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Medium-term Program of the Albanian Government
"Growth and Poverty Reduction Strategy"
(GPRS 2002-2004)
November 2001

The Medium-term Program "Growth and Poverty Reduction Strategy" (GPRS 2002 – 2004) is the first step taken by the Albanian Government in supporting the country's development perspective with a strategic, long-term vision. The draft was prepared under the guidance of the Prime Minister, through an intensive process of collaboration between the governmental institutions and civil society and with the support of international partners.

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PRIME MINISTER

ILIR META

List of abbreviations

ABBREVIATION	FULL NAME
2KR	Agricultural Production Growth Project
AAATA	Asistance for Albanian Associations of Trade and Agro-Business
AAC	Albanian Agro-Business Council
ADF	Albanian Development Fund
AMC	Albanian Mobile Communication
ANEP	Agricultural National Extension Project
ASP	Agricultural Services Project
BA	Bank of Albania
CoM	Council of Ministers
CSC	Civil Service Commission
FDI	Foreign Direct Investment
DFID	Department for International Development
DoPA	Department of Public Administration
EBRD	European Bank for Reconstruction and Development
ERP	Economic Reform Program
ESAF 1	Enhanced Structural Adjustment Facility 1
ESAF 2	Enhanced Structural Adjustment Facility 2
EU	European Union
FYROM	The Former Yugoslav Republic of Macedonia
GASS	General Administration of Social Services
GDP	Gross Domestic Product
GFPD	General Forest and Pasture Department
GPRS	Growth and Poverty Reduction Strategy
GTZ	German Technical Cooperation
HC	Health Center
HII	Health Insurance Institute
IDA	International Development Agency
IDS	Institute for Development Studies (UK)
IFAD	International Fund for Agricultural Development

IFC	International Finance Corporation
IFDC	International Fertilizers Development Center
IMF	International Monetary Fund
INSIG	Insurance Institute
INSTAT	Institute of Statistics
I-PRSP	Interim Poverty Reduction Strategy Paper
IPRS	Immovable Property Registration System
IT	Information Tecnology
LCS	Living Conditions Survey
LM	Line Ministries
LSMS	Living Standard Measurement Survey
MADA	Mountain Area Development Agency
MoAF	Ministry of Agriculture and Food
MAFF	Mountain Area Financing Fund
MoE	Ministry of Environment
MoECT	Ministry of Economic Cooperation and Trade
MoES	Ministry of Education and Science
MEU	Monitoring and Evaluation Unit
MoF	Ministry of Finance
MICS	Multiple Indicators Cluster Survey
MoLGD	Ministriy of Local Government and Decentralization
MoLSA	Ministry of Labor and Social Affairs
MoPEP	Ministry of Public Economy and Privatization
MTEF	Medium-Term Expenditure Framework
NCSAG	National Civil Society Advisory Group
NCCUDR	National Center of Children Upbringing, Development and Rehabilitation
NFRE	Non-farm Rural Ecomony
NGO	Non-Government Organization
NPRC	National Property Restitution Commission
PATI	Public Administration Training Institute
PHI	Public Health Institute

RFF	Rural Finance Fund
RTGS	Real Time Gross Settlement
SAA	Stabilization and Association Agreement
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprise
SST	Sexually Transmitted Diseases
TAU	Tirana Agricultural University
TRHA	Tirana Regional Health Authority
TS	Technical Secretariat
TUHC	Tirana University Hospital Center
UNDP	United Nations Development Program
UNICEF	United Nations Children's Fund
UPI	Urban Planning Institutte
USA	United States of America
USD	United States Dollar (1 USD = 145 Lek)
VAT	Value Added Tax
VRI	Veterinary Research Institute
WB	World Bank
WHO	World Health Organization
WTO	World Trade Organization

Contents

EXECUTIVE SUMMARY X

GENERAL CHARACTERISTICS OF GPRS XI
PARTICIPATORY PROCESS XII
PROFILE AND CAUSES OF POVERTY XIII
PRIORITY PUBLIC FIELDS AND MEASURES XVI
GPRS IMPLEMENTATION, MONITORING AND EVALUATION XXVII

I INTRODUCTION 2

I.A THE NEED FOR STRATEGY ON GROWTH AND POVERTY REDUCTION (GRPS) AND ITS RELATION TO THE I-PRSP 3
I.B PRINCPLIES UNDERLYING PREPARATION AND IMPLEMENTATION OF THE STRATEGY 4
I.B.1 INTEGRATION WITH LONG-TERM OBJECTIVES 4
I.B.2 PRIORITIZATION OF PUBLIC ACTIONS 5
I.B.3 THE DYNAMIC CHARACTER OF THE STRATEGY 6
I.B.4 ALBANIAN "OWNERSHIP" AND COOPERATION WITH PARTNERS OF COUNTRY'S DEVELOPMENT 7
I.C FACTORS FAVORING OR OBSTRUCTING THE IMPLEMENTATION OF STRATEGY. 8
I.C.1 SOME OF THE FACTORS FAVORING THE GRPS IMPLEMENTATION 8
I.C.2 SOME OF THE FACTORS OBSTRUCTING AND POSING RISKS TO IMPLEMENTATION OF THE STRATEGY 8

II SUMMARY OF PARTICIPATORY PROCESS 9

II.A PARTICIPATING ACTORS AND THEIR ROLE IN GPRS PREPARATION 10
II.B CIVIL SOCIETY PARTICIPATION 12
II.B.1 IDENTIFICATION OF CIVIL SOCIETY ACTORS 12
II.B.2 THE NATIONAL CIVIL SOCIETY ADVISORY GROUP 13
II.B.3 THE ESSENCE OF CIVIL SOCIETY PARTICIPATORY PROCESS 13
II.B.4 REGIONAL CONSULTATIONS 13
II.C PARTICIPATION OF PARLIAMENT, LOCAL GOVERNMENT, AND BUSINESS COMMUNITY 14
II.C.1 CONSULTATIONS WITH PARLIAMENT 14
II.C.2 CONSULTATIONS WITH LOCAL GOVERNMENT 14
II.C.3 CONSULTATIONS WITH BUSINESS COMMUNITY 15
II.C.4 PUBLIC INFORMATION PROCESS 15
II.C.5 DONORS'ROLE 18

III POVERTY ANALYSIS AND POLICY ASSESSMENT 19

III.A POVERTY GENERAL ANALYSIS 20
III.A.1 POVERTY PROFILE IN ALBANIA - GENERAL VIEW 20
III.A.2 ACCESS TO ECONOMIC RESOURCES AND THE POVERTY 22

III.A.3 HUMAN DEVELOPMENT DIMENSIONS AND POVERTY 25
III.B ASSESSMENT OF PAST POLICIES 31
III.B.1 TRANSITION REFORMS AND LIVING STANDARD 31
III.B.2 MORE DIRECT POLICIES FOR POVERTY REDUCTION 33
III.B.3 GENERAL ASSESSMENT 43

IV PRIORITY PUBLIC MEASURES 46

IV.A INTRODUCTION 47
IV.B MACROECONOMIC FRAMEWORK 48
IV.C PUBLIC SECTOR GOVERNANCE AND MANAGEMENT 53
IV.D DEVELOPMENT OF PRIVATE AND FINANCIAL SECTORS 63
IV.D.1 PRIVATE SECTOR DEVELOPMENT 63
IV.D.2 FINANCIAL SECTOR DEVELOPMENT 68
IV.E HUMAN DEVELOPMENT 70
IV.E.1 HEALTH 70
IV.E.2 EDUCATION 71
IV.E.3 LABOR MARKET AND SOCIAL PROTECTION 73
IV.E.4 STRENGTHENING SOCIAL CAPITAL 76
IV.F INFRASTRUCTURE AND ITS SUPPORT TO GROWTH 79
IV.F.1 TRANSPORT 79
IV.F.2 POTABLE WATER AND SEWAGE 80
IV.F.3 ENERGY 81
IV.F.4 TELECOMMUNICATIONS 82
IV.G INTEGRATED RURAL DEVELOPMENT 84
IV.G.1 INCREASE OF PRODUCTION AND INCOMES FROM AGRICULTURE, LIVESTOCK AND AGRO-PROCESING 84
IV.G.2 PROTECTION AND IMPROVEMENT OF USE OF OTHER NATURAL RESOURCES 87
IV.G.3 DEVELOPMENT OF NON-FARM ECONOMY IN RURAL AREAS 88
IV.H URBAN DEVELOPMENT 91
IV.I ENVIRONMENT, GROWTH, AND POVERTY REDUCTION 95

V IMPLEMENTATION, MONITORING, AND EVALUATION 97

V.A ROLE OF MONITORING SYSTEM 98
V.B INSTITUTIONAL CAPACITIES FOR MONITORING AND EVALUATION 99
V.C SELECTION OF MONITORING AND EVALUATION INDICATORS 102
V.C.1 FINAL INDICATORS 102
V.C.2 INTERMEDIARY INDICATORS 102
V.D MONITORING AND EVALUATION SOURCES AND INSTRUMENTS 104
V.D.1 SOURCES 104
V.D.2 INSTRUMENTS 105
V.E DISSEMINATION AND USE OF MONITORING AND EVALUATION RESULTS 106

VI APPENDIX 1: MATRICES OF ACTION PLANS 107

VII APPENDIX 2: POVERTY TABLES 135

VIII APPENDIX 3: MACROECONOMIC FRAMEWORK 2000 – 2004 . 141

IX APPENDIX 4: PARTICIPATORY PROCESS 143

EXECUTIVE SUMMARY

GENERAL CHARACTERISTICS OF GPRS

1. In recent years Albania had made significant progress in all fields. Public order and security have been strengthened and institutional reform has made strides ahead. Macroeconomic stability has been achieved while maintaining relatively high growth rates. Structural reforms have been further deepened and tangible improvements have been made in the area of infrastructure. Albania has become a more open economy and its regional and European integration have become attainable prospects. Albania has taken these steps with the support of the international partners.

2. Despite these achievements, Albania continues to have a relatively weak economy, characterized by fragile internal and external macroeconomic balances. Income per capita continues to be among the lowest in Europe. Poverty is relatively high, and economic inequality has been steadily growing. Poverty is most prevalent in the rural areas, especially the remote regions of the country. Education indicators have worsened, such as enrollment in primary educatio and, especially, in secondary education. Health care has deteriorated, especially in rural and remote areas of the country. Infant and maternal mortality rates and disease incidence remain very high. Health care has deteriorated, especially in rural and remote areas of the country.

3. The Growth and Poverty Reduction Strategy (GPRS) addresses acute problems encountered in the course of development, with a particular focus on poverty. It also reflects the special importance attached by the government and other stakeholders to the need to tackle these problems.

4. The principles underlying the preparation and implementation of the Strategy are: (i) harmonization with the country's long-term objectives for development and European integration, (ii) prioritization of policy actions, (iii) the Strategy's dynamic character, (iv) "Albanian" ownership of the Strategy and cooperation with the partners involved in the development of the country.

5. Being a medium-term development strategy, the GPRS focuses on poverty reduction through sustainable and inclusive economic growth. Being a basic factor for the development and modernization of the economy, as well as for Albania's preparation for European integration, growth is a fundamental objective of the Strategy. However, the need to address the most acute problems as well as time and financial constraints necessitate the prioritization of the Strategy's objectives and its corresponding public measures. GPRS's main objectives are:

i) Real GDP growth of 22-25 percent during the entire three-year 2002-2004 period;
ii) Reduction of the number of people living in poverty with the aim of alleviating poverty, in particular, for worst-affected social groups and areas;
iii) Tangible improvement of infrastructure and related services, such as supply of potable water, electric power, sewage, etc., increasing the access of the poor to these services.
iv) Reduction of infant and maternal mortality rates and disease incidence.
v) Increase of the level of 8-year (elementary) and secondary education enrollment and average schooling period.

6. *The priority sectors* of public actions are:

i) Health and education
ii) Infrastructure
iii) Improvement of governance
iv) Economic growth
v) Social support
vi) Macroeconomic stability.

Priority fields, which require special attention: Health, education, and infrastructure;
Strategy pillars: Improvement of governance and growth;
Conditions for implementation of Strategy: Social support and macroeconomic stability.

7. The GPRS is more than a rigid framework of objectives, priority sectors and measures, but rather an instrument to achieve a higher level of development, which encourages an active participation of all stakeholders in its implementation. The Government and the other stakeholders will take measures to ensure the continuous monitoring of the strategy's implementation. The government will also update the objectives and priority public measures annually, on basis of the results of the monitoring and in cooperation with the stakeholder groups.

8. Prepared with the aim to address the problems of poverty and development in Albania, the GPRS is an Albanian strategy. The GPRS is the outcome of the coordinating efforts of the central government, the local government, the civil society, the private sector, the representatives of the poverty-affected groups etc. The implementation of the Strategy will require the same cooperation. The Albanian ownership of the Strategy is reinforced by its "financial cost" on the state budget. The financial effect of the Strategy has been forecast in the Medium-Term Expenditure Framework (MTEF). The GPRS is also connected and harmonized with the sector development strategies, such as the strategies of education, health, decentralization etc. While being an Albanian strategy, the GPRS is also a product of a close cooperation with the international partners involved in the development of the country. While emphasis is being put on the mobilization of the internal resources and their effective and efficient use, the implementation of the strategy will also require considerable technical and financial support from international partners.

PARTICIPATORY PROCESS

9. The preparation of the strategy is the institutional responsibility of:

- *The Steering Committee* (composed of some of the members of the Inter Ministerial Economic Policy Committee, one representative each of the donor community and of civil society and chaired by the Prime Minister), which has identified the vision and the objectives of the Strategy and its basic relations with other development programs of the government.
- *The Interministerial GPRS Working Group*, set up by the Steering Committee, is composed of the deputy ministers and one department director from the Ministries of Finance, Health, Education, Labor and Social Affairs, Agriculture, Economic Cooperation and Trade, Local Government and Decentralization, Transport, and

Public Works and Tourism. The Group, which has been chaired by the Minister of Finances, has coordinated and guided the operational activity for the preparation of the Strategy.

- *The Sector Technical Groups*, some of them with a mixed membership from relevant Ministries and the civil society, have contributed to the identification of the sector strategic objectives and indicators and relevant public measures.

10. These structures have carried out a voluminuous work consisting in the collection of data, analyses of the effects of past policies and measures, analyses and identification of the objectives, selection of priority measures and evaluation of their financial effects, definition of the responsibilities of relevant institutions and the coordination of their activities. The preparation of the GPRS has been both a challenge and a new experience.

11. The participation of civil society in the preparation of the Strategy has been achieved through the activity of the National Civil Society Advisory Group (NCSAG) composed of representatives of different civil society organizations and groups, and representatives of the private sector, local government and other sections of the society. NCSAG has helped to include civil society experts in the sector technical groups and to draw opinions and suggestions from civil society grassroots (by organizing regional and local meetings), providing the framework for their valuable contribution to the continuous improvement of GPRS drafts.

12. A number of consultations have taken place with *local government representatives,* aimed to reinforce the GPRS with data, suggestions, and adequate solutions regarding poverty and its reduction, local development opportunities and institutional commitments from specific local and regional angles. The consultations with the local government have also helped to identify the links between the GPRS and the ongoing decentralization process.

13. A number of consultations have also taken place with *the business community.* They have helped to draw the opinions of this community about business barriers in Albania and ways to overcome them. The business community has been especially consulted about private sector development policies, fiscal policies, and labor market policies. Adequate instruments for involvement of the business community in social support policies have also been discussed.

14. The GPRS preparation has been strongly supported by the international partners involved in the country's development. They have offered advice and suggestions at different stages of this process. Different activities related to the Strategy's preparation process, the participatory process, and the consultations with the stakeholder groups etc. have taken place with the financial support of the donors.

PROFILE AND CAUSES OF POVERTY

15. Despite its massive incidence in the previous system, poverty was officially recognized only after 1991. Poverty in Albania is a *multidimensional phenomenon*: (1) the low or very low level of income of the poor has been expanded *to include* (2) higher incidence of disease and lack of appropriate medical services, (3) illiteracy or low level of schooling, (4) high level of risk exposure and (5) low voice in

government decision making institutions. According to surveys and official statistics[1], (i) measured in relative terms, 29.6 percent of the Albanians are poor, while half of them live in the category of extreme poverty; in absolute terms, 46.6 percent of the Albanians are below the poverty line of $2 per capita a day, while 17.4 percent are below the poverty of $1 per capita a day; (ii) one in three families experiences problems with low quality housing; (iii) there are serious problems with potable water supply, sewage, and roads (especially secondary urban and rural roads), (iv) the infant and under-5 mortality rates are relatively high compared to the countries of the region, maternal mortality is also high; (v) almost one in seven children under 5 (14 percent) is malnourished, (vi) illiteracy has increased (only 88 percent of the population aged over 15 is able to write and read), and (vii) in addition to lack of incomes, 75 percent of the poor families experience acute social problems.

16. Poverty is more widespread in big families, with many children, and with aged people. Poverty is inversely related to the educational level: more than one third of the poor have only primary education and one fifth of them have only elementary education. Women who are widowed or living alone with children are at a very high risk of being poor. Poverty is more widespread in the country's *remote and rural areas*: four out of five poor people live in the countryside. Poverty indicators in rural areas, compared to those in urban areas, are nearly twice higher for every educational level, with the exception of the higher education, in the case of which poverty levels are equal. According to the LCS more than half of the families, in which the household head is unemployed, are poor. The chances to be poor are about six times higher for employed people living in the rural areas (32.6%) compared with employed people living in the urban areas (5.3%). The pensioners account for about 20% of the poor. The probability of the pensioners in the rural areas, including the disabled people who receive pensions, to live in poverty is twice as high as that of pensioners living in the urban areas

17. The inequality in the nationwide distribution of incomes is high. The Gini coefficient (according to LCS) was 0.43 for 1998. Inequality in the distribution of income has deepened continuously. According to APNSHS Poverty Survey conducted in 1996, the value of Gini coefficient was 0.276[2]. Compared to some Central and Eastern European countries, income distribution is more unequal in Albania. The value of Gini coefficient for Bulgaria (1996) was 0.291, for Czech Republic (1997) 0.259, for FYROM (1997) 0.259, for Hungary (1998) 0.348, for Poland (1997) 0.3, for Russian Federation (1996) 0.483 and for Romania (1997) 0.422.

18. Being a multidimensional phenomenon, *poverty is an outcome of many factors*. The roots of current poverty in Albania lie deep in the past system, but they have also been nourished by developments accompanying the transition to market economy. The transition reforms, especially the price liberalization, privatization, and the

[1] 1998 Living Conditions Survey (LCS) conducted by INSTAT: MICS 2000 Survey conducted by INSTAT with UNICEF support; 2001 Qualitative Poverty Assessment in Albania conducted in 10 districts with World Bank support.

[2] The 1996 survey,covered all of Albania, with the exception of Tirana. Partly, the large difference of the Gini coefficients in the two periods can be explained by the methodological differences of the respective surveys: Gini coefficient for 1998 is based on income while for 1996 it is based on consumption.

economic restructuring processes, despite their positive transformation effects, have also led, especially at the outset, to the deterioration of some living standard indicators for certain groups of the population and certain areas of the country. On the other hand, the opening of the country to world trade and culture has led to an explosive increase of the needs of the people, who used "to be happy with little" in the past. The urge to fulfill multiplied needs led to a multiplication of economic activities, and, ultimately, to increased well-being. But to many other people, who have limited opportunities, the increase of needs has been translated into increased poverty.

19. It should be noted, however, that the considerable negative effects of the economic reforms on the living standard of the people were not natural outcomes of reforms, but were, rather, due to the distorted implementation of economic reforms, the incoherencies, delays, contradictions and lack of clear programs. During the last 10 years the Albanian economy has been subject to several internal and external shocks. Lack of political stability in the first years of transition had its economic cost in the serious damage caused to the production capacities and infrastructure in both urban and rural areas. Living standards deteriorated and poverty assumed critical proportions. The stabilization process, the economic recovery and the progress in the reforms initiated in 1993 and 1994 soon came again to an abrupt halt. The flourishing of the pyramid schemes, especially during 1996, and the political unrest, the economic paralysis and the social upheavals following their collapse in 1997 dealt another blow at the living standards of the people. There were also political unrests in 1998. Meanwhile, the instability and the regional wars during the entire period have had their significant negative effects on the Albanian economy, too. In addition to their direct effects, the insecurity prevailing in the region has been especially tangible in the low level of foreign investment inflows into Albania.

20. *The rural areas* inherited a most profound backwardness from the past. The dissolution of the agricultural enterprises at the outset of the transition was accompanied with damages and destruction of agricultural machinery, damages to livestock and fruit-growing sector, the irrigation and drainage systems and many other assets. The agriculture was paralyzed and the arable land remained barren for almost a year. The privatization of the agricultural land opened the way to the relatively rapid recovery of agriculture (which for some time was the driving force behind the country's economic recovery), which took place along broadly extensive lines . However, the limited size of the agricultural farms (1.3 ha on average) made it difficult or impossible for many peasant families, especially those in the remote areas and those with low quality land, to make a living. In addition to the low mechanization level, agriculture suffers from a bad infrastructure, irrigation difficulties, and, especially, lack of market access. The level of the mobilization of other economic resources, in addition to land and livestock, is also low. The temporary massive emigration of young and adult men has made life very hard for the other family members, especially women, who have to plough the land, look after livestock, and keep the family. Another way-out has been the migration of the families to the urban areas, often with the help of money made in emigration. The damage to the infrastructure and the depletion of the population has led to the deterioration of the health services, water supply etc. in these areas. The worst affected category in the rural areas are members of the third generation, because of the very low level of pensions for the former members of the agricultural cooperatives.

21. The economic opening up of Albania and its market experience showed that Albania's pre-transition centralized economy was characterized by a significant allocation inefficiency. The closure of the industrial enterprises and the paralysis of the economic life in the first years of the transition were accompanied with massive unemployment in *urban areas*. The economic restructuring processes have mitigated the problem to a certain extent, but the country still suffers from a high level of chronic unemployment. The unemployment is especially high among the young people and women. The problem is especially grave in some industrial centers of the country, where past economic activity was entirely concentrated in one or a few industrial enterprises, which are now closed down. Massive chronic unemployment is a source of poverty. The poor inherited infrastructure, damaged during the first years of the transition, has created serious difficulties for urban living, water supply, sewage etc. The health and educational services, burdened by massive population displacement, are also suffering from serious problems in many urban centers.

22. The government considers continued transition reforms a condition for achieving sustainable economic progress. However, in order to tackle directly the problems of poverty, the government's attention has focused on (i) restoration and maintenance of macroeconomic stability, perceived, above all, as price stability (which contributes directly to the protection of the living standard, especially of the poor groups of the population) and on (ii) the implementation of adequate policies for distribution and redistribution of incomes, which has mitigating effects on poverty. Attention has also been attached to (iii) promotion of economic growth and (iv) development of sectors contributing directly to the living standards such as health, education, infrastructure etc.

23. The Albanian transition, though assessed as difficult, has been characterized by important achievements in the main areas of economic reforms. The economy has been liberalized and opened up to a relatively high level. The privatization of small and medium-sized enterprises has ended and the privatization of large enterprises and public services is continuing at a relatively rapid pace. The foundations for a self-operational market have been laid and the business environment has been improved. The relatively high growth rates are rooted in the country's macroeconomic stability. The cooperation with countries in the region has intensified and the ground is being prepared for regional integration through establishment of bilateral and multilateral free trade areas. These achievements are a sound basis for the implementation of the GPRS. On the other hand, obstacles to the implementation of the Strategy include (i) still significant institutional weaknesses, especially reflected in the planning and implementation capacities of the public administration, (ii) weaknesses and vulnerabilities of the economy in general and (iii) risks related to regional security.

PRIORITY PUBLIC FIELDS AND MEASURES

24. Taking into account the multidimensional character of poverty, its high level, especially in certain areas and groups of the population, the achievements and failures in the transition reforms so far and the effects of direct poverty reduction policies implemented during the past decade, the Albanian government thinks that it is necessary to show special attention and commitment to the reduction of poverty. The reduction of poverty implies (i) the increase of opportunities for the poor, (ii) the increase of their participation and the strengthening of their voice in the governing

institutions and (iii) enhanced security for the poor. In order to increase *opportunities* for the poor, the government will focus on stimulating inclusive economic growth, on increasing the access of the poor to services of education, health, urban and rural infrastructure etc. In order *to strengthen the voice of the poor*, the government will continue with institutional reforms by adopting ways and methods for the inclusion of the poor in the decision making process . In order *to enhance the security for the poor*, the government will reform the programs of economic assistance, social care, support for the poor, and employment promotion, and will encourage the strengthening of social capital.

25. (i) Improvement of health and education services and (ii) improvement of infrastructure and vital services to the population are *priority fields of the Strategy, which require special attention*; (iii) the institutional reform and (iv) economic growth are *the pillars* of the Strategy; (v) the macroeconomic stability and (vi) social support are *conditions* for the implementation of the Strategy.

Improvement of health and education services

26. Lack of access to and low quality of health and education services are among the main indicators of poverty in Albania. On the other hand, health and education services are directly connected with social capital and represent fundamental factors for sustainable growth and development. Finally, the transition reforms in these two sectors have been slow. For all these reasons health and education services are priority fields of Growth and Poverty Reduction Strategy.

- ***Health***

27. The many problems plaguing this sector and its special role for poverty reduction make it a priority sector for the 2001-2004 period. The objectives in the health service in the context of GPRS are: (i) increased effectiveness and efficiency in the use of resources; (ii) access to health services in the whole territory of the country and the improvement of their quality; (iii) improvement of health indicators through specific interventions in specific fields. The objectives of poverty reduction strategy in the health sector are harmonized with the 10-year strategy for the development of this sector, whose *main objective is to achieve the improvement of the health indicators.*

28. *The enhanced effectiveness and efficiency* in the use of sector resources will be achieved through: (i) improvement of the process of planning, management, and better distribution of the resources; (ii) decentralization of responsibilities to local institutions (establishment of regional health authorities) and strengthening of the role of the professional organizations; (iii) commitment to an effective fight against corruption, which has become a worrisome problem for this sector; (iv) gradual application of the information systems with the aim of introducing an integrated network; (v) support for the privatization process in the health service and the monitoring of the private sector.

29. The following activities will be of special importance for *providing access to health services* in the whole territory of the country and for improving their quality:

(i) Completion of the sanitary primary care map (during 2001-2004 period the communes' needs for health centers will be met 100 percent and the needs of the villages for outpatient clinics will be met 50 percent), providing the necessary infrastructure and training for the medical personnel; (ii) Preparation of master plans for development of health services in two regions; (iii) Reorganization of the hospital service through the establishment of regional hospitals; (iv) Adequate motivation of the medical personnel; (v) Improvement of the procedures for licensing private activities with the aim of ensuring, above all, the delivery of the service in the rural areas and the small towns.

30. The improvement of health indicators through specific interventions in specific fields will be achieved through (i) improved health information and education, (ii) limitation and prevention of infective diseases, tuberculosis, SST, (iii) improvement of care for mother and child, etc. (iv) enhanced control of potable water and food.

- ***Education***

31. Education is a priority sector in the GPRS framework not only due to its specific role for increasing opportunities for the poor and its role as a main factor for development, but also because of the considerable decline of the education indicators during the last 10 years and the slow pace of the reforms of this sector. The sector's GPRS specific objectives are (i) increased attendance of the 8-year education, focusing on poor groups and the remote areas of the country, and increased attendance of secondary, mainly vocational education; (ii) improvement of teaching quality; (iii) expansion of the vocational education and its better adjustment to market demands; (iv) increased management effectiveness and financial efficiency of the educational system. These objectives are in harmony with the long-term objectives of the National Education Strategy.

32. *The increased attendance of the 8-grade education* will be achieved through: (i) enrollment of the children from poor families, especially those in the rural and suburban areas by implementing specific projects; (ii) support for children of poor families by offering them scholarships and textbooks free of charge or at low prices, and free food; (iii) improvement of the transport system for teachers and pupils and implementation of pilot projects for "school bus" service in five rural areas, which have adequate road infrastructure; (iv) further implementation of the school rehabilitation process and construction of new schools.

33. The objective *to increase quality of teaching* will be supported by (i) improvement of human resource management; (ii) better financial motivation of the employees in the education system, especially the teaching personnel in the rural and remote areas; (iii) improved availability of didactic equipment and better textbook supply.

34. *The expansion and improvement of the secondary vocational education* will be supported by (i) changes in the legal framework to ensure that vocational schools are opened in compliance with the needs and trends of development at regional and local level; (ii) diversification of the curricula and profiles of these schools in accordance with the demands of the labor market.

35. *Enhanced management effectiveness and financial efficiency of the education system* will be achieved through the implementation of administrative and financial reform in this sector, in particular (i) greater efficiency, coordination, and decentralization of the decision-making structures at all levels; (ii) establishment of special funds for the promotion of innovative initiatives of the schools, communities and local authorities; (iii) implementation of a comprehensive program for the training and retraining of the Ministry staff, the local authorities, and the school principals, based on improved recruitment and career criteria and procedures.

Infrastructure and vital services

36. The government considers the development of infrastructure and the improvement of related vital services a priority sector in the Growth and Poverty Reduction Strategy. In addition to its direct impact on raising living standards, the improvement of infrastructure is also of fundamental importance for the country's growth and economic development, because it reduces production costs, facilitates trade, and increases the economy's competitive edge. Infrastructure development has also been given priority due to its special role for Albania's regional and European integration processes. The priority attached to infrastructure improvements is reinforced by its still grave condition and high depreciation level, despite recent investments. Main activities include the commercialization of the infrastructure services and the establishment and consolidation of the relevant regulatory bodies.

37. **The energy sector** continues to be in a serious crisis, despite recent positive steps. Energy is of critical importance for fulfilment of basic needs, quality of life, economic growth and improvement of investment climate. The main factors contributing to the crisis are: (1) low production capacities criticially depending on weather conditions because of their almost complete reliance on water resources, (2) low import capacities, (3) high level of depreciation and damage of distribution network and high level of non-technical losses due to abuses and illegal connections, (4) increased energy consumption, boosted by price liberalization of other energy resources at a time when electricity prices remained fixed and low compared to its costs. The Strategic Action Plan approved by the Albanian government and supported by the donors aims to set up a modern and effective energy sector, capable of meeting EU energy policy standards and requirements. Priority measures for the improvement of the energy situation include: (i) reduction of the non-technical losses in the network and increased level of energy bill collection; (ii) progressive liberalization of energy prices, while taking compensating measures for poor groups of the population; (iii) increased capacities for electricity imports; (iv) promotion of private sector involvement in production and distribution of electric power.

38. **Potable water supply and sewage situation** remains critical, especially in the rural and suburban areas. The damages to the potable water supply and sewage systems have had direct effects on the health of the population. The high depreciation level of the equipment, illegal constructions, inadequate tariff structure and poor management are some of the factors behind this situation. The Ministry of Public Works and Tourism has prepared a draft strategy for the water sector, aimed to make a radical improvement of the situation. Priority measures include: (i) investments for the improvement and expansion of the water supply system and for the improvement of water quality; (ii) rehabilitation of the sewage network; (iii) cost recovery through tariff regulation, elimination of the illegal connections, reduction of losses in the

network, accurate measurement of water consumption, and improvement of payments; (iv) improvement of the sector management by transferring full water supply and sewage responsibilities to the local government, support for private sector involvement and encouragment to use alternative forms for the management of water supply systems, such as contracts for management or with concessions. In the context of the decentralization process, special attention will be attached to increasing the participation of the community in the projects for improvement of water supply and sewage systems.

39. Improvement of **transport service** is also of special importance for elevation of living standards, creation of opportunities for the poor, support for economic growth, operation of the market, regional cooperation and European integration of the country. The strategic objectives in the sector of transport include the establishment of a road network that is adequate for a modern and effective transport system, with a high level of road security and low environmental costs. A specific sector objective in the GPRS framework is the improvement of the secondary urban and rural road network. The measures to achieve these strategic objectives include: (i) the establishment of an adequate regulatory and institutional framework, (ii) the commercialization of the services and the privatization of the state transport operations, (iii) the progressive rehabilitation of the secondary rural and urban roads by encouraging community participation, (iv) the rehabilitation of the existing transport infrastructure, completion of the Stability Pact road projects, (v) improvement of the transport information systems and improved planning and management of the sector.

40. Despite recent intensive developments, **the sector of telecommunications** suffers from a relatively low coverage and penetration level of fixed and cellular telephone services, high tariffs and unsatisfactory service quality. Being directly linked with the standard and quality of life, the telecommunications service and the information technology today represent a powerful means for growth, development, and modernization. These services have particular effects on the work of public administration, trade, banks, financial markets, education, health etc. The objectives for the development of the sector include: (i) deepening liberalization of the telecommunications sector, (ii) expansion of the services and (3) improvement of quality. Priority public measures include: (i) privatization of the Albtelekom company; (ii) increasing the competition in the cellular telephony and the liberalization of competition in fixed telephony beginning from 2003; (iii) the extension of telecommunications service to rural areas; (iv) extension of Internet service to the education and training institutions and for business use; and (v) consolidation of the regulatory institutions.

Governance and public sector management

41. The government considers that progress in institutional reforms is fundamental for the attainment of the objectives of Growth and Poverty Reduction Strategy. The institutional reform will bring to all stakeholders, but, in particular, for the poor: (i) increasingly greater and equal chances to benefit from development opportunities; (ii) expansion of the rights and equal chances for representation and participation in public decision making process at all levels; (iii) fair distribution of development-related risk and supply of minimum adequate level of public goods and services.

42. The main objectives of the institutional reform, which are harmonized with the commitments in the context of Anti Corruption Strategy and Stability Pact are: (i) strengthening public order and the fight against organized crime; (ii) fight against corruption at all levels of administration; (iii) reform of the judicial system; (iv) deepening of public administration reform; (v) radical improvement of fiscal administration; (vi) deepening of the decentralization reform.

43. The government will carry on its efforts to consolidate *public order* and step up the fight against organized crime and trafficking. Priority measures in this field include: (i) institutional strengthening and capacity improvement of public order bodies; (ii) enhanced coordination and cooperation with international institutions in the fight against organized crime and trafficking; (iii) harmonization of enforcement and prevention measures.

44. Based on the Plan of Measures in the Fight Against Corruption[3], the government will intesify the fight against *corrupsion,* considering it one of the most negative transition phenomena, which has a high public cost. The main directions of the fight against corruption include: (i) increasing the transparency; (ii) enhancing legal and public accountability, (iii) adopting measures to prevent and discourage corruption; (iv) strengthening the voice and the participation of the public, stakeholder groups, business community, media, and, particularly, the poor.

45. The reform in the *judiciary*, which is one of the most important directions of the institutional reforms, is aimed to ensure that the law is applied equally for everyone. The reforms will be implemented on basis of an Action Plan for an Effective Work of Judiciary System in Albania[4]. Main public measures include: (i) improvement of the normative system, assessment of the effects of the laws, and improvement of their publication; (ii) elevation of the professional level of the judges, prosecutors, lawyers, and court administrators and improvement of the mechanisms for their motivation; iii) institutional consolidation and improvement of the judiciary system (court system and its related institutions); (iv) increased access of the poor and social vulnerable groups to legal consultation and protection.

46. The deepening of the *public administration* reform will be one of the main commitments of the government. The main goals are: (i) to increase and improve planning and implementation capacities and effectiveness of the public administration; (ii) enhance public administration stability; (iii) increase its transparency and accountability. Priority public measures include: (i) improvement of institutional structures; (ii) strengthening of internal audit; (iii) full implementation of the civil servant status and reformulation of the status of political employee; (iv) improvement in public information and enhanced accountability to the public.

47. Improvement of fiscal administration is considered an aspect of special importance. Reforms in the tax and customs administration will be deepened. Reforms will be further extended to include budget and treasury bodies, procurement entities, and all parts of the institutional structure that administer financial and material resources. The reforms will aim to: (1) enhance planning, implementation and monitoring capacities; (2) increase efficiency; (3) enhance the transparency of the

[3] Document approved by Government in 1998, updated annually.

[4] Document approved by Government in 2000.

system. Main public measures include: (i) structural, normative, and methodological improvements and the computerization of the public finance system; (ii) increased professional level; (iii) strengthening of internal financial audit; (iv) improvement of public information on planning and use of financial and material resources at the level of institution and program.

48. The deepening of the *decentralization reform* and the strengthening of local government, which is directly linked with the GPRS objectives, will take place in harmony with the Strategy of Decentralization and Local Autonomy[5]. The main directions of continued decentralization reform include: (i) identification of local public responsibilities and their effective delegation; (ii) balanced expansion of fiscal autonomy and property rights; (iii) enhanced local government capacities; (iv) increase of the transparency and level of community participation in governance.

Growth

49. The relatively high rates of economic growth in Albania during 1992-2000 period have not been accompanied by an equally high and balanced economic development. Economic inequality has deepened. Growth, as a result, has not been adequately targeted to poverty reduction.

50. The Albanian government considers growth the main instrument for the improvement of the living conditions and the reduction of poverty. Achievements to date in the economic reforms and their continuous implementation will help to achieve an inclusive, stable growth based on the mobilization of all production resources, especially human resources, in the urban and rural areas and to hand over an intact environment to the future generations. The government thinks that growth will have tangible effects on poverty reduction, particularly through the direct involvement of poor groups of the population in economic activities. On the other hand, sustainable and inclusive growth will create conditions for further deepening and acceleration of transition reforms, the strengthening of the economy in general, the consolidation of the macroeconomic stability, and the reduction of the economy's risk exposure level.

51. The goal is to achieve an annual growth rate of 7 percent of real GDP during the three-year 2002-2004 period. The short and medium-term prospects for reaching this planned economic growth rate are based on: (i) maintaining growth rates in the main sectors of the economy, such as agriculture, construction, services, public expenditures etc.; (ii) continued political and institutional stability as an important factor for maintaining high growth rates; (iii) continuing and deepening macroeconomic stability; (iv) low expectations for economic shocks.

52. The growth is also based on (i) expected positive impact of deepening institutional and structural reforms; (ii) the combination of the use of extensive factors with the growing activation of intensive factors for growth; (iii) high level of monetary accumulation and so far unexploited private transfers as possibility for investments; (iv) investments in human capital, especially in education; (v) expected positive impacts from further economic opening-up, regional integration, and progress in European integration; (vi) promotion of direct foreign investments. Though long-

[5] Document approved by Government in 2000.

term, these factors will also have positive effects at medium term, based on recently adopted measures and their continuous intensification.

53. The trend, which began in 1998, of a growing aggregate demand compared to GDP is, among others, a signal indicating to the government that it should resort to a greater application of economic policies aimed to encourage aggregate supply. Of special importance, in this context, are *structural reforms and more efforts for institutionalization of the market*. The priorities of the government will be (1) deepening of the market institutionalization and promotion of private sector, (2) consolidation of financial sector to increase the availability of credit in the economy and support investments, (3) improvements in the institutional framework for creation of an environment that attracts direct foreign investments.

54. Priority measures for *enhanced market institutionalisation* include: (i) measures to boost free market competition (ii) support for improved networks of services, advice, and information; (iii) improvement of relations of business community with the tax and customs administrations; (iv) increased property right security, especially those related to land. The promotion of *private sector development* will be based on (i) deepening privatisation process of public enterprises; (ii) promotion of free initiative by stimulating micro crediting schemes and taking institutional measures for development of SMEs, especially micro businesses.

55. The strategic objective of the government regarding the *financial sector* is to stimulate the creation of a functional and competitive financial market, which should be capable of responding to the needs of the economy, in general, and the development of the private sector, in particular. This will be achieved through (i) the development of the financial market and (ii) support for and improvement of banking services. The priority public measures for *restructuring and strengthening the financial market* include: (i) privatization of the Savings Bank and state-owned insurance company INSIG; (ii) reduction of banking intermediary costs; (iii) strengthening of the supervisory and regulatory system in accordance with the international standards; (iv) improvement and completion of the legal and institutional basis for the development of the capital market. The main measures *for the improvement of banking services* include: (a) promotion of competition among banks; (b) improvement of the payment system through installation of the Real Time Gross Settlement System (RTGS); (c) establishment of the Credit Information Office; (d) establishment of Deposit Guarantee Agency; and (e) stimulated expansion of savings-credit schemes in the entire country, especially in rural areas. One of the main goals of financial sector development is to stimulate private investments. Gaps in legislation, the absence of a fair market competition, the incidence of corruption in the issuance of licenses and public procurements and the high share of the informal economy are some of the factors that need to be overcome in order to achieve a growth in private investments. Private investments are forecast to account for 13.5 percent of the GDP in 2004 as compared to 12.5 percent in 2000, whereas public investments will increase from 6.5 percent of GDP in 2000 to 8.3 percent of GDP in 2004.

56. Specific measures will be taken to promote *foreign direct investment.* They include (i) establishment of Foreign Investment Promotion Agency with the status of 'one-stop-shop', which will offer services to investors; (ii) development of industrial parks with a concentrated infrastructure; (iii) organization of promotional activities to

improve the country's image. Other factors, which are expected to have a positive impact on the increase of foreign direct investments include the continued privatisation process, the improvement of the infrastructure, improved public security, and the intensification of cooperation and integration processes at a regional level and further afield.

57. *Agriculture* is envisaged to continue to be the main contributor to GDP, despite decreasing growth rates in recent years. The strategic objectives aimed to be achieved during 2002-2004 period include: (i) maintaining growth rates of agricultural and livestock production at over 5 percent; (ii) increasing processing level of agricultural and livestock products; (iii) improving conditions for and raising level of domestic and foreign marketing of the agricultural and livestock products. The sectors of *construction, services and transport* are expected to grow at high rates and increase their share in total GDP. The intensification of the regional stabilization and integration processes and the ongoing improvement in infrastructure are expected to have a particular effect on the growth of the sector of tourism. In the industrial sector some branches such as building material industry, light and foodstuff industry etc. are expected to maintain their high growth rates.

58. The government considers growth a component of *sustainable development*. The government's long-term objective for urban planning will be achieved through implementation of integral and strategic programs, which will help to harmonize the basic elements of the urban environment: land, technology, services, and civic cohabitation and culture. The government's attention during 2002-2004 will focus on: (i) strategic urban planning and programming; (ii) formulation of urban policies; (iii) improvements in the legal and institutional framework; (iv) improvement of housing policies. The government will also work to achieve a rural integrated development, based on the use of all production, agricultural, and non-agricultural resources and the development of market relations. Community initiatives will be encouraged. The government's attention during the 2002-2004 period will focus on (a) development of the sector of agriculture, livestock, and agro-processing; (b) protection and improvement of use of natural resources; (c) increase of access and quality of services of education, health, social protection, road infrastructure, potable water, and sewages; (d) diversification of rural economy and increase of revenues from non-agricultural activity. The government will support sustainable development with its *environmental policy*, which is also connected with the reduction of the poverty. The environmental policies during the 2002-2004 period will be directed at (i) halting the process of environmental degradation; (ii) creating conditions for rehabilitation of polluted areas by introducing minimum security standards; (iii) increasing sustainable use of environmental resources.

Social protection and social care

59. The essence of the Strategy suggests that poverty reduction will be achieved by primarily stimulating an inclusive growth and sustainable development. However, social measures in support of poor and socially marginalized groups are necessary to alleviate existing poverty, create adequate conditions for the poor and obtain the necessary social support for a high-rate growth and development. These measures will have a marked pro-active character, aiming to involve poor and socially marginalized groups, in economic activities and achieve their social integration. Social protection and social care are conditions for the implementation of the strategy. The main

directions of the government's social support policies are: (1) promotion of employment and support for training the poor, so that they are able to meet labor market demand, (2) social protection and economic assistance for poor families, (3) social care for social marginalized groups, and (4) social insurance.

60. In view of Albania's high and long-standing unemployment level, (1) the promotion of employment and (2) implementation of training programs primarily directed at the poor represent important directions of the government's social policies. **The promotion of employment** for the poor will be achieved through specific measures consisting in (i) implementation of public works programs, (ii) implementation of community works programs, (iii) stimulation of micro crediting forms etc., in addition to fiscal incentives and general measures to stimulate investments and growth. The deepening institutionalization of the labor market will also contribute to the promotion of employment. Implementation of training programs, focusing especially on the poor, are aimed to give them access to the labor market and to be better placed to meet labor market demand. In order to ensure that training programs are better tailored to market demands, the government will support in particular private initiatives for the establishment of training centers in accordance with well-defined criteria. The government will continue to provide financial support to the unemployed people in the form of unemployment benefits or by covering part of the training program costs.

61. The government's program for social protection and **economic assistance** in the GPRS framework aims to: (1) increase coverage rate of the poor with economic assistance (increase the number of the poor benefiting economic assistance in relation to the total number of the poor); (2) increase the coverage rate of the economic and social needs of the poor families through economic assistance; (3) implementation of active re-integration programs for the poor. *The increase of the coverage rate of the poor with economic assistance* will be based on: (i) decentralization of the economic assistance scheme, transferring the administration of economic assistance funds (allocated as block grants by government budget) under the responsibility of the local government; (ii) adoption of measures to increase management capacities and accountability of local government authorities and application of well-defined criteria in distribution of economic assistance to reduce and eliminate abuses; (iii) accurate assessment of economic and social indicators of the country's regions on basis of qualified surveys.

