

**ALBANIA**  
**INTERIM POVERTY REDUCTION STRATEGY PAPER**

**May 3, 2000**

## TABLE OF CONTENTS

<b><i>I. Introduction</i></b> _____	<b>1</b>
<b><i>II. Poverty Profile</i></b> _____	<b>1</b>
<b><i>III. Key Elements for a Poverty Reduction Strategy</i></b> _____	<b>3</b>
<b>A. Sustainable and Inclusive Economic Growth</b> _____	<b>3</b>
<b>B. Human Development</b> _____	<b>5</b>
B.1 Health _____	5
B.2 Education _____	5
B.3 Child Poverty _____	6
B.4 Labor Market and Social Protection _____	6
<b>C. Rural and Urban Development and Access To Basic Services</b> _____	<b>7</b>
<b><i>IV. Institutional Mechanisms for the PRSP</i></b> _____	<b>8</b>
<b>A. Institutional Arrangements</b> _____	<b>8</b>
<b>B. Measures to Strengthen Public Expenditure Management</b> _____	<b>8</b>
<b><i>V. Participatory Process and Timetable for the PRSP</i></b> _____	<b>9</b>
<b><i>VI. Monitoring Indicators</i></b> _____	<b>10</b>
<b><i>APPENDICES</i></b> _____	<b>12</b>
<b>Appendix A: Three-year Macroeconomic Framework</b> _____	<b>13</b>
<b>Appendix B: Matrix of Economic and Financial Policies</b> _____	<b>16</b>
<b>Appendix C: Monitoring Indicators</b> _____	<b>22</b>
Table 1: Life expectancy and fertility indicators, 1990-1998 _____	22
Table 2: Health indicators, 1990-1998 _____	22
Table 3: Education indicators, 1990-1998 _____	23
<b>Appendix D: Participation Plan for the PRSP</b> _____	<b>24</b>
<b>Appendix E: Work Program for the Preparation of the PRSP</b> _____	<b>25</b>

## **I. INTRODUCTION**

1. Over the last three years, Albania has made substantial progress in achieving macroeconomic and financial stability and has implemented many structural and institutional reforms required to establish a functioning market economy. In these endeavors the government has been supported by the arrangements under the Enhanced Structural Adjustment Facility (ESAF) and the IDA Structural Adjustment Credit (SAC). The results of these efforts have helped the government to put the economy on a rapid path of growth and to improve the well-being of the population.

2. Despite this progress, Albania continues to have one of the lowest levels of per capita income in Europe. The government is aware of this reality and is of the view that rapid growth is the main instrument for reducing the development gap of the country relative to the rest of the Europe, improve the standard of living of the population, and reduce the poverty of those most in need. To address these objectives in a comprehensive fashion, the government is planning to prepare a Poverty Reduction Strategy Paper (PRSP) by mid-2001 and launch a new national poverty reduction plan. This policy is consistent with the initiative under the Stability Pact and Albania's aspirations to become more integrated in Europe. To strengthen its effectiveness, the strategy will be formulated through a broad participatory and consultative process that will include, among others, representatives of civil society, local communities, the poor, and the donor community.

3. To ensure that the economy stays on a rapid growth path and to promote private investment, the Albanian government has agreed with the Fund and the Bank staff on a three-year macroeconomic framework and a set of policy measures, which are described in the attachments to this document. The Government also intends to request a new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) in 2001 following the termination of the current three-year arrangement, and it will continue to cooperate with the World Bank to deepen its reform program in the context of structural adjustment and other operations.

## **II. POVERTY PROFILE**

4. Poverty in Albania is a multidimensional phenomenon. As indicated by various studies, poverty defined in terms of low income and/or consumption in Albania is relatively high, mainly due to limited job opportunities and low incomes, particularly in agriculture. But poverty in Albania not only manifests itself in low income for part of the population, but also importantly in limited access to and poor quality of basic services like education, health, water, and sewerage. Large differences exist between rural and urban areas. Furthermore, repeated shocks and crisis, as well as large external and internal migration have contributed to the weakening of social cohesion and traditional family and community based safety nets, leading to increased vulnerability and social exclusion of different groups of the population.

5. Albania ranks low in comparison with other Southeastern and Central European transition countries in terms of commonly used living standard and human development

indicators. Per capita GDP in Albania is lower than the average for Southeastern European transition countries, and significantly below the average for Central European transition countries. UNDP's human development index places Albania 100<sup>th</sup> (based on 1997 data) out of 174 countries ranked, significantly below the rankings for other transition countries in Southeastern (55-73) and Central Europe (33-47). UNICEF's Report on the State of the World's Children for the year 2000 ranks Albania 90<sup>th</sup> out of 175 countries with respect to under-five mortality rate (based on 1998 data).

6. A study based on the 1996 Living Standard Measurement Survey (LSMS) data, conducted in the areas outside Tirana, suggests that poverty in Albania is a rural phenomenon with almost 90 percent of the poor residing in rural areas and 60 percent of the heads of poor households being self-employed in agriculture. The incidence of rural poverty was found to be five times higher than urban poverty and is highest in the North of Albania, where a large portion of families own less than 0.5 hectare of land each. Many households in these regions require subsidized wheat and cash transfers to survive the winter. Limited access to public services, often aggravated by poor rural infrastructure, especially roads, is a contributing factor to rural poverty. According to 1998 data, 27 percent of farms do not sell products to market and only 50 percent of farms use machinery.

7. Children are especially at risk of poverty according to the results of the 1996 LSMS data. The poverty rate for children under 6 was found to be almost double that for adults 64 and over. Moreover, the number of children is a strong poverty correlate – approximately one third of the poor have 5 or more children and the poverty incidence among families with five or more children is 60 percent.

8. Other results of the LSMS study indicate that poor families tend to be young, that poverty is strongly linked to education, while gender does not appear to be a poverty correlate, and that remittances constitute a major informal safety net. The poverty rate drops as the age of a household head rises; poverty is almost 10 percent higher for households with heads 16 to 35 years of age than for households with heads aged 64 and above. Households headed by people who are illiterate or have basic education are 20-30 times more likely to be poor than households headed by university graduates. Especially in rural areas, the poverty rate is minimal where household heads have migrated and returned home; the poverty rate is slightly higher where household heads abroad are currently sending remittances.

9. The social stratification since the 1996 LSMS may have changed as a result of the economic downfall caused by the pyramid scheme crisis, and large-scale internal and external migration. There are indications that significant pockets of urban poverty have appeared. Slum-like communities have formed around Tirana and other major cities, lacking urban infrastructure and services. Children from these communities often have to walk for about an hour to reach school. It is estimated that in Tirana there are about 800 street children. Parents working abroad often leave their children with grandparents or relatives who in some cases are not able to take adequate care of them. The number of elderly living alone and without help has risen. Problems such as drug abuse, prostitution, trafficking in women, child abuse, and other social problems have also increased.

10. Access to health services in Albania is limited and services tend to be of poor quality. Budgetary spending on health in Albania (2.1 percent of GDP in 1999) is one of the lowest in the region and since 1990 has fallen significantly in real terms. Currently, 30 percent of existing health centers are not functioning due to a variety of reasons. Albania has fewer physicians and nurses than other countries in the region. Large rehabilitation needs still exist for the physical infrastructure. Informal payments for health services which are supposed to be free are a common phenomenon. Albania compares unfavorably with other countries in the region with respect to infant and maternal mortality rates. In contrast, both male and female life expectancy in Albania are high, notwithstanding the fact that they seem to have fallen since 1991 (Tables 1 and 2, Appendix C). Available evidence indicates that in north-eastern areas of the country malnutrition is present in around one quarter of children.

