

General Methodology and Process

The improvement of donor coordination process in Albania, aiming at increasing the effectiveness of foreign assistance in support of national priorities, is one of the main goals of the Integrated Planning System as well as a commitment undertaken under the Paris Declaration and Accra Agenda for Action.

In fulfilling its function, as the central structure in coordinating and monitoring the progress of foreign assistance in the country, the Department of Strategy and Donor Coordination has prepared this analysis, which is based mainly on donor foreign financing data for the period 2000-2008. (Note: the data provided may have a margin of incorrectness as it is the first time donors report under this format. This information will be updated and improved in the following months, especially with the completion of the External Assistance Management Information System)

This analysis represents a periodical exercise undertaken by the DSDC. However, the main product remains *the External Assistance Orientation Document*, prepared by our department and published in April 2008, which conducts not only an analysis of the impact of foreign assistance in Albania but it also orients mid-term donor financing towards sectorial priorities of the *National Strategy for Development and Integration 2007-2013(NSDI)*. Besides periodical analysis, the department will continue with the yearly preparation of the *Annual Progress Report* on foreign assistance performance. The progress report for this year will be published in January 2009.

The methodology applied in analyzing foreign financing:

In June 2008, DSDC launched the second phase on updating donor data (phase I was completed in February 2008) based on projects, disbursements for 2007, disbursements for the first half of 2008, as well as planned disbursements for the second half of 2008. Additional data on public investments and the foreign financing – in loans, registered in the treasury system, were provided by the Ministry of Finance since some donor reporting lacked information. DSDC elaborated the data based on the excel database, which actually is owned by the department and DTS, In the future, the analysis of foreign assistance in Albania will be based on EAMIS (External Assistance Management Information System), which will be financed under the IPS Trust Fund managed by the World Bank.

1. Brief analysis on the level of foreign assistance for the period 2000-2008

The total foreign assistance for the period 2000 - 2008 is approximately **2,602million euro** (chart 1). Yearly donor

forecasting and the level of disbursements differ, and this has made difficult the planning of investments by the government.

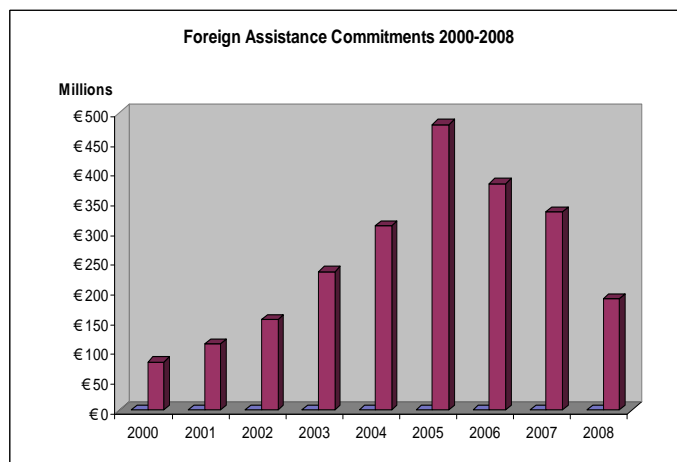


Chart 1

The data shows that foreign assistance disbursement for the period 2000-2008 is 882,343,483 euro or 34% of total commitments. Disbursements for the last two years 2007-2008¹ are 303,502,054 euro (34% of the total disbursements for the period 2000-2008, marked with red in chart 2). This shows that during the period 2000-2006 the level of disbursements has been relatively low.