62. *The better fulfillment of the economic and social needs of the families for economic assistance* will be based on (1) the establishment of the database on the economic and social situation of different social groups; (2) the harmonization of the economic assistance with other mechanisms of social care, such as social services, with the aim of delivering assistance in compliance with the actual needs; (3) the identification of the economic and social priorities according to social groups and their characteristics, gradually targeting the system on the minimum living standard. *The implementation of active reintegration programs* will be based on creation of legal and institutional conditions for the promotion of new models in economic assistance delivery such as participation in profitable social business activities.

63. The government's program of **social care** for the socially marginalized groups envisages (a) a more comprehensive coverage, (b) quality improvement and (c) a more active character of this service. The attainment of these objectives will be

supported, among others, by (i) the reform of the social service legislation for the complete decentralization of these services and application of other forms, apart from public ones, with the aim of achieving the real social reintegration of the marginalized categories through their participation in social business activities; (ii) development of professional capacities and encouragement of social society to fulfill the needs of new social groups at risk; (iii) harmonization of social service delivery with the economic assistance.

64. The **social insurance** programs in the GPRS framework aims to (i) improve the ratio between contributors and beneficiaries, and (ii) reduce the state budget subsidies for the pension scheme. The increase of the number of the contributors will be supported, among others, by (i) adoption of legal and fiscal measures to reduce the size of the informal economy; and (ii) stimulating participation of rural population in social insurance contributions. The increase of the contributor/beneficiary ratio will have positive effects on *reducing state subsidies* to the pension fund. Legal and institutional improvements will be additional useful measures. The introduction of a social security number, the computerization of the information system and the improvement of the quality of this service will be some of the measures expected to contribute to the attainment of the aforementioned objective.

Stability and macroeconomic balances

65. The government considers that ***maintaining macroeconomic stability*** is a **fundamental condition** for the implementation of the GPRS. Maintaining and deepening macroeconomic stability is also a fundamental condition for the harmonization of the GPRS with the long-term objectives of the development and European integration of Albania.

66. *The monetary policy* of the Bank of Albania will continue to aim at *maintaining price stability*. The objective is to keep the inflation at low levels, at the range of 2 to 4 percent, while retaining the flexible regime of currency exchange rates. In pursuit of its objective to increase its control over inflation, the Bank of Albania is working on preparatory measures for implementation of an inflation targeting regime at medium term (3-5 years). The Bank of Albania will continue to rely entirely on market instruments during the next three years, aiming to increase the efficiency of the mechanism for the transmission of the monetary policy decisions to the economy. Through its monetary policy instruments the Bank of Albania will work to reduce the difference between high interest rates on credits and the interest rates on deposits, which would help to bring down the credit cost and stimulate, to a certain extent, the demand for crediting and investment growth. This would also contribute to the profilization of the monetary policy as a growth incentive policy.

67. *The fiscal policy* will also contribute to maintaining and deepening macroeconomic stability. The government will continue its policy of fiscal consolidation. The budget deficit is forecast to be reduced from 9.1 percent in 2000 to 6.5 percent in 2004. The attainment of this objective will be boosted by, first of all, measures for improvement of fiscal administration both in regard to budget revenues and budget expenditures, including, in particular, (i) expansion of taxable base through reduction of fiscal evasion; (iii) increase of collection rate of taxes on profit, income, and small business; (iii) improvement of tax collection rate of local government; (iv) modernization and computerization of tax system (v) improved

allocation of budget resources and enhanced effectiveness of their use; (vi) timely, consistent planning of revenues and expenditures, which will help to identify and finance budget deficit at shorter periods of time, bringing down the cost of its financing. Through public investment programs for the development of education, health, scientific research etc, the fiscal policy under the MTEF is clearly distinguished by its stimulating effect on growth and the development of the country.

68. The government aims to make a gradual reduction of *the current account deficit* to 6.7 percent of GDP in 2004. This will be mainly achieved by improving the trade balance, supporting the recent positive trend of the substitution of a number of imported products by local products (agricultural products, building materials, light and foodstuff industry products) and stepping up efforts for creating conditions for export promotion. The trade balance deficit as a share of the GDP is forecast to decrease from 21.7 percent in 2000 (after an increase in the years 2001-2003) to 21.1 percent in 2004. The private transfers are forecast to amount to $600 million by 2004, accounting for more than 35 percent of the volume of imports.

69. The reliance on budgetary foreign assistance through grants and concessionary or almost concessionary loans will continue during 2000-2004. The government will cooperate with international partners to secure and use effectively these resources. The government will intensify its efforts for improvement of the indicators of disbursement, absorption (project implementation), recording and monitoring of foreign financing. The experience of the year 2000, when actual disbursements amounted to 83.4 percent of the forecast in the Public Investment Program, as compared to 64.2 percent in 1999 and 73.2 percent in 1998[9], shows that further improvements in this process are possible. With most of financing being given at concessional terms and with long repayment terms, debt servicing will be slightly less than 10 percent of the annual exports and the foreign debt – after decreasing significantly in 2001 - will remain at the same levels as share of the GDP until 2004. The reserves of the Bank of Albania are targeted to rise to 4.7 months of imports in 2004.

70. The general and sector financial effects of the Growth and Poverty Reduction Strategy are broadly envisaged in the 2002-2004 MTEF and more specifically in the 2002 budget, while the financial effects of GPRS priority public actions are envisaged in the Matrices of action plans (Appendix 1).

GPRS IMPLEMENTATION, MONITORING AND EVALUATION

71. Monitoring and evaluation are key elements of the Strategy and its integral parts. The processes of monitoring and evaluation will help to follow the progress of the Strategy, to continuously measure the level at which its objectives are reached, and to identify the need and determine the directions of relevant adjustments in the implementation process of the strategy.

72. Monitoring and evaluation will be a continuous process and will be supported by the establishment of an adequate institutional system and the enhancement of the

[9] MECT

capacities for the collection, processing, analysis and use of the data. The main aspects of the GPRS monitoring and assessment process are:

i) monitoring indicators, including their targets, during and until the end of the three-year period;
ii) relevant institutional capacities;
iii) resources and instruments of monitoring and evaluation;
iv) distribution and use of monitoring and evaluation results.

73. GPRS objectives are expressed and quantified thorugh *indicators* and their targets. The indicators are divided into final and intermediary indicators. The long-term objectives of the country's development have been taken into account in the identification of the final indicators and their targets. Some of *the final indicators* are:

i) Increase of the real GDP at the rate of 22-25 percent in the three-year period (2000-2004) and by two or three times during the next 10-15 years[11].
ii) The share of the population living in poverty according to the absolute poverty line (under $2per capita a day) will be reduced from 46.6 percent in 1998 to 38 percent in 2004 and 25 percent in 2015. The share of the population living in extreme poverty (under $1per capita a day) will be reduced from 17.4 percent in 1998 to 14 percent in 2004 and 9 percent in 2015.
iii) The infant mortality rate is envisaged to be reduced from 21 per 1,000 living births in 2000 to 17 per 1,000 living births in 2004 and to 10 per 1,000 living births in 2015. The maternal mortality rate is envisagd to be reduced from 20 per 100,000 living births in 2000 to 15per 100,000 living births in 2004 and to 11per 100,000 living births in 2015. The incidence of diarreal cases is forecast to be reduced from 1,200 per 100,000 inhabitants in 2000 to 600 per 100,000 inhabitants in 2004.
iv) The level of enrollment in the 8-year education will increase from about 90 percent in 2000 to about 94 percent in 2004 and to 100 percent in 2015, divided by groups of the population and regions. The average schooling period is envisaged to increase from about 9.5 years (1998) to about 10 years in 2004. Secondary education enrollment level is intended to be increased from 40 percent in 2000 to about 50 percent in 2004.

74. *The intermediary indicators* are classified into indicators of employment and social protection, indicators of credit available to the economy, indicators of infrastructure, human development, rural and urban development and indicators of the environment. The quantitative objectives for intermediary indicators are coordinated with those of the Medium-term Expenditure Framework (MTEF).

75. The government thinks that it is necessary to set up an institutionalized GPRS monitoring and evaluation system and to strengthen its capacities on a consistent basis. To this end a Poverty Center will be set up in the Ministry of Labor and Social Affairs and monitoring units will be set up in every line ministry. The GPRS Technical Secretariat in the Ministry of Finances will play the role of the institutional coordinator to guarantee the transparent and efficient monitoring of the strategy. It will also be responsible for the preparation of the annual Progress Report. A

[11] Main macroeconomic indicators are given in Appendix 3 of GPRS.

specialized unit within the Technical Secretariat will compile a map of poverty data and indicators. Monitoring cells will be set up in local government units. The National Civil Society Advisory Group will ensure the involvement of the civil society in the monitoring process and will make its recommendations for the GPRS progress. Government resources and the support of the international partners will be used to establish and consolidate the capacities of these structures, alongside the continued engagement of the existing capacities of non-governmental structures. Independent and specialized agencies will be also engaged in order to increase the credibility of the monitoring and evaluation process.

76. The sources of the monitoring and evaluation data will be the data systems of the central and local institutions and the data systems of the specialized agencies. The main instruments for monitoring and evaluation will be: (i) the Living Standard Measurement Survey (LSMS), which will be repeated in 2002 and 2005 and will be accompanied by intermediary surveys; (ii) Qualitative Poverty Assessments, which will be combined with LSMS; (iii) maps of poverty data and indicators; (iv) direct questionnaires with service beneficiaries.

77. The analysis of the results of the monitoring will serve to measure and assess the progress in the poverty reduction and in the attainment of other GPRS objectives as well as to make the necessary adjustments, especially in regard to public measures. The extensive distribution of the monitoring results will contribute towards achieving this goal. The users of the information for monitoring results will be not only institutions that are responsible for the implementation of the strategy, but also all public decision-making units at a national and local level as well as civil society, non-government organizations, private sector, international partmers, and media.

NATIONAL STRATEGY FOR SOCIO-ECONOMIC DEVELOPMENT

Medium-term Program of the Albanian Government
"Growth and Poverty Reduction Strategy"
(GPRS 2002-2004)
November 2001

I INTRODUCTION

I.A THE NEED FOR STRATEGY ON GROWTH AND POVERTY REDUCTION (GRPS) AND ITS RELATION TO THE I-PRSP

2. During the last two-three years Albania has made considerable progress towards strengthening public order, security and institutional reforms. In addition to restoring macroeconomic stability, the government has maintained relatively high economic growth rates. Structural reforms have been further deepened; the steps taken in the privatization of the large enterprises, financial institutions and public services have been particularly successful. Tangible improvements are noted in infrastructure, especially in transport and telecommunications. After becoming WTO member in September 2000, Albania began to advance rapidly on trade liberalization and on further opening up its economy. Regional and European integration have become realistic, short-term prospects. Albania has taken these steps with the support of the international partners.

3. Despite these achievements, Albania continues to have a relatively weak economy, characterized by fragile internal and external macroeconomic balances. Incomes per capita continue to be the lowest in Europe. Poverty level is relatively high, whereas economy inequality has been steadily growing. The poverty has mostly affected the rural areas, especially the remote regions of the country. Per capita incomes for certain groups of population in these areas are very low. Educational indicators have worsened, such as enrollment level of basic education, and, particularly, secondary education, as well as average schooling period. Despite some slight improvement tendency, infant and maternal mortality and disease rates remain very high. Health care has deteriorated, especially in rural and remote areas of the country. Current poverty in Albania is not only a legacy of its past backwardness; it is also related, to a certain extent, to the developments during the transition period, reflecting the problems and the difficulties experienced by Albania during this period.

4. Special attention is required to address and resolve the problems of poverty and development, in general. The Growth and Poverty Reduction Strategy reflects the acuteness of both development and especially, poverty problems in the country, and the special attention attached by the government and other actors interested in the solution of these problems. The GPRS preparation has built upon the Interim Poverty Reduction Strategy (I-PRSP), compiled in May 2000 as a follow-up to ESAF 1 and ESAF 2 agreements with the IMF. The GPRS is, however, a much more comprehensive document than the I-PRSP. The poverty description and analysis is more extensive and based on more complete data from more updated and specific surveys. In contrast with the I-PRSP, the identification of the objectives and priority public measures was preceded by a comprehensive assessment of the to-date policies. The prioritization of the objectives is better related to the objectives of medium-term and long-term development. The priority objectives, which are better and more clearly defined from a qualitative and quantitative point of view, are supported by more comprehensive public measures, based on institutional and financial arguments, and verifiable through a more complete monitoring process.

I.B PRINCPLIES UNDERLYING PREPARATION AND IMPLEMENTATION OF THE STRATEGY

5. The principles underlying the preparation and implementation of the Strategy are: (i) integration with with long-term objectives of the country's development, (ii) prioritization of policy actions, (iii) dynamic character, (iv) "Albanian" ownership of the strategy and cooperation with the partners for the development of the country.

I.B.1 INTEGRATION WITH LONG-TERM OBJECTIVES

6. The objectives of the 3-year Growth and Poverty Reduction Strategy are harmonized with the long-term objectives (i) of the transition towards a market economy, (ii) development objectives, and (iii) Albania's objectives for European integration.

7. The developments of Albanian economy during the past 10 years have been dominated by the transition reforms. While there was no private property before the transition process got underway, by the end of 2000 the private sector accounted for more than 75 percent of the GDP. The price liberalization process has been almost completed. Capital flow has been liberalized to a great extent. Considerable progress has been made in the liberalization of trade. Albania has no quantity restrictions on imports, and almost no restrictions on exports. Tariff rates have been continuously reduced. However, Albania's transition is not over yet. The most important objectives in the deepening of the transition process are:
   i) Completion of the privatization process of industrial enterprises, public services, and financial institutions, which are still under state ownership;
   ii) Consolidation of reforms in the banking system and establishment of capital market;
   iii) Deepening of market institutionalization, including property right consolidation, promotion of competition, consumer protection;
   iv) Deepening of reformation and modernization of state institutions according to the standards of a democratic society and a market-orientated economy.

8. The transition process is entering a new stage. The hitherto achievements in the transition reforms have laid the foundation for the adoption of a long-term policy for sustainable development. The main objectives of long-term development policies are:
   i) Increasing real GDP by two or three times within the next 10-15 years;
   ii) The technological modernization of production, stimulating, in particular, information technologies (IT);
   iii) Increasing the share of services and industry in GDP, parallel to efforts for increasing agricultural productivity;
   iv) Achieving a qualitative improvement of infrastructure, especially basic services to the population;
   v) Achieving a qualitative improvement of education and health services, and increasing the access of the less advantageous groups to these services;
   vi) Improvement and protection of environment;
   vii) Narrowing regional imbalances.

9. The fundamental objective of the long-term policies of the Albanian Government, which is based on a popular consensus, is Albania's European integration. The path to European integration passes through a process of deepening regional cooperation and integration. The beginning of the negotiations on the Stabilization and Association Agreement with the EU soon will be an important step on the integration course. The obligations stemming from this agreement to the Albanian Government and, in general, the obligations for the fulfillment of the criteria for EU membership will be the fundamental political objectives of the Albanian Government. The fulfillment of the criteria for Albania's association and, subsequently, for its full membership in the EU requires:

   i) Qualitative developments in the deepeninig of the democratization and the implementation of human rights;
   ii) Approximation of the country's legislation with the EU legislation and the consolidation of the rule of law;
   iii) Qualitative increase of the drafting, monitoring and implementation capacities of the state administration;
   iv) Macroeconomic stability, structural changes, increase of production capacities and the modernization of the Albanian economy. More specifically, Albania should maintain and increase price stability, reduce budget deficit by one third of the current level, gradually decrease and bring long-term interest rates closer to those in the EU, radically improve the situation of current account balance, and achieve stable currency exchange rates.
   v) Normal operation of the market economy, the creation of a suitable and incentive climate for investments and, in general, for business, and continued steps for further trade liberalization.

I.B.2 PRIORITIZATION OF PUBLIC ACTIONS

10. Being a medium-term development strategy, the GPRS is focused on poverty reduction achieved through a sustainable and inclusive economic growth. However, the need to address the most acute problems as well as time and financial constraints require the prioritization of the strategy's objectives and the corresponding public measures.

11. The main GPRS objectives are:

   i) Increase real GDP by 25 percent;
   ii) Reduce the number of people living in poverty with the aim of alleviating poverty, in particular, for worst-affected social groups and areas;
   iii) Tangibly improve the infrastructure and related services, such as potable water supply, sewages, electricity etc., increasing the access of the poor to them;
   iv) Reduce infant and maternal mortality and incidence of infectious diseases;
   v) Increase the level of 8-year and secondary education enrollment and average schooling period.

12. The priority fields of public actions will be:

   i) Health and education
   ii) Infrastructure
   iii) Improvement of governance

iv) Growth
v) Social support
vi) Macroeconomic stability

13. The objectives of the transition, the long-term objectives for development, the objectives of Albania's European integration and the GPRS objectives are fundamentally complementary. The alleviation and reduction of poverty is a component of the development and is expected to have positive effects on all aspects of human development. In the last analysis, poverty reduction is also expected to have a positive impact on the acceleration and the deepening of the transition reforms as well as bring about a higher and more sustainable economic growth. Every step taken towards poverty alleviation is a contribution to Albania's rapprochement with Europe. On the other hand, the progress made towards attainment of the objectives of the transition, the development, and Albania's integration into Europe creates conditions for the further reduction of poverty. A similar long-term reinforcing interaction is also noted between the objectives of transition and development and the objectives of Albania's integration into Europe. The Stabilization and Association Agreement with the EU, negotiations on which are expected to get underway soon, will help, among others, to adjust the objectives of the transition and those of the development. The factors connecting the four strategies are the economic growth and the modernization of the institutions.

14. However, the objectives of the aforementioned strategies cannot replace each other. There also conflicts among them due to resource limitations, especially financial resources, at short-term and medium-term periods. Some of these constraints are: (i) the need to take into account the short-term and medium-term effects of the transition reforms on poverty level and, in this relation, the need for policies to alleviate and reduce poverty both require that the transformation programs should be balanced and relatively "restrained". (ii) Likewise, since the poverty problems are more acute and the quality of basic services is relatively low in the rural and remote areas of the country, there is a need to allocate more funds on addressing these problems in these areas, which implies that there will be fewer resources available to tackle other development problems. (iii) Finally, the preparation of the country for European integration requires a decrease of budget deficit to a level lower than 3 percent of the GDP, while the deficit in 2000 was 9,1 percent of the GDP. In addition, every poverty reduction has its financial bill, which will have its negative effect on the fiscal balance. The GPRS takes these conflicts into account and aims to reduce their effect to a minimum.

I.B.3 THE DYNAMIC CHARACTER OF THE STRATEGY

15. The GPRS is not conceived as a rigid framework of objectives, priority sectors and measures, but as a platform for development, which encourages an active participation of all stakeholder groups in its implementation. The Government and the other stakeholder groups will be careful to make a consistent monitoring of the strategy's implementation. The government will also take measures to update the objectives and priority public measures annually, on basis of the results of the monitoring and in cooperation with the stakeholder groups.

I.B.4 ALBANIAN "OWNERSHIP" AND COOPERATION WITH PARTNERS OF COUNTRY'S DEVELOPMENT

16. Prepared with the aim to address the problems of poverty and development in Albania, the GPRS is an Albanian strategy. The Albanian ownership of the Strategy was embodied in the process of its preparation. The GPRS is a product of the coordinating efforts of the central government, the local government, the civil society, the private sector, the representatives of the groups that are mostly affected by the poverty etc. The implementation and the monitoring of the Strategy's implementation will require the same cooperation.

17. The Albanian ownership of the Strategy is reinforced by its “financial cost” on the state budget. The financial effect of the Strategy has been forecast in the budget of forthcoming years and has also been incorporated in the MTEF. The GPRS is also connected and and integrated with the sector strategies of the development of the country, such as the strategies of education, health, decentralization of power etc.

18. Albania has coped with its difficult situations and has carried out its transition reforms and development policies with the all-sided support of the international partners in the development of the country. The Albanian Government is aware that the implementation of the Strategy will require the mobilization of all domestic financial resources and their use with effectiveness and efficiency. Aware that the realization of the policies set out in the Strategy will require a considerable financial support by the international partners, the Albanian Government pledges to make an effective use of this support.

I.C FACTORS FAVORING OR OBSTRUCTING THE IMPLEMENTATION OF STRATEGY

I.C.1 SOME OF THE FACTORS FAVORING THE GRPS IMPLEMENTATION

i) Positive steps in the institutional reforms and in the stabilization of the political environment;
ii) Macroeconomic stability and promising developments in fiscal administration reform;
iii) Achievements in structural reforms and the level achieved in "self-operation" of the economy based on market mechanism;
iv) Broad and consistent participation of stakeholder groups in the process of the compilation, implementation and monitoring of the Strategy;
v) Albania's embarkment on the path of European integration;
vi) Support by the partners in the development of the country.

I.C.2 SOME OF THE FACTORS OBSTRUCTING AND POSING RISKS TO IMPLEMENTATION OF THE STRATEGY

i) Prevailing significant institutional weaknesses, especially reflected in the implementation capacities of the public administration;
ii) Weaknesses and vulnerabilities of the economy, in general;
iii) Risks related to regional security.

II SUMMARY

OF

PARTICIPATORY PROCESS

II.A PARTICIPATING ACTORS AND THEIR ROLE IN GPRS PREPARATION

19. The GPRS preparation took place through a broad participatory system, which included the parliament, the central and local governments, the civil society (non-government organizations, professional associations and other social groups) and the international partners. Compared to the I-PRSP, the broad participation of the stakeholder groups represents one of the most distinctive characteristics of this strategy. It is also one of the guarantees for its successful implementation. The use of mainly local human capacities in the GPRS preparation gave the document its "Albanian ownership".

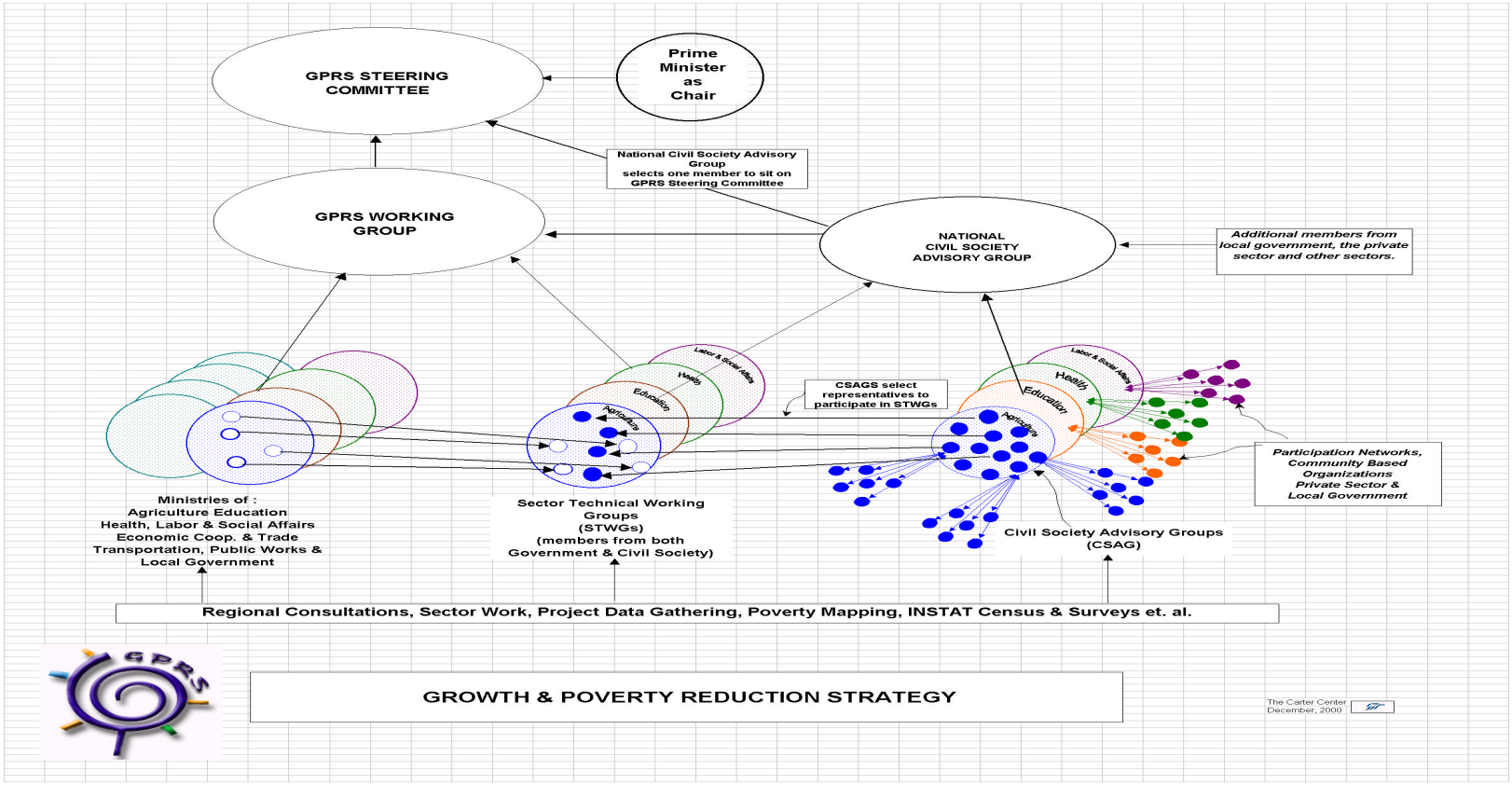
20. The institutional structure of the preparation of the GPRS is composed of: (i) Steering Committee, (ii) Working Group, and (iii) Sector Technical Working Groups.

21. **The Steering Committee** is composed of some of the members of the Inter Ministerial Committee of Economic Policies, one representative of the Donor community and one representative of the Civil Society. It is chaired by the Prime Minister, who guides the entire activity for the preparation and implementation of the GPRS.

22. **The Working Group**, set up by the Steering Committee, is responsible for the coordination of the operational activity of all institutional links in the process of the strategy's preparation and implementation. The Working Group, chaired by the Minister of Finances in his role as the GPRS National Coordinator, is composed of the deputy ministers and one department director each from the Ministries of Finances, Health, Education, Labor and Social Affairs, Local Government and Decentralization, Agriculture, Public Economy and Privatization, Economic Cooperation and Trade, Transport, Public Works and Tourism. In order to utilize the existing local capacities, especially the civil society, the Working Group appointed two non-government organizations as consultants for the preparation of the Strategy: The Institute for Contemporary Studies, and the Institute for Fiscal Education.

23. **The Sector Technical Working Groups**, set up in the aforementioned ministries, are responsible for the elaboration of the sector issues of the strategy and for the supply of relevant information. The Sector Technical Working Groups in the Ministries of Labor and Social Affairs, Health, Agriculture, and Education and Science are composed of 9-10 members; half of the members are representatives of the ministries, while the other half are representatives of the Civil Society Advisory Groups.

Figure 1: Institutional Structure of GPRS Preparation



II.B CIVIL SOCIETY PARTICIPATION

24. The process of the civil society participation in the GPRS has taken place with the assistance of the Carter Center, which took over to (i) identify the civil society actors interested to contribute to the preparation of the strategy, (ii) facilitate the communication/cooperation between them and the working technical groups of the line Ministries, and (iii) organize the regional consultations with the local population to provide information about government's policies related to GPRS. This process continued from September 2000 to June 2001 (see Annex 4, Participatory Process).

II.B.1 IDENTIFICATION OF CIVIL SOCIETY ACTORS

25. The criteria for the identification of the civil society actors were selective and qualitative. The selective criteria included the geographical location, the legal status, the sector interest, the organizational links and the female presence in them. The qualitative criteria were related to the representativeness level of the organization, its ability to articulate and contribute, its interest in the process, and its preferences of sector policies.

26. With the aim of identifying the civil society actors the Carter Center visited a number of regions during August-October 2000 period to select the NGOs and the other civil society actors. The process used ensured that the selection was made by the civil society organizations themselves. The Center's representatives held a series of meetings with these actors to give them preliminary information about the GPRS objectives and enlighten them in regard to the contribution that the civil society could offer for its preparation. These meetings were also useful to discuss ideas about the structure for the participation of the civil society.

27. In order to make the final elaboration of the ideas on the participation of the civil society and to make the public announcement on GPRS launch, the Government, with the assistance of the World Bank, Carter Center, IDS, and UNDP, organized a workshop with representatives of the ministries, foreign donors, diplomats, and the media in Tirana in early November 2000.

28. Civil Society Advisory Groups were assisted with the assistance of Carter Center in most of the sectors covered by the MTEF: health, education, labor and social affairs, and agriculture. These groups were each composed of 10-15 members, selected on basis of the professional recommendations of their colleagues during and after November workshop.

29. The GPRS/MTEF Working Groups held a number of meetings with the Civil Society Advisory Groups to make an accurate assessment of poverty issues and the potential for growth in the relevant sectors as well as to identify possible solutions and the way they could be reflected in the GPRS/MTEF. After becoming familiar with the nature and character of the GPRS/MTEF and having a clear idea about their contribution, each of the Civil Society Advisory Groups appointed 4-5 members to represent the group on the Technical Sector Groups, which had a combined staff with members from the ministries and the civil society.

30. The groups conducted 37 meetings during January-June 2000 period, including the meetings of the Civil Society Advisory Groups and the meetings of the Technical Sector Groups with the high officials of the Ministries. This process culminated with a one-day workshop that took place in mid-April. In the workshop the representatives of the civil society coordinated their efforts with the officials of the Ministry of Agriculture, Ministry of Labor and Social Affairs, Ministry of Education and Science, and the Ministry of Health to prepare the final declarations on the strategic priorities of the relevant sectors.

II.B.2 THE NATIONAL CIVIL SOCIETY ADVISORY GROUP

31. **The National Civil Society Advisory Group** is composed of representatives of the Civil Society Advisory Groups (two from each group) and representatives of the private sector, local government, and other sections of the society. The National Civil Society Advisory Group has taken over to examine the GPRS, prepare its comments, remarks and suggestions, and present them to the Working Group.

32. At the end of May 2001 the Ministry of Finances distributed the first draft of the strategy to the line Ministries, the donor community and the civil society representatives. The National Civil Society Advisory Group held a meeting on 5 June to discuss the first GPRS draft. The Group held a second meeting on 28 September 2001 to discuss the second GPRS draft. This meeting was attended by representatives of the Ministry of Finances, the GPRS consultants and World Bank representatives. The comments and suggestions made during the consultations in the two meetings were taken into consideration and were reflected in the preparation of the relevant drafts.

II.B.3 THE ESSENCE OF CIVIL SOCIETY PARTICIPATORY PROCESS

33. The main problems encountered in the meetings and during the coordination of the work between the Civil Society Advisory Groups and the ministerial Technical Groups can be summed up as follows:

i) Difficulties regarding the proper selection of the representatives of the civil society.
ii) Difficulties in communication in some cases.
iii) Ambiguities in proper perception and implementation of relevant roles.

33. Despite the problems encountered during the participation process in the four sectors a joint declaration, used as a reference point for civil society requirements in relation to the GPRS preparation and implementation, was finally compiled.

II.B.4 REGIONAL CONSULTATIONS

34. During April and May 2000 and 2001 the Carter Center and Oxfam organized a series of consultative meetings in 12 local communities in the villages and towns in four municipalities: Shkoder, Korce, Gjirokaster, and Kukes. They were aimed to draw the contribution of the poor to the preparation of the strategy (for further details see Annex 4, Participatory Process).

II.C PARTICIPATION OF PARLIAMENT, LOCAL GOVERNMENT, AND BUSINESS COMMUNITY

35. In addition to its work to filter the ideas and inputs of the line ministries, the government's consultant group, composed of the Institute for Contemporary Studies and the Institute of Fiscal Education conducted a campaign of consultations with the parliament, local government and the business community.

II.C.1 CONSULTATIONS WITH PARLIAMENT

36. Due to the beginning of the election period (May 2001), the number of the consultations and their participants was lower than planned.

II.C.2 CONSULTATIONS WITH LOCAL GOVERNMENT

37. The process of consultations for the preparation of the GPRS was also extended to local government, which is one of the most interested and important actors for the identification of the problems, the adoption of appropriate solutions, and the implementation of the strategy. Further progress in the decentralization will enhance the local government's role in the implementation, monitoring, and updating of the GPRS.

38. The consultations with the local government took place in three rounds. The aim has been to support the GPRS preparation process through a consistent supply of data, suggestions, proposals for appropriate solutions, and institutional commitments from local and regional authorities.

39. About 40 representatives of local government units from all over the country, as well as representatives of the ministries, civil society and donors took part in the first round, which was held in April 2001. The meeting succeeded in:

i) informing the local authorities on the GPRS process, its fundamental priorities and the GPRS relations with other government's other strategic documents;

ii) drawing preliminary opinions of the participants about a) the profile of poverty and its incidence; b) unfavorable/favorable factors for the growth and poverty reduction; c) most appropriate national or local priority policies and measures and the institutions/actors that could prepare or implement them; d) issues in the decentralization reform that could help the local government play a more effective role for the attainment of the GPRS objectives.

40. The second round of consultations took place in October 2001 after the preparation of the second draft GPRS and will aim to make the final improvements and reach the consensus on the objectives, priority measures and, particularly, on the role of the local government in the GPRS implementation. The meeting was attended by about 80 representatives of local government units as well as the ministries and other central institutions. The discussions focused, in particular, on some issues reflecting the implications between the ongoing decentralization reform and the priority measures in

infrastructure, education, social protection and support, and health, on the integrated rural and urban development, and on the need and ways to achieve community participation in local governance.

II.C.3 CONSULTATIONS WITH BUSINESS COMMUNITY

41. Two rounds of consultations took place with the private business community during the process of the GPRS preparation. The first round was held in April with the participation of about 70 representatives from the business community, organized by interest groups and the profile of their business activities, as well as from the Ministry of Economic Cooperation and Trade. The main aim of this round of consultations was to make the participants familiar with the strategy and to draw their views about barriers to private sector developmen and possible alternative solutions.

42. The main concerns raised by the private businessmen were related to: (a) relations of the business community with the tax and custom administration; (ii) instability of the fiscal policies and the tax burden, which, in some cases, is high (the business costs were increased, in particular, by the social insurance payments for the workforce and this has also a stimulating effect on black labor); (iii) problems regarding market structure and its deformations caused by unfair competition; (iv) difficulties to receive quality public services (criticisms was especially expressed about shortages of power supply to the companies); and (v) problems of insufficient credit and its high cost. The draft strategy includes objectives and priority public measures to address the concerns raised by the private business community.

43. The second round took place in October 2001 following the distribution of the second GPRS draft. It was aimed to draw the opinions of business representatives about the extent to which their interests and suggestions had been reflected in the draft. The participants said that they were satisfied with the draft's reflection of their concerns. But they also expressed their concern about insufficient progress in the implementation of policies described in the strategy, especially those regarding land consolidation or related alternatives, as well as about power supply shortages, the need for VAT different rates, and the expansion of taxable base.

Encountered Problems

44. The process of broad consultations with the civil society, parliament, business community, and the local government helped to identify the objectives, fields and priority public measures. However, being a new initiative, this process had also its shortcomings. The consultations with the parliament were not adequately intensive, because the parliament was dissolved at the moment when the strategy's drafting process had just gone underway. The local government is still not fully aware of its role and contribution to the implementation of the strategy, because the decentralization process is still in its initial stages. Finally, the business community is conservative in its recommandations, because it has misgivings about the chances for their materialization.

II.C.4 PUBLIC INFORMATION PROCESS

45. To inform and increase public awareness about the importance of the strategy the Government adopted some of the most practical methods, such as:

Poster and slogan

46. On basis of the approved logo, the poster was compiled to convey three messages and reflect three levels of participation:
   - The group to which the strategy is addressed,
   - The participating or active structures in the strategy, and
   - Resulting appeal combined through inclusion of two elements for expansion of partnership.

47. The slogan used in the public awareness campaign was "Catch the time for yourself and your children". It was conceived on basis of the Latin saying "*carpe diem*". The use of the word "poverty" was avoided and the word "child" was included as an important element of the Albanian family and symbol of the future.

Radio

48. The second stage of GPRS Information project consisted in the preparation of the product for a radio series and radio spot.

- ***Program series***

49. The series was aimed to present problems related to development. The preparation of the program in the form of a dialogue was effective, because it helped to throw light on the problem and draw the views of a very important stakeholder group into the general dialogue on poverty reduction.

50. The listeners often raised specific problems and proposed solutions that were not relevant to the topic. The guests in the studio had also to intervene quietly in cases when some of the telephone calls were marked by political influences. The relatively long time allocated for the program and the possibility of direct communication was favorable for guests and enabled them to be convincing, while the listeners had the opportunity to air their own views.

51. The participation of different persons of the project in the radio programs was organized in a way as to give them sufficient time to explanations about the problems raised in the dialogue. According to the topic, every program tackled a specific element of the strategy, such as health, education, emigration, social protection and so on.

- ***Radio spot***

52. The spot, which was prepared by "Fasada" Studio in its humor variant, was approved at a meeting of the GPRS working group. It was broadcast on Top Albania radio. "Facada" Studio also administered the spot's broadcasting three times a day, respectively at 08.58, 16.30 and 20.02 hrs.

Brochure

53. The srategy's brochure, a product inherited from the first stage, was prepared in the second stage of the project. The selection of the material presenting the strategy in the brochure was circulated among the working group members. It was in principle agreed that the material should be constructed with questions, in the Internet style.

Television

54. After many consultations, a program promoting the strategy was broadcast on national public television station on 31 March. In view of the complexity surrounding a television program, the managing group considered this its most important product.

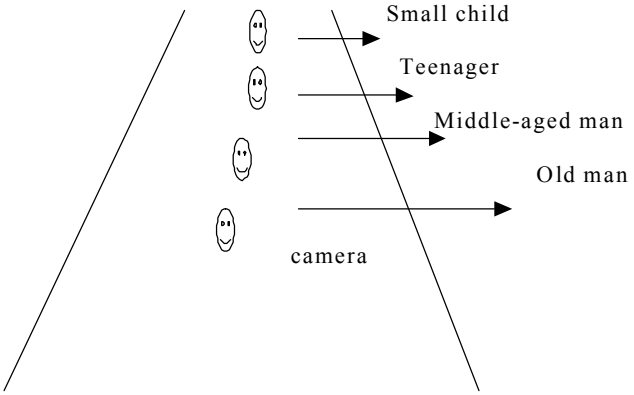
- ***Talk show***

55. A talk show with representives of all GPRS stakeholder groups, including the government, was broadcast in the shape of a promotion discussion in the studios of the public television station. The program was live and the debate was enlivened by demonstrative material and television spots.

- ***Television spot***

56. The television spot was broadcast before the talk show. It contained film and graphic material. The spot shows someone setting on a journey being a child and ending it an aged man (see film shots). The idea of growth, time, inclusion and the course of the strategy is depicted within the space of one minute. The film then shows the name of the strategy with its logo and slogan. The spot was broadcast on the Albanian Television for three successive weeks, accompanied with an announcement on the television program.

Figure 2



Newspaper

57. The newspaper coverage of the strategy was made by presenting the problem in general. The covergage has been aiming at:
   - Giving information about existing poverty standards,
   - Presenting the most affected social groups and most outstanding problems,
   - Analyzing them on basis of national strategy.

58. The publication of the articles began in December last year and continued to August. The product destined for newspapers was revised and prepared for a new publication campaign beginning from 16 June. On basis of text changes made in the original publication plan, we proposed the beginning of a new daily cycle of publications in the newspapers "Koha Jone", "Republika", "Gazeta Shqiptare", "Shekulli".

II.C.5 DONORS'ROLE

59. (i) A group with the main donors, under WB guidance, was set up in December 2000. This group, which was composed of representatives from WB, IMF, UNDP, UK (DFID), USAID, UNICEF, Italy, Holland, Canada and OSCE, met several times to discuss the GPRS process and the donors' role. The meetings were also attended by representatives of the Ministry of Finances. The group focused on the further funding of the process and the GPRS-related priority actions;
(ii) The donors made their comments on the first and second GPRS drafts;
(iii) Some donors offered financial assistance to the GPRS process and gave important inputs to – information campaign (UNICEF), November Workshshop (UNDP), stakeholder analysis (DFID, WB), poverty quality assessment (UNDP), government's consultants (DFID), technical secretariat (DFID), MTEF (DFID). A number of donors, including the Dutch Government, CIDA, UNDP, and DFID, have expressed their interest to fund other GPRS-related activities in the future.

III POVERTY ANALYSIS

AND

POLICY ASSESSMENT

III.A POVERTY GENERAL ANALYSIS

60. The social policies for poverty alleviation, necessitated by the critical situation in the 1991-1992 period, were drawn up at a time when there were no specific surveys on poverty and when information about it was limited. Even after 1992, surveys on poverty, its profile, indicators, incidence and main characteristics were scarce, conducted with different methodologies and separated from each other in terms of time. The two main poverty surveys during 1992-1996 are: the survey on 1993-1994 family budget conducted by INSTAT only in Tirana and the Living Standard Measurement Survey conducted by the General Administration of Social Services in 1996 in the whole Albania, except Tirana.

61. The main information sources of the current GPRS document are the Living Conditions Survey (LCS) conducted by INSTAT in 1998, MICS 2000 Survey conducted by INSTAT with the support of UNICEF, the 2001 Qualitative Poverty Assessment conducted with World Bank support in 10 districts of the country, and the administrative statistics. Despite their value, these surveys have some limitations.
   - LCS is based on 1998 data and for the rural areas it does not include the consumption value of goods produced by the farmers themselves;
   - The qualitative poverty assessment covers only 10 districts of the country.

62. The establishment of poverty survey and monitoring unit will help to make a continuous quantitative and qualitative analysis of poverty in Albania, laying the ground for the preparation of a more realistic and effective policy. An LSMS will be conducted in 2002 and will be updated regularly every three years.

III.A.1 POVERTY PROFILE IN ALBANIA - GENERAL VIEW

63. Despite its massive incidence in the previous system, the poverty was officially recognized only after 1991. The poverty in Albania is a multidimensional phenomenon, reflected in: (i) low or very low level of the incomes of the poor; (ii) higher disease rate and lack of appropriate medical services; (iii) illiteracy or low level of schooling; (iv) high exposure rate towards the risk, (v) low voice in government decision making institutions. The aforementioned surveys and the official statistics show that: (i) 29.6 percent of the Albanians are poor, while half of this category lives in extreme poverty; (ii) one in three families has problems related to dwelling structure; (iii) the infant mortality and mortality rate of children aged under 5 are relatively high compared to the countries of the region; maternal mortality is also high; (iv) almost one in seven children aged under 5 (14 percent) is undernourished; (v) illiteracy has increased (only 88 percent of the population aged over 15 is able to write and read); and (vi) in addition to lack of incomes, 75 percent of the poor families experience acute social problems.

64. The probability of living in poverty increases with the growing size of the family, as confirmed by 1998 LCS. The relation of poverty to family size is more tangible in the rural areas, where poor families have 5.1 members, as compared to 4.7 members of the urban families. Also, the families with more children and elderly are closer to the poverty line, because the dependence coefficient is higher. The families, in which household heads are young and uneducated are more exposed to poverty, while the families with household heads in emigration are not characterized by a high risk of falling into poverty (see Annex 2, Table 1). The poverty is more present in two categories of families, in which the household heads are women: widowed women with children and women living alone. These categories are 60 percent closer to the poverty line than the families with male household heads (see Annex 2, Table 2).

Box 1: The poor on poverty

The Qualitative Poverty Assessment , conducted in 2001 in cooperation with the World Bank, found out that the individuals have a multidimensional concept on poverty. In addition to basic livelihood elements such as food, clothes, and housing, in their concept on poverty they also included their lack of hope, their exclusion from the economic and social life, their inability to keep up the family and social traditions etc. Their poverty concept is also directly connected with other important problems of daily life such as the lack of an adequate infrastructure (supply with potable water, sewages, regular supply with electric power, heating, roads etc.), the security (public order, health, economic well being etc.), the quality of health, education services etc. All these social and economic elements, which are included in the multidimensional concept of the poverty, are inter-related and determine its level.

65. The poverty is disproportionate to the educational level. More than one third of the poor have elementary education and one fifth of them have 8-grade education. Poverty expectancy for uneducated household heads is 35.8 percent, 29.3 percent in urban areas and 37.1 percent in rural areas, respectively. Poverty level in rural areas is twice as high as in urban areas for each educational level, with the exception of the high education, for which the poverty levels are equal (see Annex 2, Table 3).