11. Enrollment rates in education, particularly at the secondary level and especially for children from rural areas have fallen since 1990 (Table 3, Appendix C). As a result, the expected duration of schooling of children has dropped to below 10 years. This drop occurred against the background of a decline in public expenditures on education from 3.8 percent of GDP in 1995 to 2.8 percent of GDP in 1999, much below the level in neighboring countries. The declining enrollment rates reflect a deterioration in the quality of education, the diminishing relevance of traditional forms of vocational and technical training, as well as the increased opportunity costs of attending school. During the last ten years about 3 percent of children have dropped out of school each year,<sup>1</sup> which means that illiteracy which had been virtually eradicated in Albania, could be rising again. There are also serious concerns about the quality of education. In some urban areas the number of pupils per classroom now exceeds 40, while especially in rural areas the percentage of unqualified teachers is quite high. In addition, many schools still are in poor condition (leaking roofs, missing windows, no heat).

12. Access to basic services is far from universal and services are often not reliable. In urban areas about 80 percent of the population have access to piped water, access levels in rural areas are considerable lower. Furthermore, an urban household on average has running water for only 2-3 hours a day. About 40 percent of the urban population has a sewerage connection. No sewerage treatment facility exists in the whole country, and sewerage is discarded directly into rivers, lakes and the sea. Because of the poor condition of existing pipes, sewerage often contaminates drinking water. Because of the obvious health risks, a high chlorine concentration is used to kill bacteria in piped water. Access levels for electricity are high, but there are frequent disruptions in the service, especially during the winter months.

### **III. KEY ELEMENTS FOR A POVERTY REDUCTION STRATEGY**

#### **A. Sustainable and Inclusive Economic Growth**

13. The promotion of sustainable growth and inclusive development is the overarching priority in Albania's development and poverty reduction strategy. A poverty reduction strategy for Albania should therefore focus on a fair distribution of the benefits of growth for the entire

---

<sup>1</sup> This figure needs to be interpreted with caution. The registration system does not trace individual students, so that students who migrate (either internally or abroad) might be counted as dropouts.

population and should take into account existing social capital at the community level. In the past sustainable growth has been a main pillar of Albania's economic program and structural reforms have been aimed at achieving better governance and improving social cohesion. The PRSP approach provides Albania with the opportunity to deepen these efforts by focusing more clearly on poverty reduction as a policy goal and by formulating the strategy in a participatory fashion thereby increasing ownership.

14. Poverty reduction requires stronger public and private sector institutions that can operate in a transparent and accountable fashion and that are accessible to the entire population, including the poor. Economic activities in Albania have been severely constrained by the weak institutional capacity for enforcement and the lack of transparency in administration which have fostered the development of corrupt practices. Since the 1997 crisis, progress has been made in building a framework for improved and transparent public organizations in cooperation with the World Bank. However, the government realizes that more needs to be done to improve the targeting, transparency, and effectiveness of expenditures and to increase Albania's capacity to absorb foreign aid. As a step in this direction, a medium-term expenditure framework (MTEF) is being introduced to improve the budget planning process and to facilitate more effective expenditure prioritization (see section IV.B).

15. In recognition of the important role that the public sector must play in ensuring sustainable growth through improved human capital, the government is taking a number of actions aimed at enhancing the inclusiveness and citizen-responsiveness of Albania's public institutions. These include establishing a fully functional People's Advocate (ombudsman), establishing a Civil Service Commission, and appointing a Central Elections Commission. Also, complementary measures are being taken to improve the delivery of health, education and social services.

16. The government has also initiated major steps to reform the judicial system by: upgrading the quality of legal education; improving the functioning of the judicial system; creating a system for out-of-court resolution of commercial cases; and, making essential legal information more accessible. The government intends to complement these steps, particularly by anti-corruption measures, in cooperation with the World Bank and other donors within the framework of the Stability Pact. The anti-corruption program is a major component of public sector and judicial reform which is essential for building a more transparent and accountable state in Albania. It is also vital for poverty alleviation, because studies show that corruption affects the poor more.

17. Reducing poverty also requires community-based activities that develop institutions and social cohesion from the bottom up, and build on the traditions and social conventions that govern the behavior and actions of individuals. The absence of these institutions impedes economic development and increases poverty. In addition to supporting public sector reform, the government's strategy focuses on building institutions rooted in local culture, enjoying the full trust and ownership of the community and community-driven programs. These programs would stimulate growth and alleviate poverty in rural areas.

18. In line with this view that strong growth remains the main instrument for sustained improvement in the living conditions of the population, and given the strong links between

economic stability and growth, the government has, in consultation with the IMF, elaborated a macroeconomic framework for the next three years which projects that Albania's economy will expand at a growth rate of 8 percent over the next three years (Appendix A). This framework is underpinned by a comprehensive set of structural reforms - including financial sector reforms, privatization of the remaining state-owned enterprises, and measures to create an institutional and legislative environment conducive to foreign and domestic investment. These reforms as well as those measures geared more specifically towards poverty reduction are summarized in the attached policy matrix (Appendix B).

## **B. Human Development**

19. The Government recognizes that economic growth that does not translate into improvements in the standard of living for everyone is socially, politically, economically and environmentally unsustainable. To ensure that sustainable economic growth is inclusive in Albania, the government will therefore promote human development through the design and implementation of comprehensive and integrated strategies in health, education, child poverty, and social protection sectors.

### **B.1 Health**

20. Against the background of unsatisfactory health outcomes – in particular for children – and poor access of the population to health services, the government's objectives are to improve the health status of the Albanian population, to ensure full access to primary health care regardless of income level, and to ensure comparability in access to health services between rural and urban areas. Priority will therefore be given to reforms in the health sector, particularly in public health measures and preventive and primary care services. The Ministry of Health's program calls for undertaking measures to improve institutional capacity in the provision of public health services, particularly in ensuring full coverage of vaccination programs and in improving the monitoring and treatment of infectious diseases. The government will also develop a program that will provide better family planning and reproductive health services in order to improve the health status of women and children.

21. The government will give high priority to increasing the level and effectiveness of public health expenditures which have fallen significantly in recent years. It will also finalize, in cooperation with WHO and the World Bank, the National Health Policy and Strategy document which deals with all aspects of the Albanian health sector, e.g. financing, management, institutional arrangements, etc. over the short- and medium-term.

### **B.2 Education**

22. The government aims to increase enrollment in basic and secondary education. In basic education, the government will undertake an analysis of the recent decline in gross enrollment rates. It will also review the structure of the secondary education system in order to make it more appropriate to current demands in the labor market and identify measures for improving the quality of secondary schooling. For the entire education system, the government will adopt more appropriate curriculum standards, improve arrangements for the supply of textbooks, and address

issues of the quality of teaching staff. It will also explore how to improve the integration of internal migrants into the education system. Furthermore, the government will use its school mapping database to rationalize the allocation of resources for school rehabilitation and construction.

### **B.3 Child Poverty**

23. The government will pay particular attention to alleviating poverty and vulnerability among children. The 1996 LSMS indicates that incidence of poverty among children, particularly in rural areas, is high. Moreover, other evidence indicates that in north-eastern areas, malnutrition is observed in around one quarter of children. In urban areas, the growing number of street children needs to be addressed. The government intends to address child poverty and vulnerability through its programs in education, health and social protection. In the area of social protection, the government will take steps to ensure adequate income support to poor families with children. Introduction of other programs, such as school feeding, food supplements for infants and pregnant women, and assistance in kind to children from poor families will also be considered.

24. The government will pay particular attention to protection of children without parental care. As an alternative to their institutionalization, foster care arrangements will be developed, including necessary legislation, financial support to foster care providers and appropriate monitoring and supervision institutions and mechanisms. The government will prepare a plan for the introduction of community based social care services (daily care centers, family counseling centers, respite care centers, etc.) in order to provide assistance and support to handicapped children and their families, dysfunctional families, children and youth with disturbed behavior and other vulnerable groups.

