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*Original Paper*

## Albania Versus Challenges of Covid-19 and Europe Funds

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### Abstract

In terms of the economy, Albania has made some progress and is moderately prepared in terms of developing a functioning market economy. Struck by the double shock from the November 2019 earthquake and the COVID-19 pandemic, GDP shrank in 2021, albeit less than originally expected. The global pandemic associated with the pandemic and restrictions on international travel caused significant losses for the tourism and manufacturing sectors, but the economy began to recover in the second half of the year. Within the limited fiscal and monetary policy space available, the government and the central bank took action to support businesses, households, and the health sector. This mitigated the impact on the labor market and maintained the stability of the macroeconomic and financial sectors. It also boosted public debt and deficit ratios and increased the country's vulnerability to external shocks. The Instrument for Pre-Accession (IPA) helps the country prepare to benefit from European funding even after accession. Therefore, the way Albania absorbs these funds is of great importance. Over the years, a number of problems have been encountered which have not resulted in obtaining the maximum benefit for Albania. The problems are mainly related to the inefficiency of the state authorities. There are many legal and bureaucratic obstacles that can delay the implementation of projects. With regard to IPA II, there is a possibility that if the funds cannot be used in a timely manner, they will be transferred to other sectors with the best performance, as well as to other countries in the region if the performance as a whole is not satisfactory.

**Keywords:** Growth for Sustainable Development, Covid-19, Albania, Joining the EU

### 1. Introduction

The European Union has allocated millions of Euros to Albania in an effort to meet European standards. These funds are concentrated within the Rule of Law, Democracy and Governance, Competitiveness and Innovation, Agriculture and Rural Development, Transport, Environment, Education, Employment and Social Sectors. IPA II (Note 1) financial assistance is programmed on an annual basis through the Implementing Decisions Commission, for the Western Balkan countries by providing funding to meet the criteria for membership in the political, economic and legal spheres. According to a qualitative analysis of this project, the Europe has been unsuccessful in terms of rule of law reforms and the growth of economic sectors in the Western Balkans, including Albania, with little impact and a positive contribution to stability. Fundraising has not been efficient as a result of state institutions being unable to absorb funds. IPA rules (Note 2) and procedures are complex and sometimes difficult to interpret or apply. Thus, there is a need to disseminate information among stakeholders (line ministries, municipalities, NGOs, business associations, etc.) of this process to assess the needs of central and local authorities dealing with IPA projects; increase awareness-raising activities and ensure accurate and timely flow of information.

This is one more reason to prepare not only state or public structures at the central and local level but also private ones such as businesses, organizations, etc. In addition, financial aid has put a lot of attention in the past to issues of justice and security.

As stated in IPA III, The European Commission adopted rural development programmers (IPARD)<sup>3</sup> under the instrument for pre-accession assistance for Albania (€112 million), The programmes provide the basis for EU support in the fields of agriculture and rural development for the period 2021–2027. This EU support, together with national public and private contributions, is expected to generate a total

of over €2 billion of investments in the rural areas of the Western Balkans and Turkey. With the implementation of IPARD programs, the beneficiary countries pursue the objectives related to the competitiveness of the agro-food sector, sustainable management of natural resources, climate action, and improving the attractiveness of their rural areas. The programmes also contribute to the objectives of the European Green Deal and the Green Agenda for the Western Balkans. Furthermore, the IPARD programmes support investments to align with EU standards, including upgrading buildings, machinery, and equipment. They also help increase rural areas' growth potential and their attractiveness to prevent depopulation via better infrastructure, diversifying income-generating economic activities and fostering rural employment, in particular among women and youth. One of the ways the EU helps countries that want to join is through the Instrument for Pre-Accession Assistance (IPA). IPARD is a part of that. Agriculture and Rural Development Program 2014-2020 Instrument for Pre-Accession Assistance (IPA II) The IPARD programme gives money to help with farming and rural development from EU funds (75%) and the Albanian government (25%).

## **2. Research Literature**

The bloc has spent millions of euros on rule of law efforts in potential future EU countries such as Albania, northern Macedonia, and Montenegro. The EU has been unsuccessful in its efforts to promote rule of law reforms in the Western Balkans, EU auditors said in a report published by the European Commission.