66. The poverty level is relatively high in social groups, for which the agriculture is the main source of incomes. About 50 percent of the poor are self-employed in agriculture, 20 percent are pensioners, and 10 percent are employed in the non-farming sector. About 60 percent of those receiving unemployment payments are poor. The poverty levels are higher among pensioners (see Annex 2, Table 4).

67. According to the LCS, more than half of the families, in which the household head is unemployed, fall under the poverty level. The employed people have a smaller probability to fall into the category of poor if they live in the urban areas (5.3 percent) than if they live in the rural areas (32.6 percent). On the other hand, there are no significant differences in poverty levels between the unemployed in the rural and urban areas. The probability of the pensioners in the rural areas, including the disabled people who receive pensions, to live in poverty is twice as high as that of pensioners living in the urban areas (see Annex 2, Table 5).

III.A.2 ACCESS TO ECONOMIC RESOURCES AND THE POVERTY

Poverty measured on income level

68. In a chiefly agricultural and informal economy like the Albanian economy, the measurement of poverty on basis of the consumption level would have been most appropriate. However, since this index cannot be measured, the only applicable indicator is the level of incomes required to fulfill basic needs. This level has been considered "the poverty line". The analysis of poverty through incomes is based on two levels of relative poverty, whereby 60 percent of the median in the selected model[1] is used to identify "the poor" and 40 percent to identify "the very poor". The number of persons living on less than 1 dollar a day and the number of persons living on less than 2 dollars a day have been used as indicators of absolute poverty. On basis of these relative or absolute definitions of the poverty line, two indicators have been used to measure the poverty: the percentage of the population with per capita incomes that fall under the poverty live (the poverty incidence) and the difference between the incomes of the poor and the poverty line (gap or depth of poverty).

69. The indicator of poverty relative level shows that 29.6 percent of the Albanians in 1998 were poor, whereas half of them lived in the extreme poverty category. The poverty was mainly concentrated in the rural areas: five out of four poor people live in the countryside. The indicator of poverty absolute level shows that one out of six families lives on less than one dollar per capita a day and almost one in two families lives on less than two dollars per capita a day (See Annex 2, Table 6). The distribution of the social well being between the urban and rural areas is also not proportionate: 28 percent of the rural population is included in the last quintile, whereas the same proportion of the urban population is included in the highest quintile (see Annex 2, Table 7).

Box 2: Poverty dimensions

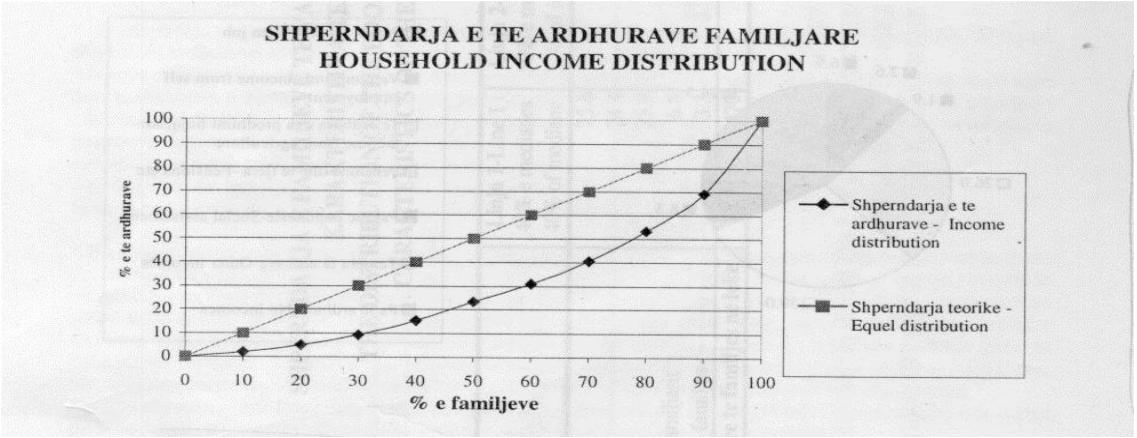
The qualitative poverty assessment conducted in 10 districts of the country in 2001 identified four different social economic groups on the basis of the multidimensional poverty index: very poor, poor, not poor, and relatively well-to-do families. Very poor families are those, which do not fulfill, qualitatively and quantitatively, their basic needs for food. The poor families are those who fulfill their needs for food, but cannot cover expenditures for clothing. The not poor families are those, which can fulfill their needs for food and clothing, but cannot cover all other household expenditures or afford to buy durable household goods. The relatively well-to-do families are those, which can cover all the aforementioned expenditures and can also buy cars and a second home. The first two groups cannot afford sufficient food and clothes in quantity and quality, and are under a constant psychological stress. The other two groups consider themselves poor in terms of their economic and social exclusion, lack of security, poor infrastructure, and the absence of formal institutions.

70. The inequality in the nationwide distribution of incomes is high. The Gini coefficient, which reflects the situation in 1998, is calculated at 0.43 level. There are no significant

[1] LCS, INSTAT, 1998, Draft Raport

differences between the rural and urban areas (Figure 2). Compared to the data supplied by survey[2] conducted in 1996 in the whole country except Tirana, the inequality has deepened[3] (the value of Gini coefficient at a national level was 0.276 in 1996 with no distinct differences between urban areas, 0.242, and the rural areas, 0.277). Compared to some Central and Eastern European countries, the inequality level is higher in Albania. The value of Gini coefficient in 1996 and 1997 was: for Bulgaria (1996) 0.291; for Czech Republic (1997) 0.259; for FYROM (1997) 0.259; for Hungary (1998) 0.348; for Poland (1997) 0.3; for Russian Federation (1996) 0.483 and for Romania (1997) 0.422.

Figure 3: Household income distribution



Poverty measured on level of capital and ownership

71. The 1998 living conditions survey of the Albanian families provides information about family ownership of production capital and long-term consumption articles. According to this survey, the families in Kukes, Diber, and Elbasan are the poorest. The capital index provides the same information as the poverty indicator on basis of incomes. The families in Tirana, Durres, and Vlore have, on average, higher indicators, namely three times higher than in the poor prefectures. The differences between the poorest and the richest groups are high (see Annex 2, Table 8). The very low level of arable land allocation per capita in the rural areas (averagely 1,3 ha per capita) is one of the main causes of poverty in these areas.

[2] Poverty Survey, 1996, APNShS,

[3] Partly, the large difference of the Gini coefficients in the two periods can be explained by the methodological differences of the respective surveys: Gini coefficient for 1998 is based on income while for 1996 it is based on consumption.

Poverty measured on failure to fulfill basic needs

72. The INSTAT living conditions survey (1998) supplies data on the level of families failing to fulfil some basic needs, such as (i) possibility to use potable water and hygiene facilities, (ii) inadequate dwelling conditions, (iii) cohabitation of many persons in the same house (more than three persons living in the same room), (iv) inadequate heating, and (v) low schooling level. Two in five families do not fulfill two out of these five basic needs, and one in six families does not fulfill three or more of these needs. The poverty is higher in the rural areas. The survey results show that the dwelling conditions should be improved both in the rural and urban areas, in which one in three families experiences problems related to dwelling structure (see Annex 2, Table 9).

Box 3: How the poor live

When the people are poor and when they cannot afford sufficient livelihoods from their land, they begin to rely on alternative resources (coping mechanisms). The relation between these two factors is so direct that the decline of one resource compels the family to tap other alternative resources. When the incomes from farming are not sufficient, a number of peasant families living on the suburbs or in the vicinity of the major cities try to compensate the lack of these incomes by doing casual jobs in the city, mainly in construction or in other sectors. Some of their members, especially young men, emigrate temporarily at certain periods of the year, usually to Greece or Italy. Other families, which do not have this opportunity, migrate to major urban centers or receive economic assistance from the state. Almost all poor people rely on the strong family structures, such as the relatives, neighbors, or the wider circle of friends. Of all aforementioned sources, the emigration is, undoubtedly, the most flexible element and the most important alternative source. The emigration level increases or declines, depending on the difficulties experienced by the family. When the incomes from these alternative sources are too late to come for one reason or another, the poor families rely on the system of credit purchase, or, as it is otherwise called, buying articles in food shops with lists. The system of list buying has become a common phenomenon of the economic life in almost all villages and poor quarters of the towns. It is the credit system for poor families. The lists get longer or shorter depending on the hardships of the emigrants in the country of emigration, the possibility to find casual jobs, the sale of some farming products, the amount and the time when economic assistance is received etc.

73. The MICS 2000 survey shows that more than 45 percent of the population is supplied with potable water from household tap, 20 percent from the courtyard tap, and 16.4 percent from the public tap. According to World Bank estimates, less than 90 percent of the families in the urban areas have access to piped potable water, whereas less than 50 percent of the families in the rural areas have access to piped potable water, and less than 5 percent have access to piped sewage. The families in the urban areas have running water for only a few hours a day.

Poverty and unemployment

74. The inability to have a job and generate incomes from it is one of the main causes of poverty in the urban areas. Though the unemployment has declined from 27 percent in 1992 to 16.8 percent in 2000 (as shown by the official statistics), it continues to remain at high levels, especially the long-term unemployment. Hidden unemployment is characteristic of the rural areas. According to the available data, the unemployment is

above the average level in the towns of Berat, Elbasan, Kurbin, Shkoder, Permet, and Kucove.

75. The hidden unemployment and under-employment is an outcome of the low rate of arable land per capita of the population and the low level of economic, non-farming activities in the rural areas. These could be considered as the main causes of poverty in these areas. Having no other means of livelihood besides the agricultural land, most of the families in the districts of Diber, Kukes, Tropoje, Shkoder, Mirdite, and Mat rely mainly on the incomes and products of their own farm, which is small and has a low quality soil. The under-employment and the high unemployment are also present in the urban areas overpopulated as a result of the internal migration after 1990. The largest part of the workforce in the municipalities of Kamze and Paskuqan in Tirana district and in the Katund i Ri municipalities in Durres district is unemployed and mainly lives with temporary jobs in the non-formal market.

76. In regard to gender-based unemployment, it should be noted that it is higher among women (21 percent) and lower among men (16 percent). The highest unemployment level for women in the cities of Vlore, Tirane, Berat, and Kavaje is due to the closure of activities of foodstuff, textile, and handicraft industries. The higher-than-average unemployment level among men in the cities of Elbasan, Bulqize, Durres, Fier, and Skrapar is due to the closure of the heavy industry enterprises and the mines. The unemployment figures show that women have currently less employment opportunities than men.

77. In regard to age-based unemployment, it should be noted that it affects 60 percent of the persons in the 16-34 age group due to lack of professional experience or skills. The highest levels are registered in the district of Vlore where 86 percent of the registered unemployed people belong to the 16-34 age group, followed by Mat (82 percent), the city of Tirana (66 percent), Puke (65 percent), and Shkoder (63 percent).

III.A.3 HUMAN DEVELOPMENT DIMENSIONS AND POVERTY

Health indicators as poverty dimension

- ***Life expectancy***

78. According to the Ministry of Health statistics, the average life expectancy is relatively high: 69 years for men and 75 years for women. This indicator is positive and comparable to the developed countries, even though a slight decreasing tendency has been noted in recent years.

79. The mortality rate is about 5,5 for 1,000 inhabitants. This indicator is, more or less, stable, but there has been an increasing tendency in the number of deaths in younger ages, 24-45, due to the rise in the number of accidents, bloodfeuds, and abuses with lifestyles.

- ***Infant and maternal mortality rate***

80. *The infant and maternal mortality rate in Albania* remains an acute and worrisome problem for the health system. In 2000 the infant mortality rate was 21 for 1,000 babies born alive and the maternal mortality rate was about 20 per 100.000 live births. Despite the declining trend in recent years, these indicators are still far from the average indicators in the European countries. Within the country, the differences between the urban and rural areas and between the northeastern and central and southern areas are very tangible. In areas such as Tropoje, Hasi and Kukes these figures are far above the average national level: the infant mortality in 1997 in these areas amounted to 28.2 per 1,000 births. The percentage figures of dead babies born by mothers aged under 20 are particularly high. The main causes of the deaths are hemorrhages after birth, eclampsia, infections etc. As in the case of maternal mortality, the infant mortality rate increases perceptibly when the health and educational level of the mother is very low, access to services is inadequate, specialist treatment is far from being satisfactory etc. The decline in the number of births has also had its effect on the falling mortality rate. Family planning is easily accessible for 60 percent of the women in Albania and the biggest restrictions to this service are found in the rural areas.

- ***Infective diseases***

81. Based on incidence and prevalence of the diseases, the lung, gastro-intestinal and infective diseases are the three most frequent. Due to the social and economic conditions, the poverty and the lack of infrastructure, *the infective diseases* represent a worrisome problem, to which the poor groups are more exposed. Even though figures indicate a decline in the level of reported cases of infective diseases, the possibility of further spread of some contagious diseases, such as the hepatitis with more than 4,400 cases in 1999 and tuberculosis with 721 cases in 1999, compared to no single case at the outset of 1990[4], is a cause for real concern. The epidemics of cholera in 1994 and poliomyelitis in 1996 showed that it was necessary to introduce better disease control and prevention systems. The Ministry of Health has made considerable efforts to achieve a better vaccine coverage of the population, mainly children, supplying vaccines for the main diseases and the cooling chain equipment for the whole country. UNICEF and WHO have made their contribution to the improvement of the situation through their direct assistance. The number of children immunized against measles has increased from 90 percent in 1994 to 95 percent in 1997. The coverage level was lowest for tuberculosis at 87 percent and highest for poliomyelitis at 97 percent. In 1999 the coverage vaccination level varied from 83 percent for tuberculosis to 97 percent for poliomyelitis. As a result, there has been no single case of poliomyelitis in the past four years.

82. It is believed that the information for sexually transmitted diseases is not adequate. A considerable number of diseased persons are not registered, and, consequently, not reported as such. According to the data of the Public Health Institute, there has been a growing incidence of syphilis, whereas the incidence of gonorrhea has been falling. The changes in the type and prevalence of sexually transmitted diseases have reflected the changes in the Albanian reality. The relatively young age of the population, its uncontrolled movements, the lack of sexual education, the increase of prostitution in

[4] Ministry of Health

the country and of Albanian prostitutes abroad, lack of clear guidelines for the prevention, treatment and reporting, lack of information and adequate education especially for the groups at risk are some of the causes behind the uncontrolled increase in the cases of these diseases.

- ***Malnourishment***

83. According to the MICS 2000 survey, almost one in seven children under 5 (14 percent) in Albania is characterized by moderate underweight, whereas 4.4 percent of them are classified with significant underweight. Almost one in three children under 5 (31.7 percent) has minor shortcomings in development, whereas 17.3 percent are classified with significant shortcomings in development. One in nine children (11 percent) under 5 has insignificant shortcomings in nourishment, whereas 3.6 percent are classified with significant shortcomings.

84. The survey also showed that there are minor differences between malnourished children in rural and urban areas. The children with mothers, who have secondary or higher education, are less inclined to be under weight and undeveloped than the children, whose mothers have a lower level of education. The number of children who are under weight, undeveloped and with shortcomings is higher among boys than girls. The analysis of the three indicators based on age shows that the children aged 6-11 months have more malnourishment problems than the children of lower or higher ages.

Educational indicators as poverty dimension

85. The 2000 MICS Survey showed that about 90 percent of the school-age children attend compulsory education. The difference between the urban and rural areas is less than one percent. At a national level, there are no tangible differences between girls and boys regarding school attendance. 82 percent of the children enrolled in the first grade complete elementary education at a national level. There are, however, differences between children living in rural and urban areas. Nearly 87 percent of the children in the urban areas, who are enrolled in the first grade, complete elementary education, compared to the 77 percent of the children in the rural areas. The enrollment level has fallen for both preschool and secondary education. The figures indicate tangible decreases, 37 percent and 36 percent, respectively (compared to 1990 levels).

86. According to a survey[5], the declining enrollment level has been reflected in the average schooling period. This figure in 1989 was 11,6 years, but it fell to 9,5 years by 1998, which means an average loss of two years of schooling in a decade. On the other hand, the number of students attending higher schools has increased from 10 to 17 percent compared to 1990. School attendance among children in suburban areas is lower than average. Despite fragmentary data, the access and the quality of education in these areas are problematic.

87. The causes for school dropout are different for different levels of education. In general, they reflect the changes in demand and supply. The dropout in the preschool education

[5] Palomba and Vodopevic, 2000 "Financing, Effectiveness and Equality in Albanian Education", World Bank, March 2000.

is linked with the closure of the public institutions. The number of kindergartens in 2000 decreased by 42 percent compared to 1990 (66 percent in the urban areas and 34 percent in the rural areas[6]). The high levels of female unemployment have also their impact on the falling demand.

88. In the case of the compulsory education, the fall in the number of enrolled pupils is due to two main reasons: 35 percent of the drop-outs do this because of economic reasons, whereas one fifth of the children drop out of school due to the low quality of education (see Annex 2, Table 10).

89. The number of the secondary schools has decreased by 55 percent due to the closure of a considerable number of professional schools. Their closure had an impact, in particular, on the poor families and led to their declining educational level. The increase of the urban population, the high number of teachers without the required teaching education, especially in remote areas, and the educational level of the parents are factors that have led to the decline in the number of pupils attending secondary schools.

90. 12 percent of the population aged over 15 cannot write and read, which means that it is classified as "illiterate". In general, the illiteracy level is much higher among women than men (15.3 percent as against 9.1 percent). There are differences between the illiteracy level in the urban areas (7 percent) and the rural areas (19 percent). The illiteracy level increases with the age: while 7 percent of the individuals in the 15-34 age group are illiterate, this figure is 35 percent in the population aged over 65[7].

91. The public educational system suffers from problems of quality, which are due to shortages in teaching equipment, the progressive increase of teachers without relevant teaching education, serious shortcomings in the re-training of teachers, outdated or rigid teaching methods, curricula problems etc. The quality of education is lower in the rural, remote, and suburban areas.

Level of risk exposure

92. According to the World Bank's survey on "Assessment of needs and institutional capacities," conducted in February 2001, in addition to their economic problems (lack of incomes), about 75 percent of the poor families also experience social problems, such as divorce, death of one of the household heads, disability, health problems or unemployment. The probability to fall into poverty is higher in the families with one parent, the families with disabled children, the families with elderly people, and the families with diseased members. There is no clear-cut division between the groups at risk and the economic poverty. They are inter-related and determine each other. The territorial distribution is the same.

93. By measuring the level of risk exposure, the survey, identifies (i) among the children at risk: children who beg, children who work, children who abandon school, children in

[6] Ministry of Education

[7] MICS 2000

public orphanages, children confined in their homes due to blood feuds; (ii) among women: violated women, divorced women, women who are household heads, and women who have fallen victim to trafficking; (iii) among young people: drug-addicts, unemployed youths, youths involved in criminal activities; (iv) among elderly: old people living alone/ abandoned; and (v) among the disabled people, in general: physically disabled people and mentally disabled people. The level of risk exposure is higher in the rural areas. This part of the population is more excluded from the right to benefit from social services, and completely excluded from the employment service.

Human development and social exclusion indicator

94. The Human Development indicator is a synthesis of three basic components of the human development: (i) life expectancy, (ii) schooling level, and (iii) living standard. According to the estimates made by UNDP[8], the indicator of human development for Albania in 1999 was 0.725, ranking Albania in the 85th position among 162 countries.

95. Efforts have been made to measure the social exclusion in Albania by using the indicators of mortality rate, dropout level, and income-related poverty. *A social exclusion index*, used to compile the social exclusion map, has been prepared by applying a point system and by assessing the three aforementioned indicators on basis of the official data. The regions have been classified into four groups. The group with the highest index has the highest level of social exclusion (See Annex 2, Graph 1).

Poverty geographical distribution

96. Based on the multidimensional poverty index in the Qualitative Poverty Assessment in 10 districts of the country in 2001, the districts of the country can be classified into three groups: poor, medium, and relatively wealthy districts. The survey shows that the poorest districts are Kukes, Lac, and Gramsh. There are more poor families in these districts, because they have fewer sources for jobs and incomes. The population of these districts has also emigrated less than in other districts and, consequently, they have less remittances from emigrants. The second group include the districts of Vlore, Mallakaster, Tirana, Shkoder, and Mirdita. They have more sources for jobs and incomes. Many families have incomes from one or two resources. Tirana, which belongs to this group, is a special district for many reasons, including the fact that it is the country's capital, it has more possibilities to attract foreign investments, and is the epicenter of migration. These characteristics make Tirana a much more economically and socially heterogeneous district than other districts. The third group includes the districts that have less poor and very poor families, such as Korce and Sarande. These districts have a more diversified economy, have three or four sources for employment and family incomes, and higher remittances from the emigration.

97. The Living Conditions Survey confirms the same results, which shows that from 1998 to the present the geographical distribution of poverty has changed little. The economy poverty indicators confirm that the prefectures of Kukes, Diber, and Elbasan are the poorest in Albania, whereas the prefectures of Vlore, Berat, and Fier are among the

[8] UNDP, "Human Development Report, 2001".

areas with the highest standard of living (even though they have high levels of urban poverty). Poverty is a chiefly rural phenomenon, accompanied with a significant lack of opportunities for development and low level of access to infrastructure. It is also more characteristic of the mountainous rural areas (see Annex 2, Table 11).

98. It is difficult to make a more detailed analysis of the geographical distribution of poverty based on income or consumption data. However, the information about the distribution of economic assistance helps to conclude that within the aforementioned prefectures poverty is more accentuated in the districts of Kukes, Bulqize, Diber, Librazhd, Puke and Gramsh.

Table 1: Comparison of some representative indicators at regional level

Countries	Infant mortality	Mortality of children under 5	Elementary education enrollment	Secondary education enrollment	Gini coefficient
Albania	30	37	96	35	0.43
Armenia	25	30		87	0.59
Bulgaria	14	17	92	76	0.41
Georgia	19	23	83	73	0.43
Kyrgyzstan	56	66	97	78	0.47
Moldavia	28	35		80	0.42
Russia	21	25	99.5	87	0.47

Conclusions

99. The poverty analyses, definition and profile presented in this chapter are based on a Living Conditions Survey (LCS), Multiple Indicators Cluster Survey (MICS), a Qualitative Poverty Assessment (2001), administrative information, and other studies. It is the best and most thorough analysis that can be produced given the information and data available, and in many aspects reflects the current situation reasonably accurately. However, the absence of a regular and nationally representative household survey limits the ability of the Government to develop and track a variety of poverty indicators and their trends over time, in addition to weaknesses in administrative data and analysis. For this reason, the Government of Albania has developed a comprehensive and aggressive plan to strengthen policy monitoring and evaluation, including the completion of a national census in 2001 that sets the stage for a five year program of household surveys to be supported by the UK-DFID and World Bank, as well as other initiatives to develop capacity in data/indicator mapping, administrative data collection and analysis, and qualitative poverty monitoring. These initiatives include institutional reforms, such as the creation of a new national monitoring unit in the Ministry of Finance (this program is presented in details in Chapter V, Strategy Implementation, Monitoring and Evaluation).

III.B ASSESSMENT OF PAST POLICIES

III.B.1 TRANSITION REFORMS AND LIVING STANDARD

100. Being a multidimensional phenomenon, poverty is an outcome of the effect of many factors. The roots of current poverty in Albania lie deep in the past system, but they have also been nourished from developments accompanying the transition to market economy. The transition reforms have aimed to create conditions for a sustainable development and the elevation of the living standard. The experience of the Albanian transition in the past 10 years shows that the private property and the market mechanism stimulate the free initiative of the people and create conditions for an effective and efficient use of the production resources. But during their implementation process the transition reforms have also been accompanied, especially at the beginning, with the deterioration of some living standard indicators for some particular groups of the population and certain areas of the country. The structural reforms were preceded by the price liberalization, which hit hard at the purchasing power of the population, especially in the first years of the transition, despite the compensation measures taken by the government. The privatization and the restructuring processes, despite their positive economic effects, had tangible negative effects on increasing unemployment, whereas unequal chances for participation have had an effect on the creation and increase of social differences. On the other hand, the opening of the country to world trade and culture has led to an explosive increase of the needs of the people, who used "to be happy with little" in the past. Multiplied needs have been converted into multiplied economic activities of many people and, ultimately, into increased well-being. But to many other people, who have limited opportunities, the increase of needs has been merely experienced as an increase of their poverty.

101. The Albanian transition has shown that the implementation of structural reforms and the institutionalization of the markets is a difficult process that requires time. To the extent in which they are successful and despite the broad opportunities they offer, they often take their toll, especially on the most vulnerable groups of the society. It should be, however, noted that these costs have been due to sometimes distorted implementation of economic reforms, the incoherencies, delays, contradictions and lack of clear programs, rather than due to their successful implementation. During the last 10 years the Albanian economy has been subjected to several internal and external shocks. Lack of political stability in the first years of transition had its economic cost in the serious damage caused to the production capacities and infrastructure in both urban and rural areas. The damage of production capacities had a significant undermining effect on the privatization process, making its implementation often difficult and ineffective. A heavy blow was dealt at the living standards and poverty assumed critical proportions. The international humanitarian aid played a salvation role in the first years of the transition. The stabilization processes, the economic recovery and the progress in the reforms initiated in 1993 and 1994 came again to an abrupt halt. The flourishing of the pyramid schemes, especially during 1996, and the political unrest, the economic paralysis and the social upheavals following their

collapse in 1997 dealt another blow at the living standard of the people. There were political unrests in 1998, too. Meanwhile, the instability and the regional wars during all this period have had their significant negative effects on the Albanian economy, too. In addition to their direct effects, the insecurity prevailing in the region has been especially tangible in the low level of foreign investment absorption.

102. Despite the costs, difficulties, and problems associated with the transition reforms, the government has considered the deepening process reform as the only alternative for the creation of conditions for a stable development and reduction of poverty. In the context of the transition reforms, the government has attached special attention to the structural reforms, particularly to (i) privatization of the economy, (ii) the reformation of the public sector institutions, and (iii) the institutionalization of the market.

103. The privatization of the dwelling flats and trade outlets was relatively successful. The privatization of the agricultural land (even though there are still unresolved problems, especially in some regions of the country) brought the agriculture out of its state of collapse at the outset of the transition and opened the way to the recovery and the development of this sector. The policies and the procedures applied for the privatization of the state-owned enterprises and units show that the criteria of effectiveness, fairness, and rapidness have not been always shown due regard. The violation of these criteria has taken its toll, especially on the poorer groups of the population. The massive privatization proved to be especially ineffective. The privatization process of the small and medium-sized enterprises was completed in 2000. The privatization of the large enterprises in the last two years has been positive. The privatization of the National Commercial Bank, AMC, cement factories in Elbasan and Fushe Kruje were useful experiences for deepening this process in the future. The recently initiated application of the concessionary contracts, as preliminary forms of privatization, has given an impetus to the process.

104. The fragility of the Albanian transition reflects, among others, the fragility of the country's institutions. The administration and the other state institutions, the legislation, and the system of justice administration have often proved – as shown by events in 1997 – to be incapable of accomplishing their difficult tasks in this period of transition. The government is engaged in the reformation of the legislation to ensure that it responds to and opens the way to the needs of development. The government has been also engaged in the reformation of the public administration with the aim of enhancing its effectiveness, efficiency, and transparency and bringing it closer to the public. The Law on Public Service is a sound basis for the reformation of the civil administration. Steps taken to close legal gaps that allow abuses with power and the fight against corruption have been among government's priorities. Public security in the country has improved considerably in the last two years, compared to the situation in 1997 and 1998. After the local government elections in 2000, considerable steps have been taken to expand local government autonomy. The government views local government autonomy as a way to give more voice to the poor groups in the decision making process. However, the steps in all aforementioned sectors have been relatively slow and the outstanding problems are still numerous. Some of them are: (1) the weakness of the public administration, including: structural weaknesses and shortcomings in institutional coordination, excessive centralization, low management

capacities (for planning, monitoring, and controlling), low level of transparency, relatively low level of motivation for the administration personnel; (2) the weaknesses of the judicial system; (3) the presence of a high level of corruption.

105. The transition difficulties have also had a high negative effect on the structures of the social capital, weakening their role as factors for development and as institutions of support for the poor groups. The connecting links between personal and family interest with the community interests were disrupted. The damages caused to infrastructure, urban environment, the water and power supply systems etc. are not much due to the high level of their depreciation than to the narrow, anarchic perception of personal interests and the paralysis of the cultivated social structures. They also reflect the weakness of the public institutions. The same explanation could also be given about the flourishing of the illegal constructions and the uncontrolled opening of kiosks in public areas. However, those social capital structures, which have still not been damaged or have been less damaged and which are naturally closer to the individuals, such as the family, have played a mitigating role during the transition. An example of this role is the remittances of the emigrants.

106. Despite their progress, the market structures still suffer from significant institutional shortcomings. There are still legal and institutional problems with identification and implementation of property rights. The legal and administrative structures that protect and stimulate the market's competitive character are still weak. Business transactions, to a great extent, are not conducted on basis of formal contracts, often giving rise to conflicts, which assume severe forms and "are resolved" with illegal, extreme means. The business bankruptcy procedures have not been fully judicially and administratively regulated. The institutionalization of the financial market is still backward, and some institutional labor market structures have proved to be ineffective, or, at least, inadequate. The backwardness and the weaknesses in the system of payments increase perceptibly the costs of business transactions. Despite the existence of the relevant law, consumer protection is still weak. In general, the market suffers from lack of institutions and from rigidities, which prevent it from carrying out its functions and undermine the operation of the economy, in general. The weaknesses in the formal market have opened the way to the informal market. The flourishing of the pyramid schemes in the years 1995 and 1996 is a significant example. The high level of the informal economy and all its negative consequences highlight the need for market institutionalization.

III.B.2 MORE DIRECT POLICIES FOR POVERTY REDUCTION

107. Considering the implementation of the transition reforms as insufficient to address poverty issues, the government has focused on some factors that have more direct effects on the living standard. The (i) the macroeconomic stabilization, and (ii) the implementation of adequate policies for revenue allocation and reallocation, with mitigating effects on poverty, have been two of the main directions on which the government has focused its attention during all this period. Attention has also been attached to (iii) the promotion of economic growth and (iv) the development of the sectors that contribute directly to the increase of the living standards.

Macro Economic Stability

108. The restoration and the maintenance of the macroeconomic stability, perceived above all as price stability, has been a central priority for the government. The government has considered the macroeconomic stability as a condition for progress in economic reforms and for an effective implementation of poverty reduction policies. The macroeconomic stability, in itself, contributes directly to the protection of the living standard, especially for the poor sections of the society. As the Albanian experience shows, the transition is accompanied with destabilizing pressures, which were partly inherited from the past system, partly an outcome of skyrocketing prices after the liberalization reforms at the beginning of the transition, and partly an inevitable, temporary product of the structural reforms. But, to a great extent, the destabilizing pressures on the Albanian economy are also due to the internal shocks suffered by the system. The periods from 1991 to 1992 and in 1997 are a testimony to the inflationary effects of these shocks. Inflation rose to 104 percent in 1991 and to 236.6 percent in 1992. The inflation rate in 1997 was 42.1 percent. The inflation fell again with the restoration of the country's political stability. Inflation was only 4.2 percent by the end of 2000, with an annual average rate of almost 0 percent.

109. The fiscal and monetary policies are directed at the macroeconomic stability of the country. The fiscal policy has aimed to increase the level of revenues and the public expenditures, so that the government could achieve its reallocation and allocation objectives. However, the attention has been focused on keeping the fiscal deficit under control. The course of fiscal deficit can be divided into three periods. In the first period (1992-1995) the fiscal deficit declined from 44 to 10 percent of the Gross Domestic Product (GDP). In the second period (1996-1997) the fiscal deficit rose again to 13 percent of GDP. This increase is due to the election situation in 1996 and the crisis following the collapse of the pyramid schemes in 1997. The improvements in the tax and customs administration had a positive impact on the improvement of the fiscal situation by the end of 1997. The increase of VAT from 12.5 to 20 percent had also its effect. The tendency of declining fiscal deficit has continued during the third period (1998 to the present). The fiscal deficit was 9.1 percent in 2000. This year was especially characterized by a considerable growth in tax revenues.

110. The fiscal deficit has been covered with domestic financing (treasury bills, Bank of Albania credits and privatization revenues) and the external financing (mainly grants and concessionary borrowing). Their levels in 2000 were 5 and 4.1 percent of the GDP, respectively.

111. The monetary policy applied by the Bank of Albania has also aimed to achieve and maintain the stability of prices. The direct objective of the Bank of Albania has been to keep the monetary supply under control. Until 2000 the Bank of Albania used direct instruments to achieve this objective. The most important instruments were the imposition of minimum interest rates on Lek deposits with the state-owned commercial banks, the ceilings on new credit by the commercial banks, and the quantity limits on banks' assets in their balance sheets. The effectiveness of these policies has been generally modest. Their application was especially ineffective during the flourishing and collapse of the pyramid schemes.

112. In the second half of 2000 the Bank of Albania began to control the money supply by using indirect instruments, such as the repurchase auctions (repo), through which the Bank tries to convey its interest rate policy to the banking market. Since the application of this instrument (in July 2000), the interest rates have decreased consistently from 9 to 6.5 percent by the end of 2000. However, time is still needed to assess the effectiveness of this instrument. In general, the absence of a developed, flexible, and competitive banking market, the existence of a primary, very concentrated treasury bill market and a credit market, in which borrowing, to a great extent, is done in hard currency, makes it very difficult for the Bank to convey effectively its monetary policy decisions to the economy.

Revenue allocation and reallocation policies and living standard

113. The application of appropriate revenue allocation policies with mitigating effects on poverty has been one of the objectives of the government during the entire 10-year period of the transition. (i) The reforms and the recurrent rises of public sector wages, (ii) the reformation of the social insurance system, (iii) the unemployment payments, (iv) the economic assistance and (v) the social care have been some of the main components of these policies. In the preparation of the schemes for the unemployment payments, the economic assistance, and the social care, the government has duly taken into account the available budget funds and, in general, the passive character of these schemes.

114. The government thinks that the importance of public sector wage policy exceeds the sector's actual share of total employment, because the level of wages in this sector is, to a certain extent, a point of reference for wages in the private sector, too. During the first transition years the wages of a great number of the employees, whose enterprises had stopped being operational, were practically a form of social support. The wages in the public sector have increased recurrently, first of all to counter the inflationary effects and to provide a better remuneration to the employees in this sector. In the period from 1993 to 2000 the nominal wage increase rate has been, on average, higher than the general price increase rate rate. The decrease of real wages until 1993 was followed by its increase in the years 1994, 1995, and 1996. The year 1997 witnessed a considerable decline, followed by a slight decrease in 1998. The increasing tendency was restored in 1999 and 2000. In 2000 the average and minimum wage levels were 14,963 Leks/a month and 7,000 Leks/a month, respectively (INSTAT). The wages are especially low in the sectors of education and health.

115. The reformation of the social insurance has been one of the objectives of the government. This system covers about 1/6 of the country’s population. In addition to obligatory social insurances, the government has also introduced the schemes of voluntary insurance and supplementary insurance. The ground has been prepared for the establishment of the private social insurance institutions. However, the social insurance system suffers from a number of problems. Despite the low level of pensions (which remains low in spite of its frequent increases), the social insurance system is being subsidized by the state budget to a considerable degree. This subsidy amounted to 1.9 percent of the GDP in 2000. The number of retired people is higher than the

number of contributors. The number of the contributors from the private sector, and, especially, the rural areas is very low. As a result, the pensions in these areas have assumed the form of social protection. The contribution rate is considered high.

116. The unemployment insurance program has aimed to mitigate the economic and social consequences of the unemployment. This program covered about 22,000 persons at the end of 2000. The maximum benefit is 5,320 Lek a month with duration of up to one year. It has been observed that the program's contribution has been very modest; it has suffered from ineffectiveness and has loopholes for abuses.

117. The economic assistance program financed by the state budget has consisted in delivery of assistance in money to the families without incomes or with low incomes. The program currently covers 150,114 families. The level of the economic assistance depends on the conditions of the family receiving the assistance, but in any case it does not exceed 250 percent of the unemployment payment. In 2000, compared to 1993, the number of beneficiary families has fallen by 2 percent, whereas the economic assistance annual budget has increased by 2.6 times. The economic assistance share of the GDP was 0.9 percent in 1999, compared to 2.6 percent in 1994. The highest number of families receiving economic assistance is in the northeastern regions of the country (20-40 percent of the population). The economic assistance program suffers from inability to take stock of the specific conditions of the poor families, a non-balanced regional distribution, its merely passive character, a low level of monitoring etc.

118. The social care program has aimed to support and integrate the disabled individuals, give protection to the orphaned children and the elderly living alone. The number of people benefiting from this program in 2000 was 2.6 times higher than in 1994. However, the program has not been able to cover all the categories of the persons needing its services and the network of the relevant institutions does not cover all the regions of the country. The services are delivered only in national residential centers and have a limited scope. As a result, the program is incapable of achieving the social integration of these groups. The service quality is also far from required standards.

Growth and living standard

119. Growth has been one of the government's objectives. In addition to its contribution to more jobs and higher personal incomes, growth also increases the possibility to undertake more direct policies for poverty reduction. After two years of paralysis, the year 1993 witnessed the beginning of the economic recovery driven by a 10-per-cent growth over the previous year. The growth continued in 1994, 1995, and 1996 at a rate of 8.3, 13.3 and 9.1 percent, respectively. These growth rates are mainly due to the extensive recovery of the agriculture after the land privatization, the positive effects of the privatization of small and medium-sized enterprises and the introduction of trade liberalization policies. The GDP declined by 7 percent in 1997 as a result of the crisis caused by the collapse of the pyramid schemes. The government thinks that both the crisis and the phenomenon of the pyramid schemes have had considerable negative effects on long-term growth. Large amounts of population's savings, especially the emigrants, were embezzled. The people created a distorted view of the market

economy and the opportunities it offers to increase their well being. Negative, parasitic ideas were cultivated about the work and the economic activity, in general. The 1998-2000 period was characterized by a rapid and stable growth at a 7-8 percent rate. However, if we refer to the whole period of transition in general, the economic growth can be characterized as being unstable.

120. The economic recovery and growth have been based on the extensive mobilization of the fundamental production factors: workforce, capital, and land. However, the current utilization level of these factors indicates that there are still broad, extensive possibilities for further growth. A part of agricultural land and other natural resources have still remained excluded from economic use. The emigration and the internal migration of the population, the continued existence of ambiguities over land ownership rights, and the failure to establish a functional land market are some of the factors for the current prevailing situation.

121. The private and public investments have increased considerably. During 1993-2000 period the investments in the economy accounted, on average, for 17.6 percent of the GDP. A central role has been played by the private investments, which have accounted for 11 percent of the GDP. The public investment share has been only 6.6 percent. While public investment have played an important role in improving conditions for public service delivery and the physical infrastructure, the private investments have focused on other sectors of the economy. The investments in new technologies are reflected in growing imports of machineries and equipment, which by the end of 2000 accounted for about 26 percent of the total imports. The growth of investments has been especially significant in sectors such as transport, telecommunications, services, and construction, exceeding the increase of economic activity level in these sectors. These sectors have also had a higher added value in relation to other sectors[9]. However, in general, the investments' share of the GDP has been modest and the very low ratio between credit and deposits (9.4 percent in 1999) in our banking system show that there are still unexplored possibilities for investments, which have not materialized due to security issues and institutional shortcomings. The relatively high volatility of foreign investments is another indicator of existing unexplored possibilities.

122. The official statistics provide little possibility to make a dynamic analysis of the employment indicators. Nevertheless, the employment structure is dominated by agriculture with more than half of the total employed people. In addition to the expansion of the non-farming private sector, the employment in this sector has also increased from 60,000 in 1992 to 116,000 in 2000. Including the number of people employed in agriculture, the private sector share of the total employment was 82 percent in 2000. The unemployment reached very high levels in the first years of transition. In 1992, according to the official statistics, the unemployment rose to 26.5 percent. However, a number of those considered unemployed were actually not so. The unemployment began to fall with the economic recovery. It reached its lowest level in 1996 at 12.4 percent. The unemployment increased from 1997 to 1999 (from 14,9 to 18 percent), while it decreased to 16.8 percent in 2000 (INSTAT). Despite the decreasing tendency, the unemployment level is still very high. If "hidden"

[9] INSTAT, Results of structural survey, 1999

unemployment, which is especially characteristic of the rural areas, and the "discouraged" unemployment are added, the level of failing to use the labor resources will come out to be even higher[10]. The job promotion program and the professional training program are believed to have had little effect on the labor market. One of the reasons is the failure to take labor market demand into account. The emigration has played an important role for the alleviation of this negative situation. It is estimated that in 2000 the number of emigrants accounted for about one fourth[11] of the population.

123. Albania inherited an ineffective resource allocation process, very backward technologies and low work productivity. In the past, large economic resources were used in the heavy industry with the objective "to achieve self-reliance", irrespective of the cost. Efforts were made to overcome the underdevelopment problems by forcing the largest part of the population to remain in the countryside and by keeping productivity at very low levels. The progress in structural reforms and the enhancement of the market's allocation role during the transition has led to the reallocation of production resources. The industry is being subjected to a radical readjustment process as a result of investment initiatives of the private businesses, while the structural reforms in this sector dictated "from the top" have made rather slow progress. Meanwhile, the industry's share of the country's economy has fallen radically. High rates of growth have been observed in the sectors of construction, transport, and services. Efforts have been evident in these sectors for the application of advanced technologies.

124. The Albanian economy still suffers from the use of backward technology, especially in the countryside. The institutional problems of the land, the low level of credit, the weak infrastructure and lack of access to market are serious obstacles to the agriculture. Part of the incomes from emigration are used for investments in agriculture. But, the relatively high incomes from emigration have discouraged agricultural activities, especially in some parts of the country. Even though not often, the temporary seasonal emigration, especially in border areas and among the young people, is followed by periods of "parasitism" at home, during which the money made in emigration is spent for personal consumption. Due to the temporary emigration or the partial internal migration of the peasant families, the agricultural activities in some regions have remained "a responsibility" of the elderly, women, and school-age children.

125. The government thinks that despite the repeated shocks experienced by the economic system in Albania, the structural reforms and, especially, the privatization of the economy have had a central effect on the economic recovery and growth. The growth has been mainly fueled by the private sector (According to EBRD assessments, the private sector share of the GDP was 75 percent by mid-2000). The free entrepreneurship has been the driving force behind this growth. The events in 1997 showed that the economic system, which was already dominated by the private sector, had acquired a level of immunity from the negative political and security

[10]However, the opposite effect of informal employment on real unemployment levels should be taken into account.

[11] UNDP, "Human Development Report in Albania 2000"

developments. While in the 1991-1992 period the country was totally dependent on the humanitarian aid, during the 1997 unrests the demand for humanitarian aid was very low. The Albanian businessmen and traders kept the trade routes opened and kept up the supply of the market with the most necessary goods. The reformation of the banking system and, generally, the financial market, has been slow, but it is still contributing to business financing.

126. Even though directed at keeping inflation under control, the monetary policies have also had a positive effect on the creation of a favorable environment for growth. The main objective of the fiscal policies has been to safeguard fiscal consolidation and maintain budget deficit within set limits, but they have also had a considerable impact on economic growth. However, the level of expenditures with a direct effect on growth has been relatively low.

127. The opening up of Albania to the international economy has been a factor of critical importance for all transformation processes in the country. It has helped Albania not merely and only to cope with the emergency situations, but also to achieve macroeconomic stability and support the economic recovery and growth. The imports account for about one third of the goods and services delivered to the Albanian consumers. With exports amounting to only one fourth of import financing, the economic opening has helped to ensure that most of the imports are financed through one-sided private (emigrants' remittances) and official transfers and the support programs of the international institutions. The temporary emigration[12], the links of the businesses with foreign partners, the technical assistance delivered by the international community, the education and training of many people in Western schools and the reformation of the schools and training centers on basis of Western experience have made a tangible contribution to the formation of the human capital. The IMF and World Bank technical and financial support has been particularly important for the country. The implementation process of the Stability Pact is opening up new prospects for development. Albania's membership of the WTO is an important step towards "the institutionalization" of the country's trade relations, promotion of foreign investments, reformation of the entire market system, and the acceleration of Albania's regional and European integration processes.

128. The Albanian total exports increased by 129.3 percent in the 1993-2000 period, at an annual average growth rate of 16.2 percent, whereas during the same period the imports increased by 77.8 percent, at an annual average growth rate of 9.7 percent. The difference in the average growth rates is due to the considerable increase of imports in the first years of transition. Despite higher average export growth rates, the trade balance during this entire period has been characterized by a high and rising deficit: from 490 million dollars in 1993 to 814.1 million dollars in 2000. The export weaknesses are related to both the exports' smaller volume than imports and its structure. The export of actively processed goods accounts for the highest share of total exports. The exports of domestic products are low and are mainly composed of mining products, vegetables, and medicinal herbs. A positive trend in the import

[12] The effects of temporary emigration on human capital training are believed to be different from the effects of permanent emigration, especially "the brain drain ".

structure is the growing share of machineries and equipment. This has been favored by the reduction of import tariffs on this category of goods from 5 percent in 2000 to 2 percent in 2001. However, it should be noted that the trade policy during the whole transition period, especially until 1999, has been dominated by the fiscal objectives. Albania's WTO membership and its regional and European integration efforts are having their favorable effect on the promotion of development-driven objectives of trade policies.

