

# THE BENEFITS OF ALBANIA FROM THE EUROPEAN UNION COHESION

## POLICY AND THEIR SIGNIFICANCE

Ph.D. Zoica Kokaveshi (Zharkalli)<sup>1</sup>  
Klarida Prendi<sup>2</sup>

### ABSTRACT

The Functioning of the European Union as a whole requires low social and economic disparities between participating countries and regions. Cohesion has evolved as an important issues to be addressed, especially at the beginning of the EU enlargement process when the differences between the founding members and the new ones that aimed to be part of this organism emerged. In order to support solving it, the EU Cohesion Policy was developed as an instrument that aimed to reduce economic and social disparities between different regions of the EU.

Despite the assistance to member countries the EU provides support even for those that have received the EU candidate status, in order for them to implement the necessary reforms. Albania, as an EU candidate country, has received support to improve economic growth, competitiveness and technological development.

This paper aims to analyze the benefits of Albania from the funds assigned by the EU for social and economic cohesion during different time periods, highlighting the main areas and sectors where funds are used. The main objective of the study is to make evident the importance of these funds and how they affect improvement in certain sectors, highlighting the deficiencies that cause their not fully-efficient use.

**Keywords:** *cohesion, inequality, EU funds*

**JEL Classification:** *F35, F42, F15*

## 1. Introduction

### 1.1 Outline of the EU Cohesion Policy

The Cohesion Policy is to accelerate and facilitate the process of real convergence between regions. The need for such a policy is shown in sustained differences in economic development among Member States of the EU -27.

The idea of the EU Cohesion Policy, initiated along with the Treaties of Rome in 1957, was intended to enhance socio - economic cohesion among regions of the Member States by supporting development of the poorest areas of the Community. The implementation of the Policy was to be realized by Structural Funds, established as financial instruments for individual sectors of the economy.

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<sup>1</sup> PhD, "Aleksander Moisiu" University, Department of Economic Sciences, e-mail: [zoica\\_zh@hotmail.com](mailto:zoica_zh@hotmail.com)

<sup>2</sup> MSc, "Aleksander Moisiu" University, Durrës, Albania, e-mail: [Klarida.licaj@yahoo.com](mailto:Klarida.licaj@yahoo.com)

In 1964, the European Agricultural Guidance and Guarantee Fund was created. Along with subsequent accessions to the European Community, divergence within the Community continued to increase, leading to the intensification of efforts to increase cohesion.

Structural Funds launched in 1989. It was then that the official policy goals were formulated: to promote economic growth in the poorest regions of the Community, promote entrepreneurship, and improve the quality of the environment in industrial areas; flexible programs focusing on labour market policies, and acceleration of the structural adjustment of agriculture to reforms within the Common Agricultural Policy.

In 1993, according to the provisions of the Treaty of Maastricht, a new instrument was incorporated into the Cohesion Policy – the Cohesion Fund. It was meant to support large investments, primarily in the area of infrastructure and environmental protection in less developed countries of the Community.

Another reform of the Cohesion Policy was carried out in 1999 and was associated with preparations for the accession of 10 countries which took place in 2004.

In 1999 the following objectives for the EU cohesion policy were formulated:

Objective 1: Promoting development and structural adjustment of regions lagging behind,

Objective 2: Supporting the economic and social conversion of areas facing structural problems,

Objective 3: Supporting the adaptation and modernization of policies and systems of education, training and employment.

In 2000 and 2001 the European Union adopted the Lisbon Strategy, revised in 2005. The aim of the Strategy was to make the European Union within 10 years the most dynamic and competitive knowledge based economy in the world capable of sustainable economic growth with more and better jobs, greater social cohesion, and respect for the environment. Three priority lines of action adopted for the implementation of the strategy included: development of knowledge and innovation, development of the EU's attractiveness as a place to invest and work, and to develop mechanisms to enable businesses to create more and better jobs. At the same time, the EU's cohesion policy objectives were reformulated and defined as:

1. Convergence (eliminating the gaps to the least developed Member States and regions supporting real convergence);
2. Regional competitiveness and employment;
3. European territorial cooperation.

