

**PROTOCOL FOR DEVELOPMENT COOPERATION BETWEEN THE
GOVERNMENT OF ITALY AND THE COUNCIL OF MINISTERS OF THE REPUBLIC
OF ALBANIA
2014-2016**

*The pursue of a more just and equal world, where
"Global Public Goods", such as peace, justice,
economic growth, environment, knowledge and
humanitarian assistance are guaranteed to all
human beings, is among the inspiring principles of
the Italian foreign policy and its external action.
(Italian Development Cooperation -Three years
guidelines 2014-2016)*

I. PREAMBLE

The partnership between Albania and Italy is strong and long lasting, and based upon outstanding historical, cultural and economic relations.

The Italian Development Cooperation (IDC) has been present in Albania since 1991, supporting the Country's socio-economic development through programs aimed to consolidate the productive systems, to connect with regional infrastructure networks, to foster sustainable management of resources, and to strengthen institutional capacities as well as social, educational and health services.

Italy has been and still represents a privileged partner for Albania: it is one of the main bilateral donors over the last twenty years, host country to one of the largest Albanian migrant community abroad, first commercial partner and key shareholder of Albanian FDIs. Moreover, Italy has always been at the forefront in supporting the Albanian government during its transition to democracy and open market economy, up to the present firm advocacy to Albania's EU integration.

Italy's political commitment in Albania reflects the wider strategy of the Italian Government in the Western Balkans, aimed at promoting and sustaining the EU Enlargement Policy, the democratic values therein embedded and the opportunities provided in terms of fostering economic and social development. Furthermore, Albania is regarded as a priority country in the region, due to its geopolitical strategic location and the conciliatory and stabilizing position it has shown with neighboring countries in the broader EU Adriatic Ionian macro-region.

The dialogue between the Italian and the Albanian Governments is steady and robust, and sustained by intense bilateral cooperation relationships in many sectors and domains.

Based on this, the Albanian and Italian Governments have therefore agreed on a new Development Cooperation Protocol for the period 2014-2016.

The common vision underpinning the new Protocol for Development Cooperation is for *an integrated, smart, sustainable, inclusive and well-governed growth, aimed at creating greater wealth and wellbeing for an European Albania.*

To this aim, the Italian Government intends to allocate an overall amount of **EURO 81.7 million** for the period 2014-2016. This envelope includes the following financial instruments: i. residual tied soft loans leftover from Development Cooperation Protocol (DCP) 2002-2004; ii. new untied soft loans, according to OECD rules (Arrangement on Guidelines for Officially Supported Export Credit - Art. 36-a); iii. a grant component and iv. a new debt for development swap facility (subject to approval by the Italian Ministry of Economy and Finance).

II. DEVELOPMENT CONTEXT IN ALBANIA

Albania is an upper middle income country (per capita GDP USD 4,090¹) with a moderately high level of unemployment (13% - IMF: 2013). It ranks 70th out of 187 countries and territories², with a value of 0.749, that is the 5th lowest among European countries after Moldova, Bosnia-Herzegovina, Macedonia and Ukraine³. Since 1991, Albania has experienced rapid transition to market economy and considerable GDP growth (over 6% in the five years up to 2008), but it still does not reach EU standards in several areas, such as the economic competitiveness, social inclusion, consolidation of the rule of law, environmental sustainability and physical infrastructures. From 2009 and the outbreak of global economic and financial crisis, Albanian economy has maintained positive but limited growth: GDP growth slightly decreased from 3.3% in 2009 to 1.6% in 2012.

Albania has signed a Stabilization and Association Agreement (SAA) in 2006 and formally submitted the application for EU membership in 2009. In 2012 the European Commission recommended Albania to be granted EU candidate status, subject to the completion of key measures in the areas of judicial and public administration reform and revision of the parliamentary rules of procedures. Since then, Albania has moved considerably and consistently forward on its path towards EU integration, as evidenced in the European Commission Report of June 2014. For these reasons, Italy welcomes the granting of EU candidate status to Albania.

Since 2005 the Government of Albania (GoA) has increasingly taken a lead role in coordinating external assistance. An Integrated Planning System (IPS), created with the support of the International Community, is the operational mechanism ensuring efficiency and consistency of government policy, planning, budgeting and monitoring processes. The Department of Development Programming, Financing and Foreign Aid (DDPFFA) of the

¹WB, 2013.

