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ALBANIA: 2011- 2015

COUNTRY DEVELOPMENT COOPERATION STRATEGY

NOVEMBER 10, 2011

U.S. MISSION IN ALBANIA

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I. EXECUTIVE SUMMARY

Albania is a small but strategically important country where U.S. influence is exceptionally strong. In light of budget constraints and in the context of legacy planning, USAID/Albania has designed a strategy that will concentrate on leveraging U.S. influence at the policy reform level. The program focus for the next five years will be on working with the Government of Albania (GOA) and the private sector on results-oriented transformational reforms and changes in the regulatory environment that will lead to strengthened democratic institutions and sustainable economic growth. This will better position Albania to achieve its European integration aspirations while, at the same time, advancing U.S. objectives related to Albania's role in helping to move forward U.S. foreign policy priorities. The program will directly support the President's U.S. assistance goals for Eastern Europe – as articulated most recently in the FY 2012 Foreign Assistance Budget for Europe and Central Asia – that call for integration into the Euro-Atlantic community, promoting reforms and consolidating stability.

This strategy proposes an overarching goal of *European integration through strengthened democratic institutions and inclusive economic growth*. Two Development Objectives (DOs) will support this goal.

DO#1, *strengthened rule of law and improved governance*: This DO has been selected given the current state of nascent democratic institutions in the country and a pervasive culture of corruption that undermines economic growth and citizen confidence, and conflicts dramatically with EU standards of transparency, accountability, and decentralization of authorities. Interventions will be chosen that strengthen key institutions, promote civil society, and reduce corruption, with results radiating beyond democracy and governance into the private sector. Under this DO, there will be a strong focus on strengthening the relationship between the central and local governments in order to improve planning, create the framework for development of a national territorial plan, and assure more efficient and transparent delivery of key public services that touch the daily lives of all citizens, e.g., water, sewerage, energy, and education. Given the pervasive impact of the judiciary and health sectors on the lives of ordinary citizens and the "most corrupt" epitaph attached to them, focus will be squarely on improving the enabling environment for policy reform and planning, enhancing citizen oversight and transparency, and upgrading performance and management capabilities in the judiciary and health delivery arenas.

DO#2, *conditions created for broad-based, sustainable, and inclusive economic growth:* This DO will focus on putting in place those reforms and regulations that will lead to a better business environment, more competitive micro-, small- and medium-sized enterprises (MSMEs), and a stronger financial sector. Improved dialogue between the GOA and the private sector will be encouraged through working with chambers and associations in order to identify and remove constraints to doing business. Effective use of public private partnerships (PPPs) will help to fill a serious resource gap in the country while addressing infrastructure (energy, roads, ports, etc.) and other constraints, for example in agro-marketing. Carefully targeted technical assistance to the financial sector will further strengthen regulatory authorities.

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In achieving this strategy, USAID will reduce its focus on clinical interventions in the health sector and with farm/firm level activities in the economic growth portfolio. The increased application of E-Systems, so successfully applied in the MCC threshold program, will be a key tool in both DOs for promoting transparency and reducing corruption.

In articulating these DOs, the Mission assumed that the GOA has the political will to reduce corruption and create a vastly stronger economy. Given the ardent desire for EU integration, this is not an unreasonable assumption, but vested interests and power politics (*viz* the current standoff between political parties in the Albanian Parliament) could potentially play a negative role. The Mission believes this is a risk worth taking, in order to help assure a democratic and economically strong Albania, more able to meet the needs of its citizens and to play a stabilizing role in the Balkan region and beyond in support of U.S. policy objectives.

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II. ACRONYMS

ACIT	Albanian Centre for Competitiveness and International Trade
AIDA	Albanian Investment Development Agency
ATA	Albanian Tourism Association
BOA	Bank of Albania (central bank)
CDCS	Country Development Cooperation Strategy
CEB	Council of Europe Development Bank
CEE	Central and Eastern Europe
CEED	Center for Executive Entrepreneurial Development
CSO	Civil Society Organization
DCDS	Department of Strategy and Donor Coordination (GOA)
DEG	European development finance institution, member of KfW Bankengruppe
DG	Democracy and Governance
DLI	Development Leadership Initiative
DO	Development Objective
DOC	Development, Outreach and Communications
DOS	Department of State
DOJ	U.S. Department of Justice
DP	Democratic Party
DTS	Donor Technical Secretariat
E&E	Bureau for Europe and Eurasia (USAID)
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EEN	Enterprise Europe Network (European Commission)
EG	Economic Growth
EIB	European Investment Bank
EU	European Union
EURALIUS	European Assistance Mission to the Albanian Justice System
FDI	Foreign Direct Investment
FSL	Foreign Service Limited (appointment)
FSA	Financial Supervision Authority (GOA)
FSN	Foreign Service National
FTF	Feed the Future
GCC	Global Climate Change
GDO	General Development Officer
GDP	Gross Domestic Product
GDT	General Directorate for Taxation
GHI	Global Health Initiative
GIZ	*Deutsche Gesellschaft für Internationale Zusammenarbeit*
GOA	Government of Albania
GOV	Governance
HII	Health Insurance Institute
ICASS	International Cooperative Administrative Support Services
ICT	Information and Communication Technology
IDB	Islamic Development Bank
IDRA	Institute for Development Research and Alternatives

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IFC	International Finance Corporation
IMF	International Monetary Fund
INL	Bureau of International Narcotics and Law Enforcement Affairs (DOJ)
IPA	Instrument for Pre-Accession Assistance (EU)
IR	Intermediate Result
IT	Information technology
KASH	Albanian Agribusiness Council
LG	Local Government
M&E	Monitoring and Evaluation
MAK	Macedonia-Albania-Kosovo
MCC	Millennium Challenge Corporation
MCCA	Millennium Challenge Corporation Act
MCP	Monitoring Country Progress Report
MOH	Ministry of Health (GOA)
MSME	Micro-, Small-, Medium-sized Enterprises
MSRP	Mission Strategic Plan and Resource Report
NATGA	National Albanian Tourist Guide Association
NATO	North Atlantic Treaty Organization
NBRC	National Business Registration Center (GOA)
NCA	National Chamber of Advocates
NGO	Non-Governmental Organization
NSDI	National Strategy for Development and Integration 2007-2013
NTA	National Tourism Agency
NTPA	National Territorial Planning Agency
OE	Operating Expenses
OPDAT	Office of Overseas Prosecutorial Development, Assistance and Training (DOJ)
OPEC	Organization of Oil Exporting Countries
OSCE	Organization for Security and Co-operation in Europe
PFOC	Program-funded Operational Costs
PMP	Performance Monitoring Plan
PPD	Public Private Dialogue
PPP	Public Private Partnership
RIA	Regulatory Impact Assessment (WB)
ROL	Rule of Law
SAA	Stabilization and Association Agreement
SME	Small and Medium Enterprises
SOW	Statement of Work
SP	Socialist Party
TCN	Third Country National
UNDP	United Nations Development Program
USDH	U.S. Direct Hire
USG	United States Government
WEF	World Economic Forum

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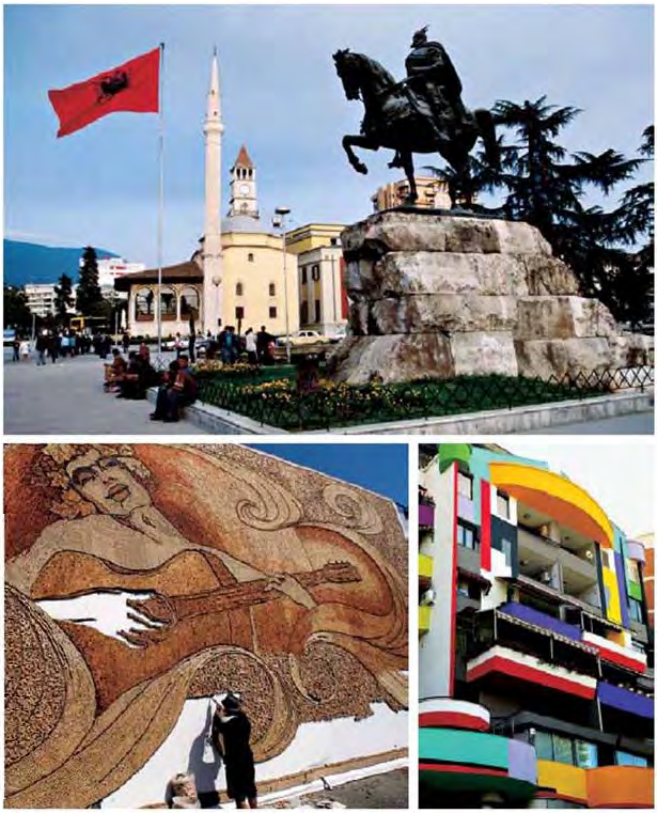
1. DEVELOPMENT CHALLENGES AND OPPORTUNITIES



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COUNTRY OVERVIEW

Albania was the last of the central and eastern European countries to embark on democratic and free market reforms, and it started from a disadvantaged position due to communist leader Enver Hoxha's catastrophic economic policies. The democratically elected government that assumed office in April 1992 launched an ambitious economic reform program meant to halt economic deterioration and put the country on the path toward a market economy. However, the collapse of the infamous pyramid schemes in 1997 and the instability that followed were a tremendous setback. The country subsequently recovered and is now pursuing its Euro-Atlantic integration agenda. In June 2006, the Albanian Government signed a Stabilization and Association Agreement (SAA) with the European Union (EU), the first step in the EU accession process. In April 2009 Albania became a NATO member country and in December last year (2010) visa liberalization within the EU was granted, both major milestones in the country's history. However, also in 2009, the GOA formally submitted their application for EU membership, but that application has languished.

Indeed, Albania is far from reaching its ambition of EU accession. In 2010, the EU defined criteria needed for mere negotiations for accession and, in the same year, explicitly denied Albania candidate status due to corruption and failed political processes.[1] Criteria for negotiations include a functioning parliament based on constructive political dialogue; implementation of judicial reforms; de-politicization of public administration and a merit-based approach to public appointments and promotions; a solid track record of investigations, prosecutions and convictions in corruption cases at all levels; a solid track record in fighting organized crime; and concrete steps to reinforce the protection of human rights, notably for women, children, and the Roma minority.

[1] European Commission, *Analytical Report, Commission Opinion on Albania's Application for Membership of the European Union*, 09 November 2010

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These criteria for EU integration are set against an environment in which the judicial, legislative and administrative sectors continue to be affected by undue influence, bribery, and other forms of corruption. While Transparency International's *Corruption Perceptions Index 2010* ranks Albania in the middle of all countries (87/178) – below Macedonia/Croatia (62) and Serbia/Greece (78) – this middle standing is worrisome in its own right and certainly not in line with EU standards. According to studies, the judicial system lacks transparency, adequate funding, independence, and efficiency. The Albanian Parliament is currently a deeply divided and ill-functioning assembly; the opposition Socialist Party has been boycotting Parliament since September 2009, alleging electoral fraud. Governance is further stymied by a largely ineffective civil society, apathetic towards citizen participation. This is partly a legacy of forced participation under communism and partly a result of CSOs (civil society organizations) being perceived as not responsive or as biased representatives of special interests. A far reaching reform effort – strengthening local governments – is impeded. Barriers to the full and equitable participation of women in the economy continue to inhibit development.