129. A characteristic of the 1993-2000 period has been the high level of private transfers, which have financed a considerable part of imports. They amounted to $438.6 million in 2000. In contrast with the previous years, the balance of services for the years 1999 and 2000 has been closed with a positive surplus, $101.3 million (under the influence of Kosovo events) and $2.4 million, respectively. The balance of payment current account has closed with deficit every year, mainly due to the increase of imports. The current account deficit amounted to $151.8 million in 2000.

Sector policies and living standard

- ***Health***

130. The country inherited an inadequate health structure. The medical apparatuses and equipment in the health institutions were very outdated and depreciated, whereas the qualification level of the personnel was very low. A number of processes that accompanied the transition, such as the internal and regional political instability, the spontaneous massive displacement of the population, the damage and pollution of the environment, the drastic changes in the lifestyle etc. had also their negative effects on the health condition of the population. Some ills of the modern society, such as abuses with drugs and alcohol, are assuming serious proportions. Growing insecurity for broad sections of the population has led to a perceptible rise in stress, which is a source of many health problems. Some of the health indicators have deteriorated. The positive trend in infant and maternal mortality rates and in vaccination coverage levels in recent years have had only a limited effect on closing the gap between Albania's health indicators and those in the developed countries.

131. The health policies applied in the last 10 years of the transition have aimed to reform the health system. The emphasis has been laid on the rehabilitation of the infrastructure of the institutions, the completion of the sanitary map in compliance with acceptable norms, the expanded scope and improved quality of services to the population and the prevention of the epidemics and infective diseases. The Health Insurance Institute has been set up, but it is only in its initial stages and covers only the family doctor and the reimbursement of a number of drugs. The first steps for its expansion have been taken with the pilot project of Tirana Regional Authority and Durres Hospital. The pharmaceutical and dental services have been privatized, while the privatization of the diagnostic service is in its first steps. The share of funds allocated for the health sector in the state budget has increased in recent years. However, the public expenditures share of the GDP (3.1 percent) is very low compared not only to the average level of the European countries, but also to that of the developing countries (4 percent).

132. Despite the positive achievements, the health system still suffers from *serious problems. The reformation process* has been slow and characterized by significant incoherencies. *Marked management and administration shortcomings* are noted. *The distribution of the health institutions* does not fully respond to the actual needs of the population. The situation is especially grave in the ambulatory service in the rural areas, where there are significant shortages in outpatient clinics and medical personnel. To the extent it is available, the primary service in these areas is incapable of doing its job and there is a massive influx of patients to the hospitals and mainly to Tirana University Hospital Center. The *quality* of the health services at all levels is relatively low. The inadequate infrastructure and equipment, the inappropriate motivation of the health personnel and the absence of this personnel in some parts of the country, the absence of medical protocols, the weaknesses of the information system, neccessary for the decision-making process at all levels, the management weaknesses are considered as the main factors for the existing low quality of health services. *Corruption* has become a worrisome phenomenon in the health sector. There are also problems with the regulation and the monitoring of *the private health sector.*

- ***Education***

133. The educational system has gone through a process of reformation, even though at a slow pace. This process has especially affected the teaching plans and programs, with the aim of adjusting the country's educational system to the requirements of a democratic society, based on the market economy. The government has faced acute problems in educational infrastructure due to the legacy from the past, the demographic changes, especially the internal movements of the population, and, to a considerable extent, the damages inflicted on this infrastructure in 1991 and 1997. Transition-related problems has led to serious proportions of the dropout rate or the children's failure to enroll in schools, causing a further deterioration of average schooling and enrollment indicators. These indicators are especially low in the poorest areas and in the poorest groups of the population. The quality of teaching has declined considerably, especially in the rural and remote areas of the country.

134. During the last 10 years public financing for education has hovered over 10 percent of budget expenditures, but its share of the GDP, despite some fluctuations, has been constantly decreasing. This indicator fell from 3,8 percent in 1995 to 3,3 percent in 2000, which is much lower than in the East European countries. Local government's financial contribution is insignificant and community contribution has been even lower. The international community has made a most important contribution by financing investments to improve the educational infrastructure as well as by giving support for the reformation of the curricula, specially for higher education.

135. Despite the achievements, the developments in the educational sector show that the reformation process has been characterized by incoherencies and weaknesses. The educational system suffers from considerable management weaknesses and, particularly, by excessive centralization. The financial effectiveness is low. The employees of the educational system are not financially motivated, especially those working in the rural and remote areas of the country. The professional education has not adjusted well to the requirements of the market and accounts for only a small share

of secondary education. It has a low level of diversification and a centralized curricula. There is inequality in opportunities between urban areas and suburban and rural areas. The level of financial state support is still low. The initiatives and the participation of the private sector and the community support are still weak.

- ***Infrastructure***

136. The condition of the inherited infrastructure was inadequate and incapable of meeting the requirements of an open market-orientated economy. This condition was worsened by the serious damages during the transition process. Without considering the damages, only 39 percent of the roads were asphalted and, despite the improvements in recent years, they continue to be in a bad shape. The railway network is also in a difficult situation, mainly due to the damages at the beginning of the transition period and in 1997 as well as due to the technical backwardness of the network. The same situation has characterized the water supply system. The illegal connections with the supply system and the high depreciation level of the system have not only led to cuts in the population's supply with water, but also to a worsening water quality. There are many cases of potable and sewage water merging, becoming a source of infective diseases. The sewage networks in many urban centers are very depreciated and damaged and are in a critical condition. The tangible increase of family consumption of foodstuff articles and the unauthorized constructions have led to the increase of urban waste.

137. The urban waste, the serious damages to the sewage pipes, the gas emission by old cars, the dust raised in the damaged or unasphalted roads, the unauthorized constructions in public places, the drastic reduction of the green areas, the pollution of domestic waters, the damage of forests etc. have all combined to increase environmental pollution to a critical point.

138. The supply with electric power has been very restricted in both urban and rural areas during the last 10 years. The limited and depreciated capacities of the electric power distribution system had to cope with both a vigorous increase of family consumption demand and the unauthorized connections with the network. The problem was especially aggravated by the migration of the population from rural to urban areas. The increased energy supply cost with selling prices being kept fixed, the high number of consumers failing to pay electricity invoices in some parts of the country (partly due to, until recently, some sort of tolerance by the relevant administration authorities), and the problems related to power supply administration and management led to a further degradation of the situation. The situation worsened particularly during 2000. The energy system was confronted with a crisis situation. The aforementioned problems were aggravated by a very unfavorable weather. The low production capacities, relying almost entirely (95 percent) on water resources and decisively depending on the weather forecast, were strained even further by limitated capacities for energy importation. The investment policy in the sector has mainly focused on repairing the defects in the distribution system.

139. The rural infrastructure is in an even worse condition with many areas being isolated during winter. The road network does not meet even the minimal technical requirements. The water and power supply and the sewage network are in a worse

condition than in the urban areas. All of this creates serious difficulties for the efforts to reduce poverty in these areas and integrate them into the national economy.

140. The improvement of the infrastructure has been one of the government's main concerns during the 10-year period. Public investments in infrastructure have been the main item in budgetary investment expenditures during the entire period (in 2000, the economic services absorbed 43.5 percent of the general budgetary investment expenditures, amounting to 3 percent of the GDP). The GDP share of the public investments in the transport sector has increased from 1 percent in 1996 to 1,8 percent and 1.6 percent in 1999 and 2000, respectively (MTEF). Compared to 1996, the state budget-financed expenditures for the road network increased by four times in 2000, whereas external financing increased six times. The sea transport received no financing in the 1996-1998 period. The railways have been subsidized by the state budget. The air transport has been financed from external resources. The expenditures for public works declined from 1.6 percent of the GDP in 1996 to 1.2 percent in 2000. More than half of the investments in this category have been taken up by expenditures for the water supply and the sewage systems. The promotion of the private sector to take part in the delivery and operation of the public services has been one of the objectives of the government's policies and is considered as the main way for the further development of this sector. The experience in the telecommunications sector is considered exceptionally positive.

III.B.3 GENERAL ASSESSMENT

Achievements, weaknesses, vulnerabilities

141. Important steps have been taken in recent years to deepen structural reforms, achieve macroeconomic stability, improve public security and business environment, rehabilitate the infrastructure etc. However, the Albanian economy still suffers from a number of weaknesses and vulnerabilities. We think that the identification of the economy's main weaknesses and vulnerabilities is more important that the enumeration of the achievements to give a better orientation to the government's economic policies in the future. Among the most general weaknesses we would single out: (i) the institutional weaknesses, (ii) the presence of serious problems in the growth-development relationship; and (iii) the high level of informal economy. On the other hand, despite the macroeconomic stability achieved in recent years, the internal and external macroeconomic balances are relatively fragile and exposed to a considerable degree of risks.

142. Despite the evident improvements in recent years, the institutional weaknesses, including those affecting public institutions (in particular, their planning and implementation capacities) and social institutions remain a cause of concern for the government. An example of the institutional market weakness is the paradox: large amount of deposits that are not actively used in the banking system, on one hand – equally high need for external financing, on the other. The deposits of the banking system with banks outside the country accounted for 24 percent of the total assets in 2000. The same year, the amount of the official transfers and foreign direct

investments amounted to only 60 percent of the deposits of our banking system with banks outside the country.

143. Despite the relatively high growth rates (with the exception of the periods in 1991-1992 and 1997), the real GDP could exceed the 1989 level only in the year 2000 (102 percent of the 1989 level)[13]. The relatively high growth rates should be explained, among others, with the low comparison basis, because the production in 1991 and 1992 was almost totally paralyzed. Consequenlty, the relatively high growth rates are more related to the *extensive increase* of the production. The current partition of the land into plots and the problem concerning the institutionalization of land market give little cause to expect that the growth rates in this sector will be maintained. Institutional problems hamper the use of production resources, especially in the rural areas, as well as the establishment of the links between the production and the markets in the remote areas of the country. The spontaneous internal movements of the population have produced economic imbalances in both the places of origin and in the receptive areas. The relatively high rates in the production growth have not been accompanied by an equally high and balanced economic development. The quality of the educational and health services has worsened and their delivery, especially in the remote areas of the country, has become more difficult. As a result, the economic growth has not been adequately targeted at poverty reduction.

144. The Albanian economy suffers from a high level of informality. It is assessed that the informal economy produces more than 50 percent of the GDP[14]. There could be different causes for this situation, but it is, above all, an outcome of institutional weaknesses. Despite the seemingly mitigating effects in the short term, the government is convinced that the long-term effects of the informal economy on the economic growth and, in general, on development are negative. As the Albanian experience shows, the informal economy suffocates the formal economy, distorts the market and its allocation signals, weakens efforts for technical progress, fuels corruption in the public administration and, generally, undermines the institutional reforms. The illegal activities such as production and trafficking of drugs, trafficking of illegal emigrants etc. have especially long-term negative effects on growth and development.

145. The current high fiscal deficit and the fragile stability of hard currency exchange rates exposes the internal economic balances, especially the general price stability, *to risks.* The foreign debt, as share of the GDP, has been steadily decreasing since 1994 (52.5 percent), but it still remains at high levels (25.4 percent in 1999). On the other hand, domestic debt has increased from 25.1 percent in 1995 to 34 percent of the GDP in 1999. Surveys have highlighted the strong relation of the inflation with hard currency exchange rates. A possible devaluation of Lek is reflected in more expensive imports in Lek. The imports' domination of consumer goods means that more expensive imports would lead to higher inflation.

146. The high, growing deficit in the trade balance is expressed, among others, in the accentuated dependence of import financing on resources from outside the country's

[13] EBRD: Transition report update, April 2001.

[14] Bank of Albania, Annual Report 1999, p.23.

economic system. The dependence of external economic balances on one-sided private (emigrants' remittances) and official transfers increases the fragility of these balances. The ratio of the remittances to total imports in 2000 was 41 percent.

147. Programmed financing fy the international financial institutions for both the balance of payments and the fiscal balance have helped to reduce the level of the exposure of macroeconomic balances to risks. They have been necessary for the Albanian economy and will continue to be so for time. However, aware that the country cannot be relying on international financial support for an indefinite period of time, the government has tried to use this support as effectively as possible. The international financial support has its cost and this cost increases when its use is ineffective. The debt servicing (interest plus repayments) has increased from 0.69 million dollars in 1993 to 14.63 million dollars in 2000, which means 5.64 percent of the GDP.

Challenges

148. Despite the acuteness of the poverty problems and the need for special measures to address them, the Albanian Government is aware that the continued implementation of long-term strategies to accelerate and complete the transition to a market economy and to achieve the sustainable development of the country and, especially, its European integration are of vital importance for the future of the country. The challenge for the Albanian society and economy is to tackle poverty problems while simultaneously working on the attainment of long-term development objectives, including in particular, the objective for Albania's European integration. The European integration of Albania requires the fulfillment of a number of institutional and economic criteria. In addition to the need to deepen the democratization and implementation of the human rights, adjust domestic legislation to EU laws, consolidate the rule of law and achieve the qualitative enhancement of management and implementation capacities of the public administration, the country also needs long-term sustainable macroeconomic development, a market economy that functions normally and that is modern and open to the market and international competition as well as a favorable climate for investments and business. The aforementioned weaknesses and vulnerabilities make these challenges even more acute. However, they have to be overcome; there is no other alternative. Overcoming the challenges requires, among others, *the harmonization of the medium-term poverty reduction objectives* with the long-term objectives of the transition, the development and Albania's European integration. This can be achieved by preparing a poverty reduction strategy with clear characteristics for development.

IV PRIORITY PUBLIC MEASURES

IV.A INTRODUCTION

149. Taking into account:
- the multidimensional character of the poverty;
- its worrisome level, especially in certain areas and groups of the population;
- the hitherto achievements and failures in the transition reforms and the effects of direct poverty reduction policies implemented during the past decade,

the Albanian Government thinks that the reduction of poverty requires special attention and commitment.

150. The reduction of poverty implies (i) the increase of opportunities for the poor, (ii) the increase of their participation and the strengthening of their voice in the governing institutions and (iii) the enhancement of security for the poor.

151. In order to increase opportunities for the poor, the government will focus on stimulating inclusive economic growth, increasing the access of the poor to the educational and health services, urban and rural infrastructure services etc.

152. In order to bring the public institutions closer to the poor and to strengthen the voice of the poor, the government will continue the institutional reform and will urge the strengthening of the social links. In order to increase the level of security for the poor, the government will reform the programs for social care, public works, support for the poor etc.

153. The acuteness of the poverty problems facing Albanian society, on one hand, and the constraints on time and economic resources, on the other, require the *prioritization* of the goals, objectives, and public measures in the GPRS context (see Annex 1, action plan matrixes). The macroeconomic stability and, in particular, the fiscal stability, are fundamental conditions to build and implement a successful strategy of growth and poverty reduction and to *harmonize* the goals and the objectives of this strategy with the long-term goals and objectives for development and integration. The sustainable and inclusive economic growth and the deep-going institutional reform are *the main pillars* of this harmonization. The platform of Albania's European integration is *the course* towards attaining the objectives of poverty reducation, accelerating transition reforms, and achieving the stable and fast-rate development of the country.

IV.B MACROECONOMIC FRAMEWORK

154. The Albanian Government considers growth as the main instrument for the improvement of the living conditions and for the reduction of poverty. The hitherto results in the economic reforms and their consistent implementation provide the possibility to aim to achieve an inclusive, balanced and stable growth, which will be based on the mobilization of all production resources, especially the human resources in both urban and rural areas, and which will hand over an undamaged environment to the future generations. The government thinks that the inclusive economic growth will produce tangible results in the reduction of poverty, especially through the direct participation of the poor population groups in economic activities. On the other hand, a sustainable, inclusive growth will also create conditions for the deepening and the acceleration of the transition reforms. The inclusive and sustainable growth will create the opportunity for the strengthening of the economy in general, the consolidation of the macroeconomic stability, and the reduction of the level of risk exposure for the economy.

155. The goal is to achieve an annual growth rate of 7 percent of GDP during the three-year 2002-2004 period (see Appendix 3, Macroeconomic Framework). The short and medium-term prospects for reaching this planned economic growth rate are based on: (i) maintaining growth rates in the main sectors of the economy, such as agriculture, construction, services, etc.; (ii) continued political and institutional stability as an important factor for maintaining high growth rates; (iii) continuing and deepening macroeconomic stability; (iv) low expectations for economic shocks.

156. The growth is also based on (i) expected positive impact of deepening institutional and structural reforms; (ii) the combination of the use of extensive factors with the growing activation of intensive factors for growth; (iii) high level of monetary accumulation and so far unexploited private transfers as possibility for investments; (iv) investments in human capital, especially in education; (v) expected positive impacts from further economic opening-up, regional integration, and progress in European integration; (vi) promotion of direct foreign investments. Though long-term, these factors will also have positive effects at medium term, based on recently adopted measures and their continuous intensification.

157. The trend towards a higher aggregate demand compared to the GDP, which has became evident since 1998, is, among others, a signal indicating to the government that it should focus more on economic policies aimed to stimulate aggregate supply. In such a situation, structural reforms become especially important for the efforts made to achieve the growth target. The government will continue to give priority to the rapid privatization of the public companies, the consolidation of the financial sector for a higher credit of the economy, the increase of investments, and the improvements in the institutional framework for the creation of a competitive and promotional environment for foreign investments.

158. The capital investments, as one of the main components for growth, have slightly increased from year to year, but their share of the GDP is still low. In 2000 their share

of the GDP was 19 percent, with the private investments accounting for 12.5 percent. The level of investments is planned to rise to almost 22 percent of the GDP by 2004. Despite their increase, the private investments are still far from a satisfactory level. The loopholes in legislation, the lack of fair competition on the market, the presence of corruptive elements in the issuance of licenses and in public procurements, the absence of a genuine financial market and the high level of the informal economy are some of the factors that need to be overcome in order to achieve a growth in private investments. The private investments are expected to rise to 13.5 percent of the GDP by 2004. The continous failure to realize the public investment plan with both external financing and domestic budgetary funds is due to weaknesses in the institutional capacities and in their programming, negotiating and monitoring activities. The improvement of these factors is necessary in order to achieve the planned targets for public investments. The public investments are planned to increase from 6.5 percent of the GDP in 2000 to 8.3 percent of the GDP in 2004. Foreign investments are forecast to increase in the next three years (2002-2004). This forecast is based on the continued privatization process, the improvement of infrastructure due to the current investments, enhanced public security, and the measures to be taken by the government to facilitate and promote direct foreign investments, and to deepen the cooperation and integration processes in the region and further afield.

159. The agriculture will continue to give the main contribution to the GDP, despite decreasing growth rates in recent years. According to statistical assessments, the contribution of the agricultural sector to 1 percent rise of the GDP has been more than 0.6 percent in the period from 1993 to 2000[15]. The figures of the past few years, however, show that the level of agriculture's contribution has fallen. But this level remains still high enough to consider the agriculture as the sector, on which the attention should be focused. The government considers that there are still extensive opportunities in the sector of agriculture and that their utilization would help to keep up the growth rate of this sector. Nevertheless, time has come to think seriously for technological improvements in agriculture. The modernization of the agriculture and the increase of its productivity have been so far hampered by the low level of mechanization, the partition of the land into very small plots, the absence of a land market, the lack of rural infrastructure, the weak marketing, and the low level of credit for this sector. The elimination of these shortcomings would help to attain a higher growth rate. However, in view of the complexity of these factors and the difficulties in overcoming them in a short-term period, one cannot expect a big leap in this sector in the next three years. The agriculture is forecast to maintain a growth rate of about 5 percent a year in the period leading to 2004. Livestock will continue to play the biggest role within the agricultural sector. Priority will be given to the support for the development of the agro-industry.

160. In view of the high level of investment returns, the high rate of profits, the lower risk, and the more advanced level of technology application, the sectors of construction and services will continue to maintain their recent high rates of growth, increasing their input to the GDP. The expected development of the sector of tourism, as a result of the

[15] 0.6 coefficient, being calculated for the 1993-2000 period, also reflects high growth of agricultural sector in the first years after agricultural land privatization.

expected deepening stabilization and integration processes in the region and the improvement of infrastructure after large investments being made in this sector, will give a bigger impetus to the sector of services. The transport sector will continue to develop at high rates. The large investments in the road infrastructure, especially in the strategic routes linking the country with the other parts of the region, will give this sector a bigger impulse and have, in particular, a positive impact on the development of the areas lying along these routes. The intensification of the projects for the rehabilitation of the rural roads will also make a direct contribution to the development of agriculture and the non-farming production activities in these areas.

161. Industry registered a five-per-cent growth rate in 2000, with a contribution of 11.5 percent to the GDP[16]. The growth of this sector is largely due to the private sector. The industrial state sector remains in a grave situation. The privatization and restructuring of a part of this sector during the last two years has led to some reactivation. However, the industrial sector is not expected to have a big impact on the GDP in the next three years. Within the sector some branches are developing at a faster pace, such as the building material industry, and the light and foodstuff industry, which are expected to maintain their high growth rates. The continued privatization process and the promotion of foreign investments would give a boost to the sector.

162. Fiscal policies will be introduced to support the growth and the government's programs in the main social sectors for the development of human capital and the reduction of poverty. The total budget expenditures are forecast to increase from 31.4 percent of the GDP in 2000 to 32.3 percent of the GDP in 2004. The investment spending, which have a direct effect on growth, are forecast to increase from 6.5 percent of the GDP in 2000 to 8.3 percent of the GDP in 2004. In its budget for the 2002-2004 period the government will give priority to the education and health, which are considered as important components for growth and reduction poverty because of their role for the formation and protection of human capital. Over this period the expenditures on education and health as share of the GDP will increase, as will expenditures on transport and communication.[17]

163. The government will continue its policy of fiscal consolidation. The budget deficit is forecast to decrease from 9.1 percent in 2000 to 6.5 percent of the GDP in 2004. Special attention will be given to the way the budget deficit will be financed, by balancing the domestic financing, which affects inflation rate and interest rates, with the external financing. The domestic financing of the deficit (excluding privatization revenues) will decrease from 3.5 percent of the GDP in 2001 to 2.1 percent of the GDP in 2004. External financing, which has a lower cost than the domestic financing, is expected to amount to about 3.8 percent of GDP annually during 2001-2004. Even though expected to decrease compared to 2000/2001, the privatization revenues will continue to be a source for domestic financing over the next two or three years. The continued reduction of interest rates for treasury bills, which was noted last year, will help to bring down the cost of budget deficit financing. The consistent timely planning

[16] Ministry of Finance.

[17] MTEF 2002-2004

of the revenues and expenditures will help to plan budget deficit financing at shorter time intervals, reducing the cost of its financing.

164. The increase of public expenditures, parallel to growing fiscal consolidation, will be achieved through a higher rate of revenue increase. The aim is to increase budget revenues from 22.4 percent of the GDP in 2000 to 25.8 percent of the GDP in 2004 with total tax revenues forecast to increase from 15.6 percent of the GDP in 2000 to 18.7 percent of the GDP in 2004. To achieve these fiscal targets, a medium-term revenue framework has been developed. This framework aims at modernizing our tax and customs administration and fighting more effectively fiscal evasion and smuggling. Key features of this strategy are: (i) widening the tax base by increasing the number of registered taxpayers and reforming tax policy; (ii) fully computerizing and restructuring the Tax Department along functional lines; (iii) adopting a comprehensive human resources policy, including training for tax inspectors and offering merit-based reward schemes; (iv) developing the internal audit function to ensure continuous quality control of operations; (v) improving coordination/information exchange between the social insurance institute and the Tax Department; (vi) adopting comprehensive taxpayer education programs to promote voluntary compliance; and (vii) adopting a new and more independent taxpayer appeals process. Specific measures to attain the targeted increase in tax revenue in the 2002 budget are explained in detail in the Memorandum of Economic and Fiscal Policies for the IMF-supported PRFG program.

165. The monetary policy of the Bank of Albania will continue to aim at maintaining price stability. The objective is to keep the inflation at low, positive rates, fluctuating at the range of 2 to 4 percent, while retaining the flexible regime of currency exchange rates. Considering the inflation as a complex phenomenon, which is not affected only by the monetary policy, the Bank of Albania's policy to keep the inflation down at the aforementioned levels will also include efforts to stick to its quantitative objectives such as: retaining quantitative limits on hard currency assets (the floor for net international reserves of the Bank of Albania), the net domestic internal assets of the Bank of Albania (the ceiling), the level of net credit of the banking system for the government (the ceiling). By retaining these ceilings the Bank will be able to keep the growth of money supply under control, at a declining rate (from 15.4 percent in 2001 to 10.8 percent in 2004). In implementation of its policy to increase control over the inflation rate, the Bank of Albania is working on making preliminary preparations for the application of an inflation targeting regime for a medium-term period (3-5 years).

166. Enhanced effectiveness of the monetary policy requires the improvement of the financial market, in general, and the supply and capital market, in particular. The Bank of Albania will continue to rely entirely on market instruments during the next three years, aiming to increase the effectiveness of the mechanism for the transmission of the monetary policy decisions to the economy. Through its monetary policy instruments the Bank of Albania will work to reduce the difference between high interest rates on credits and the interest rates on deposits, which would help to bring down the credit cost and, to a certain extent, stimulate the demand for credit and investment growth. This would also characterize the monetary policy as a policy that promotes economic growth.

167. In the context of its foreign economic relations, the government plans to make a gradual reduction of the current account deficit to 6.7 percent in 2004. Over the past few years a part of imported products have been replaced by the domestic products, mainly building material and products of light and foodstuff industry. The government will consider policies and instruments to stimulate the domestic production of these products. On the other hand, the government will step up its efforts to create conditions for export promotion. This would help to ensure that a considerable part of the remittances from the Albanian emigrants will no longer flow out of the country to finance imports, but would be invested in the country. The trade balance as share of the GDP is forecast to decrease from 21.7 percent in 2000 (after an increase in the years 2001-2003) to 21.1 percent in 2004. The private transfers are forecast to amount to 600 million USD by 2004, accounting for more than 35 percent of the volume of imports.

168. The reliance on budgetary foreign assistance through grants and concessionary or almost concessionary loans will continue during the next 3-year period. The government will cooperate with the donors to receive and use effectively these resources. With most of financing being given with concessionary conditions and with long repayment terms, the debt payments will be slightly less than 10 percent of the annual exports. Foreign debt as a share of the GDP will be reduced by about 5 percentage points in 2001 and will remain roughly constant during 2001-2004. The capacity of the economy to react to negative effects will be enhanced by increasing gross international reserves to a level of 4.7 months of imports by 2004.

169. The government will intensify its efforts for the improvement of the indicators of disbursement, absorption (project implementation) and the recording of the external financing. The experience of 2000, in which the actual disbursements amounted to 83.4 percent of the planned disbursement for the Public Investment Project, compared to 64.2 percent in 1999 and 73.2 percent in 1998[18], shows that further improvements of this process are possible. In addition to objective difficulties (the political developments in the country and the region), the implementation of projects has also been hampered by difficulties of the bureaucratic, organizational, and administrative nature. The elimination of these shortcomings would increase the level of project implementation.

[18] MoECT

IV.C PUBLIC SECTOR GOVERNANCE AND MANAGEMENT

170. Despite the hitherto achievements, the government thinks that the need to deepen the institutional and legal reforms should remain at the center of its attention in the future. The reforms are aimed to achieve the long-term objective for a more democratic and effective governance, as a factor for the multi-sided development of the country and its European integration. The institutional and legal reforms will be guided by the EU models and standards. They will be harmonized with the Stability Pact agreements and, especially, the Stabilization and Association Agreement, the negotiations on which are expected to get under way soon. The institutional and legal reforms will be carried out in close cooperation with the European and Euro-Atlantic institutions (EU, the Council of Europe, OSCE, NATO etc.)[19].

171. The government considers that the success of the institutional and legal reforms is fundamental for the attainment of the medium-term objectives for growth and poverty reduction. Growth requires enhanced effectiveness in public institution governance, while poverty reduction requires a decision making process that is fair, open and inclusive for all social groups, especially for the poor and for all other weak and unprotected groups.

172. The overall institutional reforms are aimed to i) further improve check and balances among the branches of power; ii) increase the planning capacity of the institutions; iii) increase the effectiveness of the institutions in the implementation of the policies and laws; iv) increase the financial efficiency; v) enhance the accountability; vi) democratize, increase the transparency, and reduce corruption.

173. For the interest groups and, in particular, for the poor, the institutional reform will also aim to: i) create increasingly bigger and equal chances to benefit from development opportunities; ii) expand the rights and create the possibility for equal representation and participation in all levels of the public decision making process; iii) ensure an equal distribution of risks associated with the development and guarantee a minimum adequate supply of public goods and services.

174. The government considers that the consolidation of the rule of law is a fundamental factor for the economic stability and growth and for the successful outcome of reforms. Despite the positive course of the institutional and legal reforms, especially in recent years, the ability of the institutions to enforce laws effectively remains at an unsatisfactory level. Therefore, special attention will be given at a medium-term period to enhance the effectiveness of the public institutions in law enforcement. This will be achieved by: i) establishing and/or strengthening the responsible and specialized institutions for the preparation, implementation, or monitoring the implementation of

[19] Albanian government has undertaken some institutional reforms, which are part of its obligations stemming from the Stabilization and Association agreement with EU. In June, after expressing its appreciation at the progress made by the Albanian Government in fulfilling these obligations, the EU took a decision on the possibility for the opening of the negotiations on the Stabilization and Association Agreement by the end of 2001.

policies and laws, ii) strengthening the cooperation among state institutions while showing full respect of their institutional autonomy; iii) strengthening the internal audit; iv) strengthening the public accountability of the officials and the institutions; v) adopting instruments for the motivation of public officials, vi) improving the available means and technology.

175. Priority aspects of the institutional and legal reforms in the GPRS context are: (i) the strengthening of the public order and the fight against organized crime; (ii) the fight against corruption at all levels of the administration; (iii) reformation of the judicial system; (iv) the deepening of the reform in the public administration; (v) the radical improvement of the fiscal administration; (vi) the deepening of the decentralization reform.

176. The government will continue its efforts to strengthen the *public order* and step up the fight against organized crime and the illegal trafficking. The implementation of the reforms initiated in the Ministry of Public Order will be made on basis of already approved plans.[20] The main directions will be improvements in the reorganization, specialization, enhanced professionalism, support with equipment and information technology, and the extension of the public order service effectively and adequately to the whole territory, particularly to some rural and suburban, where the absence of this service is more evident. On the other hand, the government will be committed to a more intensive cooperation with the international organizations in the fight against organized crime and illegal trafficking. To this end, the government will continue to undertake specific joint initiatives at bilateral and multilateral level between the Albanian institutions and their foreign counterparts and will adopt and create conditions for the implementation of relevant international agreements or conventions. The government and the public order forces will continue their action for the collection and destruction of arms by cooperating with the civil society.

177. The government has been receptive to the idea that considers *corruption* as one of the transition phenomena, which has most negative consequences and a high public cost. The government will continue to implement the Plan of the Measures for the Fight Against Corruption[21] in accordance with its commitments in the context of the SAA, the Stability Pact and its Anti Corruption initiative. The fight against corruption will be carried out through a combination of continuous effective actions against cases of power abuses by public officials with specific institutional measures with long-term

[20] In this field the government has undertaken a comprehensive legal and institutional reform. New legislation has come into force or changes have been made in the legal framework including the ratification of international conventions. Likewise, with the assistance of some international donors (MAPE/BE, KE, and with bilateral assistance) a comprehensive reform is being carried out in the public order bodies with the aim of transforming this service into an effective public order, on basis of best and most suitable European standards. More details can be found in the documents of the Ministry of Public Order on reform action plan in public order bodies.

21 In July 1998 the government, in cooperation with the WB, made the first survey on corruption, which was followed by the plan of anticorruption measures in 1998. This plan was revised and further improved (July 2000). This was followed by the establishment of the Anti Corruption Unit at the Council of Ministers and the Inter Ministerial Monitoring Committee for the implementation of the plan. The latter includes representatives from the parliament, the civil society and the business committee. More details can be received from the relevant government documents.

effects, which narrow the room for abuses with public power, put an end to the monopoly of power, and increase the legal and public accountability of state officials. The fight against corruption will fundamentally consist in: i) increasing the transparency and accountability, (ii) adopting measures to prevent and discourage corruption, (iii) strengthening the striking power of the law, (iv) increasing the voice and the participation of the public, interest groups, business community, media, and, particularly, the poor. The government will analyze the achievements of the Anti Corruption Plan every year and will make the necessary changes and improvements in it. The government will support the anti corruption initiatives of the civil society and encourage the process for the adoption of anti corruption programs by the local government. The government will also improve the laws and strengthen the structures to check the wealth of public officials and regulate the conflict of interests. It will continue to ratify the international agreements related to the fight against corruption and money laundering by putting in place legal and institutional mechanisms for their implementation[22].

178. The reforms in the *judiciary* will be one of the most important directions of the institutional reforms. It is aimed to guarantee that the law is applied equally for everyone. The reforms in the judiciary are taking place in the context of Albania's commitments to the SAA and SP process.[23] The directions of these reforms, which have already been defined, will be further deepened. Particular attention will be attached: i) to increase the quality of the judicial/legislative process through enhanced quality of the normative acts, the assessment of the effects of the laws, and the publication of the courts' decisions, the laws, and the normative acts, ii) to raise the professional level of the judges, prosecutors, lawyers, and court administrators and to improve the mechanisms for their motivation, iii) to achieve the institutional consolidation and improvement of the judiciary system, the self-organization and self-control of the judiciary, the improvement of the organizational/territorial/functional structure and the consolidation of other institutions related to the judiciary such as the ministry of justice, the prosecution office, the bailiff office, the judiciary police. The government will allocate more funds and means to step up the professional training and improve the legal infrastructure. The strengthening of the bailiff office and its support by other executive bodies will have a direct effect on increasing the level of the enforcement of courts' decisions, while the institutionalization of alternative forms for the settlement of disputes will help to bring down the cost of the transactions. The government will find the appropriate solutions to resolve the accumulated problem of its contractual obligations, supporting the efforts to increase the level of the enforcement of courts' decisions. The government will also set up the institution of the State Advocate. The reformation of the judiciary system will aim to increase the access of the poor and other

[22]. The program of the anti corruption measures has assumed a regional and European dimensions in the context of the commitments of the Stability Pact (SPAI) and the Stabilization and Association Agreement (SAA). The government is stepping up its commitment to the fight against corruption, the traffic, and the organized crime, in partnership with the relevant regional and European organizations.

[23]. The main document for this purpose is "the second action plan for an effective operation of the judiciary system in Albania" based on the agreement of the Albanian Government with the Council of Europe. The Albanian Government is getting support from some international donors for the implementation of this plan, in particular the Council of Europe, the EU, WB and some bilateral donors, such as the Dutch, Danish, Italian Governments, and US.

social vulnerable groups by strengthening the role of the People's Advocate, offering free services of judicial/procedural consultancy, information and other appropriate forms. The government will also support and cooperate with the initiatives of the civil government in these fields (legal, information centers etc.)

Box 4: Medium Term Expenditure Framework (MTEF)

The GPRS has important implications for budgetary planning and management in Albania. Its successful implementation will require a much closer correspondence between government policies and the allocation of public expenditures, as well as more efficient and effective use of public resources. It will also require greater predictability in resource allocations recognising that policy and programme reforms often take several years to implement. These requirements are being addressed through the government's programme of public expenditure management reforms. One element of these reforms that is of particular relevance to the GPRS is the medium-term expenditure framework (MTEF).

MTEF objectives: The MTEF in Albania is intended to strengthen budget planning and achieve a more effective use of public resources. It aims to do this by:

- promoting aggregate fiscal discipline over the medium-term thereby ensuring that government revenues and expenditures are sustainable and consistent with economic growth objectives;
- providing a framework for the strategic prioritisation of public expenditure that links government policies to expenditure plans; and;
- facilitating greater effectiveness and efficiency in the use of budget resources.

The MTEF is also intended to lead to positive changes in the approach adopted to the preparation of the annual Budget. By introducing strategically defined sector resource ceilings it shifts the focus of ministry budgeting from seeking to maximise ministry allocations towards achieving an appropriate distribution of resources within a predetermined allocation. This will allow ministries to concentrate on improving the quality of their budgets thereby facilitating subsequent budget implementation.

Integration with the Budget Cycle. The MTEF is being developed as an integral part of the budget cycle. Specifically it corresponds to the requirement under Article 14 of the Organic Budget Law, for the Minister of Finance to present to the Council of Ministers during June a review of the current macroeconomic and fiscal situation and a budget prognosis for the coming year. Following approval by the Government it provides the basis for the guidelines sent to line ministries at the outset of budget preparation.

Main elements. The MTEF in Albania is being built around four distinct elements:

- The macro-fiscal framework. The starting point for the MTEF is the elaboration of a three-year macro-fiscal framework that provides the basis for projecting public expenditure allocations. Given the limited macro and fiscal forecasting analysis capacities, this framework is initially being based on the framework provided by the IMF programme, although as these capacities are built up the framework will increasingly reflect the government's own forecasts and analysis. The macro-fiscal framework provides the context against which key budget issues can be investigated and recommendations made for decision by the Government. It also provides the analysis of resource constraints necessary for the development of realistic sector policies and strategies.
- Cross-cutting public expenditure issues. The second element is an analysis of the key expenditure issues relating to the major economic categories of public expenditure that either cut across all sectors or because of their size have implications for spending programmes in other sectors.
- Sector expenditure strategies. The third element involves the development and updating of sector expenditure strategies for each of the main sector components of the public expenditure programme. The aim of these strategies is to ensure that public expenditure allocations are driven by sector policy and programme priorities.
- Expenditure plans. The fourth element involves developing three-year expenditure plans consistent with the macro-fiscal framework and sector expenditure strategies. Following their approval by Government, these expenditure plans then provide the resource ceilings within which line ministries plan their programme activities and prepare their detailed budgets.

Experience to date. From the outset, the MTEF process has sought to address the priorities identified under the GPRS. The first MTEF covered the 2001-03 period. Its sector analysis was focused on five spending sectors: education, health, municipal infrastructure (public works), social protection and transport. Together these accounted for around 60% of total public expenditure. The exercise was considered to have achieved considerable success and brought a much sharper focus to the preparation of the 2001 Budget under which priority was assigned to increasing spending on education, transport and infrastructure maintenance. The 2002-04 MTEF has addressed some of the weaknesses of the initial exercise. It has involved a more detailed analysis of cross-cutting expenditure issues, particularly payroll and wagebill reform. It has also considered the budgetary implications of fiscal decentralisation. The sector expenditure analysis has been extended to a further to include agriculture, a key GPRS sector. Finally, the expenditure plans and resource ceilings have been elaborated in greater detail.

179. The deepening of the *public administration*[24] reform will be one of the main objectives of the government. The main goals of the ongoing reform in this sector are: (i) clear delineation of the competencies, authority, and accountability of the institutions and the public officials, and (ii) the growing division between the political and civil posts and the increased stability of the civil administration. The main directions of the reform are: (i) the institutional-structural reformation and improvement; (ii) the reformation of the internal institutional audit; (iii) the full implementation of the status of the civil employee and the reformulation of the status of the officials in the political posts; (iv) the improvement of public information.

180. The reforming process of the institutions will include the Council of Ministers, the ministries and other central institutions as well as their territorial units. The objective is to ensure that the public responsibilities of the institutions are well defined and measurable and that the organizational structures are capable of fulfilling the needs for the preparation and implementation of long-term development policies. The institutions and their structures will be specialized by becoming planning, implementation, and monitoring structures. The system of the institutional relations will also be better defined with the aim of improving the institutional coordination and the synergy in the preparation and implementation of policies. The government will consider the role and the tasks of the territorial bodies of the institutions in order to ensure that the government's public services are brought closer to the public and the beneficiaries and also to increase the effectiveness of their activity with the activity of the local government.

181. Relevant measures will be taken to determine the forms and standards of the internal audit and the legal and public accountability of the high levels of the administration.

182. The civil employee status will be enforced through the establishment of the civil employee category and the reduction of the political effects on the performance of both central and local public administration to the minimum. The reform will be based on the elements of stability – professionalism – motivation – accountability. The procedures and conditions for the recruitment, remuneration, and the career in the civil administration will be improved and standardized on basis of the skills, experience and the performance in the implementation of the tasks, which will be measurable and assessed periodically and objectively. The consolidation of the Civil Service Commission will contribute to the implementation of the civil employee rights and the enforcement of the civil service law in public institutions, which are independent of the government, on the basis of a unified system of standards and procedures. The structure of wages and salaries in the civil administration will be revised to bring them as close as possible to the wage structure in the non-state sector and funds for professional training and information will be increased for the benefit of the civil

[24] The reform in the public administration is now based on a basic legal and normative framework, such as the Law on the civil servant status and the bylaw acts (January 2000). The government is now engaged in the stage for the full implementation of this program. The public administration reform is a fundamental part of the institutional reform and is also part of the government's obligations in the framework of the Stabilization and Association Agreement, and the plan of anti corruption measures. The government enjoys the support of the EU, WB and some other donors for the implementation of this reform.

employees. The fundamental principles laid down in the law on the civil employee status will be extended, as appropriate, to other public institutions, as well. The means and ways concerning the relations between the political and civil posts in the administration will be redefined. In this context, the status of the political employee, the structure of the political level, and the system of the relations between the two levels will be reformulated. This will be made with the aim to ensure that, while policy programs are fully applied, the deformations in the administrative performance as a result of the political interests are kept at a minimum. A special attention will be attached to the role of the general secretary as the linking point between the two levels.

183. The reformation of every institution will include measures to establish the structures and procedures for public information and periodical reporting, the public access to the public data system, the facilitation of the contact of the public with the structures, the improvement of the administrative complaint procedures, and the involvement of the public in the processes for the preparation and implementation of the policies and the assessment of the performance of the institution and the public officials.

184. The improvement of the fiscal administration is considered of special importance by the government both to overcome the challenges for the country's long-term development and European integration, and to secure the financial resources that are necessary for the implementation of the GPRS. The main objectives for the reformation of the fiscal administration will be: (i) increase the budget revenues by expanding the taxable base and reducing the informal economy; (ii) improve the administration of budget revenues by increasing the effectiveness and efficiency of the budgetary expenditures; (iii) improve the public procurement procedures; (iv) effective recording and administration of the state assets.

185. The budgetary revenues will be mainly increased through the consolidation and the improvement of tax and customs administrations[25]. The government will continue the implementation of the already initiated reforms, which have yielded the first positive results. The directions will be: the organizational improvement, the full computerization, the strengthening of auditing, the increased professional level and better motivation of the staff and the licensed accounting experts, and the adoption of modern (private and public) accounting. The medium-term objective will be to give the tax system a more important role over the customs system and to increase the share of the direct taxes compared to indirect taxes.

186. The government will deepen the ongoing reforms in the structures of budget and treasury administration in all central and local public institutions in order to improve

[25] The CAM Albania program with the EU assistance is achieving tangible successes in the improvement of the customs administration, while other donors have supported programs for the legal and administrative improvement of the tax/customs systems. The government will continue to deepen the reforms in the customs and tax systems in order to improve their financial administration and also to make them capable of keeping pace with the policies of the opening up and the integration in the context of the Stability Pact, the association and stabilization agreement with the EU and the WTO membership. More information may be received from the relevant documents of the Ministry of Finances and the customs and tax authorities.

the planning, implementation, and control of the public expenditures[26]. The budget and treasury system will be computerized and the specialized internal and external financial auditing will be computerized. The government will continue to improve the Medium-Term Expenditure Framework to make it an effective instrument for the public polices and their implementation. The reformation of the public procurement system will continue. The directions will be: procedural improvements and the introduction of methods and standards compatible with the international practices, the increase of competitiveness and fair access by the suppliers, increase of transparency, the strengthening of the Public Procurement Agency, and the increase of the level of professionalism.