### **B.4 Labor Market and Social Protection**

25. Currently, 18 percent (or about 239,000 people) of the workforce is officially registered as unemployed. In order to create a flexible labor market that promotes employment opportunities, the government will review and, where necessary, revise its labor market legislation and regulations, labor market policies and social insurance programs. The Ministry of Labor and Social Affairs (MoLSA) will examine the possibility of implementing public works programs focusing on poor communities, particularly in rural areas, and strengthening job counseling and job search assistance for the unemployed. Well targeted, demand driven training programs will continue to be implemented, with special focus on training and retraining of workers who have been made redundant by privatization, structural changes, etc. In addition, efforts will be undertaken to improve labor statistics.

26. The government will develop a plan for restructuring its unemployment insurance program to improve its targeting consistent with Albania's level of social and economic development. The government will also review its social insurance programs, with particular emphasis on pensions. It will complete the actuarial evaluation of the pension system by end-2000 and prepare reform proposals in order to achieve its fiscal sustainability in the medium term.

27. The government will review, by November 2000, its cash-benefit social assistance program, with particular emphasis on the assessment of its poverty impact in order to improve its targeting effectiveness. The MoLSA has already initiated a pilot study for Tirana to review its social assistance program. According to the 1996 LSMS data, the program was modestly effective in targeting and contributing to the alleviation of poverty in the poorest strata of the society and reducing consumption inequalities. The MoLSA will complete and make operational its database on social assistance beneficiaries. In addition to cash social assistance programs, the government will prepare a plan for the development of a system of community-based social care services in order to improve the well-being of vulnerable groups, such as children deprived of parental care, the disabled, single mothers, frail elderly people living alone and dysfunctional families.

### **C. Rural and Urban Development and Access To Basic Services**

28. The Poverty Reduction Strategy will aim to identify incentives for inclusive and sustainable economic development in order to ensure that all sections of Albanian society benefit from growth, and broaden income and employment opportunities for both the rural and urban poor. Specifically, the government aims to increase access to basic services (e.g. water, sewerage) for the entire population and to improve the quality of these services.

29. While a fully-fledged policy to address rural poverty will be developed in the PRSP, the government has already begun to address some of these issues. Moreover, the government will remain committed to improving efficiency in the agricultural sector, focusing on land consolidation and the development of a rural land market. It will also continue with the project for small-scale local infrastructure improvements. The government will improve the enabling environment for village savings and credit associations and will expand the micro-credit rural savings scheme, which has proved to be a very effective instrument. Based on the findings of the PRSP, the Steering Committee will recommend to the Albanian Development Fund (ADF) how to use ADF more efficiently for poverty reduction and local development.

30. The rural poor are particularly vulnerable to natural resource degradation. Therefore, the government will promote sustainable use and management of natural resources, especially water, forests, pastures, and fisheries. It will explore possibilities for expanding community-based activities that have proven effective, such as community forest and pasture management, water users associations, and community-based institutional frameworks for their operation and maintenance. It will also facilitate fishermen's associations in order to introduce community-based marine resource management. The National Environmental Action Plan will be completed providing the framework for sustainable natural resource use. In addition, it will develop a plan to address the linkage between energy and poverty, with the intention of improving the targeting of subsidized energy and increasing access of the poor to competitive sources of energy.

31. The government will take steps to tackle problems associated with rapid urbanization that has occurred since 1991. Massive internal migration to urban areas has caused large informal settlements on suburban public land. An estimated 20 to 30 percent of Tirana's current residents are reported to live in such settlements mostly without title registration and with little or no

access to essential urban infrastructure. Additional problems have resulted such as degradation of the urban environment due to free discharge of sewage and disposal of solid waste. Pockets of urban poverty have appeared as migrant families tend to be excluded from the formal urban fabric. Through initiatives such as the ongoing Urban Land Management Project as well as community-based social services, the government will provide essential infrastructure networks in informal settlements with community participation and ownership; develop and implement clear rules to regularize and legalize informal settlements to achieve social cohesion in urban areas; and nurture partnership among central and local governments, and communities to set up effective institutional frameworks for the urban sector.

32. The Ministry of Public Works will examine the issue of homelessness that has resulted from the privatization of state-owned homes, the pyramid schemes, and migration to urban areas. It will also evaluate deficiencies in water supply and quality of water, and garbage collection and disposal in both urban and rural areas.

33. The government will evaluate its strategy for strengthening local governments with a view to fully ensure the realization of its poverty reduction objectives. The Strategic Plan on Decentralization was approved in December 1999 and a task-force is currently preparing the legal framework and an action plan. Care will be taken to ensure that the delegation of tasks to subordinate levels of government and funding allocations will not conflict with poverty reduction goals.

#### **IV. INSTITUTIONAL MECHANISMS FOR THE PRSP**

##### **A. Institutional Arrangements**

34. The government has established a PRSP Steering Committee to oversee the development of the poverty reduction strategy. The Committee will report to the Council of Ministers and will comprise members of the Economic Policy Committee and representatives from Parliament, civil society and the donor community. The Minister of Finance will act as the coordinator for the preparation of the PRSP. An inter-ministerial PRSP Working Group, reporting to the Minister of Finance and the Steering Committee, has been set up and will be responsible for the day-to-day management of the PRSP exercise and for the preparation of the draft PRSP. In those sectors in which government policies and programs can have a significant impact on poverty reduction, Sector Working Groups (SWGs) have been established and will be responsible both for the development of policies and strategies for inclusive development and for defining priority programs and measures within the sector public expenditure program.

##### **B. Measures to Strengthen Public Expenditure Management**

35. Implementation of the government's poverty reduction strategy will require that weaknesses in the planning and management of public expenditure be addressed. Measures being taken by the government to achieve this include: (i) the introduction of a strategic approach to the prioritisation of public expenditure under which expenditure decisions will be explicitly linked to government policies; (ii) the adoption of a three year time horizon for the

programming of public expenditure acknowledging that the reform and restructuring of sector budgets needs to be undertaken over the medium-term; (iii) the preparation of investment and recurrent budgets within an integrated budget framework that explicitly considers the downstream recurrent cost implications of investment projects; (iv) the refocusing of budget management towards the realisation of outputs and outcomes rather than the utilisation of inputs. Measures will also be required to improve the monitoring and tracking of public expenditures to ensure that resources reach intended programme beneficiaries.

36. With the assistance of the World Bank and other donors, the government has begun to address these requirements through the introduction of a medium-term expenditure framework (MTEF) and other initiatives to strengthen budget implementation procedures. The MTEF process will ensure that sector policies and public expenditures have a clear poverty reduction focus and are designed within a realistic macroeconomic resource framework. Preparation of the initial MTEF, covering the 2001-03 period, has started and will be completed by June 2000. The initial MTEF will include sector expenditure strategies for health, education, transport, public works as well as labor and social protection. These will explicitly address poverty reduction goals and will identify the measures necessary to improve the targeting of budget expenditures. Following a decision by the Council of Ministers, the MTEF will provide the basis for the preparation of the budget call circular for the 2001 Budget and for the evaluation by the Ministry of Finance of the subsequent budget requests from the line ministries.

37. Linked to the MTEF process, the government is also implementing initiatives aimed at improving budget implementation. These include: (i) revising the budget classification system in order to allow more meaningful targeting and monitoring of public expenditure; (ii) strengthening Treasury operations to ensure more timely release of funds and better reporting of expenditure; (iii) ensuring full recording of externally financed project expenditures in the government's accounts; and (iv) increasing budgetary responsibility of local governments for services which can be more effectively planned and managed at the local level.

38. The preparation of the PRSP will be closely linked with the MTEF process in 2001. As part of the PRSP process, poverty reduction guidelines will be prepared by January 2001 for agriculture, health, education, public works, and labor and social protection. These guidelines will be incorporated into the MTEF budget framework memorandum to be prepared in early 2001. Subsequent preparation of the MTEF and PRSP documents will be undertaken concurrently, thereby ensuring consistency between the government's poverty reduction strategy and its expenditure plans.