The next financial perspective for 2014-2020 is designed in the context of the Europe 2020 Strategy, which includes the following priorities as stated by the European Commission, (2010):

1. Smart growth: developing an economy based on knowledge and innovation;
2. Sustainable growth: promoting a more resource efficient, greener and more competitive economy;
3. Inclusive growth: supporting the economy with high levels of employment, ensuring social and territorial cohesion.

The priorities for Europe 2020 are partially consistent with the priorities of the Lisbon Strategy: the most important are as still include competitiveness, building a knowledge based economy, the environment, high employment and social cohesion. The new strategy, however, placed greater emphasis on strengthening the digital society, developing research and innovation, the rational use of natural resources, developing entrepreneurship and competitiveness, while maintaining the objectives of employment growth and poverty reduction.

## **2. Albania's access to EU Cohesion Funds**

An important principle of the EU is solidarity between member states and EU candidate countries, which is being implemented through cohesion policy and the application of "internal" and "external" cohesion instruments. Cohesion policy aims to reduce social differences (i) between internal regions within the EU by using "internal" cohesion instruments, and (ii) between member states on the one hand and candidate countries in the other side by using "external" cohesion instruments. As part of a region that has the clear commitment to full membership in the EU, Albania has access to IPA funds. The purpose of this assistance is not just development but the preparation of the country for EU membership and within this context also for the EU Cohesion Policy.

The Instrument for Pre-accession Assistance (IPA II) is the main financial instrument to provide EU support to the beneficiaries in implementing reforms with a view to Union Membership. The IPA II Regulation, according to the European Commission (2014), states that financial assistance shall mainly address five policy areas:

- a) reforms in preparation for Union membership and related institution-and capacity-building,
- b) socio-economic and regional development,
- c) employment, social policies, education, promotion of gender equality, and human resources development,
- d) agriculture and rural development, and
- e) regional and territorial cooperation.

In order to increase its impact, EU financial assistance is concentrated on the areas where reforms or investments are most needed to meet accession criteria, and tailored to take into account the capacities of Albania to meet these needs. Assistance is planned in a coherent and comprehensive way with a view to best meeting the four specific objectives and address as appropriate the thematic priorities for assistance.

## **3. Allocation of funds between countries and between components in Albania**

### **3.1 Allocation of funds between countries**

The starting point for allocations in 2007 was a commitment by the Commission to ensure that no beneficiary country would receive less in 2007 than they did in 2006 and furthermore that Bosnia and Herzegovina and Albania should receive no less than the annual average of the funding each received between 2004 and 2006.

For Montenegro, the per capita levels of funding are higher than for other potential candidate countries, reflecting a minimum level of funding needed for adequate administrations, irrespective of the size of the country.

The global breakdown of funds between countries has been respected with the exception of Kosovo which received increased IPA funding. During the period 2007 – 2013, about 639 million were granted by the budget authority as part of a wider mobilization of new funds to support the stability and development of Kosovo.

For Croatia and the Former Yugoslav Republic of Macedonia, as candidate countries, a level of over €30 per capita (in 2004 prices) is allocated. This level is maintained across the period for Croatia. For the Former Yugoslav Republic of Macedonia, the funding in per capita terms continues to increase, reflecting a minimum level of funding needed for building adequate

administrations, irrespective of the size of the country. Albania received during this period about 600 million, an amount that is less than all the other regional countries, except Montenegro. While Serbia is the one who has benefit more, with about 1400 million euro granted for 2007-2013 period.

**Table 1:** Allocation by country during years 2007-2013 (million EUR)

	2007	2008	2009	2010	2011	2012	2013	Total
Croatia	141.2	146	151.2	153.6	156.5	159.7	163	1071.2
FYR of Macedonia	58.5	70.2	81.8	91.7	98	105	117.2	622.4
Albania	61	73.8	81.2	94.2	94.5	96.3	98.2	599.2
Bosnia and Herzegovina	62.1	74.8	89.1	105.4	107.5	109.5	111.8	660.2
Montenegro	31.4	32.6	34.5	33.5	34.2	34.8	35.5	236.5
Serbia	189.7	190.9	194.8	198	201.9	205.9	214.8	1396
Kosovo	68.3	184.7	106.1	67.3	68.7	70	73.7	638.8

**Source:** European Commission.

### 3.2 Allocations between Components in Albania

IPA is delivered through five components. Component I, Transition Assistance and Institution Building, covers all institution building actions and the investments related to the *acquis communautaire*; it helps beneficiary countries build up administrative and judicial capacity and addresses, according to priority, cooperation measures not expressly covered by other components. Component II, Cross-Border Cooperation, supports cross-border activities among beneficiary countries and between beneficiary countries and Member States;

Component III, Regional Development, emulates to the greatest extent possible the ERDF and Cohesion Fund. Component IV, Human Resources Development prepares candidate countries for the European Social fund, in the framework of the European Employment Strategy.

