

Country strategy

Albania

September 2004 – December 2007



REGERINGSKANSLIET

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Strategy for Sweden's development cooperation with Albania, 2004–2007

1. INTRODUCTION

The Government's country strategy establishes the direction of Sweden's development cooperation with Albania for the period 2004–2007. The strategy has been drawn up at the Ministry for Foreign Affairs in conjunction with other Ministries concerned, based on a draft prepared by Sida and supplementary information from the agencies involved. Consultations have taken place in Albania with representatives of the government and civil society.

The overall objective for Sweden's development cooperation is to help create conditions that will enable the poor to improve their living conditions. The focus of development cooperation with Albania is to support equitable and sustainable reforms that help the country develop closer ties with the EU and its integration into European cooperation structures. The strategy will enter into force on 9 September 2004 and apply until 31 December 2007, or until the Government replaces it, if circumstances necessitate revision.

2. BACKGROUND

2.1 The country analysis: conclusions

Albania is one of the poorest countries in Europe and is in the midst of a laborious political and economic transition. Albania's GDP per capita amounts to about EUR 1,500 and a third of the population lives in poverty, on less than two dollars a day. However, the economy is moving in the right direction. According to the IMF and the World Bank, the macroeconomic situation is under control and the country's national debt is manageable. Since 1998 Albania has experienced annual growth of between five and eight per cent and foreign direct investment is increasing. In 2002, however, the growth rate declined, owing to a number of factors: the energy crisis, unsuccessful privatisations that led to a cutback in spending on public investments, and low yields in the agricultural sector. The slowness with which necessary infrastructure such as road networks and electricity supply is being expanded also puts a brake on economic growth.

Albania is a highly centralised country with mostly weak regional and local political assemblies. Its economic development is geographically uneven and most of the investments are being made in Tirana and the coastal area that is most densely populated. The country's southern parts are richer and more developed than the mountainous and often inaccessible areas in the north, where the traditional clan-based society still maintains a strong hold. Unemployment is high and many of those who are economically active work in the informal economy in conditions of great insecurity and without insurance coverage. In many regions the population has declined as a result of emigration, which has led to "brain drain" and high social costs. Many families depend on monetary transfers from relatives abroad for their livelihood. About a third of the population has no access to some of the most basic needs, such as primary education, clean water, drainage and heating.

Agriculture is Albania's most important productive resource and accounts for nearly a third of the country's GDP. However, agriculture is conducted on a small-scale basis, using old methods and antiquated equipment, which means that the land often produces no surplus over subsistence requirements. The agricultural sector is wrestling with problems that arise in part out of the fragmentation of land holdings. In addition, the process of restoration of nationalised land has not yet been completed. The construction industry and the transport and services sectors account for an increasing share of the economy. However, the development of the private sector is being seriously held back by the state's inability to protect property rights and create a secure environment for enterprise. Uncertainty about land ownership rights has been a particular hindrance. The informal economy is disproportionately large in Albania compared with other countries, which is a serious obstacle to increasing tax revenue.

The government of Albania has adopted a National Strategy for Socio-Economic Development (NSSED). The strategy identifies economic growth as the crucial factor for reducing poverty and increasing prosperity. The areas given priority are education, health and integrated rural development. The NSSED is an important policy document for social and economic issues in the country. The greatest challenge for the government in implementing the strategy is to set clear priorities that are reflected in the distribution of resources undertaken in the state budget process. In addition, it is important that the NSSED targets accord with the targets set for the broad Stabilisation and Association process (SAp) and the financial demands this makes on the budget. The government is seeking to harmonise the national development strategy with the SAp.

The domestic political situation has been marked for several years by strong polarisation between the largest political parties and by internal conflicts within the ruling Socialist Party. Political instability combined with a weak central government apparatus and an inefficient justice system present obstacles to the country's development. Reform of central government structures and fighting

corruption are important themes of domestic policy. There is, however, uncertainty about the political will to implement this policy. The widespread corruption is felt to be a factor in the existence of organised crime, such as trafficking in human beings, weapons and drugs. Albania is both a country of origin and a country of transit for trafficking in human beings.