## **V. PARTICIPATORY PROCESS AND TIMETABLE FOR THE PRSP**

39. The interim PRSP was prepared by the Ministry of Finance following extensive consultations with line ministries and other government entities (e.g. statistical institute INSTAT). Comments were also sought from a few local research institutes and from a number of international organizations such as EBRD and UNDP. The preparation of the interim PRSP was launched in January 2000 with the setting up of working groups in line ministries which focused on the poverty reduction strategy. With assistance from the World Bank and the IMF, meetings were also conducted in March to brief government officials, civil society, and donors about the

new initiative and in particular the participatory aspect of the exercise. Furthermore, the government has placed a series of articles dealing with the PRSP in one Albanian newspaper which focuses on economic issues.

40. The government will follow a participatory approach for the formulation, implementation and monitoring of the PRSP (Appendix D). Based on an analysis of the current level of participation in Albania, a complete stakeholder analysis will be carried out. In preparation for this analysis the government has already compiled a list of organizations that line ministries have identified as important in their areas. In the comprehensive stakeholder analysis the government will involve a European research institute in addition to domestic partners. Following this analysis, the government will commit to clear selection criteria for the participation in the consultations process, to ensure broad representation of stakeholders and to make the selection process as transparent as possible. All national organizations and associations are urged to examine how they can contribute to the achievement of PRSP goals. They are requested to include PRSP action plans in their agenda, with a view to developing agreements for mutual collaboration for implementation and ongoing monitoring.

41. Institutional mechanisms for the consultations with stakeholders, which will take place during the second half of 2000, will include focus groups, interviews, workshops, conferences, etc. To ensure that stakeholders will be able to fully participate in the process, the government will continue with the public information campaign to increase knowledge about the PRSP beginning in May. The government will also disseminate widely background information for the PRSP process to relevant stakeholders. The participatory process for the PRSP will culminate in a national stakeholder workshop to validate and finalize the Poverty Reduction Strategy in June 2001. The complete work plan for the preparation of the PRSP, which also includes extensive data gathering and analysis efforts as well as the PRSP/MTEF work outlined above, is contained in Appendix E.

42. The government intends to place particular emphasis on providing information to and consulting with foreign donors. In this context, sectoral donor roundtables which have been discontinued since the end of the Kosovo crisis will be revived for health and education and a new roundtable will be established in the area of social protection. In addition, the MTEF exercise envisages the presentation of the government's overall expenditure strategies and priorities to the donor community during the second part of the year. The government intends to use this mechanism to also consult more comprehensively with donors on the PRSP process.

## **VI. MONITORING INDICATORS**

43. The government will undertake a series of measures in order to improve and/or establish appropriate mechanisms for the regular and timely collection, analysis and publication of data required for the monitoring of relevant social indicators related to the well-being of the population. INSTAT, in cooperation with the World Bank, will, by September 2000, compile a poverty update based on the 1998 Household Living Conditions Survey. A qualitative participatory poverty assessment will also be conducted by September 2000.

44. However, data gap problem for preparation of a PRSP still remain which need to be resolved. A poverty profile based on the 2000 household budget survey will be prepared by mid-2001. The population census to be carried out in April 2001 will provide the sampling frame for undertaking a fully representative living standard measurement survey scheduled for the second half of 2001. Thereafter, a regular program of household income and expenditure surveys will be instituted. The results of all surveys will be widely publicized and the government is committed to consult with relevant stakeholders on these results through appropriate channels (e.g. workshops, conferences). Setting up mechanisms to collect data for several more sector-specific indicators (e.g. dropout and completion rates in education and a monitoring system for infectious diseases) is already part of the work plan set out in the interim PRSP (see Appendix B).

45. In order to gather more information on the health and nutrition status of children, the government, together with UNICEF, will undertake a Multiple Indicators Cluster Survey (MICS). It will also begin to compile a set of reliable indicators necessary for the assessment of progress in social development, including indicators of the health, nutrition and education status of the population, and access to basic social services and utilities. These indicators will include life expectancy at birth, immunization rates, infant, under-five and maternal mortality rates, primary and secondary education enrollment rates, completion and drop-out rates, access to safe water and sanitation and other social indicators of development. These indicators will be compiled and published annually.

46. In addition to more data, extensive research is necessary to understand more fully the nature and causes of poverty and subsequently to gauge the effectiveness of various policy interventions. The capacity to conduct such analysis needs to be strengthened in Albania. In this context the government is considering creating a unit responsible for poverty analysis and monitoring affiliated with INSTAT or MoLSA. The first tasks of such a unit would include the compilation of a poverty map based on available data as well as drawing up an action plan for further data collection and analysis.

47. At present, the government intends to monitor progress of its poverty reduction strategy based on a set of indicators consisting of (i) male and female life expectancy, (ii) infant mortality rate, (iii) maternal mortality rate, (iv) under-five mortality rate, (v) immunization rates<sup>2</sup>, (vi) basic education enrollment rate, and (vii) secondary education enrollment rate (Appendix C). In addition, the results of the 1998 Household Budget Survey and of the 2000 Household Budget Survey will be used to assess progress

---

<sup>2</sup> Three rates based of full immunization of children aged 2 and under will be considered – against (i) diphtheria, pertussis, and tetanus, (ii) against polio, and (iii) against measles.

## **APPENDICES**

## **Appendix A: Three-year Macroeconomic Framework**

1. In the government's view, strong growth remains the main instrument for sustained improvements in the living conditions of the population and the elimination of poverty. The government is therefore determined to take all the necessary measures for preserving macroeconomic stability and to implement further structural reforms, with a view to keeping the economy expanding at its potential growth rate of about 8 percent a year. To allow for a gradual reduction in reliance on foreign resources, and to create scope for more rapid private sector credit growth, the government will continue its policy of fiscal consolidation and reduction in the current account deficit. However, this adjustment will be gradual, in light of the need to increase spending on poverty reduction measures, with the general government deficit declining from 9.4 percent of GDP in 2000 to 7.4 percent in 2003. To create scope for private sector credit growth, the domestically financed deficit, which is currently financed at high interest costs, will decline somewhat faster, from 4.3 percent of GDP to 2.1 percent of GDP in 2003. Such a program of fiscal consolidation will also allow the government to keep the public debt-to-GDP ratio on a gradually declining path and reduce interest expenditure from 5.9 percent of GDP in 2000 to 3.2 percent of GDP in 2003 (Table on Selected Economic Indicators is attached).

2. Strong efforts to boost revenue collection will provide resources for increasing public expenditure and simultaneously improving the fiscal balance. The government plans to raise non-interest public expenditure from 26.0 percent of GDP in 2000 to at least 27.5 percent of GDP in 2003, with a view to providing resources for additional programs for poverty alleviation and continuing with the public investment program. Combined with the targeted fiscal adjustment and the expected decline in interest rates (which will affect central bank profit transfers and, thus, government non-tax revenue) this will require the tax-to-GDP ratio to rise from around 15 percent of GDP in 2000, to 17 percent of GDP in 2003. This increase will be largely a result of better tax administration and a broadening of the tax base, to include, inter alia, agriculture. Moreover, possibilities will be explored for reducing tax rates to strengthen incentives for private sector activity. As foreign trade liberalization will continue, reliance on the taxation of imports will have to be reduced.

3. Monetary policy will be geared to keeping inflation in the 2-4 percent range. In response to reforms in the financial sector, private sector credit is assumed to grow from a very low base by an average annual rate exceeding 30 percent over the coming three years. Monetary policy will continue to be conducted in the context of the flexible exchange rate regime that has served the country well.

4. The current account deficit is projected to decline from 8.4 percent of GDP in 2000 to 6.4 percent of GDP by 2003. Financing of this deficit will require continued support from foreign donors, with foreign assistance for the budget in the form of grants, as well as concessional and close to concessional loans equivalent to about US\$220 million per year in the period 2000–2003. The government is committed to cooperate with the donors in obtaining and effectively using these resources. With most of the financing provided on concessional terms and with longer maturities, the debt-service payments are expected to remain at a prudent level of less than 10 percent of annual exports, and foreign debt will remain broadly unchanged relative to

GDP. To preserve the capability of the economy to react to adverse shocks, financial policies will be geared toward keeping the foreign reserves of the Bank of Albania at a level of at least 4.2 months of imports.