Component V, Rural Development, helps the candidate countries prepare for post-accession EU-funded rural development programmes by implementing pre-accession assistance through systems which are as similar as possible to those required post accession.

As a country that has not received the candidate status during 2007-2013, Albania has benefit budget destined for only two components; Component I, Transition Assistance and Institution Building with an amount of about 533 million and Component II, Cross-Border Cooperation with about 66 million euro as presented in Table 2.

**Table 2:** Allocation of Funds for Albania during 2007-2013 (million EUR)

	2007	2008	2009	2010	2011	2012	2013	Total
Transition Assistance and Institution Building	54.3	65.2	71.4	84.2	84.3	86	87.5	532.9
Cross-border Co-operation	6.7	8.5	9.8	10	10.2	10.3	10.7	66.2
<b>Total</b>	61	73.7	81.2	94.2	94.5	96.3	98.2	599.1

**Source:** European Commission

In view of the progress made since then by Albania, the Commission recommended in October 2013 that the Council should grant Albania the status of a candidate country on the

understanding that Albania would continue to take action in the fight against organized crime and corruption. In June 2014, the European Council granted candidate status to Albania.

Albania's economic situation requires strengthening of economic governance to progress towards gradually becoming a functioning market economy.

Taking into account Albania's own needs assessment as well as the Commission's findings, pre-accession assistance for the period 2014-2020 will focus on governance and the rule of law and competitiveness and growth.

▪ **Governance and the rule of law**

Governance and the rule of law have been identified in the Commission's progress reports on Albania as well as in Council conclusions as key challenges Albania will have to address on its way to accession. Concerning democracy and governance, there is a need to further strengthen democratic institutions in particular the role of the parliament for national consensus building. A key issue to be addressed concerns Albania's public administration, including Public Administration Reform (PAR) process and its coordination, policy-making, and civil service and public administration organisation and functioning both at central and local level.

Civil society needs further strengthening, including capacity building and encouraging of the creation of an enabling environment for its development and greater involvement of stakeholders in reforms, including through greater transparency of government action and spending.

▪ **Competitiveness and growth**

The global economic crisis has underlined the need for Albania to strengthen its economic governance in particular the policies towards competitiveness and growth. In this regard, several related sectors need to be supported:

In the environment and climate action, transport, and energy sectors, Albania needs to build further capacities to manage these sectors in order to prepare and enforce policies in line with EU legislation and best practice. Concerning transport, priorities are to ensure the completion and maintenance of existing infrastructure of the South East Europe Transport Observatory (SEETO) comprehensive network, the connectivity to the trans-European transport network, and to address safety issues in all modes of transport.

With regard to the energy sector, there is a need for reforms in order to ensure the smooth functioning of the overall system and the good governance of the sector. Climate action represents a cross-sector element that applies to most sectors in the Strategy Paper, notably transport, energy, agriculture and rural development, as well as disaster management.

The low levels of productivity and competitiveness as well as of the living conditions in the rural areas require support within the agriculture and rural development sector. A preparation of administrative structures able to provide services and manage funds in line with the EU agricultural policy is required.

Economic growth needs strengthening in order to foster the competitiveness and innovation, through strengthening the innovation capacity in general and in particular through the development of small and medium sized enterprises.

The sector education, employment and social policies equally require support, notably for achieving inclusive growth. Beyond informal employment and low participation, there is a need to clearly establish the challenges of the labour market and design relevant capacity building accordingly. The data in Table 3 are indicative allocation as presented by the European Commission (2014).