187. The government will implement the law on immoveable public property by making an inventory and registration of the public assets. Criteria, conditions, and restrictions will be formulated and applied for the administration of the immovable public property and other assets possessed by the state with the aim of ensuring that they are utilized on a consistent basis. The privatization and other forms concerning property transfer and use will be among the main ways to increase their effectie use.[27]

188. The government will attach importance to the administrative and institutional reform in the sector of public services[28] for which the government will continue to be:

i) the only or the main supplier (public order, education, health, social protection, labor market, civil protection, transport infrastructure, public transport, environmental protection etc.). The administrative reforms in these sectors will aim to enhance the government performance through improvement of the management capacities at all levels, increase the level of professionalism, improve the motivation of the employees, improve the policy making and implementation capacities, including the capacity for an effective use of the financial resources, the capacity to respond, as required, to the requirements and needs of the beneficiaries, and the increased participation of the beneficiaries and contributors in all aspects of the decision making, including monitoring/assessing;[29]

ii) a more regulatory role at medium-term and long-term in the sectors of telecommunications, energy, water supply, insurances, television broadcasting etc. There will a better harmonization of the drive for the privatization of these sectors with the efforts to enhance the regulatory capacities of the relevant bodies. The regulatory bodies will be given a better-defined normative framework, funds, equipment and qualified personnel. The objective is to ensure that the regulatory bodies become capable of keeping the monopoly tendency at the minimum and protect the interests related to the development and the consumers. The activity of the regulatory bodies will become more autonomous, more transparent and more accountable for the interests they protect.

[26] One of the main programs in this field are those supported by the WB in the framework of the Public Reform project on "Public Expenditure Management"

[27] The law "on state immovable property" became effective in 2001 and the process of the immovable property registration in the owners' register, which is being assisted by the USAID, is in its closing stages.

[28] More specific measures have been described in the relevant chapters and matrixes of these sectors.

[29] More details about the measures in these sectors are given in the relevant chapters and matrixes.

189. The continued implementation of the *decentralization* reform and the strengthening of the local government are considered an instrument that is directly linked with the objectives of growth and poverty reduction. An effective and democratic local government would imply a greater representation and involvement of the local communities and social categories, including the poor, in the governance as well as a more optimal allocation of the resources. Considering the decentralization as a cross-cutting reform in relation to the reforms in all other sectors the government will carry out its decentralization strategy in accordance with its action plan[30], by taking cautious, but determined steps and by increasing and strengthening the inclusion of the local government bodies and the local communities. The following objectives will be attained in the next three years:

i) The decentralization of the public functions and responsibilities of the local government units, including both the functions defined as the own functions of the local government and the shared functions (education, public health, social support, social protection, etc.). In the case of the latter, the law will determine the sub-functions to be performed by each level of government (central and local) and the institutional relations for each of them, giving the local government more decision making rights regarding the priorities, the use of resources, and the monitoring of the performance of these services.

ii) The government will continue to take cautious, but determined steps in regard to the fiscal administration, including increased opportunities for local resources and a better and more effective distribution of the national financial resources. The local government units will be given immovable property and will be active participants in the process of state budget planning and the distribution of the funds for investments and services.

iii) The government will encourage the local government units to apply the same principles on governance and the administrative and financial reform, especially in relation with a) the status of the civil servant: description and standardization of jobs and their measurability, institutional and individual accountability, increased professionalism, strengthening of internal audit. To this end, the government will support, in cooperation with the local government associations, the establishment of the training center for elected officials and the employees of the local administration; b) the preparation, implementation, and control of their expenditures, including the participation of the medium term expenditure framework; c) the information and the inclusion of the community in the aspects

[30] Albania has ratified the European Local Autonomy Charter and the National Decentralization Strategy is being implemented in this context (January 2000). The local government units offer services and have responsibilities in compliance with the law "On organization and functioning of the local government units" (October 2000). The decentralization reform is being carried out through a participatory process of the local government authorities, the civil society, and the local communities. The National Decentralization Committee, which is composed of representatives of both central and local governments, and the Expert Group have adopted the 3-year action plan for the strategy's implementation. The decentralization reform is being supported by many donors (Council of Europe, USAID, the WB, the Dutch, Italian, Danish Government, etc.) and has been one of the main issues on the agenda of the meetings of the Friends of Albania group. For more information see aforementioned documents in the Ministry of Local Government and Decentralization.

of governance and the prevention of risks of power seizure by local elites, and d) the extension of the program of anti corruption measures to local level.

IV.D DEVELOPMENT OF PRIVATE AND FINANCIAL SECTORS

IV.D.1 PRIVATE SECTOR DEVELOPMENT

190. The promotion of the development of the private sector is considered as the driving force behind growth and poverty reduction. The objective of the government is to stimulate the development of a dynamic private sector, increase the level of the competitiveness of the economy and create an attractive environment for the private foreign investments through improvement of the legal and institutional framework that is directly related to the business sector.

191. The hitherto reforms have contributed to the liberalization of the economic sectors and their opening up to the private domestic and foreign entrepreneurship. As a result of this process and the privatization of the state-owned enterprises, the share of the private sector in the economic life of the country has increased perceptibly and this sector accounts currently for 75 percent of the Gross Domestic Product. According to the official statistics[31], the number of the registered private entities was 63,670 by the end of 1999. However, the private sector continues to remain unconsolidated and vulnerable to internal and external shocks. The business structure is dominated by the very small companies (micro enterprises), which account for 97 percent of the total number and the small enterprises (with up to 50 employees), which make up 2 percent of the total number. The size of the capital, which a business company has invested on average, amounts to $107,000. The economic sectors, in which private businesses are most active, are trade, services, construction, and transport. Even though the private sector has its distinctive physionomy and has become the main social partner, the level of its development remains low and the same should also be said about the concentration of the business activity. The companies are undercapitalizedinvested and the links of the private sector with the banks are not well developed.

192. Foreign direct investments represents an important component for the development of the private sector. Despite a regime considered rather liberal for foreign investors, the statistics of the last 10 years show that Albania has not been very successful in attracting foreign investments, both in absolute or relative terms. According to the official statistics, the cumulative foreign direct investments amount to $598 million during the 1992-2000 period, or about 15.7 percent of the GDP[32]. As a result of important privatization programs undertaken during 2000, this figure rose to its highest registered level, namely $143 million, or 24 percent of the cumulative figure. The number of foreign companies operating in Albania is 2,422, of which 810 are entirely foreign and the remaining are joint enterprises with local private firms.

193. The liberalization of the foreign trade is one of the first measures taken by the Albanian Government in the transition to market economy. Albania became member of the

[31] INSTAT: Statistics No 4/2000

[32] Calculated on 1999 GDP. Data on FDI are received from Bank of Albania's statistical reports.

World Trade Organization in 2000. The country's trade regime is assessed to be rather liberal, with a moderate level of customs tariffs, easy system of licenses and an almost complete absence of non-tariff barriers. Nevertheless, the situation of the trade balance has worsened. The import/export relation is nearly four to one. The volume of exports remains at low levels and the basis of export products is not diversified.

194. The reforms carried out in the last decade have aimed to establish a legal and institutional system capable of fulfilling the requirements of businesses. There has been a tangible improvement in the dialogue between private business and the government, especially during 2000. The Business Consultative Council, which includes high state representatives and managers of different business organizations and leaders of foreign business associations, was set up in 2000. Despite the positive developments in recent years, a number of problems are still present, such as (i) the high level of risk perceived by both business and banks; (ii) the weak enforcement of the laws and contracts; (iii) problems related to land property and the absence of a land market; (iv) instability of economic policies (especially the frequent changes in the tax system, administrative procedures etc.); (v) the low level of access to information (especially important for the development of the SME); (vi) the high level of informal economy and unfair competition; (vii) the weak application of the standards of accounting and auditing; (viii) the structural weaknesses (the energy crisis and insufficient power supply to the business, the inadequate level of transport infrastructure, the institutional weaknesses etc.); and (ix) the corruption at different levels of the central and local administration and in the judiciary.

195. The objectives of the government in the development of the private sector are: (i) stimulation of the free entrepreneurship; (ii) the consolidation of the institutionalization and formalization of the market; (iii) the promotion of foreign investments; and (iv) the deepening market liberalization and the promotion of exports.

196. The attainment of the aforementioned objectives will be possible through the adoption of a number of cross-sector measures, which have been specified further below in this document, such as regarding the governance, the adoption of the legislation and corruption, the development of the infrastructure, reforms in the judiciary etc. The specific priority public measures, envisaged to be taken for the stimulation of the free entrepreneurship, include:

i) The facilitation of business access procedures. This will be achieved through the reformation of the institutions, which issues the licenses and the building permits, increased transparency of the tax and customs administration bodies in their relations with the business, the establishment of a public information office in every ministry, the installment of telephone lines for receiving business complaints etc.

ii) The strengthening of the relations of the banks with the business and the facilitation of the business financing process. The measures to be taken to this end include: the establishment of the Credit Information Office (through a GTZ-financed project); the improvements in the standards of accounting and auditing and their approximation to the international requirements and standards; the consolidation of the independent accounting experts; the improvement of the legislation on collateral and the enforcement of the legislation; the approval of a

new law on bankruptcy (draft prepared with foreign assistance and approved by the government); the development of an effective judicial system.

Box 5: Problems of concern for business community

For the preparation of the GPRS components related to the development of the private sector and the financial sector, four rounds of consultations were conducted with: The Union of Chambers of Industry and Commerce of Albania and the US Trade Chamber; the Albanian Agro-Business Council; the Foreign Investor Association and the Italian Investor Association; and the Albanian Banker Association.

The main concerns raised by the private business community included:

1. The relations of the business with the tax and customs administration. The opinion of the businessmen was that the efficiency of the government's mitigating policies by lowering the tax and customs burden, the improvement of the VAT reimbursement procedures, the procedures of corporate tax advance payment etc. do not yield the expected positive results. In their opinion, the cause lies in the arbitrariness characterizing the work of the tax and customs authorities, such as the loading and unloading of goods several times before being cleared by the customs, the discrimination made between different companies in the customs, the lack of transparency with the reference prices, the arbitrariness in the compilation of the list of goods defined "investments" etc. There are also legal gaps in the VAT reimbursements when big companies enter into business relations with small companies, which are not subject to VAT payment.
2. The high level of taxes. The payment of the contributions for the workforce, in particular, increases business costs considerably and stimulates the black labor. Being at the same rate for all goods, the VAT is a heavy burden on businesses, such as on the importation of the agricultural machineries.
3. Problems related to the market structure. As a result of the absence of the necessary institutions or their ineffective work, the businesses are damaged by the counterfeit and uncontrolled products, the fiscal evasion of some firms, the trade monopolization of some goods, etc. The absence of the agricultural land market and the land partition into small plots are considered barriers to the efforts to increase the level of the mechanization of agriculture.
4. Difficulties to have quality public services. Criticism was especially expressed about the supply of firms with electric power (both about the cuts and the voltage fluctuations), the increase of electricity price, the costs of goods transport etc.
5. The problems of the banking system and credit. The businessmen consider the terms of credit as being unfavorable. They also complain about the undeveloped payment system, the bureaucratic banking procedures etc. The business community said that there are shortcomings in the legislation on collateral, that the level of business risk dictates high transaction costs and that there are problems with the accuracy of the balance sheets of private firms.

A questionnaire was compiled to make a weighty assessment of the significance of the obstructive factors. According to the data collected, 59 percent of the businessmen consider the institutional factors (the relations with the central and local administration, with the tax and customs authorities and with the courts) as very problematic or problematic. 61 percent of the businessmen consider the condition of the physical infrastructure (especially roads) and its impact on the transport costs as very problematic or problematic. Only 22 percent of the businessmen consider the labor legislation and the workforce skills as obstructive factors. 34 of 39 respondents assess the unfair market competition as very obstructive. 67 percent of the businessmen consider the role of the economic factors (the level of customs tariffs, credit, the distribution and supply systems etc.) as very obstructive or obstructive.

To what extent are business concerns addressed in GPRS?

Based on the suggestions made by the business community, these problems are addressed in priority action plan for the development of the private and financial sectors and in the cross-sector programs.

Infrastructure improvement programs (roads, electric power, telecommunications etc.), envisaged not only for the national transport network, but also for intervention in rural areas, will reduce transport costs and will improve electric power supply.

The action plan specifies planned measures to increase the transparency of the state administration authorities in their relations with the business, strengthen the institutions that guarantee free market competition, and improve the work of the tax and customs authorities (the computerization of the system, training, publications etc.). The deepening of the reforms (through the plan of envisaged measures), which will stimulate the competition in the financial market, the improvement of the institutional schemes in guaranteeing credit transactions, the improvement payment system etc. are expected to have positive effects in strengthening the links of the private sector with the banks.

198. The enhanced institutionalization of the market and its formalization represent important directions of the work for the stimulation and development of the private sector. The priority measures for the attainment of this objective are:

i) The institutional improvement for the promotion of free market competition. Of importance, in this context, is the strengthening of the Competition Department and the Competition Commission, as well as the strengthening of the state regulatory bodies.

ii) The strengthening of the network of information services will contribute to the improvement of business competitiveness and stability. This will be achieved through the establishment and consolidation of the business information structures, the harmonization of the activities of the research and scientific institutions with the requirements of industry and agriculture (making these institutions cost-effective) so that they can offer training and retraining programs and necessary technical assistance, the stimulated information development by increasing access to Internet and the promotion of the exchange programs (trade fairs, exhibitions etc.), and the facilitation of the circulation of information about the prices in the market of agricultural and livestock products. Special assistance programs for the establishment of small and medium-sized enterprises, and the promotion of foreign investments, and exports will be adopted by relevant structures to be established. The development of supporting institutional mechanisms will facilitate the delivery of technical assistance and the credit of the businesses and the SME, in particular.

iii) The improvement of the business relations with the tax and customs administration. The tax reimbursement procedures will be improved, the computerization of the local tax branches will be completed, permanent programs for training of the tax and customs administration will be carried out, and the Independent Commission for Taxpayers' Complaints will be established.

iv) Increased land security and access. Priority will be given to the completion of the registration in the remaining cadastral zones.

199. An important objective of the government will be the promotion of foreign direct investments through the adoption of specific measures such as: (i) the establishment of Foreign Investment Promotion Agency with the status of a "one-stop shop", which will offer the services required by the investors; (ii) the development of the industrial parks with a concentrated infrastructure; and (iii) the undertaking of promotional activities for the improvement of the country's image.

200. The Ministry of Economic Cooperation and Trade has prepared an export promotion draft strategy for the improvement of foreign trade performance. The strategy is based on the concept of the system's competitive edge, which implies the public-private partnership. The three supportive pillars of this partnership are: (i) market-orientated production and logistics; (ii) business-orientated services; and (iii) business-orientated legislative and institutional framework.

201. A government's priority in the medium-term in regard to the deepening liberalization and the promotion of exports will be (i) the free trade agreements with the countries of the region and the EU; (ii) the facilitation of the border procedures; (iii) approval of the

strategy for the promotion of exports and the revision of the legislation with the aim of facilitating and promoting the exports; (iv) the establishment of an export promotion agency and the introduction of mechanisms to guarantee export transactions; and (v) the development of export promotion programs.

202. The support for the SME development is an important component of the strategy, which links the growth with the poverty reduction. Support for micro businesses is considered of special importance. The Albanian Government has already approved a strategic document for the SME development, which aims to create new jobs and achieve a proportional development of the whole country.

203. The priority public measures, which will be taken by the Albanian Government in the context of this strategy, include: (i) approval of a special law on SME; (ii) establishment of the SME promotion agency and its institutional consolidation at the level of ministry; and (iii) the improvement of the system of credit for the SME and the promotion of micro credit schemes.

IV.D.2 FINANCIAL SECTOR DEVELOPMENT

204. During the last 10 years of the transition the financial system remained in a fragile condition. The state-owned banks, which dominated the country's banking system, suffered from a low level of capitalization and portfolios burdened with bad credits. The performance of the banking system was dealt an especially heavy blow by the massive development of the informal financial market in 1996 and 1997. Consequently, these banks have been subjected several times to the restructuring process and, subsequently, to their privatization with institutional investors. The banking system is presently composed of 13 banks. Only one of them is still state-owned, but it is already going through the process of its privatization. The financial system in Albania continues to be mainly identified with the banking system due to the absence of other financial intermediary actors. A stock exchange, the Bourse of Tirana, was established in May 1996, but it is not operational. The possible instruments that can be traded in the Bourse remain restricted to the treasury bills. No state or private company is listed. The other financial intermediaries such as the management companies, the investment funds, the pension funds etc. are not developed.

205. Even though the banking system is going through a stage of its consolidation, it is still not the main financing source for the private sector growth. The credit stock situation by the end of 2000 accounted for only 4.6 percent of the GDP. Such restrictions are consequence of: (i) reliance on mainly short-term resources; (ii) concentration of the bank activities on a limited number of profit-making activities, mainly government's stocks and trade transactions; (iii) a high difference between lending and borrowing rates (both in domestic and foreign currencies). These restrictions are also due to the legal and structural problems, such as the collateral, weak bankruptcy and debt resolution framework, lack of information on crediting, lack of credibility of the balance sheets of the firms etc. Important improvements have been made in recent years both in the legal aspects (such as the legislation on secured transactions, improvements in the Civil Code and the Civil Procedure Code etc.) and in the information on credit. This has been followed by a rise in credit of the economy during

last year and there are signs that the positive tendency might continue. The continued campaign on credit, led by the Bank of Albania, is an initiative that needs to be further promoted. The structural problems are addressed in the relevant parts of this strategy.

206. The strategic objective of the government is to stimulate the creation of a competitive financial market, which should be capable of responding to the needs of the economy, in general, and the development of the private sector, in particular. The objectives to be achieved in the context of this strategy are: (i) restructuring and consolidation of the financial market and (ii) improvement of banking services.

207. The priority public measures to be taken for the restructuring and the consolidation of the financial market include: (i) the privatization of the Savings Bank, the biggest bank in the country with a dominant position in the banking market, and the privatization of the state-owned insurance company INSIG; (ii) the reduction of the cost of the banking mediation through the promotion of the competition and the other mechanisms of monetary policy, whenever market conditions will allow this; (iii) the strengthening of the supervision system and regulations for protection of the financial system in accordance with the international standards; (iv) the improvement and completion of the legal and institutional basis for the development of the capital market.

208. The main measures to be taken for the improvement of banking services include: (i) the promotion of the competition among banks; (ii) improvement of the payment system through installation of the Real Time Gross Settlement System (RTGS); (iii) the establishment of the Credit Information Bureau; (v) stimulated expansion of savings-credit schemes and the banking system network in the territory of the country, especially by covering rural areas with banking services.

IV.E HUMAN DEVELOPMENT

IV.E.1 HEALTH

209. The objectives of the poverty reduction strategy in the health sector are part of the 10-year strategy for the development of this sector, which is aimed to improve the health indicators. The many problems plaguing this sector and its special role for the poverty reduction make it a priority sector for the 2001-2004 period. The public expenditures for the health sector will increase from 3 percent in 2001 to 3.2 percent of the GDP in 2004. The expenditures for investments in this sector are forecasted to increase from 5.6 percent of the total investment expenditures in 1999 to 9.9 percent in 2003. The main directions for the attainment of the aforementioned objective will be: the reformation of the regulatory system, the reformation of the financing system and resource allocation, and the reformation of service delivery.

210. The objectives in the health service in the context of the poverty reduction strategy are: (i) increased effectiveness and efficiency in the use of resources; (ii) access to and equality in health services in the whole territory of the country and the improvement of their quality; (iii) the improvement of the health indicators through specific interventions in specific areas..

211. The enhancement of the effectiveness and efficiency in the use of resources will be achieved through: (i) improvement of the process of planning, accomplishment of studies for full need assessment, improved management, and fairer distribution of the resources, (ii) the deconcentration of competencies towards the local institutions (establishment of health regional authorities) and the strengthening of the role of the professional organizations (which will play a decisive role in ensuring fulfillment of requirements related to medical ethics and the patients' rights card), (iii) the engagement in an effective fight against corruption, which is a worrisome phenomenon in this sector, (iv) the gradual establishment of the information systems with the aim of introducing an integrated network, (v) the support for the privatization process in the health service and the monitoring of the private sector.

212. The following activities will be of special importance for providing access to and equality in health services in the whole territory of the country as well as imporving services' quality: (i) Completion of the sanitary primary care map. About 80 of the 640 health centers should be entirely rehabilitated and about 1380 of the 2,000 outpatient clinics in the villages are not operational. During the 2001-2004 period the aim will be to meet the needs of the communes for health centers by 100 percent and the needs of the villages for outpatient clinics by 50 percent, by providing the necessary infrastructure and training the medical personnel; (ii) preparation of the master plan for the development of the health service in one pilot region; (iii) The reorganization of the hospital service through the establishment of the regional hospitals. These hospitals will offer some specialized services, which are presently available only in Tirana University Hospital Center; (iv) the adequate motivation of the health personnel; (v) the improvement of the procedures for licensing private activities with the aim of

ensuring, above all, the delivery of the service in the rural areas and the small towns and the motivation of the personnel working in rural and remote areas.

213. The improvement of the health indicators through specific interventions in specific fields will be achieved through improved health promotion, the limitation and the prevention of infective diseases, tuberculosis, SST, the improvement of the care for mother and child etc. To this end 90-100 percent of the population will be covered with vaccination, the control over potable water and foodstuffs will be introduced and the existing programs in this field will be continued and further expanded.

214. In the framework of the strategy special attention will be attached to specific categories of patients such as: mentally sick patients, patients suffering from chronic diseases and those in the terminal stage. In addition to the creation of the normal conditions in the psychiatric hospitals, efforts will be made to expand the services in this field with the main aim of preventing and providing early treatment of these problems. The experience of the National Center for Upbringing, Development, and Rehabilitation of Children and the other organizations operating in this field will be extended to other parts of the country.

IV.E.2 EDUCATION

215. The existence and the acuteness of the problems experienced by the educational system require the intensification of the reforms in this sector. The main objectives of the deepening reform process, which also concur with the objectives of the strategy of education, are: increased participation of the population in the educational service, focusing the attention on the poor groups and the remote areas of the country; the improvement of the quality of this service and the restructuring and adjustment of the system of education to the developments and requirements of the market.

216. The specific objectives of the sector of education in the context of the strategy for growth and poverty reduction are: (i) increased attendance of the 8-year education, focusing attention on the poor groups and on the remote areas of the country, as well as on increasing attendance level of secondary education, mainly vocational; (ii) increased quality of teaching; (iii) expansion of the vocational education and its better adjustment to the market requirements; (iv) enhanced effectiveness of administration and improved financial efficiency of educational system.

217. The increased attendance of the 8-grade education will be mainly achieved through enrollment of the children from poor families, especially those in the rural and suburban areas by implementing specific projects, such as the “street children” project. Special criteria will also be prepared and applied for poor families by offering them scholarships and textbooks free of charge or at low prices, free food, and by establishing the centers for the difficult pupils etc. Pilot programs for “school bus” service will be implemented in five rural areas, which have adequate road infrastructure. These programs will be models, which can be followed by local government authorities and the community. The intensification of the efforts for the rehabilitation of the schools and the construction of new school buildings, the improvement of the supply with textbooks, the improved supply of the schools with the

necessary didactic equipment, the improvement of the system of the transportation of pupils and teachers, and the targeting of these measures, in particular, at the poorest groups will contribute to increased access to this service.

218. The financial motivation of the employees in the educational system, especially in the pre-university education, is considered as one of the most important measures to increase the work quality of the teaching personnel. The payroll funds for the pre-university education will be increased by about 12 percent a year in the 2001-2004 period. Two thirds of this increase will be used to raise the basic wages of the teachers and the other funds will be used to support the restructuring reform. On the other hand, the financial compensation of the teachers working in the rural and remote areas will be increased in order to increase the quality of teaching in these areas. This measure will be coordinated with the implementation of training programs, especially for teachers who have inadequate education.

219. The expansion and improvement of the secondary vocational education will be supported through the adjustment of the legal framework to ensure that the vocational schools are opened in compliance with the needs and trends of development at regional and local level. Their curricula will be decentralized and their profile will be diversified in accordance with the needs of the labor market. The objective will be to restructure or open five vocational boarding schools in the urban and suburban areas during this period.

220. The implementation of the administrative and financial reform will play an important role for the attainment of the aforementioned objectives. This reform will help to increase the efficiency in the administration through increased effectiveness, harmonization and decentralization of the decision-making structures at all levels. Also, the reform will help the increase of efficiency in the resource use through the application of a new formula for the use of the financial resources and the establishment of special funds for the promotion of innovative initiatives of the schools, communities and the local authorities. Part of this reform will also be the preparation and realization of a comprehensive program for the improvement of recruitment and career criteria and procedures, job and task description, and the reorganization of the MoES. In addition, programs for training and retraining of the Ministry staff, the local authorities, and the school principals will be implemented. The improvement of the administration and the expansion of the management capacities are expected to have direct positive effects on the improvement of the quantitative and qualitative indicators of the educational system, in general, and in the disadvantageous areas, in particular.

221. The problems faced by this sector and its special role for the formation of the human capital, as a factor for growth and poverty reduction, make it a priority sector for the 2001-2004 period. The public expenditures for investments in this sector are forecasted to increase from 7.5 percent of the total investment expenditures in 1999 to 9.8 percent in 2003.

IV.E.3 LABOR MARKET AND SOCIAL PROTECTION

Labor Market

222. The development of the labor market and the promotion of employment represent one of the main components of the poverty reduction policies, because the unemployment is one of the main causes of poverty. The relevant legislation is almost complete, but its enforcement highlights the need for the adoption of immediate measures to provide professional training in full accordance with the market demands and to improve the quality of professional training. This calls for a redistribution of the training centers, the introduction of the standards for jobs, training, and the preparation of CVs in accordance with the demand and supply for workforce.

223. The job promotion policy is part of the general strategy for the development of the labor market, which will pursue the following objectives during the next 3-year period: (i) the promotion and the intensification of the professional training and the development of the workforce, in general, (ii) the deepening of the institutionalization and the formalization of the labor market, and (iii) the promotion of employment.

224. The promotion and intensification of the professional training will take place on basis of a new strategy, which will make an analysis of the demand and supply for jobs and professions and will make forecasts about the trends in the labor market. The increase of the number of professional training centers and their better distribution will have a positive effect on the formation and development of the country's workforce.

225. The deepening of the institutionalization and formalization of the labor market will be achieved by increasing the number of employment services not only for the professional formation and unemployment payments, but also for mediation, advising and job application in accordance with the request of the individual. The implementation of this policy will be supported by the institutional development of the National Employment Service and the qualification of the administration at the three levels. Likewise, the delivery of the employment services by the private sector will be encouraged.

226. Increased employment will be achieved by stimulating the SME development and the implementation of programs of public works and community works. In addition to the application of fiscal incentives and overall measures for investment promotion and economic growth, ***the promotion of employment*** for the poor will also be achieved through adoption of specific measures related to: (i) implementation of public works programs, (ii) implementation of community works programs, (iii) promotion of microcredit schemes etc. The deepening institutionalization of the job market will also have its positive effect on job promotion.

227. The application of the aforementioned policies requires financial support and the development of the institutional capacities at the central, regional, and local level. These measures also include the allocation of funds for the establishment of a general

information network, the continuation of job promotion programs, the expansion of the training capacities in the professional formation centers, and the qualification and strengthening of the institutional capacities to absorb the investments effectively.

Social Protection

228. The problems affecting the social protection program can be resolved by making a revision of this program and by adjusting it to the country's economic and social conditions. In the framework of the Strategy, the program will aim to: (i) increase the coverage ratio of the poor with economic assistance (increase the number of the poor benefiting economic assistance in relation to the total number of the poor); (ii) increase the coverage rate of the economic and social needs of the families through economic assistance; (iii) implementation of active re-integration programs of social protection. By taking into account the multi-faceted dimension of the poverty in Albania, the program's aim is to ensure that during the 2001-2004 period the economic assistance will be used to help the families in their efforts to come out of their state of poverty and be re-integrated in the social environment. The program will make this contribution in harmony with other programs for social protection and development.

229. The attainment of the objective *to increase the coverage ratio* will be based on plans to identify and measure the economic and social indicators, which do assess the economic and social situation in the country's regions, and to allocat the block funds from the central budget in full accordance with the identified economic and social indicators. The legislative and organizational improvements will clarify the roles and responsibilities of the institutions engaged in the provision of the economic aid, such as MoLSA, GASS, local government authorities, NGO. The further decentralization of the scheme will provide the necessary flexibility for its implementation. The reform will be supported by enhancing management capacities of economic aid institutions at central, regional, and local levels.

230. *The increase of coverage ratio* of the economic and social needs of the families through the economic assistance will be made possible by (1) the establishment of the database on the economic and social situation of all sections of the society; (2) the harmonization of the economic assistance with the other mechanisms of social care, such as the social services, with the aim of delivering the aid or/and services in compliance with the actual needs; (3) the identification of the economic and social priorities according to social groups and their characteristics, gradually targeting the system on the minimum living standard. The reassessment of the existing economic assistance policy on the basis of relevant information and data, the identification and measurement of the indicators of poverty and their continuous monitoring will be useful to make realistic analyses and adopt specific measures. Likewise, the reassessment of the mechanism for the financing, allocation, and distribution of the government's funds to the beneficiaries will help to make a better targeting of the economic assistance.

231. The implementation of *the active reintegration programs* requries the revision of the legal framework and its modification and adjustment to the social conditions. The reform implies the creation of the legal and institutional conditions for the promotion of

new models in economic assistance delivery through participation in profitable activities of the social business form.

Social Care

232. Taking into account the multi-dimensional character of the poverty, the aim will be to turn the social service policy from a passive policy (policy for alleviating the consequences of the transition) into an active policy (policy for the development of the social capital). This objective will be achieved by using new forms of social policy, which will assist in the genuine social reintegration of the marginalized categories through participation in the social business. A necessary condition for the success of the social business is the close cooperation between the public and private sectors. This cooperation will be supported by the establishment of a new legislative framework, which will embody the harmonization of the financial and social mechanisms.

233. The social care program requires a fundamental development of the social services, which implies (i) the full coverage of the territory with social services in harmony with the quantitative and qualitative needs of the vulnerable social categories, and (ii) the increase of the number of the social services in the relevant institutions and their qualitative improvement. The emergence of new vulnerable social groups requires quick and effective response with adequate policies as well as the development of the professional capacities and the civil society. The program is aimed to reform the legislation of the social services by promoting the application of other forms except the public ones, in the delivery of public services. The program also underlines the need to promote the services based on the social needs of the individual.

234. The objective of achieving the full coverage of the territory with the social services, in accordance with the quantitative and qualitative needs of the vulnerable social categories, can be achieved through (i) the compilation of the social service strategy, laying the stress, in particular, on the full decentralization of the services, (ii) limitation in the establishment of national residential centers, (iii) the harmonization of the social service delivery with the economic assistance, and (iv) promotion for the establishment of the daily, community centers for the delivery of services to the needy categories.

235. The increase of the number of social services in the institutions and their qualitative improvement will be achieved by investing in the human resources, developing the institutional capacities for the absorption of the investments from non-budgetary funds, the expansion of the cooperation with the donors, and the strengthening of the role and the cooperation with the Social Work Faculty.

Social Insurance

236. On the basis of an analysis of the most acute legislative and institutional analysis, the aim of the social insurance program is to achieve the following objectives in the next three years: (i) increase the level of participation in the compulsory scheme by improving the ratio between contributors and beneficiaries, and (ii) reduce the state budget subsidies for the pension scheme and enhance its long-term financial sustainability.

237. The increase of the number of the contributors will be achieved through stimulated inclusion of the rural population in the contribution social insurance scheme so that the two social insurance schemes, the rural and urban schemes, are merged within a ten years period. The more careful monitoring of the schemes, and a better elaborated policy for the management of the pension fund will also have a positive effect on reducing the differences in pensions. In addition to further legal and administrative improvements and strengthening inter-institutional cooperation and control, the adoption of measures to bring down the level of informal sector is also expected to lead to increased number of the contributors.

238. The reduction of the state subsidies to the pension fund will be achieved through legal improvements, which will bring about an increase in the number of contributors and, consequently, to a rise in revenues. Other measures, which will contribute to the attainment of this objective, include investments in the institutional development of the social insurances though introduction of the insurance number, the computerization of the information system, the institutional development at all levels of the operation, the improvement of the quality of the services, and the continuous personnel training.

IV.E.4 STRENGTHENING SOCIAL CAPITAL

239. The developments in the transition period, the demographic changes, and the emerging trends in social developments are reflected on changes and new dimensions of the social capital. Many of the structures of the social capital, especially, deep-rooted structures, have experienced deteriorating changes. The government will support the consolidation of the social capital structures and its role for increasing the opportunities and security for the poor.

240. Various community associations and organizations, who represent interest groups, the civil society, in general, the family, and the different forms of the social links of the individual and the family represent some of the main social capital structures, which require government's support and attention. Being closer to the community and the individual, the local government structures will play a special role for the promotion of the individual's social relations within the community and for strengthening the social capital and its impact.

241. The association, the interest groups, and the regional and local organizations are new institutions that are demonstrating a growing efficiency. Farmers' associations, water user associations, chambers of trade and industry, and businessmen associations have been established and communities are being organized, in cooperation with foreign donors or government institutions, to improve the living conditions in many districts of the country. Supported by the donors, the role of these groups and the inclusion of the community in the implementation of projects, which are aimed to strengthen the social relations within the community, are becoming a positive experience. However, the capacities and the geographical extension of these associations remain limited, and, as a result, the level of community participation is low. The expansion and the extension of the community-targeted public service programs, with the participation of the community members, will be an important direction of the government policies. *The*

hitherto successful experiences, such as the World Bank project in the area of Bathore and the municipal projects of the commercial streets and the water supply systems in some districts of the country will have a greater geographical extension in the future.

242. The government will adopt programs to encourage the participation of *the civil society* in all its possible forms in the public affairs (identification of problems, search for solutions, implementation, monitoring), considering this as a useful way that will strengthen the social capital and that will have positive effects on development. The government will, at the same time, take measures to minimize the risks that certain forms of the social capital may create in regard to the transparency, fairness, and effectiveness of the public policies.

243. The surveys confirm that the individuals continue to rely strongly *on the solid family structures*, the relatives, the neighbors and the broad network of friends for the solution of problems related to employment, health, education, security and other services. The role of the emigrants' remittances for the well being of the families is a testimony to the preservation of these traditional ties within the families. The government will support the implementation of different social programs aimed to create conditions for the further development of the family and its social role.

244. The reform for the development of the social capital will require the application of social protection through the involvement of the excluded groups and their participation in the economic and social processes. The government considers that the reshaping of the social policy, the priority given to social integration through different forms of community social support or social business, the achievement of growth, and the improved redistribution of the social protection are the most effective ways for the reduction of poverty. To this end the government will take measures to strengthen the capacities of its structures for the application of new active social support methods of the investing character. It will use a part of the sector funds to support such initiatives, which might be taken by civil society organizations, the communities, and the businesses, and will also adopt facilitating fiscal measures.

Box 6: UNICEF experience -Tirana with social business, YAPS Project

UNICEF-Tirana supported the creation of the first social business in Albania with the aim of reducing social exclusion. YAPS (Youth Albanian Parcel Service) Project is the first postal service, which has employed 32 young people from marginalized groups, including orphans, members of poor families and young people with disabilities or with disabled parents. The activity is essentially non-profitable and for the benefit of the public. It was supported by a coalition of private and public organizations, which took part in the preparatory stage (the market analysis, the feasibility study, the selection of prospective employees, their training, the establishment of structures, registration etc.) and contributed funds for the purchase of the equipment, and the labor capital. UNICEF engaged independent experts to monitor the project's progress. The first conclusions of the assessment of the project's first stage highlighted some of its advantages. Even though at an initial stage of its activity, YAPS is yielding its first positive results. The employed young people say that they now feel useful and that they have become aware of their social role. Their feeling of being marginalized is becoming gradually weaker. On the other hand, the service offered by YAPS is increasing customers and the activity. The customers are happy with the good quality and the reliability of the service. It is agreed that the internal motivation of YAPS participants is a factor that increases their competitiveness. YAPS's supporters are also happy to note that their support for the establishment of the service has yielded valuable results and that this support has been used for investments in the human and social capital.

YAPS has attracted the attention of the social and economic specialists, who have visited its facilities, have interviewed the young people, and have analyzed the progress of the activity. The evaluations are optimistic. The general conclusion is that the increase of the social business opportunities, following models similar to YAPS, will have positive primary and secondary effects. They will increase the possibilities for the active training of some marginalized groups and will facilitate and increase the chances for their integration into society. On the other hand, the surplus revenues from the social business could be reinvested to increase the number of the beneficiaries. Those employed realize that they become useful not only for themselves, but also for others. The model is also attracting for the business community, because it is close to the nature of the business and also provides the business community with the possibility to play a social role. The social business model could also be attracting for the public authorities, because it helps to make a more effective and efficient use of public funds, it encourages the social integration, and it has the elements that help to strengthen the preventive and curative effects of the social services, compared to the traditional forms of the social support. In this way, the social business becomes an instrument for the promotion of a real partnership between the state, the private sector, and the civil society.

Nevertheless, the project initiators think that YAS and other similar models are not the golden key. They are only forms to complement and improve the traditional systems of social assistance. Therefore, they should be supported and should become part of the system of methods and forms of active social support.

IV.F INFRASTRUCTURE AND ITS SUPPORT TO GROWTH

245. The development of the economic infrastructure is of an essential importance to support growth and the economic development of the country through trade facilitation, the reduction of the production costs, and the increased level of the economy's competitiveness. The objective is to gradually create a network of modern infrastructure (telecommunications, energy, roads, ports, airports etc.) and to set up effective systems for their management and maintenance.

246. The situation in the infrastructure is considered critical due to its current highly depreciated condition in comparison to other neighboring countries and Albania's position in relation to the defining and designing projects for the pan-European transport network. For that reason , the infrastructure development projects in Albania have been considered of high priority in the frame of the Stability Pact for Southeastern Europe.

IV.F.1 TRANSPORT

247. Despite the commitments made by the government and the international financial organizations during the recent years, there are no evident improvements of the situation due to the lack of comprehensive completed projects and studies, limited financial resources, time required for planning, financing, and implementing projects, and the negative influence of the internal and regional upheavals.

248. The strategic objectives of the sector include: (i) establishment of a modern infrastructure network for an effective transport system, which will facilitate growth; (ii) increase effeciency of cost recovery in transport operations by reducing the demand on the state budget; (iii) adequate regulation of the transport operations with the aim of increasing economic efficiency, road safety, and environment protection; and (iv) promotion of the cooperation with the private sector and the development in the context of the Stability Pact.

249. The measures and policies to achieve these strategic objectives include: (i) rehabilitation of the existing transport infrastructure; (ii) development of the regional transport links; (iii) commercialization of the services and privatization of the public transport operations; (iv) establishment of an adequate regulatory and institutional framework; (v) improvement of the transport information systems and improved planning and management of the sector. The priority measures of the government, according to the sub-sectors, would include:

i) Planning, management, and administration. To this end, the government will (i) revise and restructure the functions of the Ministry of Transport; will reorganize the General Road Directorate (GRD) and the Regional Road Maintenance Units; (ii) improve the road safety programs through restructuring of the General Directorate of Road Transport ; and (iii) establish the Albanian Maritime Administration.

ii) Improvement of the administration and maintenance of the national roads. The main planned activities include: (i) the reorganization of road maintenance and the privatization of the enterprises under the authority of the GRD; (ii) increase of

financing for the road maintenance ; and (iii) implementation of the road safety program (rehabilitation of the vehicle inspection centers; improvement of of information systems for vehicle registration, and the training of the drivers and public awareness).

iii) Improvement of the road transport system. The planned activities include: (i) completion of rehabilitation and construction of the East-West and North-South national road corridors and their respective branches; (ii) improvement of the urban and rural road infrastructure and road safety system (traffic lighting, road signs/marking, road traffic control etc.); (iii) completion of the detailed design for the construction of Durres-Kukes-Morine and Tirana-Klos-Peshkopi-Bllate roads; (iv) accomplishment of studies for the construction of Vlore-Sarande tourism road and other sections of tourism roads.

iv) Improvement of the maritime transport system, which will include (i) completion of civil worksin Durres Port according to Decelopment Master Plan (rehabilitation of the docks, the consutruction of the ferry terminal and the transit sheds); (ii) the completion of the civil works in Port of Vlore (rehabilitation of the docks and the port mechanization); (iii) implementation of the proposed interventions and civil works according to the Secondary Ports Master Plan of Sarande and Shengjin.

v) Improvement of the railway transport system, which will aim to (i) finalize the Emergency Rehabilitation Program of the existing network (first stage: completion of reconstruction of Tirana-Durres railway line, installment of the telephone and signalization system, reconstruction of Durres-Rrogozhine railway line, completion of of the inventory renovation of passenger carriages; (ii) rehabilitation of Shkoder-Hani i Hotit railway line; (iii) completion of the feasibility study and the detailed design for the railway link with Macedonia.

vi) Improvement of the civil aviation transport, which will focus on (i) the construction of the new passenger terminal in Rinas airport (with a concessionary contract); (ii) the implementation of the Air Traffic Control Master Plan; (iii) the construction of a new taxiway and parking area for planes at Rinas Airport; (iv) the preparation of a feasibility study and a Master Plan for the development of the civil aviation transport in Albania; and (v) the development of local airports.

IV.F.2 POTABLE WATER AND SEWAGE

250. Even though Albania is rich in water resources, the situation continues to be characterized by lack of access for urban and rural population to potable water, sewage and other local services, a slow implementation of policies and reforms in the field of public services, and a concentration of the population in the suburban areas, creating critical overburdening for the infrastructure and the existing public services.

251. The Ministry of Public Works has prepared a draft strategy to address these problems. The government's priorities for the next 5-year period will be to complete the ongoing projects and to extend them to other districts of the country.

252. The objective of the government concerning potable water supply and sewage is to increase the population's access to potable water and to improve the sewage quality and the sewage system.

253. The priority measures in these sectors will be: (i) investments for the improvement and expansion of the water supply system and for the improvement of water quality; (ii) rehabilitation of the sewage network; (iii) cost recovery through better management of the service, the regulation of the tariffs, the accurate measurement of water consumption, the reduction of the illegal connections, the improvement of the payments; (iv) decentralization of the investments, the decision making process, and the control that is presently exercised by the central authorities; (v) use of alternative forms for the management of water supply systems, such as contracts for management or with concessions, and the general privatization; and (vi) transfer of ownership of water supply infrastructure and sewage from the central to the local government. In the context of the decentralization process, special attention will be attached to increasing the participation of the community in the projects for water supply and sewage improvement by applying schemes, which have already proved to be successful. The implementation of the program with the aforementioned measures will be supported by relevant changes in the existing legal framework and by putting into operation the structures specified in the legislation.

IV.F.3 ENERGY

254. Albania possesses a large hydro-energy potential. It is estimated that only 35 percent of the resources have been so far utilized, without including the country's resources in oil, gas, and coals. The structural changes in the economy have had important implications for energy consumption. While gas and coal production has fallen perceptibly, the consumption of the population has increased. This has had its impact on energy use. It is estimated that the households consumption accounts for 35 percent of the total energy consumption and for about 55 percent of the total demand for electric power. The country's needs for energy are covered almost entirely from water resources. This makes Albania highly dependent on weather conditions. Under the current weather conditions, the imports and the domestic production cover only 57 percent of the domestic demand for energy.

255. The supply of the consumers with electricity continues to be a government responsibility. The Albanian Power Corporation (KESH) was set up in 1993 as a state-owned enterprise. An attempt of the Albanian Government in 1995 for the commercialization of this sector, as a pilot program for the privatization of three distribution units in Vlore, Elbasan, and Shkoder, failed. The three enterprises are in a financial crisis and are planned to be remerged with KESh. The Electricity Regulatory Entity (ERE) was set up in 1995. It is responsible for the regulation of the energy sector, including the licensing procedures, approval of tariffs, consumer protection, settlement of disputes etc. The Albania-EU Energy Efficiency Center was also set up in 1995 as a non-profitable foundation, in charge of the policies for energy efficiency and the use of renewable energy resources.

256. The energy prices are still controlled, while the prices of alternative energy resources have been fully liberalized. The technical and non-technical losses in the network are still high, despite the adoption of a series of measures for their reduction. The package of measures taken for the sector's normalization gives special attention to the reduction

of these losses and to the collection of debtors' outstanding obligations. The electricity company KESh is receiving management assistance by ENEL, the Italian energy body, through a World Bank program.

257. In view of the current developments in the electricity sector and the difficult situation of the sector, the government is committed to take the necessary measures to improve as soon as possible the supply of the consumers with energy . The overall sector strategy will aim to ensure an adequate supply of all consumers through the use of alternative energy resources, a better administration of the energy resources of the country, the expansion of the importing capacities and a better balancing of the system. Particular emphasis will be given to the reduction of the environmental pollution, and the minimization of the risks for the poor. The main directions of the future policies will consist on: (i) completion of the institutional reforms undertaken for the restructuring of the sector; (ii) the full commercialization of productio, distribution and transmission ; (iii) the reduction of the non-technical losses, improved collection of electricity bills, and a gradual liberalization of the electricity price , while providing support for the poor groups of the population; (iv) securing adequate financing for investments in the energy sector to complete the programs for the rehabilitation of the transmission, distribution, and production networks; and (v) the consolidation of the regulatory institutions.

