

DEPARTMENT FOR INTERNATIONAL DEVELOPMENT

The Department for International Development (DFID) is the UK government department responsible for promoting development and the reduction of poverty. The government elected in May 1997 increased its commitment to development by strengthening the department and increasing its budget.

The central focus of the Government's policy, set out in its first White Paper on International Development in 1997, is a commitment to the internationally agreed target to halve the proportion of people living in extreme poverty by 2015, together with the associated targets including basic health care provision and universal access to primary education by the same date. The government's second White Paper on International Development, published in December 2000, reaffirmed this commitment, while focusing specifically on how to manage the process of globalisation to benefit poor people.

DFID seeks to work in partnership with governments which are committed to the international targets, and seeks to work with business, civil society and the research community to encourage progress which will help reduce poverty. We also work with multilateral institutions including the World Bank, United Nations agencies and the European Commission. The bulk of our assistance is concentrated on the poorest countries in Asia and sub-Saharan Africa.

We are also contributing to poverty elimination and sustainable development in middle income countries, and helping the transition countries in Central and Eastern Europe to try to ensure that the widest number of people benefit from the process of change.

As well as its headquarters in London and East Kilbride, DFID has offices in New Delhi, Bangkok, Dhaka, Kathmandu, Nairobi, Dar-es-Salaam, Kampala, Harare, Abuja, Pretoria, Suva, Bridgetown and Montserrat. In other parts of the world, DFID works through staff based in British embassies and high commissions.

COUNTRY STRATEGY PAPERS

Country Strategy Papers (CSPs) are prepared for all countries where we provide development assistance programmes, and are normally produced every three years. CSPs set out how we aim to contribute to achieving the international development targets in the country in question. Progress will be assessed against the strategic objectives set out in Section E of the paper. In preparing CSPs, we consult closely with governments, business, civil society, and others within both the partner country and the UK.

Department for International Development
January 2001

ALBANIA: COUNTRY STRATEGY PAPER 2000 – 2004

CONTENTS	PAGE
A SUMMARY	1
B THE CHALLENGE	3
• Political and Institutional	3
• Economic	5
• Social	7
• Environmental	9
C ROLE OF THE INTERNATIONAL COMMUNITY	10
D CURRENT UK BILATERAL SUPPORT	11
E FUTURE STRATEGY	12
F IMPLEMENTING THE STRATEGY	14
G PROGRAMME RESOURCES	14
ANNEX 1 Summary of Consultation Process	15
ANNEX 2 Country Programme Expenditure Profile	16

A. SUMMARY

A1. Albania emerged at the beginning of the 1990s from the destructive grip of one of the most authoritarian and undemocratic political regimes in Europe. This legacy has made it difficult to establish political stability and respect for government and the rule of law. Early progress was significant, particularly in macroeconomic management. But achievements were put at risk by social and political upheavals in 1997 and 1998. The influx of some 500,000 Kosovar refugees in 1999 put further strains on the country.

A2. Albania remains the poorest country in Europe, with an estimated 20% of the population on an income of less than \$1 a day. It faces a daunting range of challenges. Public confidence and trust in the Government's ability to deliver public services needs to be established. Corruption remains a major barrier to prosperity. Public finance and effective taxation systems are in relatively early stages of development. Social assistance and social welfare systems are in need of fundamental reform.

A3. Albania's reformist government is making determined efforts to implement economic and social transition. Its priorities are to restore public order, reform public administration, improve public financial management and tackle corruption. Its macroeconomic policies have been effective in controlling inflation and in attracting the support of the international financial institutions. There have been promising developments in areas such as health care reform.

A4. A Medium Term Expenditure Framework, allocating resources for the key social sectors, is in place for 2001 and will be extended in future. Albania has completed an interim Poverty Reduction Strategy Paper (PRSP) and is working closely with the World Bank and the donor community, including the UK, on a more comprehensive PRSP (locally referred to as Growth and Poverty Reduction Strategy – GPRS) to be presented to the international financial institutions in mid 2001. This strategy will be the central focus of government policy and donor support. We shall work closely with the multilateral agencies and the Albanian Government in supporting its implementation.

A5. Albania is in discussion with the European Commission (EC) on a Stabilisation and Association Agreement (SAA), which will provide guidelines and conditions for the country's eventual incorporation into the community of democratic Europe. The policies that need to be adopted and actions taken by the Government successfully to meet the requirements of a SAA are complementary to those of the PRSP process in key areas.

A6. Albania is an active member of the Stability Pact for South Eastern Europe. The Stability Pact provides a forum for increased regional co-operation for a country that was formerly the most isolated in Europe. This in turn will complement the conditions for a SAA, which require formal steps on regional integration.