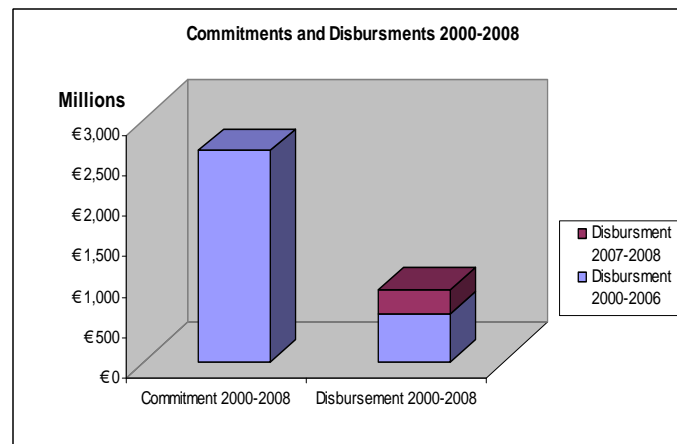


Chart 2

2. Type of Foreign Assistance (grant and loan):

In 2000, grants represented 68% of total foreign assistance commitments, while during the following years, this type of financing decreased substantially reaching the level of

¹ For the year 2008, the reported disbursements are only for the period January-June 2008.

44% in 2008 (Chart 3). Total grant disbursements for the period 2000-2008 reach the value of 493,948,165 euro (56% of the total disbursements) where the level of loan disbursements is lower, only 44% of the total.

by WB/IDA was decreased due to Albania transiting from the status of IDA beneficiary country into the status of IBRD beneficiary country. The biggest bilateral donors are: Italy (14%), Germany (9%) and USA (5%).

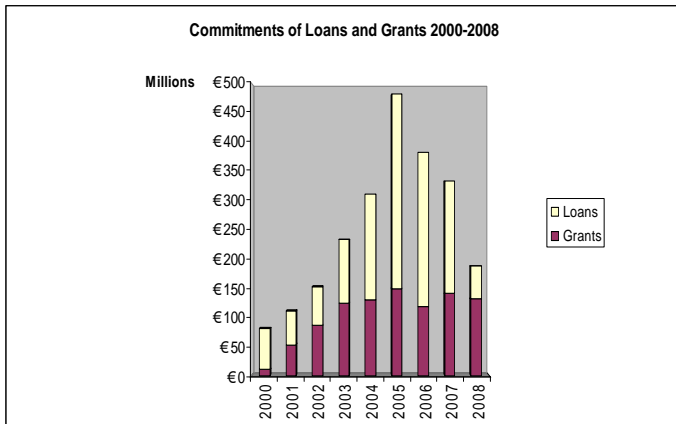


Chart 3

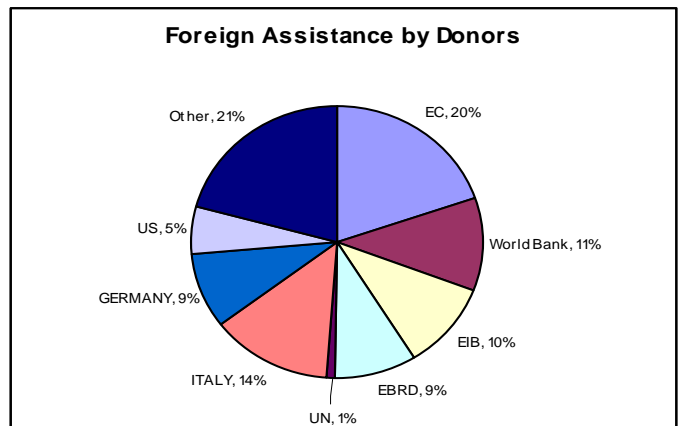


Chart 5

Most of the loans are provided by multilateral donors oriented mainly in infrastructure, energy, health, education and social reform sectors. The increase in the level of loans, as well as the transit from soft loans (in concession terms) in commercial term loans, is closely related to Albania moving from a low income country to a middle level income.

The following charts, 6 and 7, show commitments 2000-2008 in euro for multilateral and bilateral donors as well as total disbursements versus total commitments for the period 2000-2008. Multilateral donor disbursements are 31% compared to their total commitments; bilateral donor disbursements are 38% compared to their total commitments.