At the same time that Albania is facing these challenges, its economy has improved markedly over the last decade, as reforms in infrastructure development, tax collection, property law, and business administration take hold (although at an uneven rate). Despite the effects of the recent global financial crisis and economic downturn, Albania has out-performed many other countries in the region. During 2006-2009 the average growth rate was 5.5 percent, while for 2010 the Government of Albania anticipated growth reaching 4.1 percent (the IMF predicted 2.7 percent). Growth has been supported by a stable macroeconomic framework and the movement of labor from agriculture to manufacturing and services. However, the impact of the global financial crisis – together with having virtually exhausted the opportunities for growth by the movement of unemployed farm workers to (relatively low paying) jobs in urban areas – will likely lead to lower growth and lower revenue in the future, putting pressure on the budget. The trade balance is improving, in part due to deprecation of the Lek against the dollar, although the deficit is still large and unsustainable (public debt as a percentage of GDP was 59.3 percent in 2010).

Albania still ranks as one of the poorest countries in Europe according to major income indicators, although per capita GDP figures do not fully capture remittance income from the extensive network of Albanians abroad and income from the informal market, which the IMF estimates at 30-40 percent of GDP. Remittances from the Albanian diaspora, a significant catalyst for economic growth in the past, have experienced a decline over the last few years after peaking in 2007.

The Albanian banking sector survived the global financial crisis with sufficient liquidity, and the system has recovered from a sharp decline in deposits at the start of the crisis. Yet there is low public trust in the private banking system and a keen memory of the 1997 collapse. Non-performing loans are problematic, growing to 14 percent of total lending and may be under-reported. Following on from USAID-provided assistance, the Bank of Albania (BOA, the central bank) provides effective supervision of the banking system. Inflation has remained relatively low, averaging roughly 2.6 percent per year during 2006-2009, although the average inflation

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rate is expected to have reached 3.6 percent for 2010 (still within the central bank target of 3, plus or minus 1 percent). According to official estimates, the unemployment rate as of September 2010 was 13.52 percent.

While Albania has put in place a liberal foreign investment regime, foreign direct investment (FDI) remains limited and driven mainly by the above-mentioned remittances. Albania continues to be an import-oriented economy and, despite some reforms, its export base remains small, narrow, and undiversified. A stronger business enabling environment is essential. Agriculture accounts for only 18.5 percent of Albania's GDP, while more than 50 percent of the population still lives in rural areas with an incidence of poverty much higher than the national average. Agricultural productivity remains exceptionally low and is not showing significant improvement. The ratio of agricultural imports to exports is approximately 10:1. Albania's infrastructure is also inadequate. Even though the GOA has invested almost U.S. $2 billion in the country's main road corridors – and has pledged to invest at least another $1 billion through 2013 – maintenance is under-funded. Under-developed communication technology (ICT) also contributes to inefficiency. While the electricity supply has improved and the distribution system has been privatized (also with USAID assistance), plans are not in place to adequately meet the ever-increasing demand for energy. Government borrowing is near the legal limit of 60 percent of GDP, which will severely limit the ability to fund future large infrastructure improvement projects.

Albania ranks 82nd among 183 countries in the most recent World Bank *Ease of Doing Business* report, ahead of Croatia (84) and Serbia (89), but behind Montenegro (66), and Macedonia (38). While Albania has shown good progress – in 2007 it ranked 136th out of 178 – significant issues remain. Albania stands last in the world (183) in the category 'closing a business', and fares poorly in 'dealing with construction permits' (170) and 'paying taxes' (149). Thus the overall ranking masks some critical deficiencies in the business enabling environment. On the World Economic Forum's *Global Competitiveness Report 2010-11*, Albania ranks 88th out of 139 countries.

Human capital in Albania lags behind the southern tier CEE (Central and Eastern Europe) average. In the southern tier, only Kosovo ranks lower than Albania on the human capital scale. As with economic performance, Albania's human capital profile is skewed; the population is relatively healthy but also relatively poor and poorly educated. Businesses report that the educational system does not provide the skills required in a modern workplace, for either men or women. Female participation in the economy is limited to largely low-end jobs.

Albania maintains good relations with its neighbors, and enjoys very friendly and cooperative bilateral relations with the United States. Pro-U.S. sentiment is widespread within the government and among the population; Albanians credit the NATO intervention in Kosovo in 1999 with saving thousands of Kosovo Albanians, and they greatly appreciate the U.S. Government's continued support for a stable, free, and democratic Kosovo. The high esteem in which the U.S. is held offers an opportunity for the USG to significantly impact the nature and

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pace of the reforms required for increased democracy and economic growth and, indeed, for greater European integration.

OBSTACLES TO DEMOCRATIC GOVERNANCE AND ECONOMIC GROWTH

Albania faces significant challenges in the legislative, executive, and judicial branches of government that erode the system of checks and balances among the branches and, ultimately, stifle rule of law, inhibit good governance, and allow corruption to flourish.

At the present time, a major obstacle to good governance and growth in Albania is the standoff in the Parliament. The legislative branch has been severely weakened by a political impasse between the country's ruling and opposition coalitions, an impasse that has impeded the country's legislature, weakened democratic institutions, and affected government functions at the central and local levels. Alleging electoral fraud, the opposition Socialist Party (SP) began a boycott of Parliament in September 2009, which continues to-date, despite a series of U.S. and international efforts aimed at resolving the stalemate. During this troubled period only a handful of laws in which the SP party had a specific interest have been passed. This deadlock not only disrupts virtually all political processes and many government functions, but also seriously hampers Albania's EU aspirations and, of course, impacts access to development assistance, e.g., failure of the Parliament to pass an administrative courts law resulted in the termination of this component of the MCC program. Such disruption could continue into this strategy period, if political resolution is not achieved.

The executive branch has shown evidence of weakening government decentralization efforts through, for example, unilateral decisions that impact municipal and commune level governance. Decentralization has been a major and far-reaching reform in recent years in Albania, and a continuing rollback would seriously impact local level accountability and efforts to improve service delivery. At the same time and even in the best of times, essential skills and systems for the effective administration of modern government functions -- such as planning, budgeting, management, personnel and procurement -- are in short supply.

Widespread corruption is another major obstacle to improved governance and economic growth. According to Transparency International's *Corruption Perceptions Index 2010*, Albanians perceive corruption as widespread and ineffectively addressed by government. Indeed, Albania's culture of corruption is notorious and all levels of society suffer from endemic graft, fraud and other forms of financial and official abuse. Such pervasive corruption threatens prospects for reform in all sectors, lowers trust in all government institutions, limits international trade and investment, and seriously impedes progress towards EU integration. Such venality is a threat to democracy and a serious brake on economic growth, as well as a threat to effective donor assistance.

Corruption and inefficiency in the judiciary are of particular concern, as it is the very institution whose fundamental mission is to impartially uphold the law. According to public opinion studies, attorneys often serve as conduits or negotiators for bribes, and there are numerous inefficiencies in the overall management of the judiciary. The governance and management of

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health care, which so directly impacts the lives of every citizen, is also notorious for corruption – as so many Albanians will attest to paying backhander "fees" to doctors and nurses in order to gain access to professional care.

Thus, the challenges are daunting. Albania's ranking as one of the poorest countries in Europe is reflected in a per capita GDP of $3,616, the lowest in the Balkans, and by its high unemployment rate. The country's weak business environment has resulted in foreign direct investment of only about six percent of GDP, placing Albania among the lowest recipients of foreign investment in the region, thereby retarding business growth. Obstacles to economic growth include not only corruption and weak rule of law, but also poor infrastructure (electricity, transportation, ICT), disputable property ownership, inequitable female participation in the labor market, an absence of laws and policies that promote business growth (including banking and access to credit), and a population that is not educated and trained to meet the needs of a modern private sector.

Given these impediments, Albania is seriously challenged by its aspirations for European integration. The criteria that must be met even before negotiations can begin (some of which are noted above) present a formidable "must do" list for the country, and these can only be achieved by strengthening democratic institutions and putting in place the reforms needed to assure economic growth. Reforming for growth, rooting out corruption, enforcing the rule of law, giving greater voice to the people, and improving governance at every level – all this will require years.

Yet despite these obstacles, there are promising prospects for accelerating the pace of development in Albania.

FACILITATING FACTORS

The government and people of Albania deeply desire greater integration into European institutions and economies and have their sights firmly fixed on European Union accession. Following on NATO membership, visa liberalization within the EU was granted to Albania this past year (2010). Looking ahead, EU integration and accession will remain a strong incentive for undertaking the difficult reforms needed to overcome the challenges that are indicated above. In this context, the need for capacity-building of institutions in Albania will increase substantially. These institutions will need to develop and implement numerous reforms necessary to qualify for entry into the EU; otherwise, integration will remain a dream. In this process, Albania will have the opportunity to access large sums of EU assistance for institutional reforms; however, the EU will provide only limited technical assistance to help Albania qualify for that financial assistance. In this context, the United States is uniquely poised to deliver at relatively small cost the expertise that can help in commencing critical reforms during the next five years.

This unique position enjoyed by the U.S. is first and foremost characterized by deep and strong bilateral relations and public opinion of America and its foreign policy that is among the most positive of anywhere in the world. This high standing that the U.S. enjoys is a direct result of the leading role the USG has taken in aggressively promoting peace, stability and democracy in

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the region; and it provides an exceptionally strong enabling environment for the U.S. to creatively leverage this trust – which extends to USAID assistance and recommendations for reform – in helping Albania achieve its European future and its economic potential. Secondly, the experience and lessons learned by USAID in Albania over the past twenty years in implementing a carefully targeted, nationwide development program gives the U.S. Government a firm basis upon which to provide the transformational and policy-focused technical assistance that is required to address the reforms needed for both EU integration and graduation from donor assistance. This on-the-ground program experience is reinforced by the extensive analyses that USAID has undertaken in preparation for this strategy exercise -- in such areas as rule of law, the health sector, the ICT sector, gender, local governance, biodiversity, and economic growth.

This promising setting, both in terms of bilateral relations and USAID competencies, is further enhanced by a cohesive socio-cultural environment; and, too, the parliamentary framework exists for a more stable political environment if the current stalemate can be lifted. Even given this deadlock in the Albanian Parliament, the country has been largely free from major unrest since 1997. While corruption remains a grave concern, violent crime is not a significant threat for citizens, tourists or international businesses. The media is well-established and diverse in Albania, although this diversity is often partisan. At the same time, the media does serve as an outlet for public opinion that gives voice to civil society organizations that – while still organizationally weak – have begun to represent the interests of citizens and businesses. While implementation of revised rules and regulations is often spotty, the GOA has been aggressive in putting many reform-oriented laws into place, including key legislative elements necessary to insure attention to gender equality and with regard to taxation. In addition, many public institutions are now drafting additional regulatory frameworks that will govern their functions, for example, E-Systems in business licensing, tax and court administration, and public procurement. Such changes will lead to increased effectiveness and transparency and reduced corruption, and will serve to further promote overall stability.

