist in the context of the SAP and SAA, which should be integrated into this process.

⁹⁴ This is now considered best practice most major donors.

strategy being developed by DGTREN assumes a commonality between Albania and other CARDS countries that does not exist.

At a technical level, works tenders should not be launched without verification of quality and completeness of detailed designs; a more thorough selection of contractors should be carried out, works contracts should not be signed until all land expropriation has been completed; and contingencies should be included in quantities based works contracts

11. **Public administration reform.** The EC should urgently reevaluate its strategy: it needs to engage with the government and with other major donors in this area (most importantly, the World Bank). The current programme is unsustainable, and support to MoECT and the PIP (see recommendation 19) should be phased out. A joint donor strategy for public administration reform across all Ministries, not just isolated projects, is required, and EC support should only be provided within such a framework; in its absence, further EC support is likely to be counterproductive. Civil service pay reform is likely to be a key element.
12. **Justice and home affairs.** The focus should move towards strategic institutional change. This is likely to require substantial investment in capacity building and support to civil society. Given the management demands of these activities, the EC should consider designating Member States as lead managers for these programmes (previously managed by the CoE and WEU). The EC should also cease funding individual infrastructure projects in these sectors. The new EC Police Assistance Mission should have a much more tightly defined remit.
13. **Agriculture.** As with roads and water, the EC should see its role as providing together with other donors support to the development of a Government sectoral strategy. Again, in the absence of a joint strategy, further EC support is inappropriate.

As regards approximation to EU standards, appropriate phasing and sequencing, rather than a “big bang” approach, should be adopted.

Further support to IPRS should be considered in the light of appropriate institutional arrangements and the degree of financial commitment to programme objectives by the government.
14. **Local community development.** The EC should continue to channel its support via the Albanian Development Fund, but should work much more closely with other donors (especially the World Bank). Better co-ordination on project identification methodologies and project prioritisation – based on national (sectoral) and regional planning exercises - is essential. In addition, donors should implement common monitoring, evaluation and audit procedures. There should be an increased focus on sustainability through capacity building in local government (preparation of maintenance plans, etc.)
15. **Interventions in other sectors should be reconsidered** in order to increased the sectoral focus of EC interventions.

Governance and civil society

16. *Support governance by developing and implementing a strategy to strengthen civil society.* The EC should improve its contacts with and analysis of civil society, with a view to integrating civil society both into the formulation and implementation of the overall country strategy (see above).
17. *The EC should provide greater financial support to relevant civil society organisations.* Consideration should be given to the use of intermediary funding organisations, which would operate independently but use criteria agreed and monitored by the EC, other donors and civil society.

18. *The EC should support an expansion of the role of civil society in monitoring the provision of government services and public expenditure.* A key constraint of Albanian civil society is the lack of pressure on government to improve services and control corruption.

Improving aid coordination practices

19. *The EC should support a joint approach to budget support and sector wide strategies.* Instead of merely seeking to avoid overlaps, government and donors should jointly formulate sector-wide strategies in overall budget support and in key sectors such as transport, health, education, agriculture and the environment. The objective should be for donors to provide joint programme funding on a sectoral basis, rather than funding their own projects.
20. *The EC should participate in the consultations for the Growth and Poverty Reduction Strategy and support the Medium Term Expenditure Framework process and the centralisation of budget planning in the Ministry of Finance.* The MTEF is the appropriate vehicle for integrating external assistance with domestic public resources in a consistent, comprehensive and strategic expenditure framework. If the PIP continues at all, it must be fully integrated into the budget, as proposed by the Delegation. Support to MoECT (in relation to expenditure planning) should be phased out.
21. *EC should only provide institutional support to Government departments as part of joint pools for technical assistance.* TA should not be linked to individual donors but should be part of a comprehensive institutional support approach supported jointly by donors.
22. *PIU and PMUs working exclusively for individual donors inside government departments should be phased out* as part of a wider reform of government structures under a public administration reform programme and the move towards sector wide programmes (supported by many donors). See also recommendation on the CFCU below.