5. Forceful financial sector reforms, privatization of the remaining state-owned enterprises, and progress in creating an institutional and legislative environment conducive to foreign and domestic investment will be crucial for attaining the ambitious 8 percent target growth rate over the medium-term. The privatization of state-owned banks and legal reforms to strengthen financial markets will improve the effectiveness in channeling financial resources to the most productive uses. Enterprise privatization will focus on the strategic enterprises Albtelecom and KESH, as well as on the remaining medium-size enterprises. Regarding the legislative agenda, the government intends to approve a new bankruptcy law, and a new law on the office for execution of judicial orders in civil cases, which should enhance enforcement of private contracts. To create a better business climate, the government intends to establish a mediation center that will offer an alternative means of dispute resolution in commercial cases. To attract more investment, the government will explore in cooperation with donors the establishment of a one-stop investment shop, which would provide all the services associated with the promotion, approval, and facilitation of investment projects within the same agency. In addition, an industrial park will be created in Durres, with a view to providing foreign investors with a strategic location and adequate administrative and logistical support for their activities.

## Selected Economic Indicators

	1997	1998	1999 Est.	2000 Proj.	2001 Proj.	2002 Proj.	2003 Proj.
	(Percent change)						
Real GDP	-7.0	8.0	7.3	7.0	8.0	8.0	8.0
Retail prices (avg.)	32.1	20.9	0.4	1.5	3.0	3.0	3.0
Retail prices (end-period)	42.1	8.7	-1.0	3.0	3.0	3.0	3.0
	(In percent of GDP)						
Saving-investment balance							
Foreign saving 1/	12.1	6.1	8.0	8.4	7.8	7.1	6.4
Domestic saving	3.9	9.9	8.8	10.6	12.2	13.9	15.6
Public 2/	-8.6	-5.2	-5.6	-2.9	-2.2	-1.4	-0.6
Private	12.5	15.1	14.4	13.6	14.5	15.3	16.2
Investment	16.0	16.0	16.8	19.0	20.0	21.0	22.0
Public	4.0	5.2	5.7	6.5	6.4	6.6	6.8
Private	12.0	10.8	11.1	12.5	13.6	14.4	15.2
Fiscal sector							
Revenues	16.9	20.3	21.3	22.5	22.3	22.7	23.3
Tax revenue	9.7	12.3	12.9	15.3	15.7	16.3	17.0
Expenditures	29.4	30.7	32.6	31.8	30.9	30.7	30.7
Non-interest	24.0	22.9	25.7	26.0	26.1	26.8	27.5
Non-interest current	19.9	17.7	20.0	19.5	19.7	20.2	20.7
Interest	5.5	7.8	6.9	5.9	4.8	3.9	3.2
Overall balance	-12.6	-10.4	-11.3	-9.4	-8.6	-8.0	-7.4
Domestically financed balance 3/	-10.5	-6.4	-5.1	-4.3	-3.5	-2.6	-2.1
Public Debt	68.9	60.1	62.0	70.6	70.7	69.3	67.1
Domestic 4/	35.8	32.9	36.5	40.9	40.3	38.7	36.9
External	33.1	27.2	25.5	29.7	30.4	30.6	30.3
Monetary indicators							
Broad money growth (in percent)	28.5	20.7	22.3	11.1	13.3	11.3	11.6
Private credit growth (in percent)	19.0	14.7	22.6	27.4	43.1	33.1	30.0
Velocity	1.72	1.92	1.73	1.68	1.65	1.65	1.65
Interest rate (3-mth deposits)	26.0	16.5	8.5	...	...	...	...
	(In millions of U.S. dollars)						
External sector							
Trade balance 5/	-519	-621	-663	-692	-728	-785	-838
(in percent of GDP)	-22.7	-20.4	-18.0	-18.1	-17.4	-16.8	-16.1
Official transfers 5/	77	89	142	91	86	95	94
(in percent of GDP)	3.4	2.9	3.9	2.4	2.1	2.0	1.8
Current account balance 5/	-276	-187	-294	-320	-326	-333	-332
(in percent of GDP)	-12.1	-6.1	-8.0	-8.4	-7.8	-7.1	-6.4
Gross international reserves	306	384	481	500	535	570	605
(in months of imports of goods and services)	3.8	4.2	4.9	4.6	4.5	4.3	4.2
(relative to external debt service)	14.0	21.8	29.1	17.4	12.0	9.5	10.3
(in percent of broad money)	23.0	22.6	22.3	22.3	21.1	20.2	19.2
Change in real effective exchange rate	0.3	18.3	12.5	...	...	...	...
Memorandum items							
Nominal GDP (in millions of lek)	341,716	460,631	506,205	545,847	607,288	677,295	755,252
Nominal GDP (in millions of U.S. dollars)	2,284	3,046	3,676	3,817	4,188	4,671	5,209

Sources: Albanian authorities and Fund staff estimates and projections.

1/ Current account excluding official transfers.

2/ Revenue minus current expenditure.

3/ Excluding privatization revenues.

4/ Including bonds for bank restructuring.

5/ For 1999 excluding imports of direct humanitarian aid related to the Kosovo crisis.

## Appendix B: Matrix of Economic and Financial Policies

Area/Objective	<i>Measures to be taken</i>	<i>Responsible agent</i>	<i>Implementation</i>
<b>Macroeconomic stability and growth</b>	Ensure macroeconomic stability and sustainable GDP growth at around 8 percent through a gradual reduction in the fiscal deficit and forceful privatization and financial sector reform.	Government	2000-2003
	Maintain inflation in the 2-4 percent range through appropriate monetary and fiscal policies.	BoA, Government	2000-2003
	Reduce the current account deficit from 8 percent in 1999 to about 6 percent by 2003, with a view to limiting the growth in foreign debt to GDP ratio from 25 percent to 30 percent during this period. Assure that foreign borrowing is largely limited to loans at concessional terms, with a view to limiting foreign debt service ratios. Keep official reserves at a prudent level of about 4 months of imports.	Government, BoA	2000-2003
	Reduce the general government deficit from 11 percent in 1999 to about 7.2 percent in 2003, with a view to containing growth in public debt to 66 percent of GDP, and stabilizing domestic debt at about 36 percent of GDP.	Government	2000-2003
	Increase tax to GDP ratio from close to 14 percent in 1999 to 17[...] percent of GDP in 2003, and non-interest expenditure from 252 percent of GDP to 272 percent, with a view to providing resources for public investment and poverty alleviating policies.	Government	2000-2003
<b>Tax and Customs Reform</b>  Improve tax and customs collection, administration, and enforcement.	Develop tax sources for local governments.	Government	2000-2002
	Continue to reduce the stock of customs debt.	CD	2000-2002
	Continue implementing the merit-based payments in customs.	CD	2000-2002
	Approve and implement new tax code.	Parliament/GTD	2000
	Strengthen operations of large taxpayer office.	GTD	2000
	Continue the training program for trainers in tax administration.	GTD	2000
	Train customs officials in application of customs code.	CD	2000-2001
	Improve valuation of imported goods by applying market oriented prices and seek assistance for valuation information from other countries.	CD	2000-2001
	Prepare position paper on the introduction of agricultural land taxation.	MoF	2000-2001
	Make anti-smuggling group in Customs Department fully operational.	CD	2000
Increase direct tax revenues through enforcing compliance with the personal income tax law and identify measures to enhance social security contributions.	GTD/SII	2000-2002	
<b>Public Expenditure Management</b>  Strengthen budget preparation and execution.	Implement the medium-term expenditure framework (MTEF) and integrate the planning for the investment budget and the recurrent budget.	MoF/MoECT/ Line ministries	March-June 2000
	Finalize MTEF document and present to the Economic Policy Committee and to parliament.	MoF	June 2000
	Improve cash management system in treasury department.	MoF	2000-2001
	Review role of regional and local budget offices in view of fiscal decentralization.	MoF	2000-2001
	Formalize procedural, institutional, and legal framework for monitoring and servicing external credits and grants.	MoF/BoA/ MoECT	2000