**Table 3:** Indicative Allocation of Funds for Albania during 2014-2020 (million EUR) per policy areas and sectors

	2014	2015	2016	2017	2018-2020	Total
<b>Reforms in preparation for Union membership</b>	<b>78.7</b>	<b>59.9</b>	<b>12.7</b>	<b>74.9</b>	<b>94.3</b>	<b>320.5</b>
Democracy and Governance	157.2				66.3	223.5
Rule of Law and Fundamental Rights	69				28	97
<b>Socio-Economic and Regional Development</b>	<b>0</b>	<b>18</b>	<b>50</b>	<b>0</b>	<b>100</b>	<b>168</b>
Environment	34				34	68
Transport	18				38	56
Energy	0				0	0
Competitiveness and Innovation	16				28	44
<b>Education, Employment, Social Policies and Human Resource Development</b>	<b>5</b>	<b>0</b>	<b>14</b>	<b>0</b>	<b>50</b>	<b>69</b>
Education, Employment and Social Policies	19				50	69
<b>Agriculture and Rural Development</b>	<b>0</b>	<b>9</b>	<b>13</b>	<b>18</b>	<b>52</b>	<b>92</b>
Agriculture and Rural Development	40				52	92

Source: European Commission

#### 4. The importance of IPA funds received by Albania until 2015

The drafting and implementing institutions of the European Union Cohesion Policy and other financial support instruments acknowledge that one of the major constraints is the lack of accurate indicators that measure the impact of these funds and the extent to which the set objectives are met. This is also true as the areas in which these projects are implemented are very different. However, this paper tends to make an appraisal of the amount of funds received by our country in comparison with the total public investment. As indicated in the table below, IPA funds represented from 11% (2008) to 22% (2012) of the total public investment in the country, as published by the Ministry of Finance of Albania (2016).

**Table 4:** The Importance of IPA funds compared to Total Public Investment in Albania

Year	Public Investment	IPA Funds	IPA Funds/Public Investments (%)
2007	57040	8540	15.0
2008	93783	10318	11.0
2009	95881	11368	11.9
2010	67492	13188	19.5
2011	70679	13230	18.7
2012	61655	13482	21.9
2013	65477	13748	21.0
2014	60749	11718	19.3

2015	61622	12166	19.7
2016	59988	12558	20.9

Source: European Commission, Ministry of Finance, Author's Calculations

## 5. Problems that Albania faced during benefiting from IPA funds

The entire process of applying, benefiting and implementing projects funded by the European Union in the country has encountered problems for all the institutions involved. Some of them are listed below, but the main of them is consider co-financing. Co-financing is one of the obligations to be met by all project beneficiary institutions. Inadequate planning or lack of budget for co-financing has led to non-realization of some activities that have directly impacted the implementation of the entire project.

Providing relevant permits for infrastructure projects and land ownership are also very important for implementing a project. Due to the frequent change in the legal framework for various permits prior to the start of construction, some infrastructure projects have had problems in their implementation.

Another commonly encountered problem is the value added tax (VAT). The ambiguity in Albanian legislation is as in the case of co-financing, some institutions do not plan this payment, affecting the delay in carrying out the activities.

Co-ordination among beneficiaries is a problem that faces those projects that have more than one beneficiary. Failure to clearly define the responsibilities of each beneficiary institution affects the proper implementation of the project.

The administrative capacities to plan and then follow the implementation and monitoring of projects are often considered inadequate. This problem becomes more important after the decentralization process, when Albanian institutions will be themselves responsible for the entire management cycle.

## 6. Conclusions and Recommendations

This paper is intended to show the benefits of Albania from the financial support of the European Union, within the framework of economic and social cohesion. Following the analysis of the data available, a number of conclusions were reached and relevant recommendations were made.

Despite the lack of accurate indicators, the amount of IPA funds is clear, reflecting the large share of these funds on total public investment in Albania. These funds account for about 20% of the total public investment of each year, being valued as a major source of their funding. The value gained has increased, even our country is not among the main beneficiaries compared to the other countries in the region,. The main problems identified include: co-financing, the lack of transparency of the legal framework regarding fiscal obligations, property rights and lack of capacities. As a result, it is recommended to improve all these indicators by increasing the opportunities for these funds to apply them in an efficient way, thus guaranteeing social and economic cohesion.

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