

Project Fiche No 14– IPA National programmes / Component I

1 IDENTIFICATION

Project Title	<i>Establishment of the Rural Credit Guarantee Fund</i>
CRIS Decision number	<i>2012/023-036</i>
Project no.	<i>14</i>
MIPD Sector Code	<i>8. Agriculture and rural development</i>
ELARG Statistical code	<i>02.11 Agriculture and Rural Development</i>
DAC Sector code	<i>31120 - Agricultural development</i>
Total cost (VAT excluded)¹	<i>EUR 5.5 million</i>
EU contribution	<i>EUR 5.0 million</i>
Management mode	<i>Centralised indirect</i>
EU Delegation in charge	<i>EU Delegation to Albania in indirect centralised management with Kreditanstalt für Wiederaufbau (KfW) in accordance with Article 54(2) (c) of the Financial Regulation</i>
Implementation management	<i>Kreditanstalt für Wiederaufbau (KfW)</i>
Implementing modality	<i>Stand-alone project: delegation agreement with KfW</i>
Project implementation type	<i>C01 - Project-type interventions</i>
Zone benefiting from the action(s)	<i>Albania</i>

2 RATIONALE

2.1 PROJECT CONTEXT: ISSUES TO BE TACKLED AND NEEDS ADDRESSED

Agriculture continues to be one of the main sectors of the economy, generating about 16.9% of Gross Domestic Product. Around 50% of the total population lives in rural areas, where agriculture is the main economic activity.

¹ The total project cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

The structure of agriculture is dominated by livestock, providing more than 52% of the overall production; with arable crops accounting for 31% and permanent crops 17% (2010). Despite an increase in the farm expenditures with regard to inputs and services, factor productivity in agriculture remains low compared to the rest of the Albanian economy as conditioned by a series of constraints related to very small farm size, increasing average age of farm operator, limited access to credit, etc.

Nevertheless, there is a positive trend with regard to investments (mostly with own means and more recently with direct government support) in agriculture. For example, during the period 2005 – 2010, number of fruit trees grew annually by around 13% while the area planted with vineyards grew by 10%. Number of farms managing a larger number of livestock has also increased significantly.

However, due to various constraints such as very small size of the farms, still persisting land ownership claims, low productivity and income from farming, lack of appropriate education management experience in farming, lack of collateral and lack of capacity to present a sound business plan, has caused about loss of interest of the banking sector on crediting the agricultural sector for the past 20 years.

The banking sector in Albania consists of 16 licensed banks, with majority of foreign owned capital (95%). There are three major players: Raiffeisen, National Commercial Bank (BKT) and Intesa San Paolo, comprising approximately 27% of the total banks assets and approximately 60% of the total banking activities. In addition, the sector includes 13 Non-bank financial institutions, 221 Foreign exchange bureaus, 135 Savings-loan associations and 2 Unions of savings-loan associations (as from the list of licensed entities from the Bank of Albania until 2009)

The lending performance of the Albanian banks in the past two years was influenced by the world economic and financial crisis, ending with lower credit portfolio growth rates comparing to previous years. That was not a sole case, since there was the same trend in the countries in the region. In parallel, non-performing loans have increased rapidly and loan portfolio quality has worsened.

This situation has led to implementation of more conservative credit policies and procedures, thereby trying to reduce the credit risk. Due to the global financial crisis and the difficult economic environment the commercial banks tighten their lending policy. While current bank deposits have reportedly surpassed pre-crisis levels and bank liquidity has improved, the demand for credit is still low.

In December 2009, the growth rate of loans dropped to 10% from 35% in 2008. The low demand for credit continued into 2010, with the growth rate of loans slowing to 9.1% for the first 6 months of 2010. In general, the banking sector remains viable, well capitalized, and able to further finance the economy, as the ratio of loans to deposits, approximately 65%, is still low compared to Western standards.

2.2 LINK WITH MIPD AND NATIONAL SECTOR STRATEGIES

This project is in line with the **MIPD 2011-2013**, having as a main goal of Albania's rural development policies the contributing to the equal development of all rural areas in Albania to improve the quality of life in rural areas through sustainable development of human and natural resources and diversifying non-agricultural activities, to create new jobs in order to reduce poverty, and to increase sustainable and balanced rural development.