<b>Financial Sector</b>  Prevent illegal activities and strengthen functioning of formal sector.	Improve environment for development of savings and credit associations by amending Savings Association Law and issuing prudential rules for SCAs.	Government/ BoA	September 2000
	Start operations of the credit information bureau.	BoA	2000
	Prepare a plan for introducing a deposit insurance scheme.	BoA	2000
	Privatize National Commercial Bank (NCB).	MoF	2000
	Improve auction market for treasury bills.	BoA	2000
	Replace government nonmarketable obligations to the BoA with marketable securities.	MoF/BoA	2000-2001
	Introduce remuneration on minimum reserves.	BoA	2000
	Continue to strengthen banking supervision capacity through a training program for on-site and off-site inspections, and further strengthen licensing and supervision procedures.	BoA	2000-2001
	Privatize Savings Bank.	MoF	2001
	Improve operational efficiency and effectiveness of Loan Collection Agency.	MoF	2000-2001
	Design and implement a real-time gross settlement system.	BoA	2000-2001
	Abolish remaining direct monetary policy instruments.	BoA	2000-2001
	Approve the new Bankruptcy Law.	Parliament/MoF/ MoJustice	2000
<b>Security and Public Order</b>  Strengthen public security and promote the rule of law	Strengthen police force, including through transparent hiring procedures, review of wage structure, and training.	MoInterior	2000-2002
	Improve further security at border crossing points.	MoInterior	2000-2002
<b>Judiciary</b>  Develop an independent judiciary and strengthen judicial implementation capacity.	Adopt the Action Program to strengthen enforcement of judicial decisions.	MoJustice/High Council of Justice	2000
	Develop regulation for preparation of court budgets.	MoJustice	2000
	Implement recommendations of court administration study in High Court and two lower courts.	MoJustice	2000
	Make judicial inspection office fully operational.	MoJustice	2000
	Amend the legal basis for out of court mediation and arbitration in commercial cases, and establish center to handle these cases.	MoJustice	2000
	Fully implement legislation providing explicit criteria for appointment and dismissal of judges and limiting executive authority over the judiciary.	MoJustice	2000
	Strengthen Magistrates School to organize education program for existing judges.	MoJustice	2000
	Adopt reform agenda for Tirana Law School.	MoJustice	2000-2002

<b>Public Administration</b>  Improve governance and strengthen institutional reforms to further combat corruption.	Complete revision of “Anti-Corruption Action Plan”.	Government	March 2000
	Prepare statement clarifying key ways in which the government’s institutional and public administration reform strategy addresses poverty reduction objectives of supporting sustainable, socially inclusive growth by (a) building more inclusive and citizen-responsive state institutions, and (b) enhancing the public sector’s capacity to cost-effectively help build human capital, particularly among the poorer sections of Albanian society	Gov/Steering Committee	May 2000
	Take initial steps aimed at creating more inclusive, citizen-responsive state institutions: (i) appoint Ombudsman (ii) appoint Civil Service Commission (iii) publicize baseline indicators measuring institutional and public administration capacities and performance	(i) Parliament (ii) Parliament (iii)Gov/Steering Committee	(i) February 2000 (ii) July 2000 (iii) December 2000
	Prepare and publicize semi-annual assessments of progress in implementing “Anti-corruption Action Plan” and impacts of that effort	Government	December 2000
	Conduct salary survey to assess the competitiveness of salaries in the civil service.	DoPA	2000
	Improve implementation of Public Procurement Law.	MoF/ Public Procurement Office/DoPA	2000
	Implement transparent recruitment procedures and merit based promotion and compensation to attract and retain competent and qualified civil servants. Reform pay structure by decompression of wages.	DoPA/MoF	2000-2001
	Introduce and enforce court procedures for corrupt officials.	Public Prosecutors Office	2000-2001
	Make operational a central database to monitor employment and authorized posts in the budgetary sector.	DoPA	2000-2002
<b>Social Safety Net</b>  Improve social protection of vulnerable groups, improve targeting of benefits.	Complete actuarial evaluation of the pension system and identify measures aiming at achieving its fiscal sustainability in the medium term	MoLSA	October 2000
	Complete institutional assessment of GASS and other parts of the public administration involved in the provision of social care services	MoLSA	September 2000
	Draft changes in legislation necessary for development of community based social services	MoLSA	September 2000
	Submit a proposal for a system of electricity subsidies for the poorest income groups	MoLSA	September 2000
	Prepare plan for development of community based social care services for vulnerable groups of the population, including orphans, street children, disabled, etc.	MoLSA	October 2000
	Analyze targeting efficiency and effectiveness of the social assistance programs in cash (special compensation program for pensioners and social assistance) and identify measures for their restructuring	MoLSA	November 2000

<b>Health Sector</b>  Match better the services offered with the needs of the population and improve capacities at all levels of the health sector.	Finalize National Health Policy and Strategy document	MoH	June 2000
	Establish a new “Policy, Planning, and Coordination Department” within the Ministry of Health	MoH	December 2000
	Establish the new Tirana Regional Health Authority	MoH	December 2000
	Conduct a five-month training course for district health teams to strengthen capacities in planning and management	MoH	December 2000
	Maintain the high rate of immunization coverage and improve vaccine supply and the cold chain conditions, especially for the remote rural areas	MoH	Ongoing
	Improve emergency and intensive care services to reduce impact of acute diseases.	MoH	2000
	Establish a program with the purpose of increasing accessibility to and strengthening reproductive health services, more specifically maternal, prenatal, neonatal and child care	MoH	December 2000
	Strengthen the monitoring system and communication capacities of districts with the national agencies and the Institute of Public Health to prevent the spread of infectious diseases and epidemics	MoH	March 2001
	Improve accessibility of secondary services as well as capacities of district hospitals, especially in the poorest areas of the country, in order to diagnose and treat infectious diseases in the respective district facilities.	MoH	Ongoing
	Undertake a survey on anthropometric measures for children through the Institute of Public Health	MoH	March 2001
	Take measures to reduce illegal payments for drugs, vaccines, and other basic health services as this may prohibit access of the poor to those services. Take rigorous actions against doctors accepting payments for changing medical records in case of infectious diseases at the cost of compromising public health.	Government	2000
<b>Education Sector</b>  Improve the quality of and access to education across income groups and geographic regions.	Conduct analyses to identify systematic variations in school enrollment and their primary causes as input to the development of the poverty-focused sector expenditure strategy.	MoES	March 2001
	Use school mapping data base at central and district levels to rationalize the allocation of school rehabilitation and new construction resources	MoES	March 2000 onwards
	Install a registration system in which each pupil can be identified and traced through his school life in order to allow for the calculation of dropout and completion rates.	MoES/INSTAT	August 2000 (before start of school year)