258. The priority measures in this regard include: (i) the restructuring of KESH, separating the production from transmission and distribution; (ii) the preparation of the sector for its privatization; (iii) Increasing energy generation capacities,encouraging private sector participation; (iv) Connection of the Albanian electricity network into the Balkan and European networks.

IV.F.4 TELECOMMUNICATIONS

259. The global information infrastructure, based on new information and telecommunications technologies with the use of optic fibers and satellite communications, creates conditions for the large-scale development of new services in the fields of public administration, trade, banks, financial markets, distance education, health care etc.

260. The inherited telecommunication services were incapable of coping with the new realities. The telecommunications and the postal service were separated in 1992, resulting in the establishment of the state-owned enterprise of Albtelekom. On basis of a Master Plan for the development of the sector and with the financial support of the EBRD and the donor countries, the telecommunications was subjected to a process of important changes, which led to a perceptible improvement in fulfilling the needs of the population and the businesses.

261. Important developments in the sector of telecommunications during this period include: (i) the approval of the legislation for the regulation of the telecommunications activity and the partial liberalization of the sector; (ii) the introduction and development of Internet; (iii) the establishment of an independent regulatory authority; and (iv) the stimulated involvement of the private sector in this industry.

262. As a result of the adopted measures, the level of penetration of the telephone lines during the past decade has increased at a satisfactory rate, from 5 lines per 1,000 inhabitants in the 1992-1993 years to 30.5 lines in 1999. This service is provided by the state company Albtelekom. The Albtelekom network is integrated into the world telecommunication network through transmission facilities with underwater and land optical fiber, such as Trans Balkan Line (8th telecommunication corridor: Bari-Durres-Elbasan-Macedonia-Bulgaria-Turkey) and Adria 1 (Greece-Albania-Croatia-Germany). The commutation network is presently 80 percent digital, whereas the transmission network is 95 percent digital.

263. In 1995 the Albanian Government established a non-cable telephone service company, which was privatized in 2000. The delivery of the telephone service has also increased and become more massive and its range has been expanded with new services. A second license for the operation of the cellular telephony was issued through an open international tender.

264. The use of the Internet service has increased from 0.1 users for 10,000 inhabitants in 1995 to 0.3 users in 1999. The Albtelekom project for Internet includes the creation of an ISP at a national level, offering points of presence in the main cities. The Internet and telephony delivery service is liberalized and they are being presently supplied by: the Internet service by 12 private operators, whereas the telephony in the rural areas by 10 licensed private operators.

265. The objectives for the development of the sector include: (i) the deepening liberalization of the telecommunications sector, and (ii) the expansion of the services and the improvement of quality.

266. The priority public measures to be taken during this period include: (i) the privatization of the Albtelekom company; (ii) the liberalization and the introduction of competition in the fixed telephony beginning from 2003; (iii) the extension of Internet service to the educational and training institutions and for business use; and (iv) the consolidation of the regulatory institutions.

IV.G INTEGRATED RURAL DEVELOPMENT

267. Poverty in Albania is a multi-dimensional and, mainly, rural phenomenon (about 55 percent of the population and over 80 percent of the poor of the country live in rural areas), accompanied by a significant lack of opportunities for development and low access to infrastructure and services, which is even more problematic in the mountainous rural areas. Despite the reforms made in the last decade, the village-town dichthonomy continues to be present. The main activity in the rural areas remains the agriculture, while the development of non-farming businesses has just emerged in a very embryonic form. The poverty levels are relatively high for those social groups, for which the agriculture remains the main source of incomes (about 50 percent of the poor are self-employed in agriculture), mainly due to: (i) the limited areas of the agricultural land (1.1 ha for family or 0.25 ha per person, whereas more than 50 percent of the families in the hilly and mountainous areas have less than 0.5 ha per family); (ii) the high level of land fragmentization; (iii) the lack of economic infrastructure and access to markets and other basic services; (iv) the insufficient support with credit and lack of financial services; (v) the low level in the use of the agricultural mechanization and the other inputs etc.

268. The strategic objectives include: (i) the poverty reduction through a sustainable growth of production and incomes generated from agriculture, livestock, and agro-processing; (ii) protection and improved use of natural resources; and (iii) increased access to and quality of rural services (education, health, social protection), potable water, sewage, and rural transport infrastructure; (iv) the diversification of the rural economy and the increase of employment and incomes from non-agricultural activities in the rural areas.

IV.G.1 INCREASE OF PRODUCTION AND INCOMES FROM AGRICULTURE, LIVESTOCK AND AGRO-PROCESING

269. In view of the big challenges confronting the rural areas, the implementation of a national coordinated strategy for poverty reduction, the elimination of the barriers to growth, and the development of the agricultural sector is of a special importance. The strategic objectives, aimed to be achieved in the 2002-2004 period, include: (i) maintaining the growth rate of the agricultural and livestock production at the rate of about 5 percent; (i) increase of the processing level of the agricultural, livestock, and fish products; and (iii) improvement of the conditions and the level of the commercialization of the agricultural and livestock products in the domestic and foreign markets.

270. The rate of agricultural growth has been so far based on the extensive development. However, the growth is expected to be driven by a more intensive increase of production and productivity of the agricultural and livestock products in the coming years, as a result of increased productivity, improvement of the level of irrigation and drainage of the agricultural lands and the increased use of inputs and mechanization. Maintaining the agricultural production growth rate requires the revitalization of the production in the main sub-sectors of agricultural production and services through sector programs, aiming to achieve: (i) increased access to production factors and

agricultural services; (ii) consolidation of the farms and the diversification of their activity; (iii) improvement of the situation of the infrastructure and the agricultural services; (iv) institutional and sector organizational measures, including the institutionalization of the land market; (v) higher level and effectiveness in the use of agricultural land, pastures, and the cultivation of the barren lands.

271. The livestock is one of the main contributors to the farm incomes (65 percent) and its importance is growing steadily. In view of this rapid development, especially in the last three-four years, mainly reflected on the increased productivity per heads, priority will be given to: (i) the establishment of a stable system of livestock production by encouraging the farmers to establish and consolidate large farms, which breed 10-15 heads of cow and 120-200 heads of smaller livestock; (ii) the balancing of fodder production with the livestock number through sustainable use and increased effectiveness of the pastures; (iii) the establishment of breed improvement centers and the introduction of new breeds; (iv) the consolidation of the veterinary service and the laboratory service; (v) the increase of artificial cattle insemination at an annual average rate of 5 percent and the establishment of breeding centers and the application of cross-breeding in cattle, smaller livestock, and bulls; (vi) the harmonization of the veterinary legislation and the legislation on foodstuff quality and hygiene with the European Union and WTO standards.

272. **Crops**. Priority in the coming years will be given to the development of fruit growing, vineyards, and the cultivation of vegetables in glasshouses and open fields. The areas cultivated with these crops have been almost doubled in comparison with the first years of the transition. The cultivation of the industrial crops, such as sunflower or other oil crops, will be revitalized. Priority measures for the 2001-2004 period are: (i) increase of the number of fruit trees (fruits, citrus, olives) and the areas with vineyards (average 7 percent) and glasshouse areas (average 10 percent); (ii) the introduction of new varieties with higher productivity and suitable for the conditions in our country; (ii) strengthened crop-sanitary control and enhanced crop protection; (iii) increased support with credit for establishment and maintenance of new qualitative fruit plantations.

273. **The rehabilitation of irrigation and drainage**. Until 1990 more than 60 percent of the areas of arable land or 423,000 ha were under irrigation and 267,000 ha or 38 percent of arable land was under drainage. However, the irrigation and drainage system was gravely damaged during 1990-1998 period, causing a considerable reduction of the irrigation and drainage capacity. At present, only 54 percent of the arable land or about 240,000 ha are under irrigation. The main measures in this field are: (i) the rehabilitation of the irrigation system in 80,000 new hectares and the rehabilitation of the drainage system in 100,000 hectares; (ii) the restructuring of the water enterprises and the consolidation of the Water User Association (WUA) and the WUA Federations; (iii) improvement of the management of water resources by transferring the water and drainage schemes to the WUA; (v) promotion of the participation of the farmers in the management and maintenance of the irrigation schemes.

274. **The consolidation of the land market**. There is still no effective agricultural land market for agricultural use in Albania. The government has attached special attention

to the efforts to achieve an effective operation of the land market. In this context, the main measures for the 2001-2004 period will aim at: (i) the completion of the registration of land, forests, and pastures in more than 90 percent of cadaster ; (ii) the establishment of land administration offices at the center and in the districts by the end of the first half of 2002; (iii) the consolidation of cadastral services and the completion of documentation on private property in more than 3.5 million properties or about 90 percent of them; (iv) the preparation of the law on public property and the completion of legislation on the agricultural land; (v) the judicial and administrative consolidation of local bodies.

275. **The agricultural mechanization and inputs**. The use of mechanisms, quality seeds, and the inputs, in general, is very low (for instance, about 35-40 kgLA/ha of chemical fertilizers are used today, as compared to 150-160 kgLA/ha in 1989). This is reflected in low productivity rates. In this context, the main measures to be taken in the next three years will be: (i) the introduction of competitive schemes for the application of new technologies in production; (ii) the restructuring and strengthening of the institutions of control and certification of seeds and saplings; (iii) support for the private sector of seed and sapling production.

276. **Agricultural supporting services**. The scientific research agricultural activity is being presently carried out by a network of 14 agricultural research institutions under the authority of the Ministry of Agriculture and Food, as well as by the country's universities, primarily Tirana Agricultural University. The extention service is being provided by about 300 experts, who are giving technical and technological advice as well as advice on business and marketing to farmers all over the country. Many efforts have also been made for the establishment and consolidation of the system of control inspectorate and foodstuff control laboratories. The priority actions for the 2002-2004 period will be: (i) the rehabilitation and strengthening of the agricultural research institutions and the establishment of a national center of agricultural scientific research and advice; (ii) increased role for applied research in accordance with the needs of the farmers and the involvement of the beneficiaries in the identification of research priorities; (iii) the consolidation of advice service in all the districts and the continued work for the establishment of a national center of agricultural applied research and advisory research, and the promotion of "cost-effective" research; (v) the supply of the regional foodstuff control laboratories with the necessary material and laboratory equipment and the encouragement of efforts for partial cost recovery through delivery of paid services to the customers.

277. **Increased access to financial services and credit**. The number of agencies giving small credits to the agricultural sector and non-farming activities in the rural areas is presently very limited. They include rural credit funds and savings-credit funds supported by Rural Finance Fund and the Mountainous Area Financing Fund and some funds supported by the Irish Micro Credit League. Despite the good work done by these agencies, they are unable to meet the growing need for rural credit. The measures to be taken in the coming years are: (i) the encouragement of the banks to make their financial services available in the rural areas; (ii) the introduction and development of consolidated financial mediators as part of an extensive financial sector; (iii) the

establishment of a stable private network of savings-credit associations in the rural areas based on rural credit funds.

278. **Increased level of product processing**. Only a small part of the domestic agricultural and livestock production is being presently processed in Albania. The agricultural industry accounts for no more than 5-8 percent of the GDP and employs about 5 percent of the national workforce. This sector is composed of about 200 private enterprises, mainly small. The investments in this industry in 1999 were estimated to be about 2.5 billion Leks, or about three times more than in 1998. The largest investments have been made in the refreshing drink sector, olive oil, processing of meat and milk etc. and they come entirely from the private sector. The priority actions of the government in the 2001-2004 period are: (i) the promotion of credit and rural micro credit schemes (savings-credit associations, etc.) and the attraction of foreign investments in this sector; (ii) the improved possibility to secure raw materials and enhanced quality of these materials; (iii) the application of new techniques and technologies in this sector (2KR and ASP projects); (iv) the completion and improvement of the legislation on standards, quality, hygiene, labeling and packing of the agricultural industry.

279. **Improvement of conditions and level of trading**. The system and structures of marketing represent one of the weakest links in the trade of agricultural foodstuff products in Albania. Lack of information about the prices and other elements of the domestic and foreign markets, the lack of compliance with the standards, the inadequate packing and labeling, and the almost undeveloped marketing infrastructure, including procurement centers, cooling facilities, transport, wholesale and retail markets etc. are the main factors behind the low competitiveness of the Albanian agricultural products in the markets. Therefore, the priority actions will be: (i) construction and organization of wholesale markets in the districts of Tirana, Vlore, Korce, Lushnje, and Shkoder and the inclusion of beneficaries in their management and operation; (ii) establishment of pilot procurement facilities for agricultural and livestock products and the expansion of the information system on markets; (ii) the improvement and the completion of the legislation concerning norms of hygiene, labeling and the standards; (iv) the preparation of projects for technical and financial assistance to export producers and the establishment of a stakeholder network for export promotion; (v) increased capacities of the structures of the Ministry of Agriculture and Food and service providers to improve economic and market analyses, and ensure that information is available to the farmers and agro-business operators.

IV.G.2 PROTECTION AND IMPROVEMENT OF USE OF OTHER NATURAL RESOURCES

280. The environmental degradation is one of the biggest, long-term difficulties hampering sustainable rural development. The forests and pastures take up about 50 percent (forests 36 percent, pastures 14 percent) of the country's area. Over the past 20 years, this sector has been plagued by many negative phenomena such as the uncontrolled deforestation after 1980, the massive damages and uncontrolled felling of the forests, the damages and the neglect of the pastures etc. The fishing water resources are also an important resource, which has been so far managed badly. As a result, the fishing production has declined steadily in Albania during the last 10 years. The main

objective of the strategy in this field will be to protect and improve the use of natural resources, in general. In this context, the priority measures to be taken during the 2001-2004 period will be: (i) restructuring and consolidation of environmental management structures at the level of local government, commune, and region; (ii) control over illegal cutting of forests; (iii) transfer of forests and pastures under the ownership or for use by the municipalities; (iv) completion of the legal framework regarding management and identification of ways for joint state and community management of forests and pastures, especially in regard to long-term renting of the pastures; (v) soil protection from erosion through sapling cultivation and water shed managment; (vi) strengthening and extension of national and regional environmental and fishing associations; (vii) preparation of legal and institutional framework for monitoring and controlling fish resources.

IV.G.3 DEVELOPMENT OF NON-FARM ECONOMY IN RURAL AREAS

281. The government is determined to encourage the multi-sector and sustainable rural development based on a strong growth-orientated Non-Farm Rural Economy (NFRE). The non-farm activities can make a potentially important contribution to the poverty reduction in the rural areas, the growth of the national economy, and the creation of greater possibilities for rural population to benefit from the national development. During the last 10 years these activities have assumed a rapid development in the lowland areas and in the areas closer to the towns, whereas the concentration of production factors makes possible a fast return on investments. The main objective of the NFRE development policies during the 2002-2004 period will be to promote employment and stimulate increase of incomes from non-farm activities in the rural areas. A two-stage strategy will be implemented to achieve this objective.

282. In the first stage, necessary support will be given to the development of trading rural centers. In this stage, priority will be attached, among others, to: (i) the transfer of adoptable and affordable technologies at a local level; (ii) the implementation of vocational training schemes in schools and at work; (iii) the extension of micro credit schemes, based on rural credit funds and credit-saving associations; (iv) the development of the physical infrastructure and improved access and quality of the advisory services; (v) establishment and supply of information about the legal framework related to NFRE development procedures to the local civil society organizations.

283. In the second stage, with financial resources becoming available, the trading centers will be totally integrated into the national transport and telecommunications systems. The comprehensive linkage of the NFRE with the national and international markets through the improvement of communication infrastructure will help to ensure that the transition of rural poverty alleviation into the establishment of a modern growth-orientated rural sector takes place in harmony with the development of the urban sector and the national economy. The support during this stage will focus on: (i) support for local business initiatives; (ii) support for investments to develop the public services that are required for the operation of larger enterprises; (iii) support for employment in large-scale public works programs; (iv) extension and initiation of comprehensive and

modern financial services; (v) training schemes and national and international services that support marketing.

Rural infrastructure development

284. The fulfillment of the needs for basic rural infrastructure and social services will be achieved in the framework of the implementation of sector policies (such as in education, health, energy, telecommunications etc.).

285. Potable water and sewage. The current situation can be considered a consequence of the failure to collect revenues, the over-consumption due to tariff structure, and the inadequate structure of the system. The need for investments on potable water supply in rural areas is estimated to be between 150 and 300 million dollars, whereas the need for investments required in the sanitary network are estimated to be even higher than this. The institutional structure of the sub-sector has changed in the last 10 years. There are currently 52 state-owned water supply enterprises, which are subsidized by the state and are in charge of the operation and maintenance of the network. Beginning form July 2000, this function has been transferred to the local government (the transfer becomes effective in January 2002). The legislation on this issue has not been completed yet and the bodies for the enforcement of the legal framework have still not been put in place.

286. The objective of the strategy in this field is the improvement of access and quality of potable water and sewage. The priority measures in this aspect will be: (i) the construction of water supply and sewage systems in the rural areas; (ii) stimulated participation of the community in the water supply projects and the projects for sewage improvement; (iii) the establishment of a Rural Sanitary Agency of Potable Water for the rural areas.

287. Rural transport infrastructure. The big deficiencies in basic infrastructure in rural areas represent a major obstacle to the reduction of poverty in the rural areas and to their integration with the national economy. The decision-making is currently subjected to the process of decentralization, which will end with the transfer of the responsibilities and decision-making powers from the central authorities (ministries) to the local government authorities. The rural road network, which has been already been transferred under local administration, is composed of 4.137 km of 379 roads, of which only 309 km are asphalted. According to some surveys of the Local Government Ministry, in addition to these roads, there are also about 4,000 other km of roads, which have not been included in the inventory. In general, almost the whole system of rural roads is not in compliance with the technical requirements. The financing of the rural road network has been insufficient and the limited level of intervention has had only little effect on the improvement of the road network.

288. The improvements planned for the 2002-2004 period include: (i) the maintenance and the reconstruction of the rural areas, summed up in 920 projects covering 1,800 km of rural roads, mainly in the northeastern and southeastern areas of the country; (ii) the reorganization and improvement of the maintenance of the network of secondary and tertiary roads.

Human development in rural areas

289. On the issue of human development in the rural areas, the strategy will pursue the following objectives: (i) increased access and improved quality of the services of education, health, and social protection; (ii) increased self-governance level for local population and organizations. The main measures envisaged to be taken during this period consist in: (i) the improvement of school and health infrastructure and the improvement of social and health insurance system; (ii) continued programs for training of teachers and the medical staff in the rural areas; (iii) duly implementation of the decentralization plan and expanded local capacities for the preparation and implementation of development policies and the delivery of social services; (iv) expanded local capacities through their training in preparation of the regional development policies and the delivery of social services; (v) the stimulation of socialization forms, backed by the decentralization process and the deepening of local autonomy; (vi) encouragement for the involvement of the community in self-governance.

IV.H URBAN DEVELOPMENT

290. The sustainable urban development is a fundamental, long-term objective of the government. It will be achieved through the implementation of strategic integral programs, which will harmonize the basic elements of urban environment: land, technology and services, and civic cohabitation and culture. Considering the effects of the transition period, the government's medium-term objective is to check the process of urban degradation, to reduce urban poverty, and create conditions for long-term urban development.

291. The urban development and the reduction of urban poverty, supported by overall economic and social development of the country, will be achieved through the application of urban integral policies. These policies will focus on: (i) the creation of a business climate that attracts private sector resources for new productive investments in housing, infrastructure, small business activities etc., which will increase employment opportunities; (ii) the establishment of a clear and transparent regulatory framework, which facilitates and transforms the informal economy into formal economy; (iii) the development of effective delivery of education, health, social protection and other public services in the urban areas; (iv) the protection and partial rehabilitation of the urban environment; (v) the strengthening of security and public order in the urban environment.

292. The activities during the next 3-year period will be focused on: urban strategic planning and programming; (ii) formulation of urban policies; (iii) improvements in the legal and institutional framework; (iv) improvement of housing policies.

293. The Urban Strategic Planning and Programming include:

i) the formulation of strategic development plans with the aim of establishing more direct links between trends/models of land development, the economic activities and the investments in infrastructure, especially in the areas with rapid urban growth, such as Tirana-Durres corridor, the areas of Kamze municipality etc. The strategic plans for the development of depressed industrial zones also need to be revised.

ii) promotion of a balanced urban development to reduce the long-term high cost of the chaotic urban development (reflected in the neglected environmental issues, the ineffectiveness of the land use, and other high infrastructure costs), by giving priority to the informal communities in city suburbs and by integrating them into the regular urban development.

iii) parallel implementation of urban development and regional development programs, projects, and activities, particularly in greater Tirana area.

iv) formulation of programs for the urban poor: a) delivery of essential services and access to infrastructure (for instance, health and education) in the communities that have been neglected; b) participation of the community in all stages of project preparation and implementation; c) increased effectiveness of the investments, focusing on the areas with new constructions.

294. The formulation of Urban Policies is composed of:

i) the transformation of the informal communities into formal communities through partnership agreements with the municipalities to make fundamental improvements in the use of land, improvement of infrastructure, and social inclusion.

ii) the replacement of subsidy policies with cost recovery policies in the urban development projects/programs. A land fee for improvement of infrastructure has been proposed in the Land Management Project and has been welcomed by the communities in Laprake and Bathore.

iii) the introduction of new policies offering affordable infrastructure standards for the poor and the application of public service prices affordable for the poor;

iv) the preparation of policies for the integration of poor communities into regular urban developments through the regulation of land ownership, improvement of the physical infrastructure, and the social services. The Urban Land Management Project financed by the World Bank is implementing these policies through a partnership agreement with the community associations and Tirana Municipality;

v) the commercialization of public services (potable water, sewage, electric power, solid waste etc.) to introduce effectiveness in the operation and management of these services and to cover their cost with the revenues.

vi) the completion of land restitution and compensation process in order to open the way to the implementation of many programs on land development and private investment activities.

vii) the implementation of the Law on Public Immovable Property to ensure that public land and other public properties are placed under municipal administration without delays, as legally required.

295. The improvements in the legal framework and the institutional consolidation consist in:

i) the expansion of the capacities for urban governance, which includes: (i) the strengthening of the local government to acquire a more effective role in urban planning and in other functions related to a market economy; (ii) the delineation of clear boundaries of public municipal land and other municipal properties; (iii) the creation of capacities for public order protection and law enforcement; (iv) the development and improvement of the land market through changes in the legal and regulatory framework, such as the planning and zoning of land use, adequate land registration and ownership, the compilation of the construction codes and licenses (permits), which will ensure an effective management of the use of land and properties.

ii) The settlement of land ownership problems: a) identification of enforcement measures to impose legally the municipal ownership over public land and other municipal property; b) collection of accurate information on the status of land ownership; c) fulfillment of legal requirements for the formalization of illegal settlements (i.e regulate land ownership and other legal acts).

iii) The development of the land market in order to increase the productivity in the use of land, the circulation of the workforce, and the land transactions: a) the finalization of the registration of immoveable property to set up an integral system of registered ownership; b) completion of the legal framework for an efficient land market.

iv) The expansion of financial municipal resources through the increase of local revenues from taxes on property and business, and application of taxes on land development.

v) The identification of monitoring indicators to measure the urbanization level of the towns and to identify the trends and the main problems. The ensuing information can be used in the formulation of the urban policies.

296. The housing policies aim to achieve:

i) Creation of adequate, legal, financial, and institutional mechanisms and conditions for increased access of the poor and other vulnerable groups to the housing market by applying an government-approved strategy, which focuses on: a) the reduction of state financing for housing; b) the decentralization of housing responsibilities to the local government; c) the effective use of the subsidy funds by targeting them for poor families in greater need; d) a better management and maintenance of private dwellings. In the future the state will play the role of a facilitator, rather than the builder of houses for the poor.

ii) Stimulation of low-cost construction of homes, including the following activities:

- Identification of maximum and minimum income levels of families needing state support for housing and the improvement of the legal status of the "homeless" by including the poor in the legislation on housing – the term of "homeless" is redefined.
- Adjustment of the categories selected for state housing support to the affordability level and the existing financial, private, and public resources.
- Introduction of a minimum standard for low-cost housing as well as for the type of construction, the building material etc.
- Application of incentives for companies building with low cost and for building material industries. This will increase the supply of low-cost housing, will reduce construction cost, and, consequently, bring about a decrease in the selling prices of the flats and will also increase the competition among the companies of construction and building materials. Other effects of this measure include support for small companies, the intensification of the building activities, and, consequently, the increase of employment opportunities in the construction sector and related activities.
- Application of programs for land development to resolve the housing problem for families with different incomes. This measure will facilitate the construction process, will increase housing supply and promote development of the housing sector as planned activities, avoiding irregular and illegal developments.

iii) Improvements in the financial system related to housing will include the following activities:

- Identification of the affordability level for families with low incomes in order to set up lines of credit targeted at them;
- Mobilization of the private savings for housing purposes;
- Support for schemes of community savings;
- Mobilization of the savings of the Institutions with long-term deposits with the aim of giving housing credits by offering state guarantees and lucrative interest rates.

iv) The programs of support for improvement and maintenance of the dwellings and the communities will include the following activities:

- urging the community to take over greater responsibility for the maintenance, because this will have a positive impact on the real value of community property;
- establishing management structures for the upholding of the existing housing market.
- introducing mechanisms of crediting flat owners and joint ownership associations with the aim of improving the common property;

- revising and improving (if necessary) the Condominium Law and making the necessary regulations concerning obligations as a way that will contribute to good maintenance.

IV.I ENVIRONMENT, GROWTH, AND POVERTY REDUCTION

297. The environmental policies are aimed to contribute to sustainable development. The long-term objective will be to gradually achieve appropriate environmental standards, in accordance with Albania's commitments stemming from its association process with the EU.

298. The medium-term objective will be to: (i) check the process of environmental degradation, (ii) create conditions for the rehabilitation of the polluted areas and bring them within minimum safety standards, and (iii) increase the sustainable use of environmental resources.

299. The attainment of these objectives will have positive effects on both growth quality and poverty reduction, which, in their turn, will create conditions for a sustainable development and use of the environmental resources. The interventions in the environment, including those with public funds, will be given priority in those areas, in which: a) high levels of human exposure to environmental risk have been identified, b) considerable environmental and resource assets are endangered, c) the damage has a greater effect on the poor. The priority measures include:

i) *Institutional strengthening*: The focus will be on the consolidation of the Ministry of Environment, its branches and the environmental inspectorate, on the identification of the responsibilities of other central and local bodies in the environmental field and the establishment/strengthening of the relevant bodies, including institutions specialized in the prevention and emergency interventions, in cases of natural disasters. Attention will also be given to the increasing of awareness and involvement of the local communities, the civil society, and the business community in the local, regional and national consultative and decision-making bodies.

ii) *The adoption of environmental policies and instruments*: The Ministry of Environment will prepare some important strategic documents on sustainable development. The most important among them will be the 2001 National Plan for Environmental Intervention, the strategies on urban, rural development, on the use of land, the transport, and the monitoring. The implementation of the environmental policies will be supported by the adoption of the instruments of economic growth promotion and control. These policies will also include the adoption of the carbon tax, the packaging tax, the standards on discharges of stationary and mobile resources, and the standards on the environmental quality (air, water, and soil). In addition, necessary compensatory policies and instruments will be adopted to reduce to the minimum, the burden of costs or negative impacts on the poor.

iii) *The reduction of pollution from existing sources*: The focus will be on pollution sources, which (a) are close to residential areas, (b) risk to cause considerable damage to economic values or undermine development, and (c) have a potential negative impact, particularly on the poor. The measures include a limited number of priority and emergency rehabilitation interventions: (a) interventions in "hot spot" areas; b) elimination of toxic substances; c) reduction of industrial pollution; d) reduction of the dust levels in the air in some urban areas.

iv) *The measures for the sustainable development and utilization of resources*: A series of measures will be identified to create the pre-requisite for the good use of the resources and equal access to them, especially by the poor, in the medium-term period. Efforts will be made in this field *to combine policies that increase the motivation* for a rational utilization of the resources by the beneficiaries, with measures that increase management capacities and enhance the accountability. The measures will focus on the most endangered resources, such as forests, arable land, eco-systems, water fauna. These combined measures will include: a) the identification and implementation of ownership rights and access for use, including the transfer of ownership rights over local resources, such as forests, pastures etc. to the local government authorities; b) the reclassification and the expansion of protected areas and the establishment of relevant bodies for their conservation; c) investments and interventions for the rehabilitation of damaged areas.

V IMPLEMENTATION, MONITORING, AND EVALUATION

V.A ROLE OF MONITORING SYSTEM

300. The process of Strategy's implementation will be the process of the attainment of its goals and objectives. The monitoring and evaluation of the objectives and the efficiency of relevant public measures are an integral part of the strategy and an important component of its implementation process. The monitoring and evaluation will help to follow the progress of the Strategy, measure the level of the attainment of its objectives, assess the need for adjustments and identify the areas where these adjustments will be made, especially in regard to public measures. This will be accompanied by a number of in-depth studies to examine the most important problems and suggest ways for overcoming them. The monitoring and evaluation process will take place through the broad participation of all stakeholder groups. The participation of the civil society, business community, and, especially, the poor will be accompanied with the clear identification of the institutional responsibilities of the central and local administration bodies and complete transparency.

301. The monitoring and evaluation process will be supported with the establishment and strengthening of relevant institutional capacities. This is made more acute and compelling as a result of the fragility of the existing institutions and the institutional difficulties encountered during the process of the Strategy's preparation. More specifically, these difficulties include: i) insufficiency of administrative information and, not rarely, its inaccuracy, reflecting a relatively low level of development of Albania's statistical system; ii) absence or weakness of relevant institutional units, especially in the structures of the central institutions and the local government; iii) insufficiency or lack of in-depth and methodologically standardized studies of development problems, especially poverty-related problems. The monitoring and evaluation will improve progressively with the establishment and consolidation of relevant capacities in all governance structures and the clarification of the roles and responsibilities of all actors taking part in the implementation of the strategy.

302. The main dimensions of the GPRS Monitoring and Evaluation are:

i) institutional capacities;
ii) monitoring indicators, including targeted values during and at the end of the 3-year period;
iii) sources and instruments;
iv) dissemination and use of results of monitoring and evaluation.

V.B INSTITUTIONAL CAPACITIES FOR MONITORING AND EVALUATION

303. The institutional system for monitoring and evaluation will be extended to all main central and local government agencies and the civil society structures.

i) The line ministries will be responsible for the monitoring and evaluation of the policies in their sectors. Monitoring units will be set up in each ministry and the monitoring and evaluation will become part of the decision-making process in each ministry. Some ministries have already some capacities for this purpose and have ongoing projects for capacity building (World Bank project for the Ministries of Health and Education), while other ministries will need support;

ii) The Monitoring and Evaluation Unit in the Ministry of Labor and Social Affairs will have additional functions, in addition to those of monitoring and evaluation of policies and indicators, which are the direct responsibility of this ministry. More specifically, it will monitor the overall poverty and will make analysis of poverty causes. Special capacities will be created in this ministry with donor support for LSMS analyses and to produce synthetic information of importance for the government;

iii) The Technical Secretariat in the Ministry of Finances will play the coordinator role in the whole monitoring and evaluation system. It will supervise the monitoring and evaluation procedures in all ministries, it will give general guidelines for this process, it will take measures to ensure that ministries supply timely and adequate information, and it will prepare reports for the government, the civil society and the donors. At the end of every year, the Technical Secretariat will prepare a progress report on the level of the implementation of GPRS objectives. The Secretariat will also be responsible for the integration of monitoring data from ministries and their local sectors with the information given by the administrative data maps and the budget[33].

iv) A special unit will be established (in the Technical Secretariat) to administer the database of the administrative data maps;

v) The project implementation units, which manage various projects and programs of the donors and the national projects and programs, will be responsible for their timely monitoring and implementation;

vi) INSTAT, which is one of key institutions for data collection and processing, will take over to conduct LSMS;

vii) The Technical Secretariat and the Monitoring and Evaluation Unit will be responsible for the periodical accomplishment of Poverty Quality Evaluations;

viii) National Civil Society Advisory Group will play a special coordinating role for the civil society participation in the monitoring and evaluation process. This group will prepare a document at the end of each year to present the conclusions and the recommendations of the civil society on GPRS progress. The document will be included in the GRPS progress report, which will be prepared by the Technical Secretariat. The civil society inclusion in the monitoring and evaluation progress will be gradual. There is a risk of the inclusion of too many participants before the process

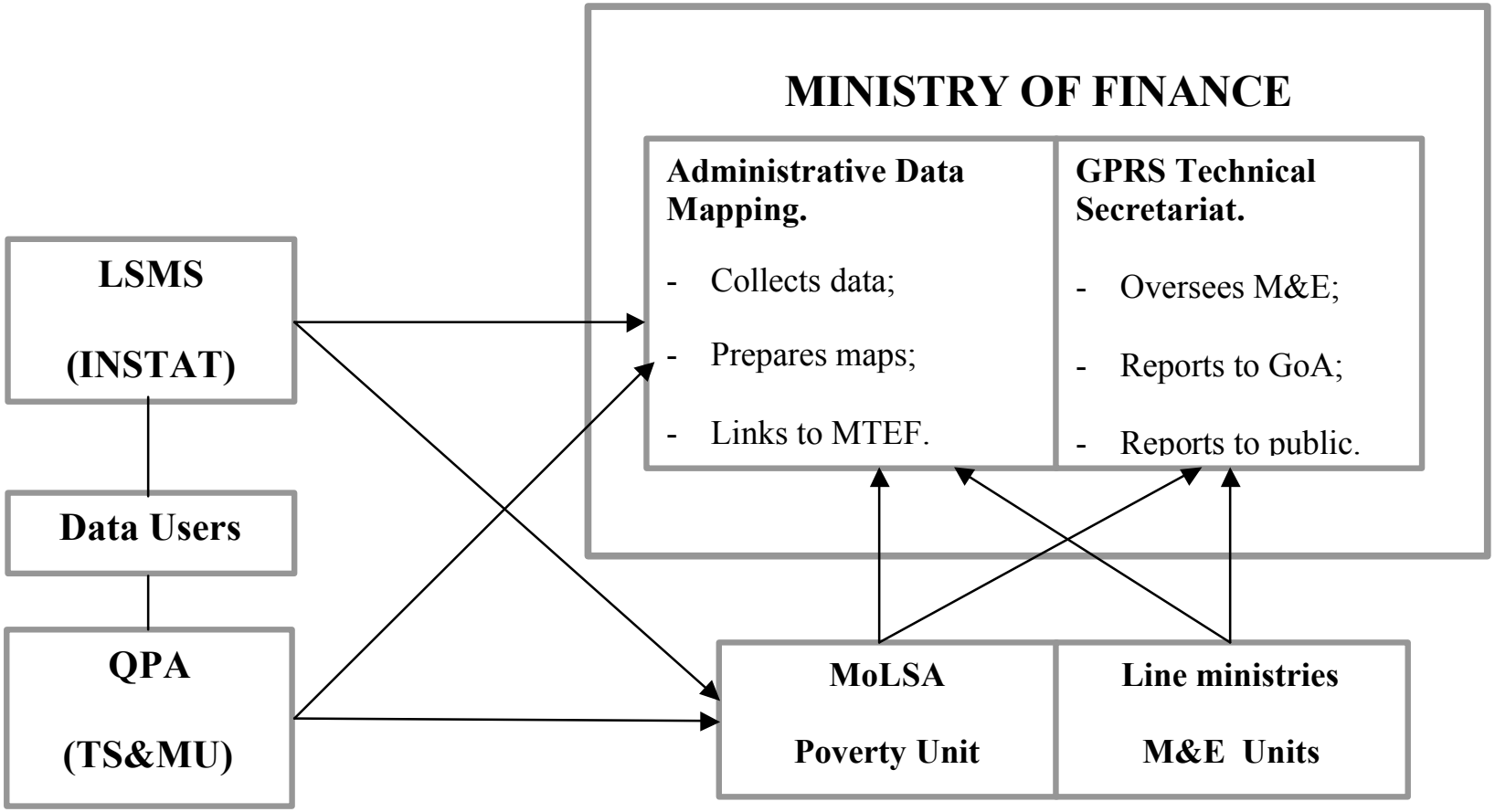
[33] Refer to Diagram 1.

instruments have fully ripened and before a considerable experience has been gained. The civil society structures will be play a primary role particularly to draw the opinions of those who will benefit directly from the policies of this strategy (the poor, the parents, and the teachers in the educational sector etc.);

ix) With the aim of increasing the transparency and the reliability of the monitoring and evaluation results, the government will seek, when necessary, the involvement of the independent and specialist agencies for the accomplishment of monitoring evaluations and studies.

304. The government will engage its human and material resource to set up and make the monitoring and evaluation system operational. It also thinks that the needs of this system exceed the existing capacities of its structures. Therefore, similarly to the process of the strategy's preparation, the Albanian and foreign technical assistance will be necessary for this purpose, too.

Diagram 1: The institutional scheme of monitoring



V.C SELECTION OF MONITORING AND EVALUATION INDICATORS

305. The GPRS objectives - i) real GDP growth, ii) reduction of the share of the population living below the poverty line and reduction of income inequality among different social groups and different areas of the country, iii) reduction of infant and maternal mortality and disease rates, iv) increase of attendance level in 8-grade education and prolonged average schooling period, v) improvement of basic services to the population, especially in the rural and suburban areas - are expressed and quantified through *indicators* and their targets. The indicators are divided into final and intermediary indicators. The long-term objectives of the country's development have also been taken into account in the identification of the final indicators and their targets

V.C.1 FINAL INDICATORS

306. The final indicators, by priority fields, include:

v) Increase of the GDP at the rate of 22-25 percent in the three-year period (2000-2004) and by two or three times during the next 10-15 years[34].

vi) The share of the population living in poverty according to the absolute poverty line (under $2 per capita a day) will be reduced from 46.6 percent in 1998 to 38 percent in 2004 and 25 percent in 2015. The share of the population living in extreme poverty (under $1per capita a day) will be reduced from 17.4 percent in 1998 to 14 percent in 2004 and 9 percent in 2015.

vii) The infant mortality rate is envisaged to be reduced from 21 per 1,000 living births in 2000 to 17 per 1,000 living births in 2004 and to 10 per 1,000 living births in 2015; the maternal mortality rate is envisaged to be reduced from 20 per 100,000 living births in 2000 to 15 per 100,000 living births in 2004 and to 11 per 100,000 living births in 2015. The incidence of diarreal cases is forecast to be reduced from 1,200 per 100,000 inhabitants in 2000 to 600 per 100,000 inhabitants in 2004.

viii) The level of enrollment in the 8-year education will increase from 90 percent in 2000 to 94 percent in 2004 and to 100 percent in 2015, divided by groups of the population and regions. The secondary education attendance level is intended to be increased from 40 percent in 2000 to about 50 percent in 2004. The average schooling period is envisaged to increase from about 9.5 years in 1998 to about 10 years in 2004.

V.C.2 INTERMEDIARY INDICATORS

307. The intermediary indicators include:

i) *The* indicators *of employment, economic aid, and social assistance*: the unemployment level and its structure by age, profession, and geographical areas (the aim is to reduce unemployment from 14 percent in 2001 to 12 percent in 2004); the number of unemployed people requiring services and the number of

[34] Main macroeconomic indicators are given in Appendix 3, 2002-2004 Macroeconomic Framework

services offered by job offices (creation of 60,000 new jobs through employment programs during 2002-2004 period); the number of the poor seeking economic assistance; the coverage level of the territory with social services, their number and variety, the contributor-beneficiary ratio in the social insurance system with the aim of increasing the number of the contributors; the level of expenditures and subsidies for social insurance as share of the GDP, the coverage and replacement coefficient in the social insurances.

ii) *Investment indicators*: total investments (they are envisaged to increase from 19 percent of the GDP in 2000 to 21-22 percent of the GDP in 2004); public investments (from 6.4 percent of the GDP in 2000 to 8.3 percent of the GDP in 2004).

iii) *Indicators of private sector financing*: the volume of credit in the economy is envisaged to increase on average by 30 percent a year during the next three years.

iv) *Human development*: *Education:* The share of education expenditures in the GDP will increase from 3.4 percent in 2001 to 3.7 percent of the GDP in 2004. Other monitoring indicators for education will be: share of teachers without adequate education in the 8-grade and secondary education and the number of teaching personnel in relation to the number of pupils.

v) *Human development: Health*: The expenditures for health will increase from 3 percent of the GDP in 2001 to 3.2 percent of the GDP in 2004. Other monitoring indicators for health will be: the number of doctors for 1,000 inhabitants, the level of vaccination coverage of the population (the aim is to cover the children up to 2 years old by 100 percent, and the remaining part of the population by more than 98 percent), the number of pharmacists for 1,000 inhabitants, the number of dentists for 1,000 inhabitants, the number of nurses for 1,000 inhabitants, the number of beds for 1,000 inhabitants.

vi) *Infrastructure improvement:* The public expenditures for the sector of transport and communication will increase from 2.4 percent of the GDP in 2001 to 3.1 percent of the GDP in 2004; the expenditures for public works (water, sewage) will increase from 1.2 percent of the GDP in 2000 to 2 percent of the GDP in 2004.

vii) *Urban, rural development and environment:* the reduction of the number of the homeless; the increase of the urbanization level of the suburban areas[35]; the rehabilitation of about 1,800 km of main rural areas until 2004; the increased level of land use, in general, by about 20 percent until 2004; the increase of the agricultural land area under irrigation and drainage system to, respectively, 50 and 70 percent of the area requiring rehabilitation until 2004; the reduction of cuts in the electric power supply; the reduction of the air pollution level; afforested areas; the level of the neutralization of the toxic substances.

308. These indicators will be compiled by different areas of the country (taking account of the division into urban and rural areas and the level of their economic development) and by gender.

[35] This indicator will synthesize indicators about the share of the population, which has access to potable water system, sewages, and electric power (suburban and urban areas)

V.D MONITORING AND EVALUATION SOURCES AND INSTRUMENTS

V.D.1 SOURCES

309. The sources for collecting data for monitoring purposes will include:

i) *For intermediary indicators:* At the national level, data about the GDP, consumption, investments, prices, import, and export will be drawn from the national system of the accounts and the trade statistics through INSTAT and the Bank of Albania. The data about public finances, revenues, expenditures and their division by regions and sectors will be drawn from the Ministry of Finances and other ministries. At the local level, the data will be mainly about the quality of the services and the share of these services at the national level. These data will include figures from the local municipal and communal administration and data from the sector ministries (institutes at national and local level, independent agencies).

ii) *For final indicators:* Observations and questionnaires of families and individuals, and surveys, which will use data on other quantitative and qualitative indicators. The main data, which will be related to access to services and family consumption and incomes, will lay the ground for data about living conditions and social indicators. The questionnaires about the expenditures and the incomes of the families are the main source for these indicators. The census conducted by INSTAT will serve this purpose. A more concrete allocation of sources for the collection of data about monitoring indicators is given below.

Table 2: Data about Monitoring and Sources

DATA	**SOURCE**	**AGENCY**
GDP, consumption, investments, export, import etc.	National account system, trade statistics	INSTAT, Bank of Albania
Public finances	Budget	Ministry of Finances, other ministries
Consumer and producer price index	Questionnaires of prices and wages	INSTAT, Bank of Albania
Poverty level in Albania, living conditions, social indicators	Family budget, expenditures and income	INSTAT – (LSMS)
Poverty incidence, dimensions, priorities (indicators of health, education etc.	Administrative Poverty Map	Monitoring Unit, sector ministries, research institutes

310. Some important aspects in data collection are: (i) systematic data collection about important indicators to evaluate the changes resulting from interventions through priority public measures; (ii) accurate assessment of data collection at the national level, by region, gender, age etc.; (iii) accurate data collection and processing; and (v) inclusion of the beneficiaries, especially the poor groups of the population in the data monitoring and the decision-making. These aspects of data collection will be materialized through improvements in the statistical system, which will consist in the computerization of data storing and processing, identification of priorities for statistical needs and consolidation of the statistical offices, especially the local units (The process of data collection will be: a) systematic, b) differentiated by geographical areas and social groups, c) efficient).

V.D.2 INSTRUMENTS

311. Comprehensive surveys for Living Standard Measurement (LSMS) will be conducted in 2002 and 2005. Surveys of smaller scale will be conducted every year within this time frame. All these surveys will be made by INSTAT. They will be funded by DFID and will have the assistance of the World Bank. The first survey will evaluate the basic level of poverty in Albania. This level will be tracked afterward through subsequent smaller surveys. It will also make a profile of the poverty (regional distribution, types of affected families, role of education and health services etc.) so that adequate interventionist policies with clear objectives for poverty reduction are adopted.

312. Another monitoring instrument will be the Qualitative Poverty Assessment (such an assessment was made with the help of the World Bank in 2001) in order to make a deep analysis of the profile, causes, and consequences of the poverty. It will also be used to draw the opinions of the poor about their problems and available alternative solutions. There will be a methodological connection between the two surveys: the findings of one will be used for the preparation of the other and vice-versa.