For the coming three years the main specific objective of the MIPD is to improve overall the competitiveness of the agricultural sector and the employment in rural areas should be increased through diversified agricultural economic activities.

Strategic priorities under the **NSDI's Agriculture and Food Sectoral Strategy 2007-2013 (AFSS)** include the development of a sustainable agricultural sector, resulting in

- An increase of employment,
- An increase of income and living standards of farmers and their households;
- An increase of economic efficiency of the agricultural and agro-processing sector.

Strategic priorities under the NSDI's **Rural Development Crosscutting Strategy (RDCS)**:

- to increase the competitiveness of the agricultural and agro-processing sector through farm modernization measures and support for restructuring and value adding activities
- to improve the quality of life and promote diversification of economic activities in rural areas to create new jobs
- to develop the capacities of local institutions to effectively manage rural development programmes

This project's intervention field is in line with the objectives set out by the **Strategy for Rural Development**, which aims to:

- contribute to a fair development of all rural regions in Albania,
- improve the quality of life in Albania's rural area in a sustainable way,
- reduce poverty among rural population.

This project's intervention field is in line with the Strategic Objectives and specific goals set out in the **AFSS**:

- establish a sound and sustainable land management to support the development of a sustainable agricultural sector;
- increase employment, income, and living standards of farmers and their households;
- increase productivity and economic efficiency of the agricultural and agro-processing sector;
- ensure higher food safety standards for the entire population;
- improve agricultural marketing.

2.3 LINK WITH ACCESSION PARTNERSHIP (AP) / EUROPEAN PARTNERSHIP (EP) / STABILISATION AND ASSOCIATION AGREEMENT (SAA) / ANNUAL PROGRESS REPORT

The project will assist achieving the medium-term priorities of the **European Partnership**² i.e. "develop strategies for land use, the land market, rural development, diversifying of farm activities and enhancing of agricultural competitiveness.

The project will help Albania to modernize and restructure the Albanian agriculture and agro-industrial sector while supporting the gradual approximation of Albanian legislation and practices to the Community rules and standards as provided for in Article 95 of the **Stabilisation and Association Agreement**.

The project takes into account the comments/recommendations stated in the **Commission's 2010 Analytical Report**³, stating that: "Albania will have to strengthen its administrative capacity and focus on setting up basic instruments and institutions for management and control of the funds available under the common agricultural policy. One important measure is timely preparation for the implementation of the assistance for rural development available from the Instrument for Pre-accession Assistance (IPA). Albania needs to establish a solid basis of precise agricultural statistics. Particular attention must be paid to strengthening administrative capacity to manage common market organization and rural development activities."

In the **Commission's 2011 progress report**, it is stated that:

- "Subsidies in 2010 are estimated to have declined to 0.3% of GDP from 0.4% in 2009. While there is no specific financial assistance for companies, subsidies are granted to a limited number of sectors, namely railways and water supply. State aid granted to the energy sector has declined since 2009. Overall, State intervention remains limited." ⁴
- "Good progress can be observed with regard to rural development. Good progress has been made in setting up the structures for the implementation of the Instrument for Pre-Accession Assistance for Rural Development (IPARD) programme, the segregation of duties has been defined at the Albanian Rural Development Agency (ARDA) and staffing improved. Both the rural development strategy and the agriculture and food strategy need to be updated." ⁵

"While some organic farming has been subsidized through direct schemes, most activities in the sector have been driven by donor funding. Financial resources have continued to be allocated with a positive effect on agricultural production and farm competitiveness

The project will assist the achieving of the medium-term priorities i.e. "develop strategies for land use, the land market, rural development, diversification of farm activities and enhancing agricultural competitiveness" as included in the Council Decision 2008/210/EC of 18 February 2008 on the principles, priorities and conditions contained in the **European Partnership (EP) with Albania** and repealing Decision 2006/54/EC.

The project will help Albania to modernize and restructure the Albanian agriculture and agro-industrial sector while supporting the gradual approximation of Albanian legislation and practices to the Community rules and standards as provided for in Article 95 of the **Stabilisation and Association Agreement (SAA)** between the Government of Albania and the European Community signed on 12 June 2006.