A7. The overall **goal** of our programme is to contribute to the elimination of poverty in Albania. The immediate **purpose** is to strengthen the capacity of the state, in partnership with civil society, to improve the quality of life of all Albanians. We will work to achieve these aims with the Albanian Government and with both local and international partners, including through:

- continued support to the development and refinement of the Government's Poverty Reduction Strategy and Medium Term Expenditure Framework;
- support for reforms directly related to Albania's objective of concluding a Stabilisation and Association Agreement with the EC, and using our position as a member state to promote EC policies and programmes supporting Albania's reform agenda;
- support for key activities of the Stability Pact with potential benefits to Albania, including the Anti-Corruption Initiative, the Investment Compact and measures for regional trade liberalisation;
- close co-operation with the World Bank, the EC, the World Health Organisation, the International Monetary Fund (IMF), the United Nations and other international organisations in programme design and provision of assistance in support of economic and social reform;

A. SUMMARY

- providing bilateral technical assistance to complement other donor programmes.

A8. Details of the intended outputs of this strategy and activities to support them are set out in Section E.

A9. We shall contribute our financial share of the programmes of the EC, World Bank and other multilateral agencies (which has averaged over £10 million per year in recent years). In addition, we will commit £9.5 million to a bilateral programme over the next three financial years.

B. THE CHALLENGE

POLITICAL AND INSTITUTIONAL

B1. Achieving political stability and effective governance in Albania have proved to be major challenges over the last decade. In 1990, when a coalition government was put in place, Albania emerged from a 45-year period of extreme repression. For the last 12 years of this period the country was politically isolated, even from other communist states. There had been no attempt to prepare for even the most modest economic and political reforms. The country was essentially agrarian, with little developed infrastructure.

B2. A legacy of the extended period of Stalinist oppression has been public suspicion of, and lack of confidence in, government as an ally or effective provider of services. Successive governments have had only a decade to adapt both to democratic norms and market economics and to gain the trust of the people. In the years immediately following the rejection of communism, large numbers of Albanians migrated to Greece and Italy in search of work. With the collapse of repressive government, an Albanian mafia grew rapidly, trading in Albania and the region in migrant labour, drugs and arms.

B3. Despite these problems, democratic Albanian governments after 1990 acted to introduce social and economic reforms, with extensive support from the international community. Progress was, however, seriously disrupted in 1997 by a pyramid savings scheme scandal, which led to a widespread breakdown in public order, and by political upheavals in 1998.

B4. A new constitution, agreed in 1998, (which laid the foundations for the establishment of democratic institutions and effective implementation of the principle of separation of powers) and the arrival of a new government in October 1999 with a solid parliamentary majority has provided renewed impetus for reform. Local government elections took place in October 2000; they were in general fairly and peacefully conducted and reflected Albania's democratic progress.

B5. There is wide acceptance within the country that Albania's future is as part of a democratic Europe. It has

been playing an active role in the Stability Pact for South Eastern Europe. Albania is hoping to begin negotiations soon with the EC for a Stabilisation and Association Agreement (SAA). Such an agreement will be an important milestone in Albania's progress towards successful transition. However, it will require major reforms to public administration, the system of justice and the economy before this step can be successfully taken.

Restoring Public Order and the Rule of Law

B6. There is widespread crime, corruption and trafficking in arms and human beings, while the security forces and the judiciary operate under poor conditions. The concept of the rule of law is not widely understood or effectively enforced, and legislation in the area of public order needs reform.

B7. Access to justice is limited and the public lacks confidence in the judicial system. In the past, rules to prohibit executive branch influence on the appointment and dismissal of judges, and on their judgements, were either unclear or simply ignored. Many judges have inadequate skills and qualifications. However, the prospects for change have improved following the ratification of the new constitution, as it provides a foundation for judicial independence and high professional standards. New laws on judicial organisation, on membership of the High Council of Justice and on the establishment of an Inspector's Office have also been agreed. External support for reform is being provided by the World Bank and the EC.

Public Administration Reform

B8. The public service has barely changed in the last decade and its overall performance is poor. It remains heavily politicised and centralised, and staffing levels are no longer appropriate or affordable. Salaries are low, leading to poor staff motivation and productivity, and it is becoming increasingly difficult to attract and retain high calibre personnel. Financial controls are weak, corruption and fraud are prevalent, and service delivery and public accountability concepts are not widely understood or practised. All of these factors have contributed to the public's lack of confidence in the state. They have also

B. THE CHALLENGE

CONTINUED

seriously undermined the state's ability to guarantee the availability of basic services to all.

B9. Public finance is an area in critical need of support. Revenue collection is weak. Expenditure management is still characterised by a 'bidding' process from line ministries without any direct link to service delivery targets. Recurrent and investment budgets are managed separately. Both internal and external audit functions are weak across government, creating the conditions for corruption to flourish. Statistical services are weak.

B10. The Government is tackling these issues. The Ministry of Finance has introduced a Medium Term Expenditure Framework for the 2001 budget, working closely with the World Bank. Rolling this forward will require sustained efforts to build capacity across government. A new internal audit department has been established within the Ministry and there are plans to extend this function across other line ministries. Revenues in both the tax and customs departments have improved over the last two years. There has also been some success in tackling corruption in customs operations.