²Human Development Index 2012, UNDP.

³HDI 2013, UNDP.

Council of Ministers, has the mandate to co-ordinating and monitoring the National Strategy for Development and Integration (NSDI), the national medium-long term strategic framework which guides the alignment and harmonization process of Development and Integration Partners (DIPs). NSDI is implemented through Medium-Term Budget Programmes which include projections for national and donor funds to implement the strategies. Moreover, in support of its multi-faceted mandate for strategic planning, policy analysis, monitoring, evaluation and donor co-ordination, DDPFFA is also leading the design and development of the External Assistance Management Information System.

Albania has a rather well-structured and government-led donor coordination system in place. Main development sectors are mirrored by sector-specific working groups, which bring together relevant line Ministries and active donors, under the leadership of the Government's donor coordination office. Donors are organized via a Donor Technical Secretariat, including representatives of the European Commission, World Bank, OSCE, UNDP as well as bilateral donors. Coordination meetings with international financial institutions as well as with EU and non-EU donors are organized on a regular basis. They focus primarily on national policy planning and monitoring mechanism, like the Integrated Planning System strategic orientations and the regional dimension of EU Instrument of Pre-Accession (IPA) planning and programming.

Both Italy and Albania are committed to support and actively participate in the process of donors' harmonization and aid-flows alignment, fully endorsing the principles established by the resolution of Monterrey (March 2002), emphasized by the subsequent Rome Declaration on Harmonization (February 2003), the Paris Declaration on Aid Effectiveness (March 2005), the Accra Agenda for Action (September 2008) and the Busan Partnership for Effective Development Co-operation (December 2011).

As EU FT-DoL facilitator for Albania, Italy assisted the Government of Albania in the launching of the EU Fast Track Initiative of Division of Labour (FT-DoL). In 2010, a Memorandum of Understanding (MoU) was agreed and signed by the Albanian Government and the EU donors' community, establishing a lead donor for each sector. Italy was appointed as lead donor for Private Sector Development, and recognized as a relevant contributor and active donor in the Social Development Sector (Employment/VET, Gender Equality, Social Inclusion, Health and Education), and in Agriculture and Rural Development.

III. LESSONS LEARNT

The Italian Official Development Assistance (ODA) disbursed in Albania amounts to about 700 million Euro, invested since the early nineties in the country with the purpose of facing the 1990s emergencies, supporting modernization of public infrastructures, promoting democratisation and institutional strengthening, fostering sustainable socio-economic growth and, in recent years, accompanying the country's integration into EU.

The *Protocol for Development Cooperation (PDC) 2002-2004*, signed in April 2002 financed a wide number of programmes focused on socio-economic growth and public

infrastructures. Sectors of intervention included energy, transport, infrastructures and water supply, but also private sector development, agriculture, education, health, basic social infrastructures and institutional capacity. Such a huge and fragmented portfolio of interventions has entailed great management costs, elevated and constant technical assistance efforts and lengthy procedural processes. It was with this in mind that the *Protocol for Development Cooperation (PDC) 2010-2012* concentrated on three core sectors: private sector development, agriculture and rural development and social development, while adopting an exit strategy from the others.

The experience gained over the years and the recommendations of the 2014 OECD/DAC Peer Review of the Italian Cooperation encourage to build upon best practices and focus on limited and interlinked domains, in order to create multiplier effects of programmes' impacts and optimize the common development cooperation efforts. It is also acknowledged the necessity of making the formulation and disbursement process more time effective than in the past.

IDC recognizes the importance to fast tracking aid and development effectiveness agenda. Local ownership and alignment are fundamental principles in order to guarantee sustainability and impact, and so is the use of country systems and harmonisation, aimed to reduce transaction costs and duplication of efforts among Donors' initiatives. Mutual accountability reinforces transparency, governance and efficiency. In this regard, the Italian Albanian Debt for Development Swap (IADSA) Programme is considered a best practice not only for its adhesion to and adoption of Aid and Development effectiveness principles, but also for its flexibility, timeliness, and capacity development trickledown effects. Therefore, IDC future initiatives in Albania will adopt implementation modalities in line with objectives and consistent with development strategies, programmes and procedures agreed with the Albanian Government and the Donors' Community⁴. In this regard, harmonisation with the other donors will be further encouraged, especially with the European Commission through, possibly, joint-programming, delegated cooperation and blending financing mechanisms. Sector-wide and programme approaches will also be promoted.