Improving EC resources and procedures

23. *Accountability and Service Standards.* The division of responsibilities between Commission staff in Brussels and Albania should be clearly specified. Individuals should then be held accountable for the quality and timeliness of their work. Both Headquarters and the Delegation should adopt a clear, written and binding statement of service standards applicable to the processing of project documentation. A summary guide of CARDS procedures for Albanian staff should be produced.
24. *Principal Authorising Officer role should be given to a senior civil servant.* The PAO role should be a technical, non-political role.
25. *Reform of Phare implementation and the possible establishment of a CFCU must be carefully and transparently discussed with other donors and the Government.* Lessons from the failure of the Central Financing and Contracting Unit in the FYR of Macedonia should be studied. It is also important to avoid setting up a special unit inside the government dedicated only to EC interventions. If created, the CFCU should therefore be part of a larger unit with responsibility for all donors. Any EC-specific unit should be external to government, managed by private contractors, and audited annually.
26. *Improvements in Delegation management and organisation.*
- instead of each advisor having a “portfolio” of individual projects, there should be much greater use of teamwork and cross-cutting working practices. Public administration reform, for example, should be seen as a cross-cutting issue, applying to the Ministry of Public Works just as much as to DoPA.

- the Delegation appears over-centralised and hierarchical. Individual advisors should be given substantially greater autonomy and decision-making powers, and be held accountable for the results.
- The Delegation should strengthen its resources for strategic and economic analysis. Economists should be recruited for the Albania programme both at the Delegation and Headquarters. Technical support from other DGs in the Commission (e.g. for example DG Development on programming and sector wide approaches) is also recommended.

27. *Formal and transparent investigation of reported past financial irregularities.* As described, poor implementation is central to the low impact of the EC programme. The financial irregularities identified in the reviews commissioned by the Delegation should be investigated by Headquarters or externally (Court of Auditors).

28. *Cooperation between Delegation and Headquarters.* Poor cooperation between Delegation and Headquarters is a central issue identified by this Evaluation affecting past and future programme impact. Management action to improve cooperation is required.

29. *Monitoring, evaluation and audits.*

- Monitoring and assessment reports should continue, but should be shorter and more focused on strategic issues (e.g. a move towards the TACIS model should be avoided). It should also identify more clearly the actors responsible for poor implementation. To increase transparency, reports should be made public.
- Systematic and independent evaluations of the Phare programme and budget support should be carried out (only Delegation commissioned ad-hoc reviews have been carried out). An independent evaluation of the Customs programme is especially needed.
- EC programmes should be rigorously and systematically audited (when necessary by internationally recognised auditors). Sanctions should be applied in cases of maladministration.

Annex

List of interviews

Delegation

Michel Peretti, Head of Delegation
Juan Ortola, Counsellor
Guido de Fraye, Counsellor
Antonio Castellaci, Counsellor
Philippe Viteau
Paul Riembault
Fabrizio Moroni
Arben Ilirjani
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Serge Mihailov
Alessandra Frontoni
Lucrecia Ciprian
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Patricia Fontaine, Administrator, EuropeAid

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Peter Bloomeyer, Counsellor, German Embassy

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Mihail Vredaqis, Economic Attache, Greek Embassy
Nicolas Cricos, First Counsellor, Greek Embassy

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Mr. Invernizi, Cooperazione Italiana

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Jolanda Trebicka, Project Manager

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Volker Treichel, Resident Representative

Council of Europe

Jorgen Grunnet, Special Representative
Mats Lindberg, Programme Officer

EBRD
Giulio Moreno

MAPE
Wolfgang Mallach, Chief of Logistics Management
Mike Wardell
Cnl. Bastard, IT Specialist

USAID
Howard Sumka, Director

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Gjerji Teneqexhiu, General Secretary
Mimoza Dhembli, Director of Budget

Ministry of Justice
A Dvorani, Director of Codification, Ministry of Justice
Alion Cenulli, Director of Approximation to EU Legislation, Ministry of Justice

National Environmental Agency
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Violeta Zuma, Director, PIU

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Ardian Mullahi, Director, PMU,
Lek Tushej, Adviser to the Minister,
Pat Treacey, TA to the PMU
Yllka Zaloshnia, Director of Budget and Programming

Ministry of Education
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Ministry of Agriculture

Vjollca Ibro, Vice-Minister
Seit Shallari, General Secretary
Ndoc Vata, PMU Director, Immoveable Property Registration System
Grigor Gjeci, PMU Director
Dragush Mati, Director of Veterinary Services
Roland Kristo, Director of Fisheries
Bardhi Qilimi, Director of Land

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