² Council Decision 2008/210/EC of 18 February 2008 on the principles, priorities and conditions contained in the European Partnership (EP) with Albania and repealing Decision 2006/54/EC, pg 20

³ Analytical Report Accompanying the Communication from the Commission To The European Parliament And The Council, Commission Opinion On Albania 'S Application for Membership of the EU {Com(2010) 680}

⁴ Chapter 3.2., Title: State influence on competitiveness, page 29.

⁵ Chapter 4.11. – Agriculture and rural development (pg.38-39):

This project is also in line with the priorities set out in the **National Plan for the Stabilization and Association Agreement (NPSAA), Chapter 3.8.7 “Rural development and agricultural structures”** such as (i) increase employment and income from non-agricultural products, (ii) increase access of rural population to financial sources from banking and non-banking sector and (iii) decrease rural migration and establish closer relations with the rural community

2.4 PROBLEM ANALYSIS

The EU is assisting Albania to implement an IPARD-like programme consisting in the adoption of a grant scheme for investments in the production, processing and marketing of agricultural products.

Furthermore, the investment must be pre advanced, so the qualified beneficiaries have to find a credit from a bank. However, the price of credit remains high in agricultural financing and the collateral requirements are a still a big obstacle. Few banks such as the ProCredit Bank are active institutions providing credit to agriculture and rural areas.

The objective of the project is to support Albania in the setup of the institutional framework that will facilitate the financing of investments in agriculture from the banking sector while developing EU/IPARD compliant mechanisms/instruments.

The main stakeholder and beneficiary of the action will be the agriculture sector that will be encouraged to make investments. Further, the banking sector will feel more secure to lend to farming sector due to the effective presence of the guarantee fund.

The project is expected to provide the necessary instruments to build up the institutional, legal, administrative framework of the Credit Guarantee Fund within established timeframe.

2.5 LINKED ACTIVITIES AND DONOR COORDINATION

- **IPA 2011 project “Support to Agriculture and Rural Development”** - With the overall objective: Aligning agricultural policies of the Ministry of Agriculture, Food and Consumer Protection to EU Accession priorities. And project purpose: Improve capacity of management and control systems to implement effective and efficient projects under the Instrument for Pre-accession Assistance component V (IPA-V).
- **USAID project “Development Credit Authority”** aims to co-guarantee facility will allow the banks to offer products that offer more favorable terms than currently, and also to consider loans which might not otherwise be considered.
- **Sustainable Development of Mountain Rural Areas (2006) and Mountain to Market Programme (2009)** projects both implemented by the Mountain Areas Development Agency (MADA) that has adopted a credit guarantee scheme on the grants implemented under the programme.
- The bilateral project **“Value chain for sustainable livelihood”** (Promali) financed jointly by SNV and the Dutch Government combines capacity building for designing evidence-based policies and works directly with beneficiaries, providing grants to selected stakeholders – mostly to small processing units for dairy and fruits

2.6 Lessons learned

Experiences with various projects have indicated that if the identified preconditions such as approval in time of legal acts, physical establishment of the relevant bodies, cooperation among various agencies and allocation of the necessary human and financial resources from the government, delays to implementation of the project have been incurred.

Such problems are taken note and the Ministry of Agriculture, Food and Consumer Protection is committed to take all the necessary measures to have the preconditions met and ensure the successful implementation of this project.

3 DESCRIPTION

3.1 OVERALL OBJECTIVE OF THE PROJECT

To contribute to a major involvement of the Albanian Financial Sector in the rural area and to assist in the improvement of the competitiveness of the Albanian Agricultural Sector in connection with the Albanian strategy of the accession process to the European Union (EU).

3.2 SPECIFIC OBJECTIVE(S) OF THE PROJECT

To set up the Credit Guarantee Fund in order to facilitate bank lending to medium and small-medium enterprises in the agricultural sector and agro-processing industries.