IDC will apply a result based management modality of implementation of the Country Programme as well as joint monitoring and evaluation processes, based on country systems. Since 2005, the GoA is experiencing remarkable progress over different aid effectiveness indicators like strengthening mutual accountability and in reducing parallel project implementation structures. With the introduction of a comprehensive Treasury System and improvements in the area of procurement, internal and external audit, and building up a reliable tracking Management Information System for donor's financing, the major Public Financial Management conditions are met and this path the way for donors to fully use GoA systems during project management cycle.

Italy acknowledges the important role of Italian and Albanian Non Governmental Organizations (NGOs) in encouraging democratic ownership of local development actors, supporting social or stakeholders networks, promoting the role and participation of all social and political parties, who are supporters and guarantors of development, good

⁴Reference is made to the Donor Technical Secretariat and the DIPs meetings.

governance and democratization. Moreover, Italy recognizes the constructive dialogue involving Italian Regions and Local Authorities operating in Albania, which provide an added value to sustain territorial cohesion and fostering the ongoing decentralization process in the Country.

In general, as a result of the intense and long-lasting cooperation between Italy and Albania in a wide range of sectors, many actors of the so-called "*Sistema Italia*" are present in the Country, including representatives from NGOs/CSOs, the private sector, academia and Italian Local Authorities. IDC will strongly promote an inclusive partnership amongst the various institutions of the two countries, stimulate synergies between the different levers of Italian engagement, and encourage *a whole country approach* to cooperation practice for ensuring an effective policy coherence for development.

IV. STRATEGIC PRIORITIES OF BILATERAL COOPERATION

Based on the consultation process launched in late 2013, which took into consideration past experience, national development priorities and objectives, aid and development effectiveness principles and the division of labour among the donors, the Albanian and Italian Authorities agreed that the bilateral Development Cooperation Protocol for the years 2014-2016 will mainly address the following NSDI pillars and strategic priorities:

a. Sustainable Growth through improved competitiveness and efficient use of resources, with particular regard to increasing *Competitiveness and Innovation for Growth* in key economic sectors including Agriculture and Rural Development. Furthermore, the significant residual funds still available from DCP 2002-2004 allow for additional support to *Infrastructure for Growth* as regards Energy and Water and Sanitation. It is acknowledged, however, that IDC is phasing out from direct support to Infrastructure Development.

b. Investing in People and Social Cohesion will mainly focus on human resources development, social inclusion and territorial cohesion actions. This pillar will be addressed through a further: 1) Debt for Development Swap programme (subject to approval by the Italian Ministry of Economy and Finance). This instrument has proven to be highly flexible, effective and responsive to social development priorities and local needs, enhancing human resources development, promoting social inclusion and cohesion, gender equality, enforcing ownership and strengthening local authorities' capacities. Furthermore, new resources will be allocated in support to: 2) Vocational and Education Training (VET) to better incorporate market needs into lifelong learning perspective.

c. Good Governance, Democracy and Rule of Law. Both sides recognize the value of the European principles of subsidiarity and proximity in public sector service delivery. With this in mind, IDC will support the Albanian government's territorial administrative reform under way with the goal to consolidate Local Government Units (LGUs), ease the way to greater regulatory and fiscal decentralization and strengthen local autonomy. It is acknowledged the importance that the territorial administrative reform process follows international standards for analytical objectivity, transparency and inclusiveness. IDC's

support to Albanian territorial administrative reform will use multi-donor pooling funds mechanisms.

By pursuing cooperation initiatives implemented over the last years, IDC also deals with fundamental cross-cutting issues in all areas of intervention mentioned above. Human Rights, Democracy, Peace and Security, Rule of Law, Gender Equality and Women Empowerment, Protection of Minorities and Vulnerable Groups, Social Inclusion of People with Disabilities, Environment Protection, Cultural Heritage and Capacity Development are issues that Italy mainstreams at international level. These political and moral values, embedded in the Italian Foreign Policy, are fundamental preconditions upon which Italy has built its partnership with Albania.

