

Annex C: Field visit to Albania

A team of examiners and the OECD Secretariat visited Albania in October 2013 as part of the peer review of Italy. The team met Italian development co-operation professionals, partner country civil servants, other bilateral and multilateral partners, and representatives of Italian and partner country civil society organisations, the private sector, and local and regional authorities as well as parliamentarians.

Context: development and an EU integration agenda

Albania is an upper middle-income economy (per capita GDP was USD 4 909 in 2013) with a moderately high level of unemployment (13%). It ranks 70th in the 2012 Human Development Index (UNDP, 2013). Since 1991 Albania has experienced rapid transition from a centralised and authoritarian state towards a democratic system with a market economy, as well as high GDP growth (until 2011). Notwithstanding these achievements, 1.4% of Albanians live in extreme poverty, 7.4% are vulnerable to poverty, and gender inequality continues to be a sensitive issue (UNDP, 2013).

Albania is driven by a combined development and integration agenda. It embarked on the process of joining the European Union (EU) by signing the Stabilisation and Association Agreement in 2006. These aspirations have provided an impetus for reforms, and raised expectations among the population of rapid development. Albania has made good progress towards fulfilling the political criteria and delivering on a number of substantial reforms with respect to the key priorities identified by the EU. In October 2013 the European Commission recommended Albania to be granted EU candidate status, subject to completion of measures in key areas including the fight against corruption and organised crime, human and property rights, public administration and judicial reforms. However, in December 2013, the EU Council postponed its decision until June 2014. In 2013 Albania ranked 116th in Transparency International's Corruption Perception Index (TI, 2013).

Box C.1 Donor co-ordination mechanisms in Albania

Since 2005 the Government of Albania has increasingly taken a lead role in co-ordinating external assistance. With the support of the World Bank, it developed an Integrated Planning System that provides a policy planning framework, a monitoring system, and a mechanism to align donor assistance to national policies. The Department of Strategy and Donor Co-ordination (DSDC), located within the Council of Ministers, co-ordinates and monitors the National Strategy for Development and Integration (NSDI) for 2007-13 and the Medium-Term Budget Programme. Moreover, in support of its multi-faceted mandate for strategic planning, policy analysis, monitoring, evaluation and donor co-ordination, DSDC is also leading the design and development of the External Assistance Management Information System. DSDC is the government's point of contact for donors. Following the June 2013 elections, the new government nominated a Vice Prime Minister in charge of donor co-ordination.

A Donor Technical Secretariat (DTS) was also established to facilitate a structured donor-to-donor and donor-government dialogue. It co-ordinates up to 29 sector and sub-sector working groups composed of government and donor representatives and covering the five key areas of the NSDI. To revitalise the system, the EU Fast Track Initiative on the Division of Labour (launched in 2010) identified a lead donor for each priority sector, with a three-year mandate. However a number of working groups are still dormant. Enhancing line ministries' leadership in the process could be efficient. Annual donor-government roundtables are held at a political level, complemented by quarterly high-level meetings and monthly meetings at a technical level.

Source: Interviews in Albania, October 2013, and DSDC website (DSDC, 2013).

Towards a comprehensive Italian development effort

Italy's whole-of-country approach to Albania

Geographical proximity, historical ties, and economic, cultural and social exchanges contribute to making Albania a priority country for Italy's development co-operation. Italy's political commitment in Albania reflects its broader strategy in the Western Balkans aimed at supporting the EU's enlargement policy (Italian Embassy in Tirana, 2013). In so doing, Italy also implements its foreign policy objectives focusing on ensuring security in the region and managing migration flows (Box 1.1), as well as its development objectives for Albania's socio-economic progress, and its trade objectives aimed at facilitating the penetration of Italian businesses in Albania and in the region. These efforts contribute to implementing Italy's whole-of-country approach while at the same time helping Albania to become a candidate for EU membership.

There is scope to develop economic development-friendly policies

Around 500 000 Albanians live in Italy. Italian is widely spoken in Albania. Italy is Albania's first trading partner, with more than 400 registered Italian enterprises, and one of the most important foreign direct investment (FDI) shareholders. In 2010, 15% of Albania's FDI stock was of Italian origin. In addition, 31% of Albanian imports come from Italy and 51% of Albanian exports are directed to Italy. Italian investors provide important financing in the manufacturing (textile and footwear), construction and energy sectors and usually also provide Italian know-how and technology. These investments are often part of Italian companies' offshore and outsourcing strategies and benefit from relatively cheap factors of production. As a result of Italy's highly fragmented productive structure, Italian investors are mainly SMEs (between 4 and 50 employees).