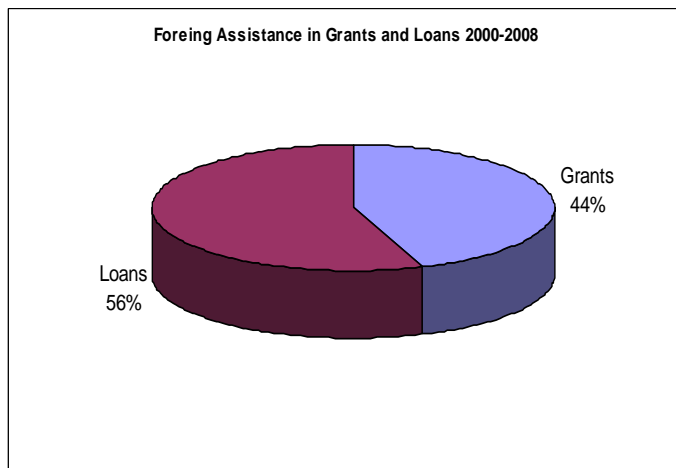


Chart 4

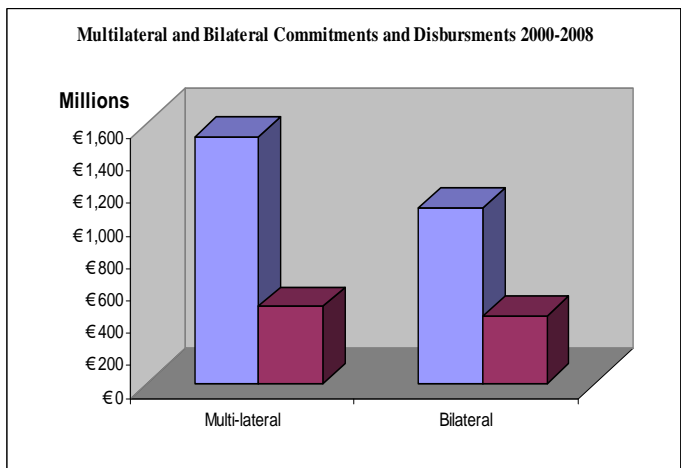


Chart 6

3. Foreign Assistance by donors (multilateral and bilateral):

Eleven multilateral donors operate in Albania, whose assistance consists of approximately 58% of foreign aid, and 23 bilateral donors. The biggest multilateral donors are: European Commission with 20% of total aid commitments, WB/IDA with 11%, EIB with 10% and EBRD with 9%. Only these four institutions provide around 50 % of the total foreign assistance in the country. Foreign aid offered

The following charts show the division of commitments, grants and loans, for the period 2000-2008 by multilateral and bilateral donors. From the charts, it is obvious that the biggest part of the assistance offered by multilateral donors is in the form of loans, while bilateral donors' assistance is in the form of grants.

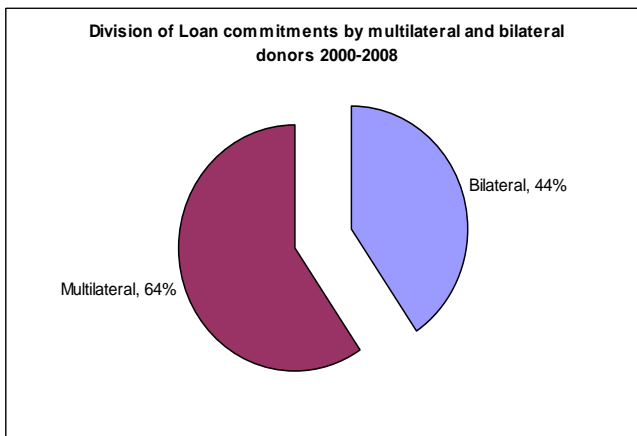
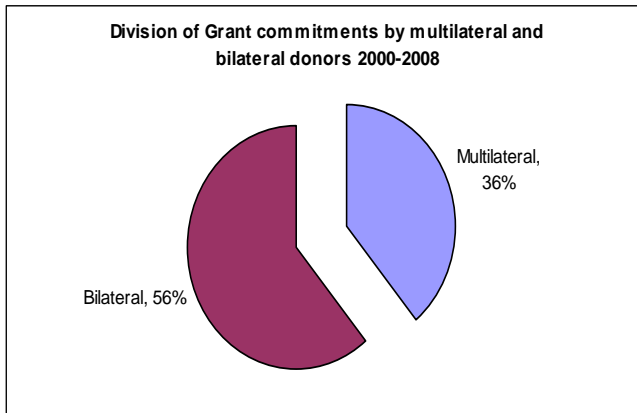