Although Albania's economy lags behind the rest of Europe, the country does enjoy opportunities that hold the promise of boosting growth in coming years. It has a literate population that is rapidly becoming urbanized within a small geographic center (one third of its 3.6 million citizens already reside within the relatively prosperous Tirana-Durres area). The desire for EU integration creates a positive atmosphere for financial reform and a more business-friendly regulatory environment. Albanian labor is inexpensive compared to Western Europe, and construction and the service sector can rapidly expand, with adequate investment and the removal of impediments to business. Albania's main energy resource, renewable hydro-power, reduces the need for seasonal electricity imports while allowing seasonal exports to neighboring countries; an improved regulatory environment can result in even greater renewable energy output. Albania is also increasingly recognized as a tourist destination, motivating the GOA to build its tourism industry through improved infrastructure and assistance. While hampered by small land holdings, Albania's geographic location and its Mediterranean climate suggest opportunities for expansion in agricultural production. All of prosperous Western Europe represents a vast and nearby potential market, and the country

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has positive relations with its Balkan neighbors that can result in greatly expanded regional trade.

The GOA *National Strategy for Development and Integration 2007-2013* (NSDI) and highly collaborative donor-government relationships are also positive factors that support achievement of the country's growth objectives.

HOST COUNTRY DEVELOPMENT PLAN

While the current NSDI advances the aspirations for European integration and economic and social development, it goes beyond EU criteria and articulates the country's long-term development vision. This strategy was finalized in December 2007, and approved by the GOA Council of Ministers in March 2008. The vision statement in the strategy calls for "a country with high living standards, which is integrated into European and Euro-Atlantic structures, is democratic and guarantees fundamental human rights and liberties." The NSDI lays out ambitious objectives for economic growth and social development across *all* sectors, based on a transparent process meant to guarantee the broad inclusion of civil society, local government, the business community, the academic and scientific world, the Albanian political spectrum and other interest and at-risk groups.

By the end of October 2009, twenty-seven sector level strategies had been approved, based on NSDI precepts. All of these strategies emphasize strengthening policy planning and implementation capabilities within the government and rationalizing allocation of resources against medium- and long-term NSDI direction. Specific, quantitative indicators against each sector level strategy were not articulated in the current NSDI. The plan is that the new (2014-2020) NSDI will include such quantitative indicators (development of the new NSDI will begin early 2012 and continue for approximately one year).

USAID's proposed strategy has been developed in line with the current NSDI, and it is expected that the strategies articulated in the existing NSDI will remain into the future, although there no doubt will be further refinement (for example, by including quantitative indicators). There is concordance between the USAID and GOA strategies with regard, for example, to judiciary and fundamental rights, enterprise and industrial development, regional development, improvement in health services delivery (and attention to disparities in the delivery of these services), infrastructure improvements (e.g., energy), and improvements in the banking sector leading to equitable access to credit and stronger Bank of Albania oversight.

DONOR ENVIRONMENT

In 2003, the European Commission, UNDP, OSCE and the World Bank took on an in-country donor coordination role. And in 2005, these four lead multilaterals formed the Donor Technical Secretariat (DTS), along with two rotating bilateral members, to manage the coordinating process. Also in 2005, the GOA established the Department of Strategy and Donor Co-ordination (DSDC) in the Prime Minister's office, in order to assure alignment of external assistance to national strategic priorities and the budgeting process. The DSDC has effectively provided a government point of contact and orientation for donors with respect to strategic

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matters, as subsequently defined in the national strategy (NSDI). Conceptualizing and carrying out of donor-assisted activities is generally effective, although increasingly the GOA will need to more aggressively engage the private sector – domestically and internationally, for example through public private partnerships (PPPs) – in order to generate the resources needed for big ticket (mostly infrastructure) projects. In consonance with the *Paris Declaration on Aid Effectiveness,* the government has also established GOA/donor coordinating working groups at the sector level to harmonize donor involvement, track progress, and hold implementers (government and donor) accountable.

Albania is working towards EU integration within the context of its NSDI and sector strategies, reporting regularly on progress which, in turn, is reviewed by the European Commission to determine Albania's status/progress vis-à-vis European Union laws, regulations, procedures, standards, etc. In order to help Albania towards achieving EU standards, the Commission has made available since 2007 so-called Instrument for Pre-Accession Assistance (IPA) funding at the level of from $60-95 million per year. Although IPA disbursements – available beginning in 2007 – have lagged somewhat, funds of a given year remain available during out years. Funding priorities for Albania include for public administration (including to establish structures to manage EU funds), justice (review of current and proposed laws in the context of EU compatibility), home affairs (state police, maritime border management, detention facilities), economic development (support for SMEs and firm-level assistance), and infrastructure (e.g., water and sewerage infrastructure in Albania's coastal region). These activities complement but do not conflict with USAID's own strategic priorities.

The largest donors to Albania in 2009 (not including IPA availability) were the European Bank for Reconstruction and Development (EBRD), the World Bank, and the European Investment Bank (EIB). Among bilateral donors in 2009, the largest were Germany and Italy, reflective of large investments in infrastructure (see Appendix for details). In the 2009 bilateral ranking, the United States was third (at $23.03 million) after Germany and Italy. Although official 2010 figures are not yet available from the DSDC, it appears that for 2010 the U.S. was the second largest bilateral donor after Italy. While USG assistance doesn't rank among the top dollar donors when the multilaterals are considered, the U.S. Government does enjoy a high level of credibility in Albania, which provides an opportunity to operate effectively at a policy reform level, while also advancing USG foreign policy interests in the region and beyond. As noted above, USAID has been instrumental in strengthening the supervision capacity of the central bank and in the privatization of electric power distribution. This strategy envisages increasingly working at the policy, planning and regulatory reform level, which will continue to allow for such high-impact results.

Representing the USG, USAID/Albania is chairing the Donor Technical Secretariat from July 1, 2011 to December 31, 2011.

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2. DEVELOPMENT OBJECTIVES

A. GOAL STATEMENT

Reuters, Arben Celi

The overall Goal Statement for this CDCS strategy is:

European integration through strengthened democratic institutions and inclusive economic growth

This goal stems directly from Albania's *National Strategy for Development and Integration 2007-2013* (NSDI) that calls for advancing European integration through economic growth and the strengthening of democratic institutions. It also supports the achievement of key aspects of the *work plans laid out in the Action Plan Addressing the Recommendations of the EC Opinion for Albania* (31st January 2011). The government and people of Albania clearly desire and are working towards greater Euro-Atlantic integration. The USG supports this ambition as the best way to assure a reliable, democratic and prosperous ally, increasingly capable of playing a major role in securing peace and prosperity in the Balkan region and beyond, in harmony with the USG's own foreign policy objectives.

This goal is largely measureable. The increasing strength of democratic institutions in Albania is regularly monitored not only by internal entities – such as civil society groups – but also by EU and other international organizations. e.g., the United Nations, international watchdog NGOs, and by the USG's own reporting. Economic growth is regularly tracked by the World Bank and the IMF (*Doing Business, Global Development Finance, World Development* and other reports) and by USG analysis.

USAID/Albania has chosen two Development Objectives that will accelerate this transition to greater democracy and economic growth during the five-year strategic period, beyond what would happen if USAID were not engaged. These DOs are designed to limit risk factors such as those related to corruption, poor or non-existent planning, weak administrative systems (in key sectors), and a non-conducive environment for business and investment. In terms of the dangers posed by an almost non-functioning Albanian Parliament, the USG will continue to use its broader political influence to promote resolution.

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RELATIONSHIP OF DOS TO OVERALL GOAL

DO#1: Strengthened rule of law and improved governance. This DO directly addresses a major aspect of the overall goal statement, i.e. strengthened democratic institutions. Given that Albania has come from a background of unforgiving communism, relatively good progress towards a free and democratic society has been achieved in the past twenty years. Yet much remains to be accomplished if Albania is to realize greater European integration. Addressing the key elements of this DO – improvements in the judiciary and governance of health care, deepening of the decentralization process, and rooting out of corruption – will move Albania forward more quickly towards greater democracy while meeting criteria that are essential to achieving its European aspirations.

DO#2: Conditions created for broad-based, sustainable, and inclusive economic growth. In articulating its strategic priorities, the GOA aspires to a continued growth rate of more than 6 percent and "tend[ing] to reach 7 percent." This cannot be attained given the current financial and business environment. By providing well-targeted policy level technical assistance, this DO will assist in creating a framework within which this aspiration can be accomplished, macroeconomic stability realized, regional integration increased, and a standard of living that is more commensurate with greater Europe.

The synergies between these two objectives are exceptionally strong, in that success in achieving greater transparency and reduced corruption positively impacts the private sector and, looking at it the other way, economic growth helps to create a stable environment for a free and open democracy.

In developing DO#1, the Mission assumed that achieving these indicators – focused as they are on policy reform, better planning, citizen oversight, greater transparency, and improved management capabilities – will lead directly to realizing "strengthened rule of law and improved governance" which, in turn, will promote movement towards a more sustainable democracy that is in increased compliance with *acquis communautaire* and supportive of broader USG objectives.

In developing DO#2, the Mission assumed that such interim results as an improved business environment, enhanced systems and structures to support business, a better regulated financial sector, and upgraded business strategies will lead overall to greater economic growth that will bring Albania closer to EU standards, while providing a stronger platform for the GOA in regional and international forums.

Of course, over-arching these DO assumptions is the expectation that the GOA will continue its intensive drive towards economic integration with Western Europe and EU membership. The Mission believes the probability of Albania continuing along this path is strong.