3.3 RESULTS

RESULT 1: THE CREDIT GUARANTEE FUND (CGF) IS SET UP

Indicators

- All legal and institutional conditions are fulfilled and agreed by the MAFCP
- The CGF is staffed
- The CGF is funded

RESULT 2: CREDIT ANALYSIS AND RISK MANAGEMENT OF PARTNER BANKS ARE IMPROVED

Indicators:

- Technical Assistance for partner banks has been provided

RESULT 3: THE CREDIT GUARANTEE FUND IS OPERATIONAL

Indicators:

- Number of partner banks are signing a cooperation agreement
- The developed processes are established and workable
- Guarantees are provided for agricultural lending

3.4 MAIN ACTIVITIES

Activities related to result 1:

- Activity 1.1 - Carry out an assessment of the existing mechanisms and instruments to facilitate access to bank finance to MSME in the agricultural sector and processing industries of agricultural products in rural areas.
- Activity 1.2 - Develop the CGF concept, design its structure, functions and budget of CGF
- Activity 1.3 – Carry out awareness campaign to make the CGF known to potential beneficiaries and banking system
- Activity 1.4 – Establish the CGF staff and carry out the payment of CGF capital

Activities related to result 2:

- Activity 2.1 – Select the partner banks and provide assistance on credit analysis and risk management
- Activity 2.2 - Assist the CGF in the releasing of credit guarantees and provide on-job and other forms of training to the staff

Activities related to result 3:

- Activity 3.1 – Ensure the necessary space, facilities, working arrangements and budget for the functioning of the CGF

3.5 ASSESSMENT OF PROJECT IMPACT, CATALYTIC EFFECT AND CROSS BORDER IMPACT (WHERE APPLICABLE)

Main impact of the project is expected to the facilitation of access to bank finance to MSME in the agricultural sector. Due to enhanced awareness of beneficiaries about economic advantages and opportunities offered by IPARD programme, there will be also an increase on the demand for new projects in the field of agriculture and rural development. This project will lead to the increasing the likelihood for successful implementation of IPARD in the future, having all main actors gained practical experience and knowledge on implementation of IPARD-compliant projects,

The catalytic effect of the project is expected to Increase the overall investment in agriculture and rural development

Cross border impact – N.A.

3.6 SUSTAINABILITY

Sustainability the project will depend at large on:

- Policy and commitment of the government to support the agricultural sector in the long-run,
- Allocation of initial capital and financial resources coupled with appropriate qualified and motivated staff,

- Development of the appropriate legal and institutional framework that will ensure longevity of the institution,
- Increased interest of commercial banks to invest in the agricultural sector following agreement on a adoption of a suitable scheme of guarantees.

3.7 ASSUMPTIONS AND PRE-CONDITIONS⁶

- Considering the life-time of the project Government allocates its financial contribution for the establishment of the CGF once the legal framework is approved
- There are no delays in the approval of legal, institutional and administrative framework of the CGF

4 IMPLEMENTATION ISSUES

Activities 1 and 2 of the project are expected to be implemented by *Kreditanstalt für Wiederaufbau (KfW)* by indirect centralised management in accordance with Article 54(2) (c) of the Financial Regulation. Result area 3 will be funded by the Government of Albania.

⁶ Assumptions are external factors that have the potential to influence (or even determine) the success of a project but lie outside the control of the implementation managers. Such factors are sometimes referred to as risks or assumptions but the Commission requires that all risks shall be expressed as assumptions. Pre-conditions are requirements that must be met before the sector support can start.

4.1 INDICATIVE BUDGET

Indicative Project budget (amounts in EUR) (for centralised management)

PROJECT TITLE			SOURCES OF FUNDING									
			TOTAL EXPENDITURE	IPA CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	% (2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Activities 1 and 2	X	X										
Contract 1 (Delegation Agreement ¹)	–	–	5,000,000	5,000,000	100							–
Activity 3	X											
Contract 2	–	–	500,000			500,000	100	500,000				–
TOTAL IB			2,150,000	1,650,000	77	500,000	23	500,000				
TOTAL INV			3,350,000	3,350,000								
TOTAL PROJECT			5,500,000	5,000,000	91		9	500,000				

¹Indirect centralised management with Kreditanstalt für Wiederaufbau (KfW) in accordance with Article 54(2) (c) of the Financial Regulation.