B11. The Government has embarked on an ambitious and wide-ranging public administration reform programme. A dedicated Department of Public Administration has been created to take this forward, reporting directly to the Prime Minister. A new civil service law came into effect in early 2000, which provides the legal and institutional framework for an impartial, professional and accountable public administration.

B12. The Government wishes to move swiftly to implement the new law. An important first step has been the creation of an independent Civil Service Commission (CSC) to oversee staff appointments and to set and ensure standards and discipline within the administration. The EC's feasibility report on the negotiation of a SAA lists the effective establishment of the CSC as a prerequisite. The World Bank's Country Assistance Strategy also includes performance benchmarks relating to the independence of the CSC. It is essential that this new body becomes fully operational as soon as possible and that its independence is fully assured.

B13. Additional administrative reform plans include confirming existing and new staff appointments, preparing secondary legislation and new personnel procedures, major job evaluation and grading exercises, and some reduction in civil service personnel. A series of functional reviews of ministries is also planned.

Local Government Decentralisation

B14. Before 1990 a system of elected councils with limited powers operated within the framework of a highly centralised planning and decision-making system. During the early 1990s there were some attempts to transfer responsibility for a range of functions and services to local government (districts, municipalities and communes). However, there was no corresponding transfer of resources. Local governments have continued to lack real administrative and fiscal autonomy, and this in turn has undermined their ability to serve the needs of the community. Professional and managerial capacity is generally considered to be weak.

B15. In 1999 the Government signed up to the Council of Europe's charter on democratic local self-government. A task force comprising a wide range of central and local government and non-government actors was established to develop an appropriate reform strategy. Members of the international community also participated in the consultation process. This work led to the production of a National Strategy for Decentralisation and Local Autonomy which was approved by the Government in November 1999. Work is now under way to implement it.

B16. It envisages a two-tier structure of elected communes and municipalities grouped in Regional Circuits with Regional Governors elected by commune and municipality leaders. The new structure is to be put in place in early 2001. Local government will have a crucial role in pursuing poverty reduction goals.

Corruption

B17. With the help of the World Bank, the Government approved an Anti-Corruption Action Plan in 1998. However, after a promising start the initiative lost

B. THE CHALLENGE

CONTINUED

momentum. Public perceptions and experience of extensive corruption within the public service have persisted. The new regional Anti-Corruption Initiative agreed under the Stability Pact should help reinforce government efforts. The implementation of an anti-corruption strategy is specifically identified in the EC's report on the feasibility of negotiating an SAA with Albania. It is vital that the Government begins to make real progress in this key area.

The Media

B18. The Albanian media is able to operate relatively freely. However, the quality of information provided by the media varies widely in both the private and public sectors. A media code of ethics exists but is not widely observed. There is no mechanism for ensuring its enforcement. A national commission for television and radio exists to grant licences but to date no mechanisms have been created for monitoring and regulating media standards. There is a Parliamentary Commission on the media, concerned largely with the preparation of legislation and regulatory procedures. The main journalism associations are considered to be weak institutionally and lack authority. Journalists tend to be allied to political parties and to report in line with political allegiance. There is little or no independent investigative journalism.

B19. It is essential for Albania's long-term development that the media are able to operate more effectively, to enable the poor and excluded in particular to be heard and to ensure that government is more open, responsive and accountable. There is a need to develop an appropriate regulatory framework, to ensure that high professional standards are maintained across the board. Allied to this, the media and the state need to increase their understanding of their respective roles, responsibilities and duties to the citizen in promoting and ensuring better government.

ECONOMIC

B20. Following the fall of communist government, Albania's economic development was dramatic and surpassed all other transition economies, if from a low level. Between 1993 and 1997 economic growth averaged 9% per

annum. This growth occurred in parallel with massive donor assistance, amounting to about US\$470 per capita, the restructuring of collective farms and a privatisation programme involving the sale of over 7,000 state-owned enterprises.

B21. The good progress made during this period unravelled in 1997 due to a pyramid saving scheme scandal which wiped out an estimated 60% of private savings. Another significant factor was the loss of access to markets in the former Yugoslavia, which became subject to international sanctions. A further setback to economic and social development occurred in 1999 with the sudden influx of almost 500,000 refugees from Kosovo, equivalent to 15% of the country's population. The extent to which Albania coped with, and supported, the refugee population from its own limited resources is rightly a source of pride to the country.

B22. Given these setbacks, the continuing progress of economic reform has been impressive. Albania signed a three-year Enhanced Structural Adjustment Facility (now a Poverty Reduction and Growth Facility) with the IMF in 1998. The IMF has praised the Government's skilful maintenance of macroeconomic stability.

B23. Gross Domestic Product (GDP) increased by 7.25% in 1999 and is expected to have grown by a further 7% in 2000. Inflation was negative in 1999 and is expected to have kept below 4% in 2000. The budget deficit has been reduced to 5.25% of GDP. Tax revenues have steadily increased (4% in 1999), although there is a continuing need to improve tax administration and the efficiency and extent of collection. Customs administration is being reformed with the assistance of the EC, but remains hampered by corruption.