	Conduct a tracer study of students who recently completed secondary school to assess the usefulness of secondary school education in the labor market. This would be input into the MoES strategy for secondary education.	MoES	June 2001
	Conduct a grade 4 sample-based assessment in 2 subjects (Albanian language and mathematics) in preparation for a full baseline assessment	MoES	December 2000
<b>Labor Market</b> Improve the functioning of the labor market and reduce unemployment.	Complete a comprehensive analysis and evaluation of labor market institutions and policies and identify steps for their reform	MoLSA	October 2000
<b>Environment</b> Protect the environment.	Assess scope for expansion of the community based natural resources and watershed management	Forestry Directorate	April 2000
	Complete National Environmental Action Plan in order to improve understanding of priorities regarding natural resource use	Gov/METAP WB	December 2000
<b>Urban Development</b>	Support the formation of community association to establish responsive society at the community level and build up ground for participatory urban planning process	MoPublicWorks/ Municipality and District of Tirana	Continuous
	Establish a participatory platform for urban policy dialogue (urban forum) to build up ground for increasing governance and formulating effective policy on broader urban development issues	MoPublicWorks/ Municipality and District of Tirana	May 2000
	Explore practical solutions for resolution of outstanding restitution claims	MoPublicWorks/ Municipality and District of Tirana	December 2000
	Develop a strategic development investment plan for Tirana to establish clear direct linkages between economic and land development trends, and infrastructure investment programs through a process of involving all stakeholders	MoPublicWorks/ Municipality and District of Tirana	March 2001
<b>Rural Development</b>	Increase the area of pasture and forest land sustainably managed by local communities	Forestry Directorate	March 2000
	Take initial steps aimed at expanding opportunities for asset accumulation, reinstall district Land Commissions to (a) issue land distribution documents and (b) distribute the remaining undistributed land to individual users or communes.	Parliament/ Government	May 2000
	Amend Savings Association Law and issue prudential rules for SCAs to encourage the development of savings savings and credit associations.	BoA/MoF	September 2000
	Complete land registration in 150 cadastral zones each quarter.	MoAF	2000-2001

	Prepare and present to parliament legislation and procedures for establishing cadastre zone boundaries in forest and pasture land.	MoAF	2000-2001
	Allocate land refused in distribution process to individual users or communes.	MoAF	2000
	Prepare draft legislation aiming to resolve pending land compensation of former owners.	MoAF/ MoJustice	2000
	Complete restitution process for forest and pasture land and compensation process for agricultural land.	MoAF	2000
	Continue transfer of operational responsibilities for irrigation facilities to water user associations and their federations, and embark on the restructuring of state-owned water enterprises into participatory public drainage institutions in accordance with the Irrigation and Drainage Law	MoAF	March 2001
	Facilitate the development of community-based Fishermen's Associations to support small fishermen, and introduce community-based marine resource management	MoAF	March 2001
	Increase effective access to irrigation water by small farmers.	MoAF	March 2001
<b>Infrastructure</b>	Develop a plan for energy sector regulatory reform, restructuring and eventual privatization.	Government	2000
Improve service delivery and management of enterprises.	In the electricity sector, introduce measures to improve collection and reduce theft, including through an incentive-based foreign governance contract, installation of meters and meter boxes, disconnection of customers in arrears, and measures to facilitate payment of bills.	KESH	2000-2001
	Formulate a plan to address bill collection, theft, and cost recovery problems in the water companies.	Water Company	2000
	Strengthen cost control by reducing overstaffing and improving management in public utilities.	KESH/Water Company	2001
<b>Privatization</b>	Develop plan for privatizing utilities.	MoPrivatization	2000-2001
Complete privatization of state enterprises.	Privatize Albanian Mobile Telecommunications	MoPrivatization	2000
	Conduct open international tender for the second GSM license.	MoPrivatization	2000
	Privatize Albanian Telecom.	MoPrivatization	2001
	Privatize Albpetrol	MoPrivatization	2001
	Privatize Durres port operations.	MoPrivatization	2000
	Privatize Albchrom.	MoPrivatization	2000
<b>Trade Reform</b>	Reduce average tariff rate through a combination of reductions in the level, number, and dispersion of rates.	MoF	2001
Establish liberal and non-discretionary trade regime.	Reduce top customs duty rate to 15 percent.	MoF	2001

## Appendix C: Monitoring Indicators

**Table 1: Life expectancy and fertility indicators, 1990-1998**

	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Male life expectancy at birth (years)</b>									
Albania	69.3	69.3	68.5	68.5	69.5	68.5			
SEE-6	67.9	68.5	67.7	67.6	68.0	67.9	67.4	66.2	
CEE-5	67.0	67.1	67.4	67.8	67.9	68.3	68.7	69.1	
<b>Female life expectancy at birth (years)</b>									
Albania	75.4	75.4	74.3	74.3	75.6	74.3			
SEE-6	73.9	74.6	74.0	74.1	74.2	74.8	74.1	73.7	
CEE-5	75.6	75.5	75.8	76.0	76.2	76.2	76.7	77.0	
<b>Fertility rate (births per woman)</b>									
Albania	3.0		2.9			2.6		2.5	
SEE-6	1.9	1.8	1.7	1.7	1.6	1.6	1.6	1.5	
CEE-5	1.9	1.9	1.7	1.7	1.6	1.5	1.4	1.4	

Sources: Statistical Office (for Albanian data), MONEE database (for comparators).

Notes:

SEE-6 consists of Bosnia and Herzegovina, Bulgaria, Croatia, FYR of Macedonia, Romania, and FR Yugoslavia.

CEE-5 consists of Czech Republic, Hungary, Poland, Slovakia, and Slovenia.

**Table 2: Health indicators, 1990-1998**

	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Infant mortality rate (per 1,000 births)</b>									
Albania	28.3	32.9	32.8	35.4	28.3	30.0	25.8	22.5	20.5
SEE-6	20.4	19.1	20.6	19.6	17.5	16.3	15.0	15.1	
CEE-5	13.1	13.1	12.6	10.9	10.4	9.7	8.8	8.0	
<b>Maternal mortality rate (per 100,000 births)</b>									
Albania	37.7	29.7	25.2	16.2	40.2	33.3	27.8		22.1
See-6	25.7	21.8	20.7	20.3	21.7	22.6	17.4	17.6	
CEE-5	9.6	11.4	7.2	12.9	8.9	8.1	10.7	7.1	
<b>Under-five mortality rate</b>									
Albania	41.5	44.5	46.9	49.7	44.7	37.0	30.6		
SEE-6	24.2	23.2	24.8	22.7	21.9	20.1	18.6	18.9	
CEE-5	15.1	15.1	14.5	12.8	12.5	11.5	10.6	9.7	
<b>Immunization rate - diphteria, pertussis, tetanus (percent of children under 2)</b>									
Albania		77.6	94.0	95.8	96.3	97.1	98.1	98.6	
SEE-6	89.3	87.1	91.1	92.4	90.9	94.3	94.2	94.9	
CEE-5	97.1	97.0	96.8	97.0	96.9	96.3	96.4	96.6	

**Table 2 (Cont.): Health indicators, 1990-1998**

	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Immunization rate – polio (percent of children under 2)</b>									
Albania		82.5	87.0	97.5	97.2	97.8	99.6	99.1	
SEE-6	89.8	89.1	92.4	91.0	90.0	93.8	94.4	95.8	
CEE-5	96.7	96.6	96.5	97.0	96.9	96.7	96.7	96.6	
<b>Immunization rate – measles (percent of children under 2)</b>									
Albania		80.5	87.0	76.2	81.2	91.0	91.7	95.1	
SEE-6	92.3	88.4	79.4	90.2	87.6	93.1	92.5	94.5	
CEE-5	96.6	96.0	95.6	96.1	96.3	96.4	96.3	97.5	
<b>Physicians (number per 100,000 population)</b>									
Albania	138.0	147.1	165.0	143.2	132.9	142.2	141.0		
SEE-6	215.5	222.0	224.8	223.9	226.6	229.6	233.5	232.0	
CEE-5	287.1	286.6	288.2	273.6	278.4	270.5	277.6	287.9	
<b>Nurses (number per 100,000 population)</b>									
Albania	451.7			501.4	454.2	393.6		432.9	
SEE-6	545.1	528.0	525.8	524.9	533.1	527.7	535.3	518.9	
CEE-5	700.3	770.0	700.0	671.1	675.7	671.7	665.7	682.3	

Sources: Statistical Office (for Albanian data), MONEE database (for comparators).