The bloc spent about 700 m euros between 2014 and 2020 to help Albania, northern Macedonia, Montenegro, Serbia, Bosnia and Herzegovina, and Kosovo make progress on reforms in areas such as the independence of the judiciary, but the European Court of Auditors in its report concluded that this investment has had little impact in the region (Bayer, 2022).

"EU support for the rule of law in the Western Balkans has clearly not been successful in bringing about major change" (Note 3).

Many EU governments see the establishment of high democratic standards in the EU's Western Balkans neighborhood as important to the stability and security of the bloc itself, especially as the six countries in the region aspire to join the EU one day. "The modest progress made over the last 20 years threaten the overall sustainability of the EU support offered in the accession process," Parts said. "Ongoing reforms lose credibility if they do not yield tangible results."

The auditors point to the lack of political will in the region, as well as shortcomings in the European Commission's own approach to projects in the Western Balkans, as contributing to the failure to make progress. "Our audit of sample projects shows that, where project components focus on technical assistance, capacity building, and institutional efficiency, political support was strong and these activities generally proceed as planned,".

### **Financing Packages to Albania**

Following the outbreak of COVID-19, existing EU funds were reoriented with the dual objective of assisting Albania in purchasing emergency medical supplies and equipment and addressing the social and economic consequences of the crisis. The COVID-19 package for Albania is worth 50.65 million euros. The € 103.3 million IPA 2020 program contributes to the EU's 26 million COVID-19 package for economic recovery action. In addition, the COVID-19 package includes:

4 million euros to address immediate needs for medical equipment and supplies. Funding comes from the IPA 2017 program. 20.65 million euros to complement an existing 50-million-euro Social Inclusion Program under IPA 2019. This program includes an additional allocation of 28 million euros, to reward Albania's progress in implementing reforms.

Thanks to the aspirations to join the European Union and after its status as a candidate country, Albania benefits from EU funding under the Instrument for Pre-Accession Assistance.

### **Support in COVID-19 crisis**

The European Commission has approved a 103.3 million euro package to support Albania. The adopted program focuses on key issues for EU membership, such as the rule of law, fundamental rights, and

good governance. Assistance is also provided to further address the consequences of the COVID-19 crisis (Negotiations, 2020).

In the face of the COVID-19 crisis, adjustments were made to existing funds to help Albania meet current social and economic challenges. "At the same time, EU funds are intended to support key reforms that Albania needs to implement to move forward on its European path."

The program includes actions to strengthen the rule of law and the fight against organized crime and corruption, by improving the capacities of the Special Prosecutor for Anti-Corruption, the National Bureau of Investigation and independent justice institutions.

Funding has also been allocated for the development of a dynamic land market in Albania, through the establishment of a clear property rights framework. The package also continues to support the improvement of public sector capacities to respond to the needs of citizens and businesses. The program will operate at the national and local level.

The EU will continue to support Albania's participation in EU programs such as Erasmus + and Horizon 2020. Finally, the current package complements other COVID-19 measures imposed on Albania by the EU, providing support for businesses and the economy in general.

### **IPA II (2014-2020)**

According to IPA II (2014-2020), Albania benefited from investment support, capacity building and reforms in the sectors of: rule of law, democracy and governance, competitiveness and innovation, agriculture and rural development, transport, environment, education, employment and social sectors. The total allocation under IPA II amounts to € 758.1 million.

This includes performance bonuses, as well as 115 million euros, which were mobilized to support the recovery after the 2019 earthquake. The bilateral indicator envelope for Albania under IPA 2021 is 70.4 million euros (Coordinator, 2021).

The IPA II financial assistance is programmed on an annual basis through the Commission Implementing Decisions followed by the signing of the relevant Financial Agreements by the European Commission and the Government of Albania.

The following table presents the IPA II financial assistance to Albania through the Annual Country Action, the 2014-2020 programs, and the multi-year allocation for IPARD for the same period. From a total indicative funding allocation of 639,500,000 euros, as temporarily provided in the Revised Country Strategy Document for Albania for 2014-2020, according to the Financing Agreements signed for IPA 2014, IPA 2015, IPA 2016, IPA 2017, IPA 2018, and IPA 2019 and approved the decision of the Commission for IPA 2020, Albanian institutions have programmed the amount of 62,15,36,389 euros, including the allocation of funding for the IPARD Program in the amount of 71000000 euros (Ministry of Europe and Foreign Affairs, 2021).