IDC will work in some specific cross-cutting issues, i.e. gender equality and women empowerment; social inclusion of people with disabilities, minorities and vulnerable groups; environmental protection; and fight against corruption, which undermines good governance, weakens Public Administration responsiveness and deteriorates Institutional accountability and integrity. IDC will work on these issues by mainstreaming them across crucial areas and priority sectors, or using multi-donor pooling funds.

V. SECTORAL INTERVENTIONS IN THE PERIOD 2014- 2016

The Albanian and Italian Governments agreed on the necessity to design a Development Cooperation Protocol which covers the period 2014 - 2016 for the implementation of the objectives, guidelines and priorities indicated above.

The design of the DCP 2014-2016 has been assigned to the Embassy of Italy in Tirana - Development Cooperation Office (UTL), under the supervision and coordination of the Italian Ambassador and the Directorate General for Development Cooperation (DGCS) of the Italian Ministry of Foreign Affairs and International Cooperation. The drafting of the DCP has been carried out by considering the results and experiences achieved during the previous DCPs. During the preparatory process of the cooperation protocol 2014-2016, the UTL in Tirana has maintained a constant dialogue with the concerned Albanian Authorities (Department of Development Programming, Financing and Foreign Aid -DDPFFA- of the Council of Ministers and relevant line Ministries).

a. SUSTAINABLE GROWTH THROUGH IMPROVED COMPETITIVENESS AND EFFICIENT USE OF RESOURCES

a.1 Competitiveness and Innovation for Growth

1. *Economic Development* with a special focus on enhancing FDI/IDI inflows.

IDC is at the forefront in supporting competitiveness, innovation, quality and creativity in the private sector, and fostering the Small & Medium Entrepreneurship (SMEs) in particular, an area in which Italy plays the role of Lead Donor among the European Union Members. This focus will be strengthened in the coming three years with a

further 20 million Euro pledged for a Programme aimed at enhancing FDI/IDI inflows in Albania. Main objectives of this programme will be: (i) setting up and financing a "Support Programme Scheme" for business projects initiatives in high growth potential/strategic sectors; (ii) Assist the Government of Albania in establishing the "Participatory Agency", in its start-up phase, for the implementation of the financing schemes. (iii) support activities and actions to enhance the so called "enablers for Investment".

Funds allocation: 20 million euro (soft loan). The programme modalities will be stipulated in an agreement between the parties. Main referring institutions for the programme will be the Prime Minister Office/Strategic Investment Unit and Ministry of Economic Development, Trade and Entrepreneurship.

2. **Agriculture and Rural Development** with a special emphasis in supporting initiatives that target economic growth/employment and productive systems in the sector.

Italy has always been a strong and active donor in this sector and is currently giving support to Albania's EU integration process by facilitating its legislative alignment to the *Acquis Communautaire* in the field of Agriculture and Rural Development and strengthening the Albanian Government capacity to implement relevant policies. Past experience and results will be further strengthened in the coming three years with a further 5 million Euro for a Programme aimed at financing business initiatives that stimulate FDI/IDI inflows in the agriculture sector and/or business initiatives that translate in economic growth. Focus will also be given to strengthening value chains, food safety standards and farmers' organization.

Funds allocation: 5 million euro (soft loan) The programme modalities will be stipulated in an agreement between the parties. Main referring institution for the programme is the Ministry of Agriculture, Rural Development and Water Administration.

3. **Technical Assistance facility**

Funds allocation: 2.4 million Euro (grant) for technical assistance to and management of Economic Development Programmes (including Agriculture and Rural development as well as women entrepreneurship programmes). Main referring institutions for the programme will be Prime Minister Office/Strategic Investment Unit, Ministry of Economic Development, Trade and Entrepreneurship and the Ministry of Agriculture, Rural Development and Water Administration. The grant component includes also a grant facility for development of women entrepreneurship.

a.2 Infrastructure for Growth

4. **Energy.** Since the beginning of its activities in the country, IDC has provided an important contribution to the stabilization of the Albanian electrical sector. Programmes aimed at improving the management capacity and sustainability of the sector, enforcing Albanian electrical operators, moving towards the structural strengthening of the Albanian electrical distribution system and its integration with the regional Balkan network. With the residual funds leftover from the DCP 2002-2004, IDC

will further finance: i) rehabilitation projects; ii) capacity building and knowledge transfer activities.