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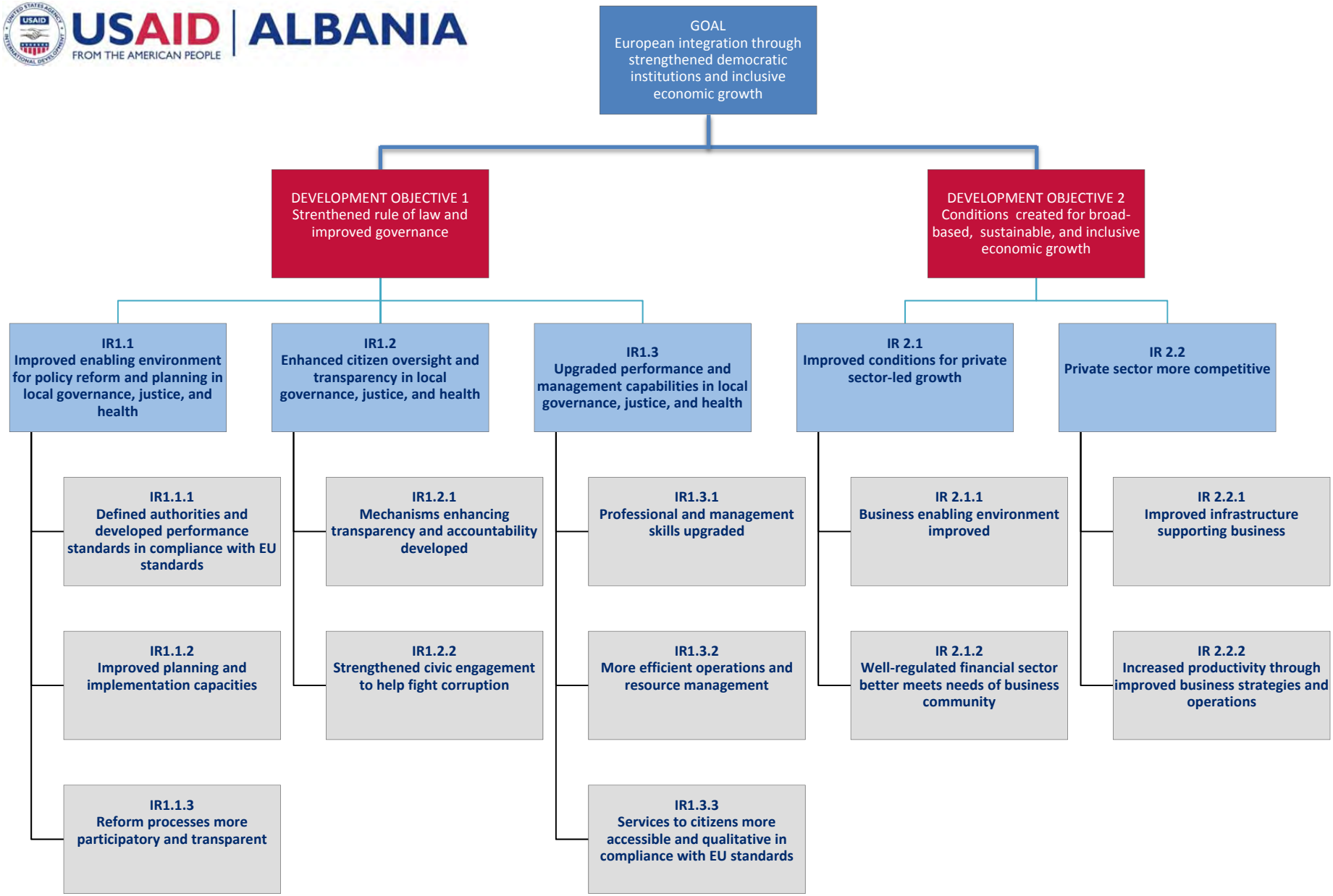

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C. DEVELOPMENT OBJECTIVE #1: STRENGTHENED RULE OF LAW AND IMPROVED GOVERNANCE

BACKGROUND AND RATIONALE FOR DO#1

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Albania has made many notable improvements in rule of law and good governance in the last twenty years but – coming out of decades of harsh communist rule and a tradition of fragmentation and localism – the country has not been able to move forward with the momentum required to introduce strong and sustainable democratic institutions that form the bedrock of representative, stable, prosperous, and equitable societies. Albania is plagued by planning weaknesses in key areas, serious shortcomings in the judiciary system, constraints on the growth and effectiveness of civil societies, ineffective administrative and delivery institutions such as for health care, corruption throughout virtually all structures of government and society, and a nearly non-functioning parliament (for the past two years). These weaknesses disproportionately affect vulnerable groups that lack voice.

The impasse in the Albanian Parliament is essentially a standoff between the two major political parties. If the two party leaders could come to agreement, party members and parliamentarians would follow suit and Parliament would again return to its rightful duties. With regard to the other weaknesses noted above, USAID proposes a robust response that under this DO addresses planning, judiciary, civil society, and administrative and service delivery issues, and – importantly – the burden of corruption that runs throughout these sectors.

CORRUPTION

Corruption continues to impede progress and threaten democracy in Albania. The Institute for Development Research and Alternatives' (IDRA) *Corruption in Albania: Perception and Experience, Survey 2010* found that nearly two-thirds (64%) of Albanians have little or no trust in the judiciary; the survey found that the factors Albanians continue to believe are most likely to affect the outcome of a trial are, first, monetary considerations, followed by the business connections of judges. Governance at administrative and service delivery levels is similarly impacted by corruption. As one example, and as noted in the above-mentioned survey, when a new political party takes power in Albania, the disruption of political appointments goes so deep that it is impossible to achieve a professionalized civil service. The influence of watchdog

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groups is constrained by their own internal weaknesses and, in most cases, by being beholden to one political faction or another. In this context, such civil society groups only add to the influence peddling. According to IDRA's 2010 corruption report, the health system in Albania is another of the sectors (along with the judiciary) most egregiously affected by such corruption and, significantly, the one that most directly affects citizens on an almost daily basis. As pointed out in a health sector assessment, corruption undercuts popular confidence in the health system, serves as a barrier to treatment, particularly for the poor and vulnerable groups, and distorts any government efforts to improve equity and efficiency in the delivery of health care. Corruption in the health system is repeatedly cited by observers as an impediment to reform and a drain on resources.

RULE OF LAW

Despite these numerous and ongoing corruption-related concerns, Albania has made some significant advancement in recent years in its efforts to strengthen institutions and make them more responsive to its citizenry. For example, with regard to the judiciary, governance and transparency of the legal process has in fact improved. Judges and prosecutors have benefited from increased professional training and skills development. Although still limited, enhanced oversight and control by watchdog groups has helped somewhat – despite their financial and other weaknesses – to increase transparency. Self-governing authority and budgetary powers of the courts better assures judicial freedom. Prosecutorial services have been improved, for example, by establishing of specialized Joint Investigative Units (assisted by the U.S. Department of Justice's Office of Overseas Prosecutorial Development, Assistance and Training [OPDAT] and complemented by the USAID program).

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Yet, on the other side of the equation, longstanding executive-judicial tensions remain unresolved, and new legislation – *Law on the Organization of the Judiciary* – has faced constitutional separation of powers challenges.[2] Transparency in the judicial system seems to depend excessively on the will and authority of court chairmen, rather than on institutionalized systems that grant citizens access and voice. Civil and, in some courts, criminal proceedings continue regularly to be heard in chambers, not in open court, affording opportunity for inappropriate interference/influence. The record of the trial itself is often handwritten and/or is merely a summary of the trial dictated by a judge to the court secretary, potentially containing inaccuracies and omissions. Many courts still do not have the appropriate level of interaction with the public. Judges' training has been strengthened, but attorneys are poorly

[2] Albanian Constitutional Court Decision of 09th July 2009.

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trained and often obstruct justice. Some courts now have enhanced technical and institutional capacity – in the form of better-equipped courtroom facilities, more organized court administration, automated core court functions, and greater access to legal information – but such improvements are not widespread throughout the system. Oversight of the judicial sector is complicated by two inspectorates with overlapping duties. Additionally, civil society organizations that must continue to promote greater transparency throughout the justice sector and, indeed, throughout all government operations, have not achieved sustainability or effective self-financing, and are often seen as lobbyists that represent parties or special interest groups.

GOVERNANCE

The effort to decentralize government services, resources and accountability has been one of the major and most important USAID-supported reforms in Albania in recent years. This reform has far-reaching implications in terms of efficiencies in delivering the services – local planning, water, education, etc. – that are critical to the quality of life for average citizens. At the same time, decentralization reforms put accountability squarely at the local (municipal or commune) level, where individual citizens and civil society groups are most likely to be effective in guarding their legitimate interests. Following the legal reforms adopted in 2000, total local government expenditures have grown substantially (from 0.2 percent of GDP in 1998 to 4.7 percent by 2009). Expenditures over which locally elected officials have complete discretionary authority – and for which they are accountable to the local public – grew from 5 percent of total local government expenditures in 1998 to 57 percent in 2009. Local taxes have become an important source of revenues for local governments (in 2009 local taxes represented 61 percent of own source revenues and fees 28 percent). Surveys conducted by USAID projects since 2005 show improving levels of citizen satisfaction with local government delivery of services.

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Yet persistent problems frustrate further progress. Progress in land use planning has been frustrated by the lack of a national territorial plan. In terms of financial resources, household taxes and fees still do not recover the cost of providing services, which limits expansion of coverage while continued unregulated growth threatens the continuation of those services now being provided, e.g., sewerage, water, social housing. Attendant to this, local governments have been operating in a difficult macro-economic environment since late 2009, when restrictions on local borrowing consistent with efforts to reduce total public debt abridged the potential to finance investments. Finally and perhaps most worrying, concerns about the very

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process of decentralization began to appear in 2005 when the Albanian Parliament reduced by half the small business tax rate, thereby vastly undermining a major source of local government income. Subsequent decisions were made in 2009 which further lowered all local government taxes and fees, thus limiting their resources. Critics state that decentralization has been overly politicized and, at the least, there is certainly a breakdown in consultations between the two levels of government that threatens the continued empowerment and accountability of local jurisdictions, which are at the core of good governance. At the same time, while administration of the health care system is not a local government responsibility, it nonetheless is a major governance concern, given the state of the sector and the extent to which systemic weaknesses impact citizens every day. The system is rampant with corruption, and there is lax enforcement of the legal framework that is supposed to support the health care system and ensure equal access to care for citizens.

These challenges – and a highly receptive environment for U.S. involvement at the policy reform level – present an opportunity for USAID to press for the kinds of systemic changes that will lead to greatly strengthened institutions and irreversibly establish Albania as a strong and representative democracy.

DESCRIPTION OF DO#1

This DO has been selected based on those interventions that the Mission believes will best strengthen democratic institutions, promote civil society, reduce corruption, promote gender equality and, at the same time, create a more favorable environment for inclusive economic growth. While implementing this DO, close coordination with the Mission's economic growth portfolio will assure that finance and revenue generation issues are addressed with appropriate attention to, for example, debt financing and the use of public private partnerships. Consideration has been given to the budgetary constraints that are likely to exist for USAID during the strategy period, with an emphasis on helping to put in place reforms and planning/implementation capabilities that will operate well beyond direct USG involvement. In order to strengthen the rule of law and promote good governance, focus will be squarely on improving the enabling environment for planning, policy reform, enhancing citizen oversight and transparency, and upgrading performance and management capabilities in the judiciary, in local governments, and in the health sector.

The devolution of authorities and responsibilities to the local level is one of the Government of Albania's most far-researching reform efforts, and one of USAID's priorities within this DO. Begun in 2000 with passage of the law, *On the Organization and Functioning of the Local Governments*, the intent of the law is to clarify and legalize the rights and authorities of local government units in conformity with the Albanian constitution and, thereby, improve planning and implementation capabilities, define revenue streams, and improve both accountability and the delivery of services. In reality, the reforms envisioned in the law have moved forward at varying pace. Total local government expenditures have grown dramatically and citizens are reportedly more satisfied than previously with the quality of services currently provided. However, nationwide territorial planning efforts – based on which local authorities would design their own development and regulatory plans – are not forthcoming and, in the absence

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of these plans, "wild west" urban and coastal development continues. Political divisions and apathy or disillusionment of citizens in giving voice to their concerns have stymied efforts to expand transparency and accountability. The GOA as often failed to consult with local counterparts prior to making some important decisions which have significantly affected the decentralization reform (e.g., regarding resource availability and limits on borrowing). Assuming the GOA assures its commitment to the process, USAID will provide training and technical assistance on creating the framework for a comprehensive territorial plan within which local jurisdictions can then develop and implement their municipal or commune plans, attract investment, and enhance environmental sustainability.