313. The Administrative Poverty Map, which consists in (i) collection of administrative data at the central level from different sources, and (ii) connection of these data with the data collected from the budget and the LSMS. This connection will be useful for the compilation of "maps", which, in turn, will help to make more in-depth analyses. The administrative data maps will also be used in the decision-making process of resource allocation. A good experience in this aspect has begun with the pilot project in Lushnje district[36].

314. Periodical questionnaires with service beneficiaries will also be an important monitoring and evaluation instrument. One of the forms for their realization will be a sample questionnaire with families by using a reporting card, which will concentrate on information about services provided by the government and the level of the fulfillment of family needs.

[36] Survey of World Bank experts

V.E DISSEMINATION AND USE OF MONITORING AND EVALUATION RESULTS

315. The monitoring and evaluation results will be disseminated and used to evaluate progress in poverty reduction and in the attainment of other GPRS objectives, as well as in the process of taking further actions. After the data are completely and conclusively collected they will be disseminated among the following users:

i) State, central, and local institutions;
ii) Civil society;
iii) Private sector;
iv) Foreign donors;
v) Media;
vi) Public at large.

316. The main actors responsible for data preparation and dissemination will be: (i) the Monitoring Unit in the MoLSA and the other monitoring units in the line ministries, and (ii) the Technical Secretariat in the Ministry of Finances, which will prepare ad-hoc and periodical reports on monitoring and evaluation indicators. The publication of the data will also be made through the media as well as by organizing seminars to discuss and draw conclusions on the progress of the strategy. The civil society will be encouraged to take an active part in these seminars.

317. In addition to the distribution of these reports to the users, other forms of communication will include seminars and conferences with information and promotion purposes, brochures and folders, media publications, public debates, Internet pages etc.

VI APPENDIX 1: MATRICES

OF

ACTION PLANS

Field/ Sector	Objectives	Priority Public Measures	Responsible Institution	Deadline	Budgetary Effects (million Lek)
Macroeconomic Framework	**1. Maintaining growth rates** (Achieving an annual growth rate of 7-8 %)	1. Deepening structural and institutional reforms. 2. Promoting increase of domestic and foreign private investments through: - increased credit of the economy; - narrowing the difference between interest rates on deposits and on credits; - acceleration of privatization process 3. Promoting increase of public investments targeting improvement of infrastructure and preservation and formation of human capital 4. Maintaining high growth rates in construction, services, and transport; maintaining growth rates of agriculture and promotion of processing industry production.	Government	2001-2004	
	2. **Deepening macroeconomic stability** (Maintaining inflation at 2-4% level)	1. Adherence to quantitative objectives by the Bank of Albania 2. Maintaining currency exchange stability 3. Keeping budget deficit under control 4. Improving market instruments in monetary policy	Government, Bank of Albania	2001-2004	
	3. Deepening fiscal consolidation (Reducing budget deficit from 9.1% of GDP in 2000 to 6.5% of GDP in 2004)	1. Increasing revenues at faster rate than expenditures through improvement of fiscal administration and expansion of taxable base 2. Effective use of expenditures 3. Consistent planning of revenues and expenditures in due time	Government, Ministry of Finances	2001-2004	
	4. Increasing openness and improvement of external position of the economy (-Reduction of current account deficit from 6.9% of GDP in 2000 to 6.7% of GDP in 2004 (with a rise in the intervening years) -Increasing level of currency reserves to 4.7 months of imports in 2004)	1. Improvement of trade balance situation by considering appropriate policies and instruments for substitution of a part of imports and by creating conditions for export promotion. 2. Progress towards free bilateral and multilateral free trade agreements in the region and further afield	Government, Bank of Albania	2001-2004	

Field/ Sector	Objectives	Priority Public Measures	Responsible Institution	Deadline	Budgetary Effects (million Lek)
Private Sector Development	**1. Promotion of free enterprise**	♦ **Facilitation of procedures for business access**. - Reformation of institutions issuing building licenses and permits; - increasing transparency of the tax and customs administration authorities through publication of orders and instructions, establishment of public information offices in every ministry, and installation of telephone lines for registration of complaints. ♦ **Establishment of a public information office in each Ministry** ♦ **Encouraging credit and improvement of conditions for financing private entrepreneurship** - establishment of Credit Information Bureau; - improvement of transparency and market information through the improvement of legislation on accounting and auditing and the control and auditing institutions; - improved enforcement of legislation on collateral; - improvement of commercial legislation, especially bringing the new law on bankruptcy into effect;	Government Line Ministries Ministry of Finances Government Bank of Albania	2001 – 2003 2001 – 2004 2002-2004 2002 2002-2004 2002-2004	
	2. Strengthening the institutionalization and formalization of market	- **Institutional and legal improvement to promote free competition in the market**. - strengthening of Competition Department and Competition Commission and the adoption of necessary legal framework; - strengthening of Regulatory Bodies; - establishment and strengthening of business information bodies; ♦ **Improvement of relations of businesses with tax and customs administration**. - improvement of tax reimbursement procedures; - computerization of local tax offices; - training of tax and customs administration; - establishment of Independent commission for Taxpayers' Complaints. ♦ **Increasing land security and access**. - completing chartering of remaining cadastral zones	Government Ministry of Economic Cooperation and Trade Ministry of Finances Ministry of Economic Cooperation and Trade Ministry of Agriculture and Food	2002-2004 2002 2001-2002 2001-2004 2002 2002	

	3. Support for development of small and medium-sized enterprises	♦ Approval of law on SMEs; ♦ Preparation of legal framework for establishment of SME agency and making it operational; ♦ Improvement of legal framework for development and strengthening of the activity of micro credit schemes; ♦ Establishment of Credit Guaranty Fund; ♦ Consolidation and expansion of business incubators	Government Ministry of Economic Cooperation and Trade BoA	March 2002 2002 2001-2004 2002-2004 2002-2003	145 1,450 145
	4. Promotion of foreign direct investments	♦ Establishment of the Foreign Investment Promotion Agency as "one-stop service shop" for delivery of services to foreign investors; ♦ Development of free zones and industrial parks; ♦ Establishment and operation of database to facilitate decision making by foreign investors.	Government Ministry of Economic Cooperation and Trade, INSTAT	2001 2002-2004 2002	
	5. Export promotion	♦ Approval of export promotion strategy; ♦ Revision and improvement of legislation with the aim of promoting exports; ♦ Establishment of Export Promotion Agency; ♦ Development of export promotion programs; ♦ Development of functions to guarantee export transactions through Albanian Guarantee Agency.	Government Ministry of Economic Cooperation and Trade	2001 2002-2003 2002 2002-2004 2002-2004	
Financial Sector Development	**1. Restructuring and strengthening the financial market**	♦ Completion and improvement of legislation on operation of capital market; ♦ Privatization of Savings Bank and state-owned insurance company INSIG; ♦ Development of deposit guarantee scheme; ♦ Strengthening of capacities for supervising the financial system.	Ministry of Finances Bank of Albania	2001-2004 2002 2001 2001-2004	
	2. Support for improving banking services	♦ Promotion of competition among banks; ♦ Preparation and implementation of real time gross settlement system (RTGS); ♦ Stimulation of diversification of products and banking and financial services; ♦ Support for territorial extension of the banking network.		2001-2004 2001 2001-2004 2001-2004	

Field/ Sector	Objectives	Priority Public Measures	Responsible Institutions	Deadline	Budgetary Effects (million Lek)
Health	**1. Improved effectiveness and efficiency in use of resources** a. Improvement of process of planning, resource distribution, and their monitoring at central and local levels; b. Reduction of corruption	♦ Training of personnel to be engaged in the planning process ♦ Accomplishment of studies to make an accurate assessment of needs in some of the most important aspects of the system; ♦ Preparation of two regional master plans; ♦ Improved methodology of funding the system, primarily focusing on strengthening the HIS. ♦ Continuous decentralization of powers ♦ Establishment of monitoring unit in the HM. Preparation and implementation of a corruption reduction program	Ministry of Health Donors: (DFID, WHO, World Bank)	2002-2003 2002-2003 2002-2004 2002-2004 2002 -	72.5 130.5 87 43.5 72.5
	2. Ensuring access to health services in the whole territory and improvement of their quality		Ministry of Health Donors		
	a. Coverage of 100% of territory with health centers and 50% of territory with out-patient clinics	a. Construction and rehabilitation of about 80 health centers and about 400 outpatient clinics, their supply with necessary equipment and training of their personnel.		2002-2004	1,740
	b. Reorganization of hospital service with the aim of establishing regional hospitals	b. Transformation of five major hospitals into regional hospitals.		2002-2004	3,625.00
	c. Service availability with necessary personnel covering the whole territory	c. Motivation of personnel employed in rural and remote areas to check its rush to large cities		2002-2004	609

	3. Improvement of health indicators through specific interventions		MoH, donors		
	a. Prevention of contagious diseases such as EPI;	a. 100 percent vaccination coverage of children aged under 2. Extension to other age groups and gradual inclusion of new EPI vaccines. Gradual involvement of MH in program funding.		2002-2004	87
	b. Prevention of cases of TBC, HIV-AIDS, STD, etc.	b. Continued implementation of programs in relevant fields and their expansion.		2002-2004	290
	c. Ensuring reduced demand for drugs, alcohol, and tobacco	c. Improvement and expansion of programs in relavent fields. Preparation of strategies and consolidation of legal framework.		2002-2004	217.5
	d. Prevention of incidence of diarreal cases and epidemics.	d. Improvement of a regional surveillance system (laboratories, equipment, training), which will secure quality control of potable water and foodstuffs.		2002-2004	290
	e. More comprehensive and qualitative service for mother and child with the aim of reducing infant and maternal mortality by 15%.	e. Expansion of mother and child consultancy network and the creation of suitable working conditions in them, supplying of necessary equipment, and staff training.			145
	f. Expansion of services delivered in mental health sector.	f. Preparation of the strategy on Mental Health. Securing continuation of WHO project in this field and its extension to four other districts (setting up community centers with multi-disciplinary teams, which will ensure the integration of the persons discharged from hospital into their community)			174
	g. Better monitoring and coordination of specific programs in above fields.	➢ Implementation of an information system for public health programs and indicators.			50.75

Field/ Sector	Objectives	Priority Public Measures	Responsible Institution	Deadline	Budgetary Effects (million Lek)
Education	**1. Increased effectiveness of public administration and increased financial efficiency of the system**	1. Preparation of the administrative and financial reform strategy. ➢ streamlining the functions of the sector at the central, local, and school level; ➢ establishment or consolidation of new structures in MoES engaged in planning, policy analysis, human resource and financial management; ➢ establishment of GPRS monitoring unit. ➢ gradual implementation of administrative and financial reform starting with pilot projects. 2. Prepartion and implementation of training program for managing staff at central, local, and school levels with the aim of increasing ability of the employees to carry out their new functional responsibilities.	MoES, DoPA	2003 2002 2002 2002-2004 2002-2004	5.8
	2. Increased attendance of basic education	1. Analysis of factors affecting demand for basic education by sub-groups of families inclined to abandon school. 2. Preparation and piloting of programs aimed to increase school attendance by these sub-groups. 3. Implementation of pilot program on the use of school buses in five areas accessible for this service. 4. Preparation and implementation of legal package for financial support to children of poor families. 5. Continued restructuring of schools in urban areas and establishment of new schools in suburban areas.	Parliament MoES INSTAT	2002 2002-2004 2002 2002-2004 2002-2004	145 704.7
	3. Increased quality of teaching personnel	1. Increase and restructuring of wages of teaching personnel by 12 percent a year (two thirds of these funds will be used to increase basic wages of the teachers and one third for the wage structural reforms). 2. Increase of financial compensation for teachers working in disadvantageous areas. Preliminary analysis of factors to attract good teachers to rural areas or difficult suburban areas. 3. Preparation and testing of training program for teachers without adequate education. 4. Identification of teachers to be trained, training planning and implementation.	Government MoES MoF	2002-2004 2002-2004 2002-2004 2002-2004	4,350 145 58
	4. Increased attendance of secondary vocational education and its better adjustment to the market needs	1. Decentralization of vocational education curricula. 2. Preparation of legislative framework for establishment of vocational schools on basis of regional planning of labor market demand. 3. Publication of teaching and learning material supporting new curricula. 4. Restructuring or establishment of five vocational educational and training boarding schools for the benefit of the rural and suburban areas. 5. Preparation, piloting, and implementation of retraining for vocational school teachers.	Parliament, MoES	2002-2004 2003-2004 2002-2004 2002-2004 2002-2004	21.75 435 43.5

Field/ Sector	Objectives	Priority Public Measures	Responsible Institutions	Deadline	Budgetary Effects (million Leks)
Labor Market	**1. Promotion of employment through vocational training**	Preparation of strategy of vocational training Study demand and supply for workforce and professions Increase of the number of vocational training centers Completion of the legal framework in the field of vocational education	MoLSA National Employment Service	2002-2004	76 (2002) 86 (2003) 92 (2004)
	2. Deepening the institutionalization and formalization of the labor market	Increase of the number of employment services Qualification of the employees in regard to the quality of services Promotion of training and consolidation of private institutions offering employment services		2002-2004	Unemployment payments 1,800 (2002) 1,800 (2003) 1,800 (2004)
	3. Increased level of employment	Establishment of national employment fund Promotion of SME development Implementation of public works program Implementation of community works program		2003-2004	Employment promotion 500 (2002) 500 (2003) 500 (2004)
Economic Assistance	**1. Increasing coverage rate of the poor**	Establishment of social protection fund Identification of measurement of economic and social indicators that help to assess the economic and social situation of the country's regions Allocation of block funds by the central budget on the basis of the network of economic and social indicators Complete decentralization of the scheme Completion of the legal framework Qualification of the employees Establishment of the database on the economic and social situation of social groups Harmonization of the economic assistance with other mechanisms of social protection Gradually targeting of the system at minimum living standard	MoLSA GASS	2002 - 2004	6,000 (2002) 6,940 (2003) 7,635 (2004)
	2. Increasing the coverage rate of economic and social needs of the family	Reformation of legal framework to promote active programs Preparation of the model for inclusion of the poor in the social business Qualification of the employees		2002-2004	70 (2002) 89 (2003) 150 (2004)

	through economic assistance				
	3. Implementation of active programs for social protection	Calculation of the minimum living standard Identification of possibilities for coverage		2003	5.3
Social Care	**1. Full coverage of the territory with social services in accordance with the quantitative and qualitative needs of vulnerable social categories or social categories at risk**	Preparation of the social service strategy Improvement of legislation in regard to full decentralization of services Qualification of administration Cooperation with non-government organizations Financing from national social protection fund Harmonization with economic assistance scheme Establishment of daily local centers to care for categories with specific needs	MoLSA	2002 2004 2002 2002-2004 2002-2004 2003-2004	3,597 (2002) 3,960 (2003) 4.355 (2004)
	2. Increasing the number of social services delivered in the institutions and their quality improvement	Expansion of cooperation with donors Staff qualification Involvement of Social Work Faculty	GASS	2003-2004 2002-2004 2002-2004 2002	700 (2002) 826 (2003) 838 (2004)
Social Insurance	**1. Increase of number of contributors** **2. Reduced budget subsidy to pension fund**	Inclusion of rural population in social insurance contribution Elemination of pension differences Improvement of legislation Merging of urban and rural schemes into one scheme Improved control, monitoring Introduction of security number. Computerization of information system Continuous staff training Improvement of service quality Institutional development at all levels	MoLSA Social Insurance Institute	2002-2004 2002-2003	1,300

Field/ Sector	Objectives	Priority Public Measures	Responsible Institutions	Deadline	Budgetary Effects (million Lek)
Infrastructure Development					
Transport	**1. Rehabilitation of the existing transport infrastructure network.**	♦ Completion of the first stage of the rehabilitation and construction of road transport corridors; ♦ Increase of financing for maintenance and the organization of maintenance services; ♦ Accomplishment of detailed studies and projects for construction of tourism roads and Durres-Kukes-Morine and Tirana-Klos-Peshkopi-Bllate roads; ♦ Completion of work in the ports of Durres and Vlore and in the secondary ports of Shengjin and Sarande; ♦ Implementation of on-going projects for rehabilitation of railway network (Durres-Tirana and Durres-Rrogozhine), Shkoder-Hani i Hotit, and accomplishment of the feasibility study for the connection with Macedonia; ♦ Realization of the concessionary contract for the construction of a new passenger terminal in Rinas airport and the building of a new location site for the airplanes.	Ministry of Transport General Road Department Donors	2004 2002-2004 2002-2004 2002-2004 2002-2004 2002-2004 2002-2004	
	2. Commercialization of the transport services and the privatization of state services	♦ Improvement of the regulatory and institutional framework. ♦ Establishment of the Albanian Naval Authority for the management of the port infrastructure; ♦ Improvement of the information and management systems. ♦ Updating of the inventory of the passenger carriages. ♦ Implementation of the master plan on air traffic; ♦ Accomplishment of the feasibility study and the preparation of the Master Plan for the development of the air transport.		2002 2003 2002-2004 2002-2004 2002-2004 2002	
Energy	**1. The improvement of the management and administration of energy resources**	♦ Amendment of the law on the regulation of the electricity sector by eliminating the role of the government in setting prices; ♦ Enhancing the competencies and the financial resources of the Energy Regulatory Body so that it can perform the functions specified in the law on the regulation of the electricity sector. ♦ Approval of a new, cost-based tariff electricity structure and mechanisms for future changes by the Energy Regulatory Entity;	Government	2002 2002 2003	
	2. Expansion of energy importing and	♦ Government's adoption of mechanisms for protection of consumers with low incomes against the rise in electricity price; ♦ Government's adoption of a political document describing in detail the	Ministry of Public	2003 2002-2004	

	generation capacities and the integration of the system into the Balkan and European networks	government's strategy to unbundle and privatize KESh, and create a model for energy commercial market; ♦ Continued implementation of this strategy; ♦ Improvement of collection of electricity bills from all consumers, especially the families, and budgetary and non-budgetary institutions; ♦ Reduction of technical and non-technical losses in the electricity transmission and distribution systems; ♦ Preparation and implementation of least-costs investment programs for rehabilitation of existing electricity generation facilities, the construction of new facilities, and the strengthening of the electricity transmission and distribution systems; ♦ Implementation of measures to reduce demand for electricity through stimulated use of alternative energy sources for heating and cooking and the improved efficiency in the use of energy; ♦ Strengthening of the electricity transmission network with the regional countries and the European network.	Economy and Privatization	2002 2002 - 2004 2002-2004 2002-2004	
Telecommunications	**3. Deepening the liberalization of the telecommunications sector** **4. Deepening the liberalization of the telecommunications sector**	♦ Liberalization of the fixed telephony services; ♦ Improvement of structure of service tariffs; ♦ Privatization of Albtelekom telephony service company; ♦ Increased level of telephony penetration to urban and rural areas. ♦ Improvement of service quality; ♦ Consolidation of Telecommunications Regulatory Body; ♦ Extension of Internet service to educational and training institutions and to help the businesses.	Government Ministry of Transport	2003 2002-2004 2002 2002-2004 2002-2004 2002-2004 2002-2004	

Field/ Sector	Objektivat	Priority Public Measures	Responsible Institutions	Deadline	Budgetary Effects (mln lek)
Agriculture and food	**1. Maintaining the growth rate of the agricultural, fishery and livestock production at the level of about 5 percent**	♦ **Support for development of land market and consolidation of property ownership:** - Establishment of land administration offices in all districts; - Completion of registration of land, forests and pastures over 90% and its publication (Immovable Property Registration Project etc.); - Improvement and strengthening of cadastral service and completion of documentation on private property; - Support for increased level of use of agricultural land and pastures. - Preparation of draft law on private property and improvement of legislation on agricultural land; - Settlement of the problem of ownership and compensation of former owners;	MoAF, ASP, SRPP, Hight Property Commission	2002; 2002 – 2004; 2002 – 2004; 2002 –2004 – continuing; 2002 – 2004; 2003;	1,160
		♦ **Increase of investments for rehabilitation of irrigation and drainage systems:** - Expansion of activities of Irrigation and Drainage Rehabilitation Project (financed by the World Bank) in the lowland areas; - Continuation and expansion of the rehabilitation projects of small irrigation schemes in mountainous areas (supported by IFAD etc.) and increase of investments; - Restructuring of water enterprises and their conversion into irrigation and drainage Boards; - Support for establishment of Water User Associations and Federations; - Training of managers of Water User Associations and Federations on improvement of organization and to enhance their management abilities; - Improved management of water resources by transferring the irrigation works under management by Water User Associations.	Government, MoAF, Irrigation and Drainage Project, WB, IFAD, Water User Associations and Federations	2002 – continuing; 2002 – continuing; 2002; 2002 – 2004; 2002 – 2003; 2002 – continuing;	8,265
		♦ **Increase d access and quality of agricultural mechanization and inputs:** - Promotion of investments for enhanced level of mechanization and agriculture through projects such as Agricultural Production Growth Project (2KR), Agricultural Service Project (Competitive Grant Scheme) etc. and the improvement of legislation; - Implementation of Competitive Grant project (financed by the World Bank) on application of new technologies in production; - Restructuring and strengthening of the institutions of control and certification of seeds and saplings (Seed and Sapling Institute, etc.); - Financial support for the sector of production of high-quality seeds through projects such as Agricultural Service Project (component of seed improvement), IFDC/AAATA, associations such as AFADA, interventions	Government, MoAF, ASP, 2KR, RFF, MAFF, MADA, NGOs,	2002 – 2004 – continuing; 2002 – 2004 – continuing; 2002 – 2003; 2002 – 2003; 2002 –	1,160

		by different NGOs, etc.; - Establishment of breed improvement centers and improvement of animal feeding; - Continuation and expansion of projects for improvement of veterinary prophylaxis and animal health (different projects implemented in cooperation with Zoo-Technical Research Institute); - Strengthening of the phytosanitary and crop protection services; - Diversification of the agricultural activity and increase of the glasshouse areas, and the areas cultivated with fruit trees and vineyards.		continuing; 2002 – continuing; 2002 – 2004; 2002 – continuing;	
		♦ **Improved access and quality of services in agriculture and livestock:** - Consolidation of effective extension services all over the country; - Support for the development of an effective private extension service in the areas with the highest production potential in the country (ANEP-III project financed by the Dutch and Albanian Governments, etc.); - Restructuring of research agricultural institutions; - Establishment of the National Center of Agricultural Researches and Agricultural Extension Service; - Development of cost-recovery practices in agricultural research sector.	Government, MoAF, IKV, ASP, MADA, ANEP-III, AAATA, IFAC, NGOs,	2002 – 2004; 2002 – 2004 – continuing; 2002 – 2004; 2002 – 2004; 2002–continuing;	725
		♦ **Improved access to financial and credit services:** - Increased access to financial and credit resources for investments in priority sectors of the agriculture (glasshouses, fruit growing, vineyards) and in livestock, mainly through the extension of schemes such as VCF/SCF of (RFF) and MAFF and the inclusion of other financial interme diaries in the rural areas; - Development of credit cooperatives through establishment of savings-credit associations (with support of RFF, MAFF and other actors); - Rapid and efficient implementation of the program of the Mountainous Areas Development Agency (MADA); - Increased possibilities for credit and extension of the activity of Rural Finance Fund, Mountainous Areas Finance Fund (MAFF) and other credit organizations;	Government, MoAF, RFF, MAFF, MADA, MoECT,	2002 – 2004 – continuing; 2002 – 2004 – continuing; 2002 – 2004 – continuing; 2002 – 2004;	725
		♦ **Improved fishery resource management and increased aquaculture activities** through projects such as IFDC, Fishery Project (supported by the World Bank and the Japanese Government): - Preparation of the new law on fishery; - Formulation and implementation specific policies to support fishery sector and improve access to inputs; - Support the resumption of fish production activity in available reservoirs; - Establishment of high-value pilot aquaculture schemes in fresh waters; - Assessment and beginning to use possibility for high-value aquaculture activity in seawaters; - Establishment of Fisherman Associations to take over management of	MoAF (Fishery Directorate), Fishery Project, Fisherman Association,	2002 – 2003; 2002 – 2004 – continuing; 2002 – 2003; 2002 – 2004; 2002 – 2004 – continuing;	1,305

		fishing resources; - Rehabilitation of fishing Ports to secure normal conditions for hygiene and the standards for navigation and fishing.		2002 – 2004;	
	2. Increasing the level of processing of agricultural, livestock and fishery products	♦ **Increase of the level of processing of agriculture, livestock and fishery products:** - Support for improvement of processing technologies and establishment of new agro-processing lines in production areas; - Implementation of Competitive Grant Program (ASP Project) for introduction of new technologies into processing; - Continuation and extension of activities of project for Foodstuff Production Growth (2KR) on supply of processing equipment with credits; - Promotion of foreign direct investment in agro-processing industry;	MoAF, ASP, 2KR, AAATA, IFDC,	2002 – 2004 – continuing; 2002 – 2004 - continuing 2002 - 2003	725
	3. Improvement of conditions and level of trading of agricultural products on the domestic and foreign markets	♦ **Establishment of product markets and collecting centers and improvement of their functioning:** - Establishment of wholesale markets in Tirana, Shkoder, Lushnje, Vlore, and Korçe (Agricultural Service Project); - Establishment of pilot centers for collection, storing, and trading of products in some rural areas; - Improvement of the structures of information, marketing, and export promotion; - Improved organization of the product markets and the inclusion of the beneficiaries in their management (GTZ projects); - Establishment of structures for collection and dissemination of information about markets to the farmers; - Promotion of the creation and strengthening of agricultural marketing agencies in the rural areas; - Technical assistance for improving quality, labeling, packaging, market information for processed products, etc.;	MoAF, ASP, GTZ, SIDA, MoECT,	2002 – 2003; 2002 – 2004; 2002 – 2004 – continuing; 2002 – 2004; 2002 – 2004 – continuing; 2002 – 2004 – continuing; 2002 – 2004;	2,175
		♦ **Improvement of legal framework and control on food quality:** - Completion of rehabilitation and supply of equipment to regional laboratories of foodstuff controls; - Completion of legislation on quality, expiry dates, and conditions for trading the products; - Improvement of standards and control of product quality; - Strengthening the border veterinary control points; - Harmonization of the legislation on foodstuff products with that of the EU; - Approval and implementation of export strategies; - Realization of studies on the situation and possibilities for enhanced competitiveness of domestic products in the domestic and foreign markets; - Improvement of legislation and administrative procedures related to exports;	Government, MoAF, Food Institute, IKV, Min. of Health.	2002 – 2004; 2002 – 2003; 2002 – 2004; 2002 – 2004; 2002 – 2003; 2002 – 2003; 2002 – 2004; 2002 – 2004;	

Natural Resources	**1. Protection and improvement of the use of natural resources**	♦ **Support for transfer of utilization or ownership right to municipality and rural community:** - Strengthening of the structures of environmental management at a national and local level; - Completion of legislation on long-term leasing of natural resources such as pastures, etc.; - Continued transfer of the forests and pastures utilization or ownership rights to municipalities and rural community (Forest and Pasture Project supported by the World Bank); - Introduction of practices of joint management of sea resources by rural communities through Fishermen Associations.	Government, MoAF, DPPK, MECT, Min. of Justice, Local Government,	2002 – continuing; 2002 – continuing; 2002 – 2003; 2002 – 2004;	2,755
		♦ **Increase of capacities for management of natural resources** - Improvement of management structures and control of forests and pastures exploitation; - Restructuring of forestry services to facilitate the sustainable use of forests and pastures; - Creation of legal and institutional framework for management and utilization of fishing water resources; - Rehabilitation and protection of natural resources - Protection of land from erosion through forestation and construction of mountainous dams; - Rehabilitation of drainage to eliminate floods in the country's northwestern areas;	Government, MoAF, DPPK, Environmental Committee, Environmental Associations, Local Government,	2002 – 2003; 2002 – 2004; 2002 – 2004; 2002 –continuing; 2002 –continuing; 2002 – 2004 – continuing;	145 217. 5 2175
Non-farming activities	**1. Promotion of employment and increasing incomes from non-farming activities in rural areas**	♦ Support for establishment of micro enterprises through micro financing projects and delivery of advisory services. ♦ Increased employment opportunities through public works programs; ♦ Consolidation and extension of credit cooperatives through establishment of savings-credit associations; ♦ Establishment of rural marketing and information centers as connecting rural-urban points; ♦ Promotion of activities in agricultural tourism, collection and processing of medicinal herbs, handicraft etc.	Government, MoAF, Min. of Labor and Social Affairs, ADF, RFF, MAFF, Local Government,	2002 – 2004 – continuing; 2002 – 2004; 2002 – 2004 – continuing; 2002 – 2004 – continuing; 2002 – 2004 – continuing;	

Rural Infrastructure	1. Improvement of potable water, sewages, and rural transport infrastructure	♦ **Improved access and quality of potable water and sewages:** - Approval of the strategy for potable water supply and sewages in rural areas; - Establishment of Sanitary and Potable Water Agency in rural areas; - Construction of water supply lines and sewages in the most critical rural areas to fulfill needs for potable water and to improve hygiene in these areas; - Support for participation of community in the projects of water supply and sewage improvement; ♦ **Rehabilitation and improvement of main roads axes, electricity supply systems and telecommunications:** - Rehabilitation of main roads linking municipal centers with the closest towns and the municipalities and villages among each other (reconstruction in 920 road projects in rural areas or about 1,800 km of roads); - Reorganization and improvement of maintenance of secondary and tertiary road network; - Improvement of electricity supply for rural population, mainly through improvement of the general condition of the supply network; - Increased level of penetration of telephone service through introduction of private operators;	Government, MoAF, Min of Public Works, ADF, Local Government	2002 – 2003; 2002 – 2004; 2002 – 2004; 2002 – 2004- continuing; 2002 – 2004; 2002 – 2004; 2000 – 2004; 2002 – 2004;
Human development in rural areas	1. Increased access and improvement of quality of services of education, health, and social protection in rural areas	♦ Rehabilitation of school buildings and equipment; ♦ Continued implementation of programs for teacher training and retraining in rural areas, mainly for teachers who do not teach in their subjects; ♦ Establishment of training and vocational training schools for qualification and retraining of free workforce; ♦ Establishment of new health centers and ambulance clinics in rural areas; ♦ Improved access to emergency service and dental and pharmaceutical service in the rural areas; ♦ Improvement of mother and child care in the rural areas; ♦ Improved targeting of social support and economic assistance systems; ♦ Extension of social and health insurance schemes to all rural areas; ♦ Implementation of the project for use of school buses to transport pupils to school;	Government, MoAF, Min of Public Works, Min. of Health, Min of Labor and Social Affairs, Local Government,	2002 – 2003; 2002 – 2004 – continuing; 2002 – 2004 – continuing; 2002 – 2004; 2002 – 2004 – continuing; 2002 – 2004; 2002 – 2003; 2002 – 2004 – continuing; 2002 – 2004;
	2. Increased level of self-governance of local organizations	♦ Implementation of decentralization plan as scheduled; ♦ Increased capacities through their training in preparation of regional development policies and in delivery of public services; ♦ Support for inclusion of the community in self-governance;	Local Government, Min. of Local Government, NGOs,	2002 – 2003; 2002 – 2004 – continuing; 2002 – 2004 – continuing;
		♦		

Field/ Sector	Objectives	Priority Public Measures	Responsible Institutions	Deadline	Budgetary Effects (million Lek)
Urban Development	**1. Increased access to infrastructure and related basic services**	♦ Increased access to infrastructure and basic services (for instance, potable water and sewages) in the areas with shortages and in neglected communities; ♦ Adoption of appropriate/affordable standards for the poor in relation to access to infrastructure. ♦ Adoption of new policies to set public service prices at a level that can be affordable for the poor. ♦ Adoption of the approach to ensure the participation of the community in all the stages of project preparation and implementation. ♦ Increased effectiveness of investments with the aim of building infrastructure in the areas with new constructions. ♦ Formulation of strategic development plans, aimed to establish more direct links between trends/land development models, economic activities, especially in the areas with rapid growth, such as Tirana-Durres corridor and the areas of Kamze municipality. ♦ Commercialization of the water/sewage enterprises for the improvement of their operational and management aspects as well as for cost-recovery purposes.	MoPWT, MoLGD, Municipalities	2002-2003-2004 2002-2003-2004 2002 2002-2004 2002- 2004 2002-2004 2002	

	2. Guaranteeing land ownership rights	♦ Completion of land property restitution and adoption of compensation measures. ♦ Amendment of law on property restitution to fulfill government's legal obligations to property restitution claims and adoption for applicable measures for compensation of property restitution. ♦ Completion of registration of immovable properties. **Legalization of areas with informal constructions** ♦ Exploration of practical models for regulation of informal settlements ♦ Collection of accurate information on land property status. ♦ Fulfillment of legal requirements to formalize informal settlements (for instance, Regulation of ownership on land and other legal acts) ♦ Local application of payment for development of land for infrastructure in informal settlements, based on the Urban Land Management Project. **Adoption of a new policy on public property** ♦ Identification of measures to give municipalities legal ownership rights over public land and other municipal assets. ♦ Identification of measures allowing municipal management and use of lands and other assets.	CoM CoM, Municipalities MoLGD, Municipalities	2002-2003 2002-2004 2002	30
	3. Increasing access of the poor to housing market and development of housing market	♦ Accomplishment of extended surveys on urban poverty and development of data and information systems to assess future needs for investments and policies. ♦ Mobilization of resources for adoption of indicators for urban development and poverty reduction at a municipal level	MoPWT, MoLGD, Municipalities	2002-2003	1,585
	4. Improvement of performance of urban management through monitoring	**Support for construction of low-cost dwellings** ♦ Identification of the maximum and minimum levels of incomes of families in need of state support for housing and the improvement of the legal status of the "homeless". ♦ Coordination of categories selected for state support for housing with the affordability level of existing private and public financial resources. ♦ Introduction of a minimum standard for low-cost dwellings, as well as for the type of construction, building material etc. ♦ Stimulation of low-cost building companies and building material producers. ♦ Introduction of programs on land development for housing purposes for families with different levels of incomes.		2003-2004	

	5. Institutional and legal strengthening of urban management	**Improvement of financial system for housing** ♦ Identification of the affordability level for families with low incomes in order to set up credit lines focusing on them. ♦ Mobilization of private savings for housing purposes. ♦ Stimulation of community savings schemes. ♦ Mobilization of the savings of institutions with long-term deposits to give housing credits by offering state guarantees and lucrative interest rates. **Supporting programs for improvement and maintenance of houses and environment in the communities** ♦ Stimulation of communities to increase their maintenance-related responsibility as a factor that has an effect on the real value of their properties. ♦ Establishment of management structures for maintenance of the existing housing market. ♦ Establishment of credit mechanisms for flat owners and establishment of joint ownership associations with the aim of improving the common property. ♦ Revision and improvement of law on joint ownership and the necessary regulations in regard to the obligations for good maintenance.	MoPWT, Housing Entity MoPWT, MoF MoPWT, Municipalities	2002-2004 2002-2004 2002-2004	

Field/ Sector	Objectives	Public Priority Measures	Responsible Institution	Deadline	Budgetary Effects (millions Lek)
Envionment	**1. Prevention of further environmental degradation process** **2. Creation of conditions for rehabilitation of polluted areas and improvement of environmental quality** **3. Increase in sustainable use of environmental resources**	**Institutional and legal strengthening** ♦ Restructering of MoE, strengthening of branches and inspectorate, enhancement of capacities, improvement of technology and equipment ♦ Establishment of National Committee for Sustainable Development ♦ Definition of authority and responsibilities of local government units in the field of environment ♦ Establishment of regional and local environmental advisory structures with participation of local government and civil society ♦ Definition of the role of line ministries, institutions for implementation of the policies and the legal framework concerning environmental protection and monitoring of indicators. Establishment of environmental structures in central institutions ♦ Increased public awareness of the public and increase its participation in environmental protection	MoE GoA/MoE MoE, KKD, Associations of Elected Local GoA MoE, LG and NGO GoA/MoE, related ministries MoE and NGO	2002-2004 2002 2002 2003 2002-2004 2002-2004	180 4.5 5 5 41 15
		Preparation and adoption of long-term policy documents and environmental policy instruments ♦ Preparation of 2001 National Action Plan for Environment ♦ Preparation,approval and implementation of law on Carbon Tax ♦ Preparation, approval, and implementation of law on Packanging Tax ♦ Norms on environmental discharges from stationary and mobile sources ♦ Norms on environmental quality (land, water, air) ♦ Strategy on sustainable transport development ♦ Strategy on sustainable rural development ♦ Strategy on sustainable urban development ♦ Strategy on environmental monitoring ♦ Strategy on sustainable land use	KKZHQ, MoE MoE, MoF MoE, MoF MoE, MoH MoE, MoAF, MoH, MoE MoT, MoLGD MoE, MoLGD, MoAF MoPWT, MoE, MoLGD, IU MoE, MoAF, MoE	2001 2002 2002 2002-2003 2002-2004 2003-2004 2002-2003 2002-2004	40 50 60 20 60

		Reduction of pollution from existing resources ♦ Environmental rehabilitation of two out of five hot spot areas ♦ Feasibility study for three hot spot areas ♦ Finalization of the construdtion of two sewage treatment facilities ♦ Improvement of environmental management of urban waste and establishment of two sanitary landfields ♦ 5 pilot projects for reduction of industrial discharges ♦ Regulating the activities of the construction sector and road maintenance in four cities with high levels of dust in the air ♦ Elimination of 1, 800 tons of arsenic solution in Fier Nitrogen Plant ♦ Improvement of environment-related public services in Tirana	MoE, Government MoE, MoPEP MoPWT, MoE MoPWT, MoLGD, MoE, MoE, business associations MoPWT, MoT, MoE, MoLGD, relevant municipalities MoE MoE, MoPEP, MoAF MoPWT, MoE,Tirana municipality	2002-2004, 2002 2003-2004 2003-2004 2003-2004 2002-2003 2002 2002-2004	3,000 15 3,000 340 70 20 120 120 60
		Measures for sustainable development and use of resources ♦ 3 pilot projects applying combined measures against soil erosion ♦ Increase of protected areas surface (in three years, from 6% to 15%) ♦ Designation to declare Shkoder Lake eco-system and Vlore Bay as Protected Areas ♦ Rehabilitation of forests damaged by fires or economic activity (in coastal areas, Kune-Vaini lagoon system, Lura etc.) ♦ Implementation of management plan for Dajti National Park ♦ Implementation of measures for transfer of rights of ownership or use of natural resources to municipalities/local communities ♦ 6 pilot community projects for sustainable use of local natural resources	MoAF, MoE, IT MoE, MoAF MoE, MoAF DPP, MoE MoAF/GFPD, MoE MoAF,DPP, MoE MoAF, MoPEP, MoE, MoLGD, relevant local units	2002-2003 2003 2002 2003 2003-2004 2003-2004 2003-2004	30 5 5 30 60 10 20

Field/ Sector	Objectives	Priority Public Measures	Responsible Institutions	Deadline	Budgetary Effects (USD)
Public Administration	**1. Strengthening of policy making and inter-institutional coordination**	1. Development of a coherent and sustainable mechanism for policy coordination in regrd to European integration process. 2. Improvement of the operation of the Council of Ministers. 3. Initiation and consolidation of periodical meetings of the General Secretaries and the strengthening of management capacities. 4. Creation of technical capacities to monitor effects of policies and programs undertaken by the government. **5.** Qualification and securing assistance for public administration institutions in charge of implementation of specific programs and policies. **6.** Enhanced capacities of the Council of Ministers office to provide strategic and analytical advice	CoM	2001 - 2004	
	2. Structural improvement and law enforcement	1. Accomplishment of a general study on Public Administration structure. 2. Compilation of a "Methodology for approval of structures." 3. Approval of standard structure. 4. Completion of job assessment process for civil employees and training of direct superiors in the process of assessing individual work results. 5. Completion of the process of civil employee confirmation. 6. Improvement of recruitment procedures in accordance with the best standards and models. 7. Monitoring and analysis of the law enforcement process. 8. Establishment and development of a coherent control system of personnel policies	DoPA, Line Ministries	2001-2004	
	3. Strengthening of institutions involved in reform implementation **4. Increasing professional level of public administration**	1. Enhanced capacities of the Civil Service Commission. 2. Strengthening of the Public Administration Department 3. Strengthening of the human resource management units in the ministries. 4. Strengthening of the role of the General Secretaries. 1. Preparation of the Public Administration Training Strategy. 2. Establishment and consolidation of Public Administration Training Institute. 3. Preparation and implementation of training Programs.	DoPA, KSHC DoPA, ITAP	2001-2004 2001 - 2004	
	5. Legal improvement	4. Preparation of the law on Ethics in Public Administration 5. Improvement of the legal framework on basis of experience acquired in law enforcement process. 6. Adjustment of sector procedures to Administrative Procedure Code.	DoPA, KM	2001 - 2004	

	6. Improvement of wage system	1. Approval of wage Structure for civil employees. 2. Improvement of wage structure for employees of educational system and health. 3. Implementation of new wage system in the entire public administration.		2001 2003 End of 2005	
	7. Development of information technology	1. Preparation of the Strategy for Information Technology Development. 2. Completion of database for public administration employees.	DoPA	2001-2004	
	8. Strengthening rule of law in local government	1. Strengthening of cooperation with local government units 2. Organization of roundtable meetings with local government units 3. Training for elected local government officials	DoPA	2001-2004	
	9. Strengthening public relations	1. Improvement of the system of public access to official documents. 2. Introduction of the idea that effective public service is a priority. 3. Erection of public information stands in all institutions of public administration.	DoPA, Line Ministries	2001-2004	

Field/ Sector	Objectives	Priority Public Measures	Responsible Institutions	Deadline	Budgetary Effects (USD)
Reform in judiciary system	**1. Improvement of quality of legislative process, increase of publications and dissemination of legal acts, court decisions, and other information**	Full operation of the state Publication center and the installment of modern systems for information dissemination	Ministry of Justice	2000 -2001	
	2. Transparency in public actions and access to legal norms **Ensuring that effects produced by laws are related to objectives**	Quality of legal norms Legislative process and its unification, keeping in mind the role of the Justice Ministry Assessment of effects from adjustment of legislation	Ministry of Justice Other Ministries Assembly of Albania	2002-2003 2002-2003	
	3. Increasing training level of legal professions in charge of reform implementation to secure effectiveness of judicial system and ensuring adequate application of legal procedures	- Increasing of qualification of judges and prosecutors responsible for control over implementation of legal norms - Realization of training for chancellers and court administration	Supreme Court General Prosecution Office High Council of Justice School of Magistrates	2001 - 2002	
	4. Increasing legal education level	Development of training programs for Faculty of Justice	Law Faculties Ministry of Education and Science Ministry of Justice	2001-2002	

	5. Development of knowledge about laws in community	Training on community law	Ministry of Justice School of Magistrates	2001	
	6. Ensuring effective operation of legal, judicial, and human right protection institutions	Development of Judiciary Conference Status Strengthening of organization of Bar associations	Bar Associations Ministry of Justice	2001 2001-2002	
	7. Strengthening the operation of institutions of justice and judiciary system	Support for activity of Ministry of Justice, Constitutional Court, Supreme Court, High Council of Justice, including the service of the inspectorate Development of court management and administration, including the transparency in the court activities	Constitutional Court Supreme Court General Prosecution Office School of Magistrates Ministry of Justice	2001-2002 2001-2002 2001-2002	
	8. Ensuring operation of crime combating system in full compliance with implementation of human rights	Strengthening of the operation of the Public Prosecutor Offices Strengthening of the operation of the judiciary police Development of new judiciary system	Ministry of Justice Ministry of Public Order Supreme Court General Prosecution Office Public information about death penalty	2001-2002 2001-2002 2001-2002	

	9. Ensuring effective operation of other supporting institutions such as the People's Advocate, the State Advocate, and the Government's Agent.	Increased public interest for the People's Advocate institution. Promotion of human rights and good governance in Albania. Assistance for the operation of the State Advocate' Office and the Government Agent's Office.	People's Advocate Institution State Advocate' Office Government Agent's Office	2001-2002	

Field/ Sector	Objective	Priority Public Measures[37]	Responsible Institutions	Deadline	Budgetary Effects (million Lek)
Local government reform	**1. Enhancement and consolidation of local autonomy**	**Completion and implementation of legal and sub-legal framework to make possible the exercising of common functions and those delegated to the Local Government, according to the decentralization Strategy. This includes:** 1. Completion with sub-legal acts in regard to the functions for • Transfer of the function for the water supply, sewage, and urban land management • The separate functions for the education, public health, civil protection, social support, public order • Framework regulation of delegated functions • Regulation of inter-community cooperation and relations with the regional council 2. Completion of the legal and sub-legal framework, procedures, and guides and their gradual implementation according to the strategy on fiscal decentralization. This includes: • Local taxes and tariffs, in particular: ➢ tax on small business ➢ tax on agricultural land • Unconditional transfers, equalization funds, and conditional transfers • Regulation of the process of the preparation and implementation of local budget 3. Transfer of ownership rights to local government units	Inter Ministerial Decentralization, Decentralization Expert Group, Line Ministries, Associations of Elected Local Officials	2002-2003 2002-2004 Until 2003	7 105