The COVID-19 MFA program for Albania is part of a comprehensive EU effort to help mitigate the economic and social impact of the pandemic and accelerate recovery. This commitment is in line with the EU-Albania Stability and Association Agreement and with the overall support of Team Europe, which is based on the joint efforts of EU Member States. Among other things, Albania was one of the first countries to benefit from the EU vaccine sharing mechanism, which together has contributed over 600,000 doses of COVID-19 vaccines in Albania, through donations, resale under an IPA grant, and through COVAX, the facility that has provided over 140,000 additional doses.

### **3. Methods of Implementing the EU Budget**

Financial assistance under IPA II is implemented by Albania according to the methods of implementation of the EU budget according to Article 58 (1) and 62 of the EU Financial Regulation (Note 4) and Article 7 follows from the agreement concluded between the Republic of Albania and the European Commission (Note 5).

It uses three modalities for implementing the EU budget:

1. Direct management: All EU budget implementation tasks are handled directly by its departments, whether at EU headquarters, delegations, or through European executive agencies.
2. Joint management: implementation is delegated to member states.
3. Indirect management: responsibilities are transferred to the Contracting Authority of the beneficiary country. The Contracting Authority is in charge of bids and contracts, as well as the financial and administrative management of the project.

The way of indirect management in the context of the pre-accession strategy is important as it improves ownership and enables the country to self-implement EU funds and prepare for the management of EU cohesion and structural funds once the country becomes a member state. Effective decentralization of IPA management requires the establishment of new structures and the designation of authorities responsible for the implementation of IPA funds.

These authorities and structures are already established and functional in Albania and located within the following ministries: Ministry of European Integration: National IPA Coordinator (Minister); and Support Office (NIPAC) Ministry of Finance: Competent Accreditation Officer (Minister); National Authorizing Officer (Deputy Minister); Support Office (NAO Support Directorate); National Fund Directorate (acting as treasury for IPA funds); and the Central Finance and Contracts Unit (acting as the contracting authority for contracts under indirect management).

The European Commission has given Albania the right to indirectly manage some projects funded under IPA Component I "Transition Assistance and Institution Building" based on the Financing Agreement 2013 (Note 6) and for actions financed under IPA II based on the Financing Agreement of IPA 2014 and the Financing Agreement of IPA 2015.

Such a decision was taken on the basis of the commitment of the Albanian government to building the legal and institutional framework and an overall IPA control and management system that meets the criteria set by the EU for the transition of financial assistance (IPA) from centralized management to decentralized management. It also included making sure that each ministry had the right professional structures and was ready to handle these funds (EU Policy Hub, 2018).

### **Survey of the Albanian Institute for International Studies (AIIS)**

The Albanian Institute for International Studies (AIIS) conducted a survey with the public administration, media, local NGOs and business groups in Tirana. The purpose of the survey was to assess perceptions and knowledge of the European Union and EU integration in Albania.

These groups were selected because they are directly responsible for and directly influenced by the integration process. The most obvious finding of the survey was the overwhelming support for Albania's EU membership in all the above categories. Support levels were much close to 100%, with almost all respondents responding that they would vote for Albania's EU membership in a referendum on the issue.

The numbers speak for themselves; 96.43% in the media category, 96.91% in businesses, and 99.38% and 100% in the public. Local administration and NGOs respectively. The high level of support for Albania's EU membership was also reflected in the fact that respondents in all categories thought that strengthening relations with the EU should be the most important priority of the Albanian government. The fact that there is a lot of support for joining the EU is very encouraging, and it should be taken advantage of while it lasts.

However, the very size of this support level raises important doubts for understanding the integration process as a whole.

The question arises: Does such support result from not recognizing or recognizing the benefits and shortcomings of the integration process as a whole?

Our findings suggest an extremely high level of support combined with some troubling misunderstandings of the efforts required for Albania's EU integration. Misunderstandings about the benefits of integration could be another source of overwhelming support for Albania's EU membership.

Thus, a significant number of respondents seem to think that the EU should accept Albania even before it is ready. to become a member of the EU.

Responses between categories varied considerably. In two of them, public administration and local NGOs, the majority of respondents, respectively 52% and 47.06%, answered that the European Union should accept Albania even before the country is ready to become a member. of the EU. In the business category the answers were more evenly distributed as 46.84% answered "Yes" and 50.63% answered "No". The media was the only category where a significant majority of 73.47% answered "No" to the question.