**Table 3: Education indicators, 1990-1998**

	1990	1991	1992	1993	1994	1995	1996	1997	1998
<b>Basic education enrollment rate</b>									
Albania	90.7	88.5	85.9	86.6	87.6				
SEE-6	93.3	89.8	84.5	86.0	86.8	86.5	87.2	86.9	
CEE-5	97.9	98.0	98.6	98.5	97.9	97.9	98.4	99.0	
<b>General secondary education enrollment rate</b>									
Albania	21.9	26.3	29.5	29.9	29.3	30.5			
SEE-6	20.8	22.9	18.6	20.6	19.4	20.0	20.3	20.9	
CEE-5	18.4	18.7	19.4	19.9	21.0	22.0	22.8	25.7	
<b>Total secondary education enrollment rate</b>									
Albania	57.3	47.9	44.0	40.3	36.9	30.5			
SEE-6	62.6	58.5	57.2	58.4	56.8	57.1	67.2	66.3	
CEE-5	84.9	82.6	81.7	83.1	82.8	83.4	83.4	86.6	
<b>Pupil-teacher ratio in basic education</b>									
Albania	19.3	18.3	17.2	16.7	17.8	17.8	18.1	18.6	
SEE-6	18.5	18.5	18.3	18.6	18.4	18.0	17.5	16.3	
CEE-5	16.5	16.4	15.8	15.6	15.2	15.1	14.9	14.9	

Sources: Statistical office (for Albanian data), MONEE database (for comparators).

## **Appendix D: Participation Plan for the PRSP**

To make the preparation of the PRSP a participatory exercise the government will take the following steps:

- (a) Select a reputable, European research institute to facilitate and help to manage the process in collaboration with domestic partners. In particular, these facilitators (foreign and domestic) will carry out the comprehensive stakeholder analysis and identify a set of feasible mechanisms for consultation.
- (b) Conduct a national level workshop to build ownership and consensus among the central and line ministries, donors and representative bodies over the PRSP process.
- (c) Establish clear and transparent selection criteria for participants in the participatory process.
- (d) Define the institutional mechanisms through which different stakeholders can participate in the PRSP, including national workshops, focus groups and interviews, but also a public debate which can be carried out through the media or letter writing.
- (e) Initiate a public information campaign to increase knowledge of the PRSP among civil society groups and communities, thereby increasing their capacity to articulate their views in the context of the PRSP process.
- (f) Recruit and train a cadre of local consultants, perhaps university students, who can carry out the consultations.
- (g) Carry out the consultations over the course of the fall and early winter months of the year 2000.
- (h) Evaluate and analyze the information gathered through the consultative process in cooperation with the facilitators and present it to the Steering Committee, and then incorporate the findings into the PRSP document.
- (i) Conduct a consensus building and validation workshop in June 2001 to build ownership over the strategy and finalize the PRSP document.

## **Appendix E: Work Program for the Preparation of the PRSP**

A tentative time-table for the preparation of the PRSP includes the following:

### **April 2000**

- (a). The government will establish a Steering Committee for the PRSP consisting of members of the Economic Policy Committee and representatives of parliament, donors, and civil society.
- (b). The government will establish a PRSP working group to focus on poverty issues in the context of the MTEF.
- (c). The government, in consultation with the World Bank, will examine the current participatory process in Albania to determine a starting point and feasible level of the PRSP participation process.
- (d). The government, in consultation with the World Bank and the IMF, will prepare a plan for collecting information necessary for poverty assessment and monitoring.
- (e). The government will initiate research to select a reputable European research institute to work with the government on the stakeholder analysis and the organization of the participatory process.
- (f). The government, in consultation with the World Bank and the IMF, will identify a set of monitoring indicators for social development and poverty for the PRSP.
- (g). The sector working groups for health, education, transport, public works, and social protection will prepare sector expenditure strategies for the 2001 budget, focusing on poverty reduction measures and defining indicators to be monitored.

### **May 2000**

- (a). The Steering Committee, in consultation with the World Bank, will start the process of coordination with external donors – Friends of Albania.
- (b). The Ministry of Finance will continue with the information campaign to increase knowledge of the PRSP process among civil society groups and communities.
- (c). The Steering Committee will start preparing a workshop for ministries, representative bodies, donors, etc. to increase knowledge about the PRSP and in particular the participation process.
- (d). The Ministry of Labor and Social Affairs, in consultation with the World Bank, will evaluate findings of social assessments undertaken in previous World Bank and other projects in

Albania with direct poverty linkages (e.g. rural development, environment, human development) including assessments undertaken through agricultural services projects.

(e). The sector working groups on health, education, transport, public works, and social protection will prepare draft expenditure plans for the 2001 budget consistent with the sectoral resource framework and strategic objectives identified in the sector expenditure strategies.

(f). The MTEF working group will organize an Economic Policy Committee workshop on the MTEF and public expenditure options.

### **June 2000**

(a). The MTEF working group will finalize the 2001-2003 MTEF document to be approved by the Economic Policy Committee and the Council of Ministers.

(b). INSTAT, with technical assistance from the World Bank, will prepare a poverty update based on 1998 Household Living Conditions Survey.

(c). The Ministry of Labor and Social Affairs, in collaboration with the World Bank, will launch the preparation of a qualitative and participatory social assessment of poverty.

### **July 2000**

(a). INSTAT, with assistance from the World Bank, will evaluate statistical data and propose measures to provide regular and timely collection, analysis and publication of data to monitor poverty reduction and the well-being of the population.

(b). The government, in consultation with the World Bank and with technical assistance from a European research institute, will carry out a stakeholder analysis in order to identify the stakeholders and to identify a set of feasible mechanisms for consultation.

(c). The government will establish a clear set of selection criteria for participation based on the stakeholder analysis and define institutional mechanisms through which the identified stakeholder can participate in the preparation of the PRSP and will launch the participatory process.

### **September 2000**

The government will present the 2001-2003 MTEF document to the donor community and brief the donor community on the PRSP preparation process.

### **October – November 2000**

The sector working groups will prepare poverty reduction strategies in health, education, public works, labor and social protection, and agriculture consistent with the 2001-2003 MTEF resource framework in preparation for the 2002-2004 MTEF process.

## **November 2000**

The World Bank, in cooperation with the government, will prepare a survey-based beneficiary assessment of cash social assistance programs.

## **December 2000**

(a) The Ministry of Health, with technical assistance from UNICEF, will conduct a Multiple Indicators Cluster Survey (MICS) for children.

(b) The Ministry of Labor and Social Affairs will complete the data base on social assistance beneficiaries.

## **December 2000 - January 2001**

The PRSP working group will prepare a PRSP status report setting out poverty reduction guidelines for the 2002-2004 MTEF process.

## **January 2001**

The Steering Committee, in consultation with other government agencies, will evaluate and analyze the information gathered through consultation with stakeholders.

## **February 2001**

INSTAT will complete the data base for the 2000 Household Budget Survey.

## **April 2001**

(a) INSTAT, with donor assistance, will conduct population census.

(b) The sector working groups will prepare sector expenditure strategies for the 2002-2004 MTEF on health, education, transport, public works, social protection, and agriculture, focusing on poverty reduction measures and defining indicators to be monitored.

## **May 2001**

(a) The sector working groups will prepare draft expenditure plans for the 2002-2004 MTEF consistent with the sectoral resource framework and strategic objectives identified in the sector expenditure strategies and the poverty reduction guidelines in the PRSP status report.

(b) The MTEF working group will organize an Economic Policy Committee workshop on the MTEF and public expenditure options.

## **June 2001**

- (a) INSTAT, in cooperation with the World Bank, will prepare a poverty profile based on the 2000 Household Budget Survey.
- (b) The government, with assistance from the World Bank and other donors, will launch preparations for an LSMS using the results of the April 2001 census as a sampling frame.
- (c) The MTEF working group will prepare the 2002-2004 MTEF document to be approved by the Economic Policy Committee and the Council of Ministers.
- (d) The Steering Committee will organize a Consensus Building/Validation Workshop to review and finalize the PRSP.