[37] The matrix does not include some measures already applied or to be applied till the end of 2001

	2. Enhanced governance performance at local level	**Application of a series of measures focusing in improvement of local government's governance standards and practices, institutional relations of structures and capacities. The most important are:** • Improvement of the administrative bodies of local government units in accordance with their relevant competencies • Strengthened internal and external control and standardization of the methods and procedures • Strengthening of the capacities through application of the civil employee status; training (establishment of the training center and the technical assistance) • Enhanced capacities in fiscal administration (collection of revenues and administration of expenditures) including preparation of the medium-term expenditure framework at local level • Involvement of the local government in preparation of the GPRS • Support for local government units in the preparation and accomplishment of studies and in the adoption of development programs at local and regional level • Improvement of cooperation between Government bodies (Ministries and their branches, Prefectures etc.) and the local government bodies (municipality/commune, regions) and support for cross border cooperation programs. • Annual monitoring of progress in decentralization reform	Inter Ministerial Decentralization, Decentralization Expert Group, MoLGD, Line Ministries, Associations of Elected Local Officials	2002 2002 2002-2003 2002-2003 2002-2004 2002-2004 2002-2004 2002-2004	300 100 90 617 120
	3. Increased transparency, accountability, and participation of community in local government	**Application of a series of measures and activities focusing on increasing public access to local government. The most important are:** • Extension of measures envisaged in corruption reduction program to local level, in accordance with the specific character of every local unit • Public education on decentralization reform and civic rights (civic charter) in local government • Increased information for the community on access activities of the community and citizens in the processes • Dissemination of experiences related to involvement of the local communities in investments in the local infrastructure (community works projects)	Line Ministries, Associations of Elected Local Officials, MoLGD, local communities and civil society organizations	2002 2002 2002-2004 2002-2004	

VII APPENDIX 2: POVERTY TABLES

Grafic 1: Poverty Distribution Map

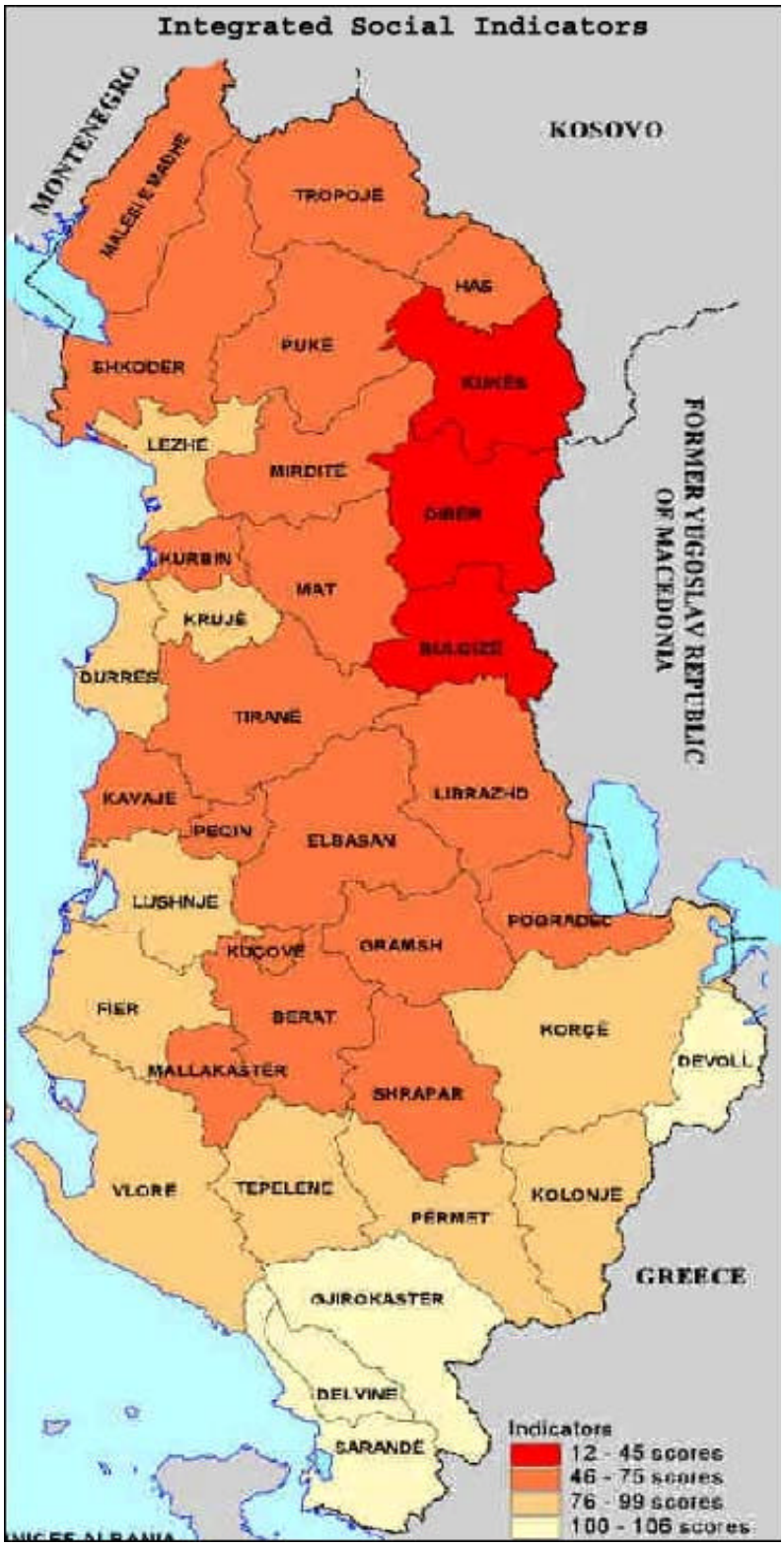


Table 1 **Demographic characteristics of the poor**

	Urban		Rural		Total	
	Poor	Not poor	Poor	Not poor	Poor	Not poor
Years of education	9.3	11.1	7.0	7.4	7.5	9.0
Family size	4.7	3.9	5.1	4.0	5.0	4.0
Dependence coefficient	0.73	0.58	0.96	0.64	0.91	0.61
% of women as household heads	11.5	9.5	10.6	11.6	10.8	10.7
% of the elderly	16.0	24.5	21.9	27.5	20.6	26.1

Table 2 **Poverty according to family category**

	Total	Males	Females
Only one person	12.0	8.5	14.4
Couple with three or more children	39.4	39.4	29.6
Big family	26.7	26.7	29.2
One parent as household head	25.2	17.0	26.9
Others	28.0	20.6	36.2
Total	24.9	24.9	25.2

Table 3 **Poverty and education**

	Urban		Rural		Total	
	Expectancy	Depth	Expectancy	Depth	Expectancy	Depth
Without diploma	29.3	11.7	37.12	14.1	35.81	13.5
8-grade education	25.38	9.6	40.61	16.4	36.69	14.8
Secondary education	14.23	5.2	30.08	11.1	20.98	7.7
University	4.99	1.6	4.97	1.4	4.99	1.6
Total	17.23	6.4	36.83	13.8	29.56	11.5

Table 4 - Poverty according to the main source of family incomes

	Poor	Not poor	Total
Work in non-farming sector (state, private, or self-employment)	10.31	40.03	32.63
Work in agriculture	48.38	23.96	30.04
Pensions (including disability)	21.05	26.27	24.97
Unemployment payment	4.42	1.04	1.88
Others	15.84	8.71	10.48
Total	100	100	100

Table 5 **Poverty according to status of other household head**

	Total	Urban	Rural
Employed	23.0	5.3	32.6
Unemployed	50.8	48.8	55.5
Retired (including disability)	20.7	12.1	26.4
Others	20.6	15.6	22.4
Total	24.9	14.6	31.6

Table 6 **Expectancy and depth of poverty in rural and urban areas**

	Urban		Rural		Total	
	Especially poor	Poor	Especially poor	Poor	Especially poor	Poor
Relative poverty						
Expectancy	9.7	17.2	20.1	36.8	16.2	29.6
Depth	2.7	6.4	7.3	14.5	5.6	11.5
Absolute poverty						
Expectancy	10.4	30.3	21.5	56.3	17.4	46.6
Depth	3.0	11.3	7.8	23.6	6.0	19.0

Table 7. Percentage of population according to quintiles of incomes in the urban and rural areas

Quintiles	Urban	Rural
1	13.1	11.2
2	15.7	15.0
3	20.2	20.8
4	23.7	25.2
5	27.3	27.9
Total	100	100

Table 8 Capital and property according to prefectures

	Urban	Rural	Total
Berat	14.1	10.3	11.6
Diber	16.7	8.2	9.6
Durres	33.6	21.0	26.8
Elbasan	24.3	7.8	13.1
Gjirokaster	17.7	20.2	19.4
Fier	20.2	17.2	18.6
Korce	22.0	11.8	14.9
Kukes	23.3	7.2	9.6
Lezhe	27.9	16.5	19.9
Shkoder	24.6	16.5	19.2
Tirane	33.3	12.1	26.4
Vlore	28.3	19.9	23.3
Total	26.7	14.2	19.1

Table 9 Unfulfilled basic needs

	Urban	Rural	Total
Unsuitable water	3.91	27.3	18.1
Inadequate housing conditions	37.1	34.1	35.3
Inadequate housing	39.2	36.2	37.4
Overcrowding of dwelling	26.2	11.1	17.0
Education	14.2	36.1	27.5
Poor (two or more unfulfilled needs)	36.7	44.9	41.6
Especially poor (three or more)	10.2	17.1	14.4
Not poor	63.3	55.1	58.4

Table 10. School attendance according to educational levels, gender and quintiles of expenditure

	Basic education		Secondary education		High education	
Quintiles	Males	Females	Males	Females	Males	Females
1	87.7	99.9	11.9	9.0	1.2	2.2
2	104.9	90.9	24.5	47.2	2.6	2.4
3	95.3	96.8	27.6	57.8	1.5	8.0
4	93.6	109.8	29.4	25.9	3.4	2.8
5	101.0	84.5	59.4	60.6	6.6	3.2
Total	95.3	97.4	30.0	38.3	3.3	3.7

Table 11: Poverty according to prefectures

	Urban		Rural		Total	
	Especially Poor	Poor	Especially Poor	Poor	Especially poor	Poor
Berat	13.8	29.9	2.5	14.1	6.3	19.4
Diber	11.1	19.8	28.5	48.3	25.6	43.6
Durres	6.4	12.7	11.2	25.3	9.0	19.6
Elbasan	12.1	18.1	41.4	59.4	32.6	47.0
Gjirokaster	11.1	20.4	9.5	20.9	9.9	20.8
Fier	3.0	6.8	9.1	20.4	6.3	14.3
Korce	12.9	20.5	23.7	42.3	20.7	36.2
Kukes	17.6	27.7	39.9	63.1	36.6	57.9
Lezhe	14.1	27.8	14.9	31.7	14.6	30.5
Shkoder	17.9	27.5	19.4	39.4	18.9	35.3
Tirane	6.1	11.0	20.9	45.3	11.7	23.9
Vlore	5.6	13.2	6.2	14.6	5.9	14.0
Total	9.7	17.23	20.1	36.83	16.2	29.56

VIII APPENDIX 3:

MACROECONOMIC FRAMEWORK

2000 – 2004

Albania: Basic Indicators and Macroeconomic Framework, 2000-2004

	2000	2001	2002	2003	2004
	Est.	Proj.	Proj.	Proj.	Proj.
	(In percent)				
Real GDP	7.8	7.3	7.0	7.0	7.0
Retail prices (avg.)	0.0	2.5	3.0	3.0	3.0
Retail prices (end-period)	4.2	3.0	3.0	3.0	3.0
	(In percent of GDP)				
Saving-investment balance 1/					
Foreign saving 2/	6.9	7.4	8.4	7.6	6.7
Domestic saving	12.1	12.6	12.6	13.8	15.1
Public 3/	-2.6	-2.2	-0.5	0.7	1.8
Private	14.6	14.8	13.1	13.1	13.3
Investment	19.0	20.0	21.0	21.4	21.8
Public	6.5	7.2	7.8	8.2	8.3
Private	12.5	12.8	13.2	13.2	13.5
Fiscal sector					
Revenues	22.4	22.9	24.0	24.9	25.8
Tax revenue	15.6	16.1	17.2	17.9	18.7
Expenditures	31.4	32.4	32.4	32.4	32.3
Non-interest	25.7	27.9	28.7	28.8	28.8
Interest 4/	5.7	4.5	3.7	3.6	3.5
Overall balance	-9.1	-9.4	-8.4	-7.5	-6.5
Primary balance	-3.4	-4.9	-4.7	-3.9	-3.0
Primary balance (excl. foreign financed projects)	-0.4	-1.0	-0.7	0.1	1.2
Domestically financed balance 5/	-3.2	-3.5	-2.4	-2.2	-2.1
Public Debt	71.8	66.45	65.0	63.3	61.7
Domestic 6/	41.9	41.5	40.0	38.4	36.9
External (including publicly guaranteed)	29.9	24.95	25.0	24.9	24.8
Monetary indicators					
Broad money growth (in percent)	12.0	15.4	11.3	10.8	10.8
Private credit growth (in percent)	26.9	26.4	28.5	39.1	…
Velocity	1.6	1.6	1.6	1.6	1.6
Interest rate (3-months T-bills, end-period)	7.8	…	…	…	…
External sector					
Trade balance (million US$)	-814	-950	-1041	-1103	-1166
(in percent of GDP)	-21.7	-23.2	-23.0	-22.0	-21.1
Current account balance	-260	-302	-382	-383	-369
(in percent of GDP)	-6.9	-7.4	-8.4	-7.6	-6.7
(in percent of GDP; including official transfers)	-4.0	-4.8	-6.1	-5.6	-4.8
Official transfers	111	107	106	104	107
(in percent of GDP)	3.0	2.6	2.3	2.1	1.9
Gross international reserves	608	687	744	879	929
(in months of imports of goods and services)	4.2	4.4	4.6	4.8	4.7
(relative to external debt service)	25.8	20.6	13.0	13.8	12.9
(in percent of broad money)	26.4	26.3	26.6	27.3	27.0
Change in real effective exchange rate (In percent)	7.0	…	…	…	…
Memorandum item					
Nominal GDP (in millions of lek)	539,210	594,346	657,030	726,219	802,569

Sources: Albanian authorities and Fund staff estimates and projections.

1 Estimates based on very preliminary information in the absence of national accounts.
2 Current account excluding official transfers.
3 Revenue minus current expenditure.
4 Including interest payments for bank restructuring.
5 Excluding privatization revenues.
6 Including bonds for bank restructuring (lek 4.3 bn for 1999; lek 20.3 bn for 2000).

IX APPENDIX 4:

PARTICIPATORY PROCESS

1. MEMBERSHIP OF CIVIL SOCIETY ADVISORY GROUPS

Agriculture	**Health**
Representatives of Agro-Business	Health Union (state)
Agricultural Production Organization	Health Union (unaligned)
Commune-Based Organization	Professional Nurses' Association
Commune-Based Organization	Doctors
Rural Development NGOs	Woman Health Organization
Agricultural University	Organization of Disabled and Paraplegic People
Research Institute	Private Health Service
Commune Chairman	Pharmacists
Commune Chairman	Municipality Chairman
Rural Crediting agency	Commune Chairman
Farmer Union Representative	Commune Chairman
Education	**Labor and Social Affairs**
Professors	Women Rights Organization
Teachers	Trade Union
Teachers	Trade Union
Education NGOs	Minority Group Representatives
Woman Training Organization	Conflict Settlement Organization
Municipality Chairman	Economic Development Organization
Commune Chairman	Business Community
Commune Chairman	Municipality Chairman
Private Schools	Commune Chairman
Research Organization	Youth Organization
Teachers' Organization	Research Organization
Youth Organization	

2. MAP OF REGIONS OF PARTICIPANTS FROM THE CIVIL SOCIETY

3. THE APRIL WORKSHOP OF CIVIL SOCIETY

The April workshop put the final seal on the coordination of the work between the **civil society and ministries**. At the end of the workshop, the list of **the strategic priorities**, according to relevant sectors, was incorporated into the data inputs, which were prepared by the technical sector groups in the line ministries and which were used by the consultants of the Government as a basis for the preparation of the GPRS. At the end of the workshop a civil society declaration was compiled, reflecting the discussions and the points of agreements and disagreements.

The strategic priorities:

a. **Education**

- Financial decentralization and the transparency in the distribution of resources;
- Need to draft national standards for education;
- Programs and projects to increase number of pupils attending relevant educational levels and need to encourage and set rules for private schools.

b. **Labor and Social Affairs**

Employment Policies;

- Greater support for employees' rights through developments in the legal framework;
- Increased local government capacities in the field of employment and social service;
- Institutional agreement on reduction of job informal market;
- Closer relations between professional training and demands of job market;
- Development of job programs for women and young people.

Social Protection

- Financial limits for receiving economic assistance benefit;
- Expansion and further dissemination of the social services;
- Drafting programs for continued integration of the needy groups;
- Support for social services offered by the NGOs etc.

Social Safety

- Support for stabilization of private institutes by offering them equal chances;
- Improvements in social insurance market.

c. **Health**

- Increased share of the health in the GDP, giving priority to the primary services;
- Restructuring of the health service by private sector, as a measure that would have its effect on the improvement of health infrastructure;
- Strengthening of the social insurance scheme, introduction of management programs for hospitals, and training of medical personnel etc.

d. **Agriculture**

- Consolidation of land ownership;
- Promotion of foodstuff industries;
- Activation of funds to guarantee crediting to farmers;
- Diversification of winter foodstuff resources;
- Increased marketing through infrastructure development;

- Better institutional approaches, which should respond to the needs of the farmers.

4. REGIONAL CONSULTATIONS OF CIVIL SOCIETY

During April and May 2000 and 2001 the Carter Center and Oxfam organized a series of consultative meetings in 12 local communities in villages and towns in four municipalities: Shkoder, Korce, Gjirokaster, and Kukes. They insisted on collecting the information from the poor for the preparation of the poverty reduction strategy. In brief, the meetings revealed that the poverty differs much in terms of geographical location, history, taxes, weather conditions, relief, policies, institutions, communities, people etc. The towns and villages of Albania have common poverty characteristics, just as they have distinct, separate characteristics, based on different features. The majority of the rural areas in Albania are poorer than those urban for a variety of reasons.

The needs of the poor communities are of primary importance. The population of these areas has a list of long-standing wishes: more and better roads, water, and electricity, cheaper medicines, more food to eat, more job opportunities, more chances for the young people to attend schools, the restitution of the "culture palace" with games and performances, and, probably more respect by their fellow peasants. The poor expect the government to support them with technical studies and adequate financing to set up their own activities, with cooperation through crediting and in establishment of deposit funds, in reconstruction of roads and sewages, steps towards new technology, the repair and improvement of the power system, and the guidelines for the educational process. The poor should also have their role in the building of the community structure and should take over their responsibilities for the competition in the agricultural processes, in that of corruption and give their support for capacity building based on the aforementioned enterprise.

5. CONSULTATIONS WITH PARLIAMENT

The consultations with the parliamentarians were aimed to familiarize them with the GPRS subject matter and discuss with them on the identification of problems and the possible solutions. Due to the dissolvent of the Parliament and beginning of the electoral campaign (may 2001), the participation in the consultations with Parliamentarians was characterized by a lower number of participants than expected.

6. CONSULTATIONS WITH LOCAL GOVERNMENT

6.1 The first round of consultations, April 2001: favorable and unfavorable factors

a. Group of large and medium-sized municipalities

	Economic Resources (financial, material, natural)	**Human and social**	**Institutional**
Factors obstructing growth and/or poverty reduction	1. Unemployment (main factor) 2. Low wages in the budget sector 3. Few opportunities for small business development 4. Limited land quantity 5. Low level of mechanization and irrigation, impossibility for investments 6. Limited market to sell agricultural production 7. High cost of agricultural production 8. Backward technological industry.	1. Low level of qualification 2. Discrepancy between demand-supply for qualified human potential 3. Backward mentality 4. Absence of regional incentive policies for specialists	1. Unfavorable customs policies towards domestic production 2. Inability of the banking system for crediting 3. Unfavorable fiscal policies 4. Lack of coordination, cooperation among institutions of the same central department (Labor Ministry, Labor Inspectorate etc.) 5. Limited powers of local government 6. Tendency of central departments to delegate decision making to lower levels 7. Limited extension of social care institutions 8. Weak management of financial resources (administration weakness) 9. Lack of short-term and medium-term strategies for local-regional development 10. Harmonization of central-local policies 11. Uncontrolled policy of population 12. Lack of urban planning projects.
Possible policies and	1. Policy of low interest crediting for	1. Support of economic priorities with	1. Differentiated regional fiscal and

institutions that could prepare and implement them	production businesses and farmers (Ministry of Finances) 2. Promotion policies for development of industry, agro-industry, strategic sectors (regional plans) (Ministry of Economy) 3. Improvement of infrastructure (Ministry of Transport and Local Government Ministry) 4. Identification of national economic priorities (Local Government Ministry and local and regional government units)	qualified human capacities. 2. Identification of criteria for employment in public administration for communes.	crediting policy 2. Enforcement of existing legislation 3. Necessity for preparation of strategies of regional-local development (short-, medium-, long-term 4. Employment promotion policy (fiscal mechanisms) 5. Selection and motivation of companies with positive economic balance sheet 6. Promotion of foreign investments 7. Full local decentralization 8. Tariffs for agricultural production 9. Tax on agricultural production 10. Strengthening of the fight against economic crime and corruption. 11. Application of differentiated fiscal system differentiated for ineffective privatized production capacities 12. Local competencies for economic assistance
Issues that should be addressed in the decentralization reform to strengthen the local government role in the GPRS	1. Mechanisms of economic assistance should be changed from being passive into becoming active 2. Local-regional studies on urban planning and economic potential	1. Qualification of management capacities of local government and local administration.	1. Expansion of financial autonomy, in particular for local government functions 2. Procedure for collection of local taxes 3. Expansion of local autonomy in health, education 4. Implementation of differentiated (social – economic) regional – local policies, according to priorities of most problematic areas.

b. Group of small municipalities and large communes

	Economic resources (financial, material, natural)	Human and social	Institutional
Factors obstructing growth and/or poverty reduction	**Lack of infrastructure:** Bad roads within communes; Telephone/communication shortages; Lack of irrigation systems; Irregular electric power supply; Lack of other energy resources. **Ineffective administration of natural resources:** Grave damages to forests; Damages to eco-tourism areas; Damages to flora and fauna; Damages to fisheries; Low environmental hygiene, in general. **Absence of trading environment:** Low knowledge about marketing; Absence of procurement centers; Lack of information on markets and prices; Lack of local processing industry; Low market competition of domestic production;	**Lack of health and educational service:** Low level of schooling; Lack of health infrastructure of primary service; **Unemployment and rural exodus:** Exodus of young people form rural areas; Exodus of educated people; Lack of land and incomes from farming activity;	**Lack of development plans in communes** **Lack of extensive service and weak contacts with farmers** **Lack of state support.**
Factors obstructing growth and/or poverty reduction	**Crediting of farmers at facilitating conditions:** (priority sectors)	**Farmers' vocational training:** (priority fields) Agro-processing; New technologies;	**Planning and control** Disciplining the constructions and investments at communal level through

	Fruit growing; Glasshouses; Livestock production; Agro-processing; Family tourism; Handicraft; Different services; **Improvement of rural infrastructure**. (especially roads) **Increased presence of extensive service structures in rural areas** (especially in remote communes).	Marketing and advertising; Group cooperation; Irrigation techniques; Techniques for preservation of agricultural products; Farm management. **Improvement of services for vital needs**: Water supply; Electricity supply; Improvement of services in pharmaceutical, out-patient clinic and hospital network.	well-studied urban plans approved by relevant authorities; **Training of personnel of communes** **Bringing agricultural schools into operation.**
Possible policies and institutions that could prepare and implement them	Crediting policies in favor of farmers, who submit effective business plans; Policies protecting domestic production. Subsidy policies for main inputs.	Extensive information of the farmers or different associations about the conditions and procedures of taking credits from Banks or other crediting institutions.	More active role by the Ministry of Agriculture and Food Preparation of more realistic policies in favor of the Albanian farmers.
Issues that should be addressed in the decentralization reform to strengthen the local government role in the GPRS	**Preparation of guiding growth policies for rural areas in accordance with their characteristics** **Studies for identification of crops and other production and processing activities in each region** **Improvement of local tax system in favor of communes.**	**Better financial motivation for structures of elected and employed officials in local administration.** **More complete professional training of elected local officials.**	**Completion of legal framework for operation of local government bodies** **Financial monitoring of local government bodies** **Establishment of communal and municipal police** **Increased competencies for communes in the field of education and health.**

c. Group of small and mid-sized communes

	Economic resources (financial, material, natural)	Human and social	Institutional
Factors obstructing growth and/or poverty reduction	♦ Financial incomes for commune ♦ 30-40 percent of families have low incomes, 10 percent of them have foodstuff shortages ♦ Undeveloped infrastructure for services ♦ Energy ♦ Limited taxes for agricultural activities ♦ Agricultural infrastructure ♦ Lack of local agricultural product ♦ 19 percent of population with economic assistance, 40 percent unemployed ♦ There is no production sector	♦ Lack in training, specialization courses ♦ Public health/reactivation of old hotbeds of diseases ♦ Malnourishment in the children's health ♦ Increased burden for women affects child's upbringing ♦ Blood feuds/property conflicts ♦ Lack of extensive service ♦ What leadership?? - Tribal - Community - Religious - Economic ♦ Desertion of villages/abandonment ♦ Abandonment of agriculture by young people	♦ Low decentralization level ♦ Land ownership rights ♦ Information and transparency ♦ Lack of property for commune Institutions at district and Regional level ♦ (Inter institutional links) ♦ Lack of enforcement of central decision making ♦ Relations with civil society ♦ Lack of inter communal cooperation ♦ Role of council vis-à-vis chairman/accountability ♦ Commune-municipality relations in community ♦ Bureaucratic overburdening
Factors obstructing growth and/or poverty reduction	♦ Forest resources and final processing ♦ Natural essences ♦ Medical herbs ♦ Area rich in fungi ♦ Mountainous and family tourism ♦ Handicraft ♦ Hen growing ♦ Very good water, but far away/micro energy/potable water ♦ Low cost of workforce ♦ Fodder resources for livestock ♦ Building material ♦ Water ♦ Forests	♦ Young age (Puke)?? ♦ Workforce exporting ability ♦ Professional tradition + professional schooling for middle ages ♦ General education, good, but declining ♦ There are initiatives for SMEs	

	♦ Construction of 8th Corridor – positive		
Possible policies and institutions that could prepare and implement them	♦ Crediting should increase ♦ Financing should increase ♦ Infrastructure should be improved ♦ Local finances ♦ Public services ♦ Natural resources ♦ Market structures ♦ Support for SME and industry ♦ Energy	♦ Re-training ♦ Consolidation of administration ♦ Who dominates? - Tribe - Community ♦ Active social policy + work. Community work.	♦ Role of council ♦ Standardized/normative regulations ♦ Flexibility ♦ Decentralization ♦ Deconcentration
Issues that should be addressed in the decentralization reform to strengthen the local government role in the GPRS			

6.2 Second round of consultations with local government, 16 October 2001

An overall presentation of the GPRS was made, focusing on the objectives, priority public measures, monitoring, and the participation in its preparation and implementation. **Two special topics** were also discussed:

- *Relation between the GPRS and the ongoing decentralization process*: The discussion of this topic was used to make a comparative analysis of the links, mutual benefits, roles and dilemmas surrounding the relationship between the GPRS and the decentralization.

- *Coordination among GPRS, MTEF, and fiscal decentralization:* The discussion of this topic was used to examine the extent at which aspects of fiscal administration were included in the MTEF, as well as its effects on and links with the GPRS. Special focus was laid on the application, for the first time, of the formula for the allocation of unconditioned transfers from the state budget to the local government units.

In addition, the participants discussed other important issues. The discussions focused on the role of the local government units in the GPRS implementation, the solution of some problems related to overlapping roles of local government and ministries in the fields of infrastructure and public services, education, social protection, and on issues of fiscal decentralization. The main conclusions of the consultation were:

- The GPRS is a convincing document, which has succeeded in identifying some important and realistic objectives, in adopting an adequate approach, and in creating room for cooperation.

- The further deepening of the decentralization reform will enhance the role of the local government units and enable them to use resulting advantages for bringing the decision-making process closer to the beneficiaries, will increase the transparency, and will raise the level of the participation of the communities, including the poor. The participants reached the conclusion that the local government units are institutions, which are best suited for a basic approach to poverty reduction, that is, for creating opportunities, increasing security, and strengthening the voice of the poor.

- The fiscal decentralization should be deepened in order to expand the autonomy for generating resources from local sources and improve conditions and procedures for the allocation of state budget transfers. On the issue of the local taxes the participants said that it was time to reintroduce the tax on the agricultural land and to make the conversion of the small business tax into a local tax. They argued that these changes would improve local finances and also help to collect higher revenues from these two taxes than if they were collected by the central tax administration. On the other hand, these revenues will be used to improve the quantity and quality of the local public services, which will contribute to achieve growth and reduce poverty. On the issue of state budget transfers, the participants discussed on the expected positive results from application of the formula on unconditional transfers and stressed that the process of the negotiating and allocation of conditional transfers for investment-should be improved. They said that this process should begin simultaneously with the

preparation of the draft budget so that these funds would be reflected both in the state budget law and in the budget of each local government unit. In general, the participants agreed that the steps towards fiscal decentralization should be cautious, but firm.

- On the problems of infrastructure, the attention was focused on the problem of potable water supply. The participants said that they were informed of the latest issues and ideas related to preparations for the decentralization of the sector. They stressed that this sector should be decentralized, but by using adequate procedures and instruments that take into account the accumulated problems and avoid possible risks in the transition stage.

- In connection with the public service sectors of education and social protection, the participants concluded that the local government units can and should play a role in the identification of the problems, the beneficiaries, and the most adequate forms of service delivery, which should take place in harmony with national standards and objectives. The ideas about the public health sector were more general.

- The participants stressed that the inclusion of the community was becoming an increasingly more widespread approach to local governance practice. They also stressed that neglecting the communities weakens and distorts local governance. However, they also said that neglecting local government units and the reliance only on the communities, which has been noted in some cases, is a wrong practice, because it reduces the possibility for coordination, for an integral treatment of the local problems, and, finally, for an effective use of resources.

The participants said that the need for strengthening local government capacities was a priority, but this argument should not be used as a pretext for delays in the implementation of the decentralization strategy.

7. CONSULTATIONS WITH BUSINESS COMMUNITY

The consultations were held with The Union of Chambers of Industry and Trade of Albania and the US Trade Chamber, the Council of Albanian Agro-Business, the Foreign Investors' Association and Italian Investors' Association, and the Albanian Bankers' Association.

7.1. First round

7.1.a Obstructing factors and possible policies

Factors obstructing Development and/or Poverty Reduction	Possible policies that could be implemented
1. Limitation in work of farmers possessing 0.5 – 1.5 ha of land to fulfillment of needs of their families, restricting and hampering the extended use of agricultural mechanization. 2. Lack of crediting for agricultural mechanization. 3. (Irregular) Restrictions of the electric power (thus, reducing artificially the losses in the network) 4. Public service contracts (energy, water) are one-sided and do not contain measurable mutual aspects. 5. Support of Government for foreign investments and the arbitrary attitude to domestic investors in regard to the electric power supply and its price (lower price for foreign investors and higher price for domestic investors). 6. Increase of fuel prices. 7. Training of human resources is inadequate (especially of university students) – Role of Employment Institute is not tangible. 8. The National Employment Fund (Businesses pay 5 percent tax for work training to Labor Ministry. This fund is included in the Government's subsidy scheme. Is there a need for legal framework?) 9. The work cost is low, but tax (insurance) on it is high. 10. Fulfillment of needs for monetary incomes from illegal activities and resources (illegal emigrants, different kinds of trafficking). 11. The customs taxes on agricultural machinery have been reduced from 5 to 2 percent, but they are still high (the representative declares that he has paid more for customs taxes when it was 2 percent than it was 5 percent). 12. Failure of the tax authorities to take into account the situation of the Albanian businesses. 13. VAT is high, and, with its burden on businesses, it causes increase of prices (the case of agricultural machinery). 14. The same VAT on every good, including both daily consumption and luxury goods. In the EU countries, the VAT on daily consumption goods ranges from 3 to 6 percent. 15. Failure to make VAT reimbursements in cases of purchases by small businesses, because they are not VAT taxable. 16. General use of double taxation: payment of tax on tax (VAT on customs tax). 17. Payment of taxes at the beginning of the year, which requires payments by businesses, even though they might or might not continue their activity in the relevant year. 18. A priori decisions and the artificial increase by the Tax Department of the values to be paid by different businesses. 19. The fiscal inspectors do not take into account the balance sheets that are submitted to them. They do not register the balance sheets submitted by the companies. 20. The customs (poor performance by the customs officials, the goods is loaded and unloaded several times before cleared). 21. Differences in the customs control of different companies. 22. Lack of information and transparency in the customs system on the kinds of machinery categorized as "investment." 23. Being daily, weekly, or monthly, the reference prices create room for abuses by customs employees. 24. All companies are subjected to reference prices.	1. The union of the farmers to expand the area of the arable land, so that the level of agricultural mechanization could be increased. 2. Lifting of restrictions on electric power (or at least, the restrictions should be applied at hours, of which the investor is informed). 3. Reduction of fuel prices (differentiation for producers). 4. Expansion of the basis (infrastructure & legal basis) of the taxpayers (a qualitative expansion avoids market deformation). 5. Law enforcement equally for everyone (in regard to customs and taxes). 6. VAT differences: VAT should be high for luxury goods (not for daily consumption goods) and lower for daily consumption goods (foodstuffs). 7. Abolition or reduction of VAT on basic goods (bread) to a minimum. 8. Reduction of tax systems, so that the level of fiscal evasion is brought down. 9. End to payment of state taxes in advance. 10. Introduction of import barriers to promote domestic production. Increase of VAT and customs taxes on imported products. 11. Giving priority to the use of domestic resources, which will help to promote domestic production and reduce imports of foreign products. 12. Differences in customs taxes. 13. Transparency of customs system – making the public familiar with the tariffs and the references (according to the basis). 14. The reference price should be applied only on those companies, for which the custom official has suspicion

25. Trade mark. Risk from counterfeit products. 26. Lack of control over production of "fake" goods in private homes, failure to enforce laws. 27. Influx of smuggling goods. 28. Flooding of market with goods from neighboring countries (control of non-qualitative goods, goods to be supplied to Albania). 29. Failure to respect (reduction) production standards. 30. Purchase of raw materials in dollars and sale of products in Leks. 31. Wheat import monopoly. 32. Fiscal evasion of flour traders (declaring less or not at all). 33. Farmer –untaxable, whereas producer –taxable for his production. 34. Difficulties in the relations between business and state administration. State administration considers private businessmen as "thieve." 35. Existence of an undeveloped payment system. 36. Low level of infrastructure development (electric power, roads, and telecommunications) make difficult modern banking activity, especially their communication with the banking network operating in other areas outside Tirana. 37. Channeling of crediting through banks, which leads to high interest rates on credits. 38. Bank crediting is with high cost. 39. Difficulties and prolonged procedures by banks to give credits to businesses. 40. Legal gaps, especially on the law on collateral, which hamper the activity and the relations of the banks with the private business. 41. High level of risk of the country, which persuades the corresponding banks not to prefer to operate with the banks working in Albania. This forces them to operate by using as a guarantee their mother banks (or the bank's foreign shareholders). For instance, the foreign banks do not accept the opening of a confirmed credit letter by an Albanian bank. All of this increases the cost of money. 42. The dominant position of the Savings Bank on he market and, consequently, lack of competition. There is discrimination of the banking practices, especially, in the relations among them, the private businesses, and the state authorities. This discrimination has been created by the tax administration, which asks the businesses to pay taxes only through the state-owned banks. This undermines the free competition in the market and creates conditions for dominant positions over certain services. 43. Other difficulties were identified in regard to the accuracy of the balance sheets of the private businesses and the hesitation of the banks to refer to them; lack of capital market, which could be used as a reference in the orientation of the capitals by the market conditions. 44. Insecurity elements in Albania.	about the price they declare. 15. Harmonization with the European customs systems in determining the reference prices, or in canceling the reference prices and giving this competency to the tax system authorities. 16. Establishment of electronic links between customs department of the neighboring countries. 17. The establishment of the links of the customs system with the tax system should help to avoid abuses with the payments. 18. The settlement of the ownership disputes, the taxation of farmland. 19. Support of the local private businesses by the government. The establishment of the cooperation and partnership between the government and the business community. 20. The functioning and the behavior of the state as a regulator of the businesses, not as their collaborator. 21. Support for and treatment of the private business by the state administration as a partner. 22. Establishment of an Appeals Commission on economic relations, which will be composed of individuals from interested society. 23. Introduction of SME strategy as part of the GPRS. 24. Role of the Commission of Consultations with Business: The National Social and Economic Council should be established. 25. Finalization of the project for improvement of RTGS payment system. 26. Establishment of the Credit Guarantee Fund, which will unburden the private sector from the high requirements for collateral, and, on other hand, will reduce the cost of crediting this sector. 27. Crediting of businesses. 28. Establishment of information office for crediting, which will facilitate the communication of the banks with the private sector.

7.1.b The results of the questionnaire for collecting the opinions of the business community about barriers to growth, filled by 20 business representatives:

Factors:				
Institutional factors	Very problematic	Problematic	Normal	Not problematic
1. How easy do you consider the regulations of **the local government authorities** to take permits or licenses or in the way these authorities deal with your activities?	7	4	8	-
2. How easy do you consider the regulations of the central government (ministry/central institutions) to take permits or licenses or in the way these authorities deal with your activities?	4	6	10	-
3. How do you assess your relations with the customs administration?	5	10	4	-
4. How do you assess your relations with the tax administration?	5	7	7	-
5. How do you assess your relations with the courts?	4	2	8	1
TOTAL ASSESSMENT	**25**	**29**	**37**	**1**
Infrastructure and business:	Very problematic	Problematic	Normal	Not problematic
1. How do you assess the level of the impact of the road condition on the costs of your business?	11	9	-	-
2. How do you assess the level of the impact of the railway condition on the costs of your business?	6	2	4	6
3. How do you assess the level of the impact of the port condition on the costs of your business?	2	6	9	1
4. How do you assess the level of the impact of the telecommunications condition on the costs of your business (tel, fax, e-mail, internet etc.)?	5	5	7	2
TOTAL ASSESSMENT	**24**	**22**	**20**	**9**
Workforce and business:	Very problematic	Problematic	Normal	Not problematic
1. How do you assess the effect of the labor legislation on the practices for hiring and dismissing personnel?	1	4	13	1
2. How do you assess your relations with your trade unions?	-	1	13	4
3. How do you assess the state of knowledge and the level of training of the personnel you have employed?	2	5	10	1
TOTAL ASSESSMENT	**3**	**9**	**36**	**6**
Costs and competition:	Very important	Important	Little important	Not at all
1. What is the effect of the costs of securing	6	8	5	-

permits, licenses, registrations etc. on your business?				
2. To what extent has your businesses been affected by the unfair market competition?	17	3	-	-
TOTAL ASSESSMENT	**23**	**11**	**5**	**-**
Economic factors	Very obstructing factors	Not very obstructing factors	Facilitating factors	Factors without influence
1. The level of customs taxes on your business	14	3	-	1
2. Getting financing for your business	9	5	4	-
3. The level of technology used by your company	2	5	8	2
4. The distribution and supply systems	5	4	6	2
TOTAL ASSESSMENT	**30**	**17**	**18**	**5**

According to the data collected, 59 percent of the businessmen consider the institutional factors (the relations with the central and local administration, with the tax and customs authorities and with the courts) as very problematic or problematic. 61 percent of the businessmen consider the condition of the physical infrastructure (especially roads) and its impact on the transport costs as very problematic or problematic. Only 22 percent of the businessmen consider the labor legislation and the workforce skills as obstructive factors. 34 of 39 respondents assess the unfair market competition as very obstructive. 67 percent of the businessmen consider the role of the economic factors (the level of customs tariffs, crediting, the distribution and supply systems etc.) as very obstructive or obstructive.

7.1c Level of representation of private business concerns in the first GPRS draft

The main concern raised by the private business were:

:

i The relations of the business with the tax and customs administration. The opinion of the businessmen was that the efficiency of the government's mitigating policies in relation to the reduction of tax and customs burden, the improvement of the VAT reimbursement procedures, the procedures of advance payment of corporate etc. do not yield the expected positive results. In their opinion, the cause lies in the arbitrariness characterizing the work of the tax and customs authorities, such as in the loading and unloading of the goods several times to be cleared through the customs, the differences made between different companies in the customs, the lack of transparency with the reference prices, the arbitrariness in the compilation of the list of goods defined "investments" etc. There are also legal gaps in the VAT reimbursements when big companies enter into business relations with small companies, which are not subject to VAT payment.

ii Some taxes are high. The payment of the contribution for the workforce increases, in particular, its cost considerably and stimulates the black labor. Being at the same rate for all goods, the VAT is a heavy burden on businesses, such as on the importation of the agricultural machinery.

iii Problems related to the market structure. As a result of the absence of the necessary institutions or their ineffective work, the businesses are damaged by the counterfeit and uncontrolled products, the fiscal evasion of some firms, the trade monopolization of some goods, etc. The absence of the agricultural land

market and its partition into small plots are considered barriers to the efforts to increase the level of the mechanization of agriculture.

iv Difficulties in benefiting from quality public services. Criticism was especially expressed about supply of firms with electric power (both about the cuts and the voltage fluctuations), the increase of electricity price, the costs of goods transport etc.

v The problems of the banking system and crediting. The businessmen consider the terms of crediting as being unfavorable. They also complain about the undeveloped payment system, the bureaucratic banking procedures etc. The business community said that there are shortcomings in the legislation on collateral, that the level of business risk dictates high transaction costs and that there are problems with the accuracy of the balance sheets of private firms.

The extent to which the business concerns have been addressed in the GPRS

Based, among others, on the suggestions made by the business community, the plan of the priority actions for the development of the private sector, like the cross-sector programs, is aimed to address the following problems:

i) The programs for the infrastructure improvements (roads, electric power, telecommunications etc.), envisaged not only for the national transport network, but also for interventions in the rural areas, will reduce the transport costs and will improve electric power supply.

ii) The action plan includes measures to increase the transparency in the relations of the public administration authorities with the business, strengthen the institutions guaranteeing the free competition in the market, and improve the work of the tax and customs authorities (computerization of the system, training, publications etc.).

iii) The deepening of reforms (through the plans of anticipated measures), which will promote the competition in the financial market, improve in the institutional schemes guaranteeing credit transactions, improve in the payment system etc., is expected to have positive effects on the strengthening of the relations between the private sector and the banks.

7. 2 Consultations with business community – round II

The Fiscal Education Institute organized the second round of consultations with business community in Tirana on 3 October 2001. This round consisted in a one-day meeting with different business representatives coming from their specific industrial domains (Chamber of Commerce, Foreign Investors, Agro-business, and Banking Sector). The round was organized in close cooperation with the GPRS working group and, in particular, with the Ministry of Economic Cooperation and Trade, which agreed to ensure that private sector interests are incorporated in the GPRS**.** The second round consultations focused on the following components:

Firstly, the contribution of the Ministry of Economic Cooperation and Trade to GPRS progress;
Secondly, development policies for private and financial sectors in the GPRS;

Thirdly, Discussions and opinions on various alternatives for growth and poverty reduction.

The main themes of the discussions were:

- **Business-Labor Relationship**

1. The role of the Business Consultative Committee: the role of the National Social and Economic Council should be strengthened.
2. The expansion of the legal basis (infrastructural and judicial basis) of the taxpayers – a qualitative expansion eliminates market distortions.
3. Crediting – the establishment of a Credit Guarantee Fund should be emphasized in the GPRS documents.

- **Business-KESH Relationship**

The problem of power supply shortages all over the country harms industrial businesses. The businessmen said that they paid all their obligations to KESH and that they expected KESH to fulfill its obligations, too. KESh representatives presented a new strategy called the strategy of feeders, which mainly consisted in the creation of new feeders only for business centers. These feeders would provide energy on a 24-hour-basis.

- **Business-Customs Relationship**

The business community needs a more credible system, which should replace the long line of customs officials with a computerized system to carry out customs procedures.

- **Business-Foreign Investor Relationship**

It is common knowledge now that **capital and business** (mainly the small business) **are flowing** to other European countries due to problems connected not only with the tax system, but also with lack of security. However, reforms in the tax system (tax reduction) would help to bring down the level of fiscal evasion.