

# Effectiveness in the use of IPARD II funds and expectations for absorption of IPARD III funds in Albania

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## Abstract

*In recent years, the Albanian government has paid a lot of attention to the revitalization of agriculture, agritourism and the development of rural areas. The Agency for Agricultural and Rural Development (AZHBR) is a cornerstone of the government's support system and has drastically increased government assistance (technical and financial) to Albanian farmers. The IPARD program (Instrument for Pre-accession Assistance for Rural Development), since 2018, with 75% contribution from the European Union and 25% national contribution, implemented by AZHBR and designed in cooperation with the Managing Authority, has brought a new era for agriculture and other fields of activity of rural businesses, influencing the growth of exports and income for farmers and agro-processors throughout the country. This paper aims to analyze the effectiveness of the funds disbursed or expected to be disbursed from the IPARD II Program (2014-2020) and to simultaneously identify the expectations from the IPARD III Program (2021-2027).*

**Keywords:** Effectiveness, IPARD program, funds, expectations, rural businesses

## INTRODUCTION

According to the World Bank, agriculture plays an important role in Albania, becoming an important source of income support in rural areas. Currently, the sector contributes 25 percent of GDP, compared to neighboring countries.

In the framework of the efforts made for the integration in the European Union, the Albanian Government, as a candidate country in the EU, is challenged for the full approximation of the EU legislation (acquis), its implementation as well as the implementation of legal, political, economic, administrative and other reforms to meet the criteria for membership. Referring to Chapter 11 of the National Plan for European Integration "Agriculture and Rural Development", it is intended to enable the operation of the Common Agricultural Policy of the EU (CAP). As a result, one of the requirements for meeting European standards has been the establishment of management and quality systems, such as the establishment of a payment agency and the integrated administration and control system (IACS), as well as other capacities to implement rural development measures.

In 2018, the Agency for Agricultural and Rural Development (ARDA) was accredited as a Paying Agency for the IPARD II program for the decentralized implementation of the budget of 94.6 million Euros, of which 71 million Euros is the EU contribution and 23.6 million Euros is the national contribution (Ministry of Agriculture, 2021). The IPARD II program supports investments in the agri-food sector with the aim of improving competitiveness, compliance with EU standards and preserving nature and the environment. Also, the focus is on supporting investments in rural areas with the aim of diversifying the rural economy and creating business, leading to the improvement of employment opportunities and social inclusion. The program aims to support farmers, economic-agricultural entrepreneurs, including Agricultural Cooperation Societies (ASCs), natural and legal persons, micro-enterprises and small private non-agricultural enterprises that make investments in the production and processing of milk, meat, fruits, vegetables, aromatic and medicinal plants and vineyards. In this program there are four support measures: (a) Measure 1: "Investments in physical assets in agricultural farms"; (b) Measure 3: "Investments in physical assets for the processing and marketing of agricultural and fishing products"; (c) Measure 7: "Farm diversification and business development" and (d) Measure 9: "Technical Assistance".

As the funds of the IPARD II program are disbursed, work is being done in same time with the updating of existing procedures and the creation of manuals for the new support measures that the IPARD III program will bring. The program's budget will be 146,410,353 Euros, co-financed 112,000,000 Euros from the European Union and 34,410,353 Euros from the Albanian Government (Ministry of Agriculture, 2022). In IPARD III, five new measures will be added: (a) Measure 4: "Climatic environmental measure and organic agriculture"; (b) Measure 5: "Implementation of local development strategies - LEADER"; (c) Measure 6: "Implementation in Rural Public Infrastructure"; (d) "Measure 10: "Advisory services" and (e) Measure 11: "Forestry".

## LITERATURE REVIEW

All member states of the European Union and especially candidate countries have to consider as a very important issue the usage of financial assistance allocated from the resources of the EU budget. In order to fully gain from these resources, each country needs an adequate absorption capacity.