Because corruption in the court system continues to be a serious problem that affects every element of the economy and society, this DO addresses those key constraints within the judicial system that limit transparency and allow influence peddling and bribes. The Government of Albania has itself made this a part of its own recently released action plan that calls for "strengthen[ing] rule of law through adoption and implementation of a reform strategy for the judiciary, ensuring the independence, efficiency and accountability of judicial institutions." [3] USAID assistance in promoting greater accountability and transparency will include widening the use of E-Systems for better and more transparent justice delivery. At the same time, attention will be given to strengthening those civil society entities that can serve as public overseers to help promote greater transparency, improve public access to information, and assure that more than lip service is being paid to eliminating interference in court decisions. Various assessments have noted the lack of competency and professionalism among practicing attorneys, which puts them at a disadvantage vis-à-vis judges and prosecutorial colleagues, and makes it easier for both judges and them to engage in corruption. Given that these poorly trained attorneys are themselves a stumbling block to increased efficiency and honesty within the system, a continuous legal education curriculum will be developed in alliance with the National Chamber of Advocates.

In health care governance, the GOA has not charted a clear course towards development of a long-term financing plan, and major components of the system are under-funded. There is extensive waste due to bloated budgets, poor accountability, mal-distribution of resources, and failure to legitimately capture patient fees. Informal payments to access service vastly increase the cost of care for the average patient.

The rule of law issues that plague the health delivery system directly confront average citizens on an almost daily basis, and the GOA's own *Health System Strategy* explicitly cites corruption – called "informal payments" – as "the greatest barrier to access health care services for the poorer segments of the population in Albania." At the same time, while the GOA has published an extensive body of strategic and legislative provisions that are a guiding framework for the health care system, very few parts of this framework are enforced. GOA directives in the health

[3] *Action Plan Addressing the Recommendations of the EC Opinion for Albania*, Republic of Albania, Council of Ministers, 31 January 2011.

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sector lack clarity, are not widely disseminated, and lack provisions for their implementation or enforcement. The actual laws *On Health Care in Albania*, *On Public Health*, *On Health Insurance* and *On Hospital Care* do not include any implementing regulations. The GOA mid-term *Health Systems Strategy (2007-2013)* is an affirmation of the government's intentions to improve health system financing and governance; reduce financial and geographic barriers to health services; reduce informal payments; improve MOH capacity to develop policy, strategies and plans, etc. However, this health strategy has not yet been implemented, because the GOA hasn't produced the necessary work plan and budget. In brief, steps have not been taken to transform strategies and policies into reality, and to monitor and control their enforcement. In the meantime, average citizens are beset by a system that continues to tolerate vast inefficiencies and corruption. This strategy proposes working with the GOA and advocacy groups to develop a systemic approach to increasing transparency and accountability in health financing and in other health-related areas where corruption is endemic.

Particularly with regard to local governance and health, steps need to be taken to assure better overall planning, rationalize resource generation and expenditure, bolster implementation capabilities, improve transparency, and assure equitable delivery of services. Addressing these needs will, first and foremost, require better planning at the national level. In general, planning is weak in both of these sectors, which impact so directly the lives of citizens. As noted above, the absence of a national land use plan inhibits progress at the local level and detracts investors. Planning and management of urban growth is an urgent need that, if effectively carried out, will positively impact the lives of Albania's increasingly urban-based population. In health administration and governance, reducing redundancies in the secondary and tertiary hospital system has been emphasized as an essential reform by the GOA and the World Bank in a report on *Health Facility Rationalization*, but this critical exercise has not moved forward. In efforts to improve both local governance and health, there will be emphasis on institutionalizing steps to ensure more responsible management and use of resources, and on reducing the possibilities for rent seeking. Throughout the process of strengthening planning and resource management capabilities, EU standards will provide the criteria to be achieved.

This DO directly supports the *FY 2012 Mission Strategic and Resource Plan* for the U.S. Mission to Albania, which emphasizes strong rule of law, judicial accountability, and effective and accountable democratic institutions. USAID support for judicial reforms complements EURALIUS (European Assistance Mission to the Albanian Justice System) activities – funded by bilateral donors such as Germany and Spain – that focus on reviewing proposed Albanian legislation in light of European laws and regulations. Several activities will address gender equality, sustainable and transparent health delivery systems, and strengthened civic engagement. In carrying out this DO, USAID will work within a timeframe of four to five years, although there may be justification beyond this period for USAID and/or other USG entities (e.g., INL) to remain engaged in some aspects of rule of law and good governance, perhaps through a regional platform.

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CRITICAL ASSUMPTIONS AND RISKS FOR DO#1

The cross-cutting risks discussed above as "Obstacles to Democratic Governance and Economic Growth" also, of course, apply to this DO. The parliamentary standoff, systemic corruption, and institutional inefficiencies are all factors that will impact success in strengthening the rule of law and improving governance. Similarly, civic society and citizen voice can only be strengthened if there is genuine will on the part of both the GOA and citizen groups themselves to proactively engage in constructive dialogue.

Of critical importance for the success of this DO will be the willingness of the central government of Albania to embrace and carry forward the changes called for in the reform laws pertaining to the judiciary, local governance, and health.

In the case of local governance, the nature of the dialogue on decentralization between the central and local governments, especially the Ministry of Finance, will be a key indicator of GOA political will to continue the reform on decentralization in harmony with EU standards of local government empowerment. Assurance that there is a determination to resume constructive central-local government dialogue will set the stage for continued USAID involvement, as will continued central government action in moving decentralization forward during this post-election period (local elections were held in May 2011).

Additionally, there must be a clear indication from the GOA of its determination to put in place a national territorial plan and, as a means of achieving this, that there will be within the government a strong planning capability, empowered with the necessary authorities and capacities to do the job.

Success in achieving gender equality and addressing the needs of vulnerable groups will require the positive and proactive involvement of not only the GOA but of civil society organizations as well.

WHAT'S DIFFERENT FROM THE CURRENT PORTFOLIO?

In governance during the last four years, there has been a decline in local government control over resources and access to capital. During this period, the GOA took many unilateral decisions which were in conflict with the decentralization strategy and harmed some local government operations. The Mission's current portfolio will focus on promoting more positive national level engagement, by strengthening the consultative process with local governments on legal and policy decisions which affect the GOA's decentralization strategy. The Mission will provide training and technical assistance to strengthen the GOA's national planning capabilities needed to develop a territorial plan framework. In addition, there will be a deeper focus of improving transparency and efficiency by enhancing electronic services of internal operations. This will help to provide timely and transparent information to the public and, at the same time, avoid one-on-one interaction with local officials, which is a source of corrupt practices.

In efforts to promote the rule of law, a key difference is that this strategy aims to tackle corruption in the judiciary through promoting an increase in transparency by greater use of E-

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Systems and by improving professionalism through much-needed training for attorneys. Previously, USAID had attempted to fight judicial corruption through strengthening judicial oversight; however, the desired results were not achieved through this approach, given continued executive interference in judicial affairs, like appointments and influencing of court decisions.

In the health sector, USAID has completely moved out of health interventions (e.g., disease prevention, maternal and child care) and is focusing on systemic governance reforms that will leave behind a lasting legacy of improved government service delivery and reduced corruption.

In the area of trafficking in persons (TIP), USAID will no longer program stand-alone resources but, rather, will address TIP in a cross-cutting manner while coordinating with complementary efforts of the U.S. Department of Justice's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT). Albania is a Tier II country (i.e., reported as not fully complying with minimum standards as per the Trafficking Victims Protection Act, but making significant efforts to comply) and continues to improve its capacity to identify, protect, and reintegrate trafficking victims. While the GOA, with USAID/Albania and OPDAT assistance, has created the capacity to institutionally address trafficking issues -- law enforcement/prosecution, witness protection, and proper reintegration of victims are major areas where Albania still needs support. USAID/Albania will continue to assist GOA efforts to ensure reintegration of victims through its Economic Growth privatization programs to create job opportunities whenever and wherever feasible. To complement OPDAT's training of prosecutors and judicial police in dealing with victims of trafficking while carefully considering human dimensions in the context of enforcing the law, USAID will train lawyers through its Continuous Legal Education Program on how to deal with such cases.

DETAILS OF IRS

IR1.1: Improved enabling environment for policy reform and planning in Local Governance, Justice, and Health: During the past several years, local government revenues through taxation and tariffs have been rolled back, local borrowing capacity has been reduced, and the politicization of the relationship of the GOA with local governments has increased. Under this IR, USAID intends to facilitate a dialogue between the central government and local governments to promote making collegial and informed decisions on issues related to fiscal decentralization reform, particularly with regard to legal and policy decisions that affect local planning, functions and finances. In the justice sector, USAID will promote improved dialogue though Court Leadership Conferences, in order to improve planning and implementation capacities and to encourage participatory policy reform processes. Policy reform with regard to gender equality and the needs of vulnerable groups will be given special attention. In health, USAID will focus on the steps necessary to transform strategies and policies into reality, to implement them and to monitor and control their enforcement, in order to reduce corruption and, thereby, make health delivery more accessible to all Albanians.

This IR directly supports the *Paris Declaration on Aid Effectiveness*, in that it addresses (a) stronger ownership of and leadership in collegial decision-making, e.g., between the central

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and local governments; (b) advances direct and "harmonized" support for the national development strategy (National Strategy for Development and Integration 2007-2013); and (c) promotes better resource management.

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IR1.1.1: Defined authorities and developed performance standards in compliance with EU standards:
It is widely accepted that Albania lacks the capacity to manage significant international resources related to EU accession. (In fact, experience has showed that many countries achieving candidate status have been incapable of absorbing and successfully managing pre-accession funds for large investments.) Activities under this IR will support GOA efforts to meet EU standards through the "regionalization" (or joint provision) of water, sewage, and solid waste disposal, which will result in higher quality municipal services, improved health conditions for citizens, and an overall positive impact on regional biodiversity. Activities will also focus on ensuring that the GOA governs the health care sector in line with EU regulations. These improvements, and those within the judicial system, will move Albania closer to EU standards, including with regard to equitable treatment for women and vulnerable groups, and will provide an improved framework within which Albania can play an increasingly important stabilizing role in the region and beyond.

IR1.1.2: Improved planning and implementation capacities: Activities under this IR will provide assistance to strengthen foundations for improved service delivery and attract investment. USAID will provide technical assistance and training to help the central and local governments better coordinate, plan and manage land and infrastructure development needed for development of a national territorial plan. Harmonized with municipal plans, this will help to ensure successful local level development, allow for the provision of better services to all citizens, provide an opportunity to preserve biological resources – including with regard to protected areas and water resources – and attract investment. Implementing capacity building in the health sector will focus on strengthening partnerships among key players, and on developing action plans and tools – such as E-Systems – to improve transparency, planning and equitable service delivery.