4.2 INDICATIVE IMPLEMENTATION SCHEDULE (PERIODS BROKEN DOWN BY QUARTER)

Dates indicated in the schedule cannot go beyond the contracting and execution deadlines in the financing proposal

Contracts	Start of Tendering/ Call for proposals	Signature of contract	Project Completion
Contract 1 (Delegation Agreement with KfW in accordance with Article 54(2) (c) of the Financial Regulation)	N/A	Q1 2013	Q3 2015
Contract 2	N/A	Q1 2013	Q3 2015

As part of the Delegation Agreement, the detailed activities of implementation shall be discussed between the EU Delegation, DG Agriculture and Rural Development, the beneficiary and the Delegated Body during the phase of drafting the Description of Action.

The Albanian Government should plan the allocation of its contribution in advance and commit in time the required resources to cover operational costs related to the CGF activity.

4.3 CROSS CUTTING ISSUES

4.3.1 *Equal Opportunities and non discrimination*

Based on the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability and age.

4.3.2 *Environment and climate change*

During the implementation of the guarantee scheme, the project will not support projects with an adverse potential on environment.

4.3.3 *Minorities and vulnerable groups*

Furthermore, minority and vulnerable groups concerns will be taken into account in all activities.

4.3.4 *Civil Society/Stakeholders involvement*

The project will ensure that all concerned stakeholders are consulted (public agencies, private sector, financial institutions) are consulted particularly during the first phase of the project that regards the setting up of the legal, institutional and administrative framework of the CGF.

ANNEX 1: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR Project Fiche		Albania IPA 2012, Project number 14		Establishing of the Rural Credit Guarantee Fund
		Contracting period expires		Execution period expires
		Contracting period expires no later than three years from the date of conclusion of Financial Agreement		The contracts must be executed within a maximum of two years from the end date of contracting.
		Total budget	EUR 5.5 million	
		IPA budget:	EUR 5.0 million	
Overall objective	Objectively verifiable indicators (OVI)	Sources of Verification		
To contribute to a major involvement of the Albanian Financial Sector in the rural area and to assist in the improvement of the competitiveness of the Albanian Agricultural Sector in connection with the Albanian strategy of the accession process to the European Union (EU).				
Specific objective	Objectively verifiable indicators (OVI)	Sources of Verification		Assumptions
To set up the Credit Guarantee Fund in order to facilitate bank lending to medium and small-medium enterprises in the agricultural sector and agro-processing industries				
Results	Objectively verifiable indicators (OVI)	Sources of Verification		Assumptions
Result 1: The CGF is set up	– All legal and institutional conditions are fulfilled and agreed by the MAFCP – The CGF is staffed – The CGF is funded	- Regulations and ordinances - CGF - Progress reports - Signed agreement - CGF reports		Government is willing to implement the process within indicated deadlines Government allocates the necessary capital and financial resources for the operation of the CGF

Result 2: Credit analysis and risk management in partner banks is improved	– Technical Assistance for partner banks is in place		
Result 2: The CGF is operational	– Number of partner banks are signing a cooperation agreement – The developed processes are established and workable – Guarantees are provided for agricultural lending		
Activities to achieve results	Means / contracts	Costs	Assumptions
Activities related to Result 1 – 1.1 - Carry out an assessment of the existing mechanisms and instruments to facilitate access to bank finance to MSME in the agricultural sector and processing industries of agricultural products in rural areas. – 1.2 - Develop the CGF concept, design its structure, functions and budget of CGF – 1.3 – Carry out awareness campaign to make the CGF known to potential beneficiaries and banking system – 1.4 –Establish the CGF staff and carry out the payment of CGF capital Activities related to Result 2 – 2.1 – Select the partner banks and provide assistance on credit analysis and risk management – 2.2 - Assist the CGF in the releasing of credit guarantees and provide on-job and other forms of training to the staff Activities related to Result 3 – Sub-activity 3.1 –Ensure the necessary space, facilities, working arrangement and budget for the functioning of the CGF	Activities related to result 1 and 2 are implemented by Kreditanstalt für Wiederaufbau (KfW) by indirect centralised management in accordance with Article 54(2) (c) of the Financial Regulation Funded by the Albania Government (national co-funding)	EUR 5.0 million EUR 500,000	There is full willingness from involved actors to carry out foreseen activities within established deadlines, The establishment of the CGF is not delayed due to political conflicts or shortage of financial resources to support the fund Government committed to pursue the appropriate economic policies that will encourage the domestic producer invest in the sector CGF is well staffed with qualified and motivated people

ANNEX II - Description of Institutional Framework

Ministry of Agriculture, Food and Consumer ProtectionThe Ministry of Agriculture, Food and Consumer Protection is responsible for the Rural and Agricultural Policies. Its policy related to Agriculture and Food is defined in the Agriculture and Food Sectoral Strategy 2007-2013 and in the Government programme.