Albania can be considered as a test case for the effectiveness of Western aid for economies in transition. While its economic situation certainly appears to be more disastrous than that of any other Central and Eastern European countries, the country's advantages (its small size, its natural and human resources, and its geopolitical importance) may help speed economic recovery. The amount of foreign financial aid in a country like Albania is measured by the absorptive capacity of the country (Kepi, 2018). According to Mrak and Tilev (2008) state that absorptive capacity indicates the extent to which a country is able to effectively and efficiently spend financial resources from the EU in order to make a significant contribution towards economic and social cohesion.

The use of the absorptive capacity concept is still ambiguous, as it was in the past: it both reflects a genuine effectiveness concern in case of increasing aid flows, but also a possible pretext to limit or postpone an increase of aid volume (Guillaumont & Jeanneney, 2011). Fagerberg and Srholec (2008), argue that, the absorption capacity of

countries, especially countries with economies in transition, is influenced by the following determinants of economic development:

- Information and communication technologies (ICT) (computers, the internet, telecommunications);
- Product quality (standards);
- Quality of governance (law, order, business-friendly regulation, independence of the courts);
- Skills (education, technical, and management skills);
- Science (R&D, scientific publications, patents, R&D expenditures, science policy, scientists' social networks);
- Social values (tolerance, trust, social activities);
- Openness (openness to trade and FDI, immigration, technology licensing);
- Finance (stock market, venture capital, bank loans).

According to Sumpikova et. al. (2004), absorptive capacity means the extent to which a country is able to fully use the financial resources allocated by other donors and especially the EU funds effectively and efficiently.

There are concerns that additional aid will not be used effectively due to a problem of absorptive capacity in recipient countries (Feeny and De Silva, 2012).

According to Ivandic et. al. (2013) The effectiveness of absorbing EU funding on a national level is frequently presented in various ways in the form of rates, such as commitment rates, contracting rate (the share of signed funds), payment rates, etc. The main influence on the absorption of the EU pre-accession programs is the administrative issue.

Following the aim of this paper, the absorptive capacity will be considered as a key factor that influence Albania's country ability to use financial resources from EU pre-accession programs.

## **METHODOLOGY**

Following a comparative based approach, the methodology used in the analysis of the effectiveness of the use of IPARD II funds (2014-2020) and the expectations for the absorption of IPARD III funds (2021-2027) in Albania is based initially on analyzing the disbursement of funds to each beneficiary for each support measure by compared with the objectives set by the European Union in the IPARD II program, the number of contracts concluded in each of the four calls for applications according to investment types was analyzed and the support for each region of Albania was identified. Secondly, the new support measures and the addition of new sectors in the IPARD III program, the budget and objectives set by the EU for the contracts that will be concluded under this program and the way in which these funds are expected to be absorbed by Albanian farmers and agricultural-processors have been analyzed. Thirdly, the essential differences between the two programs IPARD II and IPARD III are reflected, the differences for each support measure, how the criteria for applicants have changed and what innovations there will be in the IPARD III program.

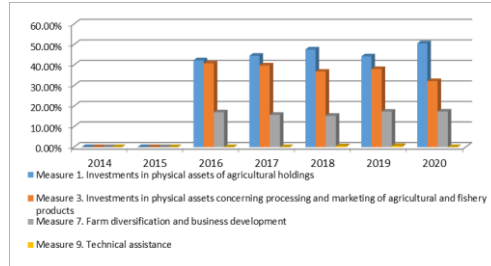
The main data for this paper were obtained from the Rural Development Program 2014-2020 under the Instrument for Pre-accession Assistance (IPA), the Rural Development Program 2021-2027 under the Instrument for Pre-accession Assistance

(IPA), and from the publication of the list of beneficiaries for the four calls for applications of the IPARD II Program on the official website of ARDA.