B24. Progress in structural reform has been significant. The Bank of Albania is independent of government and has given a clear lead through amendments to banking law, which have been reflected in increased confidence in the banking system. In 1999, 520 small and medium-size enterprises were privatised and foreign investment agreed for Albania's copper and chromium mines.

B. THE CHALLENGE

CONTINUED

B25. The Government will need to address reform to the judicial and public administration systems and remove bureaucratic obstacles to enterprise if it is to attract significant foreign investment for economic growth. The Stability Pact's Investment Compact provides a framework for actions needed. At present, remittances from Albanians working abroad are the most significant source of funding for business, particularly in the construction and transport sectors. Widespread corruption and the absence of law and order in some parts of the country will have to be tackled if growth is to be sustained.

B26. These issues are central to Albania's wish to conclude a SAA with the European Union. The Government will need to put in place adequate legal and regulatory arrangements for economic growth, trade, regional co-operation and effective systems of public administration, including an independent and effective judiciary.

B27. The World Bank is assisting the Government with a Public Expenditure and Institutional Review (PEIR) to assist with reform of public finance and government administration. Key areas for donor support are financial and policy planning in the Ministries of Finance and Economic Co-operation and Trade.

B28. Central to the Government's economic planning is the production of a Poverty Reduction and Strategy Paper (PRSP). As a low income country, Albania qualifies for concessional loans from the International Development Association (IDA) of the World Bank group. The preparation of a poverty reduction strategy is a condition of future drawing of funds from IDA. The process of consultation and agreement on a PRSP is in progress. The PRSP is to be considered by the joint Boards of the IMF and World Bank in June 2001; it will be revised in a three-year rolling process to 2003, and as necessary thereafter.

B29. An interim PRSP was prepared and published by the Government in 1999. An inter-Ministerial Committee, led by the Ministry of Finance, is co-ordinating the preparation of the full PRSP.

B30. The interim PRSP emphasises the essential need to promote economic growth as "the main instrument for sustained improvements in living conditions of the population and the elimination of poverty". A major challenge to the Government is both to promote growth and to raise the revenue needed for delivery of public services. Estimates of the extent of the combined illegal and informal sectors range from 40% to 70% of the Albanian economy. Revenue from direct and indirect taxation must increase if funds are to be available for comprehensive provision of public services.

B31. A further condition of IDA lending, linked to the PRSP process, is the production of a Medium Term Expenditure Framework (MTEF). The MTEF, which has been completed for 2001, sets out the Government's expenditure plans in relation to the PRSP, particularly in the high spending social sectors of health, education and social welfare. The MTEF will be revised annually and will demonstrate how the Government plans to direct public expenditure towards poverty eradication. As part of the MTEF process, line ministries will need to plan the use of their resources in support of poverty reduction. The first sectoral poverty reduction strategies are to be prepared for health, education, labour and social protection, and public works.

B32. The PRSP and SAA processes are the principal points of contact between Albania and the international community and are the main drivers of reform. Both require democratisation, reform and capacity-building in national and local government and institutions, the rule of law, representation and participation of all communities, and efficient government.

B33. The agricultural sector continues to dominate Albania's economy, contributing 60% of GDP, although its share is decreasing. Agricultural production is expected to have grown by 6% in 2000. Rural infrastructure remains poor and in need of development. While 70% of the population lives in rural areas, less than 25% of the country's land area can sustain agricultural production. There is a need to diversify sources of income and livelihoods in rural areas and to feed the rapidly expanding urban population.

B. THE CHALLENGE

CONTINUED

SOCIAL

Employment Structure and Social Protection

B34. With a population of around 3.3 million and a per capita income less than US\$700, Albania is the poorest country in Europe. It is 100th in the United Nations Human Development Index.

B35. The majority of the population live in rural areas, where affinities are based on the extended family, clan structures and local village networks. Of a workforce of 1.3 million, 70% are farmers. Unemployment levels are high in both urban and rural areas, but official unemployment figures (18.3% in 1999) significantly underestimate real levels. They capture only those who register in a labour office and, because of tight restrictions on unemployment benefits, the motivation to register is weak. The restriction on benefits is reflected in government expenditure on unemployment which declined from 7% in 1992 to around 2.2% in 1998. Social assistance to families in need increased from 1% of government expenditure in 1992 to around 4.5% in 1998, but in real terms fell by 50%. Overall, the decline in social transfers has been most marked since 1995, indicating that the socio-economic well-being of the poor has deteriorated.

B36. Accurate assessments of the extent of income poverty are difficult to make in the absence of good data, but it is estimated that a fifth of Albania's population is living on less than \$1 per day. Poverty is greatest in the north and in rural areas, where 90% of the population is living below the poverty line. Poverty affects most severely those rural families with large numbers of children, low educational attainment and no remittance income. The PRSP due in 2001 will include a poverty profile and set out a poverty monitoring system. The World Bank is planning a comprehensive Social Protection Adjustment Credit which will cover qualitative and quantitative poverty assessments and the development and reform of social protection, health and education policies and services.