Albania has ratified the most important conventions on human rights, but there is great scope for improving their implementation. Protection of minorities is inadequately developed and certain minorities, including the Roma, have marginal status. Freedom of expression and of the media is guaranteed in the constitution and is being respected. Albania has a large number of newspapers and several radio and TV stations. However, none of these are considered to be entirely free from political or financial pressure. Many journalists also lack higher education. Domestic organisations that are active in the media sector are, however, working to strengthen the quality and independence of the media through, for example, education, research and the promotion of new technology.

Albanian society is highly patriarchal, particularly in rural areas where many traditional values survive. Public debate pays scant attention to gender equality issues, and women have little political representation. Only one of the 18 government ministers and nine of the 140 members of parliament are women, even if both deputy speakers of the parliament are women. There is a remarkable lack of gender equality, and in terms of women's participation and influence in decision-making processes in society, there has been noticeable regression in recent years.

Albania is rich in natural resources, including oil, iron, nickel, copper and chromium. However, as a result of overexploitation and inefficient methods of production during the communist era, these potential sources of income and employment are poorly exploited. The remaining outdated industries still operating pose a serious environmental problem because of heavily polluted emissions. In recent years other problems have developed as well, such as waste management, pollution from traffic, water pollution, etc.

The EU is Albania's largest trade partner. Italy accounts for well over half of all trade with the EU, with Greece and Germany the next most important partners. In 2000 Albania became a member of the World Trade Organisation (WTO), but it has had difficulty meeting its commitments. Where certain products are concerned, the country has not implemented the prescribed tariff reductions out of consideration for domestic industry. Nonetheless, Albania has made significant progress as regards free trade agreements with its neighbours.

Albania's two foremost foreign policy priorities are membership in the EU and NATO. Negotiations on a Stabilisation and Association Agreement with the EU began in January 2003. However, before the negotiations can be concluded, extensive reforms will be needed to put Albania in a stronger position to

implement its commitments under the agreement. Success will depend on Albania's ability and political will to carry out necessary reforms. The EU has called for increased efforts and has particularly emphasised the need to strengthen the justice system and to fight corruption and organised crime. Emphasis has also been placed on the importance of not only incorporating Community law into national legislation but also ensuring effective application of the law by appropriate administrative and legal structures.

2.2 The Stabilisation and Association process (SAP)

EU and Swedish policy regarding the countries in South Eastern Europe is based on the premise that closer economic and political ties with the EU are the linchpin of political stability and sustainable economic development in the region. The Stabilisation and Association process defines the direction for these countries towards closer cooperation with the EU, with a view to future EU membership. The SAP is a framework of different instruments including bilateral stabilisation and association agreements between the EU and the countries in the region, preferential trade agreements and extensive financial support aimed at speeding up EU integration (Community Assistance for Reconstruction and Development and Stabilisation, CARDS). It also includes economic and political conditionality requirements, including an annual review mechanism that monitors compliance with conditionality, and requirements for regional cooperation. The Stability Pact for South Eastern Europe supports the regional dimension of SAP and represents an important supplement to this process.

To strengthen SAP, the EU has decided to devise additional instruments. The most important of these will be the European Partnerships established with each country. These partnerships formulate the most important priorities for each country's EU integration, based in part on the EU Commission's annual review report. The countries themselves respond by drawing up their own programmes for allocating national budget and CARDS funds so as to support the development of closer ties with the EU. This approach makes it possible to plan long-term financial support for the reform process. More extensive political dialogue with the EU and access to some of the Community programmes and to the Technical Assistance and Information Exchange Office (TAIEX) are other new elements of SAP. Through SAP, the EU can support these countries' rapprochement with the EU, but the main responsibility for ensuring that progress is made lies with the countries themselves.

3. DEVELOPMENT COOPERATION TO DATE

Sweden's development cooperation with Albania has so far been relatively limited, though the support provided increased substantially during the previous strategy period. In accordance with the strategy for development cooperation with Albania in 2001–2003, Swedish support has focused on six areas: *public administration, human rights and democracy, agriculture, environment, health, and development*

of the private sector. The support provided during the period amounted to a total of SEK 138 million. Just under half the funds went to rural development and local administration projects, chiefly in the Korça region, while a third was allocated to measures to promote human rights, democracy and health, at local and central levels. Less support has been given to public administration and development of the private sector because of high donor density in these areas. Additional problems have been the weak capacity of central and local administration, socio-economic conditions and the fact that reform and decentralisation of the public administration is in an early stage. In all sectors, Sweden initially had limited administrative resources for identifying new projects and preparing assistance for them.