## ANALYSIS OF THE USE OF IPARD II FUNDS IN ALBANIA (2014-2020)

According to chart no. 1 "Allocation of EU funds according to measures (2014-2020)", we note that Measure 1 "Investments in physical assets on agricultural farms" is the measure with the highest support from the European Contribution. After this measure, Measure 3 "Investments in physical assets for the processing and marketing of agricultural and fishing products" is less supported. Measure 7 "Farm diversification and business development" is the least supported of the three measures in the field of agriculture and rural development. Measure 9 "Technical Assistance" is the measure that supports ARDA and the Managing Authority related to costs for covering the expenses of opening calls, conferences, promotional tools, etc. This measure has the lowest contribution from the European Union.

Figure 1: Allocation of EU funds by measures (2014-2020)



Source: Rural Development Program 2014-2020 under the Instrument for Pre-Accession Assistance (IPA)

## INDICATORS AND OBJECTIVES

### *Agriculture*

The total planned investment in agriculture within IPARD II for the period 2014-2020 is €52.08 million ((Ministry of Agriculture, 2021). The planned investment will cover 430 projects, each of which will have an average value of total eligible expenses of €121,124. This level of total investment per project is similar to the average total investment in agriculture under IPARD Like (€119,000). If 50% of the investments enable the creation of new jobs through increasing capacity, while the other 50% preserve existing jobs through increasing productivity and quality, the number of new jobs will be 940 and the total investment needed to workplace is €27,715. With the planned average rate of private co-financing of 36%, the public expenditure for the work is €17,750.

### *Agriculture Food processing*

The total planned investment in agriculture food processing (support measure no. 3) according to IPARD II for the period 2014-2020 is €70.6 million ((Ministry of Agriculture, 2021). This is planned to be realized through 180 projects with an average investment of €392,593. This level of total investment per project is comparable to the average total investment in agriculture food processing according to IPARD Like (€379,000). Investments will be a combination of increasing capacity on the one hand

and increasing productivity and quality on the other. If 50% of the investments enable the creation of new jobs through increased capacity, while the other 50% preserve existing jobs through increased productivity and quality, the number of new jobs will be 1,159 and the total investment needed to work €61,000. With the planned average private co-financing rate of 50%, the public expenditure for the work is €30,500.

### ***Diversification***

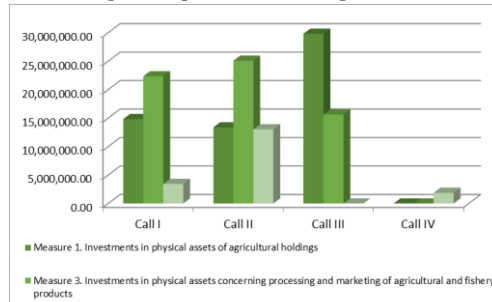
IPARD II plans to support 150 projects under the diversification measure (support measure no. 7) with a total investment of €22.6 million (equal to an average of €150,427 per project). (Ministry of Agriculture, 2021). The expected number of jobs created is 500, or 3.3 jobs per project (equivalent to €29,333 in public expenditure per job created with a support rate of 65%). If 50% of these jobs are new and 50% are ongoing jobs, the result is 627 new jobs. If the public costs for work are equal to 65% of the total investment, the price for work is €23,400. The total number of jobs affected will be 5,452 full-time jobs. Of these jobs, 50% (2,426) are estimated to be new. The implementation of the IPARD II Program can be up to: 4 years (2017-2020) + 3 years (N+3 rule) = 7 years. The later the investments are made, the weaker the impacts will be. If all new jobs are paid at an average annual salary of €3,600, over €8.9 million of the generated Gross Value Added will be paid to employees in the jobs created. Most of the jobs will be located in rural areas and thus contribute to the economic growth of these areas, reduce inequalities to some extent and in all circumstances ensure that farms and agricultural companies benefiting from IPARD II will contribute to better income generation opportunities.