Chart 7

4. Foreign assistance by pillars and strategic priorities of the NSDI:

Based on the National Strategy for Development and Integration, the following table shows the distribution of foreign financing according to pillars and strategic priorities as well as the disbursement level for each of the priorities.

NSDI Pillars / Strategic Priorities	Commitments versus total commitments (in euro)	Disbursements versus total priority commitments
European and NATO integration²	1%	42%
Democratization and Rule of Law	11%	53%
Democratization	1%	39%
Justice and Internal Affairs	6%	45%
Modernization of Public Administration	3%	75%
Social and Economic Development	85%	32%
Infrastructure	56%	29%
Market Economy	8%	51%
Social Policies	10%	35%
Urban, Rural and Regional Development	10%	38%
Other (multi sectors)	3%	8%

Sectorial distribution of foreign assistance is different in years, but based on evaluations and analysis conducted, the aid has been in accordance with the priorities stated in the strategic documents for the development of the country. Below, there is an analysis of foreign assistance by pillars of the NSDI and strategic priorities.

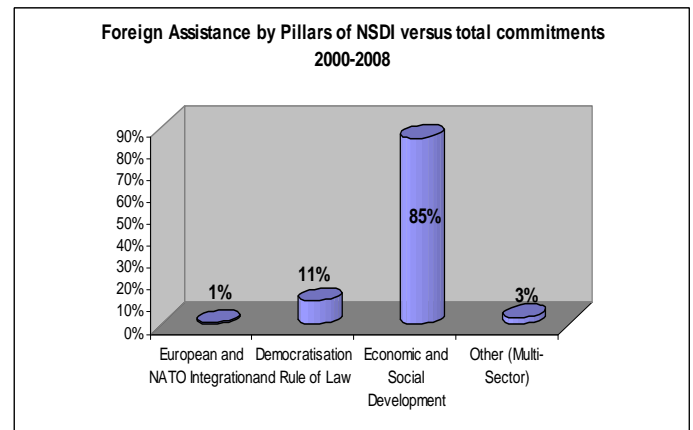


Chart 8

² The low percentage of foreign assistance for European Integration results due to the fact that the majority of projects offered by EU or other donors are connected to the implementation of Albania's commitments to the integration process and this aid is distributed in sectors directly beneficiary such as Justice, Internal Affairs and Socio-Economic Development sectors.

5. The role of foreign assistance in supporting sectorial priorities

European and NATO Integration: EC and European bilateral donors have played an important role in supporting reforms in this area. The biggest projects on European integration include the support for the legal approximation with EU as well as the implementation of SAA. Regarding the NATO integration, foreign aid is provided mainly by USA (18.7 mil USD) and it is mainly assistance for the army and defense.

Democratization and the Rule of Law: Presently, this strategic pillar of the NSDI receives 11% of the total of foreign assistance and disbursements for the period 2000-2008 are 53% versus the total commitments for this pillar. The foreign assistance for this pillar of the NSDI (Chart 9) is distributed into: democratization 11%, modernization of public administration 29% and justice and internal affairs 60%.