### **Survey Results**

The results of the survey show that the public administration, media, NGOs, and business groups should be more informed on the process of Albania's EU integration. It is important that the information available be free of political propaganda intended to use the integration process for narrow political motives. An awareness and information campaign should be launched towards this goal. We recommend that the information campaign focus on the following:

- The speed of the integration process depends on Albania and not on the EU. Therefore, the campaign should focus on the economic, political, judicial, and other reforms that should be carried out by the government to prepare the country for EU integration. It is important to note that integration begins in Albania and ends in Brussels, and not the other way around.
- Albania's benefits from this process should be clearly stated. The fact that the vast majority of respondents stated that the biggest benefit would be free movement means that most people are interested in leaving the country. They see the integration process as a tool towards this goal and not as something positive in itself.
- A cost-benefit analysis on the positive and negative effects of the association and the stabilization agreement on the Albanian economy should be carried out. The results of this analysis should be made public.
- The results of a cost-benefit analysis should be made known, especially to those business groups, as this community will be the first to bear the costs of integration, especially in terms of trade liberalization, after the signing of the Stabilization and Association Agreement.

### **An Audit on EU Support**

The auditors noted that "EU support within the country for civil society action on the rule of law is insufficient" and raised concerns that EU-supported projects may not be financially viable once European support is completed.

Moreover, the funds allocated to the region under the Instrument for Pre-Accession Assistance (IPA) 2014-2020, according to the auditors, did not have strict clauses that would link stalled reforms to funding. EU delegations "have seldom taken advantage of the possibility of suspending IPA financial support if reforms are not progressing satisfactorily" (Note 7).

Given these challenges, auditors are now advocating for a range of changes in the way the bloc approaches rule of law reforms in the Western Balkans. The Court of Auditors has issued recommendations, including the establishment of indicators of impact on issues such as freedom of expression, along with steps to monitor progress on them.

Another recommendation is that the European Commission and the European External Action Service, the bloc's foreign service arm, increase support for independent civil society and journalists in the region, and link the disbursement of new funds more closely to progress in regulation of the criteria of the law.

The rule of law remains the cornerstone of the accession process and will determine the overall pace of progress of the enlargement partners on their path to the EU," adding that "while significant progress was made particularly in some [Western Balkan Partners], challenges to the rule of law in the region continue and further efforts are needed in this key area of EU and also add that the EU has updated its

approach towards enlargement in 2020 and now has "a stronger focus on the rule of law in the Western Balkans" (Note 8).

### **Challenges of Albania from IPA funds**

Over the years, a number of problems have been limited to Albania's maximum benefit from IPA funds. This is mainly related to the inefficiency of state authorities due to some legal and bureaucratic obstacles that delay the implementation of projects:

1. Some institutions have insufficient staff in relation to the preparation of their projects and implementation. For example, in institutions that have had projects almost every year, it is crucial to increase the number of staff managing these projects. This problem becomes more imperative, especially when the institutions manage the EU funds themselves.
2. The sustainability of projects is much important to assess the impact of a particular project. Since, at the early stage of a proposal, it is difficult to predict the potential of the project's sustainability, the focus should be on how effective the envisaged mechanisms will be in ensuring that the project results are ultimately sustainable.
3. Absorption capacity to use IPA funds in a timely manner and to perform efficiently and effectively. There is a risk of transferring funds to other sectors or countries from the region with the best performance and timely delivery. Thus, it remains the main challenge for the Albanians to be committed to achieving the set results in a timely and efficient manner. Furthermore, it is a crucial aspect and the main reason to raise awareness among public institutions at the central and local level and also private sector actors such as businesses, organizations, etc., about the importance of providing efficient and timely services to maximize the benefits of IPA funds.