### **USE OF IPARD II PROGRAM FUNDS (2014-2020)**

In the IPARD II Program, 4 calls for applications have been opened. Based on the lists of beneficiaries published on the official website of AZHBR, in the First Call for Applications (November 2018 - January 2019) a total of 128 contracts were concluded, of which 90 contracts were in Measure 1 "Investments in physical assets in agricultural farms", 25 contracts in Measure 3 "Investments in physical assets for processing and marketing of agricultural and fishery products" and 13 contracts in Measure 7 "Farm diversification and business development".

In the Second Call for Applications (October 2019 – December 2019) a total of 179 contracts were signed. 85 beneficiaries were successful in their applications in Measure 1 "Investments in physical assets in agricultural farms", 39 of them in Measure 3 "Investments in physical assets for the processing and marketing of agricultural and fishery products" and 55 in Measure 7 "Diversification of farm and business development". The Third Call for Applications (December 2020 – January 2021) was opened only for applications in Measure 1 and 3, because the budget of Measure 7 was exhausted with the previous 2 calls. In this call, 139 contracts were signed from Measure 1 "Investments in physical assets in agricultural farms" and 16 in Measure 3 "Investments in physical assets for the processing and marketing of agricultural and fishery products". The Fourth Call for Applications (January 2022 – February 2022) was published only for applicants who show interest in applying to Measure 7. The budget of this measure was created from the differences created in previous projects of this measure which were paid in value lower than they had contracted. In this Call, 6 contracts have currently been concluded for Measure 7 "Farm diversification and business development".

Figure 2: Value of eligible expenses according to calls– IPARD II in Euro



Source: Lists of IPARD II Program beneficiaries ([www.azhbr.gov.al](http://www.azhbr.gov.al))

From the chart above, we notice that in Measure 1 "Investments in physical assets in agricultural farms", the total eligible expenses are higher in the third call for applications, in Measure 3 "Investments in physical assets for processing and marketing of products agricultural", the total of accepted expenses is higher in the second call for applications, as also in Measure 7 "Farm diversification and business development", the total of accepted expenses is higher in the second call for applications .

The total eligible expenses in the first call for applications is 40,595,175.84 Euros, where if we get an average support at the grant level of 65%, there are about 26.3 million Euros co-financed by the European Union and the Albanian Government. In the second call, the total eligible expenses are 51,455,784.12 Euros, where about 33.4 million Euros are estimated from the grant from the EU contribution and national contribution. In the third call, the figure of 45,441,472.88 Euros of eligible expenses is reached, and a value of 29.5 million Euros at grant level. The fourth call for applications has a total of 6 beneficiaries in Measure 7, with a value of eligible expenses of 1,879,294.98 Euros, which are injected into the Albanian economy by agritourism. The total grant co-financed by the EU and the Albanian Government is 1,221,541.74 Euros.

Analyzing these figures, it is noted that there is a difference between the dedicated budget of the IPARD II Program and the contracted value. For this reason, it is expected that contracts will still be signed, in order to absorb the entire IPARD II fund. So far, according to the N+3 rule, Albania has not risked "burning" of funds. All dedicated IPARD II funds have gone to farmers, agricultural-processors and agribusinesses or rural businesses. From the published data, it can be seen that many contracts between ARDA and winning applicants were concluded early, but the funds were disbursed up to two years late. In our judgment, there are a number of factors that have influenced these delays.

First, there are major exceptional reasons that do not depend on the applicant or the ARDA. We mention here the earthquake of 2019, the pandemic that started in the first months of 2020, and now the Ukraine-Russia war, which has influenced the increase in the prices of construction materials, agricultural materials, etc.

Second, it could be the capacity of ARDA to manage the processes of review and payment authorization of applicant files. The institution may not have enough qualified staff to rapidly review application files until payments are finalized.

Third, technology is moving at a breakneck pace, but IPARD application files are all submitted manually via the ARDA protocol. If online applications were accepted, all processes would be expedited.