This strong economic co-operation is reflected in Italy being chosen as the lead donor for the private sector in the EU Initiative on Division of Labour launched in 2010. Italy's development co-operation for Albania's private sector "aims to support

Albanian entrepreneurs in the acquisition of innovative technology of Italian origin and improve production standards in order to strengthen their competitiveness in the local and international market” (Italian Embassy in Tirana, 2013). There is scope for Italy to support development-friendly joint ventures and encourage further trade with Albania and between Albania and its regional partners. In the context of the 2014 -2020 EU Instrument for Pre-accession Assistance, IPA (II), Italy may wish to explore matching soft loans and EU funding and help Albania in building its trade-related capacities, so that it may compete effectively in the global economy.

A whole-of-government-approach can increase the coherence of Italian policies

The General Agreement for a Strategic Partnership signed in 2010 by the two governments constitutes Italy’s overall country strategy in Albania. The strategy encompasses seven areas for Italian-Albanian relations (subject to change if the parties agree): the EU integration process; development co-operation; co-operation with the UN system, NATO and the World Bank; cultural, scientific, legal, and economic co-operation; the fight against corruption and organized crime; and dialogue with civil society organisations and with local authorities.

The Italian Embassy in Tirana has responsibility for co-ordinating the activities carried out by the various Italian institutions represented in Albania as part of Italy’s whole-of-country approach. A programme for technical assistance among institutions brings ministries, regions, NGOS and municipalities together to exchange information and foster synergies. The ambassador’s co-ordinating role is widely viewed as indispensable. The ambassador consults representatives of Italian institutions and local authorities represented in Albania twice a month on average and periodically hosts meetings with representatives of the private sector and civil society, as appropriate. While orienting the choices of the different actors of the Italian system is not an easy task, Italy could go further to raise awareness of policy coherence for development (PCD) issues among Italian actors. To do so, it could formulate an Italian approach to PCD in Albania, drawing on good practice in the case of migration, which involves different administrations from both countries (Box C.2).

Box C.2 Migration: a case for implementing the whole-of-country approach

In Tirana the many institutions that constitute the “Italian system” include NGOs, Catholic organisations, regions and municipalities, as well as the private sector. As concerns migration issues, a co-ordination group involving the Italian embassy, the Italian Ministry of Labour and Social Welfare, Albania’s Ministry of Labour and Youth and the International Organization for Migration (IOM) meets once a month.

This offers a unique opportunity for the Italian ambassador to stimulate greater institutional awareness of the relationship between migration and development and engage these actors in exploring approaches, for example to train transnational entrepreneurs, provide bonuses for returnees, link vocational training with return plans and capacity building in Albania, and support Albanian students with appropriate measures on their return to Albania from Italy. One promising area has been the “neighborhood partnerships” between regions of origin and destination to promote spontaneous development of circular migration patterns and forms of migratory “commuting” (Chaloff, 2008). Italy could go further and encourage public institutions and the private sector to invest in training activities targeting Albanian returnees seeking jobs in Albania.

In the context of Albania’s action plan on remittances, the IOM, Italian NGOs, Banca Etica and the Centre for International Political Studies (CeSPi) set up a database to help migrants compare money transfer costs and encourage service suppliers to improve the quality of the financial products they offer to migrants. In parallel, the Italian Ministry of Labour and Social Welfare launched a programme supporting the establishment of 26 migration offices for departing Albanians, as well as information services for potential migrants. The programme also finances vocational training and provides job mediation within the Italian labour market to facilitate the entry of qualified workforce in Italy.

Italy's policies, strategies and aid allocations

Italy's development co-operation is adaptable to new circumstances and opportunities

Italy is a respected partner in Albania, and its development co-operation has a good image with Albanian actors. It has adapted its co-operation to Albania's changing requirements, facing emergency needs in the 1990s, supporting modernisation of public infrastructure and promoting institutional strengthening and democratisation thereafter, and fostering socio-economic development. Italy is a fervent supporter of Albania's accession to the EU.