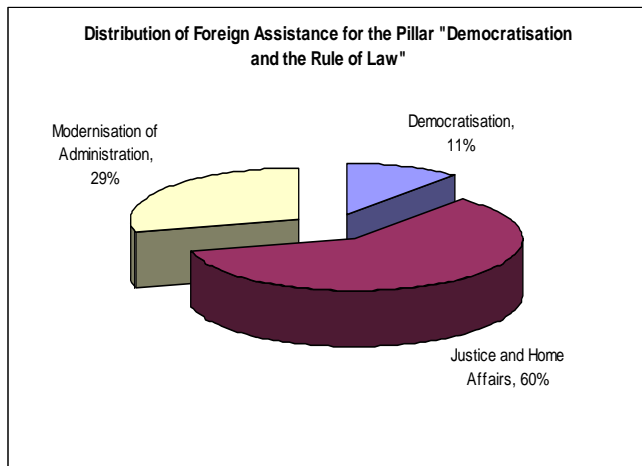


Chart 9

The majority of foreign assistance for this pillar of the NSDI is focused in supporting public administration reform aiming at increasing public administration capacities to implement the SAA; support for justice and internal affairs in full accordance with governmental priorities. These investments are accompanied with important support from donors, mainly projects from CARDS/IPA of EC, EC and Sweden, OSCE and USA. Worth mentioning are projects of European Assistance for the Police (PAMECA) and the System of Justice (EURALIUS). Sweden has supported the system of justice for minors; OSBE and EC have supported human rights issues in the justice system; USA has started projects focusing in the Rule of Law; Germany supports the training of judges; Spain together with CARDS program of

EC have provided financial support for the High Council of Justice.

Economic and Social Development: Presently, this strategic pillar receives 85% of the total of foreign assistance and disbursements for the period 2000-2008 are 32% of the total commitments for this pillar. Below, chart 10 shows the percentage of foreign assistance by strategic priorities within this important pillar of the NSDI.

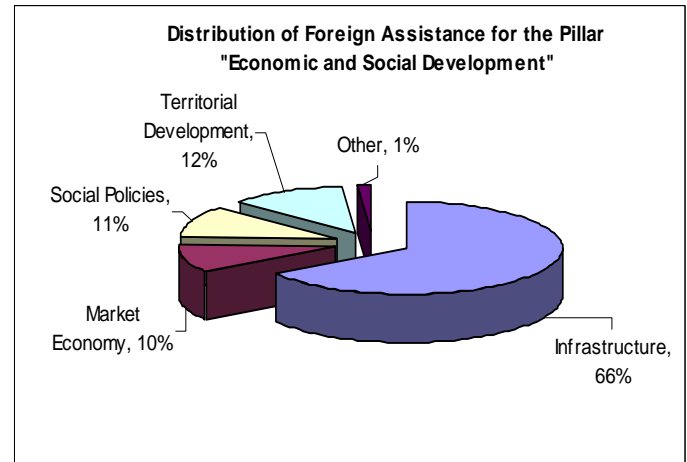


Chart 10

Market Economy: Based on the above data, Albania has benefited from a considerable amount of foreign assistance on economic development during the period 2000-2008. Presently, this strategic priority receives 8% of the total amount of foreign assistance with a value of 211 mil euro and disbursements for the period 2000-2008 are 51% versus the total commitment for this pillar of the NSDI. Donors like EC (CARDS and IPA), Germany, USA, DFID, Greece, Spain, Sweden, Switzerland, and UN support about 111 projects, all grants. Donor support is focused mainly in creating a suitable environment for private investments; promoting small and medium enterprises, exports and foreign direct investments (FDI); public finances; INSTAT; and consumer protection.

Public Infrastructure: 56% of total foreign assistance is oriented towards infrastructure. Transports 18%, energy 22% and irrigation 16%, have benefited the majority of these funds. The amount of foreign assistance planned for infrastructure is in accordance with NSDI and the importance of transport in the planned aid reflects the medium term priorities of the government. The following priorities remain the center of foreign assistance support: completion of the national and rural roads network; road safety; increasing the energy efficiency and investments in the energy system; water supply and sanitation management reform, especially in local level, along with relevant investments in physical assets; and the establishment of

efficient environmental institutions. The biggest donors are multilateral such as: EBRD, EIB, WB, EC, GEF and OPEC and bilateral such as: Germany, Italy, Greece, Austria, Switzerland, Sweden, etc. Disbursements for the period 2000-2008 are 29% versus the total commitment for this priority for the same period.