The main goal of the rural development programme in the Republic of Albania is to contribute to the equal development of all rural areas in Albania, to improve the quality of life in rural areas through exploiting human and natural resources and diversifying non-agricultural activities, to create new jobs in order to reduce poverty, and to increase sustainable and balanced rural development.

These objectives are well defined in the Rural Development Cross-sectoral Strategy 2007-2013 which aims to implement social, economic and environmental policies of a zonal, regional and global character.

IPA 2011 “Agriculture and Rural development” is a pilot project for which the agreement between EU and Albania has been signed and ready to start the implementation. Besides consolidating the IPARD Operating Structure at the Ministry of Agriculture, Food and Consumer Protection, the project aims at implementing a grant scheme (50% of the investment shall be a grant made of $\frac{3}{4}$ from IPA funds and $\frac{1}{4}$ from government funds) to encourage investments in agriculture and agro-processing.

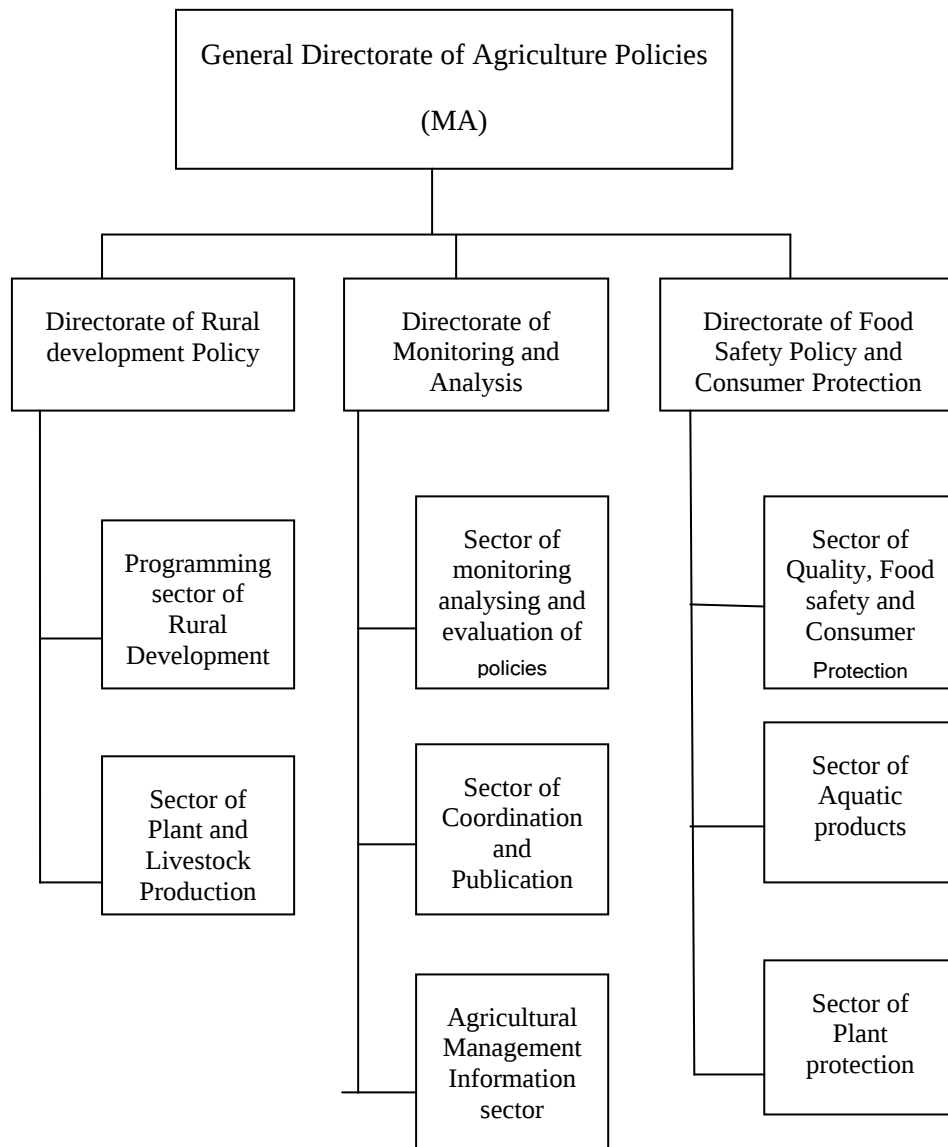
Nevertheless, the success of the grant scheme will depend at large also in adoption of a rural credit guarantee system that is expected to increase the willingness of commercial banks to credit farming and other agriculture related businesses.