### **EXPECTATIONS IN THE ABSORPTION OF IPARD III FUNDS (2021-2027)**

The IPARD III program responds to the priorities of the European Union Strategy for the Adriatic and Ionian Region (EUSAIR), which was adopted in 2014. EUSAIR is a macro-regional strategy, which covers four EU member states (Croatia, Greece, Italy and Slovenia) and four non-member states (Albania, Bosnia and Herzegovina, Montenegro and Serbia). The overall objective of the Strategy is to promote sustainable economic and social prosperity in the region through growth and job creation, and by improving its attractiveness, competitiveness and connectivity, preserving the environment and ensuring healthy and balanced marine ecosystems and coastal. EUSAIR has four thematic pillars i) Blue Growth - innovative marine and maritime growth; ii) Connecting the region - transport and energy connection; iii) Environmental quality through cooperation at the district level; iv) Sustainable tourism. EUSAIR will mobilize and harmonize existing EU and national funding instruments (including IPA) for each of the themes identified in the four pillars. The fourth pillar of EUSAIR is coordinated by Croatia and Albania. The objective of this pillar is to develop the full potential of the Region in terms of innovative, sustainable and quality responsible tourism. The Albanian IPARD III program will contribute to the objectives of the fourth pillar through support for nature and rural tourism in rural areas.

The total budget of the IPARD III Program will be 146,410,353 Euros (Ministry of Agriculture, 2022), with 112,000,000 EU Contribution and 34,410,353 Euro National Contribution. The supporting measures will be: (i) Measure 1: "Investments in physical assets in agricultural farms"; (ii) Measure 3: "Investments in physical assets for the processing and marketing of agricultural and fishing products"; (iii) Measure 4: "Climatic agricultural-environmental measure and organic agriculture"; (iv) Measure 5: "Implementation of local development strategies - LEADER"; (v) Measure 6: "Implementation in Rural Public Infrastructure"; (vi) Measure 7: "Farm diversification and business development"; (vii) Measure 9: "Technical Assistance"; (viii) "Measure 10: "Advisory services" and (ix) Measure 11: "Forestry".

#### **Financial plan 2021-2027**

The IPARD III program envisages distributing the budget of the European Contribution in 7 years according to the following table:

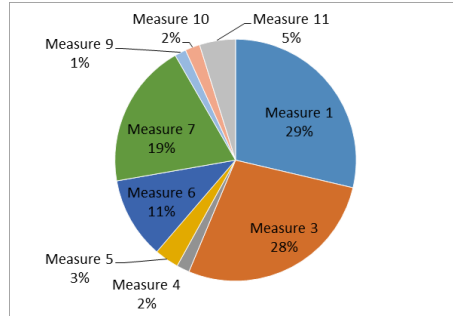
**Table 1. Maximum EU contribution to IPARD III funds in Euro for the years, 2021-2027<sup>1</sup>**

Year	2021	2022	2023	2024	2025	2026	2027	2021-2027
Total	8,000,000	10,000,000	12,000,000	16,000,000	19,000,000	23,000,000	24,000,000	112,000,000

Source: Rural Development Program 2021-2027 under the Instrument for Pre-Accession Assistance (IPA)

From the table, we notice that the highest budget is dedicated to the last year of the Program, and the lowest budget to the first year. In order not to "burn" the funds, this program will make disbursements according to the N+3 rule.

**Figure 3: Total budget of the IPARD III program**



Source: Rural Development Program 2021-2027 under the Instrument for Pre-Accession Assistance (IPA)

The measures that will be supported the most by this program will be: Measure 1 with 29% or in value of the public contribution (EU contribution + national contribution) will be 41,973,333 Euros. Then, it follows with Measure 3 with 28% or 40,480,000 Euros. After that, Measure 7 will be supported with a budget of 28,434,667 Euro or 19% of the total budget.