Rural Migration and Urban Growth

B37. Official employment figures do not take account of the huge level of emigration, both permanent and seasonal. There are estimated to be up to 500,000 Albanian emigrants in Greece alone, and large numbers in Italy. Remittances constitute 20% to 25% of GDP. While enabling many families to avoid extreme poverty, they are not included in government accounting, or assessments for social insurance benefits.

B38. Migration has resulted in an increasing number of de facto female-headed households; problems arise where remittances stop as men remarry or lose contact with their families. Internal rural-urban migration has also risen dramatically, with the population of Tirana doubling from around 250,000 in 1993 to over 500,000 in 1998. The result has been unregulated urban expansion and severe pressures on social welfare services, water and sanitation, education and health, and solid waste management. In parallel with urban expansion, private sector employment levels have increased, but employment in the private sector accounts for less than 10% of all employment. The majority of private sector employment is temporary and unskilled and tends to concentrate in the informal construction industry. Consequently livelihoods in urban areas are vulnerable to frequent moves into and out of poverty.

Demographic Structure and Gender

B39. Over 40% of the population is under 18 years old. This age structure places significant pressures on social services, education, health, and pensions. Birth rates are closely associated with educational levels; women with higher levels of education have on average 1.65 children, while illiterate women have on average six children. Furthermore, female poverty is accentuated by the fact that maternity benefits are restricted to women who have contributed to the national social insurance scheme. Given falling levels of women's participation in the workforce, coupled with strong patriarchal traditions, the majority of women do not have access to formal systems of social protection.

B. THE CHALLENGE

CONTINUED

Children

B40. With increasing levels of household poverty, and declining levels of school enrolment, the number of children in conflict with the law has increased. Children account for around 10% of all convictions. Robbery and theft account for the majority of offences but there has been a significant rise in convictions for murder. The safety of children and the well-being of their families, particularly in the north, is affected by the revival and spread of the Kanun (blood feuds) and the widespread availability of firearms and explosives. This has resulted in significant numbers of children being kept away from school by parents for fear of their being kidnapped or murdered. The Kanun has also added to rural-urban migration as families under threat of its sanctions seek refuge in towns and cities. Moreover, growing levels of child poverty are reflected in falling school enrolment levels, and the increasing numbers of working children in both urban and rural areas. The United Nations Children's Fund (UNICEF) and others are involved in tackling these issues.

Civil Society

B41. The concept of a civil society based on the promotion of civic values and reciprocal relationships between private institutions such as trades unions, the mass media, non-governmental and community-based organisations is new to Albania. Indeed, because Albania was closed to the outside world and organised relationships – outside those approved by the state – were formerly treasonable offences, it will be extremely difficult in the short term to create the conditions for pluralism. The collapse of communism, and the inability of the state to establish reciprocal political and social processes, has resulted in a reversion to traditional structures of social and political control which revolve around the family, the clan and the village. However, traditional structures have not been sufficiently robust to cope with the changes brought about by transition, including the dominance of armed gangs and mafiosi which have penetrated both traditional and emergent official structures.

B42. There are about 220 non-governmental organisations (NGOs) in Albania, the majority of which focus on children

and women. Although the Civil Code of 1994 recognises NGOs as independent actors, it does not specify their position with regard to taxation, fundraising, or financial responsibilities. A draft law on NGOs has been in parliament since 1998. There is an NGO forum which has a General Assembly composed of both local and international NGOs. Many local NGOs are based in urban areas and depend entirely on foreign support. Many lack office space, equipment or an annual budget, and have weak organisational structures. There are a few exceptions to this, such as the Albanian Consumers Association, the Helsinki Committee and the Albanian Centre for Human Rights. These urban-based organisations tend, however, to have weak links with the majority rural population.

B43. Due partly to social and political breakdown in Albania in the second half of the 1990s, and a general view amongst donors of the weakness of state institutions, both they and international NGOs have tended to provide or fund social welfare services that have not involved or been coordinated by either central or local government. Apart from the uneven distribution of services resulting from this approach, one consequence has been resentment on the part of government, particularly local government, towards NGOs that have resources and appear to operate entirely independently. If the state in Albania is to be seen by the public as an effective provider of services, it is important that parallel systems are not set up, that official policy and service provision is strengthened, and that non-government activity is seen by government as complementary, rather than a challenge, to official provision.

Minorities

B44. Albania's ethnic minority populations are composed of Greeks (1%), Macedonians (0.15%) and Roma, who are thought to number between 80,000 –100,000. The socio-economic characteristics of the Roma population, unlike in other Central and Eastern European countries, do not differ markedly from the rest of the population. However, the Roma are socially excluded from mainstream society and live in ghetto-type housing, mainly on the outskirts of urban areas. Nearly 70% of Albanian's population is Muslim. The main religious minorities are Orthodox Christians, who live

B. THE CHALLENGE

CONTINUED

mainly in the south, and Catholics, who are found mostly in the north.