Court Leadership Conference working groups will articulate ideas, suggestions, difficulties and challenges aimed at improving judicial planning and implementation. USAID's work in each district and appellate level court will lead to court operations that are more open to the Albanian general public, and more encouraging of a reform-oriented environment. Activities

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will be closely coordinated with the EC's justice sector program EURALIUS, and OSCE to optimize the impact of its programs, ensure compliance with EU laws, and reinforce high level goals, for example, in court transparency and management.

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IR1.1.3: Reform processes more participatory and transparent: Because stronger and more effective civic participation and a robust civil society and advocacy sector are important contributors to the policy reform process, USAID will enhance the capacities of civil society and the media as agents of change. In the context of selected reform initiatives, USAID will work with NGOs to strengthen their advocacy skills, thus enabling them to more effectively lobby for standards of good governance, reduced corruption, and overall increased citizen participation, particularly of vulnerable groups. USAID's activities will also build the capacity of journalists, with particular emphasis on female and younger media professionals, as a robust media sector can nurture increased citizen participation and support the work of civil society organizations and will directly contribute to the goal of improving the enabling environment for policy reform.

USAID will also host quarterly justice sector donor meetings that will provide a platform for all donors (primarily, EURALIUS/OSCE and OPDAT) to join together in supporting effective reforms. For example, USAID will work with these donors to develop a quarterly newsletter and calendar in which donors and the justice sector will agree on shared activities and plans. Initiatives aimed at increasing efficiency of courts proceedings, such as mediation, will be promoted.

USAID will provide training and technical assistance to local governments on improving transparency in budgeting and planning and on improving accountability in procurement, planning, and financial management processes and procedures. This will be done through strengthening local government operations to apply E-procurement, E-tax, asset management, and timely and transparent information to the public -- on local budget, investments and on performance on local taxes and fees.

IR1.2: Enhanced citizen oversight and transparency in Local Governance, Justice, and Health: In all aspects of this IR, USAID intends to promote greater citizen participation through, for example, supporting monitoring and watchdog types of activities implemented by civil society and media. Systems and mechanisms that allow for greater transparency, such as land use planning and electronic systems in courts, will be promoted and implemented.

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IR1.2.1*: Mechanisms enhancing transparency and accountability developed:* USAID will promote a greater understanding among local government officials of the mechanisms of engagement, in order to maximize their capability to solicit citizen participation. Particular attention will be given to promoting greater participation of women and vulnerable groups. E-procurement and E-tax services will become tools for providing transparent services to businesses and citizens. In the judiciary, USAID will introduce verbatim recording, publication of court proceedings, and maximization of court room utilization where the hearings are truly open to the public. Such measures will make judges more accountable in delivering justice and make court proceedings more transparent. In health, USAID will help strengthen efforts for data collection and analyses, and its utilization; activities will help build monitoring and evaluation processes to generate, promote, use and publicize data for informed, transparent, and equitable decision-making and planning.

IR1.2.2: Strengthened civic engagement to help fight corruption: In all aspects of this IR (local governance, judiciary, and health), USAID will support civil society organizations (CSOs) in their advocacy for key reforms and regulatory changes with particular attention to at-risk groups. The result will advance transparency, efficiency, and fairness in the Albanian courts, in local government functions, and in the GOA's governance of health care. In addition to supporting monitoring and watchdog type activities of civil society organizations, USAID will help to strengthen the role of the media in reporting on judicial and government sector corruption through improving their investigative capacity and helping to create independent venues for journalists to freely publish their work (e.g., internet and blogs).

IR1.3: Upgraded performance and management capabilities in Local Governance, Justice, and Health: USAID will help improve skills and competencies within key counterpart institutions (GOA and NGOs) to better assure transparency and improved management of limited resources, thereby increasing the quality and level of services provided to all citizens.

IR1.3.1: Professional and management skills upgraded: In the justice sector, judges and prosecutors have benefited from extensive training; however, lawyers have never had the benefit of a continuous training program. The legal education system itself is focused on theory rather than practice and emphasizes rote learning and memorization over critical thinking and reasoning. As a result, practicing attorneys lack competency and professionalism, which puts them at a disadvantage vis-à-vis judges and prosecutorial colleagues, and makes it easier for both judges and them to engage in corruption. To improve this situation, USAID will assist in creating a legal clinic within the Public Law School to introduce critical thinking and provide hands-on case practice, and will establish a Continuous Education Program for attorneys in cooperation, for example, with the National Chamber of Advocates. USAID will also enhance legal research capacities for both the judiciary and practicing attorneys through the creation of a database of catalogued Supreme Court decisions and ratified conventions. In addition, USAID will provide technical support to the judges' associations to provide them with the ability to manage their funds, conduct strategic planning, access funding within Albania, and increase their advocacy skills so that they can play a key role in judicial reform issues. The Mission will

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train judges and lawyers on how to treat and protect victims of trafficking, while carefully considering human dimensions in the context of enforcing the law.

Local government officials will be trained in financial management, procurement, and planning so that they will be better able to promote successful economic development, enhance environmental sustainability, increase own source revenues, and ensure an enabling environment for potential investments in their jurisdictions.

In the area of the GOA health care governance, human resource issues require much attention, especially in light of EU integration requirements and the continuing emigration of skilled labor. Activities under this IR will include designing strategies, procedures, processes, training, and other tools to improve competencies that will enable Albania to properly utilize brain power and skilled labor, based on merit and with attention to equitable employment and training opportunities. This includes the improvement of recruitment processes at central and regional levels, with a specific focus on increasing availability and quality of services.

IR1.3.2: More efficient operations and resource management: At the local government level, USAID will provide training and technical assistance to help develop greater skills and competency in budget formation and execution, expenditures and revenues projection, capital investment planning and asset management, and provision of urban services. USAID will give special attention to implementing ICT solutions in such areas as financial accounting and reporting, procurement, permits and licenses and other administrative procedures -- to reduce the burden of maintaining records and to ensure that uniform procedures are applied correctly and transparently.

In order to address a severe court backlog, USAID will assist in introducing a court-annexed mediation program in a selected number of courts. Also, noting the inefficient use of court space, USAID will provide technical assistance to create a court room calendar management program and to improve performance of the court chancellor, the court chairman and court administrative staff.

In terms of improving governance in the health sector, this IR will focus on resources management, both public and private. At the central level, interventions will help to strengthen the GOA financial system to ensure that efficiency and transparency is improved. USAID activities will also help toughen procurement and supply chain systems so that the public receives essential medical products in a safe, efficient, equitable, and cost-effective manner. At the local level, interventions will help increase the management capacity of local government and private medical providers to maximize service coverage, quality, and safety. Supervision and performance incentives will be key areas of focus.

IR1.3.3: Services to citizens more accessible and qualitative in compliance with EU standards: The core of the local governance program is improving the provision of services to citizens, e.g., water, sewage, solid waste collection and disposal, etc. Rregarding the judiciary, many courts still do not have the appropriate level of interaction with the public. No central location exists

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where the public can check the status of cases or receive court documents, and court personnel lack the training and understanding of how to deal with the public or the media. To address this issue, USAID will help create Public Information Offices or E-kiosks where the public obtain accurate information and retrieve court documents. The creation of such offices will be coupled with appropriate training in public service and media relations.

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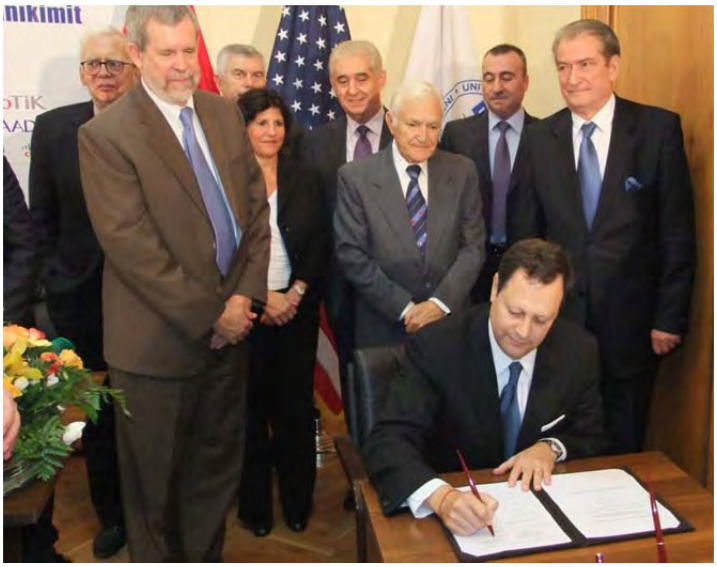
D. DEVELOPMENT OBJECTIVE #2: CONDITIONS CREATED FOR BROAD-BASED, SUSTAINABLE, AND INCLUSIVE ECONOMIC GROWTH

BACKGROUND AND RATIONALE FOR DO#2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Albania's post-communist transition process started in 1992, emerging from a long and difficult legacy of economic isolation. The country has succeeded in becoming one of the fastest-growing countries in Europe, albeit from a low starting point, with average annual growth rates of nearly 6 percent, accompanied by rapid reductions in poverty. Yet, although Albania was one of the few countries in Europe to maintain positive growth and financial stability in 2009 in the midst of the global financial and economic crisis, GDP per capita of $3,616 in 2010 is only about a quarter of the EU member state average. Overall unemployment is high at 13.8 percent and youth unemployment is higher yet, at 27.2 percent. Women, especially those from rural areas, women who are disabled, and ethnic Roma are more likely to be unemployed than men. Twelve percent of the population lived in poverty in 2008, and Albania is still one of the poorest countries in Europe, with many arguing that poverty is becoming increasingly common among female-headed households, especially in rural areas.

Albania currently ranks behind Macedonia, Armenia, and Georgia and slightly ahead of Serbia, Bosnia, and Montenegro, according to the Monitoring Country Progress (MCP) report. No measurable progress was made in economic reform in 2010 (the overall economic reform score is a composite of first stage reforms, i.e., privatization, liberalization of prices, trade, and foreign exchange), and second stage reforms, i.e., enterprise reform, competition policy, banking reform, infrastructure reform, and non-bank financial reform). The gap between first and second stage reform is Albania is very large. On many fronts the government has done a good job of liberalizing the economy but has a long way to go in terms of setting up business friendly regulatory structures that will advance growth, reduce corruption, and address aspirations for EU integration.

MACROECONOMIC SITUATION

The consolidated Government of Albania budget for 2011 has an estimated financing gap of nearly €400 million, or 4 percent of GDP, showing that Albania continues to rely upon debt financing for its capital expenditures (about €590 million, or 6 percent of GDP in 2011). Total tax revenues are about 26 percent of GDP, far below the levels in the EU zone (Romania, 28% to

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Denmark, 50%), suggesting that Albanian citizens and businesses may be under-taxed or that the taxpayer base is insufficiently broad. Inflation in 2010, estimated at 3.8 percent, is well above the central Bank of Albania target of 2.4 percent. The current account deficit is large estimated at 11.55 percent of GDP. Economic growth over the past decade was enabled by a stable macroeconomic environment; there will be challenges in maintaining this stability going forward.