Social Policies: Actually, this strategic priority receives 10% of the total foreign assistance and disbursements for the period 2000-2008 are 35% versus the total commitments for this priority. Health and education, followed by social support and inclusion receive about 95% of foreign assistance of this strategic priority. In health, 50% of donor assistance goes to hospital reconstruction and the other part goes to planning and administration, primary and public health care. Donors' future plans focus more in primary health care system, which is in accordance with NSDI priorities. Reforms in the areas of governance and health finance will continue to be supported from ongoing projects of WB, Italy, Switzerland, the United Nations Agency (UNAIDS), and USA. In the education sector, World Bank is predicted to continue its leadership and to extend its experience with the sector based approach (SWAp). Professional education will continue to receive support from EU, Austria, Switzerland and Germany as main donors. University education and scientific research have received low foreign assistance. Main donors are Italy, Canada and UNESCO.

Territorial Development: (regional, rural and local, economic and agricultural). Approximately 63 projects are present in these areas from donors such as EU and others with experience in the sector, which have provided technical assistance and logistical support for increasing capacities at the central and local level for the implementation of regional, rural development policies and the preparation for absorbing EU structural funds. Moreover, foreign assistance has supported the sector in: modernization of farms, support and incentive to the agricultural environment and rural markets; farming, agricultural marketing, food safety, implementation of the National Strategy on Regional Development, etc. Presently, this strategic area receives 10% of the total foreign assistance and disbursements for the period 2000-2008 are 38% versus the total commitments for this priority.

6. Distribution of Foreign Assistance in the National Level and by Regions

Chart 11 shows that 83% of total donor commitments are in the national level versus 17% in the regional level (12 districts/qarks) for the period 2000-2008. The high percentage of financing toward national level is related to investments linked to national projects such as: roads

infrastructure (national roads); ports infrastructure (the main ports in the country); energy; environmental protection; education; health; and support to cross border initiatives. Moreover, all projects in support of institutional capacities in the central level are considered national projects. Regarding regions, main investments support increasing local capacities, regional and rural development, local infrastructure, promotion of cultural values, regional reconstruction of schools and hospitals, etc.

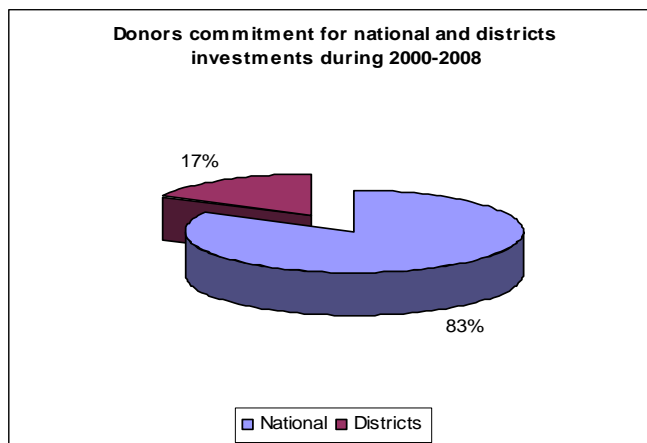


Chart 11

Based on data obtained from projects, whose main beneficiary are the districts, charts 12 and 13 show that **Tirana** district is the biggest beneficiary of foreign assistance from all others in the country. During the period 2000-2005, Tirana has benefited 41 % of donors' commitments, at districts level. During 2005-2008, Tirana increases its donor assistance to 67% of total commitments. The biggest investments in Tirana are focused in: public works sector, including construction and reconstruction of road axis, water and sanitation, improving communal service, reconstruction of schools, primary health service centers and hospitals, as well as the promotion of business and economic development. Some of the other districts such as **Shkodra** (from 3% in 2000-2005 has received 9% in 2005-2008), **Fieri**, **Korça** have had an increased donors commitments for the period 2005-2008. Worth mentioning is the fact that districts benefit also directly or indirectly from the big national projects as well, for example Durrës port, Durrës-Kukës road, Vlora thermo-central, and even future projects for national industrial parks, improvement of the national network of energy distribution, etc.