Health

B45. Key health indicators in Albania are typical of many low-income countries. The infant mortality rate in 1998 was 2.5%, although it had fallen from the rates seen earlier in the decade. At 4% (in 1996), the under-five mortality rate is high, as is the maternal mortality rate of 41 per 100,000 (1996). However, life expectancy is high at 70 (1999), having risen from 53.5 in 1950. The rates of cardiovascular disease and cancers are lower than those for western countries.

B46. Progress in achieving international development targets in health has been slow; infant mortality and maternal mortality rates are too high and there is not yet universal access to family planning services. The regional variation in disease rates is worrying. Poor areas in the north of the country experience up to five times the average rate of maternal mortality. Risk factors for AIDS are present, but prevalence is still low.

B47. The Government embarked on health service reforms in 1993. These were based on the provision of high quality primary health care, with less dependence on secondary services, funded through a national health insurance system, ensuring direct funding for health services. A national drug policy ensuring the provision of appropriate, high quality drugs available to all at low cost was to be developed. In March 1995, the Health Insurance Institute was established in order to develop primary health care through new payment systems. A Regional Health Authority for Tirana has been established. Providing health services for 700,000 people, it is intended to be a pilot for decentralising services for the country as a whole. Professional training of doctors and nurses is also being refocused.

B48. Despite these steps, there is still much to be done. The health sector faces similar challenges to those existing in the wider public sector; problems of access to and quality of services, need for administrative reform, including decentralisation of services and improved financial

management; uncertain levels of financing for the insurance-based financing system (backed up by the general budget) due to low levels of collection of taxes and insurance contributions. At the same time, the interim PRSP has singled out the health sector as a major poverty reduction priority while the MTEF attempts to bring this key area of key social spending under control.

ENVIRONMENTAL

B49. While previously largely unchecked industrial pollution has diminished as state-owned industries have closed down, there is an increasing problem of pollution by the small and medium-size enterprises (SMEs) that have taken their place. Most solid waste is dumped in rivers. There is a serious problem of unexploded ordnance in dangerous condition at military sites. Dangerous pesticides left over from the communist era need removing. Forest cover has reduced from 36% to 16% of Albania's land area in the last decade. Illegal felling continues to be a serious problem. Coastal erosion is being caused by unchecked building construction. There is little evident urban planning control. Albania's larger lagoons have major problems of pollution.

B50. There is an Environmental Inspectorate. It needs additional powers of enforcement and training for staff.

B51. A National Environment Agency reports directly to the Council of Ministers. The United Nations Development Programme (UNDP) has assisted with the preparation of a Greenhouse Gas Inventory. A Biodiversity Strategy has been completed and a National Environmental Action Plan is being updated.

B52. The needs of Albania in environment are widespread and have attracted support from many donors. Future needs are for infrastructural development in areas such as wastewater treatment and solid waste disposal, and support to regulatory procedures, enforcement and capacity-building.

C. ROLE OF THE INTERNATIONAL COMMUNITY

C1. Albania joined the World Bank and the International Development Association (IDA) in October 1991. The World Bank Country Assistance Strategy sets out three strategic priorities: governance and institution building; promoting sustainable private sector growth; and promoting human development and poverty alleviation through education, health and social protection projects. At June 2000, IDA lending to Albania totalled \$542 million. There is a small programme by the International Finance Corporation, promoting private sector development.

C2. Since 1991, European Community assistance to Albania has totalled over €0.7 billion. The EC's 1999 Country Operational Programme focuses on administrative and institutional reform (support for the customs administration, the police, the judiciary, the supreme audit institution and statistics), water, road construction and community development. It will also provide support to Albania's negotiations on, and preparation for, a Stabilisation and Association Agreement, including support to legal approximation in internal market issues and other key areas.

C3. The European Bank for Reconstruction and Development (EBRD) takes a lead role in financing private sector development in Albania, focusing particularly on the manufacturing and tourism sectors and on support to SMEs. It is working with the Bank of Albania to strengthen the financial sector.

C4. In 1998 external net official development assistance to Albania was \$242 million. The UK share of expenditure by the multilaterals since 1992 was as follows:

UK IMPUTED MULTILATERAL SHARE TO ALBANIA £ MILLION

Date	EC	Other	UN	World Bank	Total
1992	17.3	0.0	0.1	0.1	17.5
1993	12.7	0.7	0.2	1.1	14.7
1994	3.2	3.1	0.2	1.5	8.0
1995	3.9	0.8	0.2	1.7	6.6
1996	6.0	0.0	0.2	1.7	7.9
1997	2.3	0.0	0.1	0.8	3.2
1998	8.6	0.3	0.2	4.0	13.1

C5. In the area of public administration reform, there has been widespread support from a range of donors, including the World Bank, Organisation for Security and Co-operation in Europe (OSCE), EC, and United States Agency for International Development (USAID), the Council of Europe and various bilateral donors. The EC plans further inputs in internal and external audit. The World Bank has agreed a project to reform public expenditure management. Government and donor co-ordination in the sector is considered to be good.