Funds allocation: 16.2 million euro (residual soft loan leftover from DCP 2002-2004) plus further possible residual funds leftover from the ongoing Contracts. The programme modalities will be stipulated in an agreement between the parties. Main referring institutions for the programme will be the Ministry of Energy and Industry.

5. **Water and Sanitation.** IDC has financed important programmes for the improvement of integrated water services, supply systems, potable water distribution, waste water collection and disposal for the great urban area of Tirana. Thanks to residual funds leftover from the DCP 2002-2004, IDC will further finance an infrastructure programme for water supply, wastewater collection and treatment in priority areas to be jointly identified.

Funds allocation: 10.5 million euro (residual soft loan leftover from DCP 2002-2004). The programme modalities will be stipulated in an agreement between the parties. Main referring institutions for the programme will be Ministry of Transport and Infrastructure.

b. INVESTING IN PEOPLE AND SOCIAL COHESION

6. **Debt for Development Swap.** Since its inception during its first phase, the IADSA Programme responded to the most advanced principles of development effectiveness (e.g. alignment, managing for results, harmonisation and accountability) by supporting social development initiatives promoted by the Albanian public institutions at national and local level in order to strengthen social cohesion on a territorial basis, balanced regional development, social equity and job creation to sustain Albania on its way to joining the European Union. A second phase of the Programme (subject to approval by the Italian Ministry of Economy and Finance) would capitalise on best practices and achieved results so far, further investing in human resources development, employment, promoting gender equality, enhancing social inclusion with special attention to young unemployed, women in need, minorities and people with disabilities and supporting social protection for vulnerable groups.

Funds allocation: 20 million euro. The programme modalities will be stipulated in an agreement between the parties. Main referring institutions for the programme will be Ministry of Finance.

7. **Vocational Education and Training through Innovation.** IDC funded Programme will specifically focus in supporting the expansion of an advanced knowledge-based society in accordance with the demands of the labour market for attracting FDI/IDI in productive sectors where both Albania has a great potential and Italy has a significant added value (i.e. tourism, fashion, furniture, agro-food processing etc.).

Funds allocation: 5 million euro (soft loan). The programme modalities will be stipulated in an agreement between the parties. Main referring institutions for the programme

will be Ministry of Youth and Social Welfare and Minister of Innovation and Public Administration.

c. GOOD GOVERNANCE, DEMOCRACY AND RULE OF LAW

8. ***Territorial reform and anti-corruption.*** IDC will support the territorial administrative reform and fight against corruption through financial contribution to a multi-donor pooling fund.

Funds allocation: 0.8 million Euro (grant). Main referring institutions for the programme will be the Ministry of Local Issues.

d. PROGRAMME MANAGEMENT AND MONITORING FOR RESULTS

9. ***Programme management and monitoring for results,*** technical assistance and operational costs for the implementation of the Country Programme

Funds allocation: 1.8 million Euro (grant). Main referring institution for the Programme's management and monitoring for results will be Prime Minister Office/Department for Development Programming, Financing and Foreign Aid.

VI. INITIATIVES FUNDED OUT OF THE PROTOCOL FOR DEVELOPMENT COOPERATION

IDC financial modalities and channels foresee specific facilities for NGOs/CSOs and International Organizations earmarked on a yearly basis. IDC financing for these purposes will be additional to those indicated by the present Protocol. Furthermore IDC in its all engagements will seek to enhance coherence in its funding and in cooperation with NGOs projects and the Italian Local Authorities (*Decentralized Cooperation*).

VII. MONITORING AND EVALUATION

In line with the Aid and Development Effectiveness principles and the OECD-DAC recommendation for development co-operation actions, both Parties will incorporate the principles of results based management in their common efforts to achieve effective and efficient use of resources, to demonstrate the impact, achievements and progress of programmes and, eventually, to be accountable to their respective citizens and international partners.

To this end, within six months from the signature, the Parties will set up a monitoring and evaluation framework and a knowledge management system relevant to the present Protocol, in order to capitalise on experiences, inform decision-making levels and strengthen capacities. Whenever possible, the Parties will consider the possibility of involving country systems to measure outputs, outcomes and performance of actions.