FINANCIAL SECTOR

Albania's financial sector remains under-developed and the economy is mainly cash-based, reflecting low public trust in the private banking system amidst memories of the 1997 collapse of the pyramid financing schemes. The IMF notes that the financial sector has benefited from a strong and efficient supervision regime over the last 10 years. The Bank of Albania credits USAID with providing critical support during this period in risk-based management, setting up deposit insurance, aligning the regulatory process with Basel II principles, and restructuring the supervision department. Yet Albania needs a banking sector that is perceived to be healthy, safe, able to withstand external and internal shocks, and that provides the sophisticated and modern financial products and services required for reliable access to credit for both men and women and to support a competitive and inclusive market-driven private sector. As the financial sector grows and matures, the Bank of Albania will also need to continue to strengthen its ability to supervise.

BUSINESS ENABLING ENVIRONMENT

Albania stands 82/183 on the most recent World Bank's *Ease of Doing Business* ranking of the world's countries, ahead of Croatia (84) and Serbia (89), but behind Montenegro (66), and Macedonia (38). This ranking is a considerable accomplishment. From 2007-2009 Albania improved from 136 to 82, making it one of the best reformers in the world. However, the composite score, which is an average of scores on the nine *Doing Business* indicators, hides some glaring weaknesses. Albania ranks last in the world (183) in the category 'closing a business', and fares poorly in 'dealing with construction permits' (170), and 'paying taxes' (149).

COMPETITIVENESS

On the World Economic Forum's *Global Competitiveness Report 2010-11*, Albania ranks 88/139, an improvement over their previous rankings. The overall country placement is based on twelve 'pillar' rankings, four of which show worrisome results for Albania including: 'Financial Market Development' (100, low availability of financial services, no equity market); 'Macroeconomic Environment (101, poor fiscal situation and low savings rate); 'Market Size' (103); and 'Innovation' (121, few engineers and scientists and poor university support of business R&D). 'Property Rights' is another area where Albania scores among the world's worst performers (116). Transparency International's *Corruptions Perceptions Index 2010* ranks Albania in the middle of all countries (87/178); below Macedonia/Croatia (62) and Serbia/Greece (78).

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CHALLENGES

If the citizens of Albania are to approach the income level of the European Union, which it aspires to join, many years of sustained growth in excess of six percent annually will be required. This is a formidable challenge, achieved by only a handful of countries in recent times. As this growth can only be accomplished by a robust, competitive private sector, the Government of Albania must create and maintain the environment for enterprises to grow and prosper and, importantly, provide jobs for a large and growing youth population. It must also insure that this environment supports active private sector participation for all Albanians, regardless of gender, ethnicity, sexual orientation, or disabilities.

Albania faces the reality of being a small country with a limited local market, high levels of unemployment, a poorly trained workforce, low productivity, limited business sophistication, a poor enabling environment, lingering poverty, poor infrastructure, constrained borrowing capacity, a weak agricultural sector with fragmented ownership (18.5% of GDP but 40-50% of employment), an import/export ratio of 10:1, and a weak financial sector. The exclusion of numerous groups from the business sector including women, people with disabilities, and ethnic minorities remains as a major constraint in this sector. Added to all these constraints must be determinants such as pervasive corruption and a volatile political environment that affect not just the economy but all aspects of society.

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DESCRIPTION OF DO#2

This DO focuses on providing technical assistance, training, and capacity building to improve policies, laws, and regulations that impact the private sector. This DO also addresses -- in coordination with the Mission's democracy and governance portfolio -- finance and revenue generation issues at the local government level, e.g., through the use of public private partnerships (PPPs) by helping to create an environment whereby Instrument for Pre-Accession Assistance funds can be leveraged by not only central but also by local government units. Emphasis is on establishing the conditions for growth, rather than on providing assistance directly to specific enterprises. Interventions at the firm and farm level will be phased out as emphasis shifts to working with key business and farming associations in identifying and addressing with the GOA constraints to doing business. This change is predicated on a belief that targeting precise areas of the country or specific enterprises to reduce poverty and regional disparities in income would not be the most effective use of limited USG resources.

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USAID will work at the transformational level in an attempt to assure a legacy of strong growth that is inclusive of all Albanians and an economy closer aligned to EU standards.

In short, the guiding principles that inform this DO emphasize higher level policy issues that can be transformational while leveraging the U.S's positive relations with Albania. There will be a greater effort to engage and energize the private sector through already established chambers and associations in support of reforms that target systemic issues. Emphasis will be on sustainability and building local capacity. Furthermore, the Mission will leverage USAID/Washington and USAID programs in the Europe and Eurasia region to optimize the impact of limited Mission resources.

In carrying out this DO, USAID will work within a timeframe of four to five years, although there may be justification beyond this period for USAID and other USG entities to remain engaged in the economic growth arena.

CRITICAL ASSUMPTIONS AND RISKS FOR DO#2

Achieving this DO will depend on success in certain critical arenas where USAID is not involved. For example, various sources indicate a substantial disconnect between the Albanian formal education system and private sector requirements. Students need to significantly expand skills and experiences for growing market economy, and university graduates are insufficiently equipped for the needs of the modern European workplace. GOA reforms should focus on achieving clear outcomes, i.e., graduates with skills that match the needs of the private sector, while ensuring that the benefits of education reform extend to women, people with disabilities, and members of ethnic minority groups -- so that all Albanians can contribute more effectively to growing the economy.

Disputed land ownership remains a major cross-cutting issue with negative impact across the entire economy, including access to credit, land consolidation in agriculture, conservation of protected areas, and the ability of foreign investors to get clear title to property. Failure to make progress in resolving land ownership issues, in particular, will significantly limit future economic growth.

This DO assumes that there will be a mutual government-private sector willingness to engage in ongoing dialogue to identify and address issues and constraints facing the business community and to respond accordingly. Private sector representatives, e.g., business associations, must be able to identify in a compelling manner those issues that adversely impact their particular sector or the economy as a whole and articulate to a full range of stakeholders and the GOA specific and actionable remedies that are well-researched and technically sound. There is also an assumption that the GOA will have the political will to make and implement policies and modify laws and regulations with respect to business issues.

A key risk is whether or not the GOA will embrace innovative methodologies to attract private sector investment in public infrastructure, e.g., PPPs, which will support and make possible economic growth (roads, ports, broadband, energy, tourism).

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WHAT'S DIFFERENT FROM THE CURRENT PORTFOLIO?

The current EG portfolio will focus at the reform and regulatory level and less on interventions at the farm/firm level. This will require altering or ending some current activities; for example, the Mission will address the agriculture sector through the prism of agro-business enabling reforms and regulations. And all aspects of the Mission's Economic Growth program will aim to achieve transformational reform and work to remove systemic constraints to private sector-led growth.

OTHER DONORS

There are strong synergies between the strategic focus of USAID/Albania and the work of other donors in Albania. For example, the World Bank focuses on strengthening competitiveness through macroeconomic and expenditure management, improving business regulations, supporting local banks, improving key infrastructure services, and tackling land registration – interventions in consonance with the USAID strategic approach. The World Bank is also working on an infrastructure standards policy. The IFC has provided assistance on road concessions and hydropower, and proposed USAID assistance in promoting PPPs and concessions could help the GOA become more proficient in negotiating and administering concessions in such areas. The EBRD has made a number of equity investments in Albania and note that firms require a great deal of assistance. OSCE which also is working on property reform (land registration) as well as anti-corruption initiatives, and GIZ is working on EU compliant commercial law.

DETAILS OF IRS

IR2.1: Improved conditions for private sector-led growth: Under this IR, USAID will continue to press for the reforms and regulatory changes needed to create a more transparent and efficient framework for micro, small and medium-sized enterprises (MSMEs; in Albania, farm operations are classified as micro-enterprises). This IR will focus on key legal and regulatory issues that impact the private sector including those dealing with paying taxes, registering businesses, access to credit, and whether male and female entrepreneurs encounter different barriers that need to be addressed. Beyond reforming and improving specific laws and regulations, this IR will also seek to improve the quality of the public-private dialogue on business-related issues -- thereby strengthening the ability of the private sector to advocate and lobby for needed reforms, providing venues for productive dialogue, and working with government leaders on sometimes complex technical issues.

IR2.1.1: Business enabling environment improved*:* Under the Millennium Challenge Corporation threshold program, USAID assisted in establishing the National Business Registration Center that streamlined a cumbersome process while reducing informality (potential for corruption) and decreased the number of days and procedures required to register a business. As a result, thousands of new businesses have become legally registered and tax-paying. Similarly, a Taxpayer Advocacy Office was established where taxpayers (mostly businesses) come with their tax issues; and a Tax Advisory Board was also established as a forum for private-sector feedback to the General Directorate for Taxation on streamlining administrative procedures and practices. Under this IR, USAID will continue to strengthen the

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government-private sector relationship in identifying and instituting next generation changes that will streamline processes, eliminate corruption-enabling contact points, and create a better business environment, including for vulnerable groups. Gender analysis will be carried out as needed, in order to insure that policies, regulations, and practices designed to improve the business enabling environment overall do not inadvertently disadvantage women or other vulnerable groups.

Specifically, USAID will work with already established business- and agriculture-related associations, in identifying and addressing the constraints they face in doing business. USAID will address checks on growth in the agriculture sector by working, for example, with the Albanian Agribusiness Council to tackle domestic and regional linkages-to-markets issues, standardization with EU agro-protocols, access to credit, and overall proper management of agricultural resources. While agriculture accounts for only 18.5 percent of Albania's GDP, more than 50 percent of the population still lives in rural areas with poverty incidence much higher than the national average, so creatively addressing agro-related constraints remains critical to the overall economy. Because the majority of rural women work formally or informally in the agriculture sector, but are much less likely than men to participate in agribusiness associations, special efforts will be made to insure that women's viewpoints and priorities are taken into consideration and that women and men benefit equally from efforts to remove barriers in this sector. Tourism is another example where USAID will engage at the association level -- for example, with the National Tourism Agency, the Albanian Tourism Association, and the National Albanian Tourist Guide Association – to optimize potential of this sector as an engine for growth. Such associations can be encouraged to include more ecotourism options in conjunction with local municipalities and protected areas, for example. The use of PPPs to attract investment and create the service jobs required for the country's youthful population will be pursued, given that private sector investment will be critical to assure that the basic infrastructure is in place to attract more tourists. (*Lonely Planet's Best in Travel 2011* has proclaimed Albania "number one" on their top ten countries, but achieving the envisioned growth will depend on massive investments.) Infrastructure for ecotourism is inadequate in some of the most attractive destinations; and more hiking trails, river rafting programs, and family stays need to be developed. Programs such as these will help to strengthen public private partnerships, while helping to conserve and build awareness about biodiversity and natural resources in Albania. The use of PPPs in the agriculture sector will also be explored.