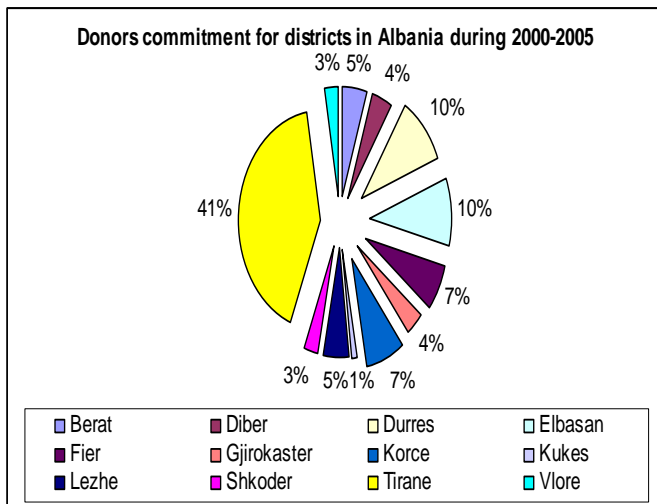


Chart 12

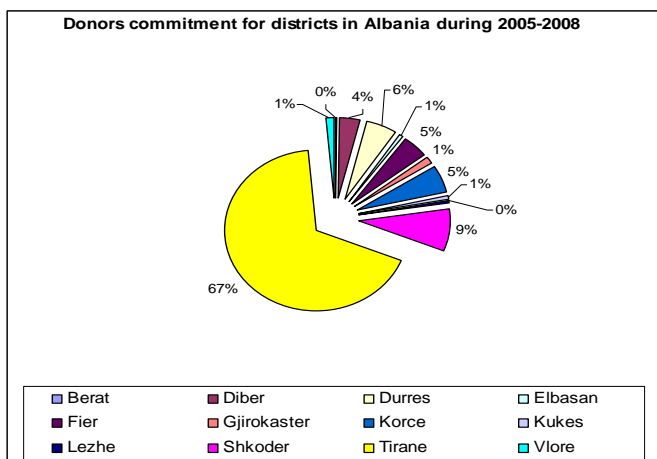


Chart 13

7. Distribution of foreign assistance by line ministries:

For the period 2000-2008, the Ministry of Economy, Trade and Energy (METE) as well as the Ministry of Public Works, Transport and Telecommunication (MPWTT) have received the majority of the foreign assistance, more specifically METE 27,6% and MPWPTT 31,4%. Worth mentioning, Ministry of Agriculture, Food and Consumer Protection with 4,5% and the Ministry of Internal with 6,2%.

Chart 14, below, presents the distribution of foreign assistance commitments by line ministries and other central institutions.

Institution	Commitment versus total commitments
Council of Ministers	0.55%
National Agency for Information Society	0.01%
Ministry of Agriculture Food & Consumer Protection	4.55%
Academy of Sciences	0.01%
Albanian Development Fund	2.76%
Bank of Albania	0.17%
Central Election Commission	0.01%
Civil Society	0.94%
General Directorate of Archives	0.03%
INSTAT	0.39%
Local Governments	0.08%
MADA	0.12%
Ministry of Defense	0.54%
Ministry of Economy, Trade and Energy	27.79%
Ministry of Education and Science	3.78%
Ministry of Environment Forests and Water Administration	2.37%
Ministry of European Integration	0.22%
Ministry of Finance	3.35%
Ministry of Foreign Affairs	0.01%
Ministry of Health	3.95%
Ministry of Interior	6.27%
Ministry of Justice	2.67%
Ministry of Labor Social Affairs & Equal Opportunities	1.19%
Ministry of Public Works, Transport & Telecommunication	32.02%
Ministry of Tourism, Culture & Sports	0.59%
National Council of Radio and Television	0.00%
Parliament	0.08%
People's Advocate	0.03%
Public Procurement Agency	0.10%
Other	5.41%