Specific programme tailored to mountainous areas are being implemented by the Mountainous Area Development Programme (MADP) under which operate two agencies: Mountainous Areas Development Agency and Mountainous (MADA) and Mountainous Areas Finance Fund (MAFF)).

General Directorate of the Rural Policies tasks:

- Draft and implement the sectoral strategies and agricultural and rural development policies, sets and coordinates priorities, supports harmonization between branches and prepare action plans for their implementation.
- Participate in the development of the legal framework.
- Follows the activity of the corresponding fields in the implementation of action plans in rural development, plant production, animal production, agro-processing and marketing.
- Maintains contacts and coordinates with other public institutions (such as: other line ministries, research institutions, dependency structures, development agencies, programs / development projects, etc.), with private donors and different actors operating in the sector of rural development, crop production, livestock production, agro-processing and marketing.
- Ensures that subordinate structures have the necessary human resources and operational in accordance with their responsibilities and clear procedures for decision-making in order to achieve the tasks and solving challenges that arise.

Structure of the General Directorate of Agriculture Policies:



The IPARD Operating Structure is made of two entities:

- The designated IPARD Agency is the Albanian Agriculture and Rural Development Paying Agency (ARDA). ARDA was established as a body within MAFCP by Decision of the Council of Ministers No. 1443 of 31/10/2008 with the function of a Paying Agency and responsible for the financial administration of agriculture and rural development schemes. The current General Director of ARDA was nominated by Order No. 49 of 26/02/2010 of

the Prime Minister. ARDA's organizational structure was approved by the Order of Prime Minister No.38 of 23/03/2011

- The formal designation of the Managing Authority was made by Order No 207/23.06.2009 of the MAFCP. With the new MAFCP structure adopted in the beginning of 2012 the Managing Authority (MA) is the Director General for Agriculture Policy (DGAP). The General Director of the DGAP was designated with Order No 15/21.01.2010 to act as the Head of the Managing Authority within MAFCP, which is responsible for managing the IPARD programme in an efficient, effective and legal manner within the scope of the responsibilities as defined in Article 13 of the draft Sector Agreement (SA).

Annex III - Reference list of relevant laws and regulations only where relevant

D.C.M. Nr 41 Date 11.01.2012 “For defining of basis criteria, of the sectors to be supported and measures of benefit from the program fund for agriculture and rural development”

Reference to SAA

Stabilisation and Association Agreement- Title IV Article 16, Free movement of goods, chapter 2, Agriculture and fisheries.

1. The Community and Albania shall gradually establish a free trade area over a period lasting a maximum of ten years starting from the entry into force of this Agreement in accordance with the provisions of this Agreement and in conformity with those of the GATT 1994 and the WTO. In so doing they shall take into account the specific requirements laid down hereinafter.
2. The Combined Nomenclature of goods shall be applied to the classification of goods in trade between the two Parties.
3. For each product the basic duty to which the successive reductions set out in this Agreement are to be applied shall be the duty actually applied *erga omnes* on the day preceding the signature of this Agreement.
4. The reduced duties to be applied by Albania calculated as set out in this Agreement shall be rounded to whole numbers using common arithmetical principles. Therefore, all figures which have less than 50 (included) after the decimal point shall be rounded down to the nearest whole number and all figures which have more than 50 after the decimal point shall be rounded up to the nearest whole number.
5. If, after the signature of this Agreement, any tariff reduction is applied on an *erga omnes* basis, in particular reductions resulting from the tariff negotiations in the WTO, such reduced duties shall replace the basic duty referred to in paragraph 3 as from the date when such reductions are applied.
6. The Community and Albania shall communicate to each other their respective basic duties.