#### **Steps that Can Be Taken by the Authorities**

- Contribution to the implementation of ownership and the principle of partnership in the implementation of IPA funds;
- Involvement in the discussion on strategic issues related to EU funds, especially on the priorities of each sector;
- Request from the national authorities responsible for IPA to report regularly on the implementation of each policy sector, including the report on the fulfilment of the success indicator, etc.
- Increasing the level of participation of stakeholders with the involvement of civil society organizations, academia, businesses, chambers of commerce, professional associations, etc.
- Holding public IPA hearings, including thematic ones for each policy area/sector;
- agreement between bodies. Preparation of operational agreements or memoranda of understanding between the contracting authority, governing institutions and final beneficiaries (final beneficiaries) to define the responsibilities of different entities and actors for three levels (Note 9) of implementation and monitoring;
- increase the administrative capacity of IPA staff;
- capacity-building of local authorities to apply and implement projects within CBC and Transnational
- cooperation programs where Albania participates.

### **3. Recommendation**

Sometimes institutions are not able to absorb funds. This issue arises during the programming and implementation phases and therefore requires capacity building. Albanian School of Public Administration (ASPA), introduced the curricula for the management of EU funds, which are part of the national training program. It should also be noted that the involvement of local authorities in the national IPA program still remains at almost zero.

The establishment of the 'EU also takes into account the tables in municipalities, which is important for the fact that the implementation of EU assistance in Albania is affected in some cases by the lack of coordination with other institutions, including local government units.

Project preparation is a complex process which requires considerable time and human resources, especially in the case of large investments in infrastructure projects. These projects require technical expertise from all parties involved. Experience has shown that adequate preparation of a project is of great importance for the later stages. The risk of delays or failures in implementation is higher in inadequately prepared projects.

Lessons from the implementation of IPA projects and from how Albania has progressed so far have shown that there is a need to increase the capacity of all relevant stakeholders in project preparation and implementation.

It is too important to provide ongoing training for public administration officials as a precondition for approaching future funding mechanisms on the path to EU integration.

IPA rules and procedures are complex and sometimes difficult to interpret or apply. Insufficient information parties in both central and local government. Thus, there is a need to disseminate information among stakeholders (line ministries, municipalities, NGOs, business associations, etc.) of this process.

Public authorities in charge of managing IPA projects, such as the National IPA Coordinator and the National Authorizing Officer, should:

1. Assess the central and local needs of the authorities dealing with IPA projects;
2. increasing the availability of information and awareness-raising activities;
3. Cooperation through seminars and between the counterpart structure of countries and / or between these structures and representatives of EU institutions;
4. ensuring accurate and timely internal flow of information.

#### **4. Conclusion**

The EU has been unsuccessful in terms of rule of law reforms in the Western Balkans, including Albania, spending over € 700 million over the period 2014-2020 but has had very little impact, as a result of which they do not contribute positively to the bloc's stability and security.

The rule of law remains the cornerstone of the EU accession process, and for this reason, the commission has approved a package of 103.3 million euros. Most respondents see membership as the greatest benefit to moving without restriction and not as something positive in other respects. Lack of efficiency of state authorities due to bureaucracies limits maximum benefits.

Developing a system taking into account the above-mentioned issues may result in more efficient management of pre-accession funds of the European Union and, subsequently, of structural funds as well as internal costs.

As part of the assistance, the countries of the Western Balkans receive funding to meet the criteria for membership in the political, economic, and legal spheres. The extent to which IPAs can contribute to the convergence of the Western Balkans, Albania in this case, will be crucial in determining the pace of the enlargement process in the near future.

In this regard, since the construction of administrative activity in the pre-accession period is very high, the importance of EU membership for the efficiency of the management of pre-accession financial funds and thus the preparation of EU structural funds should be we are committed to achieving the expected results in a timely and efficient manner.

We need to have an awareness of Public Institutions be it Central, Local, Private Sector, Various Organizations for the importance of performing these services efficiently and consequently the timely benefit of IPA funds.

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#### Notes

Note 1. Instrument for Pre-Accession Assistance from January 2007 onwards, the Instrument for Pre-Accession Assistance (IPA) replaces a series of European Union programmers and financial instruments for candidate countries or potential candidate countries, namely PHARE, PHARE CBC, ISPA, SAPARD, CARDS and the financial instrument for Turkey.

Note 2. Instrument for Pre-Accession Assistance rules

Note 3. Juhan Parts, the court member responsible for the report

Note 4. No. 1046/2018

Note 5. European Neighborhood and Enlargement Negotiations, 2020

Note 6. Council of Ministers Decision No. 283, dated 14.05.2014)

Note 7. The Court of Auditors noted

Note 8. The Court of Auditors noted

Note 9. Program, project and contract