The outcomes of Sweden's development cooperation with Albania in 2001–2003 have been compiled in a special report.¹ According to this report it is still too early to draw any concrete conclusions since most of the projects are newly started, although the sectors and projects supported by Sweden all appear to be relevant to Albania's needs and own priorities. The report takes the view that the strategy of concentrating support to a single region with links to development processes at central level can bring positive results and effects in future. Sweden should aim for a number of larger projects so as to strengthen the influence at central level and to make effective use of Swedish administrative resources. It is important to define clearly how the projects relate to and support the general development processes at central level and also how they supplement inputs by other donors in the same sectors. One risk of Sweden's strong focus on the Korça region is that other donors may avoid starting new projects there. The analysis also highlights the importance of supporting the regional level in Korça and its role in coordinating regional activities and donor support, within the framework of the general process of decentralisation.

3.1 Other donors

The biggest donor in Albania is the EU, represented by the European Commission. Support from the EU is channelled through the CARDS programme, which is explicitly intended to support institutional and economic reforms within the SAP framework. Under the CARDS programme, EUR 145 million has been earmarked for measures in Albania in 2002–2004. The area with highest priority is justice and home affairs, followed by economic and social development and administrative capacity building. The CARDS programme also includes support to local structures. Disbursement of CARDS funds has often been considerably delayed, however.

Total donor support to Albania remained at a more or less constant level over the period 2001–2003. Sweden has entered the picture as a donor and gradually increased its support, while some other donor countries have discontinued or reduced their support to the country. Denmark has phased out its support to Albania, leaving a vacuum in the legal sector, especially in the Dibra region where

¹ Result Analysis: Swedish Cooperation with Albania 2001-2003

the Danish presence was strongest. In areas like public administration, justice, development of the private sector, and human rights and democracy, donors in Albania have mainly concentrated on advice or personnel assistance.

The CARDS programme focuses increasingly on support for institution building, and the EU Commission has substantially cut its previously high level of support for roads and other infrastructure in the country. This has led other major donors such as the World Bank, Italy, EBRD, Greece and Switzerland to increase their support for infrastructure. The energy sector has received increased attention in the last few years. A slow restructuring process is now under way in the sector, with assistance in the form of grants and credits from the World Bank, USAID, Italy, Norway, EBRD, KfW, EIB and Japan.

Support for health, education and environment is still limited compared with other sectors. Much remains to be done at central level, particularly as regards planning, strategies and coordination. The education area has received support from the EU Commission, USAID, Austria and the Soros Foundation, at both central and local level. Environmental issues are beginning to arouse greater interest among donors, but there are still only a few that allocate funds to this area. Support has gone mainly to improvements in water and drainage (KfW and Switzerland), forestry (the World Bank) and the waste sector (KfW). Recently, British DFID has started institutional support to build up capacity at the relatively recently established Ministry of Environment.

A large part of the support is going to public administration at central level and only a small amount to administration at local level. In geographical terms, support is concentrated to the region round the capital city and the coastal area while support to the northern and northeastern areas of Albania has been limited. Sweden, KfW and GTZ are the principal donors in the Korça region. Sweden focuses on rural development, KfW on water, drainage and waste, and GTZ on support for SME development and processing of agricultural products.

The OSCE is in place in Tirana with a number of field offices in the rest of the country. The organisation's activities in Albania focus on democratisation, support to the development of a functioning state governed by the rule of law and the promotion of human rights.

Responsibility for donor coordination in Albania lies with the Ministry of Economy, while the Ministry of European Integration is the counterpart for the CARDS programme and the Ministry of Finance for the budget and the national strategy (NSSD). However, local coordination on the part of the government has significant failings and the donor community has therefore developed a new coordination mechanism that became operative at the beginning of 2004.