### Indicators and targets

To address the identified needs of the sector, the interventions of the national agricultural policy in the next strategic period 2021-2027 define the general objectives of the program:

- Strengthening a sustainable and competitive agri-food sector
- Strengthening environmental protection and climate actions
- Strengthening the socio-economic structure of rural areas
- Promotion of sustainable marine development and aquaculture

These objectives will be complemented by the horizontal objective of modernizing the sector by encouraging and sharing knowledge, innovation and digitization in agriculture and rural areas and by encouraging their acceptance by farmers and other actors of the sector. Achieving the defined strategic objectives will be achieved through targeted agricultural policy interventions in several specific areas that have been presented as specific objectives:

- Increasing the sustainability and resilience of farms;
- Increased competition and market orientation;
- Improving the response to society's demands for safe, nutritious and sustainable food, as well as for animal welfare;
- Contribution to climate change mitigation and adaptation, as well as sustainable energy;
- Promoting sustainable and efficient management of natural resources;
- Protecting biodiversity, increasing ecosystem services and preserving habitats and landscapes;
- Strengthening rural employment and business development, including sustainable forestry;
- Strengthening the formation of social capital for comprehensive local development initiatives;



- Promoting sustainable fishing and conservation of marine biological resources;
- Contributing to food security through aquaculture and competitive and sustainable markets and prosperous coastal communities.

According to the IPARD III Program, until its end in 2027, the values according to the following indicators are targeted:

***Measure 1. Investments in physical assets in agricultural farms***

If we refer to the budget of the IPARD III Program (Ministry of Agriculture, 2022) for this measure, the number of farms and agricultural-food processing enterprises that will be supported for the modernization of the existing ones is expected to be in total 600, and in value as a total investment of 72.6 million euros. At the same time, the number of farms receiving support from IPARD investments to progressively adapt to EU standards for hygiene and animal welfare is expected to be 400. The target value in 2027 for the number of new jobs that will be created is 130, while the number of new farmers will be 90.

***Measure 3. Investments in physical assets for the processing and marketing of agricultural and fishing products***

According to the budget determined for this measure, in 2027 it is intended to achieve: the number of farms and agricultural-food processing enterprises supported by IPARD in modernization 300, the value of the total investment in physical capital by the supported enterprises (EUR) 118,000,000 Euro, the number of farms and food processing enterprises receiving IPARD investment support to progressively meet EU standards for animal hygiene and welfare 300 and the number of new jobs created (gross) 500.

***Measure 4. Climate agricultural-environmental measure and organic agriculture***

In 2027, for this support measure it is intended to achieve: 375 signed contracts, 910 ha of agricultural land according to environmental contracts, 3 types of operation supported, 410 ha of total area for type of operation organic agriculture and 375 properties supported.

***Measure 5. Implementation of local development strategies - LEADER***

The target values at the end of the IPARD III Program related to this support measure will be: 10 local development strategies (LEADER); 50 new jobs (gross), 300,000 will be the population covered by LAG and 220 small paid projects.

***Measure 6. Implementation in Rural Public Infrastructure***

The budget dedicated to this support measure allows to achieve in 2027: 16.000.000 Euro total investment in rural diversification, business development and infrastructure, 1,000 new jobs, 90 new infrastructures supported and 10 beneficiaries in IPARD with support in investments related to care for the environment or climate change.

### ***Measure 7. Farm diversification and business development***

In 2027, according to the indicators for this support measure, the following will be achieved: 30 farms and agricultural-food processing enterprises supported by IPARD in modernization, 7,500,000 Euro total investment in farms and the agri-food sector, 250 beneficiaries of IPARD investment support in rural diversification and development of business, 35,500,000 Euro total investment in rural diversification, business development and infrastructure, 500 new jobs (gross) and 70 new farmers receiving support from IPARD for these types of investments.