C6. On law and order, the Western European Union has provided extensive support to police training through the Multinational Advisory Police Element (MAPE), in which UK police officers have participated. The US, Germany and Italy are providing support to combat organised crime.

C7. Many donors are helping Albania to tackle its environmental problems. The World Bank is supporting a Coastal Management Project. The UNDP and the Global Environment Facility are assisting with preparation of national strategies and measures to address lake pollution. The EC is assisting with adoption of EU norms and standards. The World Bank has assisted with the preparation of the National Environmental Action Plan. Several bilateral donors are helping with water treatment and solid waste treatment. The most active bilateral donor, working in several sectors, is Italy, which has strong regional links to Albania.

D. CURRENT UK BILATERAL SUPPORT

D1. We have supported a bilateral programme in Albania since 1993, spending over £21 million in technical assistance and humanitarian aid. Early support included projects to build local government capacity and improve livelihoods of rural communities. These offered some immediate benefits and lessons learnt have been fed into subsequent programmes. But the small scale and diverse nature of our activities mean a wider assessment of impact has not been possible.

D2. Over the last year, however, we have sought to develop a more strategic portfolio of activities supporting key government reforms, as well as the SAA and PRSP processes, and complementing the activities of the main donors, particularly the EC and World Bank.

D3. We have provided support, through UK consultancy inputs, to prepare the Medium Term Expenditure Framework. This is an essential element of reform of public

finances in Albania, and is directly linked to the PRSP process. We are working closely with the Government and the World Bank to help develop a growth and poverty strategy. We have funded technical assistance to design participatory processes for the PRSP. We are assisting with pilot activities feeding into the design of a World Bank social sector adjustment credit.

D4. We have been active in support of health reform. Working closely with the World Bank and World Health Organisation we have provided technical assistance to help establish a national health strategy and develop a Policy and Planning Unit in the Ministry of Health; to strengthen the Health Insurance Institute; and to help set up the Tirana Regional Health Authority.

E. FUTURE STRATEGY

E1. Section B highlighted the challenges facing Albania. In a number of areas, such as economic reform, the judicial sector, children's rights and environment, other donors are actively involved and the opportunities for the UK to add significant value appear limited. In others, however, such as administrative and financial management reform, social policy, health sector reform and the development of effective strategies to tackle poverty, we are actively engaged. Involvement in these areas offers opportunities to make and reinforce key linkages between poverty reduction, expenditure planning, the EU Stabilisation and Association process and sectoral reform agendas.

E2. We shall continue our close association with the multilateral agencies in supporting the Government's reform efforts in Albania. We shall seek further opportunities to cooperate with them, particularly the World Bank, in key areas addressing social and economic reform and poverty eradication and with the EC on the SAA agenda and the design and delivery of effective aid under the new Community Assistance for Reconstruction, Development and Stabilisation (CARDS) programme. Additionally, we shall identify areas in which carefully targeted bilateral funding will help build capacity to take forward key aspects of the reform process.

E3. The strategy will focus on the following priority outputs.

1. *Effective and transparent management of public finances*

E4. We shall continue to work closely with the Government and World Bank and offer appropriate technical assistance to help with the completion and subsequent monitoring and review of the **PRSP**. We shall use the PRSP itself to guide our own future bilateral inputs. We shall, as appropriate, provide further support to the development of the **MTEF**. We will work with the World Bank to encourage the development of appropriate linkages between the MTEF and PRSP processes and the SAA negotiation with the EC.

E5. We shall support the General Tax Administration in the development of more **effective tax administration** and collection systems, to help increase the funding available to the Albanian Government for essential public services. We will also support improved public information on taxation issues.

E6. We will explore opportunities to support and strengthen the **internal audit** function, with the intention of promoting transparency in public administration.

2. *Effective public administration at central and local levels*

E7. We shall support the establishment of a **Civil Service Commission**, building upon our existing partnership with the Department of Public Administration. Our assistance may include support to recruitment procedures and the divestment from government of non-core functions. We shall explore with the Department the possibility of supporting individual ministries in reform of their administrative and managerial systems. This will, in part, build on our support to reform of the structure and procedures of the Ministry of Health. In planning future activities, we shall ensure that our bilateral inputs are coordinated with those of the European Commission, which is the lead donor on administrative reform, and with the World Bank.

E8. We shall discuss with the Albanian authorities possible support to their policy of **local government decentralisation**, and the national strategy that has been produced. This is a key means of directing resources according to local need in support of services to the poor. A possible area of support is fiscal decentralisation, which will be fundamental to local service delivery.

E9. We intend that our proposed support to public administration reform will make a major contribution to the reduction of **corruption** in the public sector. Where opportunities arise, we will consider support to specific anti-corruption initiatives.

E. FUTURE STRATEGY

CONTINUED

3. *Effective social policies and services*

Ei0. We shall continue to work closely with the Albanian authorities and the World Bank in taking forward a programme of **social service reform** in both rural and urban areas. We have agreed with the World Bank and Albanian authorities to take the lead on support to institutional strengthening, including training at central and local levels. We plan a major programme of support following the current pilot phase of the project. We intend this to support the Government's developing poverty reduction strategy.