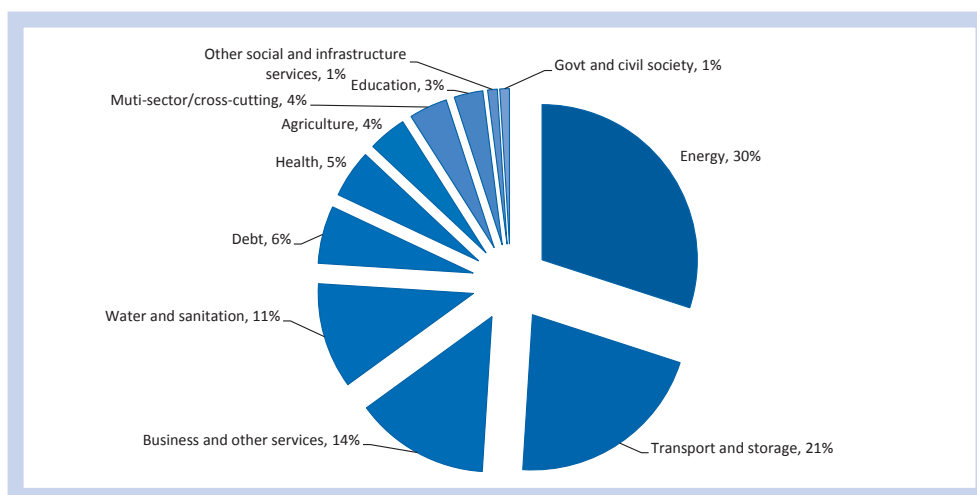
Italy and Albania signed a Framework Agreement on Italian-Albanian Co-operation in 2008 and a Protocol on Italian-Albanian Development Cooperation 2010-12 in April 2010. The protocol lacks a results orientation and does not cover all official interventions, which makes it difficult to promote the cohesion of Italy's development co-operation system. Albania's next National Strategy for Development and Integration (NSDI), as well as the second phase of the EU Instrument for Pre-accession Assistance, IPA (II), provide an opportunity for Italy to examine how to plan its future co-operation with a more inclusive and focused approach. The Albanian results framework that will accompany the revised NSDI is also an opportunity for Italy to strengthen its results orientation, with a stronger focus on outcomes.

Alignment is respected, but the programme is overly fragmented

Italy's current portfolio of planned and ongoing projects in Albania amounts to EUR 305 million, of which EUR 255 million for soft loans (including undisbursed moneys from previous programmes), EUR 30 million for grants and EUR 20 million dedicated to the debt for development initiative. Italy's multi-bi contributions finance mostly pilot projects aimed at strengthening institutional capacities at decentralised level, and projects related to environmental protection and food security.

The choice of sectors and projects for delivering Italian development co-operation reflects the priorities of Albania's 2007-13 NSDI. Bilateral agreements for each project include provisions for regular review mechanisms in order to respect alignment and respond to emerging needs. Nevertheless, Italy's programme in Albania is spread thinly across 11 sectors (Figure C.1), and fragmented into a large number of projects (42), which involves high administrative costs. In spite of the EU Code of conduct on the division of labour, the 2013-15 STREAM document confirms Italy's continued investment in many sectors as a result of the commitments carried over from past country programmes.¹ Italy could be more effective by scaling up its interventions, but it lacks an explicit exit strategy for non-priority sectors.

Figure C.1 2013 portfolio of Italian development co-operation in Albania by sector



Source: Italian development co-operation in Albania: financial overview (updated: 15 October 2013).

Support and guidance are needed for mainstreaming gender equality and the environment

Italy conducts a number of gender- and environment-related activities at project level, mostly through Italian NGOs and decentralised co-operation. There are no designated focal points or specific budgets for mainstreaming these themes. The debt swap programme has three outputs related to gender equality and women's empowerment, and the programme supporting SMEs also promotes environment-friendly production investments. Moreover, the agriculture programme specifically promotes climate change adaptation measures. While DGCS has developed a specific strategy for each of these cross-cutting themes (Chapter 2), they are not reflected in the current STREAM document but should be addressed in the 2014-2016 country programme. Both gender and the environment are part of Albania's NSDI and cross-cutting Strategy on Social Inclusion.

Staff, including project managers, need assistance in mainstreaming gender and the environment in overall programming and in the project cycle. They also need relevant tools (e.g. a gender action plan, accountability mechanisms for reporting on results) and procedures, as well as training for their application.

Organisation and management

More authority could be delegated to the co-operation office

Tirana's co-operation office falls under the responsibility of the Italian ambassador and is part of DGCS's central technical unit. The director of the co-operation office combines programming, management, co-ordination, monitoring and consultative functions, notably as concerns national partners, Italian actors and other donors. The ambassador is responsible for monitoring the overall impact of Italy's presence and certifying that each project within the development co-operation programme has reached its objectives. Financial and administrative management of development funds also falls under the embassy's responsibility, and the ambassador approves staff contracts, procurement and other payments related to Italy's development co-operation. Delegating more financial authority to the co-operation office (e.g. for NGO projects up to an agreed amount) would streamline and shorten approval procedures and give the co-operation office some financial autonomy.