Through representative private sector associations, USAID will also focus on specific legislative and regulatory reforms in those areas of greatest concern to the business community in general, including taxes -- leading to further improvement in the World Bank *Doing Business* indicators. USAID will also focus on improving the quality of the public private dialogue on the business environment through helping business chambers and associations become more inclusive in their membership and decisions-making processes, and through helping them to analyze constraints to doing business, articulate detailed recommendations for improvement, and effectively lobby and advocate for desired reforms. USAID also anticipates focused assistance to strengthen the capacity of institutions responsible for creating a stronger business enabling environment, such as the Investment Development Agency.

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IR2.1.2: Well-regulated financial sector better meets needs of business community: To date, Albania has benefited from effective financial sector supervision. As the financial sector continues to mature, grow in sophistication, and become more integrated with regional and international markets, regulatory authorities will also need to be strengthened. Activities under this IR will provide support to the Bank of Albania as well as to the Financial Supervision Authority to ensure effective supervision of banking and non-bank financial institutions. In addition, credit guarantees and enhancements will be used to incentivize banks to expand their client base in key sectors and offer new and more flexible financial instruments to meet the needs of the private sector. This IR will also aim to develop innovative ways for female entrepreneurs to access sources of credit and collateral.

IR2.2: Private sector more competitive: Albania's economic growth has been driven by the movement of labor from highly unproductive agriculture into domestic service and manufacturing industries, as well as migration overseas. Future growth will need to be based on improved productivity within key sectors that will create job, especially for the growing number of unemployed youth. However, private sector competitiveness is constrained by a number of factors including poor infrastructure, small market size, and lack of business sophistication and innovation, particularly among women and other vulnerable groups. The effective use of public private partnerships and concessions can mobilize private capital to address key infrastructure needs.

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IR2.2.1: Improved infrastructure supporting business: Historic neglect of critical road, port, energy, water, and telecommunication infrastructure, deficiencies which are impediments to new investment and profitable enterprise growth, pose enormous challenges for the economy, and put significant stress on the public budget. Despite some improvements in recent years, Albania's power infrastructure is far from adequate to meet the ever-increasing demand for energy. In 2009, only 2.5 percent of the population had access to broadband Internet service and 3G mobile service is not expected until late 2011, making Albania, along with Kosovo, the last countries in Europe to introduce this modern network technology. This lack of technology infrastructure contributes to inefficiency and poor product quality, hampers the growth of ICT firms, and limits competitiveness. The transportation sector continues to be characterized by poor roads and inadequate ports, despite an aggressive building campaign. Maintenance of existing infrastructure is woefully under-funded, and local governments are faced with vast financial shortfalls. At the same time, the borrowing limit of 60 percent of GDP has nearly been reached, severely limiting the ability of government to fund new investments in public infrastructure.

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In the belief that the PPP mechanism can play a more important role in attracting investment and filling Albania's "infrastructure gap", USAID will provide GOA ministries or agencies with training and technical assistance on how to create effective PPPs. USAID's activities in this IR will coordinate with its Democracy and Governance work with local governments. As necessary, USAID will also provide training and assistance to appropriate GOA regulatory bodies on ensuring adequate oversight, supervision, and environmental safeguards of any concessions.

IR2.2.2: Increased productivity through improved business strategies and operations:
Activities under this IR will provide cost-effective mechanisms for delivering training, mentoring, and technical assistance to current and future entrepreneurs, including to female entrepreneurs and vulnerable groups. Assistance will be provided with and through local chambers and associations, with cost sharing whenever possible. Sector specific training, such as meeting recognized international product standards, will be delivered through relevant business association(s) on a fee basis. Trainers and technical assistance providers will be paired with local counterparts, in order to build capacity within domestic organizations. USAID also anticipates replicating successful regional models, such as a Center for Executive Entrepreneurial Development, as a platform for delivering training and mentorship.

USAID will also assist with establishing an ICT training and resource center to help enterprises maximize ICT capabilities for efficiency and profit. Because there is often a "digital gap" in the access levels of men and women to ICT technologies, care will be taken to insure that these services reach female business owners. All activities under this IR will be cost effective, address critical issues to the business community, and allow profitable and efficient delivery of goods and services.

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3. MONITORING AND EVALUATION

OVERVIEW

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The Mission will use Monitoring and Evaluation (M&E) tools to track results and progress towards achieving the Strategic Goal and the two proposed Development Objectives. Performance monitoring will be an on-going process that will help clarify and focus DOs, serving as an early warning system if progress isn't proceeding as expected, allowing for reliable reporting, and promoting continuous learning, adaptation and adjustment during implementation. This M&E approach directly supports USAID's Evaluation Policy (2011), which emphasizes the importance of evaluation for "providing the information and analysis that prevents mistakes from being repeated, and that increases the chance that future investments will yield even more benefits than past investments."

The Mission's M&E system is designed to measure achievement of the outcomes indicated in the Results Framework, and thus will clarify and help ensure that focus remains on realizing those results. Wherever possible, indicators will be disaggregated by gender and other factors. The Mission's M&E and Performance Monitoring Plan will cover the entire duration of the strategy. Any adjustments in the plan will be fully documented.

Data Sources, Collection Methods, and Quality Control

The Mission will collect data by fiscal year to facilitate USAID reporting. Data on all indicators will be gathered from a variety of sources including implementing partners (contractors), national counterparts, and other development organizations. When data inconsistencies appear, verifying data against original sources will be sought. Implementing partners will be required to report gender-disaggregated data and to utilize gender-sensitive indicators in all projects where gender issues have been revealed in the course of gender analyses. Because Albania suffers from a dearth of gender-disaggregated data overall, USAID will build the routine collection of such data into as many activities as possible.

HIGH PRIORITY EVALUATION QUESTIONS

Relative to the identified DOs, there are basic questions that will always be kept foremost in the evaluation and monitoring process, to be applied to the possible extent. For example, with regard to both DOs, has success at the DO level led directly to achieving the overarching goal? Has corruption been reduced? Have women and men benefitted equally from USAID's development assistance overall, and has USAID programming contributed to greater gender equality and inclusiveness in Albanian society?

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Regarding DO#1, potential evaluation questions may include:

- Has the program had a substantial impact on improving processes in local governance that translate into better and more transparent governance?
- Has the program had impact on improving the justice system, translating into more trust in the system and better rule of law? and,
- Has the program had impact on improving health services delivery for all citizens?

Regarding DO#2, potential evaluation question may include:

- Are the systemic reforms that have been addressed yielding expected results in terms of overall economic growth?
- Are program results translating into increase of the individual income for all citizens, including women and those from vulnerable groups?
- Are program results supporting an increase in employment rates overall, and for men and women separately?
- Is the program supporting increased access to better banking services?

DO#1: STRENGTHENED RULE OF LAW AND GOOD GOVERNANCE

ILLUSTRATIVE COUNTRY CONTEXT INDICATORS:

- The World Bank's *World Governance Index*, with specific focus on: (a) "Governance Effectiveness", which captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. (b) "Rule of Law", which captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. (c) "Control of Corruption", which captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.
- USAID's *NGO Sustainability Index*. This index examines the overall enabling environment for civil society, focusing on seven dimensions: legal environment, organizational capacity, financial viability, advocacy, service provision, infrastructure, and public image.
- Transparency International's *Corruption Perception Index (CPI)*, which measures the degree to which public sector corruption is perceived to exist in different countries around the world. It scores countries on a scale from 10 (very clean) to 0 (highly corrupt).

ILLUSTRATIVE PERFORMANCE INDICATORS (PEOPLE-LEVEL INDICATORS TO BE DISAGGREGATED BY GENDER):

- Public satisfaction with (a) local governments; (b) governance of health care delivery; and (c) judiciary performance and service delivery (surveys measured). Indicator(s) will

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be measured against data in non-USG supported areas and at the national level where applicable.

- Public perceptions toward reduced corruption.
- Progress toward an approved national territorial plan.
- Percentage of local government units with developed mechanisms of transparency and accountability towards citizens.
- Percentage of courts with developed mechanisms of transparency and accountability.
- Percentage of citizens participating in public hearings on policy development, local development and budget issues in targeted areas, compared to non-USG supported areas.
- Number and effectiveness of supported CSOs, including media, engaged in watchdogging activities in relation to the judiciary, as well as local and health governance.
- Number of justice sector personnel receiving training, assistance, mentorship via USG support.

ILLUSTRATIVE EVALUATION QUESTIONS:

The following impact or performance questions are illustrative and will be analyzed and elaborated on in greater depth at the time of any given evaluation:

- How are systemic reform efforts translating into greater transparency, accountability, and better services of governance? (opportunity for impact evaluation);
- Is increased judicial transparency and improved attorney professionalism reflected in reduced corruption in the judicial system and in improved rule of law? (opportunity for performance evaluation);
- Have systemic reforms in the health system resulted in improved delivery of health services for citizens, including women and other vulnerable groups? (opportunity for performance evaluation);
- Has enhanced transparency and accountability of governance been achieved and has it resulted in improved citizen perception of government performance (with specific attention to women, and other vulnerable groups, e.g., female-headed households, people with disabilities, etc.)? (opportunity for impact evaluation).

DO#2: CONDITIONS CREATED FOR BROAD-BASED AND SUSTAINABLE ECONOMIC GROWTH

Illustrative Country Context Indicators:

- Percentage increase of GDP per capita;
- Percentage decrease of unemployment rate overall and separately for women and men from varying age groups;
- Change in poverty rate overall and for sub-groups of especially vulnerable Albanians (e.g., female-headed households, Roma families, people with disabilities);
- World Bank *Doing Business* Scores;
- Increase in regional trade; and,
- Foreign direct investments trends and use of PPPs.

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ILLUSTRATIVE PERFORMANCE INDICATORS (PEOPLE-LEVEL INDICATORS WILL BE DISAGGREGATED BY GENDER):

- Availability of diverse forms of credit to the private sector that meet the needs of all entrepreneurs;
- Percent change in value of exports as a result of USG support;
- Increase in number of new infrastructure projects initiated through concessions (facilitated by USG supports);
- Number of entrepreneurs that receive training, TA, and mentorship from associations with support from the USG;
- Number of business associations and chambers that become more inclusive in their membership and management structure;
- Number of new female entrants into emerging business sectors including tourism and ICTs; and,
- New government policies, strategies, regulations or reforms that address investment promotion, while recognizing and responding to the challenges that particularly confront the development of women and minority-owned firms.

ILLUSTRATIVE EVALUATION QUESTIONS:

The following impact or performance questions are illustrative and will be analyzed and elaborated on in greater depth at the time of any given evaluation:

- Have efforts to improve the business enabling environment translated into increased competitiveness of Albania's micro-, small- and medium-sized enterprises (MSMEs)? (opportunity for impact evaluation);
- Have efforts to develop business-supported infrastructure (concessions and PPPs) succeeded in improving infrastructure, increasing trade? (opportunity for performance evaluation);
- Have efforts to develop business supported infrastructure (concessions and PPPs) succeeded in helping MSMEs to be more competitive and profitable? (opportunity for impact evaluation);
- Have these efforts extended equitably to all Albanians, including women, people with disabilities, and members of all ethnic groups? (opportunity for impact evaluation).

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