Reference to NPSAA

National Plan for the Stabilization and Association Agreement (NPSAA),

Chapter 3.8.7 “Rural development and agricultural structures” priorities in the field of rural development aim at:

Short-term priorities:

- Increasing of employment and of the income from the non-agricultural products

- Creation of equal opportunities regarding the rural services
- Improvement of the rural infrastructure, like roads, rural markets, drinking water
- Increasing of the access of the rural population in the financial sources and loans, and the expansion of the non-banking sector (of rural financing)
- Increasing of the capacities of the rural communities
- Decreasing of the rural migration and the establishment of closer relations with the rural community.

Medium-term priorities:

- Encouragement of the regional dialogue
- encouragement of the stability, good neighbourhood and regional co-operation, through trans-border programmes regarding the development of certain areas

Reference to EP

Medium-term priorities of the European Partnership Council Decision 2008/210/EC of 18 February 2008 on the principles, priorities and conditions contained in the European Partnership (EP) with Albania and repealing Decision 2006/54/EC, pg 20 .i.e. "develop strategies for land use, the land market, rural development, diversifying of farm activities and enhancing of agricultural competitiveness.

Agriculture and fisheries

- Develop strategies for land use, the land market, rural development, diversification of farm activities and enhancing agricultural competitiveness.
- Achieve substantial improvements in terms of food safety and phytosanitary and veterinary conditions, in compliance with EC requirements.
- Assess the compliance of agri-food establishments with EU requirements, prepare a programme for their upgrading and start its implementation.
- Start action with a view to ensuring efficient control of domestic plant production, in particular for products with specific EU requirements, and set up analytical capacity in the phytosanitary sector.
- Take measures to ensure that Albanian fisheries policy moves closer to EU standards, in particular in the areas of resource management, inspection and control and in market and structural policies.

Reference to EU Progress Report

Commission's 2010 Analytical Report- Analytical Report Accompanying the Communication from the Commission To The European Parliament And The Council, Commission Opinion On Albania 'S Application for Membership of the EU {Com(2010) 680} Chapter 3.2., Title: State influence on competitiveness, page 29, Chapter 4.11. – Agriculture and rural development (pg.38-39)

Reference to MIPD 2011-2013

Multiannual Indicative Planning Document (Chapter 3.6 Agriculture/ Rural Development page 25).

The project is in line with the MIPD 2011-2013, which foresees agriculture and rural development as one of the six priority sectors. In fact, this sector is part of the preparations of IPA Component V. This sector has been identified with the beneficiary, Member States and DG AGRI as the one where a possible sector wide or programme based approach could be tested as most of the pre-conditions are in place. The sector comprises the main features for such an approach, namely the existence of a sector strategy, an action plan, multi-annual budgeting, donor coordination and a relatively strong capacity of the main beneficiary Ministry. For the MIPD 2011-2013 the main specific objective in the sector is to improve overall the competitiveness of the agricultural sector.

Reference to National Development Plan

National Development Plan Chapter 3.3 Title: Urban, Rural and regional development - Rural Development (challenges) page 80-81

Reference to national / sectoral investment plans

Strategy for Rural Development

This project's intervention field is in line with the objectives set out by the Strategy for Rural Development, which aims to:

- contribute to a fair development of all rural regions in Albania,
- improve the quality of life in Albania's rural area in a sustainable way,
- reduce poverty among rural population.

Agriculture and Food Sector Strategy (AFSS)

This project's intervention field is in line with the Strategic Objectives and specific goals set out in the AFSS:

- establish a sound and sustainable land management to support the development of a sustainable agricultural sector;
- increase employment, income, and living standards of farmers and their households;
- increase productivity and economic efficiency of the agricultural and agro-processing sector;
- ensure higher food safety standards for the entire population
- improve agricultural marketing.

ANNEX IV - Details per EU funded contract(*) where applicable

The project will be implemented during a period of 30 months by the Kreditanstalt für Wiederaufbau (KfW) through an indirect centralized management following Article 54.2(c) of the Financial Regulation and the corresponding provisions of the Implementing Rules

ANNEX V - Project visibility activities

Any project event will regard the application of the Communication and Visibility Manual for EU External Actions