Communication flows between staff from the embassy and the co-operation office appear to be fluid. Nevertheless, there is room for more structured exchanges between them and with headquarters, particularly on sharing experiences and institutional learning.

Human resources are a challenge

Italy does not have a critical mass of core development professionals in Albania. Budget cuts imposed throughout the public administration have severely impacted its development co-operation: the co-operation office lost human resources up until 2013, with a corresponding impact on the pace and delivery of development interventions. At present, the office includes one director (from the central technical unit), one fellow from UNDESA as well as seven local administrative staff and four Italian technical experts under fixed-term contracts. These are renewed yearly according to available resources, which creates unnecessary administrative costs and tend to affect staff morale. With overall budget increases in 2013, the situation has begun to improve, with positive impact on the quality of the programme. Legal conditions permitting, Italy should consider recruiting qualified nationals, as needed. This has numerous advantages including facilitating engagement with local communities of practice, bringing in experts with good knowledge of the context and contributing to building an institutional memory and learning.

Partnerships, results and accountability

Further engage in approaches using country systems and joint funding mechanisms

Italy's development co-operation financed through grants is delivered as project type interventions implemented by Italian NGOs, consultants, regions and municipalities as well as universities and vocational training centres. In the context of soft loans, Italy's aid is delivered mainly through line ministries, using technical support units in some cases. In the case of the debt swap initiative, the programme makes full use of country systems². A joint steering committee manages the funds and a technical support unit carries out the screening of proposals for individual projects in the social sectors and assists the Albanian authorities in implementing, monitoring and evaluating the projects. Though lengthy, these procedures contribute to minimising the risks of corruption and increasing transparency.

Italy has stated its intention to move towards sector-wide and programme approaches, using basket funding and other joint analysis and arrangements (including delegated co-operation) whenever possible. This would allow Italy to better harmonise its activities with other donors. Concurrently, Italy should strengthen its risk management approach which up until now, falls within the responsibility of the governance mechanism established for each project.

Italy is actively involved in donor co-ordination mechanisms and has agreed to take the lead on the private sector. The mission heard that its expertise had had positive outcomes in this respect.

Aid predictability and flexibility remain challenging

Italy scored poorly in the OECD survey concerning aid predictability to Albania. Only 32% of its aid disbursements were on schedule and recorded by the Albanian Government in 2010. Italy's financial situation did not encourage medium-term financial commitments in the period leading to the survey. However, the Italian budget system itself does not encourage aid predictability and flexibility. Being able to reallocate funds across sectors would enable Italy to better respond to, and align with, Albanian needs.

Soft loans are tied

In Albania, 40% to 70% of Italian loans are tied to Italian goods and services. While the mission learnt that Italy's strategic approach had contributed to bringing competences in SMEs and agriculture in particular, the impact of its tied aid policies on further development would need to be monitored. Italy plans to untie its soft loans in the 2014-2016 country programme in line with OECD rules on officially supported export credits.

Valued approach to working with local actors

Italy promotes ownership at the national and sub-national levels, where it builds capacity through twinning, scholarships and training. In supporting local development, it uses both its bilateral programme (e.g. the debt swap initiative focusing on social inclusion at local level) and the multilateral channel, with its support to the ART programme managed by UNDP and involving regional, municipal and local authorities to promote sustainable development. Italy also strengthens the capacity of Albanian civil society, building on tight and continuous relations with Italian actors.

Strengthen the focus on results and learning

Italy does not have a systematic approach to results-based management. While monitoring and evaluation systems seem to be robust at the project level, the link with the overall country framework is unclear.

Italy has set up a database to collect information on its development co-operation activities in Albania. Building on this, Italy could go a step further in managing knowledge by documenting good and bad practices and capitalising on experiences to improve the quality of development co-operation. In this context, it could seek inputs from external stakeholders (other donors, research institutes and academia).

Notes

1. These include the transport, energy and water sectors, as well as environment, natural resources management, local governance, gender equality, disability, and child protection in addition to the three priority sectors.
2. In the 2010 OECD monitoring survey, Albania was rated “C” on the reliability of its public financial management systems and procurement. Actions have been taken to digitise the government financial system and to make donors more aware of public financial management and procurement systems, and Albania has an obligatory electronic procurement system for 100% of all public sector procurements above a threshold of EUR 3 000. However, budgetary planning is still at an early stage although the situation is improving.

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