According to the results achieved, the Parties will adopt ad hoc measures to steer the implementation process and to mitigate possible deficiencies or weaknesses.

VIII. RESOURCE ALLOCATION OF THE PROTOCOL FOR DEVELOPMENT COOPERATION BETWEEN THE COUNCIL OF MINISTERS OF THE REPUBLIC OF ALBANIA AND THE GOVERNMENT OF ITALY 2014 - 2016

The Italian Government, on the basis of the State Budget Law for the years 2014 and 2016, will make available for the implementation of the present Protocol for Development Cooperation 2014 -2016 an envelope of 81.7million Euro.

Details regarding the sectors identified, indicative resources allocation (exact amounts will be identified at the end of the appraisal exercises), and financial channels to be used are provided in the following table:

PROTOCOL FOR DEVELOPMENT COOPERATION 2014-2016

SECTOR	SECTOR EXPECTED RESULTS	PROGRAMS	ALBANIAN INSTITUTION	FINANCING INSTRUMENT	AMOUNT MEURO
a. SUSTAINABLE GROWTH THROUGH IMPROVED COMPETITIVENESS AND EFFICIENT USE OF RESOURCES					
<i>a.1 Competitiveness and Innovation for growth</i>					
Economic Development	Enhance FDI/IDI flows, promote investment in technology	To be identified	PMO/Strategic Investment Unit and Ministry of Economic Development	Soft Loan	20
Agriculture and Rural Development	Foster a viable, high quality food production by developing a competitive and innovative agro-food sector	To be identified	Ministry of Agriculture, Rural Development and Water Administration	Soft Loan	5
Technical Assistance Facility	Enhance FDI/IDI flows in key sectors, promote investment in technology, women enterprises	Technical Assistance and support services; women empowerment	CoM/DDPFFA and relevant Line Ministries	Grant	2.4
<i>a.2 Infrastructure for growth</i>					
Energy	Improve energy efficiency in all sectors; Reduce losses in the electricity distribution	Rehabilitation projects; capacity building and knowledge transfer	Ministry of Industry and Energy	Soft loan (residual funds AID 6656)	16.2
Water and Sanitation	Expand and improve the quality of water and sewerage services	Water supply and wastewater collection and treatment	Ministry of Transportation and Infrastructure	Soft loan (residual funds AID 6345)	10.5
b. INVESTING IN PEOPLE AND SOCIAL COHESION					
Debt for Development Swap⁵	Education, VET, Employment and Social Inclusion, Social Protection	Italian-Albanian Debt for Development Swap Agreement (IADSA)	Ministry of Finance	Debt Swap	20
VET	VET enhancement for labor market, through Innovation initiatives	To be identified	Ministry of Social Welfare Minister of Innovation and Public Administration	Soft Loan	5
c. GOOD GOVERNANCE, DEMOCRACY AND RULE OF LAW					
Good Governance and Decentralization	Decentralization and territorial reform Anti-corruption	Support to Territorial Administrative Reform (UNDP-STAR); Anti-corruption	Ministry of Local Affairs	Grant	0.8
d. PROGRAMME MANAGEMENT AND MONITORING FOR RESULTS					
Monitoring for Results, Technical Assistance	Country Programme implemented efficiently	Programme preparation, management and monitoring for results	-	Grant	1.8
TOTAL					81.7
SOFT LOAN					30
RESIDUAL SOFT LOAN					26.7
DEBT SWAP					20
GRANT					5

⁵The Debt for Development Swap Programme will be subject to approval by the Italian Ministry of Economy and Finance.

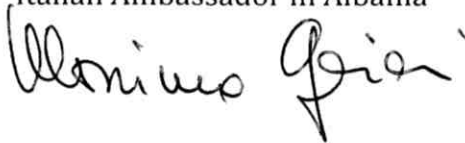
Signed in Tirana on the 11th of December 2014, in two originals both in English language.

FOR THE GOVERNMENT OF THE REPUBLIC OF
ITALY

FOR THE COUNCIL OF MINISTERS OF THE REPUBLIC OF
ALBANIA

Massimo Gaiani

Italian Ambassador in Albania



Niko Peleshi

Deputy Prime Minister