Chart 14

8. Foreign assistance by project status 2000-2008

Donors' data include projects with the status: ongoing, planned and a number of considerable projects that are completed. Chart 15 presents the distribution of donor projects by status, which shows that ongoing projects commitments are high.

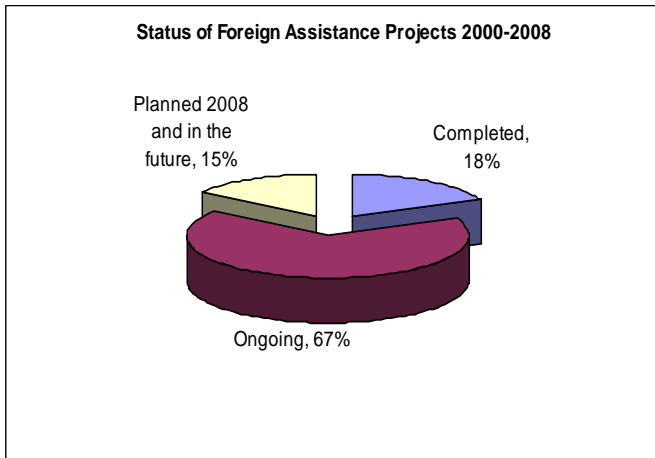


Chart 15

9. Recommendations and next steps:

The process of external assistance coordination, in general as well as in particular aspects, needs further improvement. First of all, it is worth mentioning that actually the reporting on the level of commitments as well as disbursements in a project level depends substantially on the information provided by donors. This is due to the management of projects by donor structures and the fact that donors are **not using financing systems of the government**. Moreover, **the majority of grant financing** is not registered in the state budget and is not included in the Medium Term Budget Program from Line Ministries.

Steps that are being, or should be undertaken to improve the coordination and monitoring process of foreign financing performance:

Based on the commitment and implementation of the Paris Declaration, in collaboration with the Donor Technical Secretariat, there are some steps to be undertaken to achieve the objectives and reach the targets as follows:

- *Reduction of the Project Implementation Units*, which are financed by donors, and their inclusion into the ministry structure. This will enable the usage of state budget financing systems as well as integrated in the Medium Term Budget Program.
- *Improvement of reporting* on donor commitments and disbursements. This will be achieved by the establishment and functionality of the EAMIS system, mentioned above, on foreign assistance management. The National Agency for Information Systems (NAIS), MoF and DSDC are coordinating the work for the establishment of an Albanian Financial and Management Integrated system.
- *Improving coordination of work with donors*. All these issues will be discussed during the Sector Working Group

periodical meetings with donors as well as in the Government-Donor roundtable. Meanwhile DSDC conducts continuous meetings with the Donor Technical Secretariat and with Integration and Development Partners to address these matters.

- *Creating of more SWAp programs* (Sector Wide Approaches), and Programme Based Approaches (PBAs), which will enable to avoid donor fragmentation of funds to small projects and would result in a better management of funds.
- *Drafting a Joint Government-Donor Strategy*, which has to be endorsed by all Donor Representation in Albania, for setting up commitments to achieve the Paris Declaration criteria as well as drafting the **Harmonized Action Plan** for the implementation of this joint strategy. These models were presented in the high level meeting that took place in Accra, Ghana on the Effectiveness of Foreign Assistance and have resulted successful. Donors also are expected to commit their assistance, in the medium and long term period, to priority sectors.

Attached: Annexes on financing data by: donors, sectors, line ministries