Ei1. We have had preliminary discussions with the World Bank on co-operation to support key elements of the Social Protection Adjustment Credit .

4. *Improved quality of health care*

Ei2. We shall continue our close co-operation with the World Health Organisation and the World Bank in promoting health policy reform, linking this to developments on the MTEF, PRSP and social sector reform. We will support the institutional strengthening of the Ministry of Health's **Co-ordination and Planning Unit**. This will help the effective targeting of scarce resources to provide equitable access to health services.

Ei3. We have worked closely with the Government and the World Bank in providing technical assistance in support of the development and institutional strengthening of the Health Insurance Institute and the Tirana Regional Health Authority. We are discussing with the Ministry of Health further support to capacity-building in the **Health Insurance Institute**.

Ei4. We shall support the development of an **Albanian Medical Council**. This will assist the development of professional standards in health care services and complement the support we have provided to the planning function in the Ministry of Health.

Ei5. Our continued support to health care provision is central to our objective of assisting in a key area for poverty reduction and the effective and equitable use of public finance.

5. *Improved rural livelihoods*

Ei6. We shall build on past support to community development in the particularly impoverished northern region of Albania in developing a major new programme of support to **rural livelihoods** development for the rural poor, who constitute the majority of the poor in Albania. The programme will combine support to local initiatives in establishing enterprises at village level with policy development at local and central government levels. We shall keep in view possible linkages to the PRSP and social sector reforms being pursued by the Government, and ensure that our activities are complementary to the activities of the multilateral agencies, including the International Fund for Agricultural Development, which is assisting with the setting up of a Mountain Areas Development Authority, and the World Bank, which is developing an agricultural services project, and plans support for a rural strategy.

6. *Effective and well regulated media*

Ei7. We will investigate support to the development of **free, independent media**, including possible establishment of self-regulatory procedures.

7. *Improved environmental services*

Ei8. We will discuss with the National Environment Agency possible support to the development of **environmental policy and regulation**. Given the wide range of needs in environmental services, we shall aim to identify an area in which the UK's considerable environmental expertise can best be used, and which complements the activities of the World Bank and other donors already active in this sector.

8. *Physical security of Albanian citizens improved*

Ei9. With the donor community, we will explore options for the Government to dispose safely of the large amounts of deteriorating **ammunition and ordnance** in the country, which presents a potentially major hazard to the population.

E. FUTURE STRATEGY

CONTINUED

E20. We will advise on the setting up of a **national emergency preparation strategy**. This is intended to assist with preparation for response to natural disasters.

F. IMPLEMENTING THE STRATEGY

F1. The programme is directed from DFID's office in London and managed jointly by British and Albanian staff in London and Tirana. We shall take forward development of this strategy with the support of a team of in-house advisers in key sectors, working together with administrative colleagues in London and Tirana.

F2. We shall continue to work closely with the Albanian authorities and with multilateral agencies, particularly the EC and the World Bank, to support and take forward the Government's developing poverty reduction programme. The progress of this strategy will be reviewed annually.

G. PROGRAMME RESOURCES

G1. Resources to support this strategy will be provided both through the UK's contributions to the programmes of the multilateral agencies and through the commitment of £9.5 million in bilateral funds over the next three years in support of the activities described in Section E. Estimated distribution of funding is shown in Annex 2.

SUMMARY OF CONSULTATION PROCESS

1. The strategy has been developed over the last year through consultation with a wide range of government and non-government players. The Future Strategy set out in Section E of this document has been agreed with the key Albanian authorities. It also reflects close discussion and co-operation with the World Bank and EC, in particular on the focus of the UK's contribution to the poverty reduction strategy process, and progress towards a Stabilisation and Association Agreement for Albania.

ANNEX 2

COUNTRY PROGRAMME EXPENDITURE PROFILE

£ MILLION	2000/01	2001/02	2002/03	2003/04
BINDING COMMITMENTS				
Rural Development	0.18			
Media	0.03			
Public Administration Reform	0.04	0.50		
Health	0.20	0.20		
Community Services	0.15			
Other (including Small Grants Scheme)	0.13			
SUB-TOTAL (A)	0.73	0.70		
OTHER PLANS*				
Effective and transparent management of public finances	0.05	0.70	0.90	0.50
Effective public administration at central and local levels	0.25	0.25	0.25	0.50
Effective social policies and services	0.15	0.50	0.80	0.50
Improved quality of health care	0.20	0.10	0.10	0.25
Improved rural livelihoods	0.15	0.40	0.60	0.50
Effective and well regulated media	-	0.05	0.20	0.10
Improved environmental services	-	0.20	0.15	0.20
Physical security of Albanian citizens improved	0.10	0.10		
Further plans in above areas (to be developed)	-	-	-	0.95
SUB-TOTAL (B)	0.90	2.30	3.00	3.50
TOTAL PLANS (A) + (B)	1.63	3.00	3.00	3.50
*indicative figures only				