4. GUIDING PRINCIPLES AND GENERAL CONSIDERATIONS

4.1 Guiding principles

Establishing closer ties with the EU is the most important engine for the reforms that Albania must implement to reduce poverty and promote democracy, good governance and respect for human rights. Swedish development cooperation with Albania will therefore chiefly focus on the country's EU alignment and thus:

- be based on Albania's own priorities and national plans for EU alignment in the framework of the SAP and European Partnerships as well as the NSSD,
- combine a long-term perspective and flexibility, be characterised by local ownership wherever possible and take the absorption capacity of cooperation partners into consideration,
- be increasingly focused on institution building and capacity development, where both central and local levels must be involved,
- be coordinated with other donors, particularly with the EU Commission and the CARDS programme,
- support initiatives that strengthen regional cooperation, within the framework, for example, of the Stability Pact for South Eastern Europe,
- make use of experience of Swedish development cooperation with the new EU member countries and, where possible, develop three-party cooperation between the latter, Sweden and Albania,
- be characterised by a close dialogue between the Ministry for Foreign Affairs and Sida at central and local levels.

Sweden will support initiatives that encourage participation by citizens and give them greater opportunities to influence the reform process in Albania. Sweden will also support initiatives that promote human rights and the building and deepening of a culture of democracy. Gender equality, sustainable use of natural resources and environmental consideration should be integrated into all parts of the cooperation. In addition, special actions will be implemented to promote both gender equality and environmental consideration.

Development cooperation should primarily focus on capacity development. In connection with this, grants for investment and the purchase of equipment may be considered.

Parallel and co-financing of other donors' programmes should be actively considered when this will give clear added value.

Emphasis will be given to anti-corruption measures in the dialogue with all actors in Albania. Particularly close attention will apply in connection with public procurement and major financial commitments.

4.2 General considerations

The focus of development cooperation with Albania is to support reforms that help the country develop closer ties with the EU and achieve integration into the structures of European cooperation. In this context, measures should principally address national reform processes aimed at strengthening administrative structures.

One of the primary tasks of Swedish development cooperation with Albania during the strategy period is to contribute to the establishment of a functional, transparent and democratic administrative system and legal system. Continued support will be given to measures in civil society to strengthen respect for human rights. Development cooperation must also promote growth and economic development by helping to strengthen the private sector and create better conditions for trade and foreign investment. Cooperation in the environmental area will be developed and expanded, in comparison with the previous strategy period. Support will only be given to rural development projects in so far as these constitute well-defined components of a national strategy for regional development in accordance with the country's endeavour to achieve EU integration.

5. PRIORITY AREAS OF ACTIVITY 2004–2007

Swedish development cooperation with Albania during the period 2004–2007 will focus on the following areas:

- Democracy and good governance
- Respect for human rights
- Gender equality
- Sustainable use of natural resources and concern for the environment
- Economic growth
- Social development and security

5.1 Democracy and good governance

The cooperation will aim to strengthen Albania's administrative and legal capacity by supporting institution building and capacity development. Sweden will focus its support on the adaptation and amendment of laws, regulations and organisational structures to bring them into line with European standards and SAp requirements and to make it possible to reduce poverty and maintain respect for human rights.

5.1.1 An effective and transparent administration

Support should be given to the reform of the public administration at central and local level, including structural change and training of officials. Some important areas for education and training are political decision-making processes, financial

administration, cooperation between ministries, decentralisation and consultation with civil society. The cooperation should also seek to streamline systems for control and follow-up in the public administration. The possibility of designing special measures to fight corruption should be investigated. Such measures should supplement what is being done within the framework of cooperation with the EU.

While action will be taken to increase the efficiency of the central level, there should be continued support for decentralising power from central to regional and local administrative levels.

Partnership support in twinning projects within the framework of the CARDS programme should be considered.

5.1.2 Strengthening the justice system

In light of the central importance of the legal sector to Albania's alignment to the EU, support to the development of the justice system should be included in Swedish development cooperation. This cooperation should help strengthen the rule of law by supporting the construction of a durable institutional and administrative capacity in the public authorities concerned and creating an independent and effective justice system that upholds the rights and responsibilities established both in the domestic legal order and by international instruments.

Cooperation in the legal sector should follow Sida's Guidelines for Bilateral Support within the Sector of Justice and Home Affairs for the Western Balkans, aimed at long-term, sustainable development in the legal sphere. Support should be considered for activities including legal education, access to legal information and legal aid, reform of property law, the fight against corruption and organised crime, including trafficking in human beings, and the Ombudsman institution. Cooperation in this sector should, where possible, be characterised by a legal perspective that reflects concern for the entire justice and law enforcement system and its internal coherence. Emphasis is put on the importance of coordination with other donors.