### ***Measure 11. Forestry***

In this support measure from the IPARD III Program, it is intended to forestate 60 ha of agricultural land, 270 ha of non-agricultural land, 751 ha of created agroforestry systems.

## **SIMILARITIES AND DIFFERENCES BETWEEN THE IPARD II PROGRAM AND THE IPARD III PROGRAM**

Although the IPARD II program has been implemented starting from 2018, IPARD III will continue to provide support for the physical investments that must be made in order to comply with EU standards (environment, animal welfare), improve performance economic and environmental aspects of agricultural economies, to provide the necessary infrastructure for the development of agriculture and the necessary investments for achieving environmental goals, increasing the position of farmers in the food chain and promoting the regeneration of the labor force in the agricultural sector. Investments in physical assets are necessary to improve overall productivity, economic sustainability and the achievement of national and unique standards in agricultural economies. There is a general lack of equity capital at the farm level, so public support is needed to encourage investment. To compete successfully in an increasingly open market, the food processing industry must modernize technologies and improve food safety management systems. The food industry must establish safe collection, transport and storage of raw materials to reduce waste and ensure food safety. To contribute to the mitigation of climate change, to promote the sustainable management of natural resources and to reduce the negative impact of agricultural activities on the environment, together with the progressive introduction of cross-compatibility in direct payments, "Agri-environmental climate measures and of organic agriculture" will be a new measure which will be presented exclusively in the IPARD II Program. The continuation of Measure 9 from IPARD II "Technical Assistance" will enable the strengthening of the capacities necessary for the successful implementation of the program and the further development of monitoring and evaluation of the program. In line with IPARD program, support will be provided for key cross-cutting issues such as land consolidation, farmer groups and collective investment, extension services, access to finance, environmentally friendly irrigation systems, with the aim of stimulating private investment and increasing the sector's competitiveness. Rural infrastructure will also be supported with IPARD III funds with the objectives to create a favorable environment for rural economic growth, to increase the quality of life in rural communities and to promote balanced territorial and sustainable development in rural areas; this will include physical assets (e. g. rural/agricultural roads, water management, waste management, energy supply etc.). IPARD will facilitate business

development, growth and employment in rural areas, improve the position of farmers within the value chain and attract new farmers to agriculture. Also, the diversification of economic activities, including rural tourism, will continue to be promoted through measure 7 in the IPARD III program. The involvement of civil society in the planning and local development process will be promoted through the creation of Local Action Groups.

IPARD III will contribute to the increase of forest cover, or the expansion of the surface of other forest lands, whether in agricultural, degraded or other land in order to provide environmental services, to promote agroforestry practices, to prevent damage to forests from forest fires and to improve the resilience and environmental value of forest ecosystems. Finally, capacity building activities will address two important issues for agriculture and rural development. First, support will be provided to improve the quality of farm advisory services in the country. Second, IPARD will improve community development and social capital in rural areas and build modern public administrations for agriculture and rural development, respecting the principles of good governance.

## CONCLUSIONS

From the observations, it is noted that the funds from the IPARD II Program have brought a significant increase in the agricultural sector and rural development. However, all lessons learned from the IPARD II Program should be reflected in the procedures and processes of the IPARD III Program. With the passage of several calls for applications, farmers, agricultural-processors, rural businesses or agribusinesses have gained experience in completing documentation and how to benefit from IPARD funds. The expectation is that the following projects, which will apply to the Program, will be more sustainable and have a positive impact on the economy of rural areas. We recommend that the objectives to be achieved through the projects that will apply for IPARD III funds include: i) improving the competitiveness, efficiency and sustainability of the agri-food sector, providing a better response to society's demands for safe, nutritious and sustainable, ii) territorially balanced and sustainable development of rural areas and, iii) reduction of the negative impact of agricultural activities on the environment, through climate change mitigation and sustainable management of natural resources.

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<sup>1</sup> The annual contributions are purely indicative as the actual amounts are set each year within the framework of the EU budget