5.2 Respect for human rights

An active civil society is one of the foundations of a democratic society. Most civil society organisations in Albania are still in an early stage of development and need to be strengthened so as to be able to act more effectively on issues related to the political, social and economic environment. Swedish support in this area is channelled through a number of frame organisations that are active in the region. This support will continue during the strategy period.

Freedom of expression and free access to media are important aspects of a democratic society. Support to free and independent journalism and media should

be considered where appropriate. The aim of cultural cooperation and mutual cultural exchanges should be to promote cultural diversity, thereby strengthening the position of culture and democracy.

The Albanian government's strategy for integration of the Roma will form the basis of Swedish efforts to improve the standard of living of the Roma and strengthen their role in society. Swedish development cooperation should assist in the implementation of the strategy and it should also be investigated whether Swedish support can be used to further develop the strategy, in consultation with the government.

5.3 Gender Equality

Gender equality is both an issue of democracy and rights and an important economic issue. Women's participation in politics should receive encouragement and support. Initiatives should be taken to raise the level of awareness and knowledge about the importance of gender equality, both in politics and in society as a whole. In addition, support should be given to projects directly aimed at strengthening the position of women. Support may also be granted to projects to reduce domestic violence.

5.4 Sustainable use of natural resources and concern for the environment

Swedish environmental support should focus in particular on areas where Sweden has broad expertise, such as water and sewage treatment. Support should also be given to strengthen the Albanian environmental administration. Environmental support will follow the Guidelines for Sida's Environmental Cooperation with South-East Europe. Regional environmental cooperation and exchange of experiences will be encouraged.

5.5 Economic growth

The development of a functioning market economy and a robust business sector is central to economic growth.

5.5.1 The business sector

The development of business activities should receive continued support, with particular emphasis on SMEs. For trade promotion purposes and to contribute to an institutional framework for small and medium-sized enterprises, support for efforts to develop industry organisations in the business sector should be investigated. Further, continued support should be given to developing and implementing certification and standardisation systems that will facilitate trade.

Inputs for increasing management skills and promoting enterprise by women should be investigated.

Sweden should also investigate the possibility of supporting measures that will advance reforms in the financial sector so that it fulfils its task of providing small and medium-sized enterprises with capital. The possibilities of cooperation with the World Bank, the IFC and the EBRD in this area should be further investigated.

5.5.2 Agriculture

Support in this area should be focused on the necessary reforms of the agricultural and forestry sectors. Surveying support, support to the development of real property and land registers and systems for property formation and real estate pledges should be important components of this cooperation. Efforts to promote greater productivity, higher standards and market adjustment in this sector should be supported.

5.4 Social development and security

Inputs in the social sector should focus on the area of health. Support should be given to initiatives aimed at reforming and developing the national health system and to sexual and reproductive health, including preventive measures to stop the spread of HIV/AIDS. Support should also be given to alternatives to institutional care for children and people with disabilities. Swedish support may also be considered for development of a social services system focusing on groups at risk.

6. FINANCIAL FRAMEWORK

Sweden has a flexible budget system for bilateral development cooperation with the countries in South-East Europe. These funds are distributed among countries, sectors and actors according to need and absorption capacity. Efforts to promote reforms should be conditional on the Albanian government's and parliament's support for the reforms. Before new initiatives are begun, discussions should be held with the cooperation partners on the reforms and measures needed for effective implementation. Weak political support or lack of will to implement reforms will affect the scope of Swedish support.

Swedish support to Albania increased substantially during the first strategy period. The financial framework and disbursements for 2003 amounted to some SEK 60 million. The present level of support may rise slightly.

7. FOLLOW-UP

Implementation of this strategy will be followed up in Sida's semi-annual reports, which will provide the basis for the bi-annual review meetings to be held between the Ministry for Foreign Affairs and Sida.

Abbreviations

CARDS	Community Assistance for Reconstruction, Development and Stabilisation
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
IFC	International Finance Corporation
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau
NSSD	National Strategy for Socio-Economic Development
OSCE	Organization for Security and Co-operation in Europe
SAP	Stabilisation and Association Process
Sida	Swedish International Development Cooperation Agency
TAIEX	Technical Assistance Information Exchange Office
USAID	The United States Agency of International Development
WTO	